

# Bristol City Council

## Minutes of the Audit Committee

26 July 2021 at 3.00 pm



### **Members Present:-**

**Councillors:** Gary Hopkins (Chair), Tony Dyer (Vice-Chair), Marley Bennett, John Geater, Zoe Goodman, Jonathan Hucker, Adebola Adebayo and Simon Cookson

### **Officers in Attendance:-**

Simba Muzarurwi (Chief Internal Auditor), Denise Murray (Director - Finance & Section 151 Officer), Alison Mullis, Tony Whitlock, Michael Pilcher (Chief Accountant), Zoe Willcox, Stephen Peacock, Elaine Olphert and Simon Oliver

## **1 Welcome, Introductions and Safety Information**

The Chair led introductions and issued the safety information.

## **2 Apologies for absence.**

Apologies were received from Cllr Katy Grant, Cllr Farah Hussain (Cllr Chris Jackson substitutes), Cllr David Wilcox and Nancy Rollason (Head of Legal).

## **3 Declarations of Interest**

None received.

## **4 Minutes of Previous Meeting**

RESOLVED the minutes of the previous meeting 24 June were agreed as a correct record.

## **5 Action Sheet**

Action 5 was completed on 19 July but was not entered onto the sheet. On Item 7 (SEND) it was confirmed that some of these questions relate to the end of the summer school term so were not ready yet. Clerk to follow up with officers [OH ACTION]



## 6 Public Forum

The Chair announced that public statements and questions would be taken at this point in the meeting. Member questions would be dealt with at the beginning of each relevant report. It was confirmed that questions had already received written answers so discussion should be limited to supplemental questions.

Cllr Geoff Gollop gave a statement, which was NOTED.

Cllr Gollop thanked the finance team for their comprehensive answers, delivered in a tight time frame.

Q1 supplementary: the relationship between yields and deficit is not clear. Putting in more explanation would help the public understand.

*Finance officers agreed to increase explanatory notes in the report.*

Q3 supplementary: the answer is a good explanation but suggests the deficit is even greater than seems? *This is a broad question. There is an annual report on the deficit, and we should consider sending this report to Audit Committee.*

Q6 supplementary: the deficit in pensions is growing, we need powers or decision makers to fix this, though I accept this is largely a political matter.

*The previous decision on governance was that BANES was the Local Authority in the best position to manage the pension scheme. We may want more regular feedback on pension issues. The S.151 officer meets regularly with pension managers, but AC may want more oversight. Bristol only has one representative on the board and BANES has 4. We may want to challenge that when there is a governance review.*

Q7 supplementary: The level of risk is so significant it justifies more oversight. We are talking about huge funds and liabilities. Would like the BCC S.151 more involved. Is the risk being held in the right place? *We need to be careful that we are not paying for management twice, it is not helpful for BCC officers to second guess everything BANES is doing. However, it would be good to have assurance/oversight of the systems BANES has in place.*

Q12 supplementary: The financial details for Bristol Energy should be in the 20/21 accounts. *The winding up of the company is still happening and we must wait until it is finished. BCC has indemnity for the liability, but the figures are currently moving.*

Q13 supplementary: The City Leap funding should be included in the total cost. *Disagree, the City Leap has different transactions that are shown separately in the accounts.*

Q14 supplementary: please clarify the submission process for the accounts.



*These are draft figures and will be subject to minor amendments. They will be published on Friday 30 July for public consultation. AC is not approving these accounts but should note any areas of concern.*

Q15 supplementary: is the total cost incurred £36.5m + £3.7m?

*There was £2.7m incurred as of April 2020 and £3.7m later. This is not the full total, it will need analysis at the end of the process.*

Q16 supplementary: it is frustrating not getting figures for the full extent of the loss. Public and Members want that number quantified.

*The external auditors are doing a full report on Bristol Energy which will provide a quantified opinion in a way the public will understand. The Q12 response does give the total figure of £36.5m + £3.7m + £2.7m.*

## **7 Work Programme**

The Work Programme was NOTED.

