

GOVERNANCE AND AUDIT COMMITTEE

7 March 2019

Present:- Councillor Fox (Chair), Councillor Chuah, Councillor Higgins, Councillor F Maclean and Councillor Whitehead

Substitutes:- Councillor J Maclean for Councillor Willetts

Also Present:- Councillor King

141. Minutes

RESOLVED the minutes of the meeting held on the 30 October 2018 and 13 November 2018 be approved as a correct record.

142. Have Your Say!

Alan Short addressed the Committee with regards to the relationship between the Council as shareholder and the private companies set up under Council ownership. He was particularly concerned about potential conflicts of interest between the role of Councillors as directors of the companies and their role as Councillors, and how the Council as shareholder could exercise control over the directors, when such conflicts occurred. For instance, as the directors of the companies were senior officers of the Council it would very difficult for the shareholder to sack them.

In response Adrian Pritchard, Manager Director of Colchester Commercial Holdings Ltd, informed him that there was only one shareholder for the companies' and this was Colchester Borough Council. Adrian explained that the companies were trying to generate money which will then go back in to the Council. It would then be to the Council to decide where they would like to spend the money within the Borough. The companies also had a public sector ethos. Adrian also informed Alan Short that the Governance and Audit Committee is the stakeholder committee and if the Committee had concerns with the companies they have every right to give very clear actions on what they should or should not do be doing.

Adrian Pritchard offered to meet Alan Short, in private meeting, to explain the Companies structure and workings.

143. Certification of Claims and Returns External Audit Annual Report 2017-18

Margaret Donaldson, Interim Finance Manager, introduced the report. The report requests that the Committee note and comment on the contents of the 2017/18 Certification of Claims and Returns annual report from the external auditor.

Margaret Donaldson informed the Committee that the Housing Benefit Subsidy claim totals were approximately £53 million and the Housing Pooling return, which includes capital receipts, was approximately £4.3 million. Jason Granger, Customer Solutions Manager, gave further information with regards to a Housing Benefit Claim. Jason informed the Committee that the testing involved a sample of 60 cases out of a population of approximately 10,000; with total errors of £1,874 being identified. This was extrapolated over most of the caseload population to establish an adjustment of £280k. Because of errors identified in testing and associated extrapolation; Ernst Young issued a qualification to the claim. This then subsequently made the Council make representation to the Department of Work and Pensions (DWP). These representations focused on the numbers of cases tested, the rate of error found, and the subsequent extrapolation calculated. The Council considered a more reflective sample of cases could be identified without the need for extrapolation across the headline subsidy cell. The DWP have proposed that additional testing is undertaken, as detailed in the report. This will require the auditors to conduct further testing under Module X; the estimated audit fees being £4k. This work will start on the 8 April and will need to be undertaken and agreed by 6 May 2019 and upon completion a final decision will be reached by the DWP in respect of the 2017/18 subsidy claim. They will be looking at 337 cases in Childcare costs and 84 in Annual income.

Councillor King thanked Ernst and Youngs for their help and hard work on this report.

In response to questions from the Committee Jason Granger informed them that if overpayments had been made due to a Borough Council error, the Council would not seek recovery.

RESOLVED that the contents of the 2017/18 certification claims and returns annual report and qualification letter, issued by the Council's external auditors Ernst & Young be noted and commented on and the Department for Work and Pensions (DWP) letter of 13 February 2019 be noted.

144. Audit Plan year ended 31 March 2019

Margaret Donaldson, Interim Finance Manager, Councillor David King and Zoe Thompson, Director BDO LLP Auditors, attended the meeting to introduce the report. The report requests that the Committee reviews the contents of the Audit Plan for the year ending 31 March 2019.

Zoe Thompson addressed the Committee and highlighted a few points within the plan. Zoe explained that as new auditors they have put the materiality levels to 1.75% of gross expenditure, which is lower than it usually is. The main points that have been classed as significant risk are management override of controls, revenue recognition, substantive property, plant and equipment and investment property valuation, pension liability valuation and sustainable resource deployment.

In response to questions from the Committee Zoe Thompson informed them that the driver for BDO Auditors is to risk rate each component and if they class it as a 'significant' risk they will do enhanced work and testing. With regards to the Commercial companies; an

assessment is just being finalised to evaluate whether they would not be as a 'significant' component within the financial statement at this current time.

