

Audit Committee Agenda



Date: Tuesday, 23 November 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), Husinara Jones, Alison Mullis, Tony Whitlock, Lucy Fleming (Head of Democratic Engagement) and Michael Pilcher (Chief Accountant)

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Date: Monday, 15 November 2021



Agenda

1. Welcome, Introductions and Safety Information

(Pages 5 - 7)

2. Apologies for absence.

3. Declarations of Interest

To note any declarations of interest from the Councillors. They are asked to indicate the relevant agenda item, the nature of the interest and in particular whether it is a **disclosable pecuniary interest**.

Any declarations of interest made at the meeting which is not on the register of interests should be notified to the Monitoring Officer for inclusion.

4. Minutes of Previous Meeting

To agree the minutes of the previous meeting as a correct record.

(Pages 8 - 20)

5. Action sheet

(Pages 21 - 23)

6. Public Forum

Up to 30 minutes is allowed for this item.

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 Wednesday 17 November.

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 Monday 22 November.

7. Work Programme

To note the work programme.

(Pages 24 - 26)

8. Progress report on the implementation of the VFM Management Actions

(Pages 27 - 111)

9. External Audit Plan

(Pages 112 - 137)

10. Audit Committee Half Year Report to Full Council (Draft)

(Pages 138 - 168)

11. Debt Management Policy

(Pages 169 - 189)

12. Treasury Management Mid-Year Report

(Pages 190 - 205)

13. Internal Audit Half Year Update including summary audit reports

(Pages 206 - 226)

14. Counter Fraud Half Year Update Report

(Pages 227 - 237)

15. Internal Audit Quality Assurance and Improvement Plan, Charter and Strategy

(Pages 238 - 266)





Public Information Sheet

Inspection of Papers - Local Government (Access to Information) Act 1985

You can find papers for all our meetings on our website at www.bristol.gov.uk.

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Following changes to government rules, public meetings including Cabinet, Full Council, regulatory meetings (where planning and licensing decisions are made) and scrutiny will now be held at City Hall.

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When attending a meeting at City Hall, COVID-19 precautions will be taken, and where possible we will:

- Have clear signage inviting you to check in to the venue using the NHS COVID-19 app or record your contact details for track and trace purposes.
- Provide public access that enables social distancing of one metre to be maintained
- Promote and encourage wearing of face coverings when walking to and from the meeting
- Promote good hand hygiene: washing and disinfecting hands frequently
- Maintain an enhanced cleaning regime and continue with good ventilation

COVID-19 Safety Measures for Attendance at Council Meetings (from July 2021)

To manage the risk of catching or passing on COVID-19, it is strongly recommended that any person age 16 or over attending a council meeting should follow the above guidance but also include the following:

- Show certification of a negative NHS COVID-19 lateral flow (rapid) test result: taken in the 48 hours prior to attending. This can be demonstrated via a text message or email from NHS Test and Trace.
- An NHS COVID-19 Pass which confirms double COVID-19 vaccination received at least 2 weeks prior to attending the event via the NHS App. A vaccination card is not sufficient.
- Proof of COVID-19 status through demonstrating natural immunity (a positive NHS PCR test in the last 180 days) via their NHS COVID-19 pass on the NHS App.
- Visitors from outside the UK will need to provide proof of a negative lateral flow (rapid) test taken 48 hours prior to attendance, demonstrated via a text message or email.

Reception staff may ask to see this on the day of the meeting.

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- are required to self-isolate from another country
- are suffering from symptoms of COVID-19
- have tested positive for COVID-19 and are requested to self-isolate



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Committee rooms are fitted with induction loops to assist people with hearing impairment. If you require any assistance with this please speak to the Democratic Services Officer.

Public Forum

Members of the public may make a written statement ask a question or present a petition to most meetings. Your statement or question will be sent to the Committee Members and will be published on the Council's website before the meeting. Please send it to democratic.services@bristol.gov.uk.

The following requirements apply:

- The statement is received no later than **12.00 noon on the working day before the meeting** and is about a matter which is the responsibility of the committee concerned.
- The question is received no later than **5pm three clear working days before the meeting**.

Any statement submitted should be no longer than one side of A4 paper. If the statement is longer than this, then for reasons of cost, it may be that only the first sheet will be copied and made available at the meeting. For copyright reasons, we are unable to reproduce or publish newspaper or magazine articles that may be attached to statements.

By participating in public forum business, we will assume that you have consented to your name and the details of your submission being recorded and circulated to the Committee and published within the minutes. Your statement or question will also be made available to the public via publication on the Council's website and may be provided upon request in response to Freedom of Information Act requests in the future.

We will try to remove personal and identifiable information. However, because of time constraints we cannot guarantee this, and you may therefore wish to consider if your statement contains information that you would prefer not to be in the public domain. Other committee papers may be placed on the council's website and information within them may be searchable on the internet.



During the meeting:

- Public Forum is normally one of the first items on the agenda, although statements and petitions that relate to specific items on the agenda may be taken just before the item concerned.
- There will be no debate on statements or petitions.
- The Chair will call each submission in turn. When you are invited to speak, please make sure that your presentation focuses on the key issues that you would like Members to consider. This will have the greatest impact.
- Your time allocation may have to be strictly limited if there are a lot of submissions. **This may be as short as one minute.**
- If there are a large number of submissions on one matter a representative may be requested to speak on the groups behalf.
- If you do not attend or speak at the meeting at which your public forum submission is being taken your statement will be noted by Members.
- Under our security arrangements, please note that members of the public (and bags) may be searched. This may apply in the interests of helping to ensure a safe meeting environment for all attending.
- As part of the drive to reduce single-use plastics in council-owned buildings, please bring your own water bottle in order to fill up from the water dispenser.

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**Bristol City Council
Minutes of the Audit Committee**

27 September 2021 at 2.00 pm



Members Present:-

Councillors: Gary Hopkins (Chair), Tony Dyer (Vice-Chair), Zoe Goodman, Katy Grant, Jonathan Hucker, David Wilcox, Geoff Gollop (substitute for John Geater)

Independent Members of the Committee: Adebola Adebayo and Simon Cookson

Officers in Attendance:-

Simba Muzarurwi, Denise Murray, Michael Pilcher, Tim O’Gara, Phil Eames, Fiona Lester, Mark Kempt, Mark Williams, Christina Czarkowski-Crouch, Jeremy Livitt, Ed Smith

Other Attendees: Jon Richards, Janice Beale, Glenn Hammons and Melanie Watson

1 Welcome, Introductions and Safety Information

The Chair welcomed all parties to the meeting. The Committee noted the emergency evacuation procedure for the Council Chamber if required.

2 Apologies for absence.

Apologies for absence were received from Councillor John Geater (Councillor Geoff Gollop substituting), Councillor Farah Hussain and Councillor Marley Bennett.

3 Declarations of Interest

Councillor Geoff Gollop declared an interest in relation to Agenda Item 8 (Report Concerning Governance Arrangements for Bristol Energy). He indicated that he had been a member of the Cabinet from 2012 to 2016.

4 Minutes of Previous Meeting held on Monday 26th July 2021

RESOLVED – that the minutes of the above meeting be approved as a correct record and signed by the Chair.



5 Action Sheet

The Committee noted that Alison Hurley and Ann James had not yet provided updates in relation to Minute Number 17 External Inspections of Council Services (Action from 24th June 2021 Meeting).

ACTION: Oliver Harrison to request updates provided for next meeting

6 Public Forum

It was noted that Public Forum Statements and Questions would be considered at the beginning of the respective item to which they related.

7 Work Programme

The Committee noted the Work Programme for future meetings.

8 Report concerning Governance Arrangements for Bristol Energy

The Committee considered a report concerning Governance arrangements for Bristol Energy.

The Committee received questions and answers from each of the following members of the public and Committee Members. Details of supplementary questions to the Chair and answers provided by him and other attendees are set out in each case:

Q2 – Councillor Jonathan Hucker

Q: Since there seems to have been an inadequate cash flow provision for Bristol Energy Company, was there any previous analysis of when the company would run out of cash? Why was there no cash flow statement?

A: Jon Roberts – Grant Thornton UK

Information had been provided on the technical arrangements. Cash flow information had been provided as part of the analysis of the investment into the company.

The Chair commented that it appeared cabinet was fully aware of the situation and it would have been helpful if it had been. Whilst future forecasting may have been known to some officers in Management, the governance requirements may not have been.

Q4 – Councillor Geoff Gollop

Q: Do you agree that the total loss which had occurred as a result of the situation with Bristol Energy should be relevant to stakeholders?

A – Chair: Yes, they are. In addition, details of CEO staffing costs should be included.

Q: Do you agree that the full write off costs should be included in 2021 accounts?



A – Chair: Whilst the auditor costs were not currently included, they should be if they are not debarred from doing so.

Q: Will you let members of Audit Committee ask if there is certain information not inserted in the accounts before they are finalised?

A – Chair: Yes. The additional recommendations contained in the auditor’s report should be put before Full Council for approval, together with a feedback mechanism to ensure that the recommendations are adhered to.

Q5 – Clive Stevens

Q: In view of the importance of scrutiny operating properly with appropriate checks and balances, did Bristol have a good enough scrutiny system prior to the mayoral model?

A: It largely depended on what the relationship was like between the Cabinet (including the Leader) and Scrutiny. It was noted that scrutiny only worked if the information was available to it.

The Committee also noted the following statements concerning this Agenda Item:

Statement Number 1 - Clive Stevens

Statement Number 2 – Councillor Geoff Gollop

The Chair then asked Jon Roberts and Janice Beale (Grant Thornton) to present the report.

Jon Roberts made the following comments:

- Grant Thornton might have considered that the report should be a PIR (Public Interest Report) if they did not believe the issues had been sufficiently addressed
- The report had reflected on a number of key areas and had provided recommendations for follow up work
- The recommendations had already been considered by Full Council and there would be an update on proposed recommendations when this item was reconsidered at future meetings
- We had taken advice early in the process and had made the following findings (1) the options and appraisal process was not clear and strategic (2) The interaction between the energy services and



energy supply process was not clear (3) scrutiny and the call in process could have been involved earlier

- Final Stage – There had been a marked transformation in the quality of the paper trail. Advice had been given, third party experts had been brought in and the subsequent orderly dissolution of the company was set out. Grant Thornton believed this had been properly done
- In the early stages of the discussion, the narrative of Bristol Energy had been explained

Committee members then made comments on the report as follows. Jon Roberts, Jeannette Beale and the Service Director (Finance) responded as indicated to questions and issues raised:

- There had been informal discussions concerning the Bristol Energy Company in 2010 and 2014 which had discussed the establishment of energy services and energy supply. However, the final establishment had only dealt with the supply side. It was not clear why this was the case

Janice Beale: The majority of the advice had looked at the model of the Holding Company and supply. She was not aware that the issue of a supply company had been considered

- There had been a Cabinet decision in 2010 to assist in micro regeneration in order to ensure a more efficient service and create a mechanism to help control energy bills. This allowed tariffs to be fed into the system. However, this disappeared a few years later. There needed to be an explanation as to why this had occurred
- The sale of Bristol energy had been considered in 2017. More detail was required concerning this

Jon Roberts – Whilst this had been considered as a possible option, it had been regarded as a last resort

- The liquidation of the Company had led to Recommendation 1. Until this is completed, the cost will not be known. A timeframe for this was required and what would be reconsidered at the November 2021 Audit Committee meeting

Jon Roberts and Service Director (Finance) – The accounts would be as explanatory as they could in the circumstances. It was noted that the accounts were unlikely to be completed before March 2022. The report outlined the indemnity situation and the final position would be shared with the public

- Any business which continued to lose money would run out of cash. It was disappointing that the issue of overheads had not been addressed as part of the attempts to turn a loss making company into one making a contribution. It seemed as if social value had been used as a reason not to take this into account
- Although it was not currently a Public Information report (PIR), it was important to make a commitment and set a deadline for releasing information to the public since this was such a high profile issue. It was noted in the report that there had been difficulties obtaining information



Jon Roberts and the Service Director – Finance: The Committee needed to act in relation to sensitive information and build evidence sources. As at present, there was £42 million drawn down and no further information was yet available until further work had been carried out.

Recommendation 3 set out work that had taken place with consultants and a full audit trail. However, the period in question was 10 to 15 years and the corporate memory going back this far was limited. All activity would be tracked and future recommendations made on the basis of this.

- The role of Price Waterhouse Cooper needed to be clarified

Jon Roberts – Since Grant Thornton was the group auditor, they had received assurances from PWC but it was outside Grant Thornton’s scope to seek detail on what those assurances were

- Whilst accounts indicated that Bristol City Council had sought and received assurances that Bristol Energy was a going concern, it was unclear why the political decision had been made to carry on funding it and was a key issue throughout the entire history of Bristol Energy

It was noted that all of the key decisions were taken in the public domain, including reporting to Cabinet when the cash envelope had been exceeded.

- There needed to be a proper examination of the scrutiny process and its connection to the Audit Committee to ensure that everyone could have confidence in it
- It was disappointing to see that the report did not have specific recommendations to address some of the previous problems such as the prevention of a call-in of a Cabinet decision
- At the beginning of 2017, selling the company as a going concern was an option but this did not happen as there remained the hope that it would obtain a profit. It was not clear whether or not Cabinet was fully aware of the situation. In 2018, there remained some people who thought there was a future for Bristol Energy as it was considered an important element of City Leap. However, the expressions of interest for City leap did not mention Bristol Energy and it was later acknowledged that more capital was required.
- The report needed to clarify who the shareholder was

Janice Beale – the shareholder was acting under delegated authority. The information did not always make the situation clear. It included a range of people including officers and various Independent Members.

- The need for a PIR should be reconsidered. There had been attempts to launch an Independent Inquiry into Bristol energy but this had been voted down. If this had taken place, the cost to the taxpayer might have been less. Internal costs, Section 151 costs and shareholder advice costs all needed to be included in the analysis



- Once the decision had been made, the winding down process had generally been handled well
- It was important to note that this was originally a combined company with the intention of looking after the poorer people in Bristol. However, 80% of business ended up being from customers outside Bristol and the social value remit disappeared. Whilst the principle was important, cash flow too needed to be taken into account

The Committee discussed a proposal for a press release from the Committee to request that full Council endorse the Audit committee's recommendations to communicate to the public the actions that were being taken and the reasons for them. Most members of the committee felt that this was not appropriate at this stage but might be pursued in November 2021 if action had not been taken.

Following discussion by the Committee concerning the need for a note in the revised accounts to confirm the extent of the loss similar to what was set out in the Grant Thornton report. The Service Manager (Finance) indicated that this would be done when the accounts were signed off as part of a balance sheet event.

Action: Denise Murray

It was also agreed that a mechanism was required to ensure that confidential decisions could be monitored through the Audit Committee **Action: Oliver Harrison to add to November 2021 Work Programme**

Grant Thornton confirmed that at the meeting in November 2021, there would be a formal report setting out the full response to allow a debate at Full Council.

The Committee also discussed whether to make the following recommendations to the Grant Thornton report being submitted to Full Council:

- (1) The Committee report and any recommendations from the external auditors and internal audit should be accepted and acted upon following the appropriate meeting in November 2021
- (2) That internal audit arranges for an annual assessment of this work to be carried out by the Audit Committee

RESOLVED – that (1) and (2) above are agreed for recommendation to Full Council with the report.

Action: Jon Roberts/Janice Beale – Grant Thornton, Simba Muzarurwi – Internal Auditor

Oliver Harrison – to refer to Full Council

9 Treasury Management Annual Report 2020/21

The Committee considered the Treasury Management Annual Report 2020/21.

Members noted the following Public Forum supplementary question:



Q3 – Jonathan Hucker

Q: Although it was encouraging to see that processes had been tightened, can officers confirm his is the case?

A: There had been £30 Million in prudential borrowing. Page 63 of the report sets out the additional £33 Million capital expenditure.

Mike Pilcher introduced this report and made the following points:

- There was revenue provision of £13 Million of PFI schemes and £584 Million external debt
- Also, there was £207 Million in investments with further detail provided in the breakdown
- There were options to reprofile the debt with the portfolio extending for the next 50 years
- The report contains indicators for benchmarking

In response to members' questions, officers made the following responses:

- Further green financing options were being considered to reach the carbon zero target. A new prudential code had been issued and this could be used subject to the necessary flexibility
- The figures set out on page 55 of the report include £37 Million of treasury and non-treasury management

RESOLVED – that the Committee notes the Treasury Management Report 2020/21 as set out in Appendix A of the report.

10 External Auditor Appointment Process

The Committee noted the officer recommendation contained in the report for appointing an external auditor for 2023/24 and going forward. It was noted that the officer recommendation set out in the report would need to be carried out by 11th March 2022.

RESOLVED – that Full Council be recommended to opt into a sector led arrangement provided by PublicSector Audit Appointments (PSAA) Ltd.

Oliver Harrison - - to refer to Full Council

11 Assurance on the Monitoring Oversight of Capital Delivery

Glenn Hammons introduced this report and made the following points:

- Appendix 1 set out the actions taken to help deliver best practice and strengthen capital governance
- Further work had taken place concerning the establishment of the capital investment board
- Management was being strengthened at individual scheme level which would also include movements of staff across Bristol City Council
- Updates to the capital strategy would clarify whether schemes were in early development or in the delivery phase
- The Bristol City Council update would be refreshed in November/December 2021 and submitted to Cabinet and Full Council



- Following a review workshop, nine recommendations had been identified and factored into Improvement Team which would include a range of enhancements to the way capital assets have been made
- Close work was taking place with the Property Services Department to improve the quality of information and to digitise in the form of a Fixed Asset Register to operate from 1st April 2022. A cultural change was required to achieve this

Committee Members made the following comments:

- It was surprising that an extra £7,500 cost had been identified following the review of the schedule of external audit fees and that the fixed asset register did not reconcile to the accounts. It was pleasing to see that reconciliation had now taken place
- Most actions had either been implemented or were ongoing with targets identified for March 2022
- There needed to be scope for Resources Scrutiny to undertake case studies to supplement the work carried out by Audit Committee. Every year Bristol City Council failed to spend its budget. System approaches were required to deal with the different budget level options. A particular concern was whether or not capital spending could be delivered on time in view of possible inflation increases
- Looking at Appendix 2, a feedback loop was required to Resources Scrutiny or to Audit Committee
ACTION: Glenn Hammons to incorporate

In response to members' questions, officers made the following comments:

- A robust assessment of the timing of expenditure was required
- Many Local Authorities operated a system whereby most of the spending took place in months 11 and 12. A different approach needed to be adopted for the capital programme in Bristol City Council and a cultural change was required to achieve that. An in-depth improvement programme on this would be reported back to committee in future
- Climate Emergency capital spend would be considered in February and then the usual monitoring and scrutiny process would follow
- Each piece of land will be identified in the bespoke Asset Register from April 2022

RESOLVED – that the Audit Committee notes the progress to date in implementing improvements to capital programme delivery, governance and accounting.

12 Internal Audit Activity Report - Including Summary Audit Reports

The Chief Internal Auditor presented this report, in conjunction with Melanie Watson, Phil Eames, Tim O’Gara, Mark Kempt, Fiona Lester, Mark Williams and Christina Czarkowski-Crouch.

The Committee noted the following supplementary Public Forum questions relating to Appendix 4 – Cyber Security.

Q1 – Councillor David Wilcox

Q: In situations where items on the IT Risk Register remained amber for 3 or 4 periods, they should be upgraded to red. Can cyber security issues be resolved to include these?



A: Officers would investigate this and report back. **Action: Tim O’Gara**

Q: The date of completion had not been provided in relation to question 7.

A: Officers would follow up and answer this. **Action: Tim O’Gara**

Q: Please can answers provided for each question be attributed to each officer. Action: Oliver Harrison to ensure that an officer point of contact is provided for each answer given

Appendix 4 – Cyber Security

Melanie Watson introduced the appendix on Cyber Security and, together with Tim O’Gara, made the following comments:

- The review had been carried out a few months ago and had examined data risk management controls.
- There had been limited assurances provided but there was some room for improvement
- There had been no information provided concerning a cyber security strategy and governance at the time of the review
- In terms of risk management, there was no defined security risk
- Targeted training was required and a large number of actions had been implemented

Tim O’Gara made the following points:

- The recommendations provided by Audit had been accepted and enhanced work had taken place concerning cyber security
- The Council was committed to robust procedures which would be put in place to deal with an ever changing situation

The Chief Internal Auditor stressed the importance of mitigating risk as events could not always be predicted.

Appendix 1 – Risk Management Summary Report

Phil Eames made the following points concerning this report:

- The summary of risk management showed that progress was being made in embedding it across Bristol City Council
- There were not clear governance arrangements around risk management which were both manual and complex.
- This issue was a recurring problem as seen in instances such as Bristol Energy. Therefore, a risk assessment was extremely important
- Forms and records had originally been incomplete. Since the review, new systems had been rolled out and training sessions provided to staff which if successful should address the key issues. A review of the success of this would be provided in the coming year



Officers responded to Committee Members' questions as follows:

- The new software was externally hosted
- Assessments were being made at corporate level in terms of how the risk assessment fits into decision-making. A need to strengthen the alignment of risk management had been made and may need to be included in the Improvement Plan
- A new system of peer review mechanism was being embedded which was more likely to ensure risks were properly captured
- Details of the way corporate risk assessment was made were provided

Appendix 2 – Housing Rents Summary Report

Fiona Lester and Mark Kempt introduced this report and made the following comments:

- There had been a great deal of management change and there had been difficulties in service delivery caused by COVID
- New policies were in place concerning rent setting and arrears. Staff would be trained concerning these and to tackle issues related to an increase of debt for individuals
- Overall debt had reduced to £12.8 Million with the average collection of debt being assessed at over 90%
- An action plan had been put in place to monitor quarterly credits and would be regularly monitored

Committee members thanked officers for their work in this area.

Appendix 3 – Health and Safety Summary Report

Christina Czarkowski-Crouch and Mark Williams introduced this report and made the following comments:

- The managers' report had identified that the process was too often seen and a "tick box" exercise with little escalation if standards were not met. In addition, the assessment showed that managers were ignorant of their responsibilities which was an issue that needed to be addressed
- A great deal of progress had been made in this area. The Councillor induction programme and elevated governance were part of the framework to ensure proper scrutiny.
- A accident and incident reporting system would be implemented from autumn supported by IT.

In response to Councillors' questions concerning this report, officers made the following comments:

- It was important for all the different service areas to work together to deliver what was required. That was the purpose of the 14 recommendations set out in 2019 Audit
- Service areas worked together closely – for example, in relation to the cyber agenda
- The Audit Committee and Scrutiny Commission should work together to deliver what was required and ensure best practice

RESOLVED – that the Internal Activity Audit report for the period ended 31st August 2021 be noted.



13 Senior Information Risk Owner (SIRO) Assurance Report

Tim O’Gara introduced this report and made the following points:

- The committee’s attention was drawn to the key roles and responsibilities and actions taken
- It was noted that Section 6 referred to the six lines of defence to manage risk
- Training was an area of continuous improvement. More and better training could be provided. This report looks at wider issues including risk management and supports the work of internal audit. This was a difficult and neglected agenda

In response to members’ questions, he made the following points:

- IT assurance was in his team but was subject to expertise from an external partner
- Whilst it may not be appropriate to provide the names of individual officers below a certain level, these could be identified from Service Manager level upwards **Action: Tim O’Gara**

RESOLVED – that the report is noted.

14 Risk Management Annual Report 2020/21

The Committee noted the improvement in the risk management approach in the organisation.

RESOLVED – that the report be noted and actions taken and plans acknowledged for 2021/22 to improve the effectiveness of risk management across the organisation.

15 Corporate Risk Management Report – Quarter1

Mike Pilcher introduced this report and drew members attention to the three critical risks set out in the report.

Committee members made the following comments:

- Whilst progress had been made, further improvements were required since only one risk was tracking positively this quarter.
- Work was required to obtain a positive trend over all areas rather than simply managing a series of risks
- It was interesting to note that cyber security had improved in Quarter 1
- It was important to ensure that risks continued to be identified beyond the end period on 30th June 2021 so that events impacting the situation from July onwards were not brought into the



Corporate Risk Register (CRR) until the next reporting period in December 2021 ie the HGV Driver crisis and its impact on Bristol Waste, the September 2021 departure of the Director of Infrastructure in WECA

- The top three risks currently identified as red were of crucial long term importance to improve for the city

In response to members' questions, Mike Pilcher made the following comments:

- Details would be brought forward showing the measures being put in place to address risks. These would need to be built into service and business plans, as well as into the decision-making process
- It had previously been agreed at Audit Committee that as and when risks are reached, they are added in as an alert and to flag a mechanism to immediately add these in to the CRR. This mechanism would shortly be put in place

RESOLVED – that the Quarter 1 2021/22 Corporate Risk Register be noted.

16 Annual Report of Local Government and Social Care Ombudsman Decisions

Tim O’Gara introduced this report and drew members attention to the continuous improvement set out in it. the Committee noted that this had been considered by the Cabinet earlier in 2021.

Case 20 003 080: It was noted that this complaint followed a long-term set of problems obtaining an adequate waste service at a set each time each week.

RESOLVED – that the report be noted and be referred to Full Council.

ACTION: Oliver Harrison to refer to Full Council

17 Date of Next Meeting

The next meeting is scheduled to be held at 2pm on Tuesday 23rd November 2021.

The meeting ended 5.15 pm

CHAIR _____





Audit Committee Action Sheet – actions from meeting held on 27 September 2021

Action number	Item/report	Action	Responsible officer(s)	Action taken / progress
7 (from June meeting)	17 – External Inspections of Council Services	Answer questions on SEN (5.9), milestones in (5.11) and children’s homes (7)	Ben Mosley	<p>89% of WSoA Milestones achieved in July 2021 Those not yet achieved underway and delay been agreed by the SEND improvement Board</p> <p>DfE feedback throughout the duration of the WSoA has been positive about progress made and the way partners are working together: “Despite the disruption caused by Covid-19 restrictions (with the first lockdown coinciding with the approval of the WSoA), the local area continues to make good progress in implementing improvements to the local SEND system”</p> <p>Strengths highlighted in July monitoring meeting: Strength of partnership Strength of leadership Much stronger emphasis on performance Good understanding of ourselves Parents: moved from being defensive to reaching out to parents Acknowledged and dealing with all issues</p> <p>Further updates can be provided by Alison Hurley and Ann James. Requested 12/11. Once received, will be circulated to members via email.</p>

Action number	Item/report	Action	Responsible officer(s)	Action taken / progress
1	8 - Report concerning Governance Arrangements for Bristol Energy	Following discussion by the Committee concerning the need for a note in the revised accounts to confirm the extent of the loss similar to what was set out in the Grant Thornton report. The Service Manager (Finance) indicated that this would be done when the accounts were signed off as part of a balance sheet event. Action: Denise Murray	Denise Murray	The accounts are a work in progress and this action will be incorporated into the final set of accounts.
2	8 - Report concerning Governance Arrangements for Bristol Energy	It was agreed that a mechanism was required to ensure that confidential decisions could be monitored through the Audit.	Oliver Harrison	Referred to the Monitoring Officer for advice
3	11 – Assurance on the Monitoring Oversight of Capital Delivery	Looking at Appendix 2, a feedback loop was required to Resources Scrutiny or to Audit Committee	Glenn Hammons	This action relates to a future audit committee rather than the next one. The expectation is that the update would form part of internal and external audit reports. With regards to scrutiny, they have been kept informed as part of the implementation of the governance improvements and capital strategy work as part of the budget setting process.
4	12 – Internal Audit Activity Report - Including Summary Audit Reports	In situations where items on the IT Risk Register remained amber for 3 or 4 periods, they should be upgraded to red. Can cyber security issues be resolved to include these? Officers would investigate this and report back.	Tim O’Gara	Completed 13/10/21

Action number	Item/report	Action	Responsible officer(s)	Action taken / progress
5	12 – Internal Audit Activity Report - Including Summary Audit Reports	The date of completion had not been provided in relation to question 7. Officers would follow up and answer this.	Tim O’Gara	Completed 13/10/21
6	12 – Internal Audit Activity Report - Including Summary Audit Reports	Please can answers provided for each question be attributed to each officer.	Oliver Harrison	Officers can be named on Public Forum if they are Head of Service or Director level. Lower-level officer contact details can be given to members upon request.

**AUDIT COMMITTEE
WORK PROGRAMME 2021/22**

Meeting Date	Assurance Source	Report Details	Routine Work Programme/ Other?	ToR Ref	Officer Providing Report
24th June 2021 2:00PM	External Audit	External Audit Progress Report	Routine	1.8/1.9	External Audit Lead
	Internal Audit	Internal Audit Annual Report	Routine	1.4	Chief Internal Auditor
		Annual Fraud Report 2019/20	Routine	2.4/2.10	Chief Internal Auditor
	Other	Audit Committee Terms of Reference	Routine	-	Director of Legal and Democratic Services
External Inspections Update		Routine	1.12	Head of Executive Office	
Access to Information		Other	-	Director of Legal and Democratic Services	
26th July 2021 3:00PM	External Audit:	Progress Report	Routine	1.8/1.9	External Audit Lead
	Finance:	Draft Statement of Accounts 2020/21	Routine	3.1	Executive Director Resources / Director Finance
	Internal Audit:	Draft Annual Governance Statement 2020/21	Routine	2.5/4.4	Chief Internal Auditor
		Audit Committee Annual Report to Full Council (Draft)	Routine	5.1	Chief Internal Auditor
		Internal Audit Activity Report - including summary audit reports: - IT Transformation Programme - Closure Phase - Capital Governance - Affordable Housing Supply - Grant Allocation	Routine	1.5/1.6/1.7	Chief Internal Auditor
	Risk & Insurance	Corporate Risk Report (Q4)	Routine	4.1/4.3	Risk & Insurance Manager
		Review of Specific Corporate Risk -CRR18: Failure to deliver enough homes to meet the City's needs.	Routine	4.3	Executive Director: Growth and Regeneration
Other	Bristol Holding - Audit and Risk Committee Assurance	Routine	4.4	Bristol Holding Ltd	
2nd August 2021 2:00PM		Provisional Date to be Held			
27th September 2021 2:00 PM	External Audit:	Report concerning Governance arrangements for Bristol Energy	Routine	1.8/1.9	External Audit Lead
	Finance:	Treasury Management - Annual Report 2020/21	Routine	3.3	Director of Finance
		External Auditor Appointment Process Assurance on the monitoring oversight of capital delivery	Routine New	1.11	Director of Finance

Meeting Date	Assurance Source	Report Details	Routine Work Programme/ Other?	ToR Ref	Officer Providing Report
	Internal Audit	Internal Audit Activity Report - including summary audit reports: - Risk Management - Cyber Security - Health and Safety (Chasm Process)	Routine	1.5/1.6/1.7	Chief Internal Auditor
	Risk Management:	SIRO Assurance Report Risk Management Annual Report 2020/21 Corporate Risk Report (Q1)	New New Routine	4.1/4.3 4.1/4.3 4.1/4.3	Senior Information Risk Owner Risk and Insurance Manager. Risk & Insurance Manager
	Customer Relations	Annual Report of Local Government and Social Care Ombudsman Decisions	Routine	1.12	Customer Relations Manager
23rd November 2021 2:00 PM	External Audit:	External Audit Plan	Routine	1.8/1.9/3.2	External Audit Lead
	Finance:	Treasury Management Mid-Year Report Progress report on the implementation of the VFM Management Actions Debt Management Policy Debt Current State Assessment Report	Routine New New New	3.3	Director - Finance Director - Finance
	Internal Audit:	Internal Audit Half Year Update including summary audit reports - Adult Safeguarding Counter Fraud Half Year Update Report Audit Committee Half Year Report to Full Council (Draft) - Includes Bristol Energy Internal Audit Quality Assurance and Improvement Plan, Charter and Strategy	Routine Routine Routine Routine	1.5/1.6/1.7 2.4./2.10 5.1 1.1/1.6	Chief Internal Auditor Chief Internal Auditor Chief Internal Auditor Chief Internal Auditor
31st January 2022 2:00 PM	External Audit:	External Audit Progress and Final Audit Findings	Routine	1.8/1.9/3.2	External Audit Lead
	Finance:	Statement of Accounts 2020/21 and AGS	Routine	3.1	Director: Finance
	Internal Audit:	Internal Audit Update Report including Summary Audit Reports: - Harbour Review	Routine	1.5/1.6/1.7	Chief Internal Auditor
	Risk Management:	Corporate Risk Report (Q3) Review of Specific Corporate Risk	Routine Routine	4.1/4.3 4.1/4.3	Risk and Insurance Manager Risk Manager / Risk Owner
8th March 2022 2:00 PM	External Audit:	External Audit - Audit Plan	Routine	1.8/1.9/3.2	External Audit Lead
	Finance:	Contract Management System	New		Strategic Procurement
	Internal Audit:	Draft Internal Audit Annual Plan 2022/23 Annual Whistleblowing Review 2021/22	Routine Routine	1.2 2.4	Chief Internal Auditor Chief Internal Auditor
	Legal:	Code of Corporate Governance	Routine	2.6	Director: Legal& Democratic Services

Meeting Date	Assurance Source	Report Details	Routine Work Programme/ Other?	ToR Ref	Officer Providing Report
	Corporate:	AGS 2020/21 - Actions Tracking Update	Routine	2.5/4.4/1.7	Director: Finance
		External Inspections Update	Routine	4.4	Head of Executive Office

Audit Committee

23 November 2021



Report of: Director: Legal and Democratic Services and Director: Finance

Title: Update regarding management actions in relation to Grant Thornton and Shareholder Governance Review Recommendations - November 2021

Ward: N/A

Officer Presenting Report: Director: Legal and Democratic Services and Director: Finance

Contact Telephone Number: 0117 90 37765

Recommendation

That Committee Members note:

- The management actions update in relation to the second Grant Thornton report entitled "Report concerning the governance arrangements for Bristol Energy".
- The recommendations of the Shareholder Governance Review, and associated management actions update.
- The management actions update in relation to the Grant Thornton report entitled "Value for Money Audit Findings for Bristol City Council".

Summary

The Council is overseeing the implementation of management actions in response to reviews conducted over the course of 2020 and 2021. These include actions agreed as a response to Value for Money audits and subsequent follow up reviews conducted by Grant Thornton, in relation to both the Council, and the governance of its wholly owned companies. This report also provides an update on the Shareholder Governance Review report, carried out by the Independent Shareholder Advisor during 2021.

1. Background

- 2.1 In January 2021, Grant Thornton produced two reports “Value for Money Audit Findings for Bristol City Council” (**BCC VfM report**) and “Review of Governance Arrangements for Bristol City Councils Subsidiaries” (**Grant Thornton Report (1)**). The latter report and its associated management actions were presented to Full Council on 11 February 2021.
- 2.2 At this meeting, a motion was passed to establish a cross-party group to examine the actions plan prepared by officers, for how the recommendations in the Grant Thornton Report (1) would be implemented. The working group met three times, before reporting back to Full Council on the 25 May 2021 on the progress made against the management actions, before confirming that its responsibilities had been effectively discharged.
- 2.3 Further to the Grant Thornton Report (1), a secondary report entitled “Report concerning the governance arrangements for Bristol Energy” (**Grant Thornton Report (2)**) was completed in September 2021. This report, was provided to Audit Committee on 27 September 2021 by Grant Thornton in line with their responsibilities to report to Audit Committee on matters of concern. It set out the findings on governance matters not set out in the original report, namely, initial decision making related to establishing Bristol Energy or final outcomes following the decision to dispose.
- 2.4 In parallel to the reviews mentioned above, the Shareholder Representative, (a Mayoral role, formally delegated to Cllr Cheney, Deputy Mayor) commissioned Fiona Ross, Independent Shareholder Advisor, and member of the Shareholder Group (the advisory group to the Shareholder Representative) to undertake a review of the entire governance structure pertaining to the management of its wholly owned companies.
- 2.5 The Governance Review was presented to the Shareholder group June 2021, with a management actions implementation plan presented to the Shareholder Group in September 2021. This report, and an update on the implementation of the management actions is presented here.

2. Additional Information re: Grant Thornton Management Actions in relation to Council Companies (Appendix A)

- 2.6 A progress update on the implementation of the actions from both Grant Thornton reviews in relation to the governance arrangements of the Councils companies (and specifically referencing Bristol Energy) from January 2021 and September 2021, is included at **Appendix A**.

3. Additional Information re: Shareholder Governance Review 2021 Management Actions (Appendix B)

- 3.1 The Shareholder representative, Cllr Cheney, commissioned a review of the council’s governance arrangements in respect of its companies in early 2021 (the scope is included in **Appendices D**).
- 3.2 The council’s Independent Shareholder Advisor, Fiona Ross, conducted the review. As part of this process, she interviewed 22 individuals, including senior officers from the council, as well as senior executives and non-executive directors of each of the council-owned companies.

- 3.3 The Shareholder Group received the Shareholder Governance Review Report on 14 June 2021 (see **Appendix E**).
- 3.4 The primary recommendation of the report was to disband Bristol Holding Limited (the **Holding Company**) if the council was not intending to establish more companies in the short to medium term and if the 'Group' was to remain as including Goram Homes Limited (**Goram Homes**) and Bristol Waste Company Limited (**Bristol Waste**), assuming that Bristol Heat Networks Limited (**BHN**) would transfer to City Leap in early 2021.
- 3.5 The Shareholder Group requested that an options analysis be carried out to consider this recommendation in more detail. The options analysis considered two options: (a) retaining the Holding Company on a reduced budget; and (b) disbanding the Holding Company and transferring the functions to the council (the **Options Analysis**). The Options Analysis was considered at a Shareholder Group meeting in July and concerns were raised, in particular, about the impact of disbanding the Holding Company before the outcome of the City Leap procurement, and BHN's future, were known. An implementation plan was therefore requested that took account of this concern, and other points raised at the meeting.
- 3.6 In August, an implementation plan was presented to Shareholder Group, following consultation with senior officers, the Independent Shareholder Advisor, and the Holding Company board (the **Implementation Plan**). It was agreed at the August meeting that the most pragmatic way forward, to ensure effective governance, was to retain an active Holding Company until the outcome of the City Leap procurement was known, at which point the governance arrangements would be reviewed again to ensure that a proportionate approach was being adopted, given the size and complexity of the Group at that point. It was also agreed that some governance changes should be made within the Group, to reflect recommendations from the Shareholder Governance Review and best practice identified in the (Grant Thornton Report (1)).
- 3.7 These decisions are all reflected in detail in the Shareholder Governance review Management Actions set out in **Appendix B**.
- 3.8 The Independent Shareholder Advisor supports the Management Actions set out (see **Appendix F**)
- 4. Additional Information regarding the BCC VfM report Management Actions. (Appendix C)**
- 4.1 A progress update on the implementation of the actions from the "Value for Money Audit Findings for Bristol City Council" (BCC VfM report), from January 2021 is included at **Appendix C**.
- 5. Recommendations**
- 5.1 That Committee Members note:
- the management actions update in relation to the second Grant Thornton report entitled "Report concerning the governance arrangements for Bristol Energy".
 - the recommendations of the Shareholder Governance Review, and associated management actions update.
 - the management actions update in relation to the Grant Thornton report entitled "Value for Money Audit Findings for Bristol City Council.

6. Appendices:

- Appendix A – Management Actions Update re: Grant Thornton recommendations in relation to Council Companies
- Appendix B – Management Actions Update to Shareholder Governance Review.
- Appendix C – Management Actions Update re: “Value for Money Audit Findings for Bristol City Council” (BCC VfM report)
- Appendix D – Scope for Shareholder Governance Review 2020/2021
- Appendix E - Shareholder Governance Review Report 2021 - reported to the Shareholder Group on 14 June 2021
- Appendix F – Note from Independent Shareholder Advisor, Shareholder Governance Review Report Author - October 2021

LOCAL GOVERNMENT (ACCESS TO INFORMATION) ACT 1985

Background Papers:

1. Report concerning Governance arrangements for Bristol Energy
Audit Committee, Monday, 27th September 2021, 2.00 pm

<https://democracy.bristol.gov.uk/documents/s64139/08.%20Report%20concerning%20the%20governance%20arrangements%20for%20Bristol%20Energy.pdf>

2. Report to Full Council: Working Group to Oversee Agreed Management Actions
Full Council, Tuesday, 25th May 2021, 2.00pm

https://democracy.bristol.gov.uk/documents/s60704/21%2005%2013%20FINAL%20Full%20Council%20Cover%20Report_Working%20Group.pdf

3. Grant Thornton Review of Governance Arrangements for Bristol City Council’s subsidiaries
2019/20
Full Council, Tuesday, 22th February 2021, 5.00pm

<https://democracy.bristol.gov.uk/ieListDocuments.aspx?Cid=142&Mid=8727>

4. Report concerning Grant Thornton Value for Money Report 2019/2020
Audit Committee, Monday, 25th January 2021, 2.00 pm

<https://democracy.bristol.gov.uk/documents/s56043/9a%20VFM%20Covering%20Report.pdf>

Appendix A: Management Actions Update re: Grant Thornton Reviews regarding Council Companies.

New Management Actions agreed in the September 2021, Grant Thornton Report “Report concerning the governance arrangements for Bristol Energy” (GT 2 report)

Rec no.	Management Action	Timing	Responsible Officer	Status
1. GT2 report	The Council should consider communicating to the public the full cost of operating and winding down Bristol Energy. (NEW RECOMMENDATION)			
	<p>Liquidation remains an evolving process and as such confirmed final costs are not available and could not be communicated.</p> <p>However, reactive media relations have been transparent about this, with a January 2021 media statement from the Mayor including: “These accounts do not give the final financial picture but do demonstrate that our lost investment in Bristol Energy remains within financial envelope of £37.7m approved by Cabinet in April 2019. A further £7.3m of risk reserves to cover indemnities was set aside at the same time, and how much of this will be drawn upon cannot be confirmed until our accounts for 2020/21 are appropriately audited and filed next year.”</p> <p>We will consider the appropriate mechanism for communicating the direct financial cost to the public once liquidation is complete (this will not include speculative opportunity costs such as Council staff time), and the audited accounts for the relevant year will detail the final position.</p>	Subject to completion of the liquidation process	Director: Policy, Strategy and Partnerships	Members Voluntary liquidation is in progress; however, this work is expected to take up to a further 18 months. The overall costs of the liquidation look likely to be in line with those outlined in the GT2 report, although this cannot be confirmed until the liquidation process is complete.

2. GT2 report	In order to support key decisions relating to significant projects the Council should ensure an options appraisal that is fit for purpose is completed prior to completing a business plan. (NEW RECOMMENDATION)			
	<p>The Council has a culture of continuous improvement and will seek to strengthen option appraisal techniques to support evidenced based decision making. Providing a framework or protocol for Officers (incorporated within the Companies handbook and financial protocols published on the Source), that can be consistently applied in ensuring that where required the identification and appraisal of options, is undertaken as objectively as it can be.</p> <p>This will ensure that Officers look at the different ways of achieving the changes and outputs required, pros and cons of each (financial and non-financial) and clear rationale for determining the option which best meets the requirements and ensures value for money (VFM) is secured prior to completing a business plan.</p> <p>The resulting business plan should provide a clear audit trail of how the preferred option has been reached and that it works best financially for the Council and for best meeting the aspirations and needs of the community.</p>	31 March 2022	Director: Finance	Work has commenced within Finance and the Shareholder Liaison service to define the scope and reach of this piece of work. Action ongoing.
3. GT2 report	Where the Council is working with external advisors on complex projects it should better document its response against all recommendations made. (NEW RECOMMENDATION)			
	Guidance and training for officers will be prepared to ensure that due regard is had to all recommendations proposed by external advisors on advisors on complex projects. The advice and any recommendations proposed by external advisors will	31 March 2022	Director: Legal & Democratic Services	Work has commenced within the Shareholder Liaison service to define the scope and reach of this piece of work. Action ongoing.

	be clearly presented to decision makers, and the preferred approach being recommended by officers will be clearly set out and this will be emphasised in the guidance and training for the Companies handbook.			
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Original Management Actions, agreed in the the January 2021, Grant Thornton report “Review of Governance Arrangements for Bristol City Councils Subsidiaries” (GT 1 report)

	Management Action	Deadline	Responsible Officer	Status
1. GT1 report	Discussions and decisions made within exempt committee meetings should be recorded.			
	<p>It has not been custom and practice in Bristol to take minutes at the part of a Committee or Cabinet meeting dealing with sensitive or commercially confidential issues, but we have clearly stated when a meeting or part of a meeting will be closed to the public to enable confidential issues or exempt papers to be considered and the resulting decision (Cabinet) is recorded and published. We acknowledge that in looking back when the exemption no longer applies this appears to be a gap in our governance arrangements and lacks public transparency and as such propose to revise this approach within the Council for the future.</p> <p>We will put in place procedures to ensure that exempt committee and Cabinet meetings are minuted appropriately and signed off at the</p>	Feb-21	Director: Legal & Democratic Services	<p>Complete</p> <p>We have put in place procedures to ensure that exempt committee and Cabinet meetings are minuted appropriately and signed off at the subsequent meeting as a true record and the decision taken in the exempt session is published. All relevant colleagues have been briefed on the new arrangements and management are monitoring implementation.</p> <p>The Working Group: To Oversee Agreed Management Actions (established pursuant to a motion passed by Full Council in February 2021) (Working Group) recommended that a policy setting out the approach to exempt information be</p>

	subsequent meeting as a true record and publish the decision taken in the exempt session.			produced, and this is being taken forward.
2. GT1 report	Public reports should be consistent with the issues and concerns raised within exempt papers. The exempt papers should only provide confidential information which cannot be discussed within the public sessions.			
	<p>Whilst seeking to balance public transparency and as the only shareholder the responsibility for the protection of shareholder value, we had previously identified the need for additional information to be incorporated within the presentation of the council-owned companies' business plans. Content considered exempt for commercial reasons have been incorporated within the exempt business plans and continue to be significantly improved. We have worked closely with the companies over the last 12 months to ensure that exempt information is presented effectively and only includes information which cannot be discussed in public sessions.</p> <p>We will continue to improve the reports to ensure that exempt information is presented effectively, with appropriate redactions to ensure consistency in the information reported and that only information which cannot be discussed in public sessions is excluded.</p>	Ongoing	Director: Legal & Democratic Services	<p>Complete</p> <p>We have reviewed our processes and receive ongoing professional advice from BCC Legal Services round the structure and content of exempt papers in Cabinet Report.</p> <p>In respect of Cabinet Reports relating to the companies specifically, the Cabinet Report in respect of the 21/22 Business Plans contained minimal exempt information (largely relating to costs/profit, land value, or commercial know-how). No public information was repeated in the exempt appendices. In contrast to previous years, the vast majority of the BCC Finance Comment was public. Clear cross-references to the exempt appendices were included in the body of each business plan for ease of reference and cover pages were included within the exempt appendices, where necessary, to illustrate what part of the business plan the content related to. The exempt appendices were clearly referenced in the main Cabinet Report, so that Councillors and the public were aware of the nature of the information that was exempt.</p>

				<p>The Cabinet Member's introductory remarks to the Cabinet Report on the Business Plans confirmed that changes requested by Shareholder Group had been incorporated and provided clarifications on a non-material change to the Bristol Holding Business Plan that had occurred since the council had received the final version, for full transparency.</p> <p>A Guidance Note on the management of exempt information and the business planning process have been agreed for inclusion in the Company Handbook to reflect this approach and the Shareholder Liaison Service has developed template text and guidance for use in future Cabinet Reports relating to the companies to ensure a consistent approach is taken each year.</p>
3. GT1 report	Cabinet reports relating to Bristol Holding Limited's companies which include exempt information should be improved. Exempt papers, should clearly identify and quantify the risks and advice provided by the Shareholder Group and any relevant independent advisors as well as the clear views of Bristol Holding Limited.			
	<p>We are committed to ensuring a high quality of discussion and decision making and note that exempt sessions of Cabinet invited views from the Shareholder Group and other representatives. We acknowledge that it would be beneficial to also capture these in the written reports. Risk assessments will be included in each Cabinet Report relating to the Council's companies and we will consider with the Shareholder Group how their advice, and that of other advisors and organisations, should be presented to Cabinet.</p>	Apr-21	Director: Legal & Democratic Services	<p>Complete</p> <p>Please refer to status update given in respect of Recommendation 2.</p> <p>The template text and guidance developed by the Shareholder Liaison Service in respect of Cabinet Reports relating to the companies clearly notes the dates on which the Shareholder Group reviewed the Business Plans and includes commentary from Shareholder Group (including views of the Independent Shareholder Advisor),</p>

	<p>The report template will be strengthened, and training provided where required to improve the quality of the report content and ensure key financial points and risks from the proposal and associated appendices are appropriately summarised in reports.</p> <p>In cases where logistics make it impossible to update written reports prior to publication, any additional views of Shareholder Group will be incorporated into Cabinet Member introductory remarks to ensure they are known to Cabinet.</p>			<p>Bristol Holding and the clients in separate appendices.</p> <p>The Working Group recommended that minutes of the Shareholder Group be made available to OSMB members and this is being taken forward.</p>
4. GT1 report	The Council should ensure Cabinet decisions are based upon more timely and current information.			
	<p>This finding highlights the governance challenge that was inherent in operating a commercial company in a high-paced, volatile marketplace whilst needing to serve the high levels of scrutiny, transparency and assurance which are required in local government. Consideration will be given to the governance pulse and how this could be streamlined from Shareholder Group to Cabinet, whilst still enabling appropriate Scrutiny and feedback to be considered and where appropriate, reflected in the plans / reports and further written confirmation of endorsement or recommendations obtained. In future, Cabinet Reports will be explicit about the date of the latest Business Plan upon which the report is based. We will also consider holding separate Cabinet meetings for budget and business plans to help ensure sufficient capacity is available for wider discussions should it be required at the point that a decision is</p>	Apr-21	<p>Director: Legal & Democratic Services Director: Finance</p>	<p>Complete</p> <p>Please refer to status update given in respect of Recommendation 3.</p> <p>The business planning timetable for 22/23 is being revised so that the Business Plans are considered by Shareholder Group in January, OSMB in February and Cabinet in March. This will ensure effective scrutiny of the plans, which can then be referred to in the Cabinet Report. It will also ensure that the Business Plans are being approved closer to the start of the financial year to which they relate, to ensure the content is relevant, and that there is adequate time on the Cabinet meeting agenda to consider the item (as the Business Plan Cabinet Report will no longer coincide with the</p>

	taken. Utilising new IT systems available to officers, the version control of reports and appendices will be improved with appropriate report prompts and ensure that during iteration of proposals, the professional commentary of Business Partners is subject to a final review and only signed-off as complete at the end of the process.			Budget Cabinet Report. Version control measures have been strengthened to ensure that professional advisors are reviewing and commenting on the most up to date version of the Cabinet Report and that the date of their commentary is accurately recorded.
5. GT1 report	The Council should update the articles of association and shareholder agreement to reflect the strengthened role of Bristol Holding Limited. The terms of reference for all elements and functions of the governance structure should be in place and updated.			
	A Governance Review has already been commissioned to help inform the update of the articles of association and shareholders' agreement, to take into account Bristol Holding's role. This was placed on hold subject to the completion of this Value for Money review and can now be progressed. The Terms of Reference for the Shareholder Group will be updated as part of this review. A series of guidance notes are being devised to illustrate the governance structure and the workings of the governance arrangements for inclusion in the company's handbook.	Oct-21	Director: Legal & Democratic Services	Ongoing The Governance Review was completed in Summer 2021 and the decision has been taken to retain Bristol Holding in substantively its current form until the outcome of the City Leap procurement is known, at which time the position will be reviewed again to ensure proportionate governance arrangements are in place. A 'Group Collaboration Note' is being drafted to clearly set out the roles and responsibilities within the Group and will be agreed by the end of December and the articles of association and shareholders' agreement will be reviewed to take into account any amendments required. The Terms of Reference for Shareholder Group were revised and approved on 11 March 2021. A number of Guidance Notes have been

				agreed for inclusion in the Company Handbook, including on the reserved matter decision making process and the business planning process.
6. GT1 report	The Council should agree and consider if the client function role is appropriate for each of its companies and document the role and responsibilities for those companies where it is agreed.			
	<p>We acknowledge that it was a challenge for the council to act as a client function due to commercial energy retail being outside of the council's core services, increasing reliance on the use of external advisers. We note that this is not an issue in terms of the council's other companies. A Governance Review has already been commissioned to consider the client function, and how it can be strengthened to ensure that roles and responsibilities are clear across the Group and the Council. We have already included the 'strategic client' within Shareholder Group to ensure that the Shareholder Representative has additional appropriate strategic advice relating to each company when taking decisions at the Shareholder Group meetings. We will consider introducing a similar arrangement to support the weekly Companies update provided at the Cabinet Member Briefings.</p>	Oct-21	Chief Executive	<p>Ongoing</p> <p>The Governance Review was completed in Summer 2021 and recommended that the Strategic Client role be strengthened. This is now underway by the introduction of quarterly meetings between the Strategic Client and the companies. The Strategic Client has been attending Cabinet Member Briefings since February 2021.</p> <p>The roles and responsibilities of the Strategic Client, and the wider client function, will be clearly set out in the Group Collaboration Note.</p> <p>The City Leap client function is being considered by the City Leap Project Board and a steering group including relevant Heads of Service, and specialist support is being obtained to develop an effective client structure. This will take into account the assumption that Bristol Heat Networks Limited will transfer to City Leap.</p> <p>See also the status update against Recommendation 5.</p>

7. GT1 report	Consideration should be given to the role of the Executive Chair of Bristol Holding. This should include if this role is appropriate going forward, and does it ensure independence of the chair and reduce potential conflicts.			
	The revised Bristol Holding arrangements were intended to be reviewed. The Governance Review has been commissioned and the role of Executive Chair, independence and potential conflicts will be considered as part of the planned review. The Executive Chair post was filled on a fixed term basis in order to facilitate a revised approach if deemed appropriate as a result of this review.	Oct-21	Chief Executive	Complete The Executive Chair will not be renewed at the end of October 2021, in line with one of the Governance Review recommendations. An independent Chair will be appointed and the Group Finance Director will absorb relevant executive functions.
8. GT1 report	The Council should minimise the potential for conflicts of interest, such as the role of the Executive Chair, elected members and officers. To facilitate this, the Council should develop a conflicts of interest policy to ensure potential conflicts in relation to Council how companies are identified and managed appropriately. This could be incorporated within a company's handbook			
	The Council has in place procedures for declarations of interests for elected members and officers and proactively considers conflicts of interests on an ongoing basis. A formal Conflicts of Interests Policy is intended to be developed, along with supporting guidance, which will be incorporated into the company handbook which we have been developing. Training for elected members who are directors includes conflicts of interests and this element of the training will be further developed.	Apr-21	Director: Legal & Democratic Services	Complete The Guidance Note on conflicts of interest has been agreed and will be published as part of the Company Handbook. Detailed member induction training was given, which included the topic of conflicts. Following a recommendation from the Working Group, this training included general training made available to all members and advanced training available to members of OSMB, Audit Committee and member directors of company boards. External training is being arranged for all directors of the companies, including member directors, is being arranged for Autumn and will include training on conflicts of interest.

