

Audit Committee Agenda



Date: Monday, 27 September 2021

Time: 2.00 pm

Venue: The Council Chamber - City Hall, College Green, Bristol, BS1 5TR

Distribution:

Councillors: Gary Hopkins (Chair), Tony Dyer (Vice-Chair), Marley Bennett, John Geater, Zoe Goodman, Katy Grant, Jonathan Hucker, Farah Hussain, David Wilcox, Adebola Adebayo and Simon Cookson

Copies to: Simba Muzarurwi (Chief Internal Auditor), Mike Jackson (Chief Executive), Denise Murray (Director - Finance & Section 151 Officer), Nancy Rollason (Head of Legal Service), Alison Mullis, Tony Whitlock, Lucy Fleming (Head of Democratic Engagement) and Michael Pilcher (Chief Accountant)

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Date: Friday, 17 September 2021



Agenda

6. Public Forum

Up to 30 minutes is allowed for this item.

(Pages 3 - 11)

Any member of the public or Councillor may participate in Public Forum. The detailed arrangements for so doing are set out in the Public Information Sheet at the back of this agenda. Public Forum items should be emailed to democratic.services@bristol.gov.uk and please note that the following deadlines will apply in relation to this meeting:-

Questions - Written questions must be received 3 clear working days prior to the meeting. For this meeting, this means that your question(s) must be received in this office at the latest by 5 pm on Tuesday 21 September.

Petitions and Statements - Petitions and statements must be received on the working day prior to the meeting. For this meeting this means that your submission must be received in this office at the latest by 12.00 noon on Friday 24 September.



Questions	Name
1. Cyber Security	Cllr David Wilcox
2. Bristol Energy	Cllr Jonathan Hucker
3. Treasury Management	Cllr Jonathan Hucker
4. Bristol Energy	Cllr Geoff Gollop
5. Bristol Energy	Clive Stevens

Statements	
	Name
1. Bristol Energy	Clive Stevens



Question 1 – Cllr David Wilcox
Re: Cyber Security

I welcome the report, and I'm pleased the council is working on a strategy for compliance.

I do, however, have some questions:

Q1: How many cyber security incidents have BCC logged in the each of the previous four quarters of the current risk report?

We log various types of incidents that are classed as security Incidents. In the last year we have logged 172 incidents – these range from Phishing emails, lost or stolen devices, Scam phone calls, to Malware alerts.

Q2: How long has the council been without a cyber security strategy?

We have a number of policies and frameworks that set out our ways of working and how the Information Governance Service functions and what it is responsible for. I am looking to create an Information Governance Strategy that will include Cyber, currently we are doing a lot of work to identify operational risks which is necessary foundation to inform the Strategy, this is something that we will be working on over the next 12 months.

Q3: What metrics are in place to ensure that the council has an effective strategy ASAP?

All the audit action are being tracked by the Information Governance Board – which has attendance from Audit colleagues.

Q4: Obviously, I do not want to publicise all the areas where BCC's cyber security is weak or non-existent. Is there a mechanism that members can securely view the scale of the issue and the progress?

I will be willing to give members an exempt briefing on the details.

Q5: Risk Report: Please quantify why CRR29 and CRR7 are only classed as Amber Risks? The likelihood of these issues will increase over time, and these risks have been at Amber for the last four quarters, with no change in their scoring.

In both these cases they are classed as High risk (the tolerance level is set to Medium). As with Q4, I will be happy to go into more detail in an exempt briefing.

Q6: What is the timescale to install a feedback loop for security incidents to the IGB, and will members be updated on its progress?

Security incidents are reported monthly to EDM's and also discussed at the IGB.

Q7: How will maintaining Information Asset Registers fields be integrated into every employee and member's day-to-day workflow and when will this project be complete?

Information Governance now includes colleagues from our Modern Records team. We are looking to revisit how we do information management, so that we cover all aspects of the records Lifecycle.

Q8: Shadow IT - applications & hardware that are not managed by central IT - seems to be a huge problem for the Council IT department. What steps being taken to get this under control? This is both a huge security risk and a potential overspend for council.

Information Governance are working closely with IT colleagues to mitigate this. The move to O365, Azure and Windows 10 has given us more visibility and technical tools to manage this. We are also working with colleagues in the PMO and Procurement to try and prevent any new 'shadow IT' being created.

Q9: When will the Windows 10 rollout be complete, so that unencrypted and therefore unauthorised USB disks can be put out of scope?

This is a question for ICT – awaiting a response which I will then pass on.

Q10: When will the formal IT security training rollout be complete for all employees and members?

Security training is mandatory for all staff, as well as annual refreshers. The new Learning and Development portal allows us easier visibility of completion rates. Elected Members are also required to undertake IT security training and this programme is expected to be completed by the end of October 21.

Question 2 – Cllr Jonathan Hucker
Re: Bristol Energy

- 1. The report states that BE’s financial position had been impacted by inadequate cash management. Can the reporter expand on this statement?**

Answer: In our report we state that in January 2021 six days after BE’s 2020/21 business plan was approved BE experienced a significant cash flow crisis and was no longer able to meet its business plan objectives.