RESOLVED that the contents of the Audit Plan for year ending 31 March 2019 be reviewed and agreed

145. Capital Expenditure Monitor 2018/19 – April to December 2018

Margaret Donaldson, Interim Finance Manager, introduced the Capital Expenditure Monitor 2018/19. The report requests that the Committee review the level of capital; spending during the first nine months of 2018/19, and forecasts for future years.

Margaret Donaldson informed the Committee that the report provides details of capital expenditure for the first nine months, which had totalled £13.937m or 45.1% of the projected capital programme spend for 2018/19. This compares to 52% for the same period in 2017/18.

Margaret Donaldson went through the reports with the Committee and also highlighted that the budget report had been approved by the Council on the 21 February 2018.

In response to questions, Fiona Duhamel informed the Committee that Phase 2 of the Sheepen Road building was reported as overbudget in quarter 2 due to the fees of the project being not being correctly reported in a previous report. This was an administrative error rather than a budgeting error.

RESOLVED that the level of capital spending during the first nine months of 2018/19 and forecast for future years has been reviewed

146. Financial Monitoring Report – April to December 2018

Darren Brown, Finance Manager, and Councillor David King, Portfolio Holder for Resources, introduced the Financial Monitoring Report for April to December 2018. The report requests that the consider the financial performance of General Fund Services and the Housing Revenue Account (HRA) for the first nine months of 2018/19, and to note that whilst there is a forecast budget overspend of £267k on the General Fund there remain a number of end of year items which are expected to result in the outturn being delivered on budget. The quarterly position was reported to Scrutiny in November.

Darren Brown informed the Committee that the current net position showed a variance against profiled budget for General Fund Services (excluding Benefits, NEPP & JMC) of £19k (favourable). This comprises total expenditure being £84k lower than expected and total income being £65k lower than expected. With regards to the overspend of £267k. Darren highlighted a number of the key factors which contributed to this position, with the main ones being less income due to economic factors, such as .recycling and Fleet, less income caused by external delays, for example Northern Gateway, More expenditure due to demand for example. Recycling and Fleet, and one-off costs associated with futures reviews and Increased income from the recovery of housing benefit overpayments.

Darren Brown confirmed that where income was below targets in the current year, budgets

have been reviewed for next year to reflect this. An end of year report will be brought to the Scrutiny Panel in June, which will provide an updated figure following final adjustments and expenditure and income checks.

With regard to the Housing Revenue Account, Darren Brown stated that this is showing a net underspend of £764,000. The HRA is currently forecast to be on budget, as any underspend occurring will be used to fund a greater proportion of the housing capital programme.

The Committee questioned whether the lifestyle membership had dipped due to the issues with regards to traffic and the roadworks at Ipswich Road and the possibility of making representations with Essex Highways. Also, the Committee questioned whether the lack of bus service to Leisure World had an impact on Leisure World.

Adrian Pritchard informed the Committee that work was being done to try and ensure that people would stay as members and visit Leisure World.

RESOLVED that;

(a) the financial performance of General Fund Services and the Housing Revenue Account for the first nine months for 2018/19 be considered.

a. (b) the forecast overspend of £267k on the General Fund be noted.

147. Brexit – governance and business continuity

Dan Gascoyne, Assistant Director of Corporate Policy, introduced the report which gives an update on the Council's governance and business continuity arrangements for Brexit.

Dan Gascoyne highlighted that the UK's withdrawal from the European Union creates a number of uncertainties not only for the Council but communities and businesses alike and gave a list of issues that are being considered by the Council which included community cohesion, community impact, communications, planning ahead and service delivery.

In responses to questions from the Committee Dan Gascoyne informed the Committee there has been no expenditure with regards to the £35,000 that had been allocated to the Council to help deal with the impact of Brexit. However there could be resource implications if more resource was needed, such as through mutual aid with other authorities, or if there is a significant delay in Brexit or through the Great Repeal Bill

The Committee also asked that support is given to staff and residents who are EU nationals and need to register with the government. Dan Gascoyne informed the Committee that information is being shared and help is there.

RESOLVED that the report's content and overview of the current arrangements be noted.