				<p>Internal and external advice is being sought to in respect of any conflicts of interest that may arise as a result of the duplication of directors within the Group. The company secretaries are responsible for ensuring that any director conflicts are appropriately monitored and managed in accordance with the Companies Act 2006 and each company's articles of association.</p> <p>See also the status update against Recommendation 7.</p>
9. GT1 report	The Council should develop a mechanism to enable the Audit Committee to be sighted on potential exempt issues within their role and responsibilities and legal duties.			
	<p>In the Access to Information report presented to the November 2020 Audit Committee, it was acknowledged that the Audit Committee has a responsibility to ensure that key representations to the external auditors as part of the external audit are accurate and complete in line with ISA260 and other standards. The Audit Committee should be able to access such information, including exempt information, that is reasonably necessary for them to discharge this duty. The report also provided the Audit Committee with an overview of the legal framework relating to access to information by Members of the Council, including access to exempt information.</p> <p>We will continue to ensure that Audit Committee have the ability to see exempt information which is reasonably necessary for them to carry out their</p>	Ongoing	Director: Legal & Democratic Services	<p>Complete</p> <p>In March, information was provided to the Audit Committee, following discussion with the Chair and independent member of the Audit Committee and external auditors, setting out the types of information that the Audit Committee should receive in order to discharge their functions.</p> <p>A further report / appendix was provided to the Audit Committee in June, providing examples of the types of information that the Audit Committee will receive periodically or can request, in order to discharge their functions.</p> <p>The Working Group recommended that joint briefings for the Chairs of Audit</p>

	legal duties.			Committee and OSMB on company matters be introduced, and this is being taken forward.
10. GT1 report	The Council should consider publishing all reserved matter decisions relating to its companies and consideration should be given to how elected members access to confidential information relating to reserved matter decisions could be improved.			
	Reserved Matter Decisions taken by the Shareholder Representative following receipt of advice from various members of the Shareholder group and officers are not key decisions (which are always taken by Cabinet), but they are nevertheless recorded in a formal Decision Record and tracked on a Decision Register. Consideration will be given to whether an equivalent process to Officer Executive Decisions (which are decisions which do not meet the criteria for a formal key decision to be taken at a Cabinet meeting but are considered important enough to be open to public scrutiny and as such published on the ModernGov website) can be adopted for these Reserved Matter Decisions.	Apr-21	Director: Legal & Democratic Services	Complete Summaries of all Reserved Matter decisions taken since 1 January 2021 have been published on the Council's website (https://www.bristol.gov.uk/how-council-decisions-are-made/reserved-matter-decisions) and will be published on a monthly basis.
11. GT1 report	Appropriate training should be provided on a regular basis to elected members who are involved in the Council's owned companies, in relation to decision making, scrutiny and the Audit Committee. This should include both sector specific training, roles and responsibilities and potential conflicts of interest.			
	Training is routinely provided to all elected members who are involved in the Council owned companies and a training programme is currently being developed for elected members involved in the Council owned companies for 2021/22.	Aug-21	Director: Legal & Democratic Services	Complete Member induction training was offered to all members in respect of the companies and an advanced session was offered to members of Audit Committee and OSMB

	<p>We will engage with independent external parties such as Centre for Public Scrutiny and CIPFA on the development and design of the training to ensure its suitability for the various roles being performed by elected members in relation to our subsidiaries.</p> <p>Where required, external experts will support the training delivery. All newly elected members will also be given training on the companies as part of their induction process.</p>			<p>and member directors of the companies, in line with a recommendation from the Working Group.</p> <p>External training is being arranged for all directors of the companies, including member directors, and ongoing support is available to member directors from the Shareholder Liaison Service.</p> <p>Officers are working with the Centre for Public Scrutiny and Governance to ensure a best practice approach to scrutiny post-election.</p>
12. GT1 report	The Council should improve the risk management arrangements to ensure that all key risks are identified and clearly reported to Cabinet.			
	<p>Steps have been taken during 2020/21 to strengthen the risk management framework in the Council and across the Council's subsidiaries and continues to be advanced in order to move further towards risk maturity and seamless embedding of risk management. Whilst ensuring its suitability and effectiveness, further consideration is being given to greater alignment with the risk matrix adopted by the Council and its subsidiaries, in terms of scoring, likelihood and impact to facilitate ease of collation and consistency in reporting.</p> <p>We propose that going forward the risk will be incorporated in the reports to Cabinet and where the lack of alignment prevents this, the full details will remain in the Business Plan and the significant risks and potential Council impact will be summarised in the officer comments to the report.</p>	Feb-21	Director: Legal & Democratic Services	<p>Complete - to be regularly reviewed.</p> <p>The risk management framework for the companies has been strengthened with a risk matrix and group risk register reported to every Shareholder Group. A methodology has been developed to map the risks against our BCC criterion to enable where appropriate a transition into the Corporate Risk Register.</p> <p>The 21/22 Business Plans, include the main risks in each business and the finance commentary in the Cabinet Report seeking approval for the Business Plans, included a summary of the risks in each. A similar approach will be taken in future years.</p> <p>The Group Audit and Risk Committee</p>

				present an annual statement to the council's Audit Committee and attend the Audit Committee meeting to respond to associated matters in public or exempt that the Committee may wish to discuss.
The Council should improve the risk management arrangements to ensure that all key risks are identified and clearly reported to Cabinet.				
	Subsidiary and Investment risks will be disaggregated from the 'long term commercial investments and major projects risk '(CRR1) and separately identified and management actions reported on quarterly within the Corporate Risk Management Reports. This will ensure the continuous overview and monitoring currently being undertaken by the Shareholder Group can be more visible.	2021 Quarter 4 Repot & Ongoing	Director: Finance	<p>Complete - to be regularly reviewed</p> <p>See the status update against Recommendation 12.</p> <p>In the Councils Corporate Risk Report, Quarter 3 2020/21, CRR1 - Long Term Commercial Investments and Major projects Capital Investment has been closed and the risk within has been disaggregated.</p> <p>For Subsidiary risk CRR40 - Unplanned Investment in Subsidiary Companies has been created and following the mapping of the Group risk, relevant risks are reported / update periodically.</p>

Appendix B: Management Actions Update to Shareholder Governance Review

	Recommendation	Responsible Officer	Management Action	Timeline	Latest Update at 1 Nov 2021
Question 1 (relating to the role of the Strategic Client)					
A.	Develop a clear definition for the Strategic Client role, in line with the findings of this report	Executive Director: Growth & Regeneration Director: Legal & Democratic Services	A clear definition of the Strategic Client role will be developed and included as part of a Group Collaboration Note which will set out roles and responsibilities across the Group. A summary will be included in the Company Handbook. This Management Action aligns with Management Action 6 of the VfM Report.	1 Nov 21	Revised timeline 17 Dec 21. Further time required to incorporate the views of the relevant stakeholders into the GCN note.
B.	Develop a clear definition for the Operational Client and Sponsor roles, in line with the findings of this report	Executive Director: Growth & Regeneration Director: Legal & Democratic Services	A clear definition of the Operational Client and Sponsor Roles will be developed in line with the proposals in the report and included as part of the Group Collaboration Note and, at a high level, in the Company Handbook. This Management Action aligns with Management Action 6 of the VfM Report.	1 Nov 21	Revised timeline 17 Dec 21. See Management Action Update A.
C.	Establish a clear model of accountability for the Strategic Client where the Operational Clients and Sponsors are across multiple directorates, in line with the findings of this report	Executive Director: Growth & Regeneration	Where Operational Clients/Sponsors are located across different directorates, the Strategic Client will convene regular formal internal alignment sessions. These will be structured to ensure that Operational and Strategic Client requirements of the same company are complementary and do not create conflicts or risks.	1 Nov 21	Complete
D.	Ensure there is adequate resource and skill dedicated to the Strategic Client	Executive Director:	The Strategic Client role is currently performed by the Executive Director: Growth & Regeneration who has already established quarterly meetings with each of the	Ongoing	Action ongoing, progress will be monitored regularly, and progress formally reported as part

		Growth & Regeneration	<p>companies and has agreed to develop a quarterly report on these meetings for presentation to the Shareholder Group. The level of resource available to the Strategic Client was considered at Shareholder Group meetings in June, July and August. It was recognised that if Holding Company was disbanded, the Strategic Client would need additional resource but that if it was retained, the need for additional resource was reduced but not extinguished. As the decision has been taken to continue with the Holding Company until the outcome of the City Leap procurement is known, this will be kept under review.</p> <p>A review of the client function for City Leap and the existing Holding Company entities will be carried out prior to March 2022 – the date by which the outcome of the City Leap procurement will be determined. This will make recommendations for clienting arrangements within the Directorate: Growth & Regeneration for City Leap, Bristol Waste and Goram Homes.</p>		of 6 monthly review process.
Question 2 (relating to the role of the Shareholder Liaison Service)					
E.	Develop a clear definition for the Shareholder Liaison Team, in line with the findings of this report	Director: Legal & Democratic Services	A clear definition of the role of the Shareholder Liaison Service will be developed and included as part of the Group Collaboration Note and, at a high level, in the Company Handbook. It was agreed at Shareholder Group meeting on 23 August 2021 that there would be no change to the	1 Nov 21	Revised timeline 17 Dec 21. See Management Action Update A.

			existing scope and remit of the Shareholder Liaison Service.		
F.	Revise relevant governance documents to reflect the outcomes of this Shareholder Governance Review	Director: Legal & Democratic Services	<p>(a) The report finds that the current governance documents are detailed and helpful. However, there is a need to provide clarity around individual roles and responsibilities within the governance arrangements (e.g. the role of the Holding Company, the role of the Strategic Client, the role of the Shareholder Liaison Service). It was agreed at the Shareholder Group meeting in August that this would be documented in a Group Collaboration Note and reflected, at a high level, in the Company Handbook.</p> <p>(b) In addition, the articles of association and the Shareholders' Agreement will be reviewed for any changes that may be necessary to reflect the revised governance arrangements.</p> <p>These Management Actions align with Management Action 5 of the VfM Report.</p>	<p>(a) 1 Nov 21</p> <p>(b) Feb 22</p>	<p>(a) Revised timeline 17 Dec 21</p> <p>See Management Action Update A.</p> <p>(c) Action still on track for completion in Feb 22</p>
G.	If the Holding Company is not retained, consider expanding the Shareholder Liaison Service, in line with the findings of this report	Director: Legal & Democratic Services	As the recommendation suggests, this will be considered as part of the decision around whether a Holding Company is retained upon review of the agreed governance arrangements once the outcome of the City Leap procurement, and BHN's future, is known.	To be reviewed on an ongoing basis and no later than Spring 22	Action ongoing. Scenario planning taking place as part of BCC corporate planning cycle for 2022/23.
Question 3 (relating to the role of the Holding Company)					

H.	Pause establishing any additional companies and disband the Holding Company. This should involve:	Director: Legal & Democratic Services	<p>Unless a business case suggests that this is the best value for money option in delivering our strategic objectives, it is not anticipated that any further companies will be established in the short to medium term.</p> <p>It has been agreed, that the Holding Company should be retained until the outcome of the City Leap procurement, and BHN's future, is known.</p>	To be reviewed on an ongoing basis and no later than Spring 22	Action ongoing with regular monitoring.
i.	identifying a timeline for the disbanding of the Holding Company	Director: Legal & Democratic Services	A further review of the governance arrangements relating to the companies will be undertaken once the outcome of the City Leap procurement, and BHN's future, is known, to ensure that such arrangements are proportionate to the size and nature of the Group. If the decision is taken at that time to disband the Holding Company, a detailed implementation plan, and transition timeline, will be developed.	To be reviewed on an ongoing basis and no later than Spring 22	Action ongoing with regular monitoring.
ii.	developing an appropriate transition plan to achieve the disbanding of the Holding Company, including:	Director: Legal & Democratic Services	See Management Action H(i).	To be reviewed on an ongoing basis and no later than Spring 22	See Management Action Update G.
	appointing a separate chief executive to oversee the wind down of the Holding Company and the transfer of activities back to the council	Director: Legal & Democratic Services	<p>The current Executive Chair role should not be extended beyond 31 October 2021. Instead, an independent Chair will be appointed from 1 November 2021.</p> <p>This Management Action aligns with Management Action 7 of the VfM Report.</p>	1 Nov 21	Complete

			A Chief Executive role will be held vacant and the Group Finance Director will absorb where relevant the existing executive functions of the Holding Company, following a recommendation from the Holding Company that this role could adequately fulfil the remaining executive functions required.		
	mapping the work currently done by the Holding Company and which teams or roles within the council will absorb this (for example, Strategic Client, the Shareholder Liaison Service, BCC Finance, the Shareholder Group)	Director: Legal & Democratic Services	As part of the Options Analysis and the Implementation Plan, a detailed mapping of the current functions of the Holding Company was undertaken and was used to inform the decision taken to continue the role of the Holding Company until the outcome of the City Leap procurement is known. This recommendation will be reconsidered as part of the review of the governance arrangements once the outcome of the City Leap procurement is known, and the mapping exercise can be updated as needed.	To be reviewed on an ongoing basis and no later than Spring 22	See Management Action Update G.
	consider transferring the current Executive Chair and Group Finance Director into council employment to support the council's commercialisation work	Director: Legal & Democratic Services	This recommendation will be reconsidered as part of the review of the governance arrangements once the outcome of the City Leap procurement is known.	To be reviewed on an ongoing basis and no later than Spring 22	See Management Action Update G.
	increasing the remit of Shareholder Group to carry out the accountability mechanism currently performed by the Holding Company and consider establishing sub-committees	Director: Legal & Democratic Services	This recommendation will be reconsidered as part of the review of the governance arrangements once the outcome of the City Leap procurement is known.	To be reviewed on an ongoing basis and no later than Spring 22	See Management Action Update G.

	(for example, in respect of performance monitoring and risk) to support this work				
iii.	considering whether the Holding Company entity should be retained for tax purposes, and ensure appropriate support in place to manage this entity (e.g. a Chair, company secretarial support etc.)	Director: Legal & Democratic Services Director: Finance	Grouping companies together under a holding company gives them advantages they would not have when operating as separate entities, such as consolidation tax advantages and specialist added value skills. It is therefore assumed that if the Holding Company functions are transferred into the council, the Holding Company entity will be retained for tax purposes. The further advantages and disadvantages of having such an entity will be considered at the incorporation of any subsidiaries and would be considered more broadly should an option to wind up the Holding Company beyond a shell be proposed	Complete	N/A
I.	If, despite Recommendation H, the council intends to transfer additional companies to the Holding Company in the short to medium term, then I recommend that the council implements 'Option 3' as outlined in the Holding Company paper: "Managing HoldCo Costs & Improving Group Effectiveness" (December 2020)	Director: Legal & Democratic Services	Following receipt of Option 3 in December 2020, the Holding Company submitted a lower cost alternative referred to as 'Option 4' in May 2021. This was considered in detail by the Shareholder Group as part of the Options Analysis. The Implementation Plan agreed at Shareholder Group's August 2021 meeting was largely based on the Option 4 model.	1 Nov 21	Complete
Question 4 (in relation to material barriers to effectiveness)					

J.	Consider pausing any new company formation in the short to medium term	Director: Legal & Democratic Services	See Management Action H.	Complete	
K.	Complete the council's commercial strategy as soon as possible	Executive Director: Growth & Regeneration	This piece of work was put on hold pending the outcome of the Shareholder Governance Review and will be subject to the outcome of the Common Activities Programme.	TBC	On Hold
L.	Establish a template business case for the establishment of companies and commit to its use in advance of any decision-making surrounding new company formation	Executive Director: Growth & Regeneration Director: Legal & Democratic Services Director: Finance	A template business case for the establishment of companies will be developed and will be used as part of council decision making on new company formation. A Guidance Note will be developed as part of the Company Handbook which explains the process needed to consider the establishment of a new council-owned company.	Mar 22	Ongoing
M.	Conduct a skills audit of its Operational Clients and Sponsors and consider how the council can begin to 'home grow' the type of commercial expertise it needs	Executive Director: Growth & Regeneration	This will be completed as part of Management Action D.	Mar 22	Ongoing
N.	Ensure adequate succession planning in place for the Shareholder Representative	Director: Legal & Democratic Services	A briefing pack on the role of the Shareholder representative, its responsibilities and its core advisors and meetings will be developed so that it can be provided to any individual performing the Shareholder Representative role in the future.	Mar 22	Ongoing

			<p>A second Cabinet member is a member of Shareholder Group to provide resilience and consideration will be given to how to develop this role.</p> <p>These arrangements will be kept under review.</p>		
O.	Develop a graphic to explain all of the relevant forums at which the companies are discussed with the level of decision making made explicit	Director: Legal & Democratic Services	<p>A graphic has been developed as part of the Company Handbook to illustrate the roles within the council that are relevant to the companies. This will be developed to illustrate decision making and consideration will be given to whether this should also be included as part of the Group Collaboration Note.</p>	Nov 21	<p>Revised timeline 17 Dec 21.</p> <p>See Management Action Update A.</p>
P.	Devise a new model of engagement between the s151 Officer and the companies	Director: Finance	<p>A new model of engagement is outlined to provide sufficient and proportionate assurance through the annual financial cycle and ensure that financial risks are managed appropriately. No “one-size-fits-all”, the assurance approach and content will reflect the size and scale of the business, the size of any debt owed to the council or wider dependency on public sector loans or grants. There should be no critical gaps in the assurance approach and no areas of duplication of assurance provided elsewhere at that time.</p> <p><u>Early and Iterative Annual Engagement:</u></p> <p>To ensure the financial transactions and values attributable to the company as the Council’s medium term financial plan evolves, agree with the projections in the</p>	Mar 22	<p>Ongoing</p> <p>Effectiveness to be assessed following the 2022/23 Business Planning process.</p>

			<p>company business plan and thereafter the Councils approved budget.</p> <p><i>A revised timeline for reviewing and approving the companies' business plans has been agreed with the Holding Company and the Director: Finance.</i></p> <p><u>Periodic (at least Quarterly) Company Finance Director (FD) Engagement:</u></p> <p>New or varying financial transactions that affect the Council such as timing of loan drawdowns / repayments or longer-term finance, provision of financial support in terms of short term working capital, letters of comfort or parent guarantee and material unplanned utilisation of reserves.</p> <p>Internal / external audit reports - significant weakness identified in internal controls and notification of any material financial irregularities / fraud.</p> <p><i>The above will provide greater structure to scheduled meetings, which can be expanded to Company FDs as appropriate.</i></p>		
Q.	Ensure company risks are escalated to the BCC risk register as appropriate	Director: Finance	<p>The risk management framework for the companies has been strengthened with a risk matrix and group risk register reported to every Shareholder Group. A methodology has been developed to map the risks against our BCC criterion to enable where appropriate a transition into the Corporate Risk Register.</p> <p>The 21/22 Business Plans, include the main risks in each business and the finance</p>	Jan 22	Ongoing

			commentary in the Cabinet Report seeking approval for the Business Plans, included a summary of the risks in each. A similar approach will be taken in future years.		
R.	Develop a process chart to assess if and where duplication of roles is taking place	Director: Legal & Democratic Services	As part of the Options Analysis and the Implementation Plan, a detailed mapping of the current functions of the Holding Company was undertaken. A meeting is scheduled between the Strategic Client and the Holding Company for early September to ensure clear governance and no duplication of roles. The Group Collaboration Note will ensure that roles and responsibilities across the Group are clear and agreed.	1 Nov 21	Revised timeline 17 Dec 21. See Management Action Update A.
S.	Complete the Company Handbook and share with all parties	Director: Legal & Democratic Services	The Company Handbook is made up of individual Guidance Notes on relevant topics. The initial Guidance Notes will be published in September 2021 and further Guidance Notes will be published in Autumn to reflect the principles of the Group Collaboration Note. Additional Guidance Notes will be published/existing Guidance Notes updated when need arises.	Jan 22	Revised timeline 30 November 21 Company handbook finalised and undergoing final accessibility checks prior to upload to the website.
T.	Undertake a review of Holding Company and subsidiary Board composition and effectiveness	Director: Legal & Democratic Services	(a) The Holding Company has been asked to commission independent external board effectiveness review of the Holding Company and each of the subsidiaries as soon as possible. (b) The findings of the reviews will be reported back to Shareholder Group.	(a) Nov 21 (b) Jan 22	Complete Ongoing

Recommendations in respect of City Leap					
U.	Provide a workshop for relevant stakeholders as a matter of some urgency, in order to communicate the vision and secure explicit support	Executive Director: Growth & Regeneration	<p>A City Leap Briefing for the Independent Shareholder Advisor was held on 17 June 2021.</p> <p>Engagement with relevant stakeholders is ongoing. The Shareholder Representative, Chief Executive, Executive Director: Growth & Regeneration, Director: Legal & Democratic Services, and Director: Finance regularly attend the City Leap Project Board to receive updates.</p> <p>The City Leap Team will be asked to report back to SHG on progress at an appropriate point in the procurement process.</p>	Ongoing	Ongoing
V.	Define the key governance roles relating to City Leap (for example, the Holding Company (if retained), Shareholder Liaison Service, Strategic Client, Shareholder Group, joint venture board, joint venture partner)	Executive Director: Growth & Regeneration	The Executive Director: Growth & Regeneration is in the process of commissioning external consultancy support to map out an effective client function in respect of City Leap. A client function steering group has been established to consider with relevant Heads of Service (including the Shareholder Liaison Manager from a Shareholder perspective) what is required to ensure a robust governance structure. This will be developed further once the preferred bidder is known.	Mar 22	Ongoing
W.	Ensure adequate external specialist support provided to the council to ensure a robust and balanced relationship between	Executive Director: Growth & Regeneration	See Management Action V.	Mar 22	Ongoing

	Strategic Client and Strategic Partner				
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Appendix C: Grant Thornton Value for Money Review – Management Actions Update

Update on Management Actions agreed in the January 2021, Grant Thornton Report “Value for Money Audit Findings for Bristol City Council” (BCC VfM report)

Rec no.	Management Action	Timing	Responsible Officer	Status
1. High	The Council should develop a recovery plan for the DSG and agree this with the schools’ forum and the Department for Education			
	<p>The forecasted deficit in the DSG is predominantly attributed to the increase need for support via the High Needs budget and in year movement attributed to emerging pressures in Early Years, due to longstanding underfunding of the early entitlements further exacerbated by the pandemic. Whilst we will continue to call for sufficiency of funding, investment and clarity about future funding arrangements for these sectors, plans will need to be considered for a sustainable long term provision that meets the needs of Children and young people in Bristol.</p> <p>The Education Transformation Programme has concluded its first year of delivery; largely focused on SEND improvement activities (linked also to delivering the Written Statement of Action) and promoting system-wide education inclusion. As the Programme enters its second year of delivery, priorities are being refreshed to promote financial sustainability via the pursuance of inclusion throughout the sector. Specifically focusing on the projects that will deliver additional capacity for specialist provision; a new clear and transparent</p>	31 March 2021	Director: Education	<p>Development of the DSG Management Plan has been ongoing since the first draft was prepared in line with agreed timings, however with some fine tuning required to the forecast prior to being presented to Bristol Schools Forum in May 2021. This is a live model and an ongoing iterative process, subject to refinement based on improved data and intelligence and will be regularly submitted to Schools Forum as the model evolves.</p> <p>The DfE has confirmed Bristol is not currently required to formally submit a DSG Management Plan to the DfE, however, Bristol has chosen to use the DfE recommended template and so is well placed to respond should this be required in the future.</p> <p>The Education Transformation Programme has secured a 12-month extension from the baselined closure date of September 2021.</p>

	<p>system for accessing Element 3 Funding; and, working in partnership with schools, a range of interventions designed to improve the offer and experience for children and young people with SEND</p> <p>Work is underway to complete the DSG Deficit Management Plan. This is a comprehensive tool that has been produced by the Department for Education to enable LAs to :</p> <ul style="list-style-type: none"> • monitor how DSG funding is being spent. • compare data on high needs spend between LA's • form evidence-based and strategic future plans for the provision of services for children and young people with SEND. <p>Completion of the plan is being project managed and is due to be presented to Schools Forum on 30 March 2021. The completed plan will be kept up to date and used routinely for planning thereafter.</p>			<p>The extension reflects the delays to delivery caused by Covid and formally extends the scope. This includes understanding the true cost of delivering a statutorily compliant SEND Service in Bristol to inform service planning and DSG deficit management.</p> <p>The work of maintaining the Management Plan will transfer to a business-as-usual function from April 2022.</p>
2. Medium	The Council should address the overspends within Public Health to ensure sufficient reserves are maintained to meet any future overspends.			
	<p>The Public Health budget had been subject to annual grant reductions from 2015 of which C.2.6% (£858k) was reduced in each of the two years, 2018/19 and 2019/20. The service had anticipated this 2 year reduction in 2018/19 and planned to manage the service within its reducing financial resources (including reserves) whilst a review was undertaken to ensure that delivery within this reducing budget envelope, reflected key priorities. A service restructure and recommissioning exercise was completed and all recurrent commitments are</p>	Ongoing	Director: Public Health	<p>Service restructure and recommissioning exercises have been completed and public health recurrent expenditure is now comfortably within the envelope of the annual grant.</p> <p>There is a sufficient ring fenced public health reserve to manage any unplanned overspends and contingencies.</p> <p>The Director of Public Health and the Director of Finance (Section 151 officer)</p>

	within budget, with reserves being applied where appropriate for one-off Public Health related initiatives. This position will continue to be closely monitored and reported in budget monitoring, particularly in view of Covid-19			work closely to ensure appropriate oversight and management of the grant and the reserve.
3. High	The Council should evaluate and consider how it sets its capital budget to enable it to set more realistic budgets going forward. The Council's growth and regeneration plans should be updated to reflect the slippage in capital plans			
	<p>The Capital Programme is managed and monitored through the Capital & Investment Board and Delivery Executive provides member oversight. A Delivery Executive call in process has been established within 2020/21 to challenge and support capital project delivery as well as establishing more realistic delivery profiles which takes appropriate account of optimism bias. The new governance arrangements will need to be embedded and will be subject to continuous review to ensure they are working effectively.</p> <p>Improved reporting arrangements are now in place within Growth and Regeneration, with a monthly internal G&R Board reviewing progress against plan and monthly highlight reports for each capital project.</p> <p>A strategic partner for capital projects has been procured and commences 1 Feb 2021, which will provide additional capacity and capability to support capital programme delivery and improve overall governance of capital projects from 2021/22.</p>	Ongoing	<p>Executive Director: Growth & Regeneration</p> <p>Director: Finance</p>	Please refer to the report presented to 27 September 21 Audit Committee, providing an update on the progress made towards implementing the programme of changes required to the Council's capital programme delivery, governance, and processes, to mitigate potential risks and implement best practice.
4. Medium	The Council should focus on the identification its savings plans for 2021/22 and beyond to ensure that these can be actioned promptly and delivered on a recurrent basis			
	The combined savings programme approved by Council in 2017/18 and 2018/19 equated to £110m and robust governance arrangements were	Ongoing	Director: Finance	The current economic and operating conditions, pandemic response and recovery has presented some challenges

	<p>established for monitoring and reporting performance against the savings proposals.</p> <p>The savings of £15m represent the tail of this programme. The current gap in savings delivery is largely attributed to adult and children social care and facilities management. Delivery of which has been impacted by Covid-19.</p> <p>A review has been undertaken of the residual propositions and where necessary revisions have been made in the 2021/22 budget for a combination of new proposals or growth funding, and subject to approval of the budget by Council in February, delivery will be monitored via the budget monitoring and savings reports during the course of the financial year.</p>			<p>in delivering planned efficiency savings in some key frontline areas. The Council has in place an established and embedded governance framework for the continuous review assessment, evaluation and reporting of agreed savings. Mitigations are explored and where appropriate alternative delivery plans proposed. The level of delivery confidence is assessed, and non-delivery savings contingency established to provide a degree of flexibility whilst plans are being further developed and implemented.</p> <p>This process can be evidenced in the 2021/22 Budget report approved by Council in February, Outturn report for the year ended and monthly monitoring reports presented to Cabinet.</p>
5. Medium	The Council should report progress on the Joint Local Area SEND Inspection to Cabinet and scrutiny on a regular (six monthly or quarterly) basis. Progress should also be reported to the Health and Wellbeing Board.			
	<p>People's Scrutiny undertook a SEND deep dive through the format of an Evidence Day in February 2019.</p> <p>Recommendations were integrated into the SEND Written Statement of Action (WSOA), which is monitored formally by the Department for Education (DfE) and NHS England (NHSE). Progress against the WSoA and the specific Evidence Day findings are regularly reported to People Scrutiny. To date - May 2020 and December 2020.</p> <p>The Cabinet lead members for Education and Skills</p>	By September 2021	Director: Education	<p>The Written Statement of Action reached its final milestone in July 2021 and DfE and NHS England advisers have been positive about the progress made throughout the monitoring period.</p> <p>Further DfE and NHSE meetings have been arranged to continue an overview of progress until the re-visit.</p> <p>The window for Ofsted/CQC 're-visit' is October 2021 to March 2022. During the</p>

	<p>and Children, Women and Families are both members of the SEND Improvement Board. This board meets every two months and receives detailed reports of progress against the Written Statement of Action (SEND inspection action plan) including a comprehensive data dashboard. The formal milestone monitoring reports are signed off by the Board prior to the DfE/NHSE's visit.</p> <p>The SEND Improvement Board reports to the Health and Wellbeing Board (HWBB) The role of the HWBB is outlined in the SEND Code of Practice and has identified Health and Wellbeing Champions. The Board has received two SEND Seminars and several papers, including the strategy in 2019-20. Detailed progress on inspection findings will be reported by September 2021.</p>		<p>re-visit, inspectors will assess whether sufficient progress has been made against the five areas of weakness identified in the 2019 inspection. If they determine that the Local Area is making insufficient progress in addressing any of the areas of significant weakness, it is for the DfE and NHS England to determine their next steps.</p> <p>A SEND Partnership Plan is in development to continue to tackle the areas of weakness identified in the inspection. It will also provide the opportunity to include other areas that were not highlighted in the inspection findings, but that parent carers have said are important to them.</p> <p>The SEND Partnership Plan will sit across the four pillars of the 'Bristol Belonging Strategy', ensuring SEND is firmly embedded in Bristol.</p> <p>People scrutiny regularly invite officers to present on SEND and quarterly reporting is made through Accessible City KPI's through council systems.</p> <p>Data is available to the public through the open data website and inspection reports and DFE visit findings are published on the local offer website.</p>
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SCOPE FOR SHAREHOLDER GOVERNANCE REVIEW 2020/2021

PURPOSE OF REVIEW

The purpose of the review is to:

1. provide assurance to the Shareholder that the governance arrangements in place are adequate for the discharge of the Shareholder function, by reviewing the roles and responsibilities across the group of Council-owned companies, with a particular focus on the role of the strategic client and the role of Bristol Holding Limited; and
2. make recommendations for improvements, where the existing arrangements are not found to be adequate.

BACKGROUND

BCC owns four active companies: Bristol Holding Limited (the **Holding Company**); Bristol Waste Company Limited (**BWC**); Goram Homes Limited (**Goram**); Bristol Heat Networks Limited (**BHN**) (collectively, the **Companies**, or the **Group**). BWC, Goram and BHN are direct subsidiaries of the Holding Company, which in turn is a direct subsidiary of BCC.

Cllr Cheney performs the role of Shareholder in respect of the Companies, and he is supported in exercising this role by the Shareholder Liaison function, which ensures that the Shareholder is provided with adequate information when making decisions, that such decisions are adequately documented and that there is effective stakeholder management across the Council in respect of its companies.

In April 2019, Cabinet approved the re-launch of the Holding Company to more actively support the Shareholder in managing its current and future interests in its companies more effectively.

The Shareholder wants to ensure and improve the adequacy of these roles, following an Internal Audit Report published in April 2020 which identified some weaknesses in the Council's governance arrangements in respect of the Companies, and following the Value for Money report published in January 2021 by Grant Thornton. The Shareholder is commissioning this review to assist it in addressing the issues identified.

It is essential that this review takes into account the local authority context in which the Companies operate. This includes considering the importance of democratic involvement in, and accountability for, the oversight of the Companies, clearly defined roles and responsibilities, and effective and well-documented decision making processes.

Following conclusion of this review, the Shareholder intends to implement the recommendations made, including by reviewing and revising the existing documents which set out the governance arrangements across the Group (namely, articles of association, Shareholders' Agreement, and supporting guidance notes).

QUESTIONS THE REVIEW SHOULD RESPOND TO

BCC would like the review to respond to the following questions, in the context of the Council's overarching aim of reviewing and improving the adequacy of its existing governance structure,

having first consulted with (in respect of each question) the interviewees identified below, representing the Shareholder and the Companies.

1. Is the role of the 'strategic client' adequate and what changes could be made to improve how it functions?

The Shareholder is aware that the Companies need to understand who their strategic client within the Council is, how the role of that strategic client is defined (and how it differs from the role of contract manager) and how they interact with the Shareholder. This clarity is needed in order to provide the Companies with clear strategic direction, to ensure appropriate and effective strategic oversight, and to provide clear lines of communication between the Council, the Holding Company and the Companies. The Shareholder is also aware that the scope of involvement of the strategic client is likely to be different for each company, depending on their procurement status.

Recent discussions have focussed on the strategic client being a subset of the Shareholder, providing advice and support to the Shareholder when it considers strategic matters (including Reserved Matters).

The Shareholder would welcome comments on the adequacy of the strategic client function and recommendations for how the role of the strategic client could be clarified and strengthened in respect of current and future Council Companies.

2. Is the Shareholder Liaison function adequate and what changes could be made to improve how it functions?

The role of the Shareholder Liaison function is to ensure that the Shareholder is provided with adequate information from BCC officers when making decisions (including Reserved Matter decisions) and that such decisions are adequately documented, taking into account the local authority context in which the Companies operate.

The Shareholder Liaison function also acts on behalf of the Council in responding to public-facing queries in respect of the Council's shareholding (for example, Member questions, FOI queries) and in mobilising different services within the Council on Company-related matters (for example, in response to queries from the Companies, or when BCC is considering establishing a new company). Increasingly, the Shareholder Liaison function is also intending to support the strategic client in its role, as a subset of the Shareholder.

The role therefore focusses on ensuring good governance and clear stakeholder management across the Council in respect of its companies.

The Shareholder is keen to ensure that this role is adequate for the purposes of supporting the Shareholder in discharging its function and to understand how it could be improved.

3. Is the Holding Company's role adequate and what changes could be made to improve how it functions?

The purpose of the Holding Company is to ensure strategic alignment is maintained across the group in respect of the Council's core values. The Shareholder welcomes the role that the Holding Company has played over the last year and is keen to ensure that the ongoing governance

arrangements in respect of the Holding Company are adequate for achieving its purpose and to ensure that its role in supporting the Shareholder in managing its current and future interests in its companies is adequately defined.

In addition, the Shareholder is keen to understand whether there is appetite, at the levels of Shareholder, the Holding Company, and subsidiary Companies, for the Holding Company to take an increased role in decision making across the Group and, if there is, how this could be effectively achieved as a change to the existing governance arrangements. In particular, the Holding Company does not have any existing authority to approve the matters identified as 'Reserved Matters' in the subsidiary Companies' articles (as set out in Appendix A), as such authority is held by the Shareholder. The Holding Company does, however, as a matter of practice, make recommendations to the Shareholder in respect of such Reserved Matters. The current process for Reserved Matter decisions is set out in Appendix B. The Shareholder would welcome recommendations as to whether this existing arrangement is working effectively, and how it could be improved.

The Shareholder would, in response to this question, also appreciate proposals for how to ensure that it has appropriate mechanisms in place for the effective assurance of the Holding Company's role and views on the appropriateness of having an Executive Chair of the Holding Company, rather than a separate Chair and Chief Executive.

4. Has the review highlighted material barriers to the effectiveness of the existing governance arrangements?

This scope deliberately focusses on the adequacy of the existing governance arrangements rather than their effectiveness. It is acknowledged that an adequate governance framework alone does not ensure effective control and good management of the Companies, but its robust and successful application should. The Shareholder is aware that, during the course of this review, issues of effectiveness may be identified. The Shareholder would welcome an overview of any such issues, and any related recommendations, so that it can consider how to address these in the future.

OUTPUTS and TIMETABLE

The outputs of the review should be in the form of responses to each of the above questions, in the context of the Council's overarching aim of reviewing the adequacy of its existing governance arrangements, and related recommendations.

TIMETABLE

Initial findings should be summarised in an outline document to the Shareholder Liaison Manager by the end of March 2021.

A written report setting out the review findings should be provided to the Shareholder Liaison Manager by mid-April 2021, before onward submission to the Shareholder Group.

OUTSIDE OF SCOPE

This review is intended to address the specific questions identified above, which flow from issues that have been identified by the Shareholder, the Holding Company, the Companies, the BCC

Internal Audit Report and the Grant Thornton Value for Money Report. The review is not intended to be a complete review of the whole Shareholder function, or the whole Group.

BCC owns a number of other entities which are outside the scope of this review, namely: (a) BristollsOpen Limited (**BIO**), which is in the process of being wound down; and (b) a number of dormant companies.

INTERVIEWEES

The following representatives must be consulted, at a minimum, as part of the review.

1. Cllr Cheney – Shareholder Representative
2. Cllr Gollop – Shareholder Group Observer, Chair of Overview and Scrutiny Management Board
3. Cllr Godwin - Cabinet representative on Shareholder Group
4. Mike Jackson – Chief Executive
5. Denise Murray – Director of Finance (s 151 officer)
6. Stephen Peacock – Executive Director: Growth & Regeneration
7. Patsy Mellor – Director: Management of Place (Bristol Waste client)
8. Elaine Olphert – Head of Housing Delivery (managing pipeline relationship with Goram)
9. Tim O’Gara – Director of Legal & Dem Services (Monitoring Officer)
10. Claire Jeffwitz – Shareholder Liaison Manager (interim)
11. Helen Davis – Shareholder Liaison Manager (maternity leave)
12. Peter Beange – Executive Chair, Bristol Holding Limited and Chair of Bristol Heat Networks Limited
13. Chris Holme – Finance Director, Bristol Holding Limited
14. Cllr Bradshaw – Council-appointed non-executive director, Bristol Holding Limited
15. Aman Dalvi – Chair, Goram Homes Limited
16. Stephen Baker – Managing Director, Goram Homes Limited
17. Cllr Alexander - Council-appointed non-executive director, Goram Homes Limited
18. Tom Spaul - Chair, Bristol Waste Company Limited
19. Tony Lawless - Managing Director, Bristol Waste Company Limited
20. Cllr Brook - Council-appointed non-executive director, Bristol Waste Company Limited
21. Jeremy Bungey - Executive Director, Bristol Heat Networks Limited
22. Stephen Robertson, Chair, BE 2020 Limited
23. Cllr Pearce – Council-appointed non-executive director, BE 2020 Limited

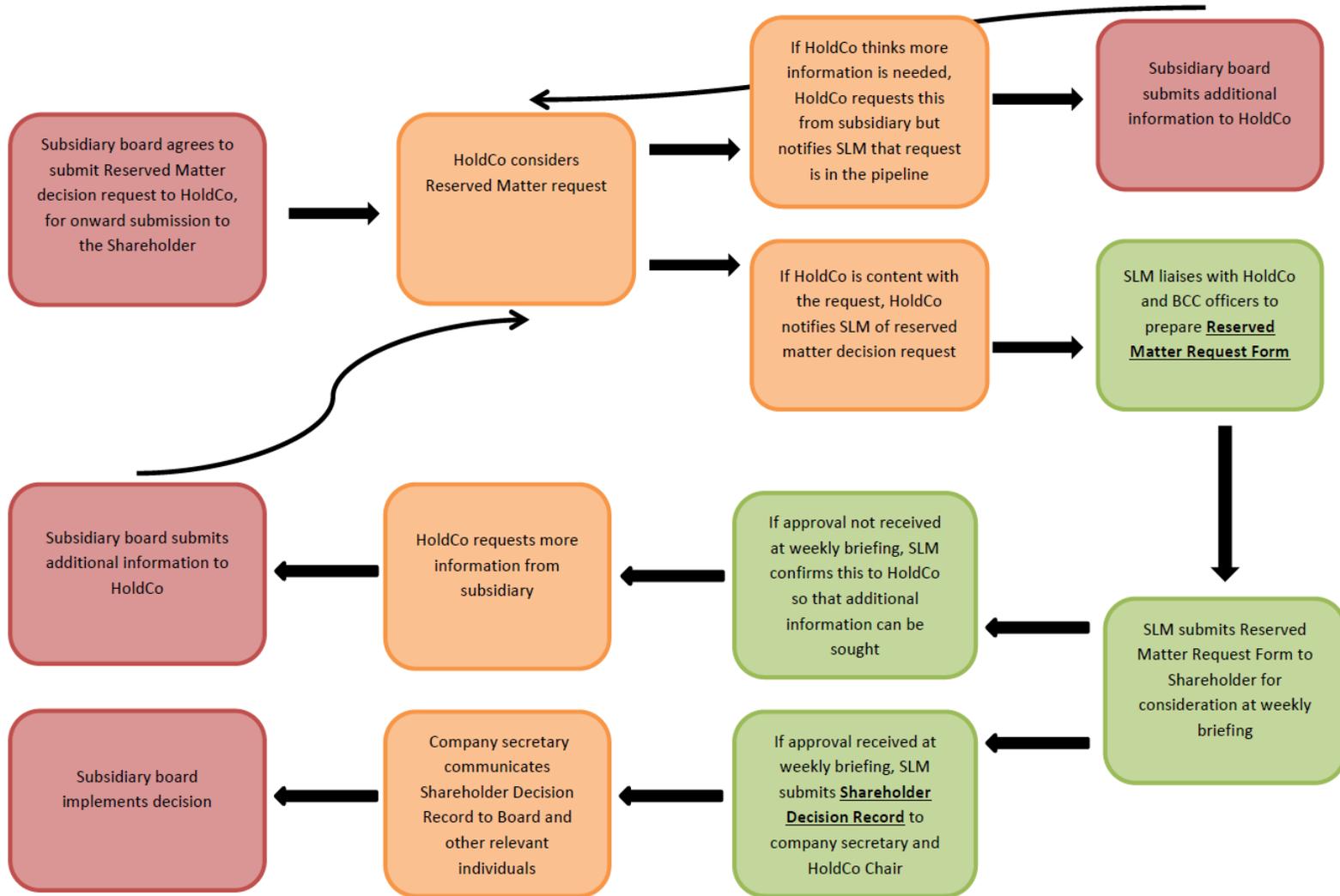
All interviews should be conducted remotely, via Zoom. To maximise the time available to consider the output of these discussions, interviewees may be grouped, or asked to provide written submissions.

Appendix A – Reserved Matters

1. Varying in any respect the Articles (including these Reserved Matters).
2. Varying in any way the share structure or issued share capital, including without limitation the allotment of new shares, and varying the number of and rights attached to any shares.
3. Participating in any scheme of arrangement or petition or passing any resolution for the winding up or presenting any petition for the administration (unless it has become insolvent).
4. Appointing and removing any Directors (including non-executive Directors) to or from the Board.
5. Approving the appointment of the managing director and finance director (or equivalent positions if different titles are adopted) as employees of the Company.
6. Appointing the Chair of the Board and any Company Secretary.
7. Agreeing the Remuneration Policy.
8. Approving the Business Plan (including material or significant revisions thereof).
9. Any expenditure that is reasonably likely to result in the Company or a subsidiary of the Company requesting finance or debt funding from the Council that is additional to that set out in the relevant Business Plan.
10. Forming any subsidiary or acquiring shares or any interest in any other company or participating in any partnership or joint venture (incorporated or not) and approving the terms of the articles of association and shareholders' agreement, limited liability partnership agreement or any other equivalent document.
11. Amalgamating or merging with any other company or business undertaking.
12. Instituting, defending or settling of material legal proceedings (or a similar process) outside of ordinary business.
13. Approving the dividend policy (and any changes thereto).
14. Entering into any arrangement, contract or transaction which may impact on the Council's statutory functions, commercial interests or reputation.
15. Approving the appointment of Auditors.
16. Giving any guarantee, letter of credit, letter of comfort or any security whatsoever or creating any encumbrance over any of the assets of the Company. For the avoidance of doubt, this provision is not intended to apply to routine contractual indemnities.
17. Approving the terms of any letter of credit, guarantee or letter of comfort received, other than in the ordinary course of business.

18. Selling, leasing, transferring, charging, or otherwise disposing of any asset comprising intellectual property, real estate, vehicles, plant and machinery or similar equipment otherwise than in accordance with the Business Plan.
19. Lending or advancing any monies to any person, firm, company or employees of the Company.
20. Entering into or varying the terms of any credit arrangements.
21. Settling any insurance claims which exceed £100,000 or of any value where there are suspicious circumstances or where the advice of the insurer of the Company or its subsidiary (as relevant) is not proposed to be followed.
22. Approving any asset write down or write off of more than £250,000 (in respect of a single asset or aggregate of multiple assets in any single Financial Year).
23. Granting any rights (by license or otherwise) in or over any intellectual property owned or used by the Company, other than where necessary in the ordinary course of business.

Appendix B – Existing Reserved Matter Decision Making Process



Appendix E

Summary of respondents' views

A. Is the role of the Strategic Client adequate and what changes could be made to improve how it functions?

Strategic Client

1. There was consensus that the role of the Strategic Client needed further development. This may be due in part to the newness of the role and participants were generally encouraged by the appointment of Executive Director: Growth and Regeneration to the role. Council officers and company representatives generally understood the concept of the 'council client' as the person within the council who was responsible for the contracting or running of a service, or for overseeing interdependencies between the council and its companies. However, the idea of a 'Strategic Client' as different and separate to the council client (or Operational Client, or Sponsor, using the terminology proposed in this report) needs to be better understood, to avoid blurred lines both of communication but also of responsibility. For example, it needs to be clear within the council and the companies that the Operational Client for BWC in respect of waste services is Director: Management of Place (and an officer reporting into them) whilst the Strategic Client is, as for all of the companies, the Executive Director: Growth & Regeneration.
2. This is particularly true in the case of BWC where there is frequent contact between the company and the Shareholder representative and councillors on performance-related issues, rather than directing this contact to the Operational Client and, only as a last resort, to the Strategic Client and Shareholder Representative. Similarly, several participants asked who would be responsible for managing the cleaning and security contract within the council. The fact that cleaning and security is part of BCC Facilities Management is the responsibility of the Resources Directorate and is not part of the Growth and Regeneration Directorate where BWC is currently 'housed' raised questions.
3. Several respondents did not fully understand the reporting lines of the Strategic Client and were unsure if the Strategic Client was a stand-alone role organised by sectors such as waste or energy or if there is a single person within BCC who has responsibility for all commercial activities within BCC.
4. However, respondents noted the positive appointment of the Executive Director: Growth and Regeneration as there is now one person with an overall vision of and responsibility for commercial activities. The importance of ensuring that the Strategic Client had sufficient capacity and skills to discharge this role was emphasised, as was the importance of the Strategic Client to have team members with adequate operational and delivery expertise.
5. One respondent suggested the need for greater alignment between the Shareholder Representative and Strategic Client. Respondents also commented on the lack of clarity regarding where decisions are taken, for example: does the Strategic Client have the decision-making power or is it the Shareholder Representative or the Cabinet or another body such as the weekly Cabinet Member Briefings with the Shareholder Representative?

6. Several respondents said they did not know how the companies came to be and how a council owned company is set up. There is a sense there should be a clear plan and a guiding ideology.

Operational Client

7. Some participants noted the importance of Operational Clients having adequate sector specific knowledge and expertise as well as the financial and commercial expertise needed to be able to manage a commercial contract with a commercial company. It was also noted that the Operational Client ought to be a relatively senior officer in the council. The importance of having a strong Operational Client was emphasised, particularly in the context of BE 2020, in the past, and City Leap, in the future.
8. One respondent noted that better and closer working relationships should be developed between BCC officers and company representatives.
9. Participants suggested that the Sponsor's relationship with Goram Homes was effective and well understood. There is a straight line from BCC's commitment to building new homes, the selection of several delivery methods including the Goram Homes model, and the professional team within BCC that is in a position to work directly with Goram Homes.

B. Is the Shareholder Liaison function adequate and what changes could be made to improve how it functions?

10. Whilst the precise role of the Shareholder Liaison Service was not always understood by participants, most had a good sense of the role and were, on balance, very content with how the Shareholder Liaison Service discharges its duties.
11. There was a clear sense of the role of Shareholder Liaison Service before the Holding Company was expanded. However, there were some respondents who felt that, following the expansion of the Holding Company, there were blurred lines and an element of duplication of activity. This seemed to relate to the development of business plans, the development and submission of papers for the SHG, work on budgets and other financial issues. Some respondents have noted that since the 'expansion' of Holding Company they have less visibility of the Shareholder Liaison Service so did not have an up-to-date view.
12. In its previous set up the Shareholder Liaison Service had 'its fingers in a lot of pies', including their operational and financial performance. However, this seemed to have worked well as many complimented the 'old' Shareholder Liaison Service on its ability to manage many complex relationships, especially those between the companies, and the Shareholder Representative.
13. Under the previous Shareholder Liaison Director the Shareholder Liaison Service did more of the work that the Holding Company does now but it was done in what respondents described as a light touch manner.
14. As with the Strategic Client, the sense of the Shareholder Liaison Service depends on who you are. The Shareholder representative and Shareholder Group are very aware of the Shareholder Liaison Service and indeed very dependent on it. The Cabinet and Councillors also know and respect the Shareholder Liaison Service but have a less well-developed sense of the precise role. It is at the company level that knowledge and

understanding of the role of the Shareholder Liaison Service weakens with some seeing it as the secretariat for the SHG rather than having a direct role in their governance.

15. Respondents were very complimentary as to the scale of the work undertaken by the Shareholder Liaison Service and their ability to manage multiple stakeholders in very tight timeframes. Several noted that they were also impressed with the increased 'technical' output from the Shareholder Liaison Service.
16. It was suggested that the Shareholder Liaison Service has two orientations; one to the companies and one to the Shareholder Representative and council. It was felt the internal focus was underdeveloped compared to the relationship with the companies. This may be due to the respondents not being aware of the full extent of the Shareholder Liaison Service role and having limited visibility to the work Shareholder Liaison Service do to support the Shareholder Representative and more specifically Cabinet. As with other findings, better articulation of roles and communication of specific activities should resolve this issue.
17. One respondent asked if Shareholder Liaison Service reports into the right place, for example whether it should be reporting to Executive Director: Growth and Regeneration or to BCC Finance.
18. It is seen by the respondents that the Shareholder Liaison Service lead on 'explaining' and 'policing' the Reserved Matters but it is understood that they do so on behalf of the Shareholder Representative.

C. Is the Holding Company's role adequate and what changes could be made to improve how it functions?

19. There has been universal support and praise from the respondents for the role of Holding Company since it was set up. This is especially true in the context of BE 2020 where Holding Company is credited with making a very significant contribution to the successful sale of the company.
20. Respondents noted that the Holding Company has made a significant change to how the council exercises its governance and oversight of the companies despite not having the powers normally associated with a Holding Company. There is a view that Holding Company and its Board have brought independence, expertise, and professionalism.
21. However, with just three companies under Holding Company (BWC, Goram Homes and BHN) many respondents (not just the companies themselves) questioned the financial viability of a Holding Company at this time. This has been reflected in concerns raised by council officers as to the cost of the Holding Company and options have already been presented to address its cost base in the immediate timeframe (for example, the Holding Company Efficiency & Effectiveness Paper).
22. Respondents recognised that if the Holding Company is disbanded then a 'governance gap' would arise and it is not obvious if there is a cost-effective way to bridge this gap. This gap includes both the commercial and financial expertise but also the sense of some 'independent' challenge on behalf of the Shareholder representative.

23. Respondents noted the fact that the three companies left within the Holding Company Group are very different so it may be hard for the Holding Company to generate many synergies between them. All of these companies now have an established Strategic Client and Operational Clients and/or Sponsors, and it is this client function that should run and monitor the operational and service delivery aspects of these three companies.
24. Respondents had a mixed view concerning the Holding Company expanding its role with a shared services platform. It was felt this was not an option given the unique nature of the three companies that exist today.
25. Respondents commented on the inherent tension between the Holding Company and the Companies with an inevitable sense that the Holding Company is getting involved in company business and delaying things. They also note that the Holding Company has general skills, not sector-specific skills and so, therefore, are not as well placed to comment on operational issues.
26. Most respondents felt quite strongly that BCC needs to decide what it wants. There is universal support for the type of work the Holding Company does but less support for the cost of the work.
27. One respondent expressed concerns about the ability of the Holding Company to be independent as it reports to the council's chief executive. There has been a concern that the Holding Company officers are acting as shadow directors (this has been subject to legal advice). This is in contrast with the view as expressed already that the Holding Company does bring a very significant and valuable layer of scrutiny and oversight to the companies.
28. Several respondents noted that the Holding Company risk register has been a very good addition to the governance framework. However, it is not clear where this fits with the company-specific risk register or shareholder representative/council risk registers.
29. It is clear from interviews that there are mixed views in relation to the role and 'authority' of the Holding Company and with most Reserved Matters resting with the Shareholder representative and other powers resting with the Strategic Client and the companies themselves it is hard to see the precise authority of the Holding Company under the current model.