## **8 External Audit Progress Report**

Jon Roberts introduced the report and highlighted the following points:

- There has been good progress on the Bristol Energy report. The internal working draft of this report has been completed, including findings of my team and their recommendations. At this stage I do not think a Public Interest Report is needed, so this will be a formal Audit Committee report.
- It is important to publish the report in good time, and Public Interest Reports take a lot longer to produce. PIRs are usually reported to drum up interest with the public and regulators. We do not think this is necessary for Bristol Energy. The External Auditor is satisfied that BCC are taking this seriously, including taking previous reports to Full Council.
- A draft will be sent to officers for comment at the end of the week and will be presented at the September Audit Committee.
- There was an objection received on the 19/20 Statement of Accounts. We are not upholding the objections but will make some recommendations and explain our judgement to BCC and the objector.
- The report also contains an update on the Value for Money Assessment. There are significant risks in Capital Budgets and Company Governance. The report details the areas for investigation.
- There are new auditing standards for Account Estimates. These are led by international standards. There is a list of material items in the report where these new standards are likely to apply, especially in property and pensions valuations. The new standards will come with some additional Audit Committee responsibilities. AC will be expected to know more about estimates.
- We recommend that members read the Grant Thornton summary of learning points from recent Public Interest Reports.

Discussion Notes:



- The Bristol Energy draft report will be circulated to officers rather than Audit Committee Members. This is because the primary issue is ensuring that all factual data in the report is correct. GT is aware that members are keen to see the report. They will issue a draft to members if they deem it appropriate.
- The objection is a request for there to be a Public Interest Report into the 19/20 Statements. GT does not consider this necessary.
- There has been an increase in PIRs recently, as Councils are now more complicated, taking calculated risks for investments due to their financial situations caused by reductions in the central government grant. There is need for appropriate officer capacity to cover these risks.
- It has struck the GT team that the scale of the capital agenda is very large and there is significant public interest in it.
- Councils are taking risks and making assumptions that may not be safe, these can be identified by audit with the benefit of hindsight.

## 9 Draft Audit Committee Annual Report to Full Council

Alison Mullis introduced the report and summarised it for the committee.

- This report will be submitted to the September Full Council. Members should confirm that it is reflective of committee work that has happened over the past year.
- The Chair encouraged members to send any feedback to internal auditors via email as soon as possible so the report can be amended in time.
- While Councillor Members have changed since the election, Independent Members are extant and view the report as accurate.
- There was a discussion about the importance of forward planning and members receiving reports early enough to make comments on them. Audit Committee has a forward plan for the year, but there may be some occasions where an urgent decision is needed. Scrutiny publishes a forward plan too, which is worth checking for Audit Members.

## 1 Draft Statement of Accounts 2020/21

0

Mike Pilcher introduced the report and highlighted the following points.

- The draft statement is a work in progress so will require some minor amendments. It is not for committee to approve at this stage. Members should take this opportunity to make comments or questions.
- The final accounts will come to the December meeting assuming the External Auditors have checked them. Members will receive further training on accounts before that meeting.
- The draft accounts will be published for public consultation this Friday.

Discussion notes:



- There is a £10m deficit in the Dedicated Schools' Grant (DSG). This has been caused by the increase in high needs requirements. We are now seeing the effect of top up funding from earlier this year.
- The Education Transformation Programme is long term plan but can show short term gains. We have just received DSG information from central government showing more funding for high needs children, but we are waiting on more SEN specific details. The DSG is a national problem, and the Department for Education is talking to Local Authorities across the country.
- There are concerns about having enough spaces for children and SEN children are missing out. These are outlined in the written statement of action. BCC must meet the needs of children with an Education Health Care Plan (EHCP). Officers will report to Scrutiny and the Schools Forum about school places.
- Note that the authority cannot borrow for the sake of the DSG, there are restrictions in place. However, BCC can carry forward the debt for 3 years until we get a long-term solution.
- The remuneration report shows that there are 3 interim consultants with higher pay than the CEO. Where is the information for what they did and how long the contracts were for? [ACTION DM to find out and send on.]