Our review did not consider what was the cause of this cash flow crisis or the specific measures that were undertaken to address this issue. Although we noted that the subsequent reports indicate that the variations in the cash-flow were broadly driven by market conditions - change in customer growth assumptions and wholesale energy market pricing. A revised operating cash-flow forecast was presented to the Council that indicated that without remedial steps, the previously authorised funding cap of £37.7m would be materially exceeded.

Supported by Bristol Holding Limited, various management actions were taken and through these actions and some earlier access to funds from the Council, the immediate cash crisis was alleviated and funding to the point-of-sale agreements, retained at £36.5m.

- 2. Does this mean that working capital was not managed efficiently?**

Answer: We are unable to provide an answer as our review was focused on the arrangements and decision-making arrangements of the Council and not the management and operation of Bristol Energy. A separate firm is the auditor of BE and Bristol Holding Limited, however as these are commercial audits, they do not fall within the public access arrangements applicable to the Council’s finances.

- 3. Or does this mean that BE’s cash flow forecasting was materially inaccurate? If so, was this always the case? And was this due to the methodology used to produce the cash flow forecasts or the inadequacy of the underlying P&L and balance sheet budgets and forecasts on which the cash flow forecasts were based?**

Answer: We are unable to provide an answer as our review was focused on the arrangements and decision-making arrangements of the Council and not the management and operation of Bristol Energy.

Who was responsible for approving BE’s cash flow forecasts?

Answer: The responsibility for any cash requirements set out within the business plan sits with BE. The business plan was approved by Bristol Holding, reviewed by the Shareholder Group, and approved by Cabinet, as referred to in our report.

- 4. Does Bristol Holding have any private sector INED’s?**

Answer: Yes - Bristol Holding has two Independent Non- Executive Directors

- 5. Is there any reason why members of the audit committee cannot be briefed privately on matters deemed to be commercially sensitive relating to the council's subsidiary companies?**

Answer: Following further discussion at the Audit Committee in January 2021 about access to information, it was agreed that officers would consider with the Chair, Vice-chair, and Independent Member of the Committee the types of information that the committee should receive to enable it to fulfil its duties. A report was presented to the Audit committee in June 2021 by the Director: Legal and Democratic Services (the Monitoring Officer) outlining the access to Information for Audit Committee functions. In the preparation of the report the Director: Finance, Chief Internal Auditor, Head of Legal, the Independent Member of the Audit Committee and the External Auditor were consulted.

In addition, new arrangements have recently been established for the External Auditor to be able to hold private briefing sessions with the Committee Chair and Vice-Chair.

The Monitoring Officer will take a legal view as to what issues should be considered commercially sensitive and as such should not be raised at public meetings.

Question 3 – Cllr Jonathan Hucker

Re: Treasury Management

1. Is a list of approved investment instruments available?

Response. Yes, these were approved by Full Council on the 23rd February 2021 as set out in the Treasury Management Strategy (see link below). Annex 3 starting on page 28 provides details.

<https://democracy.bristol.gov.uk/documents/s57091/Appendix%204%20-%20Treasury%20Management%20Strategy%20202122.pdf>

2. Is a list of authorised investment counterparties available, including the investment limits?

Response. Yes, a list of counterparties meeting the Council's approved minimum rating requirements can be supplied including limits (£ and duration). When investing is considered these limits are then overlaid with our advisors recommended limits whichever is lesser using the latest market data, as an example credit default swap prices.

3. What are the minimum credit ratings (S&P, Moody's and Fitch) that an authorised investment counterparty is required to possess? How often are the credit ratings checked?

Response – As set out in the Treasury Strategy the minimum credit rating is the Fitch Long term Rating of -A or equivalent.

The minimum rating criteria uses the lowest common denominator method of selecting counterparties and applying limits. This means that the application of the Council's minimum criteria will apply to the lowest available rating for any institution. For instance, if an institution is rated by two agencies, one meets the Council's criteria, the other does not, the institution will fall outside the lending criteria.

The Council's lending list is updated real time by our advisors.

4. Is a maturity schedule for the council's PFI / service contracts available?

Response – This is set out in the draft accounts for the year ending 31st March 2021, page 107. A link to this is below.

https://www.bristol.gov.uk/documents/20182/5521114/Draft_statement_of_accounts_July_30_2021.pdf/ca58e22e-8a19-da96-ca50-602cc0cbc43b?t=1627659090153

5. Does the council periodically calculate the fair value its long term debt?

Response – The Council does review the fair value of its long-term debt for various purposes including statutory accounting and Treasury Management reports. In addition, our advisor updates the fair value of the Council debt portfolio on a daily basis to identify debt restructuring opportunities. However, due to the current structure of interest rates, debt rescheduling would not be cost effective due to the breakage costs involved.

Question 4 – Cllr Geoff Gollop

Re: Bristol Energy

Item 8 governance Arrangements for Bristol Energy

Questions for the Chair.

1. Do you agree that the total loss arising from Bristol Energy is material to council tax payers and users of the authority's accounts?