D. Has the review highlighted material barriers to the effectiveness of the existing governance arrangements?

30. Most of the issues were addressed in the three previous questions. Some additional findings are included below.
31. Many respondents felt that the experience with BE 2020 has been exceptionally negative for all involved and it will be hard to get traction around the commercial companies in the future.
32. Several respondents commented that there is a lack of trust amongst key stakeholders.
33. It was noted that BCC Finance could be involved earlier and more frequently as it has a very critical contribution to make. It was felt that there may be scope for more of the finance team to lead out with the companies to relieve the burden on the s 151 Officer.

34. Various respondents asked questions about the governance arrangements for City Leap. For example, participants noted the importance of the council having the knowledge and experience to participate in a very complex joint venture, and how the entity would be governed, from the council's perspective, if it is not a subsidiary of the Holding Company. Detailed questions about Board compositions were also raised.
35. Respondents noted the importance of effective stakeholder engagement across the Group and emphasised the importance of discussions with the Shareholder representative, the Strategic Client and the council's chief executive.
36. Some respondents noted they would welcome increased visibility of what the Holding Company presents on their behalf to the Shareholder Representative and/or the Strategic Client.
37. The respondents welcomed this review as an opportunity to establish clear roles and responsibilities across the Group to promote good governance.

Appendix F References

Branch Guide to Local Authority Trading Companies, Unison (2013), available here: <https://www.unison.org.uk/content/uploads/2013/06/On-line-Catalogue212753.pdf>

Commercial Councils: The rise of entrepreneurialism in local government, Localis (2015), available here: [localis - commercial councils final.pdf](#) Enterprising Councils – Supporting Council’s Income Generation Activity, Local Government Association (2017), available here: [enterprising-councils-dc3.pdf \(local.gov.uk\)](#)

In good company - Latest trends in Local Authority Trading Companies, Grant Thornton (2018), available here: [In good company: Latest trends in local authority trading companies \(grantthornton.co.uk\)](#)

Shareholder Governance Review

Commissioned by Bristol City Council

Conducted by Fiona Ross (Independent Shareholder Advisor)

9 June 2021

Report Author: Fiona Ross (Independent Shareholder Advisor)



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A. Definitions

BCC or council	Bristol City Council
BCC Internal Audit Report	The Bristol City Council Internal Audit report into 'Companies Governance Arrangements', issued in April 2020
BristollsOpen or BiO	BristollsOpen Limited
Bristol Energy or BE 2020	Bristol Energy Limited (now BE 2020 Limited)
Bristol Heat Networks or BHN	Bristol Heat Networks Limited
Bristol Waste or BWC	Bristol Waste Company Limited
Code of Practice	A BCC document developed in 2015 called 'Governance of Council Interests in Companies – A Code of Practice'
Companies or Group	The companies within the Holding Company group, including the Holding Company, BE 2020, Bristol Heat Networks, Bristol Waste and Goram Homes
Holding Company	Bristol Holding Limited
Holding Company Efficiency and Effectiveness paper	A paper drafted by the Holding Company for the council and submitted to the Shareholder in December 2020
Holding Company Internal Audit Report	A report setting out the findings of an internal audit commissioned by the Holding Company and conducted by BCC Internal Audit team, in 2021
Holding Company Transition Plan	A paper drafted by the Holding Company for the council, building on the Holding Company Efficiency and Effectiveness Paper, and submitted to the Shareholder in May 2021
Goram Homes	Goram Homes Limited
Grant Thornton or GT	Grant Thornton UK LLP
GT VfM Report	The report authored by Grant Thornton for the council in 2021, called: "Grant Thornton Review of Governance Arrangements for Bristol City Council's Subsidiaries"
ISA	Independent Shareholder Advisor
LATCs	Local Authority Trading Companies
LGA Report	The Local Government Association report called "Enterprising Councils – Getting the most from trading and charging", published in 2012

Localis Commercial Councils Report	The Localis Commercial Councils report called: “Commercial councils: the rise of entrepreneurialism in local government”, published in 2015
Manchester City Council or MCC	Manchester City Council
Operational Client	as defined on page 6
RMs	Reserved Matters, being the decisions about the companies that are reserved to the council as shareholder
Shareholder Group or SHG	Shareholder Group
Sponsor	as defined on page 6
Unison Report	The Unison report called: “Branch guide to local authority trading companies”, published in 2013
2017 BCC Governance Review	The governance review carried out by Fiona Ross and Elaine Holt in respect of the council’s governance of its companies
2018 Grant Thornton Report	The Grant Thornton report called: “In good company - Latest trends in Local Authority Trading Companies”

B. Executive Summary

1. The council currently owns four active companies: Holding Company; Bristol Waste; Goram Homes; Bristol Heat Networks. Bristol Waste, Goram Homes, and Bristol Heat Networks are direct subsidiaries of the Holding Company, which in turn is a direct subsidiary of the council. Bristol Heat Networks was set up in 2020 and the intention is to move the company under City Leap once it is established.
2. Following an Internal Audit Report published in April 2020 which identified some weaknesses in the council's governance arrangements in respect of the companies, and following the Value for Money report into the council's governance of its subsidiaries (and, particularly, Bristol Energy) published in January 2021 by Grant Thornton the Shareholder Representative commissioned this review to ensure the adequacy of the current governance arrangements. This review was commissioned in 2021, rather than 2020, in order to allow the Shareholder Representative and the Holding Company to focus on the sale of the Bristol Energy business.
3. The terms of reference of this review, including a list of 23 stakeholders to be consulted in the process were developed by the Shareholder Liaison Service in association with a number of senior council officers. 22 of the 23 stakeholders were interviewed and, in each case, asked to address the four key questions relating to a) the Strategic Client b) the Shareholder Liaison Service c) the Holding Company and d) any other issues they wished to raise.

Overall Summary

4. In common with many other councils in the UK, the governance of the commercial companies at BCC has been somewhat of a challenge since they were first established. A number of factors contributed to this and they are explained in more detail in the report. They include; the complexity of some of the businesses established, the lack of the necessary skills and expertise within the council, council officer changes, funding shortfalls, clarity of roles and responsibilities and political context. In this context, the failure of Bristol Energy was deeply disappointing for the council but it is recognised that the challenges posed by operating in the retail energy market were uniquely testing and were of a scale unlikely to be experienced by the council again in respect of the Holding Company, Bristol Waste, Goram Homes and Bristol Heat Networks.
5. However, on a more positive note it does appear that lessons have been learnt and there are now a number of more positive factors in place to support the council's commercial ambitions now and in the future. These include a developing sense of the Strategic Client role, stability on the council officer team and a solid Holding Company.
6. While the role of the Strategic Client and Shareholder Liaison Service are very important, at the core of this review are the findings in relation to the Holding Company. All those interviewed agreed that the Holding Company deserves enormous credit for its role over the past 18 months, especially in relation to the sale of Bristol Energy. However, without additional subsidiaries being brought under the Holding

Company to provide additional funding and economies of scale and some changes to Reserved Matters it is hard to see a long-term future for the Holding Company in its current form.

7. The council needs to decide if the scale of its commercial activities warrants the cost of the Holding Company or if not the council needs to scale it back and re-allocate the important work it does today to council officers and the Shareholder Group.

Summary of Findings and Recommendations

8. My overarching finding is that given the council's stated fiscal position the Holding Company is not financially sustainable with just two primary companies: BWC and Goram Homes. However, stepping back the Holding Company is not a significant cost saving activity as the work still needs to be done. My view would change if, after the council defines its commercial strategy, it decides to establish more companies or if City Leap needed more formal governance then there is a role for the Holding Company and its costs will have to be accommodated.

Strategic Client

9. The strengthening role of the Strategic Client is welcome, however there needs to be a clearer understanding of the role within the council. There needs to be greater clarity for the companies regarding who is 'commissioning' services and who is providing strategic direction. The appointment of the Executive Director: Growth & Regeneration to this role has made a positive impact.
10. More work needs to be done to clearly define the role and its link to the council's commercial strategy, ensure there are clear lines of accountability and communication, and ensure that the role is adequately supported, particularly by finance and legal colleagues. This role also needs to be clearly distinguished from that of the Operational Client (who has responsibility for ensuring services are provided to the council in accordance with the relevant contract) and the Sponsor (who is responsible for ensuring that interdependencies between the council and the companies, where there is no service agreement, are managed effectively). A skills audit of the Operational Clients and the Sponsors should be carried out to ensure they can carry out their roles effectively in a commercial setting.

Shareholder Liaison Service

11. Many respondents noted that the Shareholder Liaison Service has taken different forms over the years and is currently operating at a very high level of technical expertise and professionalism. There are some concerns regarding duplication of some activities between the Holding Company and the Shareholder Liaison Service although this duplication may be necessary given the different roles and skills of each party. The role of the Shareholder Liaison Service needs to be more clearly defined, to accurately reflect the wide range of work that it does. How the Shareholder Liaison interacts with other aspects of the council's governance in respect of the companies, for example with the Strategic Client, the Operational Client and Holding Company,

should also be clarified. Consideration should be given to whether the Shareholder Liaison Service needs to be expanded if the Holding Company is disbanded.

Holding Company

12. There was universal praise from respondents for the work undertaken by the Holding Company. The praise was more tempered when talking to the companies directly who felt a level of interference from the Holding Company and they resented this 'control'. The Holding Company continues to do excellent work but all agreed that unless more companies are transferred under its remit, it is given additional Reserved Matter control, an independent Chair, a separate chief executive and more secure funding then its future is uncertain.
13. If the council does not intend to bring more companies under the Holding Company in the short to medium term, my recommendation is that the Holding Company be disbanded and that the functions that it carries out are absorbed by council officers and the Shareholder Group. This step should not be taken until a thorough analysis of how the functions of the Holding Company can be re-allocated and that adequate resource is allocated internally to ensure the relevant corporate governance requirements can be met. If the council does intend to bring more companies under the Holding Company in the short to medium term, then the Holding Company should be retained but a separate Chair and Chief Executive will need to be appointed, the subsidiary boards should be rationalised, and consideration should be given as to whether the Holding Company should be given additional authority over some Reserved Matters.

Conclusion

14. The council needs to decide, taking into account its commercial strategy, whether in the short to medium term it intends to establish more companies under the Holding Company. This will then determine whether the Holding Company should be disbanded or whether it should be retained but under a revised governance model (which will need further consideration).
15. The governance of City Leap was outside the scope of this review but any changes to the governance of the commercial activities of the council must address the very significant challenges associated with the governance of City Leap.

C. Introduction

1. The council currently owns four active companies: the Holding Company, Bristol Waste, Goram Homes, and Bristol Heat Networks, collectively, the Group. Bristol Waste, Goram Homes, and Bristol Heat Networks are direct subsidiaries of the Holding Company, which in turn is a direct subsidiary of the council. The council also has a minority interest in over 10 other companies, and a number of dormant entities.
2. Councillor Cheney currently performs the role of the Shareholder Representative in respect of the companies, and he is supported in exercising this role by the Shareholder Liaison Service, which ensures that the Shareholder Representative is provided with adequate information when making decisions, that such decisions are adequately documented and that there is effective stakeholder management across the council in respect of its companies.
3. In April 2019, Cabinet approved the re-launch of the Holding Company to support the Shareholder Representative more actively by managing its current and future interests in its companies. There was at this time a recognition that the governance (in the broadest terms) of the companies required a great deal of council officer resources and that the expanded Holding Company would relieve the workload from the council officers.
4. Following an Internal Audit Report issued in April 2020 which identified some weaknesses in the council's governance arrangements in respect of the companies, and following the GT VfM report into council governance of its companies (and particularly Bristol Energy) published in January 2021 the Shareholder Representative now wants to ensure and improve the adequacy of the current governance arrangements and assist the Shareholder Representative to address the issues identified. This review was commissioned in 2021, rather than 2020, in order to allow the Shareholder and the Holding Company to focus on the sale of the Bristol Energy business.
5. This review takes into account the local authority context in which the companies operate. This includes considering the importance of democratic involvement in, and accountability for, the oversight of the companies, clearly defined roles and responsibilities, and effective and well-documented decision-making processes. This review also takes into account the fact that there are now only three companies within the Holding Company: BWC, Goram Homes and BHN. It was decided in January 2021 that City Leap would not come under the ambit of the Holding Company. It is intended that BHN would move under City Leap once it is established, leaving Goram Homes and BWC under Holding Company.

A challenging financial environment

6. This review has been undertaken during a period of great uncertainty. COVID 19 has had a significant impact not only on the council's ability to deliver its services but also on its financial position.

7. At the time of this review, BCC, in common with most other UK councils, is facing financial headwinds and the existence of BCC companies and the plans for the establishment of others must be considered in this financial and political context.
8. The establishment of commercial companies in 2015 was done in the expectation that these companies would be able to deliver services to Bristol taxpayers more effectively and efficiently and that the companies would be expected to help the overall funding position of BCC. However, the failure of Bristol Energy and the very significant losses associated with this have not only impacted BCC's overall financial position but also impacted stakeholders' views of the value of BCC establishing its own commercial companies. The issues associated with the closure of BristolisOpen have similarly impacted attitudes towards commercial companies.
9. However, BCC does retain commercial ambitions and has also announced plans for decarbonising the city under the City Leap banner. It is intended that City Leap will be a joint venture with a large international bidder. City Leap is bigger in scale, scope, complexity and cost than anything BCC has undertaken to date. This will be an extensive commercial undertaking in 2021 and beyond.
10. Finally, this review is taking place at a time of political change as the council elections took place on 6 May 2021. It remains to be seen if the new administration and Cabinet remain committed to commercial companies as a possible delivery model.

LATCs and the experience from other councils

11. An important part of this review is to give due consideration to the wider context. council-owned companies, otherwise known as LATCs, have been around for many years and are governed by a range of legislation. In almost all cases LATCs were established as an alternative delivery model for cash-strapped councils looking for a better, faster, and an ideally more cost-effective way of delivering services to their citizens. It is clear from some brief research that LATCs have had mixed success to date and in some cases (as with BE 2020) there have been high-profile and expensive failures. This is an important context as the thought process or ideology associated with the establishment of commercial companies at this time by any council will require significant additional scrutiny and challenge.
12. The 2017 BCC Governance Review provided more information on LATCs and identified several success factors. This review will return to these principles later in the report.
13. While there is no central repository of statistics relating to LATCs revenue, capitalisation, or functions, the Localis Commercial Councils Report states:
 - 94% of authorities share some services with another council.
 - More than half of councils (58%) own a trading company.
 - The majority of councils (57%) operate a joint venture with the private sector.
 - Over a third of councils are using entrepreneurial methods in areas such as waste (46%), leisure and tourism (38%), IT/back office (38%), and housing (36%).

- At best LATCs will only ever contribute approximately 8-10% of additional revenue.
 - Without entrepreneurial activities, eight out of ten councils say they would have to cut services and raise taxes.
14. In the 2018 Grant Thornton Report, the following additional information was provided:
- There were 743 trading companies in England, Scotland and Wales.
 - The local authorities with the highest numbers of trading companies were Birmingham and the London Borough of Newham.
 - Of the 380 local authorities in England, Scotland and Wales 60% had at least one trading company.
 - The most prevalent types of trading company in 2018 were property and investment with 23% of trading companies in this category.
 - 63 LATCs (8.5%) provided waste services.
 - 46 companies provided social care services.

D. Methodology

1. The scope of this review, which included a list of 23 stakeholders to interview, (attached as Appendix D) was prepared by the Shareholder Liaison Service in association with a number of senior council officers and issued to me in February 2021. I interviewed 22 of the 23 stakeholders throughout February and early March 2021 (in some cases I had more than one call) and in each case respondents were asked to address the four key questions as set out below:
 1. *Is the role of the 'Strategic Client' adequate and what changes could be made to improve how it functions?*
 2. *Is the Shareholder Liaison function adequate and what changes could be made to improve how it functions?*
 3. *Is the Holding Company's role adequate and what changes could be made to improve how it functions?*
 4. *Has the review highlighted material barriers to the effectiveness of the existing governance arrangements?*
2. I have also taken into account desk research into the experience of other local authorities that own LATCs (Appendix A), findings of recent reports into LATCs (Appendix B) and the findings of governance reviews and reports commissioned or authored by the council or the Holding Company (Appendix C).
3. In response to each question, I have summarised my views below. A summary of respondents' views is included at Appendix in respect of each question.

E. Findings

1. The findings outlined below directly link to the four questions and should be read in conjunction with the findings of previous reviews and audits (see Appendix C).
2. Although work remains to be done to implement the recommendations of previous reviews, the context has now improved significantly. There is now an opportunity, with the sale of the BE 2020 business, a stable senior management team at the council, a nominated Strategic Client (Executive Director: Growth and Regeneration) and a refreshed administration in May 2021, for the council to finally agree on the best governance structure for its companies and the future of its commercial ambitions.
3. While City Leap is outside the scope of this review it may need to be considered in the context of these findings and recommendations. There is a risk that City Leap will impact the council's capacity for the governance of its other commercial companies. I have included some recommendations in respect of City Leap in Section RecommendationsF . It might be a useful exercise to apply some of the basic concepts in the Code of Practice to the current City Leap set up and see how it currently rates from a governance point of view.
4. It is clear that the stakeholders' views were significantly affected by their sense of the scale of both BCC's existing and planned commercial activities. The two most established companies (BWC and Goram Homes) are seen as relatively straight forward, well understood and less 'risky' and as a result there was less concern about additional governance or oversight beyond their own boards and the Shareholder Group. It is clear in this context that BHN needs to be better understood but as it is due to migrate to City Leap it was not seen as an immediate governance issue. However, as noted above, the governance of City Leap does need extra scrutiny from the council's perspective.
5. Finally, the council needs to revise its commercial strategy in line with the refresh of its corporate strategy and I understand this work is already envisaged.

Question 1: Is the role of the Strategic Client adequate and what changes could be made to improve how it functions?

Defining the role

6. The strengthening role of the Strategic Client, through the appointment of the Executive Director: Growth & Regeneration to the role, is welcome, however there needs to be a clearer understanding of the role within the council. There needs to be greater clarity for the companies regarding who is 'commissioning' services and who is providing strategic direction. Related to this is a mixed view of the reasons and rationale behind the use of alternative delivery models or LATCs.
7. I see the most effective model as, in essence, the council's commercial director by which I mean the person within the council responsible for all commercial activities and directly in charge of any alternative delivery models such as outsourcing, wholly owned companies, joint ventures and insourcing. The council does not currently have a

nominated commercial director but it does appear that many of the companies are within the Strategic Client's directorate and I welcome this focus. The Strategic Client role should, however, be a corporate, not directorate specific, role. It should be made clear there is only one Strategic Client across all of the companies.

8. It might be useful to think of the Strategic Client less as a person/role but rather as a function that must include commercial, legal and finance support at the very start. The s 151 Officer is just as critical at the outset as later in the company life cycle. The governance of the companies should be seen holistically, requiring a team of people to work together. If companies are established with all relevant stakeholders fully sighted on plans and funding from the outset then the governance should be more straightforward.
9. The role of the Strategic Client may need to be further enhanced if the Holding Company does not remain part of the governance structure, as it may need to absorb aspects of the Holding Company's corporate finance work (depending on where the council feels it most appropriate to place this resource following its decision in respect of the Holding Company).
10. The Strategic Client should be fully responsible for the development of the initial business case for the setup of a company and then in partnership with the s 151 Officer and the BCC Legal team, including the Shareholder Liaison Service, be responsible for the development of this initial business case which, once approved by the Cabinet and/or Shareholder Representative, can proceed to establishment. In order for this model to work, the Strategic Client needs to have access to sufficient, and dedicated, commercial and financial skills and expertise. There is simply no way of avoiding this cost.
11. The Holding Company, to the extent it remains part of the governance structure (see recommendations below, in Section F), would be involved with the development of a new company but only after the council and specifically the Cabinet and/or Shareholder Representative, the council's Chief Executive, Strategic Client, s151 Officer, BCC Legal team and future Operational Client have agreed that establishing a commercial company is in the best interest of citizens, within the council's risk appetite and appears affordable. External support, from consultants or from Holding Company, may be necessary to support the development of a robust business case. The Holding Company could then play an important corporate finance or corporate advisory role in the establishment and oversight of the new entity.

Distinguishing between the Strategic Client and the Operational Client

12. Throughout this process, the Strategic Client will have identified and worked with, as relevant, either the 'Operational Client' (who has responsibility for ensuring services are provided to the council in accordance with the relevant contract) or 'Sponsor' (who is responsible for ensuring that interdependencies between the council and the companies, where there is no service agreement, are managed effectively). (often previously referred to as the 'council client' or simply the 'client'). In both cases, this would be the person who knows precisely what the citizens require the council to

deliver in this service area and can best address this need within budget and other resource constraints.

13. It is important that the council clearly defines and distinguishes between the roles of the Strategic Client and the Operational Clients/Sponsors and names individuals who hold each post. With regards to all companies, the Strategic Client is currently the Executive Director: Growth & Regeneration. Using BWC as an example, the Operational Client also sits within the Strategic Client's directorate. Whilst the Strategic Client will know the council's waste needs and the basics of the contract, they should have a view as to the other parts of the BWC business plan. The Operational Client on the other hand will simply be focussed on BCC's waste needs under the waste service agreement and how BWC is set up to provide for them.
14. Given the scale of existing commercial activity at BCC, achieving this differentiation between Strategic Client and Operational Client should be possible. I am concerned about the scale of City Leap but am comforted by the fact that it is under the leadership of the Executive Director: Growth and Regeneration as the Strategic Client.
15. Once the company has been established, the Operational Client will be the day-to-day contact for the delivery of service KPIs, complaints or citizen or council concerns. The Strategic Client will have a regular meeting with each Operational Client to cover not just the day-to-day operational issues but to also consider if the company structure is delivering as expected per the original business case. These two parts are of course linked but it is the Operational Client who leads the day-to-day operational aspects and the Strategic Client who leads the commercial and strategic aspects, from the council's perspective. The Strategic Client should be the strategic 'parent' of all companies and provide assurance to the Shareholder Representative that the company is delivering the council's strategic ambitions.

Distinguishing between the Strategic Client and the Holding Company

16. If the Holding Company is retained, it will continue as the corporate or business 'parent' and will be focussed not on how the company is delivering services but how it is delivering shareholder value (whether this be defined as financial and/or social) and on ensuring that good corporate and financial governance practices are maintained within the Group.
17. The roles of the Strategic Client and the Holding Company are of course very interconnected. One is unlikely to be successful if the other is not. Both points of view need to be heard by the Shareholder Representative. As an example, the decision to allow BWC to compete for non-council business has an impact on its finances but also on its ability to deliver its core contractual obligations. The Shareholder Representative would need to understand clearly the risks and opportunities of this strategy and provide guidance.
18. If the Holding Company is not retained, its corporate finance skills will need to be fulfilled by council officers (which may require recruitment) and will require an enhanced role for the Shareholder Group.

Decision making authority

19. The Strategic Client ought to have a degree of decision-making power as it will have been the proposer/developer of a commercial opportunity with the business case, setting out the council's need for the service and the preferred delivery model. Following establishment, the Strategic Client will retain an oversight role for both the operational activities of the company and potentially the corporate activities as well if the Holding Company does not remain part of the governance structure.
20. This oversight role must encompass operational decision-making powers.

Reporting lines

21. As much as possible the Strategic Client should have overall responsibility for the commercial companies at BCC, from a strategic and operational perspective.
22. There is some evidence of the Operational Client relationship falling across more than one Directorate and I think this needs some additional thought. For example, the cleaning and security contract falls under the Resources Directorate and not Growth and Regeneration and this has the potential to give rise to a number of new challenges in the governance of BWC as there are now two Operational Clients at the table. This may be additionally complicated when City Leap is added as it may well cross over Directorates. At the very least, there would need to be very clear lines of communication between the Operational Clients and the Strategic Client and a requirement for the Operational Clients to provide regular updates to the Strategic Client and escalate material issues to them.
23. The escalation of any operational issues made by the Mayor, members, the Chief Executive or company representatives, needs to be taken first to the Operational Client, then the Strategic Client and only then the Shareholder Representative. If the issue relates to the company from a corporate point of view and the Holding Company is retained as part of the structure, then this needs to be raised either with Holding Company or with the Strategic Client and/or the Shareholder Representative depending on the issue.

Skills and capacity

24. Given the nature of the Operational Clients' and Sponsors' work, it would be useful to conduct a skills audit to ensure core operational skills and, more relevant if the Holding Company does not remain part of the governance structure, finance and commercial skills.

Question 2: Is the Shareholder Liaison Function adequate and what changes could be made to improve how it functions?

Defining the role

25. The Shareholder Liaison Service does an excellent job and is well suited to being within Legal & Democratic Services. The Shareholder Liaison Service should continue its excellent work in implementing the recommendations from the two existing governance reports.

26. A clear definition of the Shareholder Liaison Service, and its reporting lines, should be developed for clarity. The Shareholder Liaison Service could conceive of its work as bi-directional, working internally towards the council and then externally towards the companies. There is a significant amount of work involved in servicing the needs of both of these constituents.
27. This definition should reflect the current tasks of the service, which include:
- a. a secretariat function to the Shareholder Representative to include the agendas, papers, meeting packs and minutes;
 - b. performing a support and advisory function to the Shareholder Representative in respect of its governance and decision-making processes;
 - c. maintaining governance documents (e.g. Shareholders' Agreement, articles of association, Code of Practice and the emerging Company Handbook), including overseeing the revision of these documents as a result of this Governance Review;
 - d. being the council's internal point of contact in respect of the companies (e.g. responding to FOIs and member queries, overseeing the flow of resources between the council and its companies etc);
 - e. supporting ad-hoc governance projects as, for example, the current implementation of the GT VfM Report, Internal Audit Report recommendations and this review; and
 - f. support for the Strategic Client, although this area needs to be considered in more detail as it is not yet fully established. This may take a number of forms including providing some support to the Strategic Client at the very outset of company formation, in helping the Strategic Client understand its 'corporate parent' role and what that entails in terms of oversight, board papers, activity and communications.
28. The Shareholder Liaison Service has, as the name suggests, a liaison role rather than an oversight role. It will be responsible for knowing what needs to be done at all times to support the efficient governance of the Shareholder representative in respect of the companies. If the Shareholder Liaison Service is not getting the information, papers or support it needs to fulfil its role then this must be raised as an issue directly with the Shareholder Representative and remedied immediately.
29. As with other recommendations, the eco-system or process map around the Shareholder Liaison Service needs to be documented. This would include the Shareholder Liaison Service definition but also map the links to other stakeholders with some sense of the type and scale of oversight and accountability.

Distinguishing between the Shareholder Liaison Service and the Holding Company

30. If the Holding Company is retained, then the Shareholder Liaison Service should continue much as it does today but a review of possible areas of duplication should first be completed.
31. Concerns around duplication arises where the Shareholder Liaison Service is required to get council officers involved in a reserved matter relating, for example, to finance or

HR. However, it may be that this duplication is a necessary part of the governance framework and if so this needs to be explicit. A review of these potential areas of duplication should be carried out, considering issues such as budget sign off, business case development and sign off, legal reviews, contract issues and HR issues to ascertain whether this duplication is productive or not.

32. If the Holding Company is not retained within the governance structure, it is anticipated that the Shareholder Liaison Service would need to encompass the following:
 - a. company secretary responsibilities for the companies (which will require additional resource within the team);
 - b. direct and strong relationships with the companies and boards, which is currently done via the Holding Company; and
 - c. increased support to the Shareholder Group which may absorb the corporate governance functions currently held by the Holding Company.

Skills and capacity

33. The Shareholder Liaison Service should conduct a scoping exercise of the resources it will need to support City Leap. This could include additional finance skills, useful legal skills, and strong communication skills.

Question 3: Is the Holding Company's role adequate and what changes could be made to improve how it functions?

34. The Holding Company has done an excellent job in difficult circumstances. It expanded its role in 2019 and more recently has played a very significant role in the sale of the BE 2020 business. I have been very impressed with the quality of work as evidenced in Board papers and reports to Shareholder Group and I had gained a sense of trust in the governance role of the Holding Company.
35. As an ISA, I was less aware of the two future challenges faced by Holding Company in recent times, namely affordability and authority. I can see from my interviews that these are issues for all of the stakeholders.
36. Taking into account the views of the respondents and my own findings, I have considered three scenarios as it is clear that the adequacy of the Holding Company depends on the scale of the council's ambition in relation to commercial companies.
 - a. Maintaining the status quo
 - i. The costs of the current Holding Company have been found to be unsustainable without additional subsidiaries to spread the cost base over. Action needs to be taken to avoid additional cost pressure on the council.
 - ii. There are minimal synergies to be achieved within a small group with companies operating in very different sectors.
 - iii. On governance, Holding Company has said that in order to drive change and improve effectiveness there needs to be changes to lines of accountability and

some Shareholder Representative delegation of Reserved Matters, although I do not see this as sensible in the context of the Holding Company having only two companies.

- iv. For these reasons, I do not think that maintaining the status quo is a viable option.
- b. Enhancing the role of the Holding Company, following the transfer of additional companies under it in the short to medium term
- i. If the council intends to expand the number of companies held under the Holding Company (although note my recommendation to pause the establishment of further council-owned companies in Section F), it may become financially sustainable and the benefits of taking a 'Group' approach would have the opportunity to materialise.
 - ii. In this scenario, I support the implementation of 'Option 3' as outlined in the Holding Company Efficiency and Effectiveness Paper. In particular, this would include:
 - a more streamlined corporate governance structure, with the Group Chair being the Chair of each of the subsidiaries, and the Group CEO also sitting on each Board, alongside one, sector specialist non-Executive Director, and one councillor NED;
 - ensuring that subsidiary managing directors report to the Group CEO, who would be accountable for the wider Group and individual subsidiary company performance;
 - delegating some Reserved Matter control to the Holding Company, for example in relation to human resources or some financial matters.
 - separation of the Executive Chair role into a full-time Group CEO and a separate independent non-executive Group Board Chair; and
 - commissioning the Holding Company, on a chargeable basis, to support the council's work on its commercial strategy.
 - iii. I believe this structure will reduce the cost of the Holding Company, which will improve the quality of scrutiny, assurance, risks management and control within the Group.
- c. Disbanding the role of the Holding Company, if no more companies will be transferred to it in the short to medium term
- i. If the council decides not to establish any more companies in the short to medium term, then it is my view that the Holding Company should be scaled back and essentially be disbanded because (a) there is limited opportunity for group synergies, led by the Holding Company, between the current entities as they are all very different so maintaining a group approach may not be useful, (b) there is additional resource required to support a separate legal entity (e.g.

directors' duties, separate legal advice) that would not be duplicated if the staff were within BCC, (c) there is not merit in devolving (m)any RMs to the Holding Company, and (d) there is limited opportunity for shared services between the companies because of their different operating environments.

- ii. It may be that, under this scenario, the legal entity needs to be retained for tax purposes. This would happen over a phased period of time as the corporate finance role is shifted back to council officers and the Shareholder Group. During this interim stage, it may be appropriate to recruit a separate chief executive who then moves over to become a full-time employee of the council within a 12 month timeline.
- iii. If the Holding Company is retained as a corporate entity for tax purposes, it will still need a Chair and I suggest one of the existing Holding Company non-executive directors or the current Executive Chair is asked to take on this role for continuity and knowledge retention.
- iv. The closure of the Holding Company will not remove the work that the Holding Company does, it would mean that this work would transfer to other parts of the governance framework, be it council officers, the Shareholder Liaison Service, the companies themselves or external consultants. This may require recruitment, or transfers of existing Holding Company staff into the council, to ensure resource with appropriate skills to carry out this work. Alternatively, the council would need to go to tender for a range of external advisors to do the type of work currently undertaken by Holding Company.
- v. I expect that under this scenario, given that the independent challenge brought by the Holding Company will no longer be present, the Shareholder Group would need to meet more regularly (at a minimum, every month or six weeks) and would need to have 2-3 independent Shareholder advisors to replace the scrutiny lost.

Question 4: Has the review highlighted material barriers to the effectiveness of the existing governance arrangements?

37. I have set out below some additional findings that have arisen from discussions with respondents, and reflections on other local authority experiences.

Formation of new entities

38. Until (a) the commercial strategy has been developed, (b) the future of the council's commercial ambitions, and the role of companies within it, has been clarified, and (c) City Leap has been established, I am of the view that no further companies should be formed. It may be that establishing companies can be restarted in a year or two once the council's commercial environment is more established.

Need for a commercial strategy

39. Experience from other councils and recent relevant reports (GT and others) all point to the importance of the council being very clear to all stakeholders in advance about how they plan to approach setting up commercial companies.
40. An overall vision/strategy for commercial activity across the council needs to be articulated, and I understand this is in progress. Robust business cases developed should be developed in respect of any new commercial entities, within agreed sensible parameters, for example, budget, impact on reserves, deliverability, return on investment and other relevant issues. There are a number of frameworks that can be used to support this activity and it will allow BCC to question what its citizens need and how best to provide these services. This work will take place with council and political leaders and will be led by the Strategic Client. The goal will be to re-affirm the role of the existing companies, including City Leap, agree whether it is likely that the council will introduce more companies under Holding Company in the short to medium term, and then agree precisely how the council client side will work. This strategy should be explicitly communicated to all relevant stakeholders and amended as necessary on an ongoing basis. It will be important to track manifesto promises during the election. A format for regular (monthly or at a minimum quarterly) company/commercial updates should be developed for all key stakeholders.
41. Establishing and governing companies is an expensive option and there is no way to significantly reduce this. Short term savings should not be prioritized over long term risk. This is especially true as BCC looks to ramp up City Leap. This needs to be taken into account as the commercial strategy is devised.

Commercial expertise

42. Many respondents perceive that the council's commercial skills need to be enhanced to support effective governance. This is common across most councils but does provide an opportunity for BCC to either specifically seek out commercial skills in future recruitments or to consider upskilling and training opportunities for existing staff.

Role of the Shareholder Representative

43. The current Shareholder Representative has done an exceptional job but the resilience of this role in the longer term needs to be ensured. If a different individual takes the role of Shareholder Representative in the future, they must have appropriate skills and undertake any additional training as may be required. Appropriate succession planning for the Shareholder Representative should therefore be carried out.

Documentation of roles and responsibilities

44. As is clear from this report, even where a particular role is carrying out important and extensive work, it needs to be clearer to other stakeholders what that work is and how it relates to their own work. A series of graphics needs to be developed to set out the inter-relationships within the governance framework, and to set out the relevant forums at which the companies are discussed with the level of decision making made explicit. There is no suggestion that decisions are taken inappropriately it is simply that respondents are not always clear where decision are taken.

45. Similarly, the existing suite of governance documents have served the council well to date and it would be wrong to consider the documents at fault and that new drafts will solve the governance challenges. However, some stakeholders do not appear to be clear what the key governance documents are or how they are relevant. The key is for all stakeholders to know what the suite of documents are and to have studied them carefully. This will include the Code of Practice, the Company Handbook, the articles of association, the Shareholders' Agreement and other relevant documents.

Role of BCC finance

46. The role played by the s151 Officer is critical and a new model of engagement should be developed by key stakeholders to ensure the s 151 Officer is able to engage early and often in material decisions.

47. As finance is such a critical part of the company governance it should be agreed precisely what level of resources (staff skill sets, expertise etc.) are needed to support both the client side and the companies themselves and the council overall in terms of fiscal oversight.

Governance based on roles not individuals

48. The 'who' as much as the 'what' is a challenge to the better governance of the companies in the council. There are a lot of legacy issues getting in the way of solutions at the council. That is to be expected but it must also be called out and addressed. These legacy issues refer to the views of specific people in specific roles, the recent history of commercial activity at BCC and a sense of reluctance to take very hard decisions. The key is to design a governance model that is person neutral and effective.

Board Effectiveness

49. BCC needs to ensure that the Boards are 'fit for purpose' and have sufficient skills and resources to provide the basic governance required including company level audit committees. If one looks to the expectations in the Code of Practice it is clear the Boards need to shoulder more governance responsibility.

F. Recommendations

1. The recommendations in this report will be divided into two sections:
 - a. recommendations in respect of each question; and
 - b. recommendations in respect of City Leap.
2. There are other actions underway in response to the GT VfM Report and Internal Audit Report. These actions should continue to be implemented in addition to the recommendations in this review.

Recommendations in respect of each question

Question 1 (relating to the role of the Strategic Client)

- A. Develop a clear definition for the Strategic Client role, in line with the findings of this report,
- B. Develop a clear definition for the Operational Client and Sponsor roles, in line with the findings of this report,
- C. Establish a clear model of accountability for the Strategic Client where the Operational Clients and Sponsors are across multiple directorates, in line with the findings of this report, and
- D. Ensure there is adequate resource and skill dedicated to the Strategic Client.

Question 2 (relating to the role of the Shareholder Liaison Service)

- E. Develop a clear definition for the Shareholder Liaison Team, in line with the findings of this report,
- F. Revise relevant governance documents to reflect the outcomes of this Shareholder Governance Review, and
- G. If the Holding Company is not retained, consider expanding the Shareholder Liaison Service, in line with the findings of this report.

Question 3 (relating to the role of the Holding Company)

- H. Pause establishing any additional companies and disband the Holding Company. This should involve:
 - i. identifying a timeline for the disbanding of the Holding Company;
 - ii. developing an appropriate transition plan to achieve the disbanding of the Holding Company, including:
 - appointing a separate chief executive to oversee the wind down of the Holding Company and the transfer of activities back to the council;
 - mapping the work currently done by the Holding Company and which teams or roles within the council will absorb this (for example, Strategic Client, the Shareholder Liaison Service, BCC Finance, the Shareholder Group);
 - consider transferring the current Executive Chair and Group Finance Director into council employment to support the council's commercialisation work;

- increasing the remit of Shareholder Group to carry out the accountability mechanism currently performed by the Holding Company and consider establishing sub-committees (for example, in respect of performance monitoring and risk) to support this work.
- iii. considering whether the Holding Company entity should be retained for tax purposes, and ensure appropriate support in place to manage this entity (e.g. a Chair, company secretarial support etc.)
- I. If, despite Recommendation H, the council intends to transfer additional companies to the Holding Company in the short to medium term, then I recommend that the council implements 'Option 3' as outlined in the Holding Company paper: "Managing HoldCo Costs & Improving Group Effectiveness" (December 2020).

Question 4 (in relation to material barriers to effectiveness)

- J. Consider pausing any new company formation in the short to medium term,
- K. Complete the council's commercial strategy as soon as possible,
- L. Establish a template business case for the establishment of companies and commit to its use in advance of any decision-making surrounding new company formation,
- M. Conduct a skills audit of its Operational Clients and Sponsors and consider how the council can begin to 'home grow' the type of commercial expertise it needs,
- N. Ensure adequate succession planning in place for the Shareholder Representative,
- O. Develop a graphic to explain all of the relevant forums at which the companies are discussed with the level of decision making made explicit,
- P. Devise a new model of engagement between the s 151 Officer and the companies,
- Q. Include company risks are escalated to the BCC risk register as appropriate,
- R. Develop a process chart to assess if and where duplication of roles is taking place,
- S. Complete the Company Handbook and share with all parties, and
- T. Undertake a review of Holding Company and subsidiary Board composition and effectiveness.

Recommendations in respect of City Leap

- U. Provide a workshop for relevant stakeholders as a matter of some urgency, in order to communicate the vision and secure explicit support,
- V. Define the key governance roles relating to City Leap (for example, the Holding Company (if retained), Shareholder Liaison Service, Strategic Client, Shareholder Group, joint venture board, joint venture partner),and
- W. Ensure adequate external specialist support provided to the council to ensure a robust and balanced relationship between Strategic Client and Strategic Partner.

Appendix A

Experiences of other councils

1. As part of this review, the Shareholder Liaison Service conducted some desk research into current governance arrangements at other councils. What is noteworthy is the fact that in all cases the councils consulted recognised the very same challenges as outlined in the 2017 BCC Governance Review and that face BCC today. Several of the councils are also conducting a review of their governance arrangements.
2. The councils included in this review include; Corserv, Manchester City Council, Barking and Dagenham, Surrey County Council and Nottingham City Council. The LATCO Network was also consulted.
3. This research shows that each council approaches the establishment and running/governance of their companies in a unique way. It was not possible to see any direct comparability amongst the councils or indeed with BCC.
4. However, all reviewed, including BCC, are struggling to come up with the optimum set of relationships to allow for the most effective establishment, management, and governance of their commercial companies. At the core are issues associated with the role of the Shareholder representative/key decision-maker, the role of the 'client' and the links to councillors, employees, and citizens.

Shareholder/Decision Maker

5. There is some diversity amongst those councils reviewed in terms of who the key decision-maker is. In most cases, the decision-making is either in the hands of the senior politician/leader of the council or, as in BCC, exercised by the Mayor via delegation to the Deputy Mayor. In some cases, the council Chief Executive is the decision-maker. At Corserv the Chair and managing director of the holding company have regular meetings with the council Chief Executive. At MCC, the shareholder role is discharged by both the chief executive and the Leader.

Holding Company

6. It is interesting to note that not all councils have put in place a holding company structure.
7. This is especially of note in the case of Manchester City Council which has nearly 50 commercial companies all of whom are 'run' by what looks more like the Shareholder Liaison Service at BCC.
8. Corserv has a holding company and Elaine Holt, currently a BCC holding company non-executive director, was the previous Chair of this company. There are two Councillor non-executive directors on the Corserv holding company Board but none on subsidiary boards.
9. At Barking and Dagenham, the Commercial Director is the main point of contact between the companies and the council and there is no holding company. The Commercial Director has responsibility for reviewing company performance.

Client

10. In most cases, there is a very clear commercial director or Strategic Client and it is evident that there is significant council officer involvement in the commercial companies. At Corserv there are 'designated' clients with clear responsibilities. The Partnership Board at Corserv is where much of the traditional 'client' activity takes place. It is hosted by the council and has the responsible 'client' in attendance. This board reviews the council's budgets and the companies' budgets to ensure alignment. The alignment continues into jointly agreed business plans. As there are several companies and council officers attending this partnership board there are opportunities for synergies to be identified and best practice shared.
11. Farooq Mohammed, who works with the LATC Network, noted that in many cases the client side of the council does not have any formal interaction with the Shareholder representative or its decision-making processes. He felt this was appropriate as these commercial companies had to be allowed to operate independently and not be overly controlled by the council client.
12. One of the councils acknowledged that they are facing challenges due to a lack of clarity as to client roles and a blurring of operations and governance.

Shareholder Liaison Service

13. At Corserv, the shareholder team has a wide remit including monitoring the Reserved Matters, managing the shareholder meetings, reviewing company reporting, and recruiting company Boards. They are also actively involved in the company formation stage.
14. Manchester City Council has approximately 50 companies and does not have a holding company. The companies are overseen by the Head of Programme Management, who is a council officer based in MCC's Commercial Governance and Directorate Support. This office has 6 staff members, including four company secretaries, who essentially oversee the companies and escalate issues to a Commercial Board and the Shareholder for decisions.

Shareholder meetings and links into council governance

15. Every council has a somewhat different approach to how they provide oversight and scrutiny of their companies. Quarterly meetings of a shareholder group are common.
16. At Corserv, these are attended by the chief executive officer, Section 151 officer, and the Chair, managing director, and finance director of the holding company and it is where Reserved Matters are discussed and decisions are taken. The companies do not attend the Shareholder meeting but they gain representation via the Partnership Board which is more 'client' and council focused. The Chair and managing director of the holding company report to OSMB and Cabinet and have one-to-one meetings with the council's chief executive.
17. At Epping Forest, its 'Shareholder Liaison Group' is cross-party to ensure political support.

18. The Commercial Board at MCC appears to be quite similar to the BCC Shareholder Group and has client officers in attendance. However, in contrast to BCC, it has a role with all of the council's commercial activities not just its companies. The MCC Commercial Board meets every six weeks and receives company updates quarterly. The Commercial Board is supported by the team led by the Programme Management Officer and its role is a hybrid of BCC's Holding Company and Shareholder Liaison team. This team will bring forward issues for discussion that have been identified by the company secretaries or other high-risk matters identified on a 'register of significant partnerships'. As with the BCC's Holding Company, the team at MCC receives and comments on company business plans which are then approved by the shareholder. If it is a significant new activity and a new business plan, MCC will engage an external consultant to provide advice.
19. Barking and Dagenham's Shareholder Panel meets quarterly and includes the Deputy Leader, another Cabinet member, the Monitoring Officer, and the s 151 Officer. This is not a decision-making body as, at present, Cabinet makes relevant decisions relating to the companies on an annual basis.
20. Farooq Mohammed notes that there are three tiers of relationships common to most LATCs;
 - a) 1:1s between a council chief executive and/or Leader and managing directors of LATCs;
 - b) monthly meetings between council representatives and LATC representatives;
and
 - c) operational meetings between council 'clients' and company representatives on a reactive basis.

Appendix B

Findings from reports into LATCs

1. The LGA Report, the Unison Report and the 2018 Grant Thornton Report were all considered as part of this review. I have summarized below some relevant aspects of each report.

The LGA Report

2. The LGA Report advises that a council must consider what it is trying to achieve with a commercial company.
3. The council has to question their level of confidence regarding providing value for money to their citizens. In most cases, they have to challenge the expectation of profits in the short term and the risk appetite of both officers, councillors, and taxpayers. Sometimes a company is set up where there is a market failure, but this may be a red flag for the council as it should be questioned how a council can make a contract work if the private sector could not.
4. The LGA Report also includes a case study of the Norse Group in Norfolk. It is composed of three companies: a facilities management company; a design and management consultancy firm; and a provider of social care. In this case, success was dependent on having full political backing to provide strategic and financial support, sufficient cash flow to put into the companies, and awareness of employee rights, particularly pension issues.
5. Some other examples in the LGA Report (now over 10 years old) include Essex Care, where 850 staff transferred in 2011/12 and it made a profit of £3.5 million. Solutions SK, which is wholly owned by Stockport Council, received over 1,000 transferred staff and had a turnover of £40 million. Swindon Commercial services has 850 staff and a turnover of over £65million.

The Unison Report

6. Like the LGA Report, the Unison Report emphasizes that a council must be clear about its aims when setting up a commercial company. It suggests that before deciding on establishing a company the council should do a very comprehensive review of the services it already offers. Unison advise of the need to consult in advance with citizens/customers, for the council to have a clear policy on charging versus trading, and for due early consideration to be given to the impact on staff and TUPE. BCC saw this recently in the case of the cleaning and security contract that it has awarded to Bristol Waste.

2018 Grant Thornton Report

7. The 2018 Grant Thornton Report also has some useful information that the council should bear in mind in respect of its commercial activities. In particular, the report suggests that:
 - a. rates and taxes will, they say, almost always generate more income than commercialisation.

- b. companies have been popular both as alternative delivery models, to drive additional revenue and for investment purposes. Often trading companies are established as an alternative delivery model giving the opportunity for more control, to respond in a more agile way to funding issues, to cut costs as required and to improve the quality of a service. However, this is a relatively 'high bar' of performance and not all trading companies will actually be capable of such flexibility and also be profitable.
 - c. LATCs are here to stay but that there needs to be a much greater focus on understanding what the critical success factors are. The report foretold in 2018 that there would be a number of mergers and consolidations amongst LATCs. This has not been a feature of the company landscape at BCC.
 - d. part of the reason for the rise in the number of trading companies has been the decline in popularity for outsourcing. However, the 2018 Grant Thornton Report notes that 'local authorities have not always had the contract management capability to deal with these large outsourcing providers and service quality has suffered as a result.
8. The 2018 Grant Thornton Report also sets out the following 'Steps for Success':
- a. adopt the right process: carry out an options appraisal to select the most appropriate model and develop a robust business case that has taken challenge from all stakeholders at an early stage.
 - b. be clear on the offer and the desired outcome in order to assess impact and manage shareholder expectations: the council needs to be completely clear what the desired outcome is - for example, is it to make a profit, take a service back into public management, or to make a service more efficient? The report notes 'commercialism should be about making a step change rather than an incremental change'.
 - c. allow plenty of time for benefits to be realised: 'profits are unlikely in the first three years'.
 - d. don't expect an inefficient service to turn around automatically: making a service commercial will not solve the problem.
 - e. start small and build the business: use proof of concept and grow slowly.
 - f. keep politics away: 'the governance structure should enable the company to trade freely and compete with the private sector'. Grant Thornton recommend the importance of balancing Councillors and council officers with non-executive directors and what they describe as 'shareholder committees'. They say this will help Councils keep the input at a strategic level not an operational level: 'effective governance is essential to ensure that the right balance exists between commercial freedoms and the need for transparency with a willingness to in the company to challenge of the Council is being too risk averse'
 - g. be aware of the particular challenges of commercialising statutory services
 - h. develop a commercial culture.
9. The report notes the below key success factors for wholly owned companies, based on the Norse model:

- a. flexibility
 - b. recruitment from commercial world
 - c. re-branding
 - d. positioning as a commercial company not as a LATC
 - e. running their own HR,IT, marketing, etc, Not relying on the council
 - f. being ambitious
 - g. challenge the council if they are too conservative
 - h. ensure the members are fully aware
 - i. leaving pensions with the Council so you maintain a strong balance sheet.
10. The report also reminds us of some important basic principles for LATCs

7 principles of successful LA companies



11. In summary, it is clear that most councils that establish commercial companies struggle to manage them due to several common factors principally a lack of commercial and financial expertise, slow decision making, a lack of investment capital, and insufficient buy-in and understanding from employees, Councillors, and citizens.

Appendix C

Overview of BCC and Holding Company governance reviews and reports

1. The difficulties associated with the governance of council-owned companies remain a challenge for many councils and their LATCs.
2. The council has received several reviews and audits in respect of its companies. These include the following;
 - a. 2017 BCC Governance Review;
 - b. 2020 BCC Internal Audit Report; and
 - c. 2021 GT VfM Report.
3. In addition, there are several relevant reports to take into account that have been commissioned or authored by the Holding Company:
 - a. 2020 Holding Company Efficiency and Effectiveness Paper;
 - b. 2021 Holding Company Internal Audit Report; and
 - c. 2021 Holding Company Transition Plan.
4. In summary, all of these reports identify areas for improvement in BCC governance of its companies. In many cases, the more straightforward 'housekeeping' recommendations have moved to immediate implementation under the stewardship of the Shareholder Liaison Service. There is a very comprehensive action tracker. While these management actions are being addressed there remain several fundamental issues regarding the overall governance framework at BCC. These issues are at the heart of this review and will be addressed through the implementation of its recommendations.

Appendix D
Scope for Governance Review

**[Included as separate Appendix in Shareholder Governance Review 2021: Management
Actions]**

Appendix E

Summary of respondents' views

A. Is the role of the Strategic Client adequate and what changes could be made to improve how it functions?

Strategic Client

1. There was consensus that the role of the Strategic Client needed further development. This may be due in part to the newness of the role and participants were generally encouraged by the appointment of Executive Director: Growth and Regeneration to the role. Council officers and company representatives generally understood the concept of the 'council client' as the person within the council who was responsible for the contracting or running of a service, or for overseeing interdependencies between the council and its companies. However, the idea of a 'Strategic Client' as different and separate to the council client (or Operational Client, or Sponsor, using the terminology proposed in this report) needs to be better understood, to avoid blurred lines both of communication but also of responsibility. For example, it needs to be clear within the council and the companies that the Operational Client for BWC in respect of waste services is Director: Management of Place (and an officer reporting into them) whilst the Strategic Client is, as for all of the companies, the Executive Director: Growth & Regeneration.
2. This is particularly true in the case of BWC where there is frequent contact between the company and the Shareholder representative and councillors on performance-related issues, rather than directing this contact to the Operational Client and, only as a last resort, to the Strategic Client and Shareholder Representative. Similarly, several participants asked who would be responsible for managing the cleaning and security contract within the council. The fact that cleaning and security is part of BCC Facilities Management is the responsibility of the Resources Directorate and is not part of the Growth and Regeneration Directorate where BWC is currently 'housed' raised questions.
3. Several respondents did not fully understand the reporting lines of the Strategic Client and were unsure if the Strategic Client was a stand-alone role organised by sectors such as waste or energy or if there is a single person within BCC who has responsibility for all commercial activities within BCC.
4. However, respondents noted the positive appointment of the Executive Director: Growth and Regeneration as there is now one person with an overall vision of and responsibility for commercial activities. The importance of ensuring that the Strategic Client had sufficient capacity and skills to discharge this role was emphasised, as was the importance of the Strategic Client to have team members with adequate operational and delivery expertise.
5. One respondent suggested the need for greater alignment between the Shareholder Representative and Strategic Client. Respondents also commented on the lack of clarity regarding where decisions are taken, for example: does the Strategic Client have the decision-making power or is it the Shareholder Representative or the Cabinet or another body such as the weekly Cabinet Member Briefings with the Shareholder Representative?

6. Several respondents said they did not know how the companies came to be and how a council owned company is set up. There is a sense there should be a clear plan and a guiding ideology.

Operational Client

7. Some participants noted the importance of Operational Clients having adequate sector specific knowledge and expertise as well as the financial and commercial expertise needed to be able to manage a commercial contract with a commercial company. It was also noted that the Operational Client ought to be a relatively senior officer in the council. The importance of having a strong Operational Client was emphasised, particularly in the context of BE 2020, in the past, and City Leap, in the future.
8. One respondent noted that better and closer working relationships should be developed between BCC officers and company representatives.
9. Participants suggested that the Sponsor's relationship with Goram Homes was effective and well understood. There is a straight line from BCC's commitment to building new homes, the selection of several delivery methods including the Goram Homes model, and the professional team within BCC that is in a position to work directly with Goram Homes.

