

GOVERNANCE AND AUDIT COMMITTEE

22 June 2021

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

Substitutions: Councillor Martin Leatherdale for Councillor Leigh Tate

Also Present:- Councillor Paul Dundas, Leader of the Council
Councillor Sue Lissimore, Portfolio Holder for Resources

256. Minutes of the previous meeting

RESOLVED That the minutes of the meeting held on 23 March 2021 be confirmed as a correct record.

257. Draft Statement of Accounts 2020/21

Mark Jarvis, Finance Manager, attended the meeting to present the report and assist the Committee with its deliberations. The Committee heard that Colchester Borough Council (the Council) had until 31 July 2021 to publish a draft statement of accounts, with the final audited set of accounts required by 30 September 2021. The draft statement of accounts had accordingly been prepared, and had been signed by the Section 151 Officer on 11 June 2021, and the Committee were advised that the early production of the draft statement of accounts was facilitated by the excellent quality of previous years' draft statements of accounts. In order to have an audited statement of account ready for the 30 September 2021 deadline, it was important to begin the necessary work as early as possible.

There had been some changes to the accounts from previous years following recommendations from the Council's external auditors, including some cosmetic changes and a reduction of the amount of information that was presented by approximately one third. The Committee heard that the financial implications of the Coronavirus pandemic would be covered in the financial monitoring and capital outturn reports which would be presented to the Committee later in the agenda. Specific effects of the pandemic could be seen in the Council's asset and pension valuations, together with the income from Council Tax business rates.

The work of the finance team was praised in delivering the draft statement of accounts, and also achieving the sign off of the 2019-2020 statement of accounts in

November last year. It was explained that a number of other Local Authorities were not in such a good position, with some not having been able to sign off on their 2018-2019 accounts. The Committee were advised that the required Public Inspection Notice would shortly be published, allowing members of the public to inspect, object and raise formal questions to the Council's external auditors.

Councillor Willetts offered praise for the work of Officers in delivering the draft statement, and noted that Councillors had been provided substantial updates on the Council's financial position throughout the preceding year. This view was echoed by Councillor King, who further noted that as the year progressed it was hoped to be able to see recovery in the areas of income which had been most affected by the events of the preceding year.

RESOLVED that the draft statement of accounts be noted.

258. Head of Internal Audit Annual Report 2020/21

Hayley McGrath, Corporate Governance Manager, attended the meeting to present the report and assist the Committee with its' enquiries. It was explained to the Committee that as a Local Authority, Colchester Borough Council (the Council) had a responsibility to maintain a robust internal audit programme which evaluated the effectiveness of the Council's risk management and governance processes. The Council's internal audit function was carried out by the external company TIAA, with the contract being managed by Officers. The Committee were assured that although it had not been possible for TIAA to physically attend the offices of the Council, they had built up an excellent working relationship with Officers.

The Head of Internal Audit Annual Report which had been provided by TIAA, gave an overall assessment of the Council's control arrangements together with an overall assurance rating based on work undertaken throughout the year. The Committee heard that out of 25 audits carried out, 44% had achieved a 'substantial' assurance rating which was the highest rating achievable, in contrast to the previous year where 33% of audits had achieved the highest rating. The number of 'limited assurance' ratings had decreased to 1 this year, down from 9 last year, and the number of urgent recommendations had fallen to 3, in comparison to 21 the previous year.

The programme for internal audit had changed slightly and had been directed towards the Council's Covid-19 response, looking at how early decisions had been made and how services had changed quickly in response to the pandemic. It was key to determine that the right systems of control were in place in relation to the general move away from office based working, and the audits that were carried out demonstrated that the systems of control were very good.

Councillor Willetts confirmed to the Committee that any priority one, or urgent, recommendations that had been made throughout the year had been considered by the Committee, who had sought an explanation of the situation surrounding the recommendation.

Councillor Fox sought additional assurance around the one audit area that received a limited assurance rating, which was Colchester Commercial Holdings Limited (CCHL). It was explained to the Committee that The Council shared its audit days with CCHL who were not a large enough company to have their own internal audit programme, and the audit days were assigned to areas that CCHL wish to have audited. With regard to the audit of Leisure World, the management of CCHL had requested that the processes for cash transactions dealt with during events be subject to audit as during busy events large numbers of cash transactions would be taking place. On careful review of the systems in place, it was discovered that more cash had been received than had been accounted for in the system, which was likely due to the pressure of busy events and transactions accordingly not being registered correctly. This audit had led to very robust systems being put in place, with a lot of transactions now being cashless.

Councillor Bentley sought further information about the risks associated with Human Resources and Payroll, together with the risk management system itself. The Committee heard that the reason that a 'reasonable' level of assurance had been given in respect of risk management was in relation to the ways in which the risk registers were maintained and how information was set out. Following on from the audit, programmes of training were being implemented, and Member development session was being planned on the management of risk, which would be primarily targeted at this Committee, with the aim of giving an understanding of risk management responsibilities and how the process worked. With regard to the reasonable level of assurance that had been given to Human Resources and Payroll, it was explained that this would have related to a number of minor (level three) recommendations in relation to processes.

RESOLVED that the Internal Audit activity for the period 1 April 2020 to 31 March 2021 had been reviewed, and that the contents of the report be noted.

259. Review of the Governance Framework and Draft Annual Governance Statement

Hayley McGrath, Corporate Governance Manager, attended the meeting to present the report and assist the Committee with its' enquiries. The Committee heard that the Annual Governance Statement was an opportunity to review the preceding year and identify any issues or concerns in relation to the governance of the organisation and complying with the seven principles of good governance. It was explained that Colchester Borough Council (the Council) maintained a number of policies which supported the principles, and these were submitted to the Governance and Audit Committee for annual review later in the year as a matter of good practice. The Committee were advised that in the preparation of the draft Annual Governance

Statement (AGS), the senior management team of the Council had been interviewed and asked robust questions about the governance of the Council over the preceding year, and the Head of Internal Audit Assurance Report was also carefully considered as part of this process to ensure that a suitable system of management was in place. The AGS itself was based on a template of the information required by the Chartered Institute of Public Finance and Accountancy (CIPFA), and consideration was also given to the Council's relationship with its commercial companies; Colchester Commercial Holdings Limited, Colchester Borough Homes and Colchester Community Stadium Limited, together with the Council's partnerships; The Joint Museums Partnership and the North Essex Parking Partnership. As a result of this process, any areas of concern were highlighted where it was felt that the systems of control could be improved, and the items identified this year were areas where it was felt by the Senior Management Team that there may be potential issues in terms of the robustness of the system due to outside influences.

The draft AGS considered items or potential concern that had been highlighted last year, and how these had been managed, and also set out the two items that had been considered important issues to monitor during 2021-2022. The first of these item was information technology (IT), and the specific need to be able to defend the organisation from cyber attacks, with which organisations were being targeted. The Council had suffered a cyber attack the previous year and although this had been resolved, it had caused issues and highlighted the need for continually improving responses to these issues. The second potential issue highlighted in the AGS was that of partnerships, and the need for a robust system to be implemented identifying the partner organisations of the Council, and setting out the relationship that they had with the Council.

The Committee were requested to approve the drafts AGS for signature by the Chief Executive and the Leader of the Council, together with the proposed action plan relating to the two issues that had been highlighted, and assurance was given that progress made under the action plan would be referred back to this Committee later in the municipal year. It was confirmed that signing off the AGS would support the provision of the statement of accounts.

Councillor King praised the significant work that had been undertaken to produce the draft statement, and he confirmed his support of the work to be undertaken around partnerships and cyber security and welcomed future detail in respect of this.

Councillor Bentley noted the significant achievements of the Council and Officers over the past year and beyond that were highlighted in the AGS, and he wondered whether a suitable communication strategy should be put in place to inform the public of the amount of work that had taken place. Dan Gascoyne, Chief Operating Officer, noted the recommendation and confirmed that he would raise this possibility with the Leader of the Council and the Portfolio Holder for Communications.

RESOLVED that:-

- (a) the Council's compliance with the seven principles of good governance (CIPFA International Framework: Good Governance in the Public Sector 2014) including the review of effectiveness of the internal control arrangements be noted.
- (b) The Annual Governance Statement for 2020/21 be approved.

260. Financial Regulations 2022-23

Paul Cook, Head of Finance, attended the meeting to present the report and assist the Committee with its' enquiries. The Committee heard that it had been some time since the Financial Regulations had been updated, and it was good practice to carry out a review of the Regulations as part of the budget process. It was proposed that changes were to be made to the Financial Regulations in good time in order that these changes may be approved by Full Council in preparation of setting the budget for 2022-2023. The Committee heard that the main changes being proposed took account of changes in the post designations of Colchester Borough Council (The Council), and also referred to activities that the Council used to carry out, but which were now carried out by the Amphora Companies. The Committee were advised that the current Regulations did not correctly set out the Council's budget process because the Council adopted an integrated budget approach, based on strategic objectives rather than individual Portfolio Holder budget proposals. The revised Regulations took account of the fact that the Governance and Audit Committee would now be receiving reports on revenue, capital and treasury items instead of sharing this responsibility with the Scrutiny Panel, although the Committee was reminded that Scrutiny Panel was still entitled to look into any aspect of those matters. The opportunity had been taken to provide a clearer process on capital expenditure to put more emphasis on a good business case for every capital project, together with the management of this throughout the year. The Committee were advised that the final area of proposed change was in relation to budget transfers, where it was proposed to substantially increase the level of decision making for Portfolio Holders and Directors as it had been some time since the limits had been revised. Following research, it had been determined that the vast majority of budget transfers were termed as technical transfers, carried out by the Head of Finance, for example allocating pay awards or setting up a new costs centre for external grant funding, while use of transfer facilities by Portfolio Holders or Directors was very infrequent. For this reason, Paul Cook confirmed that he would be happy to keep the limits as they had been set out in the 2017 Regulations, or raise the limits to double their current amounts to take account of the passage of time.