148. Review of the Business Plans, Governance and Performance of the Council's Wholly - Owned Companies

Dan Gascoyne, Assistant Director, Policy and Corporate and acting as the Council's client representative for the wholly owned companies, introduced the Review of the Business Plans, Governance and Performance of the Council's Wholly Owned Companies. The report requests that the Committee note the governance arrangements that are in place between the Council and Colchester Commercial (Holdings) Limited and its subsidiary companies. The Committee were also asked to consider and review the activities and financial performance of Colchester Commercial (Holdings) Limited and its subsidiary companies and to also review and make recommendations to Cabinet on the refreshed Colchester Commercial (Holdings) Limited Business Plan and those of the subsidiary companies.

Councillor Nick Barlow, Portfolio Holder for Commercial Services and Chairman of the Board for Colchester Commercial (Holdings) Limited, addressed the Committee and explained how the company were keen to hear about how the Committee would like to take the relationship forward. Councillor Barlow informed the Committee of issues he personally felt had arisen since being a member of the board. Whilst he felt it was essential for the Portfolio Holder of Commercial Services to also act as Chair of the Board at the beginning of the company, he was no longer convinced that this was the most appropriate model going forward. In addition he considered that further work needed to be undertaken in providing training for Councillors about the role and work of the companies.

Councillor Barlow thanked the other Board members and officers for all their hard work spent setting up the companies over the last year.

It was suggested by the Committee that it would help Councillors in communicating with the companies if there was a designated contact email address. This approach worked well with Colchester Borough Homes. The Committee felt very strongly that it was important that the companies were seen as transparent. Mr Pritchard, Managing Director of Colchester Commercial Holdings Ltd, agreed that more work needed to be done on public relations and communications with regards to the companies, and in particular further consideration needed to be given to the balance of information put in the public domain and that considered as commercially sensitive.

In response to questions from members, Councillor Barlow gave a brief break down with regards to the companies, their roles and the major projects. Fiona Duhamel informed the Committee that Amphora Energy had received a £3.3 million grant and also an additional £200,000 for due diligence towards the Heat Network project. She explained how the low carbon technology and the concept of a heat network was innovative and the Government was keen to build on the concept and develop similar networks across the United Kingdom. There was also potential to develop further heat networks across the borough. The Committee stressed the need to publicise this work further.

A further question was asked with regards to having independent non-executive directors to bring business experience on the board and seeking those with external experience. Councillor Barlow informed the Committee that this was a discussion that was currently being held within Colchester Commercial (Holdings) Limited. The Committee also agreed with the suggestion by Councillor Barlow that it would be more appropriate for Councillor appointments to the Board to be non-executive members, although there would need to be clear lines of communication with relevant Cabinet members. In terms of the issues around appointing non-executive members to the Board, the Committee requested a further report be submitted to the first meeting of the Committee in the new municipal year.

It was also suggested that it would help the Committee discharge its stakeholder function to receive a bi-annual update from CCHL.

RESOLVED that

- (a) The governance arrangements in place between the Council and Colchester Commercial (Holdings) Limited and its subsidiary companies be noted
- (b) Regular briefings be given to all Councillors with regards to the operation and structure of the Companies.
- (c) Colchester Commercial (Holdings) Ltd be asked to give further consideration as to how Councillors could be provided with effective direct contact links with CCHL and its subsidiaries.
- (d). To RECOMMEND to CABINET that it consider whether future Councillor appointments to the Board of Colchester Commercial (Holdings) Ltd be limited to non-executive members only.
- (e) The Governance and Audit Committee receive bi-annual interim reports from Colchester Commercial (Holdings) Limited
- (f) Training be provided to the Governance and Audit Committee on its role as as the stakeholder Committee for Colchester Commercial (Holdings) Limited.
- (g). A further report to come back to the Governance and Audit Committee on the 25 June 2019 on issues relating to the appointment of non-executive Directors to the Colchester Commercial (Holdings) Limited board.

149. Risk Management Progress Report

Hayley McGrath, Corporate Governance Manager, introduced the Risk Management Progress report. The report requests that the Committee consider and comment on the Council's progress and performance in managing risk during the period from 1 April 2018 to 30 September 2018 and to consider and comment on the current strategic risk register.

The Committee was informed that the key strategic risks remain the same; this includes the potential impact of future central government decisions to reduce public funding and failure or inappropriate management of strategic partnerships or key contracts. It had, however, added an additional two items which include the impact of the withdrawal from the European Union and delays in the delivery of the Garden Communities project.