B. Is the Shareholder Liaison function adequate and what changes could be made to improve how it functions?

10. Whilst the precise role of the Shareholder Liaison Service was not always understood by participants, most had a good sense of the role and were, on balance, very content with how the Shareholder Liaison Service discharges its duties.
11. There was a clear sense of the role of Shareholder Liaison Service before the Holding Company was expanded. However, there were some respondents who felt that, following the expansion of the Holding Company, there were blurred lines and an element of duplication of activity. This seemed to relate to the development of business plans, the development and submission of papers for the SHG, work on budgets and other financial issues. Some respondents have noted that since the 'expansion' of Holding Company they have less visibility of the Shareholder Liaison Service so did not have an up-to-date view.
12. In its previous set up the Shareholder Liaison Service had 'its fingers in a lot of pies', including their operational and financial performance. However, this seemed to have worked well as many complimented the 'old' Shareholder Liaison Service on its ability to manage many complex relationships, especially those between the companies, and the Shareholder Representative.
13. Under the previous Shareholder Liaison Director the Shareholder Liaison Service did more of the work that the Holding Company does now but it was done in what respondents described as a light touch manner.
14. As with the Strategic Client, the sense of the Shareholder Liaison Service depends on who you are. The Shareholder representative and Shareholder Group are very aware of the Shareholder Liaison Service and indeed very dependent on it. The Cabinet and Councillors also know and respect the Shareholder Liaison Service but have a less well-developed sense of the precise role. It is at the company level that knowledge and

understanding of the role of the Shareholder Liaison Service weakens with some seeing it as the secretariat for the SHG rather than having a direct role in their governance.

15. Respondents were very complimentary as to the scale of the work undertaken by the Shareholder Liaison Service and their ability to manage multiple stakeholders in very tight timeframes. Several noted that they were also impressed with the increased 'technical' output from the Shareholder Liaison Service.
16. It was suggested that the Shareholder Liaison Service has two orientations; one to the companies and one to the Shareholder Representative and council. It was felt the internal focus was underdeveloped compared to the relationship with the companies. This may be due to the respondents not being aware of the full extent of the Shareholder Liaison Service role and having limited visibility to the work Shareholder Liaison Service do to support the Shareholder Representative and more specifically Cabinet. As with other findings, better articulation of roles and communication of specific activities should resolve this issue.
17. One respondent asked if Shareholder Liaison Service reports into the right place, for example whether it should be reporting to Executive Director: Growth and Regeneration or to BCC Finance.
18. It is seen by the respondents that the Shareholder Liaison Service lead on 'explaining' and 'policing' the Reserved Matters but it is understood that they do so on behalf of the Shareholder Representative.

C. Is the Holding Company's role adequate and what changes could be made to improve how it functions?

19. There has been universal support and praise from the respondents for the role of Holding Company since it was set up. This is especially true in the context of BE 2020 where Holding Company is credited with making a very significant contribution to the successful sale of the company.
20. Respondents noted that the Holding Company has made a significant change to how the council exercises its governance and oversight of the companies despite not having the powers normally associated with a Holding Company. There is a view that Holding Company and its Board have brought independence, expertise, and professionalism.
21. However, with just three companies under Holding Company (BWC, Goram Homes and BHN) many respondents (not just the companies themselves) questioned the financial viability of a Holding Company at this time. This has been reflected in concerns raised by council officers as to the cost of the Holding Company and options have already been presented to address its cost base in the immediate timeframe (for example, the Holding Company Efficiency & Effectiveness Paper).
22. Respondents recognised that if the Holding Company is disbanded then a 'governance gap' would arise and it is not obvious if there is a cost-effective way to bridge this gap. This gap includes both the commercial and financial expertise but also the sense of some 'independent' challenge on behalf of the Shareholder representative.

23. Respondents noted the fact that the three companies left within the Holding Company Group are very different so it may be hard for the Holding Company to generate many synergies between them. All of these companies now have an established Strategic Client and Operational Clients and/or Sponsors, and it is this client function that should run and monitor the operational and service delivery aspects of these three companies.
24. Respondents had a mixed view concerning the Holding Company expanding its role with a shared services platform. It was felt this was not an option given the unique nature of the three companies that exist today.
25. Respondents commented on the inherent tension between the Holding Company and the Companies with an inevitable sense that the Holding Company is getting involved in company business and delaying things. They also note that the Holding Company has general skills, not sector-specific skills and so, therefore, are not as well placed to comment on operational issues.
26. Most respondents felt quite strongly that BCC needs to decide what it wants. There is universal support for the type of work the Holding Company does but less support for the cost of the work.
27. One respondent expressed concerns about the ability of the Holding Company to be independent as it reports to the council's chief executive. There has been a concern that the Holding Company officers are acting as shadow directors (this has been subject to legal advice). This is in contrast with the view as expressed already that the Holding Company does bring a very significant and valuable layer of scrutiny and oversight to the companies.
28. Several respondents noted that the Holding Company risk register has been a very good addition to the governance framework. However, it is not clear where this fits with the company-specific risk register or shareholder representative/council risk registers.
29. It is clear from interviews that there are mixed views in relation to the role and 'authority' of the Holding Company and with most Reserved Matters resting with the Shareholder representative and other powers resting with the Strategic Client and the companies themselves it is hard to see the precise authority of the Holding Company under the current model.

D. Has the review highlighted material barriers to the effectiveness of the existing governance arrangements?

30. Most of the issues were addressed in the three previous questions. Some additional findings are included below.
31. Many respondents felt that the experience with BE 2020 has been exceptionally negative for all involved and it will be hard to get traction around the commercial companies in the future.
32. Several respondents commented that there is a lack of trust amongst key stakeholders.
33. It was noted that BCC Finance could be involved earlier and more frequently as it has a very critical contribution to make. It was felt that there may be scope for more of the finance team to lead out with the companies to relieve the burden on the s 151 Officer.

34. Various respondents asked questions about the governance arrangements for City Leap. For example, participants noted the importance of the council having the knowledge and experience to participate in a very complex joint venture, and how the entity would be governed, from the council's perspective, if it is not a subsidiary of the Holding Company. Detailed questions about Board compositions were also raised.
35. Respondents noted the importance of effective stakeholder engagement across the Group and emphasised the importance of discussions with the Shareholder representative, the Strategic Client and the council's chief executive.
36. Some respondents noted they would welcome increased visibility of what the Holding Company presents on their behalf to the Shareholder Representative and/or the Strategic Client.
37. The respondents welcomed this review as an opportunity to establish clear roles and responsibilities across the Group to promote good governance.

Appendix F References

Branch Guide to Local Authority Trading Companies, Unison (2013), available here: <https://www.unison.org.uk/content/uploads/2013/06/On-line-Catalogue212753.pdf>

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In good company - Latest trends in Local Authority Trading Companies, Grant Thornton (2018), available here: [In good company: Latest trends in local authority trading companies \(grantthornton.co.uk\)](#)

Appendix F.

Note from Fiona Ross, Independent Shareholder Advisor, Shareholder Governance Review, Report Author - October 2021

As the author of the Governance review I have reviewed in detail the management actions in this report and most importantly I have given due consideration to the one deviation from my original recommendations namely the decision to retain the Holding Company until the outcome of the City Leap tender expected to be in Q1 2022.

As noted in the main document it was decided by all of the appropriate stake holders (myself included) that given the uncertainty as to the timing of the BHN move to City Leap it was pragmatic to retain the Holding Company with some modest changes.

I support this decision and make the following additional comments;

Excellent progress has been made on many of the other recommendations (as can be seen in the updates above) I note in particular progress on defining respective roles and responsibilities across many of the key players and look forward to seeing the planned group collaboration note be the guiding force behind how each party interacts with the others. I also welcome the updating of the key corporate documents.

I am also pleased to see the decision to streamline some of the company boards and to undertake a board effectiveness review and crucially appoint an Independent Chair.

There are still a number of actions to completed in 2021 and before Spring 2022 and I encourage the team to keep their focus on completing and delivering these actions. The decision to retain the Holding Company was, it must be clear, a temporary one and that decision will be subject to review as soon as the outcome of City Leap is known. In the meantime, it is critically important that the intended impact of the wide range of other accepted recommendations is driven through and fully captured. This will allow for a better decision regarding the Holding Company in 2022.

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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit planning process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Council or all weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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Key matters

Factors

New Code of Audit Practice

On 1 April 2020, the National Audit Office introduced a new Code of Audit Practice which came into effect from audit year 2020-21. The Code introduced a revised approach to the audit of Value for Money (VFM). These changes are explained in more detail on page 14, but the main points are that there are a new set of key criteria, there is more extensive reporting requirements and the replacement of the binary qualified approach to VFM conclusions, with far more sophisticated judgements on performance, as well as key recommendations on any significant weaknesses in arrangements identified during the audit.

Adoption of new auditing standards- Estimates

ISA (UK) 540 (revised): Auditing Accounting Estimates and Related Disclosures, which includes significant enhancements in respect of the audit risk assessment process for accounting estimates. As we explain in more detail on page 9 this will require greater disclosure by the Authority as well as additional work by the auditor.

Local Government developments – Covid-19

Local Government funding continues to be stretched with increasing cost pressures and demand and the outbreak of the Covid-19 coronavirus pandemic has had a significant impact on the normal operations of a large number of public sector organisations. The significance of the situation cannot be underestimated and the implications for individuals, organisations and communities remains highly uncertain. For our public sector audited bodies, we appreciate the significant responsibility and burden your staff have to ensure vital public services are provided. As far as we can, our aim is to work with you in these unprecedented times, ensuring there is up to date communication and flexibility where possible in our audit procedures.

Financial Reporting and Audit – raising the bars

The Financial Reporting Council (FRC) has set out its expectation of improved financial reporting from organisations and the need for auditors to demonstrate increased scepticism and challenge, and to undertake more robust testing.

Our work in 2019/20 highlighted areas where Local Government financial reporting, needs to be improved, with a corresponding increase in audit procedures. We have also identified an increase in the complexity of financial transactions in the Local Government sector which require greater audit scrutiny.

Our response

- As part of our planning work, we considered whether there were any risks of significant weakness in the body's arrangements for securing economy, efficiency and effectiveness in its use of resources that we needed to perform further procedures on. This builds on our earlier communication with the Audit Committee.
- The revisions to the standard have been incorporated into our audit approach and methodology. We have already identified the material accounting estimates likely to be impacted by the new auditing standard and will work with management to agree the information required and the disclosures required in the financial statements.
- At this time, we have not identified a specific Covid-19 significant audit risk (as we did for all Local Government audits in 2019-20 which covered a number of risks including the availability of the Authority's staff to produce accounts, valuation uncertainties in relation to land and buildings, council dwellings and investment property, and valuation of pension fund assets). We will revisit this assessment should the current pressures the sector faces continue and impact year-end accounting and auditing processes.
- As a firm, we are absolutely committed to audit quality and financial reporting in the local government sector. Our proposed work and fee, as set further in this Audit Plan, has been agreed with the Section 151 Officer.

Introduction and headlines

Purpose

This document provides an overview of the planned scope and timing of the statutory audit of Bristol City Council ('the Council') for those charged with governance.

Respective responsibilities

The National Audit Office ('the NAO') has issued a document entitled Code of Audit Practice ('the Code'). This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. Our respective responsibilities are also set out in the agreed Terms of Appointment and Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA), the body responsible for appointing us as auditor of Bristol City Council. We draw your attention to both of these documents.

Scope of our audit

The scope of our audit is set in accordance with the Code and International Standards on Auditing (ISAs) (UK). We are responsible for forming and expressing an opinion on the:

- Council and group's financial statements that have been prepared by management with the oversight of those charged with governance (the Audit committee); and
- Value for Money arrangements in place at the Council for securing economy, efficiency and effectiveness in your use of resources.

The audit of the financial statements does not relieve management or the Audit Committee of your responsibilities. It is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Council is fulfilling these responsibilities.

Our audit approach is based on a thorough understanding of the Council's business and is risk based.

Group Audit

The Council is required to prepare group financial statements that consolidate the financial information of Bristol Holding Limited, Bristol Waste Company Limited, BE2020 Limited (formally Bristol Energy Limited), Goram Homes Limited and Bristol Heat Networks Limited.

Significant risks

Those risks requiring special audit consideration and procedures to address the likelihood of a material financial statement error have been identified as:

- Management override of controls
- Revenue recognition (partially rebutted)
- Valuation of land and buildings
- Valuation of investment properties
- Valuation of net pension fund liability
- Valuation of long-term investments

We will communicate significant findings on these areas as well as any other significant matters arising from the audit to you in our Audit Findings (ISA 260) Report.

Materiality

We have determined planning materiality to be £15.0m (PY £14.3m) for the group and £13.65m (PY £13.20m) for the Council, which equates to 1.2% of your prior year gross expenditure for the year. We are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. Clearly trivial has been set at £0.683m (PY £0.660m).

Value for Money arrangements

Our risk assessment regarding your arrangements to secure value for money have identified the following risks of significant weakness:

- Setting and managing capital budgets
- Governance arrangements, how the Council ensures it makes informed decisions for its companies and for key decisions relating to high profile transactions

Audit logistics

Our interim visit took place in August and our final visit will begin in September. Our key deliverables are this Audit Plan, our Audit Findings Report and Auditor's Annual Report.

Our fee for the audit will be £265,339 (PY: £270,367) for the Council, subject to the Council delivering a good set of financial statements and working papers.

We have complied with the Financial Reporting Council's Ethical Standard (revised 2019) and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.

Group audit scope and risk assessment

In accordance with ISA (UK) 600, as group auditor we are required to obtain sufficient appropriate audit evidence regarding the financial information of the components and the consolidation process to express an opinion on whether the group financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework.

Component	Individually Significant?	Level of response required under ISA (UK) 600	Risks identified	Planned audit approach
Bristol City Council	Yes		See pages 6 to 8.	Full scope UK statutory audit performed by Grant Thornton UK LLP
Bristol Holding Limited	Not significant but material		None	Analytical review performed by Grant Thornton UK LLP.
BRE2020 Limited (formally Bristol Energy Limited)	Likely to include group significant risks		Risk of revenue recognition deemed to be significant to the group due to the material income balance within Bristol Energy at 31 March 2021.	We will liaise with the company auditor (PWC) to be provided with the findings from the full scope UK statutory audits prior to the planned group audit report date. We will communicate the risks we have identified at the group level to ensure we obtain sufficient assurance over these from the work of the component auditor.
Bristol Waste Company Limited	Not significant but material		None	Analytical review performed by Grant Thornton UK LLP.
Goram Homes Limited	Neither significant or material		None	Analytical review performed by Grant Thornton UK LLP.
Bristol Heat Networks Limited	Neither significant or material		None	Analytical review performed by Grant Thornton UK LLP. New member of the Group therefore we will seek to gain knowledge of the company and its business arrangements.

Audit scope

- Audit of the financial information of the component using component materiality
- Audit of one more classes of transactions, account balances or disclosures relating to significant risks of material misstatement of the group financial statements
- Review of component's financial information
- Specified audit procedures relating to significant risks of material misstatement of the group financial statements
- Analytical procedures at group level

Significant risks identified

Significant risks are defined by ISAs (UK) as risks that, in the judgement of the auditor, require special audit consideration. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood. Significant risks are those risks that have a higher risk of material misstatement.

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
The revenue cycle includes fraudulent transactions (partially rebutted)	Group	<p>Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue.</p> <p>This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.</p>	<p>Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Authority, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:</p> <ul style="list-style-type: none"> • there is little incentive to manipulate revenue recognition • opportunities to manipulate revenue recognition are very limited • the culture and ethical frameworks of local authorities, including Bristol City Council, mean that all forms of fraud are seen as unacceptable. <p>We have also considered the Council's Covid Grant income stream which will be both a significant and new stream of income for 2020/21. The main considerations are to determine whether the Council is acting as an agent or principal and if there are any conditions outstanding (or distinct restrictions) that would determine if the grant is recognised as a receipt in advance or income. Given this is a new area for 2020/21 we will undertake focused audit testing in this area, however we have concluded that there is not a risk of material misstatement due to fraud.</p> <p>Therefore, we do not consider this to be significant risk for Bristol City Council.</p> <p>We have also considered this risk for group entities,</p> <ul style="list-style-type: none"> • Bristol Waste Company Limited – the majority of the Company's revenue is derived from contracts held with the Authority that are agreed in advance at an agreed price. • Goram Homes Limited – revenue is not expected to be material • Bristol Heat Networks – revenue is not expected to be material • Bristol Holding Limited – revenue for the company is significantly below our group materiality level • We consider that the risk of fraudulent revenue recognition exists at BE2020 Limited due to the significance of the company's turnover. We have therefore identified the occurrence and accuracy of BE2020 Limited income as a significant risk to the group.

Significant risks identified

Significant risks are defined by ISAs (UK) as risks that, in the judgement of the auditor, require special audit consideration. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood. Significant risks are those risks that have a higher risk of material misstatement.

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
Risk of fraud related to expenditure recognition Practice note 10	N/A	In line with the Public Audit Practice note 1-, in the public sector, auditors must also consider the risk that material misstatements due to fraudulent financial reporting may arise from the manipulation of expenditure recognition (for instance by deferring expenditure to a later period). As most public bodies are net spending bodies, then the risk of material misstatement due to fraud related to expenditure may in some cases be greater than the risk of material misstatements due to fraud related to revenue recognition.	Having considered the nature of the expenditure streams of Bristol City Council, and on the same basis as that set out above for revenue, we have determined that there is no significant risk of material misstatement arising from improper expenditure recognition.
Management over-ride of controls	Group and Council	Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. . We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk, which was one of the most significant assessed risks of material misstatement.	We will: <ul style="list-style-type: none"> • evaluate the design effectiveness of management controls over journals • analyse the journals listing and determine the criteria for selecting high risk unusual journals • test unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration • gain an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness with regard to corroborative evidence • evaluate the rationale for any changes in accounting policies, estimates or significant unusual transactions.

Significant risks identified

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
Valuation of land and buildings	Council	<p>The Authority revalues its land and buildings on a rolling five-yearly basis. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved and the sensitivity of this estimate to changes in key assumptions. Additionally, management will need to ensure the carrying value in the Authority financial statements is not materially different from the current value or the fair value (for surplus assets) at the financial statements date.</p> <p>We therefore identified valuation of land and buildings as a significant risk, which was one of the most significant assessed risks of material misstatement and a key audit matter.</p>	<p>We will:</p> <ul style="list-style-type: none"> • evaluate management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work • evaluate the competence, capabilities and objectivity of the Council's valuation expert • write to the valuer to confirm the basis on which the valuation was carried out • challenge the information and assumptions used by the valuer to assess completeness and consistency with our understanding • test revaluations made during the year to see if they had been input correctly into the Authority's asset register • evaluate the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value at year end. • engage an auditors expert to support our response to the valuation of land and buildings
Valuation of Investment Property	Council	<p>The Authority is required to revalue its investment properties at fair value on an annual basis at 31 March 2021. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved and the sensitivity of this estimate to changes in key assumptions.</p> <p>We therefore identified valuation of investment property, as a significant risk, which was one of the most significant assessed risks of material misstatement, and a key audit matter.</p>	<p>We will:</p> <ul style="list-style-type: none"> • evaluate management's processes and assumptions for the calculation of the estimate, the instructions issued to the valuation experts and the scope of their work • evaluate the competence, capabilities and objectivity of the valuation expert • discuss with the valuer the basis on which the valuations were carried out • challenge the information and assumptions used by the valuer to assess completeness and consistency with our understanding • test revaluations made during the year to see if they had been input correctly into the Authority's asset register. • engage an auditors expert to support our response to the valuation of investment properties.

Significant risks identified

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
Valuation of the pension fund net liability	Council	<p>The Authority's pension fund net liability, as reflected in its balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements.</p> <p>The pension fund net liability is considered a significant estimate due to the size of the numbers involved and the sensitivity of the estimate to changes in key assumptions. A small change in the key assumptions (discount rate, inflation rate, salary increase and life expectancy) can have a significant impact on the estimated IAS 19 liability. In particular the discount and inflation rate.</p> <p>We have therefore concluded that there is a significant risk of material misstatement in the IAS 19 estimate due to the assumptions used in their calculation, which was one of the most significant assessed risks of material misstatement and a key audit matter.</p>	<p>We will:</p> <ul style="list-style-type: none"> • update our understanding of the processes and controls put in place by management to ensure that the Authority's pension fund net liability is not materially misstated and evaluate the design of the associated controls • evaluate the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work • assess the competence, capabilities and objectivity of the actuary who carried out the Authority's pension fund valuation • assess the accuracy and completeness of the information provided by the Authority to the actuary to estimate the liability • test the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary • undertake procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report; and • obtain assurances from the auditor of Avon Pension Fund as to the controls surrounding the validity and accuracy of membership data; contributions data and benefits data sent to the actuary by the pension fund and the fund assets valuation in the pension fund financial statements.
Valuation of long-term investments	Council	<p>The Authority hold material long term investments in its balance sheet. These include the estimated valuation an unquoted equity investment.</p> <p>These investments are by their nature hard to value estimates, and management have estimated their value based on a range of estimation techniques.</p> <p>We have identified the valuation of the Authority's long term unquoted investments as a significant risk, which was one of the most significant assessed risks of material misstatement and a key audit matter.</p>	<p>We will:</p> <ul style="list-style-type: none"> • discuss the valuation techniques adopted with management and obtain their calculations for the valuation of the unquoted equity investments and assess these against accounting standards; and • engage our internal valuations experts to review management's estimates and to provide us with assurance over the valuation of the Authority's unquoted equity investments

We will communicate significant findings on these areas as well as any other significant matters arising from the audit to you in our Audit Findings Report.

Accounting estimates and related disclosures

The Financial Reporting Council issued an updated ISA (UK) 540 (revised): *Auditing Accounting Estimates and Related Disclosures* which includes significant enhancements in respect of the audit risk assessment process for accounting estimates.

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Introduction

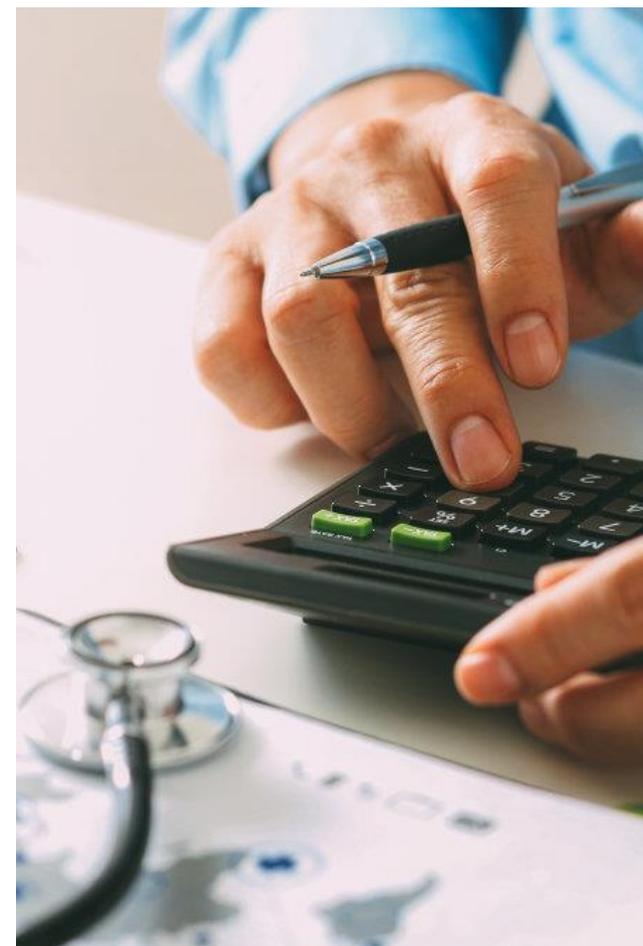
Under ISA (UK) 540 (Revised December 2018) auditors are required to understand and assess an entity's internal controls over accounting estimates, including:

- The nature and extent of oversight and governance over management's financial reporting process relevant to accounting estimates;
- How management identifies the need for and applies specialised skills or knowledge related to accounting estimates;
- How the entity's risk management process identifies and addresses risks relating to accounting estimates;
- The entity's information system as it relates to accounting estimates;
- The entity's control activities in relation to accounting estimates; and
- How management reviews the outcomes of previous accounting estimates.

As part of this process auditors also need to obtain an understanding of the role of those charged with governance, which is particularly important where the estimates have high estimation uncertainty, or require significant judgement.

Specifically do Audit Committee members:

- Understand the characteristics of the methods and models used to make the accounting estimates and the risks related to them;
- Oversee management's process for making accounting estimates, including the use of models, and the monitoring activities undertaken by management; and
- Evaluate how management made the accounting estimates?



Accounting estimates and related disclosures

Additional information that will be required

To ensure our compliance with this revised auditing standard, we will be requesting further information from management and those charged with governance during our audit for the year ended 31 March 2021.

Based on our knowledge of the Council we have identified the following material accounting estimates for which this is likely to apply:

- Valuations of land and buildings, council dwellings and investment properties
- Depreciation
- Year end provisions and accruals, specifically for demand led services such as Adult's and Children's services
- Credit loss and impairment allowances
- Valuation of defined benefit net pension fund liabilities
- Fair value estimates
- Valuation of level 2 and level 3 investments

The Council's Information systems

In respect of the Council's information systems, we are required to consider how management identifies the methods, assumptions and source data used for each material accounting estimate and the need for any changes to these. This includes how management selects, or designs, the methods, assumptions and data to be used and applies the methods used in the valuations.

When the models used include increased complexity or subjectivity, as is the case for many valuation models, auditors need to understand and assess the controls in place over the models and the data included therein. Where adequate controls are not in place, we may need to report this as a significant control deficiency, and this could affect the amount of detailed substantive testing required during the audit.

If management has changed the method for making an accounting estimate, we will need to fully understand management's rationale for this change. Any unexpected changes are likely to raise the audit risk profile of this accounting estimate and may result in the need for additional audit procedures.

We are aware that the Council uses management experts in deriving some of its more complex estimates, e.g. asset valuations and pensions liabilities. However, it is important to note that the use of management experts does not diminish the responsibilities of management and those charged with governance to ensure that:

- All accounting estimates and related disclosures included in the financial statements have been prepared in accordance with the requirements of the financial reporting framework, and are materially accurate;
- There are adequate controls in place at the Council (and where applicable its service provider or management expert) over the models, assumptions and source data used in the preparation of accounting estimates.



Estimation uncertainty

Under ISA (UK) 540 we are required to consider the following:

How management understands the degree of estimation uncertainty related to each accounting estimate; and

How management address this estimation uncertainty when selecting their point estimate.

For example, how management identified and considered alternative, methods, assumptions or source data that would be equally valid under the financial reporting framework, and why these alternatives were rejected in favour of the point estimate used.

The revised standard includes increased emphasis on the importance of the financial statement disclosures. Under ISA (UK) 540 (Revised December 2018), auditors are required to assess whether both the accounting estimates themselves and the related disclosures are reasonable.

Where there is a material uncertainty, that is where there is a significant risk of a material change to the estimated carrying value of an asset or liability within the next year, there needs to be additional disclosures. Note that not all material estimates will have a material uncertainty and it is also possible that an estimate that is not material could have a risk of material uncertainty.

Where there is material estimation uncertainty, we would expect the financial statement disclosures to detail:

- **What the assumptions and uncertainties are;**
- **How sensitive the assets and liabilities are to those assumptions, and why;**
- **The expected resolution of the uncertainty and the range of reasonably possible outcomes for the next financial year; and**
- **An explanation of any changes made to past assumptions if the uncertainty is unresolved.**

Planning enquiries

As part of our planning risk assessment procedures, we have made enquiries to management which will be shared with those charged with governance for you to consider whether the responses are consistent with its understanding and whether there are any further comments you wish to make.

Further information

Further details on the requirements of ISA (UK) 540 (Revised December 2018) can be found in the auditing standard on the Financial Reporting Council's website:

[https://www.frc.org.uk/getattachment/0fa69c03-49ec-49ae-a8c9-cc7a2b65382a/ISA-\(UK\)-540_Revised-December-2018_final.pdf](https://www.frc.org.uk/getattachment/0fa69c03-49ec-49ae-a8c9-cc7a2b65382a/ISA-(UK)-540_Revised-December-2018_final.pdf)

Other matters

Other work

In addition to our responsibilities under the Code of Practice, we have a number of other audit responsibilities, as follows:

- We read your Narrative Report and Annual Governance Statement to check that they are consistent with the financial statements on which we give an opinion and our knowledge of the Council.
- We carry out work to satisfy ourselves that disclosures made in your Annual Governance Statement are in line with requirements set by CIPFA.

We carry out work on your consolidation schedules for the Whole of Government Accounts process in accordance with NAO group audit instructions.

We consider our other duties under legislation and the Code, as and when required, including:

- giving electors the opportunity to raise questions about your 2020/21 financial statements, consider and decide upon any objections received in relation to the 2020/21 financial statements;
- issuing a report in the public interest or written recommendations to the Council under section 24 of the Local Audit and Accountability Act 2014 (the Act).
- application to the court for a declaration that an item of account is contrary to law under section 28 or a judicial review under section 31 of the Act
- issuing an advisory notice under section 29 of the Act
- We certify completion of our audit.

Other material balances and transactions

Under International Standards on Auditing, "irrespective of the assessed risks of material misstatement, the auditor shall design and perform substantive procedures for each material class of transactions, account balance and disclosure". All other material balances and transaction streams will therefore be audited. However, the procedures will not be as extensive as the procedures adopted for the risks identified in this report.

Going concern

As auditors, we are required to obtain sufficient appropriate audit evidence regarding, and conclude on:

- whether a material uncertainty related to going concern exists; and
- the appropriateness of management's use of the going concern basis of accounting in the preparation of the financial statements.

The Public Audit Forum has been designated by the Financial Reporting Council as a "SORP-making body" for the purposes of maintaining and updating Practice Note 10: Audit of financial statements and regularity of public sector bodies in the United Kingdom (PN 10). It is intended that auditors of public sector bodies read PN 10 in conjunction with (ISAs) (UK).

PN 10 has recently been updated to take account of revisions to ISAs (UK), including ISA (UK) 570 on going concern. The revisions to PN 10 in respect of going concern are important and mark a significant departure from how this concept has been audited in the public sector in the past. In particular, PN 10 allows auditors to apply a 'continued provision of service approach' to auditing going concern, where appropriate. Applying such an approach should enable us to increase our focus on wider financial resilience (as part of our VfM work) and ensure that our work on going concern is proportionate for public sector bodies. We will review the Council's arrangements for securing financial sustainability as part of our Value for Money work and provide a commentary on this in our Auditor's Annual Report. We will also need to identify whether any material uncertainties in respect of going concern have been reported for the Council's subsidiaries. If such a situation arises, we will consider our audit response for the group.

Progress against prior year audit recommendations

We identified the following issues in our 2019/20 audit of the group financial statements, which resulted in recommendations being reported in our 2019/20 Audit Findings Report.

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
To be determined during year end audit	<p>Our review of useful lives of Vehicles, Plant & Equipment assets identified that assets with a gross book value of £6.9m were fully depreciated at the year end and had been fully depreciated throughout 2019/20.</p> <p>The risk associated is that the assets are not being depreciated over an appropriate useful life and that the council's depreciation charge is therefore not at the correct value.</p> <p>We recommended the Council undertakes a detailed review of its assets to identify any fully depreciated assets and consider whether the useful lives used were appropriate in order to inform the Council's depreciation of future assets.</p>	<p>Management agreed that they would review all assets which are fully depreciated but still in use to ascertain whether to extend useful life accordingly. They confirmed they use information regarding assets disposed of to contribute to the evidence considered when deciding on asset life of future and replacement assets.</p>
	<p>Due to the way that the Council operates its financial ledger it is not possible to produce a detailed listing of entries that make up the year end debtor and creditor figures. This has resulted in significant additional audit team and management resource during the previous two years' audits, and there is a risk that management are not able to identify potential issues with specific debtor or creditor balances if a listing cannot be provided.</p> <p>We recommended the Council undertakes a detailed review of its financial ledger coding to ensure that year end transactional listings can be produced for year end balances such as debtors and creditors.</p>	<p>Management confirmed this has now been implemented. The Council has now developed a systems-based approach to ensure the structure of the balance sheet coding will clearly identify in-year transactions and balances, including those for debtors and creditors.</p>
To be determined during year end audit	<p>Our testing of land and building valuations identified instances when supporting information (such as scaled floor areas) could not be provided and other instances of incorrect assumptions being applied, such as incorrect floor areas or BCIS rates. There is a risk that the valuations of land and buildings reflected in the financial statements are incorrect as a result of these incorrect assumptions or datasets.</p> <p>We recommended that management should ensure that valuations are based upon the appropriate supporting data and that this data can be appropriately evidenced and corroborated.</p>	<p>Management confirmed where floor plans are not available to confirm floor areas, they will request that new floor plans are commissioned. Going forward, the Council will continue to verify input factors such as build costs and ensure all relevant data is available.</p>

Progress against prior year audit recommendations

We identified the following issues in our 2019/20 audit of the group financial statements, which resulted in recommendations being reported in our 2019/20 Audit Findings Report.

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
To be determined during year end audit	<p>The Council has treated its loan to Goram Homes Limited as a Long-Term Debtor, held at Amortised Cost. We considered this against accounting standards and CIPFA guidance and are satisfied that this treatment is appropriate at 31 March 2020.</p> <p>IFRS 9 requires entities to assess classification on an annual basis, with one indication of a reclassification trigger being the payee's intention or ability to repay the loan. We recommended that management monitors Goram Homes Limited's performance against its business plan and uses this as a basis to assess the classification of the loan on an annual basis.</p>	<p>Management confirmed that the performance of Goram Homes is monitored regularly by the Goram Homes and Bristol Holding Company Boards and the Council's shareholder group.</p>
To be determined during year end audit	<p>The Annual Governance Statement currently states in para 1.4 that it "provides an overview of how the Council's governance arrangements have operated during 2019/20 and up to the date it is signed." It could be made clearer that this means the date the final financial statements are approved, and this document should be resigned alongside approval of the final statement of accounts. There are also areas where specific reference could be made in respect of the key elements of governance per "Delivering Good Governance in Local Government: Framework (2016)"</p> <p>We recommended that management should ensure that the Annual Governance Statement is updated and signed to the date of the final version of the Statement of Accounts. The 2020/21 Annual Governance Statement should make specific reference to all of the key elements of governance per "Delivering Good Governance in Local Government Framework (2016)".</p>	<p>Management confirmed that specific consideration will be given in AGS 2020/21 in relation to "Delivering Good Governance in Local Government: Framework (2016)" and a sign-off process that enables recommendations and actions to be implemented in a timely manner.</p>

Materiality

The concept of materiality

Materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law. Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Materiality for planning purposes

We have determined financial statement materiality based on a proportion of the gross expenditure of the Group and Council for the financial year. In the prior year we used the same benchmark. Materiality at the planning stage of our audit is £15.0m (PY £14.3m) for the group and £13.65m (PY £13.20m) for the Council, which equates to 1.2% of your forecast gross expenditure for the year. We reconsider planning materiality if, during the course of our audit engagement, we become aware of facts and circumstances that would have caused us to make a different determination of planning materiality.

Matters we will report to the Audit Committee

Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Audit Committee any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work. Under ISA 260 (UK) 'Communication with those charged with governance', we are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. ISA 260 (UK) defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria. In the context of the group and Council, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £0.683m (PY £0.660m).

If management has corrected material misstatements identified during the course of the audit, we will consider whether those corrections should be communicated to the Audit Committee to assist it in fulfilling its governance responsibilities.

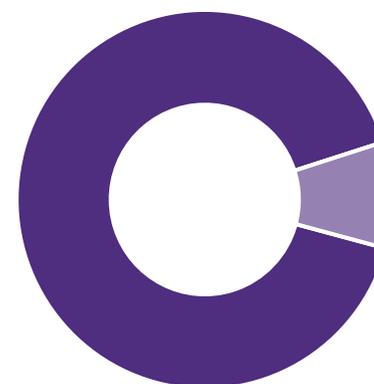
Prior year gross operating costs

£1.251bn Group

(PY: £1.191bn)

£1.138bn Council

(PY: £1.101bn)



■ Prior year gross operating costs

Materiality

£15.0m

Group financial statements materiality (PY: £14.3m)

£13.65m

Council financial statements materiality (PY: £13.2m)

£0.683m

Misstatements reported to the Audit Committee (PY: £0.660m)

Value for Money arrangements

Revised approach to Value for Money work for 2020/21

On 1 April 2020, the National Audit Office introduced a new Code of Audit Practice which comes into effect from audit year 2020/21. The Code introduced a revised approach to the audit of Value for Money. (VFM)

There are three main changes arising from the NAO's new approach:

- A new set of key criteria, covering financial sustainability, governance and improvements in economy, efficiency and effectiveness
- More extensive reporting, with a requirement on the auditor to produce a commentary on arrangements across all of the key criteria, rather than the current 'reporting by exception' approach
- The replacement of the binary qualified / unqualified approach to VFM conclusions, with far more sophisticated judgements on performance, as well as key recommendations on any significant weaknesses in arrangements identified during the audit.

The Code require auditors to consider whether the body has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. When reporting on these arrangements, the Code requires auditors to structure their commentary on arrangements under three specified reporting criteria. These are as set out below:



Improving economy, efficiency and effectiveness

Arrangements for improving the way the body delivers its services. This includes arrangements for understanding costs and delivering efficiencies and improving outcomes for service users.



Financial Sustainability

Arrangements for ensuring the body can continue to deliver services. This includes planning resources to ensure adequate finances and maintain sustainable levels of spending over the medium term (3-5 years)



Governance

Arrangements for ensuring that the body makes appropriate decisions in the right way. This includes arrangements for budget setting and management, risk management, and ensuring the body makes decisions based on appropriate information



Risks of significant VFM weaknesses

As part of our planning work, we considered whether there were any risks of significant weakness in the body's arrangements for securing economy, efficiency and effectiveness in its use of resources that we needed to perform further procedures on. The risks we have identified are detailed below, along with the further procedures we will perform.

Risks of significant weakness

Those risks requiring audit consideration and procedures to address the likelihood that proper arrangements are not in place are:



Setting and managing capital budgets

The annual capital budgets do not reflect actual spend in 2020/21 and as a result undermine the Council's ability to effectively manage its capital budgets.

Capital Expenditure

We will review the arrangements for:

- setting and agreeing the capital budgets
- profiling the budgets within year and across a number of years
- monitoring progress against budget
- amending the budgets in-year
- managing the risks associated with a large complex capital project.

In order to better understand these arrangements we will focus on the Growth and Regeneration Directorate, which has the largest capital budget in 2020/21 and the Bristol Beacon project.

In addition to the Bristol Beacon project in discussion with officers we will consider one/two capital projects in detail.

Bristol Beacon

Following the agreed increase in capital budget by £44.5m in March 2020 in addition to the review of arrangements set out above, we will also consider:

- the steps that led to this overspend, including any key decisions
- how the Council has managed the risks associated with this development
- the Council's contract and performance monitoring arrangements.



Governance arrangements, how the Council ensures it makes informed decisions for its companies and for key decisions relating to high profile transactions

We will review the arrangements to ensure informed decision making for the following key decisions undertaken in 2020/21:

- to continue with the intention to compulsory purchase order (CPO) for Temple Gate
- agreement of the business case for the City's clean air zone
- in order to obtain grant funding for the heat networks the decision to set up an SPV
- City Leap re-procurement process (Cabinet decision made on 14 July 2020).

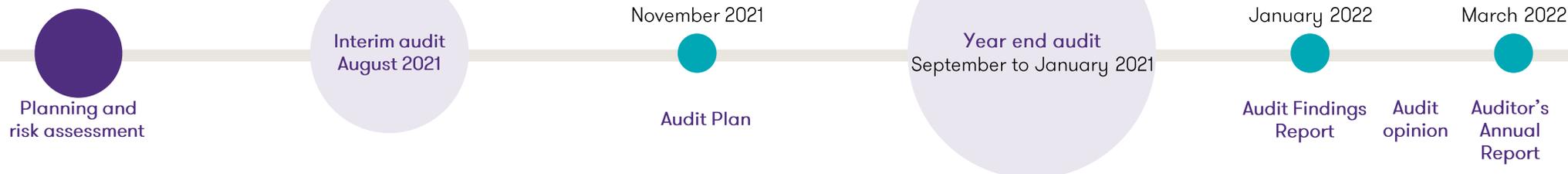
Our review will include, where relevant:

- the information provided the Shareholder to support the key decisions
- the role of scrutiny, shareholder group and Bristol Holding Ltd
- how the Council is managing the risks associated with these decisions.

In 2019/20 we qualified our VfM conclusion for the governance arrangements surrounding Bristol Energy. Our work has concluded on Bristol Energy, but we will consider the progress made by the Council on the recommendations we have raised to date.

At any stage of our new approach to VfM additional risks of significant weakness may be identified, these will be reported to you as they are identified.

Audit logistics and team



Jon Roberts, Key Audit Partner

Jon leads our relationship with you and is a key contact for the Section 151 Officer and Audit Committee. Jon takes overall responsibility for the delivery of a high-quality audit, meeting the highest professional standards and adding value to the Authority.

Katie Whybray, Audit Manager

Katie's role involved overseeing the day-to-day planning and execution of the audit, ensuring the audit requirements are fully complied with and producing reports for the Audit Committee. She will respond to ad-hoc queries whenever raised and meet regularly with the Section 151 Officer and members of the finance team.

Jade Brockett, Audit Incharge

Jade's role is to co-ordinate the on-site delivery of audit tasks through her own work and that of junior team members. She liaises with the finance team throughout audit visits and will keep them up to date on progress and any issues arising throughout the year.

Audited body responsibilities

Where audited bodies do not deliver to the timetable agreed, we need to ensure that this does not impact on audit quality or absorb a disproportionate amount of time, thereby disadvantaging other audits. Where the elapsed time to complete an audit exceeds that agreed due to a client not meeting its obligations, we will not be able to maintain a team on site. Similarly, where additional resources are needed to complete the audit due to a client not meeting their obligations, we are not able to guarantee the delivery of the audit to the agreed timescales. In addition, delayed audits will incur additional audit fees.

Our requirements

To minimise the risk of a delayed audit, you need to ensure that you:

- produce draft financial statements of good quality by the agreed timetable you have agreed with us, including all notes, the Narrative Report and the Annual Governance Statement
- ensure that good quality working papers are available at the start of the audit, in accordance with the working paper requirements schedule that we have shared with you
- ensure that the agreed data reports are available to us at the start of the audit and are reconciled to the values in the accounts, in order to facilitate our selection of samples for testing
- ensure that all appropriate staff are available on site throughout (or as otherwise agreed) the planned period of the audit
- respond promptly and adequately to audit queries.

Audit fees

In 2017, PSAA awarded a contract of audit for Bristol City Council to begin with effect from 2018/19. The fee agreed in the contract was £156,839. Since that time, there have been a number of developments, particularly in relation to the revised Code and ISA's which are relevant for the 2020/21 audit.

As referred to on page 15, the 2020/21 Code introduces a revised approach to our VFM work. This requires auditors to produce a commentary on arrangements across all of the key criteria, rather than the current 'reporting by exception' approach. Auditors now have to make far more sophisticated judgements on performance, as well as issue key recommendations if any significant weaknesses in arrangements are identified during the audit. We will be working with the NAO and other audit firms to discuss and share learning in respect of common issues arising across the sector.

The new approach will be more challenging for audited bodies, involving discussions at a wider and more strategic level. Both the reporting, and the planning and risk assessment which underpins it, will require more audit time, delivered through a richer skill mix than in previous years.

Additionally, across all sectors and firms, the FRC has set out its expectation of improved financial reporting from organisations and the need for auditors to demonstrate increased scepticism and challenge and to undertake additional and more robust testing, as noted in the number of revised ISA's issued by the FRC that are applicable to audits of financial statements commencing on or after 15 December 2019, as detailed in Appendix 1.

As a firm, we are absolutely committed to meeting the expectations of the FRC with regard to audit quality and public sector financial reporting. We have engaged an audit expert to improve the level of assurance we require for property valuations estimates, which has been included in our proposed audit fee. Our proposed work and fee for 2020/21, as set out below, is detailed overleaf.

	Actual Fee 2018/19	Actual Fee 2019/20	Proposed fee 2020/21
Bristol City Council Audit	£232,839	£270,367	£265,339
Total audit fees (excluding VAT)	£232,839	£270,367	£265,339

Assumptions

In setting the above fees, we have assumed that the Council will:

- prepare a good quality set of accounts, supported by comprehensive and well presented working papers which are ready at the start of the audit
- provide appropriate analysis, support and evidence to support all critical judgements and significant judgements made during the course of preparing the financial statements
- provide early notice of proposed complex or unusual transactions which could have a material impact on the financial statements.

Relevant professional standards

In preparing our fee estimate, we have had regard to all relevant professional standards, including paragraphs 4.1 and 4.2 of the FRC's [Ethical Standard \(revised 2019\)](#) which stipulate that the Engagement Lead (Key Audit Partner) must set a fee sufficient to enable the resourcing of the audit with partners and staff with appropriate time and skill to deliver an audit to the required professional and Ethical standards.

Audit fees – detailed analysis

Scale fee published by PSAA	£156,839
<i>Ongoing increases to scale fee identified in 2019/20</i>	
Raising the bar/regulatory factors	£5,000
Enhanced audit procedures for Property, Plant and Equipment	£9,350
Enhanced audit procedures for Pensions	£3,500
Long term unquoted investment valuations	£3,500
Other local issues / expert advice	£29,150
Recurring Audit fee from 2019/20	£207,339
<i>New issues for 2020/21</i>	
Additional work on Value for Money (VfM) under new NAO Code	£26,000
Increased audit requirements of revised ISAs	£17,000
Local risk factors	£15,000
Proposed increase to agreed 2019/20 fee	£58,000
Total financial statement and VfM audit fees (excluding VAT)	£265,339
Other Fees in relation to 2019/20	
Bristol Energy Report	£30,000
Review of Objection	£8,500

Independence and non-audit services

Auditor independence

Ethical Standards and ISA (UK) 260 require us to give you timely disclosure of all significant facts and matters that may bear upon the integrity, objectivity and independence of the firm or covered persons, relating to our independence. We encourage you to contact us to discuss these or any other independence issues with us. We will also discuss with you if we make additional significant judgements surrounding independence matters.

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Financial Reporting Council's Ethical Standard (Revised 2019) and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements. Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in May 2020 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

We confirm that we have implemented policies and procedures to meet the requirements of the Ethical Standard. For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams and component audit firms providing services to the Council.

Other services

The following other services provided by Grant Thornton were identified.

The amounts detailed are fees agreed to-date for audit related and non-audit services to be undertaken by Grant Thornton UK LLP in the current financial year. These services are consistent with the Council's policy on the allotment of non-audit work to your auditors. Any changes and full details of all fees charged for audit related and non-audit related services by Grant Thornton UK LLP and by Grant Thornton International Limited network member Firms will be included in our Audit Findings report at the conclusion of the audit.

None of the services provided are subject to contingent fees.

Service	Fees £	Threats	Safeguards
Audit related:			
Agreed upon procedures on the Authority's Housing Benefit Subsidy Claim 2020-21	£28,000	Self-Interest (because this is a recurring fee)	
Agreed upon procedures on the Authority's Pooling of Housing Capital Receipts return 2020-21	£5,000	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own or cumulatively are not considered a significant threat to independence as the fees for these pieces of work is in comparison to the total fee for the audit of £265,339 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.
Agreed upon procedures on the Authority's Teacher's Pension Return 2020-21	£8,000	Self-Interest (because this is a recurring fee)	
Agreed procedures on behalf of Homes England in relation to the receipt of social housing and assistance and grants to facilitate the development and provision of affordable housing.	£6,000	Self-Interest (because this is a recurring fee)	

Appendix 1: Revised Auditor Standards and application guidance

FRC revisions to Auditor Standards and associated application guidance

The following Auditing Standards and associated application guidance that were applicable to 19/20 audits, have been revised or updated by the FRC, with additional requirements for auditors for implementation in 2020/21 audits and beyond.

	Date of revision	Application to 2020/21 Audits
ISQC (UK) 1 – Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and other Assurance and Related Service Engagements	November 2019	✓
ISA (UK) 200 – Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing (UK)	January 2020	✓
ISA (UK) 220 – Quality Control for an Audit of Financial Statements	November 2019	✓
ISA (UK) 230 – Audit Documentation	January 2020	✓
ISA (UK) 240 – The Auditor’s Responsibilities Relating to Fraud in an Audit of Financial Statements	January 2020	✓
ISA (UK) 250 Section A – Consideration of Laws and Regulations in an Audit of Financial Statements	November 2019	✓
ISA (UK) 250 Section B – The Auditor’s Statutory Right and Duty to Report to Regulators of Public Interest Entities and Regulators of Other Entities in the Financial Sector	November 2019	✓

Appendix 1: Revised Auditor Standards and application guidance continued

	Date of revision	Application to 2020/21 Audits
ISA (UK) 260 – Communication With Those Charged With Governance	January 2020	
ISA (UK) 315 – Identifying and Assessing the Risks of Material Misstatement Through Understanding of the Entity and Its Environment	July 2020	
ISA (UK) 500 – Audit Evidence	January 2020	
ISA (UK) 540 – Auditing Accounting Estimates and Related Disclosures	December 2018	
ISA (UK) 570 – Going Concern	September 2019	
ISA (UK) 580 – Written Representations	January 2020	
ISA (UK) 600 – Special considerations – Audits of Group Financial Statements (Including the Work of Component Auditors)	November 2019	
ISA (UK) 620 – Using the Work of an Auditor’s Expert	November 2019	
ISA (UK) 700 – Forming an Opinion and Reporting on Financial Statements	January 2020	

Appendix 1: Revised Auditor Standards and application guidance continued

	Date of revision	Application to 2020/21 Audits
ISA (UK) 701 – Communicating Key Audit Matters in the Independent Auditor’s Report	January 2020	
ISA (UK) 720 – The Auditor’s Responsibilities Relating to Other Information	November 2019	
Practice Note 10: Audit of Financial Statements of Public Sector Bodies in the United Kingdom	December 2020	

Audit Committee

23rd November 2021



Report of: Chair of Audit Committee

Title: **Audit Committees Half Yearly Report to Full Council - Draft**

Ward: N/A

Officer Presenting Report: Simba Muzarurwi, Chief Internal Auditor

Recommendation

The Committee consider and approve their half yearly report to Full Council.

Summary

The report provides a summary of key matters arising from the work of the Audit Committee this year to date which should be highlighted to Full Council. The report is due to be considered by Full Council at their meeting on 7th December 2021.

The significant issues in the report are:

- Key areas to highlight to Full Council from the work of the Committee – Section 2 of the attached report.



Policy

1. Audit Committee Terms of Reference.

Consultation

2. **Internal**
Audit Committee Members
3. **External**
None

Context**Audit Committee Half Year Report to Full Council:**

4. In line with the requirements of their Terms of Reference, the Audit Committee provides both an Annual Report and half year report to Full Council. The purpose of these reports is to highlight to Full Council key issues arising from the Committee's work in relation to the control, risk and governance arrangements at the Council. A half year report to Full Council has been drafted on behalf of the Committee and is attached at Appendix A.

Proposal

5. Committee Members review the draft half year report to Full Council to ensure it reflects the issues they feel should be brought to Full Council attention at this time. The Committee approve the report for submission subject to any amendments required.

Other Options Considered

6. None

Risk Assessment

7. The assurances provided by an effective Audit Committee to Full Council are a key part of the Council's governance framework. This report highlights potential areas where assurances require further monitoring by Audit Committee and improvement actions that will enhance the effectiveness of the Audit Committee.

Public Sector Equality Duties

- 8a) Before making a decision, section 149 Equality Act 2010 requires that each decision-maker considers the need to promote equality for persons with the following "protected characteristics": age, disability, gender reassignment, pregnancy and maternity, race, religion or belief, sex, sexual orientation. Each decision-maker must, therefore, have due regard to the need to:
 - i) Eliminate discrimination, harassment, victimisation and any other conduct prohibited under the Equality Act 2010.

- ii) Advance equality of opportunity between persons who share a relevant protected characteristic and those who do not share it. This involves having due regard, in particular, to the need to --
 - remove or minimise disadvantage suffered by persons who share a relevant protected characteristic;
 - take steps to meet the needs of persons who share a relevant protected characteristic that are different from the needs of people who do not share it (in relation to disabled people, this includes, in particular, steps to take account of disabled persons' disabilities);
 - encourage persons who share a protected characteristic to participate in public life or in any other activity in which participation by such persons is disproportionately low.
- iii) Foster good relations between persons who share a relevant protected characteristic and those who do not share it. This involves having due regard, in particular, to the need to –
 - tackle prejudice; and
 - promote understanding.

8b) No equality impact anticipated from this report

Legal and Resource Implications

Legal

N/A

Financial

(a) Revenue – N/A

(b) Capital – N/A

Land/Property N/A

Human Resources N/A

Appendices:

Appendix A – Draft Audit Committee Half Year Report to Full Council.

LOCAL GOVERNMENT (ACCESS TO INFORMATION) ACT 1985

Background Papers:

Audit Committee Papers.

CIPFA – Audit Committees Practical Guidance.



BRISTOL CITY COUNCIL

AUDIT COMMITTEE

**Half Year Update to Full Council
2021-22**

DRAFT

1. Introduction and Context:

- 1.1 The purpose of the Audit Committee is to provide independent assurance on the adequacy of the risk management framework, internal control environment and the integrity of the financial reporting and annual governance processes. It is the primary means by which Full Council obtains assurance that governance, risk management and control systems are in place and effective. The Audit Committee's responsibilities are additional and supportive to those of the Section 151 Officer.
- 1.2 The Value and Ethics Committee is a sub-committee of the Audit Committee set up to deal with matters relating to the ethical framework affecting Members of the council, their behaviour and compliance with the Member Code of Conduct.
- 1.3 This report provides details of the Committee's and sub-committee's work this year to date and provides early highlights to Full Council of key issues that require monitoring by or support from the Committee to engender improvements to the internal control, governance and risk management arrangements across the Council.