Councillor Willetts confirmed that he was happy with the general revisions that had been proposed, but had raised a question around the changes suggested in relation to budget transfers.

Councillor Fox confirmed that he felt assurance on the issue of budget transfers, having learned that the majority of such transfers were technical adjustments carried out by Officers, and he suggested that the Committee need not feel concerned about budget transfers being carried out without Member approval. He sought assurance that future reviews of the Financial Regulations would be referred to the Governance and Audit Committee to ensure future oversight, on an annual basis in the future.

Councillor Bentley confirmed that he had no issue with budget transfers, provided these were carried out with the knowledge and approval of the Portfolio Holder for Resources. He added his support for the suggestion from Councillor Fox that the Regulations be reviewed annual by this Committee.

Councillor King also confirmed that he felt that that there should be no concern around the amendments proposed in relation to budget transfers, feeling that the proposals added to the effectiveness of work and the transparency of operation of the Council. He added his support to the request that the Regulations be reviewed by this Committee on an annual basis, and this suggestion was further supported by Councillor Nissen.

By way of response, Paul Cook confirmed that he would welcome an annual review of the Regulations, and suggested that the current period in the municipal year was the correct time to do this.

RESOLVED that the Financial Regulations 2022 be approved, and that Council be recommended to adopt the Financial Regulations 2022, subject to the future annual review of the Regulations by the Governance and Audit Committee.

261. Financial Monitoring Report – End of Year 2020/21

Paul Cook, Head of Finance, attended the meeting to present the report and assist the Committee with its' enquiries. The Committee were advised that although there had been a number of changes to income and expenditure throughout the preceding year, the budget had not been formally amended as it was important to maintain this as a baseline, particularly when the Council was making claims to the Ministry of Housing, Communities and Local Government (MHCLG). As a result there had been some large variations from the budget that had been set, including an overspend on the general fund of £7.972m which was due to less income than assumed when the budget had been set. To offset this, there had been excellent support from the government, with £8.9m support countering the income losses and also covering some unforeseen cost such as redundancy costs. Some year end adjustments had also been necessary, including an increase in the bad debts provision, together with the introduction of minimum revenue provision in respect of the delayed Amphora Energy project. The General Fund minimum balance had also been increased as the Council always maintained 10% of its' net expenditure, however, taking all of these factors into account the Council had an overspend of only £38,000 which was considered to be a god outcome given the difficulties of the previous year.

Councillor Bentley sought clarification that the money that had been provided by government had completely covered the losses that the Council would have incurred through its commercial activities. Paul Cook confirmed that this was indeed the case, and funding had been received via two different types of support, an Income Loss Grant which covered 75% of income losses, and general grants without any conditions, meaning that the Council received more government support than it had lost income.

Councillor King praised the work of Officers, and commented that the position the Council was in was a good one in the circumstances. He asked for clarification on what income projections may be for the forthcoming year. Dan Gascoyne, Chief Operating Officer confirmed that the budget for this year had a built in expectation that income may not recover to previous levels, for example car parking and sports and leisure.

Councillor Fox noted the turbulent year that had passed, and its impact on Council income, services and capital projects, and he looked forward to future updates on recovery, while at the same time noting some key achievements of the Council such as the sports park and the Norther Gateway project.

RESOLVED that the financial performance of General Fund Services and the Housing Revenue Account (HRA) for the year 2020/21 be noted.

262. Capital Expenditure Outturn 2020/21

Paul Cook, Head of Finance, attended the meeting to present the report and assist the Committee with its' enquiries. The Committee were advised that the Coronavirus pandemic had impacted capital projects due to changes that were required to ways of working, and it was acknowledged that this had generated a backlog of work. The Committee was advised that a future report on capital monitoring for quarter one of 2021-2022 would be presented in the near future where it was hoped that the start of the necessary works would be detailed. The Committee heard that projects were Red Amber Green (RAG) rated, and the only project that had strayed into a red rating was the Shrub End Depot project.