A1: Yes, I have a concern that the figure in this report does not include internal costs such as senior management time. As this is significant but difficult to quantify in detail, I believe a note should accompany.

2. Do you agree that the estimate of the full write off should be disclosed in a note to the 2021 Financial Statements of the Council?

A2: yes, with the same rider.

3. Are you willing to seek the views of members of the Audit Committee to ascertain whether they want that note inserted before accounts are finalised?

A3: Of course. I will also be recommending a course of action to ensure that all Councillors are fully aware.

Question 6 – Clive Stevens**Re: Bristol Energy**

Dear Grant Thornton

Jon - I read your excellent report about the history and mistakes made by the Council regarding Bristol Energy. One conclusion is that Scrutiny was side-lined at critical points, either because they didn't get access to the information in time and/or they were prevented from doing anything about it (for example by suspending their call-in power). This happened on both George Ferguson's and Marvin's watch. Given that Scrutiny is widely acknowledged nationally as a vital process to ensure better decisions are taken, it seems that preventing Scrutiny doing its job is poor Governance. I hear Marvin's repeated call "I'm here to get things done". And indeed Bristol Energy got done and the poor Bristol taxpayer got done over.

Questions:

Q1. Are you aware of any mayoral authorities where you are satisfied that Scrutiny is functioning very well?

Answer: Effective scrutiny holds decision-makers to account and helps secure service improvements whatever the decision-making model in place at the Council. Currently, we are not aware of any mayoral authorities where we are satisfied that scrutiny is operating effectively, as our understanding is limited to those where we have undertaken specific reviews and prior to the completion of our 2020/21 audits. There may be examples that we are not yet aware of.

Examples and guidance can be found on the Centre for Governance and Scrutiny website, along with the statutory guidance issued by MHCLG in May 2019 'Overview and scrutiny: statutory guidance for councils and combined authorities.

Q2. If so, which ones please?

Answer: As note above we are unable to name any notable practice examples for authorities with elected mayors. Notable practice examples equally apply to those councils which have a strong leader model. These examples could be shared at a later date once we have spoken to these councils and they have agreed for their details to be shared.

Public Forum – Audit Committee 27/9/21 - Agenda item 8 – Report concerning the Governance arrangements for Bristol Energy – Statement by Clive Stevens – I plan to attend.

I welcome this Grant Thornton (GT) report. It provides further evidence about how good scrutiny, of all kinds, could benefit this organisation and the tax payers of Bristol.

I was Vice Chair of Audit Committee during some of the time of this report (2016 and stepping down in February 2021) and I continually asked for more information about the Governance of the Companies – and didn't get it.

All public authorities need to learn to improve and I hear that this Council has called itself a "learning organisation". The way to learn is to get feedback and as the Council seems to not want to share such information with our elected representatives then we have to rely on feedback from our External Auditors. Grant Thornton(GT) have raised a number of points.

Firstly, their previous report (debated on Feb 11th) and summarised on page 5, shows that Cabinet weren't informed of some critical issues. In addition, Audit Committee (page 3) had "not been sufficiently sighted on developments and information". Not only were Audit unsighted but what we did see was alarming. Audit Committee have the responsibility for overseeing the Risk Management system. But the Companies had their own risk management systems and all we could see was a brief report saying risks were fine. They quite evidently weren't.

This report before Audit Committee today shows failings under both mayors: Ferguson and Rees.

- Set Up of Bristol Energy (BE): "the decision was not subject to scrutiny and the call-in was suspended", say GT. I recall ex-Cllr Jerome Thomas, who was a Councillor then and had had a career in business and finance, he raised issues but the system enabled the then Mayor to ignore him.
- Bristol Energy becoming a "non-negotiable" part of City Leap. I recall being told this, but never did I see a logical argument or have the opportunity of a formal review. Given that 90% of BE's customers were outside Bristol, the City Leap connection was quite tenuous and turned out to be a pipedream.
- There are occasions when Cabinet weren't fully informed so neither were Scrutiny nor Audit.
- Page 6 (RHS) details the current Mayor's communication approach, by press release. I recall this was and maybe still is his approach to informing Councillors too.

There are nine recommendations and number 4 deals with exempt information. GT have rightly called out the practice of exempting a whole document because just some information is exempt.

I personally doubt that officers will be allowed to implement number 4. Why? Because, if the controversial information is put out into the public domain, people will start to ask questions; and the answers might be part exempt. One solution is to implement #4, and when appropriate OSM hold an exempt OSM session. And if OSM follow the rarely used scrutiny protocol OSR10(1) which is to write a report to be formally considered by Cabinet. That requires a formal response back from Cabinet, then at least the information gets through. But as far as I can see OSR10(1) is rarely or never used and in practice is prevented due to the five day publishing time of reports before a decision coming to Cabinet. So Grant Thornton please watch progress on recommendation # 4 carefully.

The Core Problem is the same, the bypassing of Scrutiny (including Audit), whether by timings of meetings, suspension of call-in, lack of information and poor quality of consideration at Cabinet. Until this is addressed Bristol City Council is not a learning organisation and will struggle to provide Value for Money to the Bristol tax payer.