2. Key Issues

- 2.1 Details of the reports considered to date by the Committee are provided in Appendix 1. Key messages to bring to Full Council's attention from this work to date are included below:

Control Environment:

- 2.2 The Chief Internal Auditor has reported an improved position regarding the Council's internal control, risk management and governance arrangements in his annual report relating to 2020/21. This reflects progress made by the Council in addressing some of the long outstanding issues that had remained unresolved for a few years but also acknowledges there are some areas that still require improvement. The opinion noted that the Council's improvement journey is not yet complete and whilst some improvements will take time to embed, it is important that they are prioritised and sufficiently resourced. A core part of the Committee's work will include monitoring improvements in these areas and the following paragraphs highlights some of the progress made to date

- **Capital Portfolio Governance.** A three year programme of improvement has been identified and will be monitored by the Committee noting that whilst some actions will provide immediate benefit, others will take time to deliver the benefits.
- **Risk Management.** Whilst progress is being made to build a strong foundation for risk management, there is a lack of clarity over the current governance of risk management and there are inconsistencies in the use of the risk management framework and tools. The Committee has reviewed and will continue monitor current plans to strengthen these arrangements,
- **Cyber Security Arrangements.** Recent investment has been made to enhance the security posture of the Council. Recognising that the cyber risk is an increasing threat to all organisations the Committee will continue to ensure agreed improvement actions in this area are effectively implemented.
- **IT Transformation.** Completion of projects included in the transformation programme will be necessary to ensure the full benefit of the Council's investment in IT is achieved. The Committee has asked for progress updates in this respect and to ensure lessons are learned for future digital transformation aspirations.

Governance:

2.3 The Committee contributed to the review of the 2020/21 Annual Governance Statement to ensure it was reflective of the Council's governance, risk management and internal control arrangements and identifies actions to improve where appropriate. The statement concluded that governance arrangements are generally working as expected. However, four significant governance issues were identified in the statement and progress against these arrangements will again be monitored by the Committee. In summary the issues are:

- **COVID 19.** The impact of the pandemic will be felt for many years and the recovery period will be elongated. The longevity and uncertainty of the pandemic will require flexible recovery approaches and medium to long term resilience in the Council's finances. In addition to other key actions the Council will continue to implement the Local Outbreak Management Plan and associated governance structures, plus communication and engagement, including about vaccination as well as revise the Council's Corporate Strategy, Medium Term Financial Plan and Capital Strategy to ensure resilience and that the impacts and recovery actions are accounted for and part of mainstream 'business as usual' for the Council, including within its annual Business Planning process.
- **Governance Arrangements for the Council's subsidiaries.** A review of Governance Arrangements for Bristol City Council's Subsidiaries by the Council's External Auditors, Grant Thornton was discussed at the Extraordinary Full Council public meeting in February 2021 where a cross-party Working Group was established to examine the action plan for implementing the audit recommendations. These recommendations are listed in Appendix 3. The Working Group reported to Full Council in May 2021 and concluded that appropriate action is being taken to implement the Management Actions in response to the recommendations in the Grant Thornton Report. Subsequently in September 2021, the Audit Committee received another report from Grant Thornton concerning the governance arrangements for Bristol Energy which is at Appendix 2 of this report. In that report and building on from the previous report, Grant Thornton made nine recommendations and suggested that the issues be formally considered and included in the Council's implementation plan, as overseen by the Audit Committee. In the September meeting the Committee received representations on the matters raised from both Grant Thornton and senior officers. The Committee accepted the recommendations and received assurances from senior officers that the implementation of the recommendations was being prioritised and further agreed to undertake ongoing monitoring to ensure that recommendations were being timely actioned supported by regular updates from senior officers during the year.
- **Dedicated Schools Grant Deficit.** The deficit of £10m at the end of 2020/21 was forecast to increase by 100% by the end of 2022. A range of outcome and process improvements are being delivered in line with the Written Statement of Action.
- **Bristol Beacon.** The significant increase in time and cost to project saw the investment increase by 119% on the original approved budget of £48.8m. In addition to other key actions, the Bristol Beacon has been re baselined in terms of budget and duration. A Project Management Office has been created and a Strategic Partner commissioned to provide key professional support to the project. Project assurance is ongoing in the form of Project Board reporting and management process.

2.4 In addition, the Committee has reviewed the Annual Report of the Local Government and Social Care Ombudsman and noted that a **Public Report** had been made highlighting a

breakdown in governance arrangements in implementing improvement actions identified. In line with procedure, this report has been referred to Full Council for consideration.

Risk Management:

- 2.5 As mentioned above, the Committee continues to monitor the development and maturity of the Council's risk management arrangements.
- 2.6 In addition, the Committee reviews in detail a sample of corporate risks. To date the Committee have reviewed in detail risks relating to housing delivery and affordable housing delivery. These are ranked as high-level risks and the Committee has been assured that the risks have been appropriately identified and mitigating action is being reviewed regularly and overseen by scrutiny.

3. Audit Committee Effectiveness and Development

- 3.1 Following the May 2021 elections, membership of the Committee has completely changed. A new Chair (Councillor Hopkins) and Vice Chair (Councillor Dyer) lead a committee of members who are new to both the work of the Committee and Council. Two long standing independent audit committee members provide audit expertise and continuity in line with best practice and will be key in supporting the new Committee as it further develops into its role.
- 3.2 Essential and targeted training has been offered to all Audit Committee members to assist them in both understanding the role of the Committee and enhancing understanding in some key areas relevant to the Committee: So far, the training received include:
 - Induction and the Role of the Audit Committee
 - Receiving assurance from and working with Internal Auditor
 - Working with the External Auditors
 - Governance
 - Treasury Management
- 3.3 The Committee will continually review its own operations and re-assess any further training requirements. At least annually, a review of the Committee's effectiveness will be completed to ensure the Committee is fulfilling its objectives on behalf of the Council. As part of this review, Members' attendance and commitment will be reviewed.
- 3.4 Continued work has taken place to ensure the Committee's access to information to enable it to effectively fulfil its role. The External Auditor's report at appendix 2 highlights the importance of ensuring this Committee is sighted on developments and information relating to the governance arrangements and risks in relation to the Council and its subsidiary companies.
- 3.5 Early amendments to working practices of the Committee include earlier questioning of reports presented to the Committee with officers responding to questions in advance of Committee meetings.

Reports Considered by Audit Committee During 2020/21 to date:

Audit Committee	
Meeting Date	Papers Considered
24 th June 2021	<ul style="list-style-type: none"> • External Audit Progress Report and Fee Proposals • Internal Audit Annual Report 2020/21 • Annual Fraud Report 2020/21 • Report Summarising External Inspections of Council Services. • Access to Information for Audit Committee Functions
26 th July 2021	<ul style="list-style-type: none"> • External Audit Progress Report – including verbal updated on Bristol Energy Report. • 2020/21 Audit Committee Annual Report to Full Council • 2020/21 Draft Statement of Accounts • 2020/21 Draft Annual Governance Statement • Corporate Risk Report – Q4 2020/21 • Corporate Risk Detailed Review – Affordable Housing • Internal Audit Update Report • Companies Assurance Report
27 th September 2021	<ul style="list-style-type: none"> • Report Concerning Governance Arrangements for Bristol Energy • Treasury Management Report 2020/21 • External Audit Appointment Process • Monitoring Oversight of Capital Delivery • Senior Information Risk Owner Assurance Report • Risk Management Annual Report • Corporate Risk Report – Q1 2021/22 • Annual Report of Local Government and Social Care Ombudsman Decisions
Values and Ethics (Sub) Committee	
24 th June 2021	<ul style="list-style-type: none"> • Honorary Alderman Nomination
26 th July 2021	<ul style="list-style-type: none"> • Member Code of Conduct • Member Development
27 th September 2021	<ul style="list-style-type: none"> • Honorary Alderman Nominations

Report concerning the governance arrangements for Bristol Energy

Bristol City Council

15 September 2021

Jon Roberts

Partner/Engagement Lead

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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Council or any weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

Status of this report

Previous VFM qualification

As external auditor to Bristol City Council (the Council) we have a number of responsibilities relating to the statutory audit under the Local Audit and Accountability Act 2014 (the Act) and the Code of Audit Practice. We have previously reported on matters that occurred during the 2019/20 audit year and that led to a qualified VFM conclusion, regarding the Council's Governance arrangements at its companies, with specific focus on arrangements impacting on Bristol Energy (BE), a company within the Council's Group.

The Council has, in our opinion, initially responded comprehensively to our previous report, which was fully discussed at Audit Committee and debated at an extraordinary meeting of full Council on 11 February 2021. Responses to our recommendations were agreed by management and are now being implemented. The Audit Committee will be monitoring progress against these recommendations. In addition, the extraordinary meeting of full Council resolved that a cross-party group was to add further challenge and monitoring capacity to the Council's response to our report.

Other Bristol Energy matters for consideration

Whilst our previous report covered matters that led to the Council deciding to dispose of its interest in BE in 2020, it did not consider matters relating to the Council's initial decision-making when establishing the Company, nor did it consider the final outcomes following the Council's decision to dispose.

There has been considerable interest in this matter and we have considered it appropriate and in line with our responsibilities to consider both of the areas not covered by our previous report, so that our views on the 'full picture' can be considered.

Decision to issue a Public Interest Report

We have previously been approached by a number of the political groups within the Council – both in administration and opposition – to consider whether this consideration should now be reported as a Public Interest Report (PIR) under section 24 and schedule 7 of the Act.

Such reports are typically reserved for audit reporting of more serious concerns regarding councils' financial and governance arrangements, with any resulting recommendations requiring full and public consideration by a council and a formal response. It is certainly accepted that the amount of loss that resulted in the Council's final decision to dispose of its interests in BE was of the significance that might merit a PIR. However, as matters impacting on our previously qualified VFM conclusion have already been reported in public and, particularly, as the Council had already indicated a very strong commitment to respond to our previous findings, the decision on the reporting vehicle to adopt was less clear.

After considering the findings from the further and previously unreported work included in this report I have decided that a PIR is not required for the following reasons:

- The Council has already demonstrated through its response to our VFM qualification that it is treating our findings extremely seriously – it has already debated the issues at full Council and has established a cross party member working group to oversee the responses to our recommendations;
- We have been assured that the new findings from this report and any actions will be implemented in the same manner as our previous report;
- There are no findings that differ substantially from those previously reported and hence, in our opinion, no need to bring these to the public's attention via a formal PIR; and
- We are confident that the Council's Audit Committee will give this report full consideration in public.

Notwithstanding this decision, the matters reported here are still significant and will need to be formally considered and included in the Council's implementation plan, as overseen by its Audit Committee.

Acknowledgement

We would like to acknowledge the openness and support the Council's officers and members have shown to our work in this area.



Executive Summary

Options for an Energy Company

The Council established BE as an ethical company, to reduce social inequality whilst improving environmental performance. BE was not wholly motivated by profit and was required to deliver social value. BE's intention was to be a company that the City could be proud of, whilst generating in time a revenue stream that could be invested in the City.

The Council first began to consider establishing an energy company in February 2010 when it developed its Climate Change and Energy Security Framework. This Framework included a range of actions, one of which was to establish a local energy company. However, it was not until early 2015 when the Council agreed to set up a municipal energy company based on a high-level options appraisal.

In our view the options appraisal supported the establishment of an energy company without fully exploring how the Council's strategic objectives might be achieved by alternative options. The options appraisal lacked a detailed and a robust methodology on which the preferred option and the alternatives could be considered. The approach taken was limited, as a result more optimum solutions could have been omitted.

In the early stages the Council's intention was to establish a company structure which included an:

- energy services company – a company which would provide energy solutions, such as projects that save energy as well as providing sustainable energy solutions; and an
- energy supply company – a company that would provide gas and electricity supplies to commercial and domestic customers.

External advice was also commissioned on this basis. However, in July 2015 only an energy supplies company was established, Bristol Energy. There is no record of the decision as to why an energy services company was not established along with an energy supply company. The energy services functions have remained within the Council. We are unable to determine if the change in this decision would have had an impact on the appropriateness/validity of the advice provided, or if the Council had checked this with their advisors.

Set-up of Bristol Energy

Following the initial options appraisal, the decision to establish an energy supply company, BE, in 2015 was made by Cabinet under a previous administration with the former elected Mayor. The decision was supported by a detailed business plan which was prepared by third party advisors with due diligence undertaken by additional advisors to ensure it was robust. In our view the decision was made on reasonable information. However, the decision was not subject to scrutiny and call-in was suspended on the basis of any delay in the decision could result in a commercial/ financial risk. This approach prevented scrutiny and appropriate challenge being undertaken.

The Council recognised that BE needed assistance to improve its performance and engaged with a range of external advices to look at ways in which its financial performance could be improved and consider future options.

In 2017 this included considering a potential sale of BE but this was not progressed on the grounds that the sale would not recover the Council's investment of £19.8m at this stage.

Since its establishment BE grew, increasing its turnover whilst also increasing its financial dependency on its shareholder, but at no point was it able to generate a surplus. By 31 March 2020 the Council's financial commitment had increased to £36.5m in the form of shares with a maximum potential exposure from parent company guarantees (PCG) of up to £17.6m.

Operation of Bristol Energy - matters previously reported

In 2018 the development of the Council's 'City Leap Partnership', a series of energy and infrastructure investment opportunities to assist in the delivery of a carbon neutral City by 2050 was considered as mutually beneficial to BE and a possible solution to BE financial position. BE's financial performance needed to improve if this solution was to be viable. BE was considered to be a 'non-negotiable' part of City Leap and in our view this restricted consideration of the business plan options for BE, including its possible sale at that time.

In January 2020 Cabinet approved BE's 2020/21 business plan. However, six days after this decision BE experienced a significant cash flow crisis and stated that it was no longer able to meet its business plan objectives and immediate action was required to ensure it could meet its financial objectives and prevent a negative cash position. Based on our work we established that the information and papers provided to the January 2020 Cabinet meeting did not clearly state the risks faced by BE, or provide sufficient robust information to enable Cabinet to make an informed decision. In our opinion, and supported by subsequent events, it also represented an overly unrealistic view of how BE might perform.

Executive Summary

Concerns raised in our Governance report

Our previously reported concerns included:

- Cabinet was not formally made aware of concerns raised at the Shareholder Group, including the fact that the Independent Shareholder Advisor was recorded as being unable to support the business plan;
- the business planning and decision making process was prolonged so that information and advice obtained at the early stages of the process became out of date in a highly volatile energy market, such as the exempt financial report was out of date and was based on an earlier version of the business plan that had been provided to the Shareholder Group in November 2019;
- the public papers did not include a risk assessment and, whilst the exempt version of the business plan included a list of risks and their mitigations, contrary to accepted practice, these risks were not scored or assessed against the likely impact and did not feature prominently in the report; and
- the report from Bristol Holding Limited stated that both BE and Bristol Holding Limited remained concerned that it would not take much to drive BE into a situation that may require additional shareholder funding and/or collateral. As this report was included in exempt session, it was not contained within the main body of the papers provided to Cabinet but was included within the appendices and, as such, its messages were more difficult for Cabinet to consider.

However, through support from Bristol Holding Limited (BE's parent company) and by earlier access to funds from the Council, the immediate cash crisis was alleviated. Bristol Holding also highlighted that BE was very likely to need further cash in March and August 2020 and at this stage this was likely to be above the funding cap previously agreed by Cabinet.

Decision process for the sale of Bristol Energy



In addition, during 2019/20 the Council's Audit Committee had not always been sufficiently sighted on developments and information relating to the governance arrangements and risks in relation to BE. The Audit Committee is responsible for providing independent assurance on the governance and risk management framework and in order to discharge their responsibilities effectively, Audit Committee members should have had a closer involvement with the issues relating to the Council's investment in BE during the year.

Sale and winding down of Bristol Energy

In April 2020, due to the financial predicament in which BE found itself, the City Leap procurement process was paused to reflect feedback from respective bidders and because the accelerated sale of BE had been agreed. The flow chart below illustrates the decisions made during this final stage process.

Cabinet made the decisions in June 2020 to no longer financially support BE and agreed to the accelerated sale. External advisors were commissioned to support BE and following the process of identifying potential buyers, two buyers were agreed upon. They were as follows:

- Yu Energy for the commercial customers
- Together Energy for the domestic customers.

The funds received from these sales were used to meet liabilities within BE, such as the Renewable Obligation Certificate (ROC) liability for 2020, operational liabilities, such as rent and costs of the wind down team.

Executive Summary

The Council also had to decide on the most appropriate option to wind up BE. Third party advice was sought and the reserved matter decision was made by the Shareholder Representative on the 1 March 2021 to opt for a Members' Voluntary Liquidation (MVL), a solvent liquidation. The Council also considered the option of Creditors' Voluntary Liquidation (CVL), an insolvent liquidation and concluded:

- that there was limited financial benefit between the two options; and that
- due to its solvent nature, a MVL was likely to have the least detrimental impact on the Council's reputation compared to CVL.

The cost to the Council

As at May 2021, the Council had invested funds in the region of £42m, consisting of the following:

- Ordinary and Preference shares of £36.5m
- Indemnity drawdown of £6.5m
- Less funds of £977k transferred to the Council by BE.

Within its 2019/20 accounts the Council also had Parent Company Guarantees (PCGs) relating to BE, valued at £5.4m. The PCGs were not called upon in 2019/20 so there was no cost to the taxpayer.

The liquidation remains an evolving process and the Council estimates that, upon the conclusion of the liquidation process, total funds lost through this investment will not exceed £43.8m (£36.5m issued in share and £7.3m indemnity).

It should also be noted that the Council has spent approximately £2.53 m over the life of BE on third party advisors of which £2m was included in BE's operational costs and as such part of the overall Council investment.

We are of the view that, since April 2020, the approach taken by the Council and BE has resulted in a planned and an orderly solvent winding up of BE and it is reasonable to assume that this approach would be less costly than an unplanned approach. The Council has engaged with reputable and appropriate third party advisors who assessed the most reasonable exit options and its decision to opt for a MVL, taking all known and estimated factors into account is a reasonable approach to have taken.

Communications

Throughout this process the Council has released four press releases through its news room, these included:

- February 2016 - the establishment of BE
- June 2020 – an accelerated sale agreed
- August 2020 – the sale of the commercial element of the business to Yu Energy
- September 2020 – the sale of the domestic element of the business to Together Energy.

The Council agreed a communications approach. This included the issue of a number of emails to key stakeholders and a reactive communication plan, should the Council be contacted by the press. However, the Council has yet to communicate the full cost of BE to the Bristol tax payer and should seek to address this once the final position is known. We recognise that the amount of information which can be released will be limited by non disclosure agreements in place relating to the disclosure of commercially sensitive information.

Recommendation 1: The Council should consider communicating to the public the full cost of operating and winding down Bristol Energy.



Recommendations

Our recommendations relating to this issue, including those previously reported, are set out below:

Recommendation 1

The Council should consider communicating to the public the full cost of operating and winding down Bristol Energy.

Recommendation 2

In order to support key decisions relating to significant projects the Council should ensure an options appraisal that is fit for purpose is completed prior to completing a business plan.

Recommendation 3

Where the Council is working with external advisors on complex projects it should better document its response against all recommendations made.

Recommendation 4

Public reports should be consistent with the issues and concerns raised within exempt papers. The exempt papers should only provide confidential information which cannot be discussed within the public sessions.*

Recommendation 5

Cabinet reports relating to Bristol Holding Limited's companies which include exempt information should be improved. Exempt papers, should clearly identify and quantify the risks and advice provided by the Shareholder Group and any relevant independent advisors as well as the clear views of Bristol Holding Limited.*

Recommendation 6

The Council should ensure Cabinet decisions are based upon more timely and current information.*

Recommendation 7

The Council should update the articles of association and shareholder agreement to reflect the strengthened role of Bristol Holding Limited. The terms of reference for all elements and functions of the governance structure should be in place and updated.*

Recommendation 8

Consideration should be given to the role of the Executive Chair of Bristol Holding Ltd. This should include if this role is appropriate going forward, and does it ensure independence of the chair and reduce potential conflicts.*

Recommendation 9

The Council should improve the risk management arrangements to ensure that all key risks are identified and clearly reported to Cabinet.*



Summary of events

Throughout this report we refer to the Council's wholly owned company as Bristol Energy (BE). The reader should be aware that the company has had a number of names as registered with Companies House. These are set out in appendix A. In the following pages we clearly indicate the sections that are new areas of reporting, as opposed to those previously reported in our VFM report to the Council.

Establishment of Bristol Energy – new area of reporting

In **February 2010** Cabinet agreed a draft Climate Change and Energy Security Framework for Bristol. Within this framework the report included 40 specific actions which would deliver the framework, one of which was to undertake feasibility studies to consider setting up a local energy company. No details were provided as to the type or aim of the energy company.

In **September 2010** Cabinet agreed to procure and deliver a technical study programme to create an energy company, which would deliver the energy investment programme. This was a decision to commit in principle to an energy company subject to the findings of the technical study. It was also agreed that the Council would apply to the EIB for up to £3m of grant funding and £0.3m of its own funds to create a local energy company.

The Council did not begin to procure advice until 2013. Between 2013 and January 2015 a range of financial and legal advice was obtained. This advice considered the set up of both an energy services company and an energy supply company. With the structure likely to include a holding company.

The energy services company would progress the Council's objective to reduce carbon emissions through a range of measures, such as developing wind and solar power and by improving energy efficiency of domestic and public buildings. Whereas an energy supply company would provide gas and electric to domestic and commercial residents.

In **March 2012** Cabinet had cross party support when it adopted the 2012/15 Climate Change and Energy Security Framework. The framework reiterated the action to set up an energy services company to deliver £140m investment across the city to deliver carbon reduction targets.

Almost three years later in **February 2015** Cabinet approved in principle to undertake the necessary activities to set up a municipal energy company and associated companies to enable it to start trading in 2015. It was agreed that final approval would be sought in July 2015.

The activities required to enable the energy company to begin trading later in the year included:

- incorporation of a group holding company
- provision of cashflow support from the Council (£1.6m) and investment commitment of £4.2m

- acquisition of the necessary regulatory licences to become a fully licensed supplier of electricity and gas
- negotiate and enter into the contracts necessary to operate as a supplier of electricity, gas, heat and digital services
- the appointment of the specialist Bristol Energy staff required to take the company through the set up process to the point of commencing Controlled Market Entry
- development of the relevant business plans and structure of Bristol Energy.

The Cabinet papers included a high level options appraisal, only three options were considered:

1. do nothing
2. fully fund energy services
3. create an energy company

These options were not scored and were covered in very little detail.

The options appraisal addressed the preferred option for electricity retail – fully licensed supply.

In our view the options appraisal undertaken in February 2016 supported the establishment of an energy company without fully exploring how the Council's strategic objectives might be achieved by alternative options. The options appraisal lacked detailed and a robust methodology on which the preferred option and the alternatives could be considered. The approach taken could have meant that too narrow approach was taken, possibly missing a more optimum solution.

Recommendation 2: In order to support key decisions relating to significant projects the Council should ensure an options appraisal that is fit for purpose is completed prior to completing a business plan.

At this stage the intention was to establish a company structure that included a holding company along with an energy supply company and an energy services company. It is unclear and not recorded within Cabinet meetings why an energy services company was not subsequently considered or established.

This decision was not considered by a scrutiny committee, however in **April 2015** and **June 2015** the Overview and Scrutiny Management Board (OSMB) were given a presentations on the intention to establish an energy company. The sessions were informative and in the June session OSMB received a copy of the business plan.

Summary of events

In **July 2015** Cabinet agreed to establish an energy supply company with an agreed investment commitment of £10.9m. The procedure to call-in the decision was suspended. This was agreed by Cabinet and the Monitoring Officer at the meeting. The rationale to suspend call-in was that any delay in the decision could result in a commercial/ financial risk particularly in relation to:

- recruitment of key staff
- additional costs which may need to be incurred
- potential alteration of the conditions for market entry, that could affect the financial position / viability of the company.

Full Council was made aware of this decision on 15 September 2015. This was one of six similar decisions where call-in was stopped over a six month period. In line with the Council's Constitution these decisions were reported to Full Council.

The Cabinet decision in July 2015 was supported by a detailed exempt business plan. The business plan was developed by Cornwall Energy Consultancy and due diligence undertaken by PwC. The report to Cabinet confirmed that *"The business plan and related assumptions ...have been found overall reasonable."*

However, specific improvements were suggested, which included:

- further redesign of the financial model using modelling best practice, as it was found comprehensive and in parts overly complicated
- further realignments to the strategic rationale and the need to balance the mix of customers to ensure profitability whilst meeting the needs of local disadvantaged customers
- work on the Target Operating Model (TOM), before the preferred operating model can be agreed.

These changes were not made prior to the decision to establish the energy company, although the papers suggest that additional support was to be engaged to develop an operational financial model to deal with the ongoing financial management issues, provide assurance on ongoing cash flow, funding requirements and funding mechanisms from the shareholder's perspective. We are unable to establish if these changes were made at any point, but based on the advice provided at the time we do not consider that these changes would have had a significant impact of the original decision.

This meeting also agreed the governance structure under which the energy company would operate including the establishment of the Shareholder Group and the key reserved matters and delegations.

It should be noted that a Bristol energy services company was not established at this point. Although the business plan referred the reader to a separate business plan for energy services, the Council has been unable to locate this business plan. Energy services have remained within the Council and, as a result we have assumed that the business plan was not prepared.

The Council had obtained a range of advice from third parties prior to making its decision to establish BE. This advice was not provided to Cabinet but did assist in the development of the business plan. However the majority of advice assumed that both an energy services company as well as a supply company would be established.

We are unable to determine if the change in this decision would have had an impact on the appropriateness/validity of the advice provided or if the Council had checked this with their advisors.

Recommendation 3: Where the Council is working with external advisors on complex projects it should better document its response against all recommendations made.

BE was incorporated on the **16 July 2015**, a week after Cabinet agreed the decision.

Operation of Bristol Energy

In **December 2015** Cabinet approved the annual 2016/17 business plan for BE. At this stage increasing the agreed total funding to £15.8m. The report concluded that BE had made a good start, but that the anticipated loss had increased from £2.1m to £5.2m. Largely due to:

- the initial implementation cost of smart meters
- ongoing system investment
- additional staffing costs
- lower customer numbers than anticipated
- a three month delay in entering Controlled Market Entry (a requirement of the electricity industry, by which new entrants prove that they can operate within the industry and not affect the business of other suppliers).

In **January 2017** Cabinet approved the 2017/18 business plan for BE within the exempt session of the meeting. This included agreement of total funding of £31.3m, which included 20% cash collateral and £10.4m peak parent company guarantee (PCG). The business plan was approved within the expected timeframe, so that an agreed business plan was in place ahead of the financial year which it covered.

Later that year the Council engaged external consultants to consider the future options for BE and their recommendations to achieve profitability. In October 2017 the external consultants reported to the Shareholder Group. A shortlist of options was provided, which included selling the business. The external advice concluded that continuing to trade was the best option for the Council, as the sale would not recover the Council's total investment to date of £19.8m and BE should consider diversification to generate additional income. The Shareholder Group concluded that there were no simple solutions to increase profitability and that action was required by management to consider the options proposed.

Summary of events

Operation of Bristol Energy – previously included in our VFM report to the Council

In **January 2018** BE's 2018/19 business plan was rejected pre-Cabinet as it required an increase in funding to a maximum of £44.8m and parent company guarantees (PCG) in the region of £40m. In order to help and support BE additional external consultants were engaged. The findings were reported in August 2018. It was agreed that BE should reduce costs through a strategic restructure and transformation. The opportunities that City Leap could provide to BE were also identified, such as additional revenue through diversification into energy services. As a result, interim business plan proposals were approved in September 2018, increasing the maximum PCG exposure to £17.6m, with funding to remain capped at £31.3m.

Later that year, additional support was commissioned to assist in BE's transformation and to assist in delivering the recommendations identified earlier in the year, the aim being to produce a more credible business plan and improve profitability whilst also delivering social value. This transformation resulted in an increased turnover of staff, at both executive level and in middle management and also led to the resignation of the Managing Director in December 2018.

Cabinet approved BE's 2019/20 business plan in **April 2019**. This followed concerns having been raised over the viability of BE by the Shareholder Group and the business plan not being supported by four out of seven members of the Overview and Scrutiny Management Board (OSMB).

The exempt financial report which was provided to Cabinet suggested that a positive Earnings Before Interest Taxation, Dividends and Amortisation (the appropriate accounting definition of a company's financial performance, known as EBITDA) might be possible in 2023/24 but that if the worst case was to materialise the funding requirement might be £60m and the EBITDA loss would continue to be around £8m per annum. This finance report provided some scenario planning, but did not clearly set out the assumptions made and the risks faced by the Council. The report did not quantify any financial risks other than stating that the worst case scenario could see the cumulative funding requirement reaching £60m in 2023/24.

It was at the same Cabinet meeting that had agreed to proceed with the procurement process to identify a strategic partner for the City Leap Partnership. The City Leap Partnership, was a series of energy and infrastructure investment opportunities to assist in the delivery of a carbon neutral City by 2050. This partnership required a range of investors/partners to provide this investment.

From 2018 BE's involvement with the City Leap Partnership was considered mutually beneficial and, as market conditions became tougher for BE, BE was increasingly considered as not viable without City Leap. Furthermore, it was around this time that BE became a non-negotiable 'red line' requirement within the City Leap programme.

In **January 2021** Cabinet approved BE's 2020/21 business plan. However, six days after Cabinet approved BE's business plan (**27 January 2020**) the Deputy Mayor (Shareholder Representative) was informed that BE was experiencing a significant cash flow crisis and would no longer be able to meet its business plan objectives with immediate action required to prevent a negative cash position.

Cabinet received the business plan following review in November 2019 by the Shareholder Group and OSMB in December 2019.

The Shareholder Group recorded a list of actions required to complete the business plan and the Council's Director of Finance concluded that, she required further assurance. We understand further discussions were conducted via email but, Bristol Holding Limited was responsible for ensuring the appropriate due diligence was undertaken and that the actions were completed for the next iteration of the business plan. The Shareholder Group did not formally review the business plan again.

Cabinet did not receive an update/report from the Shareholder Group and were therefore not formally made aware of the concerns raised at the Shareholder Group, or if those concerns were resolved. No formal referral was made from OSMB and the Cabinet papers did not record that OSMB were consulted and the outcome of that discussion.

The papers provided to Cabinet to inform the decision making process included a report from the Chair of Bristol Holding. This stated that BE faced significant risks/challenges and that both BE and Bristol Holding Limited remained concerned that it would not take much to drive the company into a situation that would require additional shareholder funding and/or collateral. Bristol Holding continued to support the business plan.

Cabinet was not provided with a risk assessment. In addition the confidential finance report, was out of date at the time it was presented to Cabinet, and was based on an earlier version of the business plan (as provided to the Shareholder Group in November 2019). In our view, this significantly undermined the quality of this advice and should have been updated for Cabinet.

However, the indications are that whilst this advice might have been considered within the Shareholder Group it has not been considered or acted upon by Cabinet. This was compounded by the way that the information and key risks were included within the Cabinet papers.

Summary of events

The business planning process in 2019/20 and 2020/21 illustrate that whilst the Shareholder Representative sought advice from the Shareholder Group and Bristol Holding Limited and that scrutiny was provided by OSMB and this advice might be considered within the Shareholder Group it has not been considered or acted upon by Cabinet. This was also compounded by the way that the information and key risks were included within the Cabinet papers, which were not, in our opinion, evidently clear to the reader/decision maker.

The information and papers provided at the January 2020 Cabinet meeting did not clearly state the risks faced by BE, or provide sufficiently robust information to enable Cabinet to make an informed decision. In our opinion, and supported by subsequent events, it also represented an overly unrealistic view of how BE might perform.

Recommendation 4: Public reports should be consist with the issues and concerns raised within exempt papers. The exempt papers should only provide confidential information which cannot be discussed within the public sessions.*

Recommendation 5: Cabinet reports relating to Bristol Holding Limited's companies which include exempt information should be improved. Exempt papers, should clearly identify and quantify the risks and advice provided by the Shareholder Group and any relevant independent advisors as well as the clear views of Bristol Holding Limited.*

Recommendation 6: The Council should ensure Cabinet decisions are based upon more timely and current information.*

Through support from Bristol Holding Limited and by earlier access to funds from the Council, the immediate cash crisis was alleviated. The work undertaken highlighted that BE was very likely to need further cash in March and August 2020 and at this stage this was likely to be above the funding cap previously agreed by Cabinet.

BE's financial position had been impacted by:

- a reduction in the wholesale price of gas and electricity by around 30%;
- declining customer retention;
- competitors' offering customers low prices which provided little if any profit; and
- inadequate cash management.

External advisors, who were already commissioned to support the City Leap Partnership, were engaged by Bristol Holding Limited to find a sustainable solution.

The external advisors completed two reviews:

- Phase 1 – a review of BE's short-term cashflow forecast. The report identified that without further funding from the Council, BE would be insolvent (as a result of its inability to pay its debts as they became due) and funding above the £7.7 million agreed cap would be required.
- Phase 2 – support for BE Board to identify solutions and to provide an options analysis. The report identified the medium term funding requirement, with £1.44m expected over the following six weeks and a further £5.7m in August 2020 as a contribution towards the ROC payment. Four options were considered, with an accelerated sale requiring the lowest level of funding, although if a sale could not be achieved then additional funding might be required to avoid insolvency. Additional funding was approved only if it was as a result of a supplier of last resort.

In **March 2020**, BE's Managing Director (MD) resigned. The MD had been in post since August 2019, having previously held the post of Finance Director since August 2018. An interim MD was appointed by the Shareholder Representative, who was considered to be more experienced in dealing with the situation in hand.

In addition, the Council's Audit Committee requested additional information to provide assurance on the governance arrangements of BE. This was prompted by elected members becoming aware of the findings raised by the external advisors in the first phase of their work.

In **April 2020** the procurement process was paused as a consequence of BE no longer being a viable option for the City Leap Partnership and also to address other issues within the procurement process. The bidders were updated on developments relating to the situation that BE was then in. The following month the procurement process was restarted to reflect the material changes.

Sale of Bristol Energy – new area of reporting

In **June 2020** Cabinet agreed to progress the accelerated sale of the Council's interests in BE on the condition that any additional financial liabilities arising from the sale process do not exceed the maximum exposure under the PCGs (£15.9m). If this was not possible, emergency funding of £2m could be utilised in an unintended insolvency scenario.

The Council continued to commission external advisors and the advisors began the process of identifying potential buyers for the commercial customers (B2B) and domestic customers (B2C) elements of BE. Following a bid clarification process, five parties were identified as leading bidders. An analysis of these offers was presented to the Council in July 2020. The Council subsequently agreed to progress offers from Yu Energy ("YU") for its B2B business and Together Energy ("TE") for its B2C business. Following advice from the Council's third party advisors, it was considered that this combination sale would result in the greatest return to the Council.

Summary of events

Accelerated sales process

BE concluded the sale of its commercial customer business to YU on 7 August 2020. The sale included such things as customer contracts, employees, all debit and credit balances and the estimated 2021 associated ROC liability.

The sale of BE's domestic element of the business was sold to TE and concluded on 8 September 2020. The sale included, items such as customer contracts, employees, fixed and moveable assets and business records including intellectual property rights.

Certain assets and liabilities were excluded from the commercial and domestic sales. They were excluded either because they were of no value, not wanted by the buyer or because they needed to be retained by the Council to ensure the smooth wind down of remaining operations. They included, for example, certain employees and associated assets required to assist in the wind down and any ROC liability for 2020 and/or 2021 which was not transferred to a buyer. These elements remained the responsibility of BE and will unwind in the period prior to the agreed exit.

The approach taken by the Council and BE has resulted in a planned and an orderly solvent winding up of BE and we consider that it is reasonable to assume that this approach would be less costly than an unplanned approach. These funds have been used to meet the remaining liabilities within BE, such as ROC liability for 2020, operational liabilities, such as rent and costs of the wind down team.

Indemnity

Following the transactions set out on the previous page, the Council granted an indemnity of up to £7.3m, to cover all liabilities which may fall due as a consequence of the sale and planned winding up of BE. The Council envisaged that this indemnity would prevent any call upon its PCGs of up to £15.9m. This would be achieved by preserving the solvency of BE and assisting in its orderly wind up. This would result in a saving for the Council of £8.6m should the indemnity be fully utilised and the Council fully honour the PCG commitments. In our opinion in the circumstances, the decision to grant the indemnity at this time appeared reasonable.

Following the indemnity being set up, BE immediately utilised £2.7m to meet certain Ofgem ROCs payments and other associated energy industry obligations.

Exit options

In February 2021 BE engaged specialist restructuring advisors who provided BE with an initial options report setting out the possible exit routes for BE. Striking off was discounted at an early stage. The options considered in more detail were Creditors' Voluntary Liquidation ("CVL") and Members' Voluntary Liquidation ("MVL"). The report set out the advantages and disadvantages of these options but did not recommend any one option over and above the other.

In our view the Council engaged with reputable and appropriate third party advisors who assessed the most reasonable exit options available to BE, either a CVL or an MVL, when considering the reported nature of its operations and liabilities at the time of assessment.

This resulted in an estimated outcome for the Council, through an MVL process, of circa. £2.2m lower than the outcome achieved through a CVL process. This figure included the additional fund that would be required to fund an MVL process (which is assumed to be captured by the existing indemnity).

The Council subsequently adjusted the net position to reflect accrued liabilities, the implications on the Council's net cashflow from the various transactions and the risk that a CVL route is likely to lead to the Council guarantee / indemnity, being called in full by the liquidator, increasing the estimated exposure. As a result, the Council's restated risk-adjusted calculation was considered by the Council to be a difference of £164,000 between whether a CVL or an MVL was followed, compared to £2.2m suggested by third party advisors mentioned above. Both scenarios were anticipated to avoid any call upon the PCGs.

Reputational implications for the Council were also considered and a CVL was considered to have a significant detrimental impact of the Council's reputation when compared with an MVL, as a CVL liquidation could have a consequential financial impact on the Council's other companies.

The Council agreed that an MVL should be pursued, as the estimated £164,000 adverse variance, when compared to a CVL, would be offset by other best value considerations that would have both reputational and financial implications, for example:

- adverse impact on Director's reputations and potential disqualification
- availability and pricing of Directors and Officers (D&O) Insurance cover
- potential impact on local authority Credit Rating
- reputation and emerging market confidence in the Council

This decision was a reserved matter decision and was made by the Shareholder Representative on the 1 March 2021. The following officers were also in attendance:

- Chief Executive
- Director of Finance
- Director of Legal and Democratic Services
- Shareholder Liaison Manager.

When considering the return in a CVL process, it should be noted that any return is based on amounts paid to BE through loans, indemnities and/or guarantees only. No return would be expected to be received on the Council's preference shareholding.

Summary of events

The Shareholder Group were not formally consulted on this decision as the Shareholder Group now only meets quarterly, although the Officers listed on the previous page are members of the Shareholder Group so were involved in the decision making process. The Shareholder Group was made aware of the decision to progress to a MVL on the 11 March and the reserve matter decision was confirmed to the Shareholder Group in the monthly report from the Shareholder Liaison Manager on the 12 April 2021.

In addition, given the level of BCC's investment at this time and the certainty of a conclusion that an MVL provides (and unlikely call upon PCGs), we are of the view that the MVL process is not an unreasonable exit route. It should be noted that we have not verified the cost and financial implications of each liquidation option, but we have considered the actions taken as a result.

Anticipated Final Outcome

By May 2021, the Council had invested funds in the region of £42.0m, consisting of the following:

	March 2020 £m	May 2021 £m
Ordinary and Preference shares	36.50	36.50
Parent Company Guarantee	17.60	0
Indemnity drawdown (available headroom of £800k)	0	6.50
Less funds already transferred to the Council	0	1.00
Total invested funds	54.10	42.00

The Council estimates that, upon the conclusion of the MVL process, total funds lost through this investment will not exceed £43.8m (the ordinary and preference shares £36.5m plus £7.3m indemnity).

Action taken by the Council

Our previous report led to a qualified VFM conclusion, regarding the Council's Governance arrangements at its companies, with specific focus on arrangements impacting on BE.

The Council has, in our opinion, initially responded comprehensively to our previous report. The Council has agreed with all our recommendations, which was fully discussed at Audit Committee on the 25 January 2021 and debated at an extraordinary meeting of full Council on 11 February 2021.

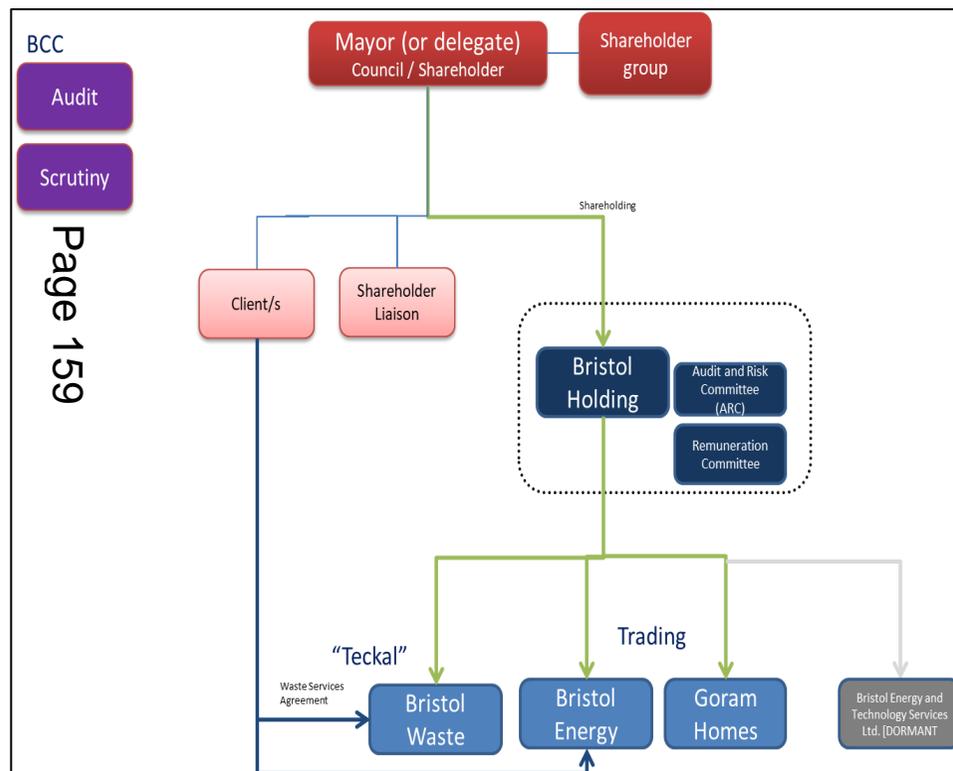
Following this extraordinary meeting the Council set up a cross-party working group to add further challenge and monitoring capacity to the Council's response to our previous report.



Governance arrangements - previously reported in our VFM report to the Council

The illustration below sets out the governance arrangements in place during 2019/20 and 2020/21. We established that the arrangements were undermined by the articles of association and shareholder agreement not being up to date and not reflecting the agreed changed roles and responsibilities of Bristol Holding Limited. Although terms of reference were in place for some of the functions, these were also not up to date.

Recommendation 7: The Council should update the articles of association and shareholder agreement to reflect the strengthened role of Bristol Holding Limited. The terms of reference for all elements and functions of the governance structure should be in place and updated.*



Roles and responsibilities

Bristol City Council has a mayoral model of governance and decisions relating to companies are, ultimately, the responsibility of the Mayor. Shareholding is an executive function and in 2017 delegated authority was given to the Deputy Mayor – Finance, Governance, Performance and Culture, who acts as the Shareholder Representative.

Key decisions are made in Cabinet and other reserved matter decisions are made by the Deputy Mayor. The current structure means that the Shareholder Representative was responsible for making a large number of delegated decisions, not just for BE but for all the Council owned companies. For key decisions the Shareholder Representative is also responsible for updating the Mayor and Cabinet.

In 2019 Cabinet agreed to strengthen the role of Bristol Holding Limited and to support this new role through the appointment of an Executive Chair. Additional resources were provided to Bristol Holding Limited to enable it to oversee the operation and performance of its subsidiaries and therefore reduce the role of the Shareholder Group.

Bristol Holding Limited and its subsidiaries began to operate a strengthened group structure, with Bristol Holding Limited ensuring delivery of BE's performance and objectives. This included centralised resources and structures, such as the new Audit and Risk Committee and the Remuneration Committees. The Shareholder representative appointed the Executive Chair in August 2019 and two Non-Executive Directors shortly afterwards.

The appointment of the Executive Chair (an individual who carries out the responsibilities of the chair of the board and the chief executive/managing director of the company) is not good practice and does not follow [The UK Corporate Governance Code – July 2018](#). The Council provided the following reasons for this appointment in the report to Cabinet in April 2019:

- the use of Executive Chairs is more common in government entities; and
- it may be more appropriate in an environment where the shareholder has direct control of the Executive Chair, and is comfortable with the governance implications.

We do not consider that these reasons justify the lack of independence that an Executive Chair would have and the possible conflict of interest in responsibilities. In our experience local authorities often struggle to balance the level of control and commercial freedoms whilst operating in a political environment. An independent chair is important to ensure the success of local authority companies.

Recommendation 8: Consideration should be given to the role of the Executive Chair of Bristol Holding Ltd. This should include if this role is appropriate going forward, and does it ensure independence of the chair and reduce potential conflicts.*

Governance arrangements

It is not uncommon for elected members to be found on the boards of local authority companies, but it is generally not considered good practice due to potential conflicts of interest that may arise and their potentially limited commercial experience. Conflicts of interest can arise when the Council, the Council owned company, officers and elected members have differing roles and responsibilities. Existing arrangements indicate that it is highly likely that conflicts of interest will occur, therefore it is important that the governance arrangements provide effective mechanisms for identifying and dealing with potential conflicts.

Audit Committee

The Council's Audit Committee has a responsibility to provide independent assurance on the governance, risk management framework and the associated control environment operating across the Council. To some extent this will include the Council's owned companies, although this is not included or clarified within the Council's Audit Committee terms of reference.

In order to discharge these duties the Council's Audit Committee received the minutes of Bristol Holding Limited's Audit and Risk Committee, Companies' annual governance statements and also received updates from external audit and internal audit relating to any relevant work they have carried out.

Concerns have been raised relating to access to confidential information, because a proportion of papers were viewed to be commercially sensitive and, as such, could not be easily viewed. This has since been discussed by the Audit Committee and a response provided by the Monitoring Officer as to the legal basis on which the Audit Committee have access to information.

In order to discharge their responsibilities the Audit Committee should have sight of issues relating to the Council's governance arrangements. We recognise that information which is commercially sensitive cannot be publicly available and access needs to be restricted, but the Council needs to find a way to balance the legal and commercial sensitivities to enable Audit Committee to operate effectively. This should not be all exempt papers but only those relevant to the Committee role and responsibilities. We are aware that some Councils achieve this by the Monitoring Officer holding briefing sessions with the Chair and Vice Chair of the Audit Committee.

Overview and Scrutiny Management Board (OSMB)

As set out in the Council's Constitution, OSMB is authorised to scrutinise decisions and actions which are the responsibility of the Mayor or Executive and to scrutinise governance arrangements at both the strategic and local level. The terms of reference do not mention companies owned by the Council, but are sufficient to cover all reserved matters and key decisions, as these are the responsibility of the Mayor or Cabinet, or are delegated to the Deputy Mayor.

OSMB has had the opportunity to scrutinise key decisions made by Cabinet regarding BE, performance, both mid and year end and has provided its response to Cabinet. These responses have been confidential and, if they were discussed by Cabinet, the minutes and meetings were not recorded.

OSMB's ability to scrutinise reserved matters has been restricted as it has not routinely been made aware of these decisions. These decisions are made by the Deputy Mayor, in line with the scheme of delegation, but are not routinely published on the Council's website. In our opinion, this is not in line with the philosophy of open and transparent decision making, or with our experience of other local authorities which own companies. It also reduces the opportunity for OSMB to scrutinise these decisions, or the governance arrangements.

Managing risk

The number of occasions when the Council has commissioned external advisors to consider solutions and options for BE illustrates that the Council has to an extent understood the risk that BE posed. However, we consider that the risks were not fully appreciated by Cabinet for a number of reasons:

- the risk posed to the tax payer by BE was not separately documented and was subsumed in the corporate risk register within the risk 'long term commercial investments and major projects' which included other projects such as Colston Hall;
- the commercial sensitivity of the information meant that risks were not clearly identified and scored in reports and was either contained less prominently within the appendices or was not provided; and
- the complex nature of the industry resulted in it being more difficult to understand the information and mitigations being provided, resulting in information provided by BE being more difficult to challenge.

This was compounded by the view that the City Leap Partnership would mitigate the risks in this area and provide a financial lifeline to BE.

In addition, as the Council did not identify any prior warning of the significant deterioration in BE's financial position and cash crisis, this outcome suggests that the Council did not have effective risk management arrangements in place. These arrangements could be improved, for example by more clearly stating and evaluating the risks and mitigations, ensuring information is up to date and as current as possible and providing specialist advice direct to Cabinet.

Recommendation 9: The Council should improve the risk management arrangements to ensure that all key risks are identified and clearly reported to Cabinet.*

Action plan

	Assessment	Recommendations
3	 (Medium)	<p>Where the Council is working with external advisors on complex projects it should better document its response against all recommendations made.</p> <p>Management response</p> <p>Guidance and training for officers will be prepared to ensure that due regard is had to all recommendations proposed by external advisors on complex projects. The advice and any recommendations proposed by external advisors will be clearly presented to decision makers, and the preferred approach being recommended by officers will be clearly set out and this will be emphasised in the guidance and training for the Companies handbook.</p> <p>Responsible Officer Timing Director: Legal & Democratic Services 31 March 2022</p>
	 (High)	<p>Public reports should be consistent with the issues and concerns raised within exempt papers. The exempt papers should only provide confidential information which cannot be discussed within the public sessions*.</p> <p>Management response January 2021</p> <p>Whilst seeking to balance public transparency and as the only shareholder the responsibility for the protection of shareholder value, we had previously identified the need for additional information to be incorporated within the presentation of the Council-owned companies' business plans. Content considered exempt for commercial reasons have been incorporated within the exempt business plans and continue to be significantly improved. We have worked closely with the companies over the last 12 months to ensure that exempt information is presented effectively and only includes information which cannot be discussed in public sessions.</p> <p>We will continue to improve the reports to ensure that exempt information is presented effectively, with appropriate redactions to ensure consistency in the information reported and that only information which cannot be discussed in public sessions is excluded.</p> <p>Responsible Officer Timing Director: Legal & Democratic Services Ongoing</p> <p>Management Progress due November 2021</p>

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Controls

-  High – Significant effect on control system (red)
-  Medium – Effect on control system (amber)
-  Low – Best practice (green)

Action plan

Assessment

Recommendations

5


(High)

Cabinet reports relating to Bristol Holding Limited's companies which include exempt information should be improved. Exempt papers, should clearly identify and quantify the risks and advice provided by the Shareholder Group and any relevant independent advisors as well as the clear views of Bristol Holding Limited*.

Management response

We are committed to ensuring a high quality of discussion and decision making and note that exempt sessions of Cabinet invited views from the Shareholder Group and other representatives. We acknowledge that it would be beneficial to also capture these in the written reports.

Risk assessments will be included in each Cabinet Report relating to the Council's companies and we will consider with the Shareholder Group how their advice, and that of other advisors and organisations, should be presented to Cabinet.

The report template will be strengthened, and training provided where required to improve the quality of the report content and ensure key financial points and risks from the proposal and associated appendices are appropriately summarised in reports.

In cases where logistics make it impossible to update written reports prior to publication, any additional views of Shareholder Group will be incorporated into Cabinet Member introductory remarks to ensure they are known to Cabinet.

Responsible Officer

Timing

Director: Legal & Democratic Services

By April 2021

Management Progress due November 2021

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Controls

-  High – Significant effect on control system (red)
-  Medium – Effect on control system (amber)
-  Low – Best practice (green)

Action plan

	Assessment	Recommendations				
6	 (High)	<p>The Council should ensure Cabinet decisions are based upon more timely and current information*.</p> <p>Management response</p> <p>This finding highlights the governance challenge that was inherent in operating a commercial company in a high-paced, volatile marketplace whilst needing to serve the high levels of scrutiny, transparency and assurance which are required in local government.</p> <p>Consideration will be given to the governance pulse and how this could be streamlined from Shareholder Group to Cabinet, whilst still enabling appropriate Scrutiny and feedback to be considered and where appropriate, reflected in the plans / reports and further written confirmation of endorsement or recommendations obtained.</p> <p>In future Cabinet Reports will be explicit about the date of the latest Business Plan upon which the report is based. We will also consider holding separate Cabinet meetings for budget and business plans to help ensure sufficient capacity is available for wider discussions should it be required at the point that a decision is taken.</p> <p>Utilising new IT systems available to officers, the version control of reports and appendices will be improved with appropriate report prompts and ensure that during iteration of proposals, the professional commentary of Business Partners is subject to a final review and only signed-off as complete at the end of the process.</p> <table border="0"> <tr> <td>Responsible Officer</td> <td>Timing</td> </tr> <tr> <td>Director: Legal & Democratic Services & Director: Finance</td> <td>By April 2021</td> </tr> </table> <p>Management Progress due November 2021</p>	Responsible Officer	Timing	Director: Legal & Democratic Services & Director: Finance	By April 2021
Responsible Officer	Timing					
Director: Legal & Democratic Services & Director: Finance	By April 2021					
7	 (High)	<p>The Council should update the articles of association and shareholder agreement to reflect the strengthened role of Bristol Holding Limited. The terms of reference for all elements and functions of the governance structure should be in place and updated*.</p> <p>Management response</p> <p>A Governance Review has already been commissioned to help inform the update of the articles of association and shareholders' agreement, to take into account Bristol Holding's role. This was placed on hold subject to the completion of this Value for Money review and can now be progressed. The Terms of Reference for the Shareholder Group will be updated as part of this review. A series of guidance notes are being devised to illustrate the governance structure and the workings of the governance arrangements for inclusion in the company's handbook.</p> <table border="0"> <tr> <td>Responsible Officer</td> <td>Timing</td> </tr> <tr> <td>Director: Legal & Democratic Services</td> <td>By October 2021</td> </tr> </table> <p>Management Progress due November 2021</p>	Responsible Officer	Timing	Director: Legal & Democratic Services	By October 2021
Responsible Officer	Timing					
Director: Legal & Democratic Services	By October 2021					

Controls

-  High – Significant effect on control system (red)
-  Medium – Effect on control system (amber)
-  Low – Best practice (green)

Appendix B

Bristol Energy Limited Company number 09135084

Date	name
17 July 2014	Osmium Energy Limited
14 July 2015	Bristol Energy Technology & Services (Supply) Limited
16 July 2015	Bristol Energy & Technology Services (Supply) Limited
14 February 2020	Bristol Energy Limited
2 October 2020	BE2020 Limited

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* This recommendation was included in our report 'Review of Governance Arrangements for BCC's Subsidiaries' as presented to Audit Committee on 25 January 2021

Executive Summary

Recommendations

Recommendation 1: Discussions and decisions made within exempt committee meetings should be recorded.