Councillor King requested more information in relation to the Shrub End Depot, noting that the project had been ongoing for the previous seven years, and he sought assurance that consideration would be given to working conditions for members of staff at the depot.

Dan Gascoyne, Chief Operating Officer, confirmed that the proposals for the Shrub End Depot were quite far progressed prior to the pandemic, however, the significant operational changes that had been required had led to the work being delayed. Operating processes at the depot had changed significantly in the wake of the pandemic to ensure safer working practices, and there were a number of changes that were proposed to be made this financial year. There was, however, a strategic need to ensure that the depot was operating seamlessly with, and alongside, the County Council's operations adjacent to the depot. It was noted that the quality of the

working conditions could be improved, but that the Council had tried to ensure that best use had been made of the facilities that were in place through better engagement with staff to ensure that any necessary changes to working practices were made. Modest improvement had been made to the space and facilities in which staff worked, however, further improvements were sought.

Councillor Bentley requested that a report be brought back to the Committee in relation to the Shrub End Depot, in order that the progress of the project could be monitored in detail in the future, given its RAG rating status, a suggestion that was supported by Councillor King.

Councillor Paul Dundas, Leader of the Council, confirmed the Council's commitment to expediting the project, while noting that the project had been delayed. He stated that should the Committee request an item on a future agenda, he was sure that the Portfolio Holder for Resources would be happy to attend.

Councillor Fox noted that the Council was investing a significant amount of money in capital projects compared to other Local Authorities, which was to be lauded. With regard to the local full fibre broadband project, he noted the challenges associated with work permits and Essex County Council Highways, and the fact that the budget associated with the project was due to be spent by 30 June 2021. He enquired whether this would be delivered, and Dan Gascoyne advised that the latest information he had was that this project was on track, but he would be happy to confirm this to the Committee in the future.

Councillor Sue Lissimore, Portfolio Holder for Resources, offered assurance to the Committee in relation to the Shrub End site, confirming that the immediate needs of the operators there were being considered to ensure that the site ran as efficiently as possible.

RESOLVED that:-

- (a) The Committee had reviewed the progress on the Capital Programme as set out in the report, together with the associated spend for the financial year and the budget forecasts for future years, and the RAG rating for each scheme as rated by the relevant project manager.
- (b) That a further report detailing the progress of the Shrub End Depot be presented to a future meeting of the Committee.

263. Work Programme

Matthew Evans, Democratic Services Officer, attended the meeting to present the report. The request for a future report in respect of the Shrub End Depot project progress was noted, with the timing of this report to be agreed with Officers.

Councillor Willetts noted the request for further training on cyber security that had been made, together with training on risk analysis and he sought views on whether

these areas should be future agenda items, or picked up under the Council's more general training programme.

Hayley McGrath, Corporate Governance Manager, confirmed that it was proposed to add an item on risk management to the Member development programme which would be available to all members, but primarily directed to Members of the Governance and Audit Committee. She confirmed that it was for the Committee to decide whether it wished to receive a report on cyber security at some point in the future, or whether it was felt that an in-depth training session on this issue would be more suitable.

Councillor Bentley confirmed that he felt that training should not be part of the work of the Committee, but should be carried out separately. Noting the agenda items listed for the forthcoming November meeting of the Committee, he wondered whether it would be possible to move some of these to the October meeting. Hayley McGrath confirmed that the reports due to be presented in November were presented annually and were an opportunity to review the policies that underpinned the governance frameworks and the Ethical Governance Policy, and it was appropriate that these reports were considered together. It was further explained that other reports scheduled for the November meeting had to be considered at this time due to the time restrictions placed on the Committee by external auditors and the need to publish accounts by a certain time.

Councillor Fox noted the increasing risks that were being posed to the Council through cyber security issues, and requested that a report be presented to the Committee to reassure Councillors and members of the public that all necessary steps were being taken to mitigate this risk. Councillor Willetts noted the importance of the issue, but voiced his concern that a report in the public domain would have to be bland in its content to avoid compromising safeguarding steps that were being taken.

Councillor Bentley and Councillor Oxford supported training in the Council's cyber security measures be carried out prior to a more general report being submitted to this Committee, an approach which was supported by Hayley McGrath. Dan Gascoyne confirmed that an item would be added to the agenda of the October meeting of the Committee, subject to further consideration of how this was to be presented following the relevant training.

RESOLVED that the contents of the work programme be noted, subject to the addition of a future agenda item on the Shrub End Depot project, and an additional item to be presented to the October meeting of the Committee on cyber security.