

Nottingham City Council

Audit Committee

Minutes of the meeting held at remotely via Zoom - <https://www.youtube.com/user/NottCityCouncil> on 31 July 2020 from 10.00 am - 12.45 pm

Membership

Present

Councillor Steve Battlemuch (Chair)
Councillor Graham Chapman
Councillor Michael Edwards
Councillor Jane Lakey
Councillor Lauren O`Grady
Councillor Anne Peach
Councillor Andrew Rule
Councillor Audra Wynter (Vice Chair)

Absent

Councillor Leslie Ayoola

Colleagues, partners and others in attendance:

Beth Brown	- Head of Legal and Governance
Glyn Daykin	- Senior Accountant Treasury Management
Katherine Kerswell	- Interim Chief Executive
Laura Pattman	- Strategic Director of Finance
Sue Risdall	- Team Leader, Technical Finance
Shail Shah	- Head of Audit and Risk
John Slater	- Group Auditor
Caroline Stevens	- Principal Risk Specialist
Thomas Straw	- Senior Accountant Capital Programmes
Kate Morris	- Governance Officer

12 Apologies

Councillor Leslie Ayoola - Leave

13 Declarations of Interests

Councillors declared the following Other Interest in item 7, External Audit Report 2018/19

Councillor Steve Battlemuch: Board Member of Robin Hood Energy and Trusts and Charities Committee, Trustee of Nottingham Play House.

Councillor Audra Wynter – Board Member of Robin Hood Energy, Nottingham City Transport and Nottingham City Homes .

Councillor Andrew Rule – Trustee of the Bridges Trust

Councillor Lauren O`Grady – Board Member of Robin Hood Energy

Councillor Graham Chapman – Board Member of Nottingham City Transport, and member of the Nottingham Pension Board (Non-Voting rights)

Councillor Michael Edwards – Board Member of EnviroEnergy

Councillor Anne Peach – Board member of Nottingham Ice Arena and Nottingham Play House and member of the Nottingham Pension Board (Non-Voting rights)

14 Minutes

Other than a grammatical correction in minute 2 to correct “and” to “an” the minutes of the meeting held on 26 June 2020 were confirmed as a true record and were signed by the Chair.

15 Feedback on issues raised at previous meetings

Shail Shah, Head of Audit and Risk, provided a verbal update on two items from the previous meeting.

The IICSA Costing work is currently being scoped. Details of the scope will be emailed to board members when the work is completed.

The Role of individual members of the Audit Committee is being considered and detailed as part of a wider governance review. Shail confirmed that he was in touch with colleagues across Core Cities regarding Independent members of Audit committee and a full paper can be brought to a future meeting.

The committee noted the updates.

16 Budget Update

Laura Pattman, Strategic Director of Finance gave a verbal update on the current Budget position. She referred Committee Members to the report to the Executive Board on 21st July 2020 for detailed commentary. She highlighted the following points:

- (a) The report to the Executive Board on 21st July detailed consultation on savings of £12.5 million necessitated by the cost of the response to COVID-19, and loss of income as a result of the pandemic. A full in year budget report will be taken to Council in early October setting out a revised Medium Term Financial Plan that will set out a high level plan for the Council and the services it can continue to provide;
- (b) The budget strategy is for
 - in-year savings
 - review of
 - all budgeted savings
 - expenditure
 - Income
 - Reserves;
- (c) Finance teams are monitoring the Council’s financial position on a weekly basis which is being reported to Corporate and political Leadership teams;

- (d) The Government has announced additional funding to help Councils cover the cost of lost income, however there are exemptions from this scheme and the government has not fully clarified eligibility. It is clear that this will not fully cover the financial impact. Finance colleagues are working to establish what the Council is able to claim through the different schemes. The Council continues to lobby the Government alongside other Local Authorities for additional funding to cover its pandemic-related costs

Following questions and comments further information was highlighted:

- (e) The Council has received almost £23million to date. Following recent announcements it is hoped that a further £16million will be made available, however this still will not fully compensate the Council in terms of overall financial impact of the pandemic. There is an estimated shortfall of around £60million;
- (f) The Public Accounts Select Committee, chaired by MP Meg Hillier examines value for money of public spending and the National Audit Office will look at government expenditure as a result of the pandemic;
- (g) It was confirmed that staff had been furloughed under the national scheme and eligible costs claimed. This had been factored in to calculations.