## **1 Annual Governance Statement 2020/21**

**1**

Alison Mullis introduced the report and summarised it for the committee:

The AGS review process is a key mechanism for ensuring the council has an effective system of internal control and governance and highlights any shortcomings. The process includes wide consultation across management, who provide assurances to inform the statement. Other assurances from oversight functions and independent review bodies are also reviewed as part of the process. The AGS must reflect the internal control and governance arrangements that were in place during 2020/21. Section 2 of the statement shows conclusions from the annual review. This document will be published alongside the draft accounts. Committee review of the draft is a key element of the process. Members agreed that the AGS was a fair reflection on arrangements however, it was also agreed that members could feed back any comments or concerns to officers as soon as possible to enable appropriate amendments to be made to the final AGS. The AGS would be presented to the Committee again later.

## **1 Corporate Risk Report Q4**

**2**

Mike Pilcher introduced the report and summarised it for the committee:

This report covers the last financial year. At the end of March, leisure centres were added as a critical risk. Other high risks are around affordable homes and the capital programme. There are deteriorating risks on the capital programme and the companies.

Discussion Notes:



- Regarding the safeguarding risk at CRR9. This report shows that the risk is improving, but it has been bad in previous quarters. Is the most recent improvement a blip or does it show the start of a positive trend?

[ACTION MP to send more detail on CRR9 to members]

## 1 Internal Audit Update Report

### 3

Simba Muzarurwi introduced the report, which would be taken in two parts. The first is a general update on audit activities, the second is an update on the specific areas covered in appendices 2, 3 and 4.

Relevant senior officers are available to field particular questions.

- There have been challenges in the audit process, which has resulted in audits taking longer to complete than originally planned. There are many planned activities that are work in progress, and work is on-going in ensuring that there are sufficient resources to deliver on time.
- Overall, internal audit is satisfied on the progress being made in the implementation of agreed management actions. IA will provide a further update in September and it is anticipated that the lifting of Covid restrictions should lead to more improvements in the delivery of targets particularly in tenancy fraud.

#### Discussion Notes:

- On the audit assurance plan, only one topic has been completed (housing rents), however Internal Audit are confident that this plan will be delivered on time given the resourcing arrangements being put in place.
- Members asked what the triggers are for audit to intervene in a particular area. The audit plan is generally informed by discussions with management and in most cases, management identify areas of perceived high risk and request assurance support from Internal Audit. Largely, IA issues are usually known by management before Internal audit intervenes.

#### Appendix 2 – IT programme

- The first transformation programme was accelerated, and a 5-year programme was done in 2. How and why was this done?
- The FSA programme signed off by cabinet was designed and developed by a third party. When the current director joined BCC, this was amended to better fit BCC needs. The decision was made to accelerate the original programme to meet the BCC digital transformation ambition.
- The acceleration increases the risk and not all financial benefits were realised. It is not clear whether the programme objectives are being delivered.
- There was no financial benefit assigned to the FSA. The second phase is digital transformation, which is expected to deliver savings. There are some key aspects left to complete: laptop replacements for Windows 10 are taking longer than expected due to legacy applications. The relationship between Sharepoint and cloud storage is also taking longer to resolve. Windows 10 will take around 12 months to complete.



- The Committee was concerned to understand how completion of the residual works from the ITTP are completed. A follow up review by Internal Audit will be completed to provide assurance, or otherwise, in this regard. The committee will receive updates as part of the Internal audit activity reports.
- Continued implementation of key ITTP projects is also being monitored by the Digital Transformation Programme Board. Internal Audit will sustain a presence on that board to assist monitoring delