

Governance and Audit Committee

Tuesday, 08 September 2020

Attendees: Councillor Nick Barlow, Councillor Paul Dundas, Councillor Mark Goacher, Councillor Sam McCarthy, Councillor Chris Pearson, Councillor Dennis Willetts, Councillor Barbara Wood
Substitutes: No substitutes were recorded at the meeting
Also Present:

221a Minutes of Previous Meeting

RESOLVED that the minutes of the meeting held on 23 June 2020 be confirmed as a correct record.

222 Colchester Borough Homes Annual Report and Governance Statement

Councillor Fox, Portfolio Holder for Housing addressed the Committee to introduce the item. He confirmed that Colchester Borough Homes (CBH) was the Council's 'arms length' management organisation, responsible for the management and maintenance of the Council's housing stock. He explained that the Governance and Audit Committee considered a report on the Governance Statement of CBH annually, and he commended the high quality of governance within CBH which was evidenced by the report.

Julie Parker attended the meeting to present the report. She explained to the Committee that she was attending in her role as an independent member of the Colchester Borough Homes (CBH) Board. The Committee heard that Colchester Borough Council consolidated the CBH accounts into its own statement of accounts, and it was intended to provide the Committee with assurance that the governance arrangements in place were suitable. It was explained that CBH is a company with its own Board of Directors and with the usual company responsibilities, including an internal Finance and Audit Committee which looks at the arrangements for governance which the company has in place. Of key importance to these arrangements was the annual external audit for 2019-2020 which had resulted in a clean audit opinion. In addition to this, a programme of internal audits was carried out by an external internal audit provider, together with a separate review of risk management. As the result of this audit, there had been little change in the overall control environment, and CBH had achieved a substantial assurance from the auditors. On this basis, the Finance and Audit Committee and the CBH Board were assured that proper governance arrangements were in place, and an ongoing action plan was in place to ensure that arrangements were monitored and

improved where necessary.

Councillor Pearson commented that the report that was presented annually was of a consistently high quality, and in his opinion served to provide the Committee with the assurance that was needed that CBH was being overseen appropriately.

Councillor Willetts commented that the report was pleasing to read, and in his opinion, demonstrated that CBH was a well managed organisation with the right governance and auditing systems in place. He did, however, make the point that CBH was a limited company and that nowhere in the report was it referred to by this full name. He also commented that he would have expected to see reference made to the fact that the company is subject to the Local Authorities Company Order 1995, and although a minor issue, he considered that this should be mentioned in the interest of governance.

Councillor Willetts further queried why the status of CBH had been given as an Arm's Length Management Organisation (ALMO), as he noted that the ALMO was an informal arrangement which was set up in 2008 at the time of the Better Homes Project, and that approximately half of the ALMOs set up were no longer in existence. He stated that from a Governance and Audit perspective, he would have expected to see reference made to the fact that Her Majesties Revenue and Customs (HMRC) had given an exemption to paying tax on any transactions between Colchester Borough Council and CBH.

Councillor Willetts noted his pleasure at the satisfactory nature of the audits that had been carried out and was reassured to see that while the governance arrangements for CBH were different, they were wholly compatible, allowing the statement of accounts to be assimilated with ease. He confirmed his opinion that CBH was well managed, that the governance and audit arrangements were compatible, and that he felt that the company was doing an excellent job.

Councillor Pearson noted the points that Councillor Willetts had made about ALMOs, but suggested that this was a report on CBH, and although interesting to see what was happening in other parts of the country, this was not necessarily relevant to the item in hand. He suggested that future reports may like to touch on the comparative performance of CBH to other areas.

RESOLVED that the Governance Assurance Statement of Colchester Borough Homes had been considered and the assurance provided by Colchester Borough Homes regarding its governance arrangements be accepted.

223 Financial Monitoring Report – April to June 2020

Paul Cook, Head of Finance, attended the meeting to present the report and assist the Committee with their enquiries. The Committee were invited to consider revenue monitoring for the first quarter of 2021, which had been an unusual year because of the Coronavirus pandemic. It was noted that the key changes in the Council's financial position were the result of economic and income pressures, in particular £9.32 million additional costs and the loss of sales fees and charges. The Committee were asked to

note that since a report had been presented to Cabinet in June, there had been a significant improvement in the position thanks to a grant from the Ministry of Housing, Communities and Local Government (MHCLG) in respect of Council's income loss, which at the time of writing the report was forecast as being £5.1 million, but which was now considered likely to be less than this. Paul commented that significant government support had been extremely helpful to the Council, which had been contemplating a significant use of reserves. Although the financial position was constantly changing, steps were being taken to review income loss with Service Managers to improve the accuracy of future forecasts, and it was hoped that the income from fees and charges would improve. It was anticipated that Cabinet would be given a more comprehensive report on the position in October.

Councillor Dundas noted that the figures presented to the Committee were not a surprise, with the first three months of commercial income affected by the enforced closure of sites. With regard to the projected incomes for car parks and other services, he wondered what level of assurance was felt as to the accuracy of these predictions, and he also requested an expansion on the figures which had been presented in relation to recycling income.

Councillor King, Portfolio Holder for Business and Resources, addressed the Committee and confirmed that income streams had been extremely badly affected by the events of the previous year. In relation to the initial query of Councillor Dundas, he stated that income projections were based on the best experiences and knowledge of the Service Leads, and although it was anticipated that there would be recovery through the year, the usual income level would be far lower than in previous years, and this was anticipated for some years to come. He further explained that any estimate had to be made cautiously as changes that occurred in the future could have an immediate and serious impact on Council income. Councillor Pearson reminded the Committee of the Members briefings that had been provided by Councillor King and Paul Cook, which had provided the opportunity for Members to examine the income forecasts and question these.

Paul Cook confirmed that forecasting accurately was very difficult, and a reasonable degree of caution was required. With regard to car park income, it was assumed that this would generate a minimal income in quarter one, but it was hoped that this may rise to approximately 57% of normal income by the end of the year, and that sport and leisure income would return to approximately 43% of normal levels. He explained that the forecasts were being continually revised, including recycling, and that it was hoped that by October there would be more certainty to the predictions.

Councillor Willetts noted that it was difficult to consider the position at this stage of the financial year, as there were only three months of financial data to consider, and the current circumstances made things even trickier to predict. Councillor Willetts stated that it was the duty of the Council to produce a balanced budget, no matter what, and sought assurance that at the end of the financial year there would be a deficit of zero as it was a

duty of this Committee to ensure that Cabinet was able to balance the books in line with its legal responsibility. He expressed his thanks for the briefings had been given to Councillors by Councillor King, and to Officer for all their hard work to date.

Councillor King confirmed that every effort would continue to be made to encourage income growth, and he noted that the town centre was performing more profitably than might have been hoped and there was some expectation that this would translate into greater car park income. He reiterated that there was a long way to go until the end of the financial year, and that caution was essential. He confirmed to Councillor Willetts that the budget would be balanced this year, and it would be necessary to find a way to reduce costs that did the least amount of harm to the wide array of services that the Council offered.

RESOLVED that the Committee had considered and noted the forecast budget overspend of £9.238m on the General Fund before the use of reserves.

224 Capital Expenditure Monitor 2020/2021

Paul Cook, Head of Finance, attended the meeting to present the report and assist the Committee with their enquiries. The Committee heard that there had been quite a low level of expenditure during the first quarter, only £5.379 million against the £61.587 million set out in the programme which was the result of a lot of schemes being delayed by covid. He explained to the Committee that schemes in the Capital Programme were rated using the RAG (Red, Amber, Green) system, and that if a scheme was amber rated then the Committee would be provided with additional comments on such things as timing issues, costs issues or anything else that was relevant to the project. Paul confirmed that in the future it was hoped to be able to report to the Committee in a more holistic manner, giving an overall picture of ongoing schemes as opposed to a snapshot of a moment in time.

Gary Reid, Programmes and Performance Manager, attended to offer the Committee a presentation on a digital Capital Programme Management Tool, Power BI. Gary outlined the monitoring tools that the software provided and explained to the Committee that projects would now be assigned a priority from one to four, and a climate emergency checklist was to be introduced for every scheme and project which would require to be completed. It was demonstrated to the Committee how detailed information about each of the ongoing projects could be accessed from an overview screen which gave general information about the number of red, amber and green screens displayed by financial year.

Councillor Willetts noted that the Mercury Theatre scheme had been greatly set back by the current situation, and asked whether there were any plans to redefine any of the capital projects to take account of the fact that life would probably be different for some years to come. He considered that it might be necessary to consider making structural alterations to facilities such as theatres and Leisure World in order that these facilities

can continue to provide useful income, and he enquired whether any consideration had been given to using capital funds to make buildings usable during this difficult period.

Councillor King, Portfolio Holder for Business and Resources, responded and explained that he did not consider it would be practical to make large alterations to current schemes, many of which were close to completion. With regard to cultural and leisure provisions, he took the view that it would be necessary to maintain a watching brief, and be ready to offer what assistance was available in the future.

Councillor Pearson noted that the Mercury Theatre project had been impacted because of the specific circumstances and the impact of Covid. Having reviewed the other projects in the Capital Programme which were set to 'amber' status, he confirmed that he personally would not wish to see any of these reviewed or removed from the Capital Programme, or even reconsidered, and he offered his praise to all Officers involved in the presentation of the report, and the clarity of the format which was now presented to the Committee.

RESOLVED that the budgetary spend and forecast, and progress on the Capital Programme be noted.

225 2019/2020 Year End Review of Risk Management

Hayley McGrath, Corporate Governance Manager, attended to present the report and assist the Committee with their enquiries. The Committee heard that they were required to review the risk management process annually, and were being asked to consider the risk management process for the financial year 2019-2020. The attention of the Committee was drawn to three key areas; the work undertaken through the year, the Risk Management Strategy, and the Strategic Risk Register.

In relation to the work undertaken during 2019-2020, there had been no significant changes to the Risk Management Framework and the principles applied to risk management, but a review had been started into the process of the way that risks were managed, captured and reported across the organisation. The Committee were now presented with two risk ratings, one pre-mitigation, and one post-mitigation to provide more clarity on how risks were being managed.

Other work that had been undertaken was working with Colchester Commercial Holdings Limited (CCHL) making sure that the insurances that they had were suitable, as they required some specialist insurance. Work was also ongoing with Colchester Borough Homes (CBH) with regard to their insurance programme. Close working relationships were maintained with the local Safety Advisory Groups (SAGs) which included partners such as Essex Police, Local Highways and the Health Authority, as well as the Colchester Community Stadium. Forthcoming events were considered with a view to working out whether there would be any issues in terms of noise or safety management, and assistance offered in completing risk assessments. The Committee heard that in

addition to this, work was also undertaken to manage the joint risk register for the North Essex Parking Partnership and the museum, including the joint museum service with Ipswich, and that these processes had been the subject of an audit which had delivered a substantial assurance rating.

Hayley advised the Committee that the Risk Management Strategy formed part of the Constitution of the Council and, as such, an annual review was appropriate. The Committee heard that there had been some minor review points following recommendations from internal auditors, but it was not felt that the Strategy needed to be amended in any form, and it was invited to recommend that Cabinet be asked to approve the Strategy so that it could be adopted into the Council's Constitution by Full Council.

It was explained to the Committee that the Risk Register was reviewed on a very regular basis throughout the year, and that consistently throughout 2019-2020, the risks identified were straightforward and included key areas such as the exit from the European Union, security of data and Council finances. Towards the end of the financial year, it had been considered that it may be possible to remove some identified risks from the Risk Register as the Council's risk profile reduced, but the advent of the pandemic had required focus in different areas of risk. Once the Coronavirus pandemic had arrived in the United Kingdom, the risk assessment work that had already been undertaken supported a fast and efficient response from the Council, helping to ensure that key support was offered, and essential services continued to be delivered. As a result of the pandemic, the key risks were of a much higher profile, including the budget strategy, with the Council's finances changing significantly as a result of the pandemic, and Covid-19 itself now identified on the risk register. Work was now being undertaken to ensure that current processes were appropriate, given some of the rapid changes that had been necessary to these in response to the pandemic, in addition to monitoring the effect of European Union exit in the light of information that was coming to light. Data protection and cyber security were still key risks, and it was felt that the pandemic had served to increase these risks, as there was the possibility for the pandemic to be used to attempt to gain information to support future attacks.

Councillor Pearson confirmed his approval of the new format Strategic Risk Register, which he felt was clearly laid out, and easy to access.

Councillor King, Portfolio Holder for Business and Resources, addressed the Committee to confirm his belief that the most important thing about the Risk Register was that it was used, and was a reasonable vehicle to enable discussion and the delivery of quality across services. He also confirmed his support for the new format, but accepted that it would be necessary to continually revise and alter the Register as future events unfolded, with a particular focus on recovery.

Councillor Willets added his approval to the new layout of the Register, commenting that it was much easier to understand and adopted a more logical approach by setting out

risks before any mitigating action was taken, and allowing them to then be assessed following mitigation, when the difference between the two stages was enlightening. He believed that some risks simply had to be accepted as only partial mitigation was possible, and considered that it was necessary to focus attention on those areas of risk where it is possible to make realistic improvements to the Council's processes. He explained his clear view on risk management and considered that the Council should focus its attention on its specific responsibilities with delivering essential services to the people of Colchester. He accepted that although there may be a wider impact from such events as the exit from the European Union or difficulties with Universal Credit, he felt that the majority of risk analysis should be confined to areas over which the Council had direct control. Councillor Willetts commented specifically on the risk being ascribed to exit from the European Union, and questioned what specific impact this would have on the Council, which in his view was difficult to ascertain. He concluded by praising the phenomenal effort which had been made over the past five years to making improvements to the Register and the way that it was used.

Councillor Pearson confirmed that he was assured by the reports that were presented to the Committee on a regular basis, and believed that the Council's management of risk was appropriate and prioritised. He expressed little concern that the European Union Exit remained in the Risk Register, although accepted that it was possible to debate how this should be rated.

Councillor Barlow, in response to Councillor Willetts, expressed his opinion that the Council had a much wider role in the community than core service delivery, and that to view the Council solely in terms of its services was to ignore its wider role in the community and democracy as a whole.

Councillor Goacher supported Councillor Barlow's comments, and enquired how it was decided what items were recorded in the Risk Register and how much political input there was to this process. He expressed his view that the exit from the European Union was worthy of an entry on the Register, as it was not yet known how future economic uncertainty would affect the Council.

Councillor King confirmed to the Committee that no political bias was present in determining items to be recorded in the Risk Register, and re-iterated that the Register was a working tool which would possess much less value if it was political in nature. Although Cabinet did take an interest in the Register in general terms, he did not take an active role in risk rating, and considered that this represented a reasonable balance.

Hayley McGrath also confirmed to the Committee that assembling the Register was carried out with no political input, and the Register was reviewed on a very regular basis in conjunction with the Council's Senior Management Team. The process of assessing risks facing the Council was the subject of rigorous debate, which was informed by information from a variety of sources, including internal audit reports as well as emerging issues in the wider governance arena. Hayley confirmed that a wide range of risks were

considered when monitoring and amending the Register, and issues that may have arisen from significant insurance claims or Ombudsman reports were taken into account, together with high level operational risks that may have been identified by Service Managers. It was only once the Register has been completed that it would be referred to Councillor King, and although it was accepted that there would naturally be differences of opinion when assessing risk, it was confirmed to the Committee that the final Strategic Risk Register did reflect the views of the Senior Management Team. The Committee were made aware that the company who provided the Council's internal audit service had been invited to assess the Strategic Risk Register by way of internal challenge, utilising their broad knowledge of Local Authority risk.

Councillor Pearson praised the thorough approach that had been taken with the presentation of the Risk Register, making it clear to both Councillors and members of the public what the position was with regard to risk management.

RESOLVED that the submission of this report to Cabinet to approve the risk management strategy for 2020/21 be endorsed.

226 Work Programme 2020-2021

Matthew Evans, Democratic Services Officer, attended the meeting to present the report and assist Members with their enquiries. The Committee were asked to note that two items, reports on the Audited Statement of Accounts and the Treasury Management Report have been moved from this meeting to the next meeting of this Committee in October.

RESOLVED that the contents of the work programme be noted.