The Committee thanked Laura Pattman and other finance colleagues for their continued hard work and noted the update.

17 Treasury Management 2019/20 Annual Report

Glyn Daykin, Senior Accountant introduced the 2019/20 Treasury Management Annual Report to the committee highlighting that the main points to note were the increase in external debt, and the decrease in the average rate payable on debts. The following information was highlighted in discussion:

- (a) The Council has raised £65million from PWLB, £40million for the General fund and £25million for the Housing Revenue Account.
- (b) Investments achieved an average interest rate of 0.892% against a benchmark of LIBID which averaged 0.530%.
- (c) The 2019/20 budget outturn for General Fund Treasury Management was £79.531m.
- (d) There have been no breaches of the prudential indicators and the Council has worked hard to mitigate the increased risks to liquidity brought about by the pandemic.
- (e) The Council, like most Local Authorities doesn't have its own credit rating. The credit rating is generally viewed in line with the UK government and so currently stands at AA at present. The risk to the Council is in line with other Local Authorities. The Council's Treasury Management risks are monitored by a panel of finance colleagues alongside the external Treasury Management advisors and risks are adjusted accordingly.

- (f) The Council increased short term borrowing and made additional liquid investments at the start of the pandemic to ensure cash would be available to enable payments to be made during the pandemic restrictions., as it was clear that a lot of income from fees and charges would not be received and it was not clear whether any Covid-19 grants would be made in advance of the year end. This was an action many other local authorities had taken at the same time. This action was entirely prudent and is part of the Council's strategy for ensuring ongoing cash flow. The report is based on the year 2019/20 and so provides the position at 31 March, showing the additional borrowing and investments at that date.
- (g) 14% of fixed term debt would be maturing in the financial year, although it was likely that this debt would be replaced at better rates, the Council is taking on more debt so the overall debt charge would be not necessarily fall in 2020-21.

Resolved to note the performance information in relation to Treasury Management for 2019/20

18 Statement of Accounts 2018/19

Theresa Channell, Head of Strategic Finance introduced the report on the audited Statement of Accounts for 2018/19. She highlighted the unaudited or draft accounts had been approved by the Committee on 29 July 2019 but that the External Auditors had been unable to conclude the audit as Robin Hood Energy accounts audit had not been concluded. This report updates members of the Committee on the changes made from the approved draft to this final version.

The following points were made during discussion:

- (a) A full list of changes made to the accounts was published with the agenda for this meeting. The most significant adjustments were to the Group Accounts as a result of the results of the audited Robin Hood Energy Accounts with the report being adjusted for the increased reported loss.
- (b) The other notable event is the COVID-19 pandemic and its impact on the organisation which has also been reflected in the statement.
- (c) A final adjustment to highlight is the reclassification of Bridge Estate reserves within the Unusable Reserves note. The overall total is unchanged.

A request was made that going forward into the 2019/20 Statement of accounts that more granularity of movement between reserves is reported.

Before moving to the recommendations the committee agreed to hear the External Audit Report item to have a fuller picture.

Once hearing the External audit report and being satisfied with the content of both reports the committee considered the recommendations.

Resolved to:

- (1) Consider the external Auditors' Audit Finding Report (attached to the report published with the agenda) to those charged with governance**

- (2) Approve for publication the Audited Statement of Accounts (attached to the report published with the agenda) and authorise the Chair of Audit Committee to sign them on the Committee's behalf**
- (3) Approve the Draft Management Representation letter (attached to the report published with the agenda) for signature by the Chair of Audit Committee**
- (4) Delegate authority to the Chair of the Audit committee and the Strategic Director of Finance to approve any subsequent necessary amendments to the Statement of Accounts.**