Recommendation 2: Public reports should be consistent with the issues and concerns raised within exempt papers. The exempt papers should only provide confidential information which cannot be discussed within the public sessions.

Recommendation 3: Cabinet reports relating to Bristol Holding Limited's companies which include exempt information should be improved. Exempt papers, should clearly identify and quantify the risks and advice provided by the Shareholder Group and any relevant independent advisors as well as the clear views of Bristol Holding Limited.

Recommendation 4: The Council should ensure Cabinet decisions are based upon more timely and current information.

Recommendation 5: The Council should update the articles of association and shareholder agreement to reflect the strengthened role of Bristol Holding Limited. The terms of reference for all elements and functions of the governance structure should be in place and updated.

Recommendation 6: The Council should agree and consider if the client function role is appropriate for each of its companies and document the role and responsibilities for those companies where it is agreed.

Recommendation 7: Consideration should be given to the role of the Executive Chair of Bristol Holding. This should include if this role is appropriate going forward, and does it ensure independence of the chair and reduce potential conflicts.

Recommendation 8: The Council should minimise the potential for conflicts of interest, such as the role of the Executive Chair, elected members and officers. To facilitate this, the Council should develop a conflicts of interest policy to ensure potential conflicts in relation to Council owned companies are identified and managed appropriately. This could be incorporated within a company's handbook.

Recommendation 9: The Council should develop a mechanism to enable the Audit Committee to be sighted on potential exempt issues within their role and responsibilities and legal duties.

Recommendation 10: The Council should consider publishing all reserved matter decisions relating to its companies and consideration should be given to how elected members access to confidential information relating to reserved matter decisions could be improved.

Recommendation 11: Appropriate training should be provided on a regular basis to elected members who are involved in the Council's owned companies, in relation to decision making, scrutiny and the Audit Committee. This should include sector specific training, roles and responsibilities in relation to Council owned companies and potential conflicts of interest.

Recommendation 12: The Council should improve the risk management arrangements to ensure that all key risks are identified and clearly reported to Cabinet.

Audit Committee

23 Nov 2021



Report of: Director of Finance

Title: Corporate Debt Management Policy

Ward: City Wide

Officer Presenting Report: Kevin Smith (Operations Manager Revenues)

Recommendations:

1. That Audit Committee note the draft corporate debt management policy and provide comments for consideration by Cabinet for its meeting on 18 January 2022.

Summary:

1. The attached draft corporate debt management policy sets out the framework to be followed by the Council when undertaking collection activity. It recognises the financial impact suffered by many citizens as a result of the Covid-19 pandemic and seeks to enhance the ethical work already commenced in the Revenues service and expands to other areas of debt management within the Council.

Significant Issues:

1. Increased focus on early engagement, communication and local outreach work that will dovetail with the work of third sector advice agencies to deliver an improved experience for the citizen, assisting them to plan their finances and thereby increasing available funds for payment of debt whilst helping to break the circle of debt.



Policy

Not applicable

Consultation**a. Internal**

Executive and Service Directors, Deputy Mayor - City Economy, Finance and Performance and Cabinet Member for Housing Delivery and Homes

b. External

None

Background and Context

Bristol ranked 82 out of 317 local authorities in the Indices of Deprivation 2019 dataset, with 1 being the most and 317 the least deprived (Ministry of Housing, Communities and Local Government, 2019).

The Covid-19 pandemic has further exacerbated the mental and financial wellbeing of citizens (Mental Health Foundation, 2020). The Council recognises that it has a responsibility to minimise the impact of debt and collection activity on its citizens and this draft policy looks to continue and expand the work which has already commenced in the Revenues service.

Other Options Considered

Not applicable

Risk Assessment

Not necessary for this report

Public Sector Equality Duties

Not necessary for this report

Legal and Resource Implications**Legal**

None arising from this report

Financial

None arising from this report.

Land

Not applicable

Personnel

Not Applicable

Appendices:

Draft Corporate Debt Management Policy

LOCAL GOVERNMENT (ACCESS TO INFORMATION) ACT 1985

Background Papers:

None

References

Mental Health Foundation. (2020). *The COVID-19 pandemic, financial inequality and mental health*. Retrieved from Mental Health Foundation: <https://www.mentalhealth.org.uk/our-work/research/coronavirus-mental-health-pandemic/covid-19-inequality-briefing>

Ministry of Housing, Communities and Local Government. (2019). *Indices of Deprivation*. London: Great Britain.

Corporate Debt Management Policy

DRAFT

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1. Purpose

- 1.1.** Bristol City Council (the council) has both a legal duty and a responsibility to the people of Bristol to ensure effective income management and that the income due to the council is paid promptly to support the delivery of council services.
- 1.2.** This Corporate Debt Policy aims to promote and support proper and equitable debt management processes for all major sources of income owed to the council and to ensure the council minimises debt and maximises rates of collection. The council must ensure that all collection processes comply with the relevant legislation (see Appendix 2), and the policy has been written to ensure that in doing so, the council's processes are fair to everyone, and that where recovery action is necessary, the council is consistent in its approach and assists customers who experience financial difficulty.

2. Objective

- 2.1.** The policy has the following key objectives:
 - To maximise the level of income collected through accurate and timely billing and effective recovery processes
 - To ensure that debts are managed consistently and in line with the relevant legislation, best practice, and ethical collection activities
 - To help customers repay sums owed in a sustainable way and avoid future arrears
 - To proactively support and encourage engagement with our customers
 - To treat customers fairly, ensure individuals' financial circumstances, where known, are considered on a case-by-case basis and take into account the specific needs of vulnerable customers
 - To ensure due regard is given to Children's Rights under the UN Convention on the Rights of a Child in respect of the impact of debt management processes

3. Debts to which this Policy Applies

- 3.1.** This policy applies to all debts and income due to the Council including but not limited to:
 - Business Rates (Non-Domestic Rates)
 - Council Tax
 - Council housing rent (including other charges, garages, and former tenants)
 - Temporary Accommodation charges (occupation and service charges)
 - Overpaid Housing Benefit
 - Commercial Property Rent and Service Charges
 - Leaseholder payments
 - Commercial and garden waste collection
 - Adult Social Care charges (residential and non-residential)
 - Penalty Charge Notices (for example Parking Fines)
 - Recovery of enforcement costs following works in default
 - Business Improvement District Levy (Council act as billing and collection agent to the BID company)
 - Charges for discretionary services or any money due to the Council under terms of an agreement to pay for goods, services, or property
 - Sundry Debts (including licensing, statutory notices, sundry rents, subscriptions, any other miscellaneous debts)

4. Delivering the Policy

- 4.1.** Delivering the policy involves several processes which are common to all debt types and explained in more detail below:
 - Raising invoices, bills, and charge notices

- Methods of payment
- Collection and recovery
- Social inclusion and vulnerability
- Priority debt
- Refunds
- Bad debt provision
- Writing off debts

What We Will Do

5. Raising Invoices, Bills and Charge Notices

- 5.1.** The council recognises that prompt invoicing and billing is important in reducing the debt burden. Invoices, bills, and charge notices must be correctly addressed, including postcode, to the person who is liable to pay, with charges applied in accordance with the relevant legislative requirements and any available entitlement to reliefs, exemptions and discounts identified.
- 5.2.** Invoices should be raised within 10 working days of delivering the goods or service or of the commencement of the period where the service being delivered is covered. The invoice will be sent via email wherever possible and to this end the relevant service is responsible for obtaining an email address at the point of agreeing to provide goods or services.
- 5.3.** The council will produce clear bills in plain English:
- calculated accurately at the point of issue
 - addressed to the person who is liable to pay
 - showing what the bill is for and the period of liability
 - detailing the amount due and, where appropriate, the instalment amounts and payment due dates
 - advising where and how to make a payment or deduction from earnings or benefit
- 5.4.** It is important that clear and prompt information is provided, and a range of communication services are available to customers upon request, including:
- Translation and interpretation services if English is not the first language
 - Sign language interpreters and other support for those who are deaf or have impaired hearing
 - Documents in alternative formats, for example Easy Read, Braille, large print, audio, and disc
 - Other options tailored to meet specific individual needs
- 5.5.** The council will:
- Respond quickly to changes in circumstances and applications for exemptions, discounts, rebates, and reliefs
 - Be a contact point for enquiries - including e-mail and website enquiries
- 5.6.** Alternative invoicing or billing arrangements, such as monthly or quarterly, will be acceptable upon agreement with the customer or because of contractual arrangements.

6. Methods of Payment

- 6.1.** The council is committed to making it as easy as possible for the customer to pay and a range of flexible, convenient, and modern methods of payment are offered. Where payment can be made before a service is provided a payment can be taken in advance, ensuring that no debt is raised.
- 6.2.** Where services are used over a period of time, the council will use the most effective billing methodology such as periodic invoicing or setting up accounts to enable regular standardised payment options to be implemented based on expected service usage, followed by variation

adjustments at appropriate intervals. The council will consider an instalment arrangement for certain debts. These options are not universal to all debt types and therefore will be subject to system capability.

- 6.3.** Direct Debit (where feasible) is the council's preferred payment method and should always be promoted as this is the cheapest and most effective method of payment to administer. Where a customer is unable to pay by Direct Debit or where this method is not appropriate (for example for a 'one off' bill) we will provide a choice of alternative payment methods which should be convenient for the customer and cost effective for the council.
- 6.4.** Alternatives currently include debit or credit card transaction (allowing payments to be made 24 hours a day, 7 days a week using the automated telephone line or internet facilities), Standing Order, cheque, and cash at PayPoint or Post Office. Other payment options including text payments are being investigated and may be introduced at a future date.

7. Collection and Recovery

- 7.1.** Customers are proactively encouraged to make contact to discuss their situation and the options available to them to make payment before any necessary recovery and enforcement action is taken.
- 7.2.** Customers will receive appropriate assistance, guidance and support through debt management and benefit advice. We will ensure that mutually agreed repayment arrangements are affordable and sustainable, and, that the customer understands the options available that will minimise costs and avoid accruing unnecessary debt in the future.
- 7.3.** We recognise that causes of debt vary and recovery methods should be focused accordingly. Therefore, wherever possible debt will be categorised to help focus the use of resources and concentrate action on those who won't pay rather than those who can't pay. The council's approach in collecting and recovering outstanding monies will be proportionate, consistent, transparent, firm, fair and courteous.
- **Proportionality** - allows for a balance to be struck between the potential loss of income to the council and the costs of compliance.
 - **Consistency** – in this context means taking a similar approach in similar circumstances to achieve similar ends. The council aims to achieve consistency in:
 - The advice the Council gives
 - The use of its powers
 - The recovery procedures used

The council recognises that consistency does not mean simple uniformity; officers need to take account of many variables such as, but not limited to:

- The personal circumstances of the customer and their household
 - The customer's payment history
 - The customer's ability to pay
 - The sustainability of payments
 - Consideration is given to financial safeguarding through Department for Work and Pensions appointees and / or Court of Protection property and affairs deputyship
- **Transparency** - is important in maintaining public confidence. It means helping people to understand what is expected of them and what they should expect from the Council. It also means clearly explaining the reasons for taking any recovery and enforcement action and the timescales involved.

- **Firm, fair and courteous** - the Equality Act will be taken into account, communications should be in plain English and large print, Braille or translated versions will be made available to customers upon request. Council staff and agents will be aware and respectful of the diverse cultures within Bristol and an opportunity must be given to discuss what is required to comply with the law before formal recovery action is taken.
- 7.4. The recovery process for each type of debt covered by this policy is shown in Appendix 4, acknowledging that there may be occasions where there is deviation from the usual process and that it is not possible to list all eventualities. The collection of income in respect of invoices raised will follow a standard course, which fully documents the efforts made to settle the debt. It is recognised that certain debts will have a regulated period for recovery. A written explanation will be given of any rights of appeal against formal recovery action either before or at the time the action is taken.
- 7.5. The council recognises that prompt recovery action is key to managing its debt and maximising income. The council therefore aims to:
- Have clear written recovery procedures
 - Regularly monitor the level and age of debt
 - Regularly review irrecoverable debts for write-off
- 7.6. The council will ensure that procedures are in place to identify customers who are experiencing financial difficulties at an early stage. Data sharing across the debt streams covered in this policy will enable early intervention to work with and help the customer. Professional safeguarding referrals will be made where appropriate (see www.bristol.gov.uk/social-care-health/report-suspected-abuse).
- 7.7. The council will follow a fair and proportionate recovery and enforcement process and give due consideration to vulnerability (see Section 9 - Social Inclusion and Vulnerability), we will:
- Support residents and businesses to prevent problematic debt accruing and wherever possible to improve their cashflow
 - Differentiate between those who can't pay and those who won't pay through a combination of available data and our local outreach work to determine the most effective method of debt recovery
 - Seek to recover any amounts owed from the estate of deceased customers unless the deceased has left no estate
 - Identify where the customer has moved to a new house or 'gone away' without providing a forwarding address and make every attempt to locate the individual where procedures allow. Action taken will be proportionate to the level of debt involved (see Section 13 – Tracing Absconders)
 - Attempt to use the most appropriate and effective method of debt recovery, balancing the need for repayment against the circumstances of the customer, affordability of repayment and their obligations to the Council and other outstanding priority debts
 - Seek to charge and recover from the customer (where legislation permits), all appropriate costs or fees arising from the management of the debt. Only in exceptional cases, where it would not be in the public interest to pursue costs or fees, will they be waived
- 7.8. All debts will be taken into consideration when referring the debt for legal recovery. We will use enforcement agents to collect debts only where there has been no engagement from the customer or where alternative recovery options have not been successful or are not appropriate and monitor their practice closely to ensure compliance with our standards. In any case where an enforcement agent identifies vulnerability the case will be discussed with a central point of contact in the Revenues team before further action is agreed.
- 7.9. These actions will minimise the level of debt written off, maximising potential income, and contribute towards a strong foundation for the achievement of corporate objectives. When a debt is deemed to be non-recoverable, it will be done at the earliest possible opportunity and dealt with in accordance with the council's financial procedures and policies (see Appendix 1 – Debt Write Offs).

7.10. Where a customer lives (and if a business their primary trading address) is outside of the greater Bristol area (generally the area defined by postcodes in the 'BS 1-16' range) it may not be possible to undertake the full range of activities detailed.

8. Breathing Space (The Debt Respite Scheme)

8.1. The Government introduced new legislation on 4 May 2021 called The Debt Respite Scheme (Breathing Space Moratorium and Mental Health Crisis Moratorium) (England and Wales) Regulations 2020, the core principles being:

- To provide legal protection for individuals in problem debt
- Normal Breathing Space Moratorium that will last for 60 days
- The Mental Health Breathing Space Moratorium to last as long as the individual is receiving mental health crisis treatment
- Requirement for creditors to cease action on qualifying debts
- Requirement for creditors to conduct a reasonable search for all debts owed by the customer

8.2. The Revenue Service will be the council's point of contact and will be responsible for liaising with the debt advisor and communicating the Breathing Space notification to Services. Services will be required to undertake a search for any additional debts not listed and provide details to the Revenue Service.

8.3. The full legislation can be found by following this link: [Debt Respite Scheme \(Breathing Space\) guidance for creditors – GOV.UK \(www.gov.uk\)](#). The Council's Welfare Rights and Money Advice Service are trained on Breathing Space and can assist individuals that owe money to the Council.

9. Social Inclusion and Vulnerability

9.1. The council recognises that some customers are considered vulnerable due to their circumstances and may require additional support, either short or long term, when dealing with their financial and personal affairs. A customer may be vulnerable or at risk of being vulnerable for several reasons including changes in their needs or circumstances, especially if they are faced with a particularly urgent or complex issue.

9.2. Due regard will be given to customers who are vulnerable or temporarily vulnerable and although not an exhaustive list, common indicators may include those set out below.

9.3. 'Temporarily Vulnerable' refers to situations where the customer has had a sudden change of circumstances for example:

- Suffered a recent bereavement (this may be up to 52 weeks) of a close family member
- Recently been separated or divorced
- Had an illness, been a long-term hospital patient or suffered loss of employment
- Recently left the armed forces
- Recently been released from a custodial sentence
- Recently suffered or suffering domestic violence and / or being in a refuge or safe house
- Are themselves or their partners in the final weeks of pregnancy, recently given birth or adopted a child.
- Homeless households
- People experiencing current or recent hate crime
- People whose income has dropped significantly such as where they have lost work or material working hours, welfare benefits and Tax Credits
- People who have recently gained Refugee status and are unfamiliar with the labour market, the welfare benefits system, and the British taxation system
- People who have no recourse to public funds

- 9.4.** 'Vulnerable' customers refer to those that:
- Are frail due to old age, disability, other impairment or very easily confused
 - Have severe physical disability, learning disability or mental health condition
 - Are themselves or their partners seriously or terminally ill
 - Are living in poor or insecure housing / homelessness
 - Have poor basic skills of literacy and/or numeracy
 - Lack access to a bank account, phone or internet
 - Are single parent families or have caring responsibilities
 - Find it difficult to communicate, or lack an understanding of spoken or written English
 - Are care leavers aged 18 to 25
 - Where the welfare of children would be put at risk
- 9.5.** The council and its agents / staff will be trained and supported so they are able to identify the needs of individuals and the indicators of vulnerability. Staff should understand that not everyone with a particular indicator will necessarily be vulnerable in any or all circumstances.
- 9.6.** The council is aware of the financial pressures under which many households operate and ability to pay is a paramount concern when considering debt recovery. To tackle these issues every effort will be made to make customers aware of sources of financial assistance which may be available to mitigate debt or to help alleviate financial distress, including:
- Housing Benefit and the Local Council Tax Reduction Scheme (LCTRS)
 - Universal Credit for working-age customers
 - The availability of discounts, exemptions, reliefs and disregards
 - Discretionary Housing Payments
 - Council Tax and Business Rates Hardship Relief
 - Welfare Assistance – Local Crisis Prevention Fund
 - Welfare benefits advice services
 - Local and national money, debt and welfare benefits advice agencies for free, independent debt and money advice
 - Local food banks
 - Local food clubs
 - Mental health and wellbeing initiatives, organisations and charities
 - Other charitable and support organisations
- 9.7.** The council works in partnership with local and national money and debt agencies to support individuals in debt or with financial vulnerability. Innovative ways will continuously be explored to engage with those who are financially disadvantaged, taking a rounded view and working with them to break the cycle of debt.
- 9.8.** Activities will include:
- The increased use of multi-channel communication technologies including text messaging
 - Where possible, outreach teams will make outbound telephone calls and local outreach teams visits from a welfare and support perspective. This approach can be particularly targeted at those customers identified to be in crisis or at financial risk
 - In appropriate cases consultation with Social Services or other agencies
 - Assistance with money management
 - make provision for payment holidays, remission processes, longer collection timescales and other alternative collections strategies.
 - Promotion of the services of qualified debt advisors, for example Citizens Advice Bureau, National Debt Line, Business Debtline, Neighborhood Advice Centre and referral to the Money and Pensions Service (MaPS) initiative.
- 9.9.** A standardised affordability assessment form or the standard financial statement will be used to ensure that collection officers can ascertain a customer's total income and expenditure, and agree

a consolidated affordable payment, which will clear overdue sums in an appropriate period of time.

10. Priority Debt

10.1. Debts considered as priority debts are those debts owed to creditors who can take the strongest legal action (for example, the loss of the primary residential home, imprisonment or loss of essential goods) against an individual who does not pay. For council debts this will generally be in relation to council domestic rent arrears, council tax or business rates.

11. Debt Hierarchy

11.1. In some instances, customers will owe more than one debt to the council. The Council will adopt a coordinated approach when dealing with multiple debts and will consider the person's circumstances, legislation, the level and priority of debt and the potential for financial hardship.

11.2. Where the council or its collection agent is pursuing multiple debts, unless the customer advises to the contrary, priority is given to debts where non-payment could lead to loss of the customer's home imprisonment for non-payment or have direct implications upon an individual's health and wellbeing as follows:

- Rent arrears and tenancy related charges
- Council Tax and Business Rates arrears
- Water Rates, Gas and electricity
- Unpaid charges & fines
- Other debts

11.3. Customers cannot be imprisoned for not paying other debts and they are unlikely to lose their home or their essential goods (for example a car needed for work). However, if customers make no acceptable offers to pay, without explaining why, creditors will take court action. If customers still fail to pay when the court has ordered it, creditors can take further action. It is acknowledged that whilst creditors for other debts have limited recovery or collection powers, they can cause stress to customers because of constant contact, threats and increasing balances. Customers should make every effort to obtain debt, money or welfare benefits advice from an appropriate agency.

11.4. Where a customer owes more than one debt of the same type (for example, council tax), priority should be given to the current financial year's charge to help prevent further arrears accruing. Consideration must also be given to cases where costs may be incurred through non-payment in order to avoid or minimise fees and costs.

11.5. Payments will be matched to instalment values first or allocated as directed by the customer. If that is not possible, we will determine whether there is a trend or an intent by the customer as to where the monies should be directed. Again, consideration will be given to any situations where there may be potential additional fees or costs.

11.6. The settlement of internal disagreements on the application of the debt hierarchy will be determined by the Section 151 Officer or nominated Deputy, considering the need to balance repayment profiles across the council's various funds. Council officers will liaise, and co-ordinate recovery and the council is currently working on initiatives which will seek to provide a single view of the customer or single view of debt. However, it is recognised that in the absence of such a system this will be difficult to establish if the information is not voluntarily given by the customer.

12. Refunds

12.1. The council will not refund any overpaid monies where the customer owes other monies to the council. When a customer is also a supplier to the Council, the Council retains the right to offset any overdue debts against any monies owed to the supplier. All future supplier contracts should include a clause clarifying this right to offset.

13. Tracing Absconders

13.1. The council will make all necessary attempts to trace any customer that has absconded to ensure that payment is received. This will include checking internal and external sources of information, sharing information with other authorities and using tracing agents as appropriate. The timeliness of tracing, allowing time for the customer to reappear, will be considered before the debt is submitted for write off.

14. Write Off (Irrecoverable Amounts)

14.1. The council recognises that where a debt remains unpaid after exhausting all appropriate recovery methods and is deemed to be irrecoverable, or where there are extenuating circumstances, the debt will be recommended for write off. The council will seek to minimise the cost of write offs to Council taxpayers by taking necessary action to recover monies due.

14.2. Write off of bad debts will only be carried out with the correct approval and in line with the Debt Write Off Policy set out in Appendix 1.

15. Breaches and Non-Compliance

15.1. The policy underpins our processes and procedures, and officers should apply this in their everyday work. Non-compliance will be highlighted through our Quality Audit checking and issues will be addressed appropriately. Material, significant or frequent breaches will be accelerated to the relevant Executive Director for appropriate action.

16. National Disasters / Pandemic

16.1. In these instances, the Council will consider extraordinary measures and potentially implement additional support and take alternative approaches. Wider implications may include Government guidance and changes to legislation at short notice.

17. Policy Review

17.1. The Council is committed to continuous improvement. Delegated authority is given to the S151 Officer to refresh the policy if necessary, to incorporate legislative changes or address minor errors. The policy will be reviewed as a minimum every two years from the date of adoption to allow it to be updated and to take any service improvements or changes into account.

18. Complaints

18.1. If you have a complaint regarding the issue of a bill, invoice or penalty charge notice please contact the service area responsible for issuing the bill, invoice or penalty charge notice. The Council's Complaints procedure is available on the website, see <https://www.bristol.gov.uk/complaints-and->

[feedback.](#)

Appendix 1 – Debt Write Off Policy (all Council debt)

1. The council will take all reasonable and economical debt recovery action to recover the full debt that is due before consideration is given to writing off a debt. The debt will be subject to the collection and legal procedures as outlined in this policy. The degree of enforcement action attempted should be dependent on the amount owed, the type of debt and the customer's personal circumstances where they are known.
2. There will be limited circumstances where it is appropriate to consider writing off the amount(s) owed (or part thereof) to the council. The reasons may be legislative, may be a directive from the Court or local management (where circumstances dictate). Where a debt is determined as non-recoverable it will be identified as such at the earliest possible opportunity and properly dealt with in accordance with this Write Off Policy.
3. If assets have been lost, stolen or damaged and the loss is not recoverable from insurance or other sources, they may be written off by the Executive Director in conjunction with the Chief Financial Officer as Section 151 Officer or Nominated Deputy.
4. Write offs must be transparent and will only be processed where the invoice has been raised correctly and where there is a justified reason why the debt should no longer be pursued. Negotiations with third parties and reduction of actual value below the amounts incurred (for example insurance) should not take place outside of the financial system.
5. In considering the approval to write off a debt the authorising officer shall consider:
 - This Policy
 - The interest of the local community
 - The council's fiduciary duty
 - The rights of the customer and the effect of continued enforcement action
6. Any member of staff, member or contractor who has an interest in any debt must not participate in the decision-making process regarding the write off of the debt and must declare their interest. For the purposes of this policy an interest includes those in the following list, however, the list is not intended to be exhaustive and where a member of staff is unsure whether they have an interest they should seek advice from their line manager or Internal Audit.
 - The debt is owed by a relative, including relatives by marriage
 - The debt is owed by a relative of a current or former partner
 - The debt is owed by a friend or neighbour
 - The debt is owed by an organisation of which you are a member
 - The debt is owed by an organisation of which a relative is a member
 - The debt is owed by a company or individual with whom you have a business relationship
7. Approved reasons for write off of debts fall into two broad categories, firstly those debts that the council is unable to collect and secondly those debts that are deemed uneconomic to collect. The following reasons are recognised as valid reasons for the write off of debts, subject to all appropriate action to enforce payment having been attempted.

Unable to collect:

- The customer is deceased and has left no estate
- The customer is subject to a formal insolvency order (in such cases any accruing debt to be written off will only be up to the date of the order)
- The debt has been remitted by the Court

- It would cause the customer hardship to enforce payment, or it is in the interests of the council or the wider community to write off the debt. This includes the use of the council's powers under Section 49 of the Local Government Finance Act 1988 in respect of writing off a Non-Domestic Rate on the grounds of hardship when appropriate
- The customer has absconded / gone away and cannot be traced
- The customer is living outside the jurisdiction of the English courts and is unlikely to return
- The Court has refused to make an order in respect of the debt
- The customer has served a prison sentence to discharge the debt
- The debt is an overpayment of Housing or Council Tax Benefit which is deemed to be unrecoverable in accordance with the Housing Benefit General Regulations 1987 and the Department for Work and Pensions overpayment guidance manual
- The age of the debt precludes recovery, or the debt is Statute Barred

Uneconomic to recover:

- It is uneconomical to take action to enforce payment if the amount is a small balance (under £10)
 - Legal action is unlikely to be cost effective or it is in the council's interest to agree a negotiated settlement of part of the debt
8. In general, recommendation for debts to be written off should be made only where one of the above categories applies. However, it is recognised that it is difficult to anticipate all potential circumstances where write off may be justified, and that on occasion it may be appropriate to write off a debt for other reasons. Where this is the case a full written report justifying the recommendation must be provided to the S151 Officer, who will make a decision regarding the writing off of the debt.

Authorisation to write off debts

9. When considering debt, it is important to differentiate between a write off and a move or change of tenancy, a credit note, or change in circumstances. A write off is an amount owed that will never be collected. A credit note is issued in various situations to correct a mistake on an invoice, for example where an invoice has been overstated. A credit note must not be used as a substitute for a write off. It is financially incorrect in respect of accounting terms with potential VAT implications.
10. The council's Financial Rules allow for debts to be written off in accordance with this debt write off policy. Financial debt write off may be approved in aggregate in accordance with the following table:

Amount	Minimum Approval Required
Up to £500	Team Managers
In excess of £500, but not more than £5,000	Heads of Service / (in consultation with the Budget Holder) and delegation to designated Revenues Team Managers
In excess of £5,000 but not more than £20,000	Directors (in consultation with Business Partner (Finance), Principal Solicitor and Budget Holder) and delegation to Revenues Head of Service / designated Team Managers
In excess of £20,000 but not more than £50,000	Executive Director (in consultation with Business Partner (Finance), Principal Solicitor and Director)

In excess of £50,000 but not more than £100,000	Executive Director in in consultation with Section 151 Officer and Director, Legal and Democratic Services
In excess of £100,000 but not more than £500,000	Section 151 Officer and Cabinet Member for Finance
£500,000 and over	Cabinet approval

Where there is legal requirement to write off a sum, for example in respect of insolvency, delegated authority to write off is given to Heads of Service irrespective of the level of that write off.

11. Authorisation may only be given by means of a signature. A single signature may be applied to a schedule of debts of individual amounts which in aggregate do not exceed the thresholds above. A record of all sums written off will be maintained by the Service Team, on behalf of the S151 Officer, along with supporting documentation. The appropriate accounting adjustments must be made following approval to write off a debt. Where debts have been referred to Legal Services, the Section 151 Officer will have due regard to their advice when considering action relating to bad debts.
12. Twice annually the amounts written off will be reported to the council's Audit Committee.
13. The customer remains liable to pay even after a debt has been written off. Therefore, if the debt has been written off and a further instalment is received, the Revenues Team should reinstate the debt if any part of it remains unpaid. The debt should then be referred to the relevant Director for consideration of further enforcement action of the remainder.

Appendix 2 – Relevant Legislation and National Standards

The Council has a duty to ensure that all collection processes comply with relevant legislation, which includes but is not limited, to the following:

- Administration of Estates Act 1925
- Care Act 2014
- Care and Support Statutory Guidance (Annex D)
- Charging Orders Act 1979
- Civil Enforcement of Parking Contraventions (England) General Regulations 2007
- Civil Procedure Act 1997
- County Courts Act 1984
- Housing Grants, Construction and Regeneration Act 1996
- Insolvency Act 1986
- Landlord and Tenant Act 1954
- Landlord and Tenant Act 1985
- Late Payment of Commercial Debts (Interest) Act 1998
- Local Government Act 2003
- Local Government Finance Act 1988 (as amended)
- Local Government Finance Act 1992 (as amended)
- Magistrates' Court Act 1980
- Police and Criminal Evidence Act 1984
- Social Security Administration Act 1992
- Taking Control of Goods (National Standards) 2014
- Taking Control of Goods Regulations 2013
- The Business Improvement Districts (England) Regulations 2004
- The Civil Procedure Rules 1998
- The Council Tax (Administration and Enforcement) Regulations 1992
- The Equality Act 2010
- The Late Payment of Commercial Debts Regulations 2013
- The Leasehold and Commonhold Reform Act 2002
- The Non-Domestic Rating (Collection and Enforcement) (Local Lists) Regulations 1989
- The Taking Control of Goods (Fees) Regulations 2014
- The Tribunals, Court and Enforcement Act 2007
- United Nations international human rights treaty which sets out the civil, political, economic, social, health and cultural rights of children

In respect of goods / services billed by the council, the individual Service will be responsible for ensuring compliance with the relevant legislation. Due to the wide range of services provided it is not possible to list all relevant legislation or national standards in this policy.

Appendix 3 – Contact Details

Help with money and debt problems

For independent money and debt advice contact The Money Advisor Network via their website:

<https://adviser.moneyhelper.org.uk/en>

You can give them your contact details in confidence, so they can connect you with a qualified and regulated money adviser.

This is a free service partnered with Bristol City Council.

The council also has a Welfare Rights and Money Advice Service where Money Advisers are available to assist some people who are in debt to Bristol City Council.

Preventing money problems

You can also contact local services who can give advice about budgeting and money management:

ACFA – The Advice Network

Web: www.acfa.org.uk/

National websites:

Money Helper (advice and guides to help improve your finances)

www.moneyhelper.org.uk

Money Saving Expert (advice about getting a basic bank account)

www.moneysavingexpert.com/banking/basic-bank-accounts

If you have problems getting a bank account Great Western Credit Union may be able to help. Call 0117 9247309 or visit <https://greatwesterncu.org>

Dealing with debt

To find details of local advice organisations which provide debt advice and help, see the ACFA website here: <https://acfa.org.uk/>

National websites

National Debtline (debt advice guide)

Tel: Freephone 0808 808 4000

Web: www.nationaldebtline.org/

StepChange debt charity

Tel: Freephone 0800 138 1111

Web: www.stepchange.org/

Citizens Advice

Tel: Freephone 0800 144 8848
Web: www.citizensadvice.org.uk/

Business Debtline

Tel: 0800 197 6026
Web: <https://www.businessdebtline.org>

There are many websites offering advice to people struggling with debt, but many of these offer services that you have to pay for. Check whether the information on the websites above can help you, first.

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Appendix 4 – Debt Recovery Overview by Debt Type

	Regulated Recovery Process	Notification	Contact Customer	First Reminder	Contact Customer	Second Reminder	Contact Customer	Final Demand	Contact Customer	Summons	Contact Customer	Enforcement Options
Miscellaneous Debts	No	Invoice	Attempt to contact customer via telephone, email, text or personal visit (minimum five days after payment due date)	Minimum of at least one month after payment due date	Attempt to contact customer via telephone, email, text or personal visit	Statement of Account issued minimum of 45 days after due date	Attempt to contact customer via telephone, email, text or personal visit	Minimum of 28 days after reminder	Attempt to contact customer via telephone, email, text or personal visit	via County Court (minimum of 60 days after due date)	Attempt to contact customer via telephone, email, text or personal visit	<ul style="list-style-type: none"> Information Order / Arrangement Charging Order / Order for Sale Enforcement Agent High Court Enforcement Officer Insolvency action Attachment to Earnings Third Party Debt Order Withdrawal of service Late payment fees Interest due to late payment
Council Tax	Yes	Bill		Minimum of one month after payment due date		Minimum of 45 days after due date		Only if sums due under first and second reminders have been paid, otherwise not issued		via Magistrates Court (minimum of 60 days after due date)		<ul style="list-style-type: none"> Attachment to Earnings Attachment to Benefit Attachment to Members Allowances Request for Financial Information Enforcement Agent Commitment to Prison Insolvency action
Business Rates	Yes	Bill		Minimum of one month after payment due date		Not issued	Final Notice (only if sums due under first reminder have been paid otherwise not issued)	via Magistrates or County Court (minimum of 60 days after due date)		<ul style="list-style-type: none"> Security for Unpaid Rates¹ Enforcement Agent² Commitment to Prison³ Insolvency action Information Order / Arrangement Charging Order / Order for Sale Enforcement Agent High Court Enforcement Officer Attachment to Earnings Third Party Debt Order 		
Housing Rent	Yes	Invoice		Minimum of one month in arrears		Pre-Notice of Seeking Possession (NSP) warning then NSP after a minimum of 45 days rent in arrears	Attempt to contact customer via telephone, email, text or personal visit	N/A		Via County Court (minimum of 60 days after due date)		<ul style="list-style-type: none"> Information Order / Arrangement Possession Proceedings
Housing Benefit Overpayments (where there is no ongoing housing benefit)	Yes	Invoice		Minimum of one month after payment due date		Not issued		Minimum of 45 days after due date		via County Court (minimum of 60 days after due date)		<ul style="list-style-type: none"> Information Order / Arrangement Charging Order / Order for Sale Collection / Enforcement Agent High Court Enforcement Officer Insolvency Attachment to Earnings Third Party Debt Order Deductions from Welfare Benefits
Penalty Charge Notices	Yes	Penalty Charge Notice		Minimum of one month after the PCN being raised the owner's details are requested from the DVLA. Once the details are received and a 1 st reminder is		Minimum of 45 days after the 1 st reminder is sent	Attempt to contact customer via telephone, email, text or personal visit	Minimum of 21 days after second reminder notification of enforcement agent action is sent		via Traffic Enforcement Centre (minimum of 60 days after PCN date)		<ul style="list-style-type: none"> Enforcement Agent

¹ Court order not required

² Following award of liability order in the Magistrates Court

³ Following award of liability order in the Magistrates Court

				sent out.								
Commercial Property Rent	Yes	Invoice		Minimum of one month after payment due date (determined by lease)		Not issued		Minimum of 28 days after due date		Not required		<ul style="list-style-type: none"> Enforcement Agent Forfeiture
Leaseholder payments	Yes	Invoice		Minimum of one month after payment due date		Minimum of 45 days after payment due date	Attempt to contact customer via telephone, email, text or personal visit		Not required	via County Court (minimum of 60 days after due date)	Attempt to contact customer via telephone, email, text or personal visit	<ul style="list-style-type: none"> Information Order / Arrangement Charging Order / Order for Sale Enforcement Agent High Court Enforcement Officer Insolvency Attachment to Earnings Third Party Debt Order
Adult Social Care	No	Invoice		Statement of Account issued Quarterly		Not issued		N/A				

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Audit Committee

23rd November 2021



Report of: Service Director: Finance

Title: Treasury Management Mid-Year Report 2021/22

Ward: City Wide

Officer Presenting Report: Michael Pilcher, Chief Accountant

Recommendation

That the Mid-Year Treasury Management report for 2021/22 is noted.

Summary

This report meets the treasury management regulatory requirement that the Council receive a Mid-Year Treasury review report. It also incorporates the needs of the Prudential Code to ensure adequate monitoring of the capital expenditure plans.

The significant issues in the report are:

There are no policy changes to the TMSS; the details in this report update the position in light of the updated economic position and budgetary changes. The authority has a net borrowing requirement of £260m over the next five years but is not planning on undertaking any new borrowing during the financial year while the Council hold's adequate treasury investments to meet the liquidity requirements of the Council.

Policy

1. There are no policy implications as a direct result of this report.

Consultation

2. **Internal**
Strategic & Service Directors.
3. **External**
The Council's Treasury Management advisers

Purpose / Context of the report:

4. This report meets the treasury management regulatory requirement that the Council receive a mid-year treasury review report. It also incorporates the needs of the Prudential Code to ensure adequate monitoring of the capital expenditure plans and the Council's prudential indicators (PIs).
5. That the mid-year report is structured to highlight:
 - The economic outlook;
 - The actual and proposed treasury management activity (borrowing and investment);
 - The key changes to the Council's capital activity (the prudential indicators {PIs}).

Background

6. Treasury management is defined as:
"The management of the local authority's borrowing, investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks."
7. The Council operates a balanced budget, which broadly means cash raised during the year will meet its cash expenditure. Treasury management operations aim to ensure that cash flow is adequately planned, with surplus monies being invested in low risk counterparties, providing adequate liquidity initially before considering optimising investment return.
8. The second main function of the treasury management service is the funding of the Council's capital plans. These capital plans provide a guide to the borrowing need of the Council, essentially the longer term cash flow planning to ensure the Council can meet its capital spending operations. The management of longer term cash may involve arranging long or short term loans, or using longer term cash flow surpluses, and on occasion any debt previously drawn may be restructured to meet Council risk or cost objectives.

Introduction

9. The Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management (revised in 2017) has been adopted by this Council. The primary requirements of the Code are:
 - Creation and maintenance of a Treasury Management Policy Statement which sets out the policies and objectives of the Council's treasury management activities;
 - Creation and maintenance of Treasury Management Practices which set out the manner in which the Council will seek to achieve those policies and objectives;

-
- Receipt by the Full Council of an annual Treasury Management Strategy Statement - including the Annual Investment Strategy and Minimum Revenue Provision Policy - for the year ahead, a **Mid-year Review Report** and an Annual Report (stewardship report) covering activities during the previous year;
 - Delegation by the Council of responsibilities for implementing and monitoring treasury management policies and practices and for the execution and administration of treasury management decisions;
 - Delegation by the Council of the role of scrutiny of treasury management strategy and policies to a specific named body. For this Council the delegated bodies are Overview and Scrutiny Management Board and Audit Committee.
10. This mid-year report has been prepared in compliance with CIPFA's Code of Practice on Treasury Management, and covers the following:
- An economic update for the 2021/22 financial year to 30 September 2021;
 - A review of the Treasury Management Strategy Statement and Annual Investment Strategy;
 - A review of the Council's investment portfolio for 2021/22;
 - A review of the Council's borrowing strategy for 2021/22;
 - A review of any debt rescheduling undertaken or planned during 2021/22;
 - The Council's capital expenditure and prudential indicators;
 - A review of compliance with Treasury and Prudential Limits for 2021/22.

Key Changes to the Treasury and Capital Strategies

11. There are no policy changes to the TMSS; the details in this report update the position in the light of the updated economic position and budgetary changes.
12. The 2021–2026 Treasury Strategy (approved 23rd February 2021) identified a medium term net borrowing requirement of £260m to support the existing and future Capital Programme with the debt servicing costs met from revenue savings from capital investment and the economic development fund. The Council's agreed policy is to defer borrowing while it has significant levels of treasury cash balances (£221m at September 2021, £100m estimated for March 2022).
13. However the Council will undertake long term borrowing when rates are deemed advantageous to reduce the Council's exposure to interest rate risk. No borrowing has been undertaken during the year and it is currently planned that no new borrowing will be undertaken during the remainder of the year. Further borrowing could be taken if:
- short term investments fall at a higher pace than expected increasing the liquidity risk of the authority and or;
 - there is another significant change in markets and long term borrowing is deemed advantageous the authority will borrow over periods determined as the most appropriate to reduce the authorities exposure to interest rate risk.

Analysis of Debt and Investments

14. A summary of the of the Council's debt and Investment position as at 30th September 2021 (including forecast at 31st March 2022) compared with 31st March 2021 is shown in the table below:

Debt & Investments	31 st March 2021		31 st September 2021		31 st March 2022	
	Actual		Actual		Forecast	
	£m	Rate% ^{*b}	£m	Rate% ^{*b}	£m	Rate% ^{*b}
Long Term Debt – PWLB Fixed	331	4.63	331	4.63	331	4.63
Long Term Debt – Market LOBO ^{*a}	70	4.09	70	4.09	70	4.09
Long Term Debt – Market Fixed	50	4.04	50	4.04	50	4.04
Estimated “New” Short Term Borrowing	-	-	-	-	-	-
Total Debt	451	4.48	451	4.48	451	4.48
Investment	207	0.30	221	0.08	100	0.08
Net Borrowing Position	244	-	230		351	

^{*a} Lender option Borrower option, ^{*b} reflects the average rate for the year taking account of new loans and repayments.

We are currently achieving a return of 0.08% on our investments for the period to 30 September 2021. The return for the year is expected to be similar, circa 0.08% due to the base rate remaining at 0.10% along with high levels of liquidity in the financial markets depressing investment rates further. Bank rate is expected to remain at 0.10% for the remainder of the financial year.

The authority’s advisors are forecasting the base rate to remain flat (0.10%) at least until 2nd Quarter of 2022. Long term interest rates (PWLB) are expected to remain at or around 2% (for 25 – 50 year term) for the remainder of the year and rise marginally over the medium term.

Economic Update

15. **UK. MPC meeting 24th September 2021** - The Monetary Policy Committee (MPC) voted unanimously to leave Bank Rate unchanged at 0.10% and made no changes to its programme of quantitative easing purchases due to finish by the end of this year at a total of £895bn; two MPC members voted to stop the last £35bn of purchases as they were concerned that this would add to inflationary pressures.

There was a major shift in the tone of the MPC’s minutes at this meeting from the previous meeting in August which had indicated that some tightening in monetary policy was now on the horizon, but also not wanting to stifle economic recovery too early by an increase in Bank Rate. The meeting “flagged” a potential danger of labour shortages that could push up wage growth by more than it expects and that, as a result, CPI inflation would stay above the 2% target for longer. The MPC discounted sharp increases in monthly inflation in the pipeline for late 2021 as these were largely caused by the events of a year ago including the cut in VAT in August 2020 for the hospitality industry, and by temporary shortages which would eventually work their way out of the system and the MPC were prepared to look through the “temporary” spike in inflation.

16. However, in September the MPC's "words" indicated there had been a marked increase in concern that more recent increases in prices, particularly the increases in gas and electricity prices in October and due again next April, are, indeed, likely to lead to faster and higher inflation expectations and underlying wage growth, which would in turn increase the risk that price pressures would prove more persistent next year than previously expected. The MPC emphasised its concern about inflationary pressures and reaffirmed its commitment to the 2% inflation target in its statement, indicating that it was now willing to look through the "flagging" economic recovery during the summer to prioritise bringing inflation down next year.

This suggests a reversal of its priorities as set out in previous meetings, that indicated a willingness to look through inflation overshooting the target for limited periods to ensure that inflation was 'sustainably over 2%'. In August the MPC's focus was on getting through a winter of temporarily high energy prices and supply shortages, believing that inflation would return to just under the 2% target after reaching a high around 4% in late 2021. However, the concern is that underlying price pressures in the economy are likely to get embedded over the next year and elevate future inflation to stay significantly above its 2% target and for longer.

17. Financial markets are now pricing in a first increase in Bank Rate from 0.10% to 0.25% in February 2022, but this looks "unlikely" as the MPC has stated that it wants to see what happens to the economy, and particularly to employment once furlough ends at the end of September. At the MPC's meeting in February it will only have available the employment figures for November: to get a clearer picture of employment trends, it would need to wait until the May meeting when it would have data up until February. At its May meeting, it will also have a clearer understanding of the likely peak of inflation.

The MPC's forward guidance on its intended monetary policy on raising Bank Rate versus selling (quantitative easing) holdings of bonds is as follows: -

- Placing the focus on raising Bank Rate as "the active instrument in most circumstances".
- Raising Bank Rate to 0.50% before starting on reducing its holdings.
- Once Bank Rate is at 0.50% it would stop reinvesting maturing gilts.
- Once Bank Rate had risen to at least 1%, it would start selling its holdings.

18. **COVID-19 vaccines.** These have been the "game changer" which have boosted confidence that *"life in the UK could largely return to normal during the summer"* after a third wave of the virus threatened to overwhelm hospitals in the spring. With the household saving rate having been exceptionally high since the first lockdown in March 2020, there is plenty of "pent-up" demand and purchasing power stored up for services in hard hit sectors like restaurants, travel and hotels. The big question is whether mutations of the virus could develop which render current vaccines ineffective, as opposed to how quickly vaccines can be modified to deal with them and enhanced testing programmes be implemented to contain their spread.

19. **EU.** The slow roll out of vaccines initially delayed economic recovery in early 2021 but the vaccination rate has picked up sharply since then. After a contraction in GDP of -0.3% in Q1, Q2 came in with strong growth of 2%, which is likely to continue into Q3, though some countries more dependent on tourism may struggle. Recent sharp increases in gas and electricity prices have increased overall inflationary pressures but the ECB is likely to see these

as being only transitory after an initial burst through to around 4%, so is unlikely to be raising rates for a considerable time.

20. **China.** After a concerted effort to get on top of the virus outbreak in Q1 2020, economic recovery was strong in the rest of the year; this enabled China to recover all the initial contraction. During 2020, policy makers implemented a programme of monetary and fiscal support that was particularly effective at stimulating short-term growth. At the same time, China's economy benefited from the shift towards online spending by consumers in developed markets. These factors helped to explain its comparative outperformance compared to western economies during 2020 and earlier in 2021. However, the pace of economic growth has now fallen back after this initial surge of recovery from the pandemic and China is now struggling to contain the spread of the Delta variant through sharp local lockdowns - which will also depress economic growth.
21. **World growth.** World growth was in recession in 2020 but recovered during 2021 until starting to lose momentum more recently. Inflation has been rising due to increases in gas and electricity prices, shipping costs and supply shortages, although these should subside during 2022. It is likely that we are heading into a period where there will be a reversal of world globalisation and a decoupling of western countries from dependence on China to supply products, and vice versa. This is likely to reduce world growth rates from those in prior decades.
22. **Supply shortages.** The pandemic and extreme weather events have been disruptive of extended worldwide supply chains. At the current time there are queues of ships unable to unload their goods at ports in New York, California and China. Such issues have led to mis-distribution of shipping containers around the world and have contributed to a huge increase in the cost of shipping along with a shortage of raw materials has had a disruptive impact on production in many countries. Many western countries are also having difficulty in filling job vacancies. It is expected that these issues will be gradually resolved, but they are currently contributing to an upward spike in inflation and shortages of materials and goods on shelves.

Interest rate forecasts

23. The Council's treasury advisor, Link Asset Services, has provided the following forecast:

Link Group Interest Rate View		29.9.21								
	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24
BANK RATE	0.10	0.10	0.25	0.25	0.25	0.25	0.50	0.50	0.50	0.75
3 month ave earnings	0.10	0.10	0.20	0.20	0.30	0.40	0.50	0.50	0.60	0.70
6 month ave earnings	0.20	0.20	0.30	0.30	0.40	0.50	0.60	0.60	0.70	0.80
12 month ave earnings	0.30	0.40	0.50	0.50	0.50	0.60	0.70	0.80	0.90	1.00
5 yr PWLB	1.40	1.40	1.50	1.50	1.60	1.60	1.60	1.70	1.70	1.70
10 yr PWLB	1.80	1.80	1.90	1.90	2.00	2.00	2.00	2.10	2.10	2.10
25 yr PWLB	2.20	2.20	2.30	2.30	2.40	2.40	2.40	2.50	2.50	2.60
50 yr PWLB	2.00	2.00	2.10	2.20	2.20	2.20	2.20	2.30	2.30	2.40

PWLB rates are certainty rates, gilt yields plus 180bps

24. The coronavirus outbreak has done huge economic damage to the UK and to economies around the world. After the Bank of England took emergency action in March 2020 to cut Bank Rate to 0.10%, it left Bank Rate unchanged at its subsequent meetings.

25. As shown in the forecast table above, one increase in Bank Rate from 0.10% to 0.25% has now been included in quarter 2 of 2022/23, a second increase to 0.50% in quarter 2 of 23/24 and a third one to 0.75% in quarter 4 of 23/24.

26. **Significant risks to the forecasts**

- COVID vaccines do not work to combat new mutations and/or new vaccines take longer than anticipated to be developed for successful implementation.
- The pandemic causes major long-term impact to the economy.
- The Government implements an austerity programme that suppresses GDP growth.
- The MPC tightens monetary policy too early – by raising Bank Rate or unwinding Quantitative Easing.
- The MPC tightens monetary policy too late to ward off building inflationary pressures.
- Major stock markets risks
- Geo-political risks

27. **The balance of risks to the UK economy: -**

The overall balance of risks to economic growth in the UK is now to the downside, including residual risks from Covid and its variants - both domestically and their potential effects worldwide.

28. **Forecasts for Bank Rate**

Bank Rate is not expected to go up fast after the initial rate rise as the supply potential of the economy has not generally taken a major hit during the pandemic, so should be able to cope with meeting demand without causing inflation to remain elevated in the medium-term, or to inhibit inflation from falling back towards the MPC's 2% target after the rise to around 4% towards the end of 2021. Three increases in Bank rate are forecast in the period to March 2024, ending at 0.75%. However, these forecasts may well need changing within a relatively short time frame for the following reasons: -

- There are increasing grounds for viewing the economic recovery as running out of steam during the summer and now into the autumn. This could lead into stagflation which would create a dilemma for the MPC as to how to act.
- Will current key supply shortages impact economic activity in some sectors.
- Rising gas and electricity prices in October and next April and increases in other prices caused by supply shortages and increases in taxation next April, are already going to deflate consumer spending power without the MPC having to take any action on Bank Rate to cool inflation. In addition the Government's upcoming budget in October could also end up in reducing consumer spending power.
- Consumers are holding around £200bn of excess savings from the pandemic so when will these sums be spent?
- There are 1.6 million people coming off furlough at the end of September; how

many of those will not have jobs on 1st October and will, therefore, be available to fill labour shortages in many sectors of the economy? So, supply shortages which have been driving up both wages and costs, could reduce significantly within the next six months and alleviate the MPC's current concerns.

- There is a risk that there could be further unwelcome impacts from Covid front, in addition to the flu season this winter, which could depress economic activity.

In summary, with the high level of uncertainty prevailing on several different fronts, it is likely that these forecasts will need to be revised again soon.

It also needs to be noted that Bank Rate being cut to 0.10% was an emergency measure to deal with the Covid crisis in March 2020. At any time, the MPC could decide to take away that final emergency cut from 0.25% to 0.10% on the grounds of it no longer being warranted and as a step forward in the return to normalisation. In addition, any Bank Rate under 1% is both highly unusual and highly supportive of economic growth.

29. Forecasts for PWLB rates and gilt and treasury yields

As the interest forecast table for PWLB certainty rates above shows, there is likely to be a steady rise over the forecast period, with some degree of uplift due to rising treasury yields in the US.

There is likely to be exceptional volatility and unpredictability in respect of gilt yields and PWLB rates due to the following factors: -

- How strongly will changes in gilt yields be correlated to changes in US treasury yields?
- Will the Federal Reserve take action to counter increasing treasury yields if they rise beyond a yet unspecified level?
- Would the MPC act to counter increasing gilt yields if they rise beyond a yet unspecified level?
- How strong will inflationary pressures turn out to be in both the US and the UK and so impact treasury and gilt yields?
- How will central banks implement their new average or sustainable level inflation monetary policies?
- How well will central banks manage the withdrawal of Quantitative Easing purchases of their national bonds, without causing a "panic" reaction in financial markets.
- Will exceptional volatility be focused on the short or long-end of the yield curve, or both?

These forecasts are also predicated on an assumption that there is no break-up of the Eurozone or EU within our forecasting period and that there are no major problems in international relations that would have a major impact on international trade and world GDP growth.