Hayley McGrath highlighted that a lot of work had been done with regards to the Commercial companies; looking at their insurance programmes and making sure that the different ways of working have the appropriate risk management tools applied. Also work had been done on the risks relating to the security of public and civic events; working closely with Essex Police and Colchester Garrison and helping to manage events going forward. Hayley also informed the Committee that a big project within the team has been with regards to looking at operational risk registers operationally as a result of the reviews

that been going through and how they reflect the way we provide our services.

RESOLVED that the Governance and Audit Committee considered and commented on the progress and performance in managing risk and the current risk register.

150. Annual Review of Business Continuity

Hayley McGrath, Corporate Governance Manager, introduced the Annual Review of Business Continuity report. The report requests that the Committee consider and comment on the business continuity work undertaken during the period and endorse the business continuity strategy for 2019.

Hayley McGrath provided the Committee with a summary of the report and informed members that business continuity is part of the risk management framework. The report is brought to the Committee to provide assurance that appropriate measures and plans are in place.

Hayley McGrath gave a summary with regards to the work that had been completed which included; a review of all service plans, completion of table top exercises on the following service areas Customer, Environment, Communities and Colchester Amphora Trading. Colchester's Multi Agency Flood Plan being re-written, Colchester Town's Evacuation Plan being reviewed and agreed by Essex Police and updating Colchester's severe weather plan.

In response to questions from the Committee Hayley informed members that Leisure World is still used as a rest centre, but the Council also has various other centres around Colchester. With regards to Parish Councils the Emergency Planning Officer has been out at the Parish Liaison meetings but the Council was happy to look at Parish Councils to come in for a meeting about emergency planning and business continuity. The trading companies that have moved across to Amphora also moved with the Business Continuity plans that were put in place whilst they were part of Colchester Borough Council. The Council would work with Amphora to make sure it can deliver the services as we need too. Hayley informed the Committee that she would also look at the possibility of having a fire drill during a Council meeting.

RESOLVED that;

- a. The Committee considered and commented on the business continuity work undertaken during the period.
- b. The Committee endorse the Business Continuity Strategy for 2019.

151. Interim Review of the Annual Governance Statement Action Plan

Hayley McGrath, Corporate Governance Manager, introduced the Interim Review of the Annual Governance Statement Action Plan. The report requests that the Committee consider and comment on the work undertaken to implement the current Annual Governance Statement action plan.

Hayley McGrath highlighted that the report provides an update on the recommendations

that were raised in the Annual Governance Statement report which was discussed in June. Hayley McGrath confirmed that all recommendations made for the four areas of concern; Security of premises/information, Contract Management, Project Management and Financial Management will all be on-going throughout the year. Hayley McGrath also confirmed that auditors would be checking those areas as part of the routine internal auditing programme.

The Governance and Audit Committee welcomed the report and the progress made.

152. Internal Audit Plan 2019/20

Hayley McGrath, Corporate Governance Manager, presented the report. The report requests that the Committee consider and agree the suggested internal audit plan for 2019/20.

Hayley McGrath informed the Committee that the Council is required to maintain a five year audit plan, with an annual plan agreed with management about the specific areas covered during the next financial year. The annual plan is then provided to the Committee for approval.

Hayley McGrath stated that the internal audit contract provides for 325 auditing days per year, and that the plan has been agreed by the performance management board. The plan also includes 15 days of auditing for significant contracts and 25 to review IT systems and processes, which will be allocated during the year. Hayley also noted that the audit plan had been rearranged to reflect the Council's new operational structure and several audits have been identified as now coming under Colchester Commercial Holdings Ltd (CCHL). Whilst previously the Council has identified all of the audits required for CCHL, it is now more appropriate for a number of days to be allocated to the company, to decide how they are used. However, the Council will require assurance over specific areas, especially in the first few years of operation, therefore a few key areas for review (joint audits) have been identified on the plan along with a general allowance for CCHL to decide how to use, which has been set at fifteen days.

RESOLVED that the suggested Internal Audit Plan for 2019/20 be agreed.

153. Work Programme 2018 –19

Councillor Fox introduced the Work Programme 2018-19. The report requests that the Committee note the contents of the Work Programme.

RESOLVED that the Work Programme of 2018-19 be noted.