19 External Audit report 2018/19

John Gregory, External Audit Director introduced the Audit Finding for Nottingham City Council. He reminded the committee that a draft version of this document had been presented to the committee in July 2019 and a delay in completion had come about as a result of the delay in receiving the full audited Robin Hood Energy (RHE) Accounts. The following points were highlighted during discussion on this report:

- (a) The 2018/19 audit of RHE was signed off on 24 March with a significantly increased loss and material uncertainty of the company's going concern;
- (b) Due to the delay in receiving the accounts the Value for Money conclusion is still outstanding due to concerns around company governance. Key risks identified were major projects, company governance, and financial resilience, Consideration is being given as to whether a report in the public interest should be issued or make statutory recommendations about the council's governance arrangements in respect of its relationship with RHE.. This processes is currently subject to consultation process with interested parties;
- (c) The issue around the consolidation of the Bridge estate into the accounts is a technical one and should not be a cause for concern for the Committee;
- (d) The Statement of Accounts produced by Nottingham City Council was complex and comprehensive and given the complexity was produced to a good standard, tracking the changes to the accounts clearly. The significant movement in the numbers should not divert from that;
- (e) The McCloud pensions issue highlighted in the report was out of the control of the Authority and has had sector wide impact;
- (f) Robin Hood Energy changes reflect the revised numbers into the group accounts. These changes have also significantly impacted parts of the Council's accounts as loans to the company and the equity holding share capital converted a number of years ago;
- (g) All adjustments identified have been made and in relation to the impairments those are the Council's judgements that the have been challenged and agreed;

- (h) Opinion on the accounts will be given around mid-August and a report on the Value for Money conclusion will come to the September Audit Committee meeting;
- (i) The draft EAR attached to the report on the published agenda still needs refinement. This will be completed and forwarded to officers for circulation;

Following a vote, Committee agreed to appoint Councillor Jane Lakey as Chair for this part of the meeting because both Councillor Steve Battlemuch (Chair) and Councillor Audra Wynter (Vice-Chair) had declared an interest in elements of the conversation around Robin Hood Energy. Along with Councillor Lauren O'Grady they did not take part in these discussions. The following further points were highlighted:

- (j) Financing of monies advanced to RHE is from reserves. It is not possible to borrow from the PWLB to finance this. All loans to RHE are currently being fully utilised;
- (k) Transactions in related party transactions notes should be making clear those transactions included elsewhere between the council and entities where the Council is a controlling party. It would including income and outgoings as well as balance sheet transactions;

20 Annual Governance Statement 2018/19

Shail Shah, Head of Audit and Risk, and John Slater, Group Auditor, introduced the report on the Annual Governance Statement (AGS) for 2018/19 to the Committee. A number of the issues raised within this report have been discussed as part of previous items at this committee. The following points were highlighted.

- (a) The 2018/19 AGS was considered twice last year by this committee but as the accounts have changed the AGS has to be republished to reflect the findings of the External Auditors;
- (b) External Auditors are still to complete the Value For Money aspect of the audit to complete, and updates have been made to take into account the movements in the accounts and the Covid-19 pandemic;
- (c) There are 6 significant issues highlighted within the report which have been discussed at previous Audit Committee meetings. These are:
 - Financial impact of Covid-19 pandemic
 - Robin Hood Energy
 - Capital Programme
 - NCC Governance for Group companies
 - Financial resilience
 - Ofsted focused visit and resulting improvement Programme
- (d) Previous iterations of the report did not highlight these significant issues as the issues have developed over the last year. The Opinion on governance has been changed as a result of developing situation.

During questions and discussion the following points and further information were highlighted:

- (e) Attention was drawn to the nine actions in section 9 of the published report;
- (f) Concerns were raised around how a work programme to address the actions detailed in the published report would be integrated into existing work programmes across the Council to ensure there was no duplication, and the limited resources the Council has due to necessary cutbacks as a result of budget pressures. A coordinated and focused corporate set of priorities for review is needed to show which actions are for Audit Committee to oversee;
- (g) Not all of the actions are appropriate for the Audit Committee to oversee. Officers are driving the actions forward and work will be overseen by Audit, Scrutiny and Executive Committees;
- (h) A considered and in-depth hand over process between the interim Chief Executive and the Chief Executive designate has already started and will continue to do so. This also includes the Corporate Leadership Team.
- (i) It was suggested that a Capital Programme steering group Sub Committee could be re-established to look at the finer detail of the programme to then feed into the committee;

The Chair and Vice-Chair will be meeting with officers to consider any revision of the work plan to ensure prioritisation of the 9 actions detailed in the 2018/19 AGS.