30. Bond yields / PWLB rates.

Since the start of 2021, there has been a lot of volatility in gilt yields, and hence PWLB rates.

US – The US approved a significant stimulus package that “unsettled” the financial markets as it was much bigger than other western economies, at a time in the US when: -

- A fast vaccination programme has enabled a rapid opening up of the economy.
- The economy had already been growing strongly during 2021.
- It started from a position of little spare capacity due to less severe lockdown measures than in many other countries. A combination of shortage of labour and supply bottle necks is likely to cause inflationary pressures more in the US than in other countries.
- And the Federal Reserve was still providing monetary stimulus through monthly Quantity Easing purchases.

These factors could cause an excess of demand in the economy which could then cause stronger and more sustained inflationary pressures in the US than in other western countries. This could then force the Federal Reserve to take much earlier action to start tapering monthly Quantitative Easing purchases and/or increasing the Federal Reserve rate from near zero.

As the US financial markets are the biggest financial markets in the world, any trend upwards in the US may impact and influence financial markets in other countries, noting movement in US treasury yield have in the past correlated with gilt yields. This is a significant **UPWARD RISK** exposure to the above forecasts for longer term PWLB rates. However, gilt yields and US treasury yields do not always move in unison.

There are also possible **DOWNSIDE RISKS** from the large sums of cash that the UK populace have saved during the pandemic; when savings accounts earn little interest, it is likely that some of this cash could end up being invested in bonds and so push up demand for bonds and support their prices i.e., this would help to keep their yields down. How this will unfold when the Bank of England begins not reinvesting maturing gilts and then later selling gilts remains to be seen.

The balance of risks to medium to long term PWLB rates: -

- There is a balance of upside risks to forecasts for medium to long term PWLB rates.

31. **A new era – a fundamental shift in central bank monetary policy**

One of the key results of the pandemic has been a fundamental rethinking and shift in monetary policy by major central banks like the Federal Reserve, the Bank of England and the ECB, to tolerate a higher level of inflation than in the previous two decades when inflation was the prime target, to stop it going above a target rate. There is now also a greater emphasis on other targets for monetary policy than just inflation, especially on ‘achieving broad and inclusive “maximum” employment in its entirety’ in the US before consideration would be given to increasing rates.

- The Federal Reserve has gone furthest in adopting a monetary policy based on a clear goal of allowing the inflation target to be symmetrical, (rather than a ceiling to keep under), so that inflation averages out the dips down and surges above the target rate, over an unspecified period of time.
- The Bank of England has also amended its target for monetary policy so that inflation should be ‘sustainably over 2%’ and the ECB now has a similar policy.

For local authorities, this means that investment interest rates and very short term PWLB rates will not be rising as quickly or as high as in previous decades when the economy recovers from a downturn and the recovery eventually runs out of spare capacity to fuel continuing expansion.

Labour market liberalisation since the 1970s has helped to break the wage-price spirals that fuelled high levels of inflation and has now set inflation on a lower path which makes this shift in monetary policy practicable. In addition, recent changes in flexible employment practices, the rise of the gig economy and technological changes, will all help to lower inflationary pressures.

Governments will also be concerned to see interest rates stay lower as every rise in central rates will add to the cost of vastly expanded levels of national debt. On the flip side, higher levels of inflation will help to erode the real value of total public debt.

Investment Portfolio 2021/22

32. In accordance with the Code, it is the Council's priority to ensure security of capital and liquidity, and to obtain an appropriate level of return which is consistent with the Council's risk appetite. As set out in the "Economic Update" it is now impossible to earn the level of interest rates commonly seen in previous decades as all investment rates are barely above zero now that Bank Rate is at 0.10%, while some entities, including more recently the Debt Management Account Deposit Facility (DMADF), a government agency, are offering negative rates of return in some shorter time periods.

Given this environment and the fact that Bank Rate may only rise marginally, or not at all, before mid-2023, investment returns are expected to remain low.

33. The Council held £221m of Treasury investments as at 30th September 2021 (£207m at 31 March 2021) with an average maturity of 61 days. These investments are predominately with local authorities, money market funds and UK banks. The investment portfolio yield for the first six months of the year was 0.08%. The standard comparator for investment performance is the benchmark 7 day rate (LIBID)¹, which for the period was "negative" 0.08%. The benchmark for 1 and 3 month deposits were (0.07%) and (0.05%) respectively.

¹LIBID – London Interbank Bid rate is a recognised reference rate to benchmark short-term investment interest rates.

34. The Chief Financial Officer confirms that the approved limits within the Annual Investment Strategy were not breached during the first six months of 2021/22.
35. The current investment counterparty criteria selection approved in the TMSS is meeting the requirement of the treasury management function

Borrowing

36. The Capital Financing Requirement (CFR) denotes the Council's underlying need to borrow for capital purposes. The Council's CFR at 31 March 2022 is estimated to be £929m. If the CFR is positive the Council may borrow from the PWLB or the market (external borrowing) or from internal balances on a temporary basis (internal borrowing).
37. The balance of borrowing between external and internal is generally driven by market conditions and forecasts of future cash flows and interest rates. At the 31st March 2021 the Council had external borrowings of £584m and has utilised £341m of internal cash in lieu of borrowing. This is a prudent and cost effective approach in the current economic climate but will require on-

going monitoring in the event that upside risk to gilt yields prevails.

- 38. However, internal borrowing is a temporary measure that takes advantage of low interest rates and will ultimately be replaced by more expensive external borrowing as the cash used is required elsewhere. The timing and amount of new external borrowing is therefore dependent on capital spending decisions, future cash flows and forecasts of interest rates.
- 39. The Council does have an underlying need to borrow for capital purposes, along with the Council expecting to hold significant treasury investments for the remainder of the year to meet liquidity purposes. The Council is therefore not planning on any further borrowing for the remainder of the year. This will reduce the net financing costs of the authority along with reducing the Council's exposure to counterparty risk.

However, should there be a risk that borrowing costs will rise quicker than expected the Council will consider borrowing to reduce the Council's internal borrowing position and reduce its interest rate risk exposure.

- 40. PWLB rates dropped slowly during April and July and then rose sharply during September as a result of inflation concerns. The graph and table below show the movement in PWLB certainty rates for the first six months of the year to date.



	1 Year	5 Year	10 Year	25 Year	50 Year
Low	0.78%	1.05%	1.39%	1.75%	1.49%
Date	08/04/2021	08/07/2021	05/08/2021	17/08/2021	10/08/2021
High	0.98%	1.42%	1.81%	2.27%	2.06%
Date	24/09/2021	28/09/2021	28/09/2021	13/05/2021	13/05/2021
Average	0.84%	1.16%	1.60%	2.02%	1.81%
Spread	0.20%	0.37%	0.42%	0.52%	0.57%

Debt Rescheduling

41. Debt rescheduling opportunities have been limited in the current economic climate given the consequent structure of interest rates. The authority's debt portfolio is made up of long dated loans (PWLB £331m, Market Debt (LOBOS) £70m and Market Debt (Fixed) (£50m) averaging 32 years. The estimated penalty to repay the PWLB loans early is £270m, taking the total cost to £601m. In respect of the market loans, where indicative prices have been provided, a similar level of penalty has been quoted.
42. The total life cycle cost of rescheduling loans on a discounted cash-flow basis has been reviewed with no loans providing a positive cash-flow benefit to the authority. This would in part be due to large early repayment penalties that the authority will incur.
43. For these reasons no debt rescheduling has been undertaken during the first six months of the year and none is anticipated for the remainder of the year.

Ethical Policy

44. An Ethical Investment Policy is incorporated within the Treasury Management Practice Statements (TMPS). The City Council currently invest surplus funds with Banks and Building Societies either directly or via the Money Markets in the form of instant access cash deposit accounts, money market funds or on fixed term deposit and with other local authorities. The City Council's ethical investment policy is based on the premise that the City Council's choice of where to invest should reflect the ethical values it supports in public life. The City Council will not knowingly invest in organisations whose activities include practices which directly pose a risk of serious harm to individuals or groups, or whose activities are inconsistent with the mission and values of the City Council.

The Council's Capital Position (Prudential Indicators)

45. This part of the report is structured to update:
 - The Council's capital expenditure plans;
 - How these plans are being financed;
 - The impact of the changes in the capital expenditure plans on the prudential indicators and the underlying need to borrow; and
 - Compliance with the limits in place for borrowing activity.

Prudential Indicator for Capital Expenditure

There are no policy changes to the TMSS; the details in this report update the position in the light of the updated economic position and budgetary changes already approved.

46. This table shows the latest estimates for capital expenditure:

Capital Expenditure by Service	2021/22 Approved Programme £m	2021/22 Period 6 Forecast £m
Non-HRA	210	185
HRA	111	87
Total	321	272

47. The latest capital monitoring report for the end of September 2021 sets out a capital forecast of £272m detailed within the period 6 monitoring report presented to Cabinet in November 2021.

Financing of the Capital Programme

48. The table below draws together the capital expenditure plan and the expected financing arrangements of this capital expenditure. The borrowing element of the table increases the underlying indebtedness of the Council by way of the Capital Financing Requirement (CFR), although this will be reduced in part by revenue charges for the repayment of debt (the Minimum Revenue Provision). This direct borrowing need may also be supplemented by maturing debt and other treasury requirements.

Capital Expenditure	2020/21 Approved Programme £m	2020/21 Period 6 Forecast £m
Total spend	321	272
Financed by:		
Capital receipts	85	85
Capital grants	92	100
Revenue / Reserves	13	3
HRA – Self Financing	40	28
Prudential Borrowing – Increase in Capital Financing Requirement	91	56
Total financing	321	272

Capital Financing Requirement (CFR) & Operational Boundary

49. The table below shows the CFR, which is the underlying external need to incur borrowing for a capital purpose and it also shows the expected debt position over the period. This is termed the Operational Boundary.

Capital Financing Requirement	2021/22 Original Estimate £m	2021/22 Latest Estimate £m
CFR – non housing	738	684
CFR – housing	245	245
Total CFR	983	929

External Debt (Operational Boundary)	2021/22 Approved Indicator £m
Borrowing	561
Other long term liabilities*	132
Total debt 31 March	693

* On balance sheet PFI schemes and finance leases etc.

50. The revised Capital Financing Requirement is based on the actual CFR as at 31 March 2021 (£886m) increased by in-year capital expenditure financed by borrowing (£56m) and reduced by the minimum revenue provision (MRP) for repayment of debt and the repayment of the debt facilities within other long term liabilities (£13m).

Limits to Borrowing Activity

51. The first key control over the treasury activity is a prudential indicator to ensure that over the medium term, net borrowing (borrowings less investments) will only be for a capital purpose. Gross external borrowing should not, except in the short term, exceed the total of CFR in the preceding year plus the estimates of any additional CFR for 2021/22 and next two financial years. This allows some flexibility for limited early borrowing for future years. The Council has approved a policy for borrowing in advance of need which will be adhered to if this proves prudent.

	2021/22 Original Estimate £m	2021/22 Latest Estimate £m
Gross borrowing	561	451
Plus other long term liabilities*	132	132
Gross borrowing & long term Liabilities	693	583
CFR* (year-end position)	983	929

* Includes on balance sheet PFI schemes and finance leases etc.

52. The Chief Finance Officer reports that no difficulties are envisaged for the current or future years in complying with this prudential indicator.
53. A further prudential indicator controls the overall level of borrowing. This is the Authorised Limit which represents the limit beyond which borrowing is prohibited, and needs to be set and revised by Members. It reflects the level of borrowing which, while not desired, could be afforded in the short term, but is not sustainable in the longer term. It is the expected maximum borrowing need with some headroom for unexpected movements. This is the statutory limit determined under section 3(1) of the Local Government Act 2003.

Authorised limit for external debt	2021/22 Approved Indicator £m
Total Borrowing	1,000

Proposal

54. That the Mid-Year Treasury Management report for 2021/22 is noted.

Other Options Considered

55. None

Risk Assessment

56. Borrowing and lending activity is reported to the Mayor.
The principal risks associated with treasury management are:

Risk	Mitigation
Loss of investments as a result of failure of counterparties	Limiting the types of investment instruments used, setting lending criteria for counterparties, and limiting the extent of exposure to individual counterparties
Increase in the net financing costs of the authority due to borrowing at high rates of interest / lending at low rates of interest	Planning and undertaking borrowing and lending in light of assessments of future interest rate movements, and by undertaking most long term borrowing at fixed rates of interest (to reduce the volatility of capital financing costs)

Public Sector Equality Duties

57. a) Before making a decision, section 149 Equality Act 2010 requires that each decision-maker considers the need to promote equality for persons with the following “protected characteristics”: age, disability, gender reassignment, pregnancy and maternity, race, religion or belief, sex, sexual orientation. Each decision-maker must, therefore, have due regard to the need to:
- i) Eliminate discrimination, harassment, victimisation and any other conduct prohibited under the Equality Act 2010.
 - ii) Advance equality of opportunity between persons who share a relevant protected characteristic and those who do not share it. This involves having due regard, in particular, to the need to --
 - remove or minimise disadvantage suffered by persons who share a relevant protected characteristic;
 - take steps to meet the needs of persons who share a relevant protected characteristic that are different from the needs of people who do not share it (in relation to disabled people, this includes, in particular, steps to take account of disabled persons' disabilities);

-
- encourage persons who share a protected characteristic to participate in public life or in any other activity in which participation by such persons is disproportionately low.
 - iii) Foster good relations between persons who share a relevant protected characteristic and those who do not share it. This involves having due regard, in particular, to the need to –
 - tackle prejudice; and
 - promote understanding.
 - b) There are no proposals in this report, which require either a statement as to the relevance of public sector equality duties or an Equalities Impact Assessment.

Legal and Resource Implications

Legal

The Council is under a duty to manage its resources prudently and therefore due consideration must always be given to its borrowing and lending strategy. A wide range of local authority financial activities, including borrowing, lending, financial management, and the approval of types of investment vehicle are governed by legislation and various regulations. The Council is obliged to comply with these.

(Legal advice provided by Tim O’Gara - Service Director - Legal and Democratic Services)

Financial

(a) Revenue

The financing costs arising from planned borrowing are provided for in the revenue budget and medium term financial plan. Any additional operating costs will have to be contained within the revenue budget of the relevant department.

(Financial advice provided by Jon Clayton - Capital and Investments Manager)

(b) Capital

Not applicable

Land

Not applicable

Personnel

Not applicable

Appendices:

None

LOCAL GOVERNMENT (ACCESS TO INFORMATION) ACT 1985

Background Papers:

None



Audit Committee

23rd November 2021

Report of:	Chief Internal Auditor
Title:	Internal Audit Half Year Report
Ward:	Citywide
Officer Presenting Report:	Chief Internal Auditor

Recommendation

The Audit Committee considers the work of the Internal Audit Team (IA), during the period of 1st April to 31st October 2021, and the results thereof and agrees to the proposed amendments to the 2021/22 Internal Audit Plan.

Summary

This Activity Report provides the Committee with an accumulative summary view of the work undertaken by Internal Audit in the period of 1st April to 31st October 2021, together with the resulting conclusions, where appropriate. Additionally, the report provides the Committee with oversight of grant certification work completed, update on the implementation of agreed IA recommendations during the period under review and individual summaries for the audit reviews that have concluded with a 'Limited' level of assurance. This is the third planned activity report for the municipal year of 2021/22.

The significant issues in the report are:

- Satisfactory progress being made in the delivery of the 2021/22 Audit Plan
- Good progress in implementing agreed management actions arising from internal audit reports as previously reported in September 2021.
- The use of the internal audit strategic partner to mitigate the risks associated with staff absences and inability to fill vacancies.
- A significant grant work completed to certify 23 grants with a total value of £17.1m.
- Request for the Audit Committee to approve the proposals to amend the 2021/22 Audit Plan following a detailed review and discussions with the Corporate Leadership Team.

Policy

1. Audit Committee Terms of Reference

Consultation

2. **Internal**

Corporate Leadership Board including S151 Officer, Cabinet Member for Governance, Resources and Finance.

3. **External**

Not applicable

Context

4. The half year report is designed to provide the Committee with a summary view of the work completed by the Service throughout the year to date and the results of that work. The report therefore:

- Provides an overview of the work of Internal Audit to date.
- Presents the assurance work completed by the Internal Audit team during the period, together with the conclusions drawn from that work.
- Updates the Committee on the Internal Audit recommendations implementation rate.
- Spotlights audit review outcomes, both positive and negative, to management and the Audit Committee for their consideration and action, where appropriate.

The half year report covering the period 1st April 2021 to 31st October 2021 can be found at Annexure A.

Proposal

5. The Audit Committee note the half year report and approval the proposals to amend the 2021/22 Internal Audit Plan.

Other Options Considered

6. Not applicable

Risk Assessment

7. The work of Internal Audit minimises the risk of failures in the Council's internal control, risk management and governance arrangements, reduces fraud and other losses and increases the potential for prevention and detection of such issues. Areas of significant risk are detailed in the

report.

Summary of Equalities Impact of the Proposed Decision

No Equality Impact anticipated from this report.

Legal and Resource Implications

Legal

Not Applicable

Financial

Not Applicable

Land

Not Applicable

Personnel

Not Applicable

Appendices:

Annexure A – Internal Audit Half Year Report

Appendix 1 – Internal Audit Plan 2021/22

Appendix 2 – Responsive Repairs Internal Audit Summary Report

Appendix 3 – Adult Safeguarding Internal Audit Summary Report

Appendix 4 – IT Resilience Internal Audit Summary Report

LOCAL GOVERNMENT (ACCESS TO INFORMATION) ACT 1985

Background Papers:

Public Sector Internal Audit Standards

Various Audit Files



BRISTOL INTERNAL AUDIT

ANNEXURE A

Internal Audit Half Year Report

April 2021 to October 2021



1. Introduction

- 1.1 The role of the Internal Audit function is to provide Members and Management with independent assurance that the control, risk and governance framework in place within the Council is effective and supports the Council in the achievement of its objectives. The 2021/22 Internal Audit Plan was approved by the Audit Committee in March 2021 and provides a programme of work designed to enable provision of an evidence-based audit opinion on the risk management, governance and control environment to the Corporate Leadership Board and Audit Committee and in support of the Annual Governance Statement (AGS). As previously agreed with the Audit Committee risks to the Council continue to evolve at pace so Internal Audit maintain a rolling plan which is formally reviewed quarterly.
- 1.2 Upon completion of an audit, an assurance opinion is given on the effectiveness of the controls in place. The results of the entire programme of work are used to inform the Chief Internal Auditor's opinion in the Annual Internal Audit Report on the effectiveness of internal control, risk and governance arrangements within the Council.
- 1.3 This Half Year Report provides Members of the Audit Committee and Management with an update on the progress in delivering the 2021/22 Audit Plan. The update covers the period of 1st April 2021 to 31st October 2021, building on the information which was provided to the Committee at its meeting in September 2021 enabling the Committee to track the progress on planned internal audit activities throughout the year.
- 1.4 Additionally, the report provides an update on any proposed changes to the Audit Plan as well as updates in the following areas:
 - Outcomes from internal audit activities including summaries of completed audit reviews where the level of assurance was concluded as 'Limited' since the last meeting;
 - Internal Audit resourcing as required by the Public Sector Internal Audit Standards (PSIAS);
 - Grant certification;
 - Implementation of agreed audit recommendations and agreed management actions.
- 1.5 The summary of internal audit activities completed or in progress during the review period is provided at Appendix 1 to this report.
- 1.6 The Internal Audit function also provides a Counter Fraud Service to the Council to enhance arrangements for the prevention, detection and investigation of fraud. The activities of the Counter Fraud Service are the subject of a separate half year report also being considered at this meeting.

2. Key Messages

- Satisfactory progress towards the delivery of the 2021/22 Audit Plan.
- Good progress in implementing agreed actions. This was reported to the Audit Committee at the September 2021 meeting and the next report will be presented in the January meeting focusing on actions due for implementation by 30 November 2021.
- The Internal Audit Service continues to face staffing challenges. The Service is carrying vacancies and there have been some long-term staff absences during the period. These have been mitigated in part by the increased use of the Internal Audit Strategic Partner as well as the appointment of an interim Group Auditor until February 2022. In addition, the Audit Plan is regularly reviewed to reflect the fast-changing operating environment as well as ensuring that there are sufficient and appropriate resources to deliver the assurance requirements of the Council.
- 22 grants with a total value of £13.6m have been certified to date. This is a key requirement for grants received by the Council from both central government and the West of England Combined Authority (WECA). Non-compliance with this condition poses a financial risk to the Council so this work is always prioritised.

3. Updates

Annual Risk Based Assurance Plan Status:

- 3.1 The audit work brought forward from 2020/21 is now all complete, although the budget allocated for this work was exceeded due to some audits taking longer to complete than initially planned due to Covid pressures and the complex nature of some of the review areas. The delay has slightly impacted on the current delivery position of the 2021/22 Audit Plan.
- 3.2 The work on the 2021/22 Audit Plan is now progressing satisfactorily. The planned audit activities to completion and draft report stage are at 41%, against a target of 45% at the end of Quarter 2. This performance is reflective of the additional time taken to complete the carried forward reviews, reduced audit resource due to staff absences, prioritisation of grant certification work and continued delays in the audit process due to Covid pressures. In noting the current position there is reasonable assurance that the planned audit activities will be completed by 31 March 2022.
- 3.3 The summary of the planned work either completed or in progress for the period 1st April to the 31st October 2021 is provided at Appendix 1 together with the level of assurance concluded from each review. Consistent with the Audit Committee reporting protocol, summaries of reviews that had a 'No' or 'Limited' assurance opinion are provided at Appendices 2 to 4 for discussion at the meeting, where senior officers from the responsible service will be in attendance. The summary of the Housing Stock - Rent Collection and Arrears Recovery report was provided to the September meeting. The summaries at Appendices 2 to 4 therefore relate to:
 - Adult Safeguarding (2020/21 review);
 - Responsive Repairs;
 - IT Resilience.
- 3.4 As reflected in Appendix 1, 92% of the 40 audits completed and grants certified in the period under review had a **reasonable** or better assurance opinion with three audits having a **limited** assurance opinion. In these

three areas there is need to increase the focus and engagement in improving the risk and control environment as well as embedding the arrangements for monitoring control effectiveness as part of business and performance management.

3.5 Whilst the responsibility for maintaining an effective control environment rests with management, Internal Audit continue to actively support management in identifying solutions and particularly in the monitoring and reporting of the progress in implementing agreed management actions and establishing appropriate management assurance reporting arrangements. This work is articulated in the Internal Audit Strategy which is a separate Agenda item for this meeting. For the past 18 months, the Internal Audit Service has been working on strengthening its engagement and relationship with the business and the success of this approach is reflected in performance feedback which currently shows that 90% of customers rate Internal Audit as either Good or Better after audits.

3.6 By necessity, the Audit Plan must be flexible to ensure it remains relevant to risks facing the Council throughout the year which is consistent with the rolling plan methodology adopted. Consequently, the Audit Plan has been further reviewed to take into account further changes in the Council’s environment and discussions with management. Details of the proposed changes together with the reasons for the proposals are provided in Table 1 below. The Committee is requested to agree to the proposals.

Table 1 – Proposed Amendments to the 2021/22 Audit Plan

No.	Reasonable Assurance Area	Audit Assignment	Rationale
1	Value For M	Value for Money	This area is receiving significant coverage from the External Auditor during their audit of 2020/21 accounts.
2	Governance	Partnership Working – Tracking of Outcomes	Deferred to 2022/23. Processes for tracking outcomes are still being developed.
3	Information Security	Information Security	Interim arrangements for information security will be covered in the audit of the implementation of the new Information Security Management System.
4	Financial Control	Debt Management	Deferred to 2022/23 as recovery processes suspended due to Covid.
5	Governance	Group of Companies Governance	A number of governance reviews have been undertaken and actions are being taken to address any issues identified.
6	IT	Housing IT System Controls Review	Now part of embedded assurance on Housing and Landlord Services IT project.

Grant Certification:

3.7 To date, the team has audited and certified 23 grant claims to the value of approximately £17.1m, see Appendix A. There were no significant grant compliance issues identified. Work is progressing on further grants into Quarter 3.

Resources:

3.8 As reported in the September Audit Committee report, Internal Audit has faced some resourcing challenges due to sickness absence and other unplanned absences. As a result, a total of 80 days were lost and we failed to recruit a fixed term Group Auditor for a six-month period. The market for Internal Audit staff is currently very limited although we have been successful in appointing an Interim until March 2022. There have also been absences in client teams which have delayed some audit work. However, the resultant risk on the delivery of the approved plan is being further mitigated by additional support from KPMG, our internal audit strategic partner. In addition to this, we continue to explore the recruitment of two Level 7 Internal Audit Professional Apprentices consistent with our audit strategy that was approved by the Audit Committee in November 2020. In an effort to strengthen the control environment, a programme is underway in which we are exploring the development and implementation of continuous auditing and continuous monitoring. The increased use of analytics will also help to increase efficiencies in the audit process.

Implementation of Agreed Management Actions:

- 3.9 Whilst the ultimate responsibility for the implementation of agreed management actions lies with management, it is incumbent on Internal Audit to facilitate the improvements by ensuring maximum engagement with the client during the audit process and supporting the resolution of matters arising where appropriate.
- 3.10 It is pleasing to note the good progress in implementing agreed management actions. This was reported to the Audit Committee at the September 2021 meeting and the next report will be to the January meeting focusing on actions due for implementation by 30 November 2021.
- 3.11 The success of this approach in implementing agreed management actions is reflected in the Internal Audit performance indicator 'Percentage of agreed management actions implemented within agreed timelines, which, for the period, stands at 100% against a target of 90%.

4. Conclusion

- 4.1 This report focuses on Internal Audit activities only as the activities of the Counter Fraud and Investigation Team are covered separately in the Counter Fraud Half Year Report.
- 4.2 There has been satisfactory progress in delivering the 2021/22 Internal Audit Plan to date. Looking forward to Quarters 3 and 4; completion of audits is anticipated to be more challenging due to the following reasons:
- Increased pressure on audit clients through budget pressures, staffing issues and other corporate priorities including audit planning and Annual Governance Statement
 - Increased pressure to complete all audits including those carried forward from previous quarters.
 - Planned Internal Audit work in Quarters 3 and 4 is more complex than the grant certification audits undertaken in Quarters 1 and 2.

4.3 In order to meet these challenges, it is essential for Internal Audit to continue to work closely and flexibly with management to ensure changes in risk are identified and acted upon and that agreed management actions continue to be implemented. Internal Audit will continue to work with strategic partner in completing the planned activities as well exploring the appointment of higher-level apprentices to build capacity and resilience in the team. There is also need to ensure that Internal Audit maximises the opportunity of placing reliance on other sources of assurance and strengthens collaborative arrangements with other assurance providers.

Updated Internal Audit Plan and Priorities 2021/22 as at November 2021			
Audit Plan Q1 and Q2			
Directorate	Name of Review	Status	Audit Assurance Rating
Corporate	Procurement	Complete	Reasonable
Corporate	Covid Lessons Learnt	Complete	Reasonable
Corporate	Covid Recovery	Complete	Reasonable
Corporate	Covid Grants	Complete	Reasonable
Resources	IT Asset Management	Complete	Reasonable
Resources	Accounts Payable	Complete	Reasonable
Resources	Change Programme - Phase 1	Complete	Reasonable
Corporate	Management Action Tracking	Complete	Reasonable
G&R	Housing Stock - Rent Collection and Arrears Recovery	Complete	Limited
G&R	Responsive Repairs	Complete	Limited
Resources	IT Resilience	Complete	Limited
Corporate	Assurance Mapping - Phase 1	Complete	N/A
Corporate	Assurance Mapping - Phase 2	Complete	N/A
G&R	Capital Projects Assurance	Complete	N/A
People	School Audit Planning	Complete	N/A
Resources	IT Risk Assessment	Complete	N/A
Corporate	Annual Governance Statement 2021	Complete	N/A
Corporate	Income	Draft Report	
Resources	Workforce Management	Draft Report	
Resources	Bristol Register Office	Draft Report	
Resources	Strategic Review of Contract Management and Operational Delivery	Draft Report	
People	Direct Payments	Reporting	
Resources	Change Programme - Phase 2	Reporting	
Corporate	DBS Checking	Fieldwork	
Corporate	Information Asset Governance	Fieldwork	
G&R	Climate Change	Fieldwork	
People	Risk Review - Serious Youth Violence and Contextual Safeguarding	Fieldwork	
Corporate	Scheme of Delegation	Planning	
People	Public Health	Planning	
Corporate	Ombudsman Follow Up	Scoping	
Audit Plan Q3 and Q4			
Corporate	Health and Safety	Scoping	
G&R	Harbour - Follow up	Scoping	
G&R	Homelessness Follow Up	Scoping	

G&R	Follow-Up Affordable Housing Supply/Grants to Registered Housing providers	Scoping	
People	Schools Audit	Scoping	
People	Safeguarding - Children	Scoping	
Resources	Follow-up Manager Health and Safety Self Assessment (Chasms)	Scoping	
Resources	Financial Management (FM) Code	Scoping	
Resources	Key Financial Systems Analytics	Scoping	
People	Adult Social Care Transformation Programme	Planning	
Resources	Digital Transformation Programme Embedded Assurance - to include ITTP Governance	Planning	
Resources	Facilities Management	Planning	
Corporate	IT Systems (Legacy Systems and Sub Systems)		
Corporate	Financial Sustainability		
Corporate	Risk Management Annual Review		
Corporate	Covid Risk Assurance		
Corporate	Annual Governance Statement 2122		
G&R	Embedded assurance on Housing and Landlord Services IT project		
G&R	Housing Revenue Account Management		
G&R	Capital Projects Governance		
G&R	Capital Projects Embedded Assurance		
G&R	Follow-Up Capital Portfolio Governance		
People	Budget, Financial Performance and Reporting		
People	Special Educational Needs and Disability (SEND)		
People	Adult Social Care Commissioning		
People	Follow-up Adult Safeguarding Processes		
Resources	Information Security Management System		
Resources	IT Risk Assurance		
Resources	Follow-up Telecoms Contract		
Resources	Annual Review of Whistleblowing		
Resources	ITTP Follow-Up		

Grants and Other Certifications

Directorate	Name of Review	Status	Value
G&R	Open Programmable City Region (OPCR)	Complete	£451,767
G&R	LGF AM A4018 Corridor Improvements	Complete	£97,039
G&R	LGF AK Sustainable Transport Package 17/18	Complete	£63,029
G&R	Travel Demand Management Grant	Complete	£26,313
G&R	Lead Enforcement Authority Grant 2020/21	Complete	£182,544
G&R	NTS Funding for Regional Intelligence Team SWERCOTS	Complete	£87,100
G&R	NTS Funding for Regional Intelligence Functions SWERCOT	Complete	£336,558
G&R	Pothole action fund	Complete	£2,640,890
G&R	Highways and Transport Capital Grant	Complete	£6,527,000
G&R	Feasibility Study -Bedminster High Street Improvement	Complete	£99,217
G&R	South Bristol Enterprise Support Grant	Complete	£401,133
G&R	Temple Meads Masterplan FEAS F -Grant	Complete	£578,885
G&R	2020/21 the Disabled Facilities Capital Grant	Complete	£3,528,349
People	2020/21 Youth Justice Grant	Complete	£609,976
People	Holiday Activities and Food Programme 2021	Complete	£189,870
People	HIV PrEP Grant	Complete	£116,808
People	Community Testing Funding	Complete	£473,967
People	Local Authority Covid-19 Test and Trace Project Eagle	Complete	£11,880
People	Employment Support Innovation Pilot Grant (ESIP aka Future Bright)	Complete	£511,636
People	Future Bright Plus Grant	Complete	£55,291
Resources	RIF: South Bristol SUD ERDF Intermediate Body	Complete	£66,678
Resources	RIF N South Bristol SUD	Complete	£80,756
Corporate	Schools Financial Value Standard	Complete	-
	Total		£17,136,686

1. Audit Summary – Responsive Repairs

Background and Context

- 1.1 An Internal Audit review of controls and procedures in place to manage and monitor responsive repairs was reported in November 2019. The audit opinion was “needs improvement” which is equivalent to “limited assurance” in the current assessment criteria.
- 1.2 The new integrated housing management system - Civica CX, had gone live in October 2018. Much of the property repair history had not been migrated from the old management system - Northgate, because this stored data in a different way.
- 1.3 Central to the 2019 audit opinion was the low use made of Civica CX. An “update” to Civica CX was planned to take place after April 2020. Internal Audit received assurance from the Service that the proposed Civica CX “update” would improve functionality around responsive repairs leading to greater and more effective use of Civica CX. The “update” was completed by July 2020.

Scope and Objectives

- 1.4 Annually the Service delivers over 100,000 repairs including tenant requested repairs, work on void properties and gas safety checks on behalf of Asset Management. Delivery is through an In-house team of operatives, who deliver up to three quarters of the repairs by number, and external contractors. The budget for 2020/21 for all these types of repair was £23.6m.
- 1.5 The scope of the review was agreed by Stephen Peacock, Executive Director, Growth and Regeneration. The review was to consider the effectiveness of controls for responsive repairs and assess the quality of management reporting and analyses. The scope of the assignment included the following areas:
 - Review of the processes now in place to manage and monitor responsive repairs, with particular emphasis on the controls available through the updated Civica CX integrated housing management system
 - Void property works – purchases for repairs
 - Financial control – financial reporting of responsive repairs activity, management of contract variations using measured works that are not subject to the Schedule of Rates (day rates plus materials) and financial analysis.

Audit Opinion

- 1.6 Internal Audit have provided a '**Limited Assurance**' opinion on the adequacy and effectiveness of processes in place to manage and monitor responsive repairs, including void works and financial control.

Key Messages and Findings:

- 1.7 The main reason for the '**Limited Assurance**' opinion is that the integrated housing management system – Civica CX was not being fully used to record costs and manage the activities of the service. At the time of the audit, up to P11 of 2020/21, no reconciliation of costs between Civica CX and ABW was completed by the service. Although ABW appeared more fully populated than Civica CX, there were concerns from Internal Audit that the analysis from ABW does not reflect actual transactions due to the high incidence of accounting journals.
- 1.8 The current poor control environment poses significant risks to the service and the Council. The table below provides a list of the main audit findings and the associated risks or impacts.
- 1.9 The overarching message from the main audit findings is that the current suite of IT applications does not provide the right Housing Management solutions given that other recent internal audit reports on Landlord and Housing Services has identified similar, if not as extensive, issues with the current integrated housing systems, including Civica CX, that has been live for more than two years but are not being used as effectively as they could be.

Risk or Impact					
	Poor Cost Control	Fraud Opportunity	Accounting Errors	Incomplete Property Records	Poor Reporting / Analysis
Failure to implement and utilise Civica CX to manage and record all property repairs.	X	X		X	X
Incomplete recording of repairs cost on Civica CX, compromising the value of reporting and making any "value for money" and "cost benefit" analysis impossible.	X			X	X
Not reconciling property repair records (Civica CX) with accounting records (ABW), to ensure all costs are captured and in common.	X	X	X	X	X
Repairs being processed to ABW only, without recording the "Works Order" or property address in the narrative. This is most common for void works.	X	X	X	X	X
The use of block journal postings for In-house labour and materials to ABW, with only standard labour hours being posted to Civica CX and no materials at all. In addition, no In-house labour cost allocation monitoring is done.	X		X	X	X
Prior year accruals being overstated by at least £574k that effectively move current year costs into last year.	X		X		
Ongoing concerns that recording differences between Civica CX and ABW increase the opportunity of fraud.		X	X		
Ongoing concerns that pricing and variations are not being controlled: <ul style="list-style-type: none"> Void works ordered outside of Civica CX Use of "DUMMY" requests on Civica CX to allow contractor invoices to be paid Over 16% increase between "estimated cost" and "actual cost", for those repairs recorded on Civica CX for external contractors. 	X	X			X

Management Response

- 1.10 Following several meetings the service and Internal Audit agreed that the current system functionality of Civica CX was as commissioned. In hindsight, it was accepted that the initial specification was too narrow. For Civica CX to provide a full solution to managing the service other support systems need to be in place. The key support systems are job costing for in-house repairs, an up-to-date repairs scheduling system and a Contractor Access Portal.
- 1.11 Following Internal Audit feedback, senior management in the Growth & Regeneration Directorate have agreed that a full procurement exercise should be carried out to ensure the service has the best available suite of IT

solutions. A mandate has been developed for a Housing IT Transformation programme, which is now finalised and will move through the approval process.

- 1.12 The Head of Business Innovation for Housing and Landlord Services will present the IT Solution Mandate at the CLB agenda on Tuesday 9 November. This will then follow the decision pathway to Cabinet, intended for the December agenda, subject to CLB approval.
- 1.13 Pending any IT solutions, the service will retain the use of Civica CX, and continue to explore how to maximise functionality. The service has provided fifteen detailed management actions to mitigate the eight main audit findings summarised in the table above.
- 1.14 Senior management in the Growth & Regeneration Directorate have indicated that appropriate Finance & IT expertise will be required to support the delivery of the key systems and process changes.

1. Audit Summary – Adult Safeguarding

Background and Context

- 1.1 Under the Care Act 2014 the Council and all its staff have a statutory duty to ensure their services recognise the importance of safeguarding service users.
- 1.2 In June 2019, the Council set up the Keeping Bristol Safe Partnership (KBSP), with representation from other public service organisations, such as the Police and health providers. The KBSP has an independent chair. There are three Business Delivery Groups: “Keeping Children Safe”; “Keeping Adults Safe”; “Keeping Communities Safe”.
- 1.3 The Council recognises the importance of adult safeguarding through the inclusion of a corporate risk; CRR10: Safeguarding Adults at Risk with Care and support needs.
- 1.4 This audit focused on the statutory duties of the Council in ensuring Adult Safeguarding measures and processes are in place. There was particular emphasis on the work of “Keeping Adults Safe” Business Delivery Group.

Scope and Objectives

- 1.5 The objective of the review was to provide an independent opinion and assess the progress in developing the Business Delivery Group – “Keeping Adults Safe” (KAS) and how this feeds into the established “Keep Bristol Safe Partnership (KBSP) as Bristol’s Safeguarding Board. Audit coverage included:
 - Delivery of the Corporate Adult Safeguarding Risk mitigations
 - Recording of care reviews and file notes recorded on LAS
 - How concerns are shared with partnering organisations and what is reported to KAS
 - There will be due regard for what information is escalated to KBSP.

Audit Opinion

- 1.6 Internal Audit have provided an opinion of “**limited**” assurance due to some improvements required around administration with particular emphasis on capturing “safeguarding concerns” and “safeguarding events” and timeliness of actions in progressing to a resolution along a clear pathway. Although there were weaknesses in the processes, the audit did not identify any significant safeguarding incidents. Our findings recognise the key role Adult Social Care has had in the Council’s response to the COVID-19 pandemic.

Key Messages and Findings:

- 1.7 Evidence gathered did not give assurance that all “safeguarding concerns” and “safeguarding events” were captured. Each safeguarding event that passes an assessment receives a sequential reference number from the management system Liquid Logic Adult Services (LAS). A sequence check found missing reference numbers on LAS; recognition and progression of a “safeguarding enquiry” is in doubt.
- 1.8 Capturing “safeguarding concerns” and “safeguarding events” relies on a statutory multi-agency approach, including organisations like the police and health joining the safeguarding partnership. Internal Audit identified a differing level of engagement among organisations enrolled within the partnership. Internal audit acknowledge the Council has no responsibility to manage the activities of other partnering organisations. The Council is the most invested organisation in the partnership. It could use its position to influence better engagement from the other partnership organisations. As above, Internal Audit acknowledge that the period in which the audit was undertaken included a period where partner agencies were dealing with an unprecedented situation in the Covid pandemic.
- 1.9 There is a pathway to progress a “safeguarding enquiry” to resolution. Internal Audit found at the outset raising a “safeguarding enquiry” was not timely; delays in setting up a “safeguarding enquiry” could lead to further abuse
- 1.10 Internal audit acknowledges there is no regulatory requirement for the timely progression of a “safeguarding enquiry”. The Council does have stated and standard pathways with milestones. Internal audit found that dates entered on LAS do not have to be the current date. They can be later or earlier than on the date they are input. This can affect the real-time chronology of a “safeguarding enquiry”. Internal audit found the date progression along a pathway can become illogical and out of sequence

- 1.11 System generated reporting within LAS is limited and mostly for low level purposes. There are no summary reports routinely available. Internal audit was informed that improved summary reporting was in development outside of LAS and using Power BI.

Management Response

- 1.12 It is helpful to have had a deep dive into Safeguarding activity through this audit as noted within this report this audit was undertaken during the Covid pandemic yet despite that multi-agency partners met together on a weekly basis to share system wide concerns and solutions, offering mutual aid and support. Many colleagues were also delivering a joined-up response alongside Public Health to our partners in health and social care. The commitment from our staff in adult social care and all agencies was flexible, responsive, innovative, solution focussed and one that there was no blueprint for.

Response to Key Messages and findings:

- 1.13 Re 1.7 above. The safeguarding adults process may be closed at any stage if it is agreed that an ongoing enquiry is not needed or if the enquiry has been completed and a protection plan agreed and put in place, or no longer required. We have put in a call with Liquid Logic to identify if the closing of an enquiry in these circumstances would cause the finding of missing reference numbers on LAS. The system is set up by them with fixed elements in the set up and we cannot change locally but LAS team have raised with Liquid Logic. This would not mean that recognition and progression of a "safeguarding enquiry" is in doubt especially as in all cases, once a concern is raised the progression to outcome is managed via a Team Manager or Senior Practitioner for whom the authorisation of the closure is mandatory so progression would be monitored.
- 1.14 Re 1.8 above. The Keeping Bristol Safe Partnership (KBSP) is a partnership between Health (Bristol CCG) the Police and Bristol City Council and other key agencies. The Executive (KBSP) was fully attended during this period by agencies, the Keeping Adults Safe Delivery (KAS) Group had good attendance as did the weekly Safeguarding Cell. Some meetings were not attended by all agencies during this time, which was addressed by the Business Unit Manager and in the context of a pandemic it was noted agencies attended as and when they could.
- 1.15 The KAS delivery group is the Strategic group responsible for delivering on the Strategic Business plan, also highlighting and escalating issues by exception to the Executive. The lack of attendance by any one agency at the KAS for a short period did not have an impact on the delivery of Statutory Safeguarding duties and agencies have been required to ensure attendance going forward.
- 1.16 Re 1.9 above. Safeguarding of Adults at Risk with Care and Support needs is a dynamic process that must be undertaken with people and not done to people to ensure that people who are at risk of abuse, neglect and exploitation experience the process in such a way that it is sensitive to individual circumstances, is person-centred and is outcome-focused, where appropriate, having regard to their views, wishes, feelings and beliefs in deciding on any action.
- 1.17 To ensure timeliness across the safeguarding pathway we are working with our partners to ensure that risks are dealt with in a proactive manner and consider what constitutes a safeguarding concern and what action needs to be taken prior to this being passed to the LA, as approximately 70% of concerns raised do not reach the criteria for a safeguarding enquiry.
- 1.18 We are setting up a Multi-Agency Safeguarding Hub and multi-agency training which will assist with this. With the move to our new locality model and integrated ways of working through the Integrated Care Partnerships this will result in more prevention and recognition of the factors that can precipitate abuse, neglect, and exploitation of citizens. The review of our pathways, creation of standard operating procedures and the data available through Power BI will mean that timeliness can be monitored and responded to through performance clinics within the localities which are currently being developed.
- 1.19 Re 1.10 above. We expect practitioners to record dates that they undertook tasks and opened assessments to reflect the dates that they did the intervention, so the record is a true record of interactions. Liquid Logic has some fixed elements within its system that we cannot change however it makes sense for practitioners as they sometimes need to add case notes retrospectively as they are busy or away from their computers and the LAS users don't find this an issue.

- 1.20 We audit cases and undertake Quality Assurance visits to teams. We are reviewing the safeguarding pathway and a standard operating procedure is being drafted to sit alongside the Policy, procedure and guidance that already exists. Any exceptions through the pathways are escalated through the senior leadership team so that risks can be managed.
- 1.21 Re 1.11 above. The Power BI database which was in development at the time of the audit is now live so we can interpret data in real time and can drill down by teams and individual workers. This is cross referenced with audit, case forums, supervision and monitoring to provide a fuller assurance of activity and timeliness. The KBSP is recruiting a data analyst which with help in developing a dashboard for the Partnership, development of Performance and Learning Clinics will also enable us to create a deeper understanding of themes and issues and any solutions needed.

1. Audit Summary – IT Resilience

Background and Context

- 1.1 The Covid-19 pandemic represents the largest disruption to day to day operations that has been seen in years. It has meant that some of the services of the local authorities have been suspended, reduced, or put on hold. It has also resulted in the Council having to adapt to new ways of working and implement business continuity plans and incident response teams.
- 1.2 Bristol City Council (the Council) holds a large amount of information across a wide range of IT systems, hosted on three different environments: council's two local data centres, Azure cloud and by the third-party providers. IT resilience is crucial to ensure that IT operations, systems and applications continue to operate efficiently and effectively. To achieve this, IT processes must operate consistently and proactively to avoid recovery situations. However, contingencies should be in place to ensure that the Council can continue operating should a failure occur.
- 1.3 It is important that the Council has robust processes and controls in place for IT resilience. Critical IT functions and business processes should be well-defined; key risks, required dependencies and potential impacts of disruptions should be identified and well understood. IT processes should maintain continuity of operations to meet business needs.

Scope and Objectives

- 1.4 The scope of the assignment included the following areas:
 - a) **Leadership and Governance:** we reviewed relevant policies, standards, and procedures in place to assess the accountability and ownership for IT business continuity management across the Council. We reviewed the Business Impact Assessment (BIA) and whether it adequately identified the Council's key/core critical services, work streams and supporting resources.
 - b) **Back-ups and Recovery:** we reviewed policies and procedure to ensure that back-ups are in place for all key systems. We selected a sample of internally and externally hosted applications and reviewed arrangements that are in place for regular (ideally weekly, no less than monthly) off site back-ups. We also assessed the key dependencies of the externally hosted applications and impact of the key dependencies on the continuity of operations.
 - c) **Incident Response Planning:** we reviewed the incident response plan for critical applications to ensure rules and responsibilities are defined for reporting, managing, and resolving incidents.
 - d) **Remote Working:** we reviewed the policies and procedures around remote working and assessed whether the Council has arrangements in place to provide workers with the equipment required to perform their role from a remote location (e.g. Laptops, mobiles). Furthermore, we assessed whether the Council has arrangements in place to allow employees to connect remotely to systems and applications if necessary (e.g. the use of a VPN to connect to the intranet), and that these arrangements are suitably resilient and are tested regularly.

Audit Opinion

- 1.5 Overall, Internal audit obtained **limited assurance** that effective internal control and risk management measures were in place.

Key Messages and Findings:

- 1.6 We carried out a high-level review of IT resilience controls operating within corporate IT Services and also for core IT applications managed by other Council Departments. Our main findings of in scope areas were as follows:
- 1.7 We raised 6 high priority and 2 medium priority findings. These have been grouped as follows:
- 1.8 **Leadership and governance:** The Council's Business Continuity Plan is currently out of date, and last reviewed in 2015. Our review of the policies and procedures noted that there is no consistently applied process in place to ensure policies and procedures are reviewed periodically. We inspected the Business Continuity Plan and noted the plan in place does not specifically address the IT related aspects of business continuity. Furthermore, no Council-wide business impact assessments have been carried out to identify critical systems and their inter-dependencies.
- 1.9 **Back-ups and recovery:** There are legacy weaknesses in design and implementation of IT resilience controls in place which remain after the IT Transformation Programme. The Council has two main data centres and we noted there are applications/services that are not replicated across both data centres, which means in the event of a data centre failure, these systems will not be available. There has not been any assessment of how many systems or services are currently relying on only one data centre.
- 1.10 From our discussions with senior management, we noted that the Council's policy is to move to cloud-based software as a service (SaaS) solution, and we confirmed the recent ITTP programme has moved most of the corporate systems / applications to a cloud-based hosting solution. However, there are legacy systems that could not be moved to cloud hosting due to operating on older operating systems and databases, and these are not directly managed by the Corporate IT team. Furthermore, where some applications/services identified as critical are replicated, the resilience of these systems is not tested regularly, and some have been found, during recent outages, to not be resilient.
- 1.11 Additionally, some externally hosted third party applications, which rely on the Council's Active Directory (AD) authentication (or other services), may not be consistently configured to use cloud-based authentication as well as on-premise authentication, and may therefore not be resilient.
- 1.12 We noted that at the time of our review the Council did not have a fully documented IT Disaster Recovery Policy, however, there were supporting and instructional documentation available. The lack of a formal plan may increase the risk of delay in recovering IT systems and infrastructure from an IT outage/disaster.
- 1.13 **Incident response planning:** the corporate Incident Response Plan in place at the Council does not include IT services. There is no separate Incident Response Plan owned and managed by the IT Department.
- 1.14 **Remote Working:** Testing of the resilience of the remote working infrastructure has not been carried out, and the ability of Council employees to work remotely may be impacted by the configuration of the Council's domain controllers.

Management Overall Comments

- 1.15 The findings from the review are accepted and an implementation plan has been developed that will ensure the agreed management actions are fully implemented within the agreed timelines. Some of the key actions being taken to address the findings can be summarised as follows:
- An application/system risk log is currently being developed in the same format as the Corporate Operational Risk Register, and in direct response to the Corporate Risk "Suitability of Line of Business Systems". When complete, this will be reviewed and the risk owners known, scale of risk known, and potential mitigation costs/approaches advised. It will then be for service areas to undertake activity as part of their service plans.

- Engaging with a third party to perform a full audit and assessment, and to devise a rectification plan
- Adding IT related scenarios to the existing Business Continuity Policy
- Undertaking a group wide Business Impact Assessment and incorporating the information into the Business Continuity Plan.
- The Incident Response Plan will be amended to include IT Incidents and also consider temporal aspects based on anticipated outage periods which will change the response IT Resilience and Business Continuity Planning Project.
- Establishing a Disaster Recovery Plan and run document
- As part of service planning 2022/23, the IT Team will review and put into place an appropriate replacement contract that meets current needs and enables effective testing.
- Performing a review of systems, backup/resilience methods and locations of backups. Recovery times will form part of Business Continuity planning.
- Undertaking periodic reviews of all relevant policies and ensuring good liaison between all service areas.



Audit Committee

23rd November 2021

Report of: Chief Internal Auditor

Title: Counter Fraud Update Report

Ward: N/A

Officer Presenting Report: Simba Muzarurwi – Chief Internal Auditor

Contact Telephone Number: 011735 21475

Recommendation

The Audit Committee note the Counter Fraud Update report for the period of 1st April to October 2021.

Summary

This Report provides the Committee with summary of the work undertaken by the Internal Audit – Counter Fraud team during April 2021 to October 2021.

Significant Matters Arising:

The key messages arising from this report are;

- Counter-fraud work in key fraud risk areas continues to contribute significant benefits across the Council in the fight against fraud. The report details these benefits and advises how key fraud risks to the council are being tackled.
- Procurement of a fraud hub to maximise the use of data and analytics in fraud prevention and detection has progressed to enhance counter-fraud arrangements.
- Whistleblowing referrals have increased from previous levels which might indicate increased confidence by staff in using the procedure.
- a number of fraud referrals have been investigated by the team, details and outcomes of which are included in the report.



1. Policy

Audit Committee Terms of Reference

2. Consultation

Internal – Corporate Leadership Board including S151 Officer, Cabinet Member for Governance, Resources and Finance.

External – N/A

3. Context

3.1 This is the half yearly update report outlining the counter fraud work that has taken place in Bristol City Council. The report is provided to:

- provide an overview of the work and results of the Counter Fraud and Investigation team during the period 1st April 2021 to 31st October 2021;
- demonstrate how the Council is dealing with some of the fraud risks it is subject to;

3.2 The full report can be found at Appendix A

3.3 Key points arising from the Fraud Update Report:

- The work of the team continues to contribute significant benefits across the Council as reflected by the following outcomes:
 - Recoverable savings of £153,306
 - Notional savings of £893,700
 - Ongoing savings of over £2,209 per week identified.
 - 13 council properties regained /other positive housing outcome
- The team has progressed procurement of and commenced implementation of the Cabinet Office Fraud Hub for enhanced fraud detection.
- Work to improve the process and confidence in whistleblowing procedures has taken place and 5 cases have been closed in the current year to date, some resulting in service improvements. The number of referrals received during the period has increased from previous levels which could indicate increasing confidence by staff to use the procedure.
- 22 fraud referrals have also been investigated.
- Fraud awareness week provides the opportunity for the team to undertake a number of awareness initiatives across the Council.

4. Proposal

4.1 The Audit Committee notes the work of the Internal Audit – Counter Fraud and Investigations team during the period of covered by the report and the results there of.

5. Other Options Considered – N/A**6. Risk Assessment**

The work of Internal Audit Counter Fraud team reduces fraud losses and increases the potential for prevention and detection of such issues.

Public Sector Equality Duties

- 7a) Before making a decision, section 149 Equality Act 2010 requires that each decision-maker considers the need to promote equality for persons with the following “protected characteristics”: age, disability, gender reassignment, pregnancy and maternity, race, religion or belief, sex, sexual orientation. Each decision-maker must, therefore, have due regard to the need to:
- i) Eliminate discrimination, harassment, victimisation and any other conduct prohibited under the Equality Act 2010.
 - ii) Advance equality of opportunity between persons who share a relevant protected characteristic and those who do not share it. This involves having due regard, in particular, to the need to --
 - remove or minimise disadvantage suffered by persons who share a relevant protected characteristic;
 - take steps to meet the needs of persons who share a relevant protected characteristic that are different from the needs of people who do not share it (in relation to disabled people, this includes, in particular, steps to take account of disabled persons' disabilities);
 - encourage persons who share a protected characteristic to participate in public life or in any other activity in which participation by such persons is disproportionately low.
 - iii) Foster good relations between persons who share a relevant protected characteristic and those who do not share it. This involves having due regard, in particular, to the need to –
 - tackle prejudice; and
 - promote understanding.
- 7b) No Equality Impact anticipated from this report.

Legal and Resource Implications

Legal – N/A

Financial – N/A

Land – N/A

Personnel – N/A

Appendices:

Appendix A – Internal Audit – Counter Fraud Update Report

LOCAL GOVERNMENT (ACCESS TO INFORMATION) ACT 1985

Background Papers:



BRISTOL INTERNAL AUDIT

Counter Fraud & Investigation Team Half Year Report 2021-2022

Simba Muzarurwi
Chief Internal Auditor



1. Introduction

1.1 The Council's Counter Fraud and Investigation Team investigates allegations of fraud and irregularity against the Council and is committed to upholding the Council's Anti-Fraud, Bribery and Corruption Policy. The Team works across all directorates to support the prevention and identification of fraud and to provide a dedicated proactive counter fraud and responsive investigation service. The purpose of this report is to:

- Provide an update on the work and results of the Counter Fraud and Investigation Team during the period 1st April 2021 to 30 September 2021.
- Outline the key activities undertaken to tackle fraud.
- Provide an update on the council's whistleblowing arrangements.

2. Key Messages

- 2.1 The Counter Fraud and Investigation Team undertakes investigative work in a variety of fraud risk areas including social housing tenancies, council tax, direct payments and internal investigations. It also undertakes a number of proactive exercises including the use of data matching and analysis to prevent and detect fraud and identify savings to the Council.
- 2.2 The work of the team continues to contribute significant benefits across the Council as reflected by the following outcomes:
- Recoverable savings of £153,306
 - Notional savings of £893,700
 - Ongoing savings of over £2,209 per week identified.
 - 13 council properties regained /other positive housing outcome
- 2.3 The team also have responsibility for receiving and co-ordinating responses to Whistleblowing referrals. We have worked to improve the process and confidence in the process and have closed 5 of these in the current year to date, some resulting in service improvements.
- 2.4 The team has also procured and commenced implementation of the Cabinet Office Fraud Hub and rollout of an Application checking system.
- 2.5 22 fraud referrals have been investigated details of which are provided in Appendix 1.

3. Fraud risk area – Benefit fraud

- 3.1 The team provides support to the Department for Work and Pensions in their housing benefit fraud investigation work. The DWP's current capacity is greatly impacted by backlogs of work which accumulated during the pandemic. In the first half of 2021/22 the team has dealt with:
- 52 DWP requests for housing benefit information and documentation
 - 1 DWP request for a witness statement
 - 1 DWP request that the Council administer an "Administrative Penalty" (a form of fine) in a case involving the overpayment of housing benefit due to a claimant not disclosing income from employment.

- 3.2 The team also investigates frauds involving the BCC Council Tax Reduction (CTR) Scheme. There are 16 current open CTR investigations. The team have closed 25 CTR cases, 9 of which resulted in financial savings.
- 3.3 The team have delivered a bespoke counter-fraud awareness training to new benefit assessors in the Council's Housing Benefit Service.

4. Fraud risk area – Tenancy Fraud

- 4.1 Tenancy fraud and abuse is a key risk area for the Council. In support of the Council's strategic objective of reducing homelessness and to help ensure that council housing properties are allocated to and used by those with a genuine need, the team undertakes a significant and important programme of work each year to identify and recover properties lost to tenancy fraud.
- 4.2 Working collaboratively with colleagues in Housing and Landlord Service the team have achieved:
- 13 regains/housing positive outcomes. A regain is a property that was being illegally sublet or otherwise abused which has been repossessed to be available for someone on the housing waiting list. A housing positive outcome could be a cancelled fraudulent right to buy or housing application or a succession claim denied due to fraud.
 - 122 Right to Buy applications checked.
 - Bespoke fraud awareness training is being rolled out across Housing and Landlord Services with sessions successfully delivered to the Rents Team and Accessible Homes Team.
- 4.3 Ongoing work includes:
- 3 criminal prosecutions pending.
 - 9 cases with Legal Services and/or notice to quit has been served.
- 4.4 The team participates in the Cabinet Office National Fraud Initiative data matching exercise every two years. The exercise collects data from local authorities and other public sector organisations and matches the data with the aim to detect anomalies that may indicate fraud. In March 2021 a total of 1,164 tenant matches from the National Fraud Initiative exercise were received. Many of these have been sifted using both data analysis and manual checks to identify fraud and error as well as to update data held by Bristol City Council.
- There have been 132 matches of deaths to housing waiting list which have been removed from the Bristol Homechoice waiting list.
- 4.5 Further work undertaken:
- A data match of tenancy data to care homes records was undertaken. There are 4 cases of potential fraud being investigated and the team is working closely with Housing and Landlord Services in respect of other matches.
 - A proactive data led exercise of a housing tower block.

5. Fraud Risk Area – Corporate Fraud

5.1 The team have responded to a number of fraud referrals during the first half of the year. Appendix 1 provides details of the cases closed between 1 April 2021 and 30 September 2021.

5.2 The team provides a wider liaison role with other agencies and dealt with:

- 127 Pupil Tracking Requests, working with the Council's Education Welfare Team to identify fraud and error.
- 55 GAIN (Government Agency Intelligence Network) requests, assisting the Police with major crime enquiries

6. National Fraud Initiative (NFI) & Data Analytics

National Fraud Initiative

6.1 The team have been working through the output from the biennial Cabinet Office National Fraud Initiative data-matching exercise, which is a mandatory exercise which matches our data with other Local Authorities data and some external datasets, in order to identify fraud. A total of 16,565 matches was received in March 2021, of these.

- 5,256 matches have been cleared
- 136 blue badges cancelled due to the badge holder being confirmed as deceased.
- 20 duplicate payment/creditor errors identified
- In addition, a team in Local Taxation have been working through the output designed to identify single persons discount fraud. Output of 5,159 matches is being reviewed with savings of £17,756 identified so far.

Fraud Data Hub

6.2 The Cabinet Office - NFI Fraud Hub has been procured and the team provided with training. The NFI Fraud data hub enables regular matching of both internal and some external datasets to identify potential fraud. The system is being implemented and the first dataset has been uploaded and output being reviewed. Work is underway to make the process of extracting the data from our systems more efficient and automated. With regular data refreshes, the Fraud Hub will identify fraud and change of circumstances of an individual that may affect an entitlement to a benefit or service, more quickly.

6.3 In addition the NFI Fraud Hub also gives council wide access to an application checking facility, which allows applications to Bristol City Council to be checked across all of the combined Local Authority data provided for the statutory NFI exercise. We have just rolled access out to the Housing Options team and are exploring other areas where it could prove beneficial.

6.4 Other options are being explored for a longer-term fraud hub solution, with the cost of procuring or entering into a collaborative arrangement with a supplier, being considered by the Project Board.

Covid grant work

- 6.5 The pre-payment checking of business support grants is largely drawing to a conclusion with only the occasional files being received for checking. Use of the NFI Fraud hub is being explored, to do a final check across all payment files for possible fraudulent cases. A small number of investigations are ongoing.

7. Whistleblowing

- 7.1 There have been 9 referrals through the Whistleblowing process in the first 7 months of the year. This is higher than expected with usually 7-9 referrals per year. This could suggest an increase in awareness and confidence in the process. Details are provided below:

Carried Fwd from 20/21	Referrals to date	Closed in year to date	In Progress
4	9	5	8
Closed cases			
Two referrals were assessed as not current Whistleblows. The referrals related to personal grievances of individuals.			
An allegation was received relating to a contractor used in Response Repairs using sub-standard materials. The referral was passed to the Response Repairs Manager to ensure effective management of the contractor's work.			
Non-compliance with Covid safety measures at social care establishment was reported. A Health and safety inspection was undertaken and arrangements were found to be satisfactory and Covid compliant.			
A Public Health Officer raised concerns about staff safety on visits and access to intelligence. Following an investigation, some minor updates to policy were agreed.			

- 7.2 In response to a recommendation from the annual independent review of Whistleblowing arrangements, Managers have been reminded of the Whistleblowing process and that it covers anybody engaged in work for Bristol City Council. This includes 'volunteers' who may not have access to the Council's Intranet and asks that Managers make them aware of the procedure.
- 7.3 Work is also underway to improve understanding of what constitutes Whistleblowing and changes are planned to the procedure which will be shared with the Audit Committee at a later meeting.

8. Benefits of Counter Fraud Activity

- 8.1 Counter-fraud activity can result in financial benefits being identified for the Council. The following table details the areas where this has occurred this year to date (as at 31st October 2021) from across the Council:

Fraud Area	Recoverable	Notional £ (note i, ii)	Weekly Cost Avoidance	Other Cost Avoidance	Administrative penalty
Tenancy Fraud	£29,838	£837,000	£335	-	-
Right to Buy	-	£56,700	-	-	-
NFI – Main review	£84,486	-	£1,169	-	-
Housing Benefits (DWP)	£6,280	-	£338	-	£1,093
Council tax Reduction (BCC)	£9,895	-	£318	-	-
Corporate Fraud	£5,051	-	£49	£320,562	-
NFI Council Tax – Single Persons Discount	£17,756	-	-	-	-
Total	£153,306	£893,700	£2,209	£320,562	£1093

Figures used for notional savings are:

- (i) Council property recovered = £93,000 (figure recommended by Cabinet Office)
- (ii) Discount that would have been awarded re Right to Buy application cancelled

9. Q3/4 Priorities

- Using International Fraud Awareness week to promote whistleblowing and fraud awareness. International fraud awareness week is an opportunity for organisations across all sectors to unite in promoting awareness of fraud to employees and the public. This will include some internal and external communications, use of social media and a blog from the Chief Internal Auditor.
- Prioritise investigation of fraud referrals to ensure these are dealt with in a timely way.
- Utilise the NFI Fraud Hub to prevent and detect fraud to minimise losses to the council.
- The team will continue with a programme of fraud awareness training.
- Internal Audit will continue to work with management in key fraud risk areas to review control processes in these areas.
- Complete all agreed planned work.

Outcomes of Internal Investigations 2021/22

Cases closed 1 April 2021 to 30 September 2021

People Directorate

Service Area	Allegations	Outcome
Adult Social Care	Direct payment recipient had moved out of the BCC area.	Overpayment calculated and re-paid.
Education and Skills	Allegation a supplier was using funding for fraudulent purposes.	Service was being provided. Allegation unsubstantiated.
Adult Social Care	Allegation that direct payments were being abused by family members.	Allegation unsubstantiated.

Growth and Regeneration

Service Area	Allegations	Outcome
Facilities Management	Employee breaching planning and council tax regulations.	Valuation Office and council tax records updated. No fraud established.
Parking Services	Misuse of blue badge	Allegations unsubstantiated.
Parking Services	Misuse of blue badge	Allegations unsubstantiated.
Parking Services	Misuse of blue badge	Allegations unsubstantiated.
Housing and Landlord Services	Lack of proper process and no controls	Dealt with by Audit review. No fraud established but audit report issued regarding controls improvement.
Natural and Marine Environment	Casual employee claiming furlough payments whilst abroad.	Joint investigation with HR. Recoverable overpayment identified.

Resources

Service Area	Allegations	Outcome
Finance	9 Covid business grant applications.	No fraud established.
Finance	Request from supplier to redirect £300k+ funds.	Attempt established as fraudulent and stopped. The team have worked with colleagues in Finance to ensure a robust process is in place to identify such scams.
Finance	Request from supplier to redirect funds.	Established that the request was genuine.
Finance	Request from supplier to redirect funds.	Established that the request was genuine.
Procurement	Conflict of interest not managed correctly.	Report issued. Procedures around declarations and management of conflicts of interest strengthened.



Audit Committee

23rd November 2021

Report of:	Chief Internal Auditor
Title:	Internal Audit Quality Assurance Improvement Programme
Ward:	N/A
Officer Presenting Report:	Simba Muzarurwi – Chief Internal Auditor
Contact Telephone Number:	07768476966

Recommendation

The Audit Committee to approve:

- (i) the Internal Audit Quality Assurance and Improvement Programme (QAIP) – Appendix 1;
- (ii) the Internal Audit Charter – Appendix 2; and
- (iii) the Internal Audit Strategy.

Summary

In accordance with the Public Sector Internal Audit Standards (PSIAS), Internal Audit is required to maintain a QAIP and report against it in its Annual Report to the Committee. The QAIP must cover all aspects of the internal audit activity which must include both internal and external assessments. The QAIP is underpinned by the Internal Audit Charter which sets out how the Service will comply with the PSIAS and its place within the organisation and the Internal Audit Strategy that sets out the framework for internal audit activities at the Council.

This QAIP, Internal Audit Charter and Internal Audit Strategy are presented to the Audit Committee for consideration and approval, as required by the PSIAS.

Significant Matters Arising:

- The QAIP includes the update on the implementation of recommendations arising from the previous report and identifies new improvement actions.
- The Internal Audit Charter and Internal Audit Strategy reflect minor changes from the documents that were reviewed and approved by the Committee in November 2020.

1. Policy

The PSIAS require the Internal Audit service within the organisation to set out its quality assurance arrangements in the form of a QAIP and to define its role, responsibilities and authority in the form of a Charter, which includes an explanation of the way in which the internal audit function will comply with the PSIAS. The monitoring of performance against the QAIP and adherence to the Charter must be assessed and reported to the Audit Committee on an annual basis.

2. Consultation

Internal – CLB including S151 Officer, Cabinet Member for Governance, Resources and Finance.

External – N/A

3. Context

3.1 The PSIAS sets out the requirement for a QAIP:

“The chief audit executive must develop and maintain a quality assurance and improvement programme that covers all aspects of internal audit activity which must include both internal and external assessments.”

3.2 The QAIP sets out how this process will work. Reporting against the QAIP will be included in the Annual Internal Audit report.

3.3 The Charter defines the purpose, authority, scope and responsibility of the Internal Audit service and is consistent with the mandatory requirements of the Public Sector Internal Audit Standards (PSIAS) and the supporting Local Authority Guidance Note (LGAN) produced by the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Chartered Institute of Internal Auditors (IIA). It also meets the PSIAS requirement for Internal Audit’s risk-based plan to incorporate or link to a strategic or high-level statement.

3.4 It is the responsibility of the Chief Internal Auditor to ensure that the Internal Audit Charter is reviewed each year in order to confirm the Service’s compliance with the requirement as detailed in the Charter, as well as to maintain the Charter’s relevance to both the Internal Audit Service and the organisation as a whole. The only change relates to Section 9 Code of Ethics where further detail has been given on the definition of each principle and how this should be adhered to by Internal Audit staff.

3.5 The Internal Audit Strategy outlines how internal audit activities will be undertaken within the Council and defines the key principles and approach to be used. It further enhances the processes that form the basis for the annual opinion which informs the Council’s Annual Governance Statement and seeks to maximise collaborative working opportunities with other assurance providers such as external auditors, external assessment teams and regulatory compliance teams.

3.6 The Committee last approved the QAIP, Charter and Internal Audit Strategy in November 2020.

4. Proposal

- 4.1 Consistent with the PSIAS, the Committee consider and approve the updated QAIP, Internal Charter and Internal Audit Strategy. This also gives the Committee the opportunity to understand how the internal audit service is governed and delivered within the Council.

5. Other Options Considered – N/A**6. Risk Assessment**

The work of Internal Audit minimises the risk of failures in the Council's internal control, risk management and governance arrangements, reduces fraud and other losses and increases the potential for prevention and detection of such issues. The PSIAS provide for an effective independent and objective Internal Audit Service, ensuring a good standard of service to the organisation, whilst at the same time providing the Internal Audit Service with wider support in terms of maintaining its independence and freedom from influence.

Public Sector Equality Duties

No Equality Impact anticipated from this report.

Legal and Resource Implications

Legal – N/A

Financial – N/A

Land – N/A

Personnel – N/A

Appendices:

Appendix 1 – Internal Audit Quality Assurance and Improvement Programme

Appendix 2 – Internal Audit Charter

Appendix 3 – Internal Audit Strategy

LOCAL GOVERNMENT (ACCESS TO INFORMATION) ACT 1985**Background Papers:**

Public Sector Internal Audit Standards.



**Internal Audit
Quality Assurance and
Improvement Programme
(QAIP)**

1	Introduction	1
2	Internal Assessments	2
3	External Assessments	3
4	Review of the QAIP	3
	Appendix A –Peer Review Implementation Update	5
	Appendix B – QAIP Action Plan 2021/22	8

1 Introduction

1.1 Internal Audit's Quality Assurance and Improvement Programme (QAIP) is designed to provide reasonable assurance to the various stakeholders of the service that Internal Audit:

- Performs its work in accordance with its Charter, which is consistent with the Public Sector Internal Audit Standards (PSIAS) and the CIPFA Statement on the role of the head of internal audit;
- Operates in an effective and efficient manner; and
- Is perceived by stakeholders as adding value and continually improving its operations.

1.2 Internal Audit's QAIP covers all aspects of Internal Audit activity in accordance with the PSIAS Standard 1300 (Quality Assurance and Improvement Programme), including:

- Monitoring the Internal Audit activity to ensure it operates in an effective and efficient manner (1300);
- Ensuring compliance with the PSIAS' Definition of Internal Auditing and Code of Ethics (1300);
- Helping the Internal Audit activity add value and improve organisational operations (1300);
- Undertaking both periodic and on-going internal assessments (1311); and
- Commissioning an external assessment to the Audit Committee at least once every five years, the results of which are communicated to the Audit Committee (1312 and 1320).

1.3 The Chief Internal Auditor is ultimately responsible for the QAIP, which covers all types of Internal Audit activities, including consulting.

2 Internal Assessments

2.1 In accordance with the PSIAS Standard, internal assessments are undertaken through both on-going and periodic reviews.

On-going Reviews

2.2 Continual assessments of quality are undertaken via:

- Management supervision of all engagements;
- Structured documented review of working papers and draft reports by Internal Audit management;
- Feedback from audit clients obtained through post audit questionnaires at the closure of each engagement;
- Monitoring of internal performance targets and annual reporting to the Audit Committee; and
- Review and approval of complex, and high risk outputs including all limited and no assurance opinions by the Chief Internal Auditor.

Periodic Reviews

2.3 The Internal Audit Service operates to a Charter that mandates compliance with relevant professional standards and specifically the definition of Internal Auditing, the Code of Ethics and the PSIAS which is regularly reviewed.

2.4 Periodic assessments are designed to evaluate conformance with these standards and are conducted via:

- Quarterly Progress Reports to the Audit Committee which includes progress against the annual plan, reports issued during the period including details of the opinion and summaries of key issues and outcomes from the work undertaken in the period;
- Annual Satisfaction Surveys to key stakeholders;
- Annual self-assessment of conformance with PSIAS;
- Annual review of compliance against the requirements of the QAIP, the results of which are reported to senior management and the Audit Committee;
- Feedback from the Section 151 Officer and Chair of the Audit Committee to inform the annual appraisal of the Chief Internal Auditor

in accordance with Standard 1100;

- At least annual performance reviews for each Internal Auditor; and
 - Regular review of individual auditors' compliance with their continuous professional development requirements.
- 2.5 Significant areas of non-compliance with PSIAS identified through internal assessment will be reported in the Internal Audit Annual Report and used to inform the Annual Governance Statement.
- 2.6 Results of internal assessments will be reported to the Audit Committee at least annually. The Chief Internal Auditor will implement appropriate follow-up to any identified actions to ensure continual improvement of the service.
- 2.7 The Chief Internal Auditor will also periodically identify improvement requirements, for example in respect of audit planning, assurance mapping, audit processes, counter fraud, skills development for the team, audit profile and performance.

3 External Assessments

- 3.1 Consistent with the PSIAS, an external assessment occurs at least once every five years to ensure continued application of professional standards. The appointment of the External Assessor and scope of the External Assessment for the external assessment is approved by the Audit Committee
- 3.2 The Peer Review of the service was completed in February 2018 which expressed an opinion about Internal Audit's conformance with the Standards, the Definition of Internal Audit and Code of Ethics including recommendations for improvement.
- 3.3 The Audit Committee has in the past received a few reports on the implementation of recommendations arising from the Peer Review. The last update was given in November 2020. The update on the residual actions is given in Appendix A on page 4.
- 3.4 The next external assessment is due in 2022/23 and the arrangements for that process will be discussed and agreed with the Audit Committee as appropriate.

4 Review of the QAIP

- 4.1 The QAIP is reviewed at least annually. Appendix B provides an update on the improvement actions identified in 2020/21 and any new actions.

Peer Review Report Observations	Recommendations	Update – November 2020
<p>All auditors do not currently have sufficient knowledge of computer assisted audit techniques. This has arisen as experienced staff have left the services.</p>	<p>Recommendation 7: Identified as part of self-assessment. Training in this area is planned, and should be rolled out as appropriate.</p>	<p>Ongoing</p> <p>Comment:</p> <p>Work is ongoing with the strategic partner to upskill the audit team in this area.</p>
<p>The self-assessment identified a non-conformance in respect of the risk based plan taking into consideration the Council's assurance framework. It is acknowledged that a number of attempts have been made to develop an assurance framework for the Council but this has not been achieved.</p> <p>The PSIAS requires that an assurance mapping exercise is undertaken as part of identifying and determining the approach to using other sources of assurance.</p>	<p>Recommendation 12: Within the Improvement Plan there is an agreed action to progress assurance mapping for the Council.</p> <p>The approach to using other sources of assurance and any work that may be required to place reliance upon those sources should be further developed as part of the assurance mapping exercise.</p>	<p>Ongoing</p> <p>The completion of assurance maps is an ongoing process we undertake annually. In the current year assurance maps have been completed based on corporate risks and satisfactory progress has been delivered.</p>

Appendix B

Quality Assurance and Improvement Programme Action Plan

QAIP Element	Action	November 2021 Update
Processes	Implement continuous monitoring and continuous auditing methodologies.	In progress – work has commenced, and a standard process is envisaged to be in place by the end of this financial year.
Processes	Introduce agile auditing methodologies	In progress
Processes	Enhance the use of analytics in completing audits	New
Professional Proficiency	Appoint Level 7 Internal Audit Professional Apprentices to build capacity and resilience	New
Professional proficiency	Complete the skills review and set up long term arrangements for IT assurance.	Complete – KPMG has been appointed as a strategic partner to support IT assurance.
Follow ups	Automating the process for monitoring and reporting on the implementation of agreed management actions	In progress – the organisation is using the Pentana Audit System to follow up agreed actions and work is being undertaken to ensure that action owners get automatic reminders when actions are due for implementation.



INTERNAL AUDIT CHARTER

1. Introduction:

- 1.1 The Chief Executive as the Head of Paid Service and the Section 151 Officer are responsible for maintaining an effective and appropriately resourced internal audit function, in line with the Accounts and Audit Regulations (2018). The regulations specifically require that “A relevant authority must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, and taking into account public sector internal auditing standards or guidance”.
- 1.2 This Internal Audit Charter defines the purpose, authority, scope and responsibility of the Internal Audit service and is consistent with the mandatory requirements of the Public Sector Internal Audit Standards (PSIAS) and the supporting Local Authority Guidance Note (LGAN) produced by the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Chartered Institute of Internal Auditors (IIA).

2. Purpose and mission:

- 2.1 The purpose of the Bristol City Council Internal Audit Service is to provide independent, objective assurance and consulting services designed to add value and improve Bristol City Council's operations.
- 2.2 The mission of Internal Audit is to enhance and protect organisational value by providing risk-based and objective assurance, advice, and insight. The Internal Audit Service helps the Council accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of governance, risk management and control processes consistent with the Bristol City Council Internal Audit Strategy.
- 2.3 The Internal Audit Service will govern itself by adherence to the Public Sector Internal Audit Standards (PSIAS) including the Core Principles for the Professional Practice of Internal Auditing, the Code of Ethics, the International Standards for the Professional Practice of Internal Auditing, the Definition of Internal Auditing and the CIPFA Statement on the role of the head of internal audit.
- 2.4 The Chief Internal Auditor will report periodically to senior management and the Audit Committee regarding the Internal Audit Service's conformance to the Code of Ethics and the PSIAS.

3. Authority:

- 3.1 The Chief Internal Auditor will report functionally to the Audit Committee and administratively (i.e., day-to-day operations) to the Director of Finance (Section 151 Officer). The Director of Finance is a Corporate Leadership Board (CLB) member in their own right and these management arrangements meet the PSIAS requirements.

To establish, maintain, and assure that the Internal Audit Service has sufficient authority to fulfil its duties, the Audit Committee will:

- Approve the Internal Audit Charter.
 - Approve the risk-based internal audit plan.
 - Receive communications from the Chief Internal Auditor on the Internal Audit Service's performance relative to its plan and other matters.
 - Approve decisions regarding the appointment and removal of the Chief Internal Auditor.
 - Approve the remuneration of the Chief Internal Auditor.
 - Make appropriate inquiries of management and the Chief Internal Auditor to determine whether there is inappropriate scope or resource limitations.
- 3.2 The Chief Internal Auditor will have unrestricted access to, and communicate and interact directly with, the Audit Committee including in private meetings without management present.
- 3.3 Consistent with the Internal Audit Strategy, the remit of Internal Audit covers the whole of the Council, its companies and other joint working arrangements where the Council is the Accountable Body as well as contract arrangements where the right of audit is included within the contract.

4. *Independence and objectivity:*

- 4.1 The Chief Internal Auditor will ensure that the Internal Audit Service remains free from all conditions that threaten the ability of internal auditors to carry out their responsibilities in an unbiased manner, including matters of audit selection, scope, procedures, frequency, timing, and report content.
- 4.2 Internal Audit is independent of the activities that it audits to ensure the unbiased judgements essential to its proper conduct and impartial advice to management. The Chief Internal Auditor reports to the Audit Committee, on a regular basis, on the organisational independence of the Internal Audit service.
- 4.3 Internal Audit operates within a framework that allows unrestricted access to senior management and Council, particularly the Mayor, the Chair of the Audit Committee, the Chief Executive and the CLB. The Chief Internal Auditor reports in his/her own name to the CLB and the Audit Committee.
- 4.4 Should the independence or objectivity of the Internal Audit service be impaired in fact or appearance, the Chief Internal Auditor will disclose details of the impairment to the S.151 Officer and / or Chair of the Audit Committee depending upon the nature of the impairment.
- 4.5 When requested to undertake any additional roles / responsibilities outside of Internal Auditing, the Chief Internal Auditor must highlight to the Audit Committee any potential or perceived impairment to independence and objectivity having regard to

the principles contained within the Code of Ethics. The Audit Committee must approve and periodically review any safeguards put in place to limit impairments to independence and objectivity.

- 4.6 As far as practicable, Internal Audit does not participate in the day to day operation of any systems without agreement of the Audit Committee. However, in strict emergency situations only, Internal Audit staff may be called upon to carry out operational work. In those instances, those seconded to operational areas will not be assigned to provide audit services to those parts of the organisation for a period of one year from the date they finish the secondment.
- 4.7 Where non-audit work, or consultancy work, is requested or required, the Chief Internal Auditor ensures that there are no conflicts of interest arising from undertaking the non-audit work, or consultancy work and if necessary makes alternative arrangements for internal audit review of any area where such a conflict exists.
- 4.8 Where new colleagues join Internal Audit from a different part of the Council, they do not complete audit work in their previous area of responsibility for a period of at least 1 year.
- 4.9 Internal Audit has responsibility for collating assurances in support of the Council's Annual Governance Statement; for drafting the Statement and for facilitating management review. The Chief Internal Auditor does not have line management responsibility for those staff involved in governance processes and does not consider that the responsibilities in respect of the Annual Governance Statement restrict the ability to report objectively on governance.

5. Definitions and Responsibilities of Officers and the Council in Relation to Internal Audit:

For the purpose of this Charter the following definitions apply:

- *The Board* is the Audit Committee - those charged with independent assurance on the adequacy of the Council's risk management framework, the internal control environment and the integrity of financial reporting arrangements. This includes oversight of the internal audit function and its activity
- *Chief Executive and Head of Paid Service* is also the Executive Director: Resources - who has responsibility for ensuring good governance, risk management and internal control arrangements exist and operate
- *Senior Management is the Corporate Leadership Board (CLB)* - those responsible for the leadership and the direction of the Council. Senior Management are also responsible for ensuring that internal control, risk management, and governance arrangements are sufficient to address the risks facing their Directorates and Services including the risk of fraud and corruption

- *Section 151 Officer* - is the Director of Finance - the Section 151 Officer is responsible for: ensuring lawfulness and financial prudence of decision making; providing financial advice; internal control; risk management; setting financial standards; and ensuring key financial controls are in place to secure sound financial management; ensuring there is adequate and effective internal audit service
- *Monitoring Officer* - is the Director of Legal and Democratic Services – responsible for maintaining the Constitution; ensuring lawfulness and fairness of decision making; providing legal advice; and conducting member investigations. As such the Monitoring officer works closely with internal audit on governance matters.

6. Scope of internal audit activities

6.1 The scope of internal audit activities encompasses, but is not limited to, objective examinations of evidence for the purpose of providing independent assessments to the Audit Committee, management, and outside parties on the adequacy and effectiveness of governance, risk management, and control processes for Bristol City Council. Internal audit assessments include evaluating whether:

- Risks relating to the achievement of the Council's strategic objectives are appropriately identified and managed.
- The actions of the Council's members, officers, directors, employees, and contractors are in compliance with the Council's policies, procedures, and applicable laws, regulations, and governance standards.
- The results of operations or programs are consistent with established goals and objectives.
- Operations or programs are being carried out effectively and efficiently.
- Established processes and systems enable compliance with the policies, procedures, laws, and regulations that could significantly impact Bristol City Council.
- Information and the means used to identify, measure, analyse, classify, and report such information are reliable and have integrity.
- Resources and assets are acquired economically, used efficiently, and protected adequately.

7. Internal Audit Activities:

7.1 Internal Audit Plan

7.1.1 The primary task of Internal Audit is to review the systems of governance, risk management and internal control operating throughout the Council and in this a predominantly risk based approach to assessing controls is adopted.

7.1.2 A risk based plan of internal audit work is prepared annually and reviewed quarterly. The plan is derived from a risk assessment which is informed by the views of management, the Council's risk registers, performance management reports and the assurance framework.

7.1.3 The audit plan is discussed with the CLB and the Section 151 Officer before review and approval by the Audit Committee. The CLB is provided with details of the annual plan for information. The audit plan is reviewed quarterly to ensure that it reflects current risks. Any significant changes to the agreed plan are reported to the Audit Committee through the periodic activity reporting process.

7.2 *Audit and Assurance Reviews*

7.2.1 For each audit assignment within the annual audit plan, a 'Terms of Reference' is drawn up and shared with the relevant managers. The Terms of Reference identifies the key risks to the achievement of Council objectives and identifies the scope of the work being carried out.

7.2.2 During the course of the audit, key issues are brought to the attention of the relevant manager to enable them to take corrective action. On completion of the audit, Internal Auditors communicate the results of the audit to the relevant Chief Executive / Director / Executive Director.

7.2.3 The completion of each planned assignment leads to individual reports to Heads of Service and /or Directors of Service and Executive Directors and these include an opinion on the control framework in place to manage the risks in the area reviewed. These opinions, together with other knowledge of issues identified in other audit work, assist the Chief Internal Auditor in providing an overall opinion on the control environment to management for the Annual Governance Statement.

7.3 *Fraud and Irregularity work*

7.3.1 Internal Auditors plan and evaluate their work to have a reasonable chance of detecting fraud; however the managing of the risk of fraud and corruption is the responsibility of management.

7.3.2 The Council's Anti-Fraud, Bribery and Corruption Policy requires the Chief Internal Auditor to be informed of all suspected or detected fraud. A fraud risk assessment is performed on all suspected or detected fraud which determines whether the irregularity is investigated by Internal Audit or by the relevant directorate with support from Internal Audit where required.

7.3.3 Investigation of fraud and corruption is carried out in compliance with statutory requirements and the fraud investigation protocol, by staff with the necessary skills to do so.

7.3.4 In addition to determining the extent of the fraud, attention is given to correction of any control failures to prevent recurrence of the fraud.

7.3.5 As well as responding to incidents of fraud and corruption, Internal Audit staff maintains and deliver a programme of pro-active fraud prevention and detection work

including national initiatives to prevent and detect fraud and testing of priority fraud risk areas.

7.4 Consultancy Reviews as Requested/Required

7.4.1 Internal Audit provides both statutory and discretionary services. Discretionary services provided by Audit are a form of consultancy. These services may be on request by management or the Council, or recommended by Internal Audit. Each of these reviews has a clearly defined and agreed Terms of Reference with agreed timescales for completion of the work and agreed reporting format.

7.4.2 In addition to planned audit reviews, Internal Audit offer advice on the internal control implications of new systems being implemented across the Council, as well as guidance and advice with regard to transformation projects within the Council.

7.4.3 The Chief Internal Auditor ensures that no conflicts of interest arise from undertaking any consultancy work by reviewing the scope of the work to be undertaken and maintaining Internal Audit's independence from management functions.

7.4.4 Where significant consultancy reviews are commissioned in year, outside of the approved plan, then Audit Committee approval is sought in advance.

7.5 External Clients

7.5.1 Internal Audit provides internal audit services and assurances to a number of public sector / quasi-public sector clients including WECA (grant certifications) and Academies.

7.6 Reporting to the Audit Committee

7.6.1 The Chief Internal Auditor will report periodically to senior management and the Audit Committee regarding:

- The Internal Audit Service's purpose, authority, and responsibility.
- The Internal Audit Service's plan and performance relative to its plan.
- The Internal Audit Service's conformance with The IIA's Code of Ethics and *Standards*, and action plans to address any significant conformance issues.
- Significant risk exposures and control issues, including fraud risks, governance issues, and other matters requiring the attention of, or requested by, the Audit Committee.
- Results of audit engagements or other activities.
- Resource requirements.
- Any response to risk by management that may be unacceptable to the Council.

7.7 Assurance Mapping

7.7.1 The Chief Internal Auditor also coordinates activities, where possible, and considers relying upon the work of other internal and external assurance and consulting service providers as needed. The Internal Audit Service may perform advisory and related client service activities, the nature and scope of which will be agreed with the client, provided the Internal Audit Service does not assume management responsibility.

7.7.2 Opportunities for improving the efficiency of governance, risk management, and control processes may be identified during engagements. These opportunities will be communicated to the appropriate level of management.

7.8 *Reporting; Follow Up and Escalation Procedures:*

7.8.1 Following the completion of all audit assignments a draft internal audit report is issued containing an opinion on the level of assurance that can be deemed from the control environment. The report outlines the findings or weaknesses, their causes and the associated risks and implications to the Council. Internal Audit will then engage with the relevant Senior Responsible Officers to agree the appropriate management actions required to address the weaknesses identified.

7.8.2 It is the full responsibility of the relevant Senior Responsible Officers to implement the agreed management actions and senior management are responsible for ensuring that there are appropriate arrangements for monitoring and reporting the progress in the implementation of agreed management actions.

7.8.3 Under the escalation element of this procedure, any audit with a no or limited assurance opinion will be subject to re-performance within six months from the date the final report was issued. The progress in the implementation of agreed management actions is also reported to the Audit Committee as part of its regular activity reports. Repeated failure to implement the agreed management actions will be reported to CLB and the Audit Committee, who may call the appropriate Senior Responsible Officer to account for the failure to correct the control environment.

7.8.4 The Chief Internal Auditor routinely reports to the Audit Committee providing Activity Reports to every meeting, together with an annual report of Internal Audit activity with details of significant control issues identified by audit work. The annual report provided by the Chief Internal Auditor includes the required opinion on the risk management and control arrangements in place and as such is an essential assurance to management in making their Annual Governance Statement.

7.9 *Collaboration and Liaison with Other Auditors*

7.9.1 The External Auditor has a statutory duty to express an opinion on the Council's financial statements and a Value for Money opinion on its arrangements for securing economy, efficiency and effectiveness. In doing so, there is potential for duplication of work completed by Internal Audit, particularly now that International Standards for Auditing (which apply to External Auditors) require a more detailed understanding of systems. Wherever possible, the Chief Internal Auditor seeks to co-ordinate the work of Internal Audit with that of the External Auditor through sharing of plans and quarterly liaison meetings, where appropriate.

7.9.2 The Chief Internal Auditor also liaises with equivalents in neighbouring local authorities where services are shared or delivered jointly. Liaison is also ongoing with equivalents in Core City Local Authorities and the Local Authority Chief Auditors' Network.

8. Responsibility

8.1 *Internal Audit responsibilities:*

The responsibilities incumbent on the Internal Audit Service are summarised below:

- Formulation and delivery of an annual Internal Audit plan which will enable the Chief Internal Auditor to provide management and the Audit Committee with the required objective opinion on the internal control, governance and risk management arrangements in place across the Council to inform the Annual Governance Statement
- Support of the Section 151 officer in discharging their statutory duties
- Reporting significant risk exposures and control issues identified to management and the Audit Committee, including fraud risks, governance issues, and other matters and making recommendations for improvement
- Ensuring the Council has a robust and proactive approach to fraud identification and investigation, investigating alleged frauds and other irregularities
- The review and certification of grant/funding claims as required
- Providing reports to the Audit Committee to enable it to discharge its duties
- Communicating risk and control information to the appropriate officers across the Council, whilst providing expertise and guidance in the matter of risk management
- Facilitating the establishment of assurances in support of the Annual Governance Statement
- Raising awareness of internal control, risk management and governance across the Council
- Undertake ad-hoc audit reviews, as required by senior management.

8.2 *Chief Internal Auditor responsibilities*

Specifically, the Chief Internal Auditor has the responsibility to:

- Submit, at least annually, to senior management and the Audit Committee a risk-based internal audit plan for review and approval.

- Communicate to senior management and the Audit Committee the impact of resource limitations on the internal audit plan.
- Review and adjust the internal audit plan, as necessary, in response to changes in Bristol City Council's business, risks, operations, programmes, systems, and controls.
- Communicate to senior management and the Audit Committee any significant interim changes to the internal audit plan.
- Ensure each engagement of the internal audit plan is executed, including the establishment of objectives and scope, the assignment of appropriate and adequately supervised resources, the documentation of work programs and testing results, and the communication of engagement results with applicable conclusions and recommendations to appropriate parties.
- Follow up on engagement findings and corrective actions, and report periodically to senior management and the Audit Committee any corrective actions not effectively implemented.
- Ensure the principles of integrity, objectivity, confidentiality, and competency are applied and upheld.
- Ensure the Internal Audit Service collectively possesses or obtains the knowledge, skills, and other competencies needed to meet the requirements of the internal audit charter.
- Ensure trends and emerging issues that could impact Bristol City Council are considered and communicated to senior management and the Audit Committee as appropriate.
- Ensure emerging trends and successful practices in internal auditing are considered.
- Establish and ensure adherence to policies and procedures designed to guide the Internal Audit Service.
- Ensure adherence to Bristol City Council's relevant policies and procedures, unless such policies and procedures conflict with the internal audit charter. Any such conflicts will be resolved or otherwise communicated to senior management and the Audit Committee.
- Ensure conformance of the Internal Audit Service with the *Standards*.

8.3 *Responsibilities for senior management:*

- Engagement in the Internal Audit planning process – providing insight into high risk areas within the respective directorates
- Nomination of responsible officers for all planned and ad-hoc internal audit reviews

- Timely engagement and clearance of relevant Terms of Reference, Audit queries, Draft and Final reports. Timely being defined as within a two week timeframe unless otherwise defined and/or agreed
- Engagement with the Internal Audit follow-up process, providing evidence of recommendation implementation as and when implementation is achieved, should this be before a planned follow-up has commenced or after the follow-up has been completed.

9. Code of Ethics

9.1 To enhance the environment of trust between Internal Audit and management, all staff involved in the delivery of Internal Audit services must comply with the Code of Ethics laid down in the PSIAS. Staff induction and training ensures all staff are aware of this requirement. Additionally, many Internal Audit staff are bound by the ethical codes of the professional bodies they have qualified with and all are bound by the Council's own Code of Conduct for employees. Internal auditors must also have regard to the Committee on Standards of Public Life's Seven Principles of Public Life. Fundamentally, the following ethical principles are observed:

Integrity Principle

The integrity of internal auditors establishes trust and thus provides the basis for reliance on their judgement. Internal auditors:

- Shall perform their work with honesty, diligence and responsibility;
- Shall observe the law and make disclosures expected by the law and the profession;
- Shall not knowingly be a party to any illegal activity, or engage in acts that are discreditable to the profession of internal auditing or to the organisation; and
- Shall respect and contribute to the legitimate and ethical objectives of the organisation.

Objectivity Principle

Internal auditors exhibit the highest level of professional objectivity in gathering, evaluating and communicating information about the activity or process being examined. Internal auditors make a balanced assessment of all the relevant circumstances and are not unduly influenced by their own interests or by others in forming judgements. Internal auditors:

- Shall not participate in any activity or relationship that may impair or be presumed to impair their unbiased assessment. This participation includes those activities or relationships that may be in conflict with the interests of the organisation;
- Shall not accept anything that may impair or be presumed to impair their professional judgement; and
- Shall disclose all material facts known to them that, if not disclosed, may distort the reporting of activities under review.

Confidentiality Principle

Internal auditors respect the value and ownership of information they receive and do not disclose information without appropriate authority unless there is a legal or professional obligation to do so. Internal auditors:

- Shall be prudent in the use and protection of information acquired in the course of their duties; and
- Shall not use information for any personal gain or in any manner that would be contrary to the law or detrimental to the legitimate and ethical objectives of the organisation.

Competency Principle

Internal auditors apply the knowledge, skills and experience needed in the performance of internal auditing services. Internal auditors:

- Shall engage only in those services for which they have the necessary knowledge, skills and experience;
- Shall perform internal auditing services in accordance with the International Standards for the Professional Practice of Internal Auditing; and
- Shall continually improve their proficiency and effectiveness and quality of their services

- 9.2 Internal Auditors are required to complete a Declaration of Interest every two years consistent with the Council's policy to ensure that any interests are known by management and safeguards can be put in place as required. Additionally, they are required to declare any potential conflicts of interest at the start of every audit assignment.

10. Quality assurance and improvement programme

- 10.1 The Internal Audit Service will maintain a quality assurance and improvement programme that covers all aspects of the Internal Audit Service. The program will include an evaluation of the Internal Audit Service's conformance with the *Standards* and an evaluation of whether internal auditors apply the IIA's Code of Ethics. The program will also assess the efficiency and effectiveness of the Internal Audit Service's and identify opportunities for improvement.
- 10.2 The Chief Internal Auditor will communicate to senior management and the Audit Committee on the Internal Audit Service's quality assurance and improvement programme, including results of internal assessments (both ongoing and periodic) and external assessments conducted at least once every five years by a qualified, independent assessor or assessment team from outside Bristol City Council.

11. Review of the Internal Audit Charter

- 11.1 In accordance with the PSIAS, the Internal Audit Charter is reviewed annually and presented to the Audit Committee for reconsideration and approval, as appropriate.

Approval

Date _____

Chief Internal Auditor

Date _____

Audit Committee Chair

Date _____

Chief Executive



INTERNAL AUDIT STRATEGY 2021 - 2023

1. Introduction:

- 1.1 The purpose of the Internal Audit Strategy is to enable the Internal Audit function (Internal Audit) to effectively prioritise its resources and focus its priorities on meeting the expectations of its stakeholders enhancing and protecting the Council's values by providing risk-based and objective assurance, advice and insight.
- 1.2 This Strategy contains some improvements and initiatives that will enable Internal Audit to provide value-added services and proactive strategic advice to the organisation in addition to the effective and efficient delivery of the annual audit plan.
- 1.3 This Strategy does not include fraud and corruption as there is a separate Counter Fraud and Anti-Corruption Strategy being developed.

2. Context:

- 2.1 The Internal Audit Charter sets out the purpose, authority and responsibilities of the Council's Internal Audit team. This enables us to work independently ensuring that work is aligned to Council priorities and upholds and promotes the Council's values. As the demands on the Council continue to increase despite the reduction in central government funding we will support the organisation in effectively managing these challenges by working proactively with the Mayor, Directors, Members and Business Partners, sharing data, knowledge and expertise to help improve outcomes for our residents.
- 2.2 The strategy applies to Bristol City Council and its group of companies and any other partnership or commercial arrangements where the Council has control. The assumption is that the Council and its group of companies will continue to utilise the Bristol City Council Internal Audit Service. In other commercial arrangements, where the Council does not have full control, the Council and its partners will need to agree on the acceptable level of internal audit activity and the level of assurance required.
- 2.3 The requirements for an Internal Audit Service in local government are detailed in the Accounts and Audit Regulations 2018, which states that a relevant body must 'undertake an adequate and effective internal audit of its accounting records and of its systems of internal control in accordance with the proper practices in relation to internal control'. The standards for proper practices in relation to internal audit are laid down in the Public Sector Internal Audit Standards.
- 2.4 The work of Internal Audit forms an essential part of the assurance framework in place which informs management when considering and compiling the Annual Governance Statement. The existence of Internal Audit, however, does not diminish

the responsibility of management to establish systems of internal control to ensure that activities are conducted in a secure, efficient and well-ordered manner.

3. Background:

3.1 The Public Sector Internal Audit Standards (PSIAS) define Internal Audit as:

“... an independent, objective assurance and consulting activity designed to add value and improve an organisation’s operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.”

3.2 The Chief Audit Executive (Chief Internal Auditor) must deliver an annual internal audit opinion and report that can be used by the Council to inform its Annual Governance Statement (AGS). This opinion must conclude on the overall adequacy and effectiveness of the organisation’s framework of governance, risk management and control.

PSIASs require that Internal Audit must:

- evaluate the design, implementation and effectiveness of the organisation’s objectives, programmes and activities;
- evaluate the effectiveness and contribute to the improvement of risk management processes; and
- assist the organisation in maintaining effective controls by evaluating their effectiveness and efficiency and by promoting continuous improvement.

3.3 A key driver for this Strategy is the acknowledgement that the Council’s control environment continues to change as the Council seeks to create more alternative service delivery models and leveraging technology to improve public service delivery. The use of alternative service delivery models including Council owned companies has resulted in the Council delivering key services through contracts including operating systems, procedures and processes outside the Council’s direct control. It is therefore critical that the Council has a robust Internal Audit Strategy in place that demonstrates how Internal Audit can support the Council and its group of companies in achieving the Council’s key priorities by maintaining effective risk management, internal control and governance arrangements.

3.4 Ultimately this Strategy will help Internal Audit to deliver a focussed assurance programme ensuring it remains proactive and forward looking. On implementation, the Strategy should help deliver a value adding assurance service to the Council by enhancing the arrangements for providing assurance to those charged with governance, the Audit Committee and management.

4. Our Strategic Approach:

4.1 Our Deliverables

We will:

- Be ‘fit for purpose’ now and for the future with appropriate capacity and skills to provide services that will enable the delivery of the Council’s Corporate Strategy.
- Deliver a robust assurance service that is aligned with the Council’s strategic priorities and the highest risks to help increase public confidence and trust in Bristol Council and its Group of Companies. The key audit areas are:

Governance	Risk Management
Operational Processes	Performance and Delivery
Financial Systems	Programmes and Change Management
Grants	Group of Companies
Information Technology	Advisory
Consultancy	Covid-19 response and recovery

- Work with senior management to put in place management assurance arrangements that enable them to proactively review, assess and design optimal control frameworks to manage operational and transactional controls.
- *Continue to support the Council’s overall Covid19 recovery response ensuring that operating structures are resilient, sustainable and support good decision-making, risk management and communication.*
- Adopt audit policies, processes, procedures and systems that are enabling and dynamic to meet assurance needs of the business.
- *Fully utilise all Pentana Audit System modules to improve our efficiency and effectiveness in audit planning, testing, and reporting activities thereby enhancing the credibility, quality and consistency of internal audit processes.*
- *Fully automate the process for following up and reporting the implementation of Agreed Management Actions which will simplify and speed the process as well as ensuring accountability, accuracy and consistency.*
- *Implement a continuous monitoring and auditing methodology to enable management to continually review business processes for adherence to and deviations from intended levels of performance and effectiveness and internal audit to continually gather from processes data that supports auditing activities.*
- Increase the use of Data Analytics to improve our audit processes (scope and quality).
- Continuously deliver assurance maps for the Council and its companies.
- *Continue using agile auditing methodologies to provide more rapid responses to changing business assurance needs.*
- Implement a Quality Assurance and Improvement Programme providing assurance to stakeholders that Internal Audit complies with the PSIAS.

4.2 Our Reporting

We will:

- Provide impactful reporting on audit findings and the implementation of Agreed Management Actions to the Audit Committee, Corporate Leadership Board (CLB) and management, consistent with agreed reporting protocols.

- *Adopt agile reporting of audit outcomes.*
- Provide an annual opinion and report to the Audit Committee and CLB based on the agreed programme of audit work and other sources of assurance to support the preparation of the statutory AGS.
- Report on our performance and expected deliverables to CLB and Audit Committee as part of performance management arrangements.
- Request feedback on all audit work and undertake an annual survey with key stakeholders on our performance and report results and any action taken to the Audit Committee and CLB.
 - The annual survey with stakeholders will be undertaken in March so that the results can be reported as part of the annual opinion.
 - On-going survey following each audit will be issued to the Audit Client with each final report and its completion is a key part of the audit process.

4.3 Our Resourcing

We will:

- Collectively possess the knowledge, skills, experience and other competencies that are required to deliver the audit plan and promote agile working and living the Council's values.
- Continue to work with KPMG as our strategic partner in supporting our core delivery arrangements and facilitate the transfer of knowledge through joint audit projects as well as providing training to enhance our commercial and specialist skills;
- Develop, nurture and sustain talent by supporting our staff's continuing professional development and professional qualification training.
- Build resilience within our Service by developing and implementing succession plans at all professional levels underpinned by the principle of growing our own through the apprenticeship and graduate trainee route.
- Work with senior management to explore opportunities for seconding staff in and out of Internal Audit.
- Explore and develop opportunities for wider and more flexible resourcing and intelligence sharing with other assurance providers.
- Continue the co-sourcing arrangements for the delivery of IT audits and foster arrangements for knowledge sharing and transfer with the in-house internal audit team.
- Strengthen our collaborative working arrangements with our External Auditors and other review bodies working with the Council and its group of companies, across the three lines of defence.
- Explore opportunities for collaborative arrangements with other local authority Internal Audit teams to build resilience within our teams.
- Participate in initiatives by professional bodies and other Audit Network Groups to share best practice across our teams.

4.5 Profile

We will:

- Embody the expected Bristol City Council behaviours and values – ensuring we are dedicated, we are curious, we show respect, we take ownership, we are collaborative and we act in the best interests of Bristol, setting an example for others.
- Ensure our work adds value by contributing to the vision and priorities of Bristol and focussing on areas of highest risk.
- Be responsive to the needs of our stakeholders ensuring that outcomes from our work are shared promptly using the most appropriate channel.
- Conform to the PSIAS Code of Ethics – Integrity, Objectivity, Confidentiality and Competency
- Have flexibility to reprioritise and undertake work considered to be high risk at short notice
- Effectively engage with all our key stakeholders and request regular feedback on our performance and engagement.
- Be proactive in suggesting meaningful improvements and risk assurance.

5. Getting our message across

At the draft report stage of an audit, it is the responsibility of the Senior Audit Client to promptly identify Agreed Management Actions, with a Responsible Officer and defined time frame for delivery. It will be the responsibility of management to ensure that all agreed actions arising from an audit report are implemented in accordance with the timetable they have given. Internal Audit will seek evidence on the progress of actions relating to key findings from the Audit Client against this timetable and report this to the CLB and Audit Committee. Where information is not provided within agreed timeframes reports will be issued without that information and the relevant senior managers will attend CLB and Audit Committee to provide further assurance.

6. Facilitating our work

To enable us to deliver a value add service we will foster collaborative working arrangements with our audit clients underpinned by our new client engagement model. The engagement with the responsible senior managers is crucial at all stages of the audit cycle particularly around:

- rolling audit planning,
- agreeing scope and terms of reference,
- cooperation and availability throughout the audit fieldwork,
- collaboration over the reporting and agreeing the necessary management actions,
- implementing the agreed actions in line with the agreed time scales,
- providing feedback on internal audit performance following completion of audits, and
- prioritising audit engagement to enable timely completion of audit activities.

8. Managing our performance

We will manage our performance consistent with the Council's performance management framework. The following Key Performance Indicators will be monitored and reported on.

Performance Indicator	Performance Target
<i>Effectiveness</i> % of the audit plan achieved	90% of the annual audit plan completed
<i>Efficiency</i> % of audits completed within the agreed budget and timelines	90% of all audits undertaken completed within agreed budget and timeline.
<i>Efficiency</i> % of draft reports issued within of 10 days from end of fieldwork	90% of all draft reports issued.
<i>Efficiency</i> % of final reports issued within 5 days following receipt of management responses	95% of all final reports issued.
<i>Improvement</i> % of agreed management actions implemented timely	90% of all agreed management actions implemented within the agreed timeline.
<i>Value addition</i> % of stakeholders satisfied with audit outcomes and value	85% of surveyed stakeholder satisfied with audit performance and outcomes.

9. Our risks

We have identified the following risks that may impact on the delivery of this Strategy which we will manage effectively consistent with the Councils' risk management framework.

No.	Risk Description	Risk Owner
1.	Failure to deliver the annual audit plan	Deputy Chief internal Auditor
2.	Failure to attract, recruit and retain top talent	Chief internal Auditor
3.	Failure to detect material weaknesses and problems	Deputy Chief internal Auditor
4.	Non-compliance with professional standards	Chief internal Auditor
5.	Loss of reputation	Chief Internal Auditor

10. Assurance Levels

The system of internal control will be assessed and given a level of assurance. The four levels of assurance will be as follows:

Assurance Level	Generic Description
Substantial	There are sound risk management, internal control and governance processes which are designed to achieve the service objectives, with key controls being consistently applied.
Reasonable	Whilst there is basically sound risk management, internal control and governance processes, there are some weaknesses which may put service objectives at risk.
Limited	There are weaknesses in the risk management, internal control and governance processes; putting service objectives at risk.
No	The risk management, internal control and governance processes are generally poor and as such service objectives are at significant risk.