In addition to the recommendations made by the report the Committee considered verbal recommendations put forward during discussion.

Resolved to:

- (1) Approve the Revised Annual Governance Statement 2018/19 as published with the agenda**
- (2) Note the late availability of the report**
- (3) Note that the Draft Annual Governance Statement 2019/20 is to be presented at the September Audit Committee;**
- (4) Ensure that a timescale for each action be presented in the Draft Annual Governance Statement 2019/20 at the September 2020 Audit Committee and that timing for each of those to be integrated into the Audit Committee work plan;**
- (5) Consider whether further items of learning need to be considered as actions to be embraced in the Draft Annual Governance Statement 2019/20, particularly around culture, as well as learning around Robin Hood Energy and the Capital Programme.**

21 Risk Management and Corporate Risk Register Update

Shail Shah, Head of Audit and Risk, introduced the Risk Management Report and Corporate Risk Register Update. He highlighted that the register update had come to the Committee in January but as a result of the Covid-19 pandemic a number of

corporate risks needed to be highlighted to the Committee. The following information was discussed:

- (a) Following the presentation of the Register to the Committee in 2019 a lot of work has taken place to act upon the suggestions made by the Committee;
- (b) Since May 2020 the register has become key focus of the work of the Corporate Leadership Team (CLT), used to guide the work in order to address the risks.
- (c) As a result of the COVID-19 Pandemic the number of risks increased so the high level risk register was developed to capture the corporate and cross cutting risks;
- (d) There has been good engagement from officers departments and Leadership teams on the risk register. All risk feeds into the one register. In order to increase transparency and connected working there are no departmental registers;
- (e) Risk is dynamic, and the register is always being refined. There has been a visible development of information behind each item on the register as a result of the work on of CLT.
- (f) Self-assessment of risk management work takes place with External insurers. The most recent self-assessment showed that Nottingham City Council benchmarked well against other local authorities. The improved arrangements set into place in the past year have started to embed the improved risk management work across the council.
- (g) Committee members wanted assurance that risk management was being considered universally at a service level and a project management level;
- (h) It is important that Elected Members give feedback on the level of risk management information being fed into Committees so that this can be addressed by Officers

Resolved to:

- (1) Note the risks identified on the high level Corporate Risk Register.**
- (2) Identify any risks requiring additional assurance for review with the risk lead at a future Audit Committee**
- (3) Note the progress made to review existing processes and embed Risk Management across the Council.**

22 Work Programme

Committee members commented that there were many items on the agenda for the next meeting and that time was needed on each item to really focus on the issues being brought to the Committee.

The Committee noted the Work Programme and that it was subject to revision following earlier discussions.

23 Exclusion of the Public

The Committee decided to exclude the public from the meeting during consideration of the remaining agenda items in accordance with Section 100A(4) of the Local Government Act 1972 on the basis that, having regard to all the circumstances, the public interest in maintaining the exemption outweighed the public interest in disclosing the information, as defined in Paragraph(s) 3 of Part 1 of Schedule 12A to the Act.

24 Risk Management and Corporate Risk Register Update - Exempt Appendix

In a change to the published agenda, the exempt element of the Risk Management and Corporate Risk Register update was heard before the exempt minutes.

The Committee noted discussed the content of the exempt appendices as detailed in the exempt minutes and noted its contents

25 Exempt Minutes

In a change to the published agenda the Exempt minutes were considered after the exempt element of the Risk Management and Corporate Risk Register Update.

With the amendment details in the exempt minutes of this meeting, the exempt minutes of the meeting held on 26th June 2020 were confirmed as a true record and were signed by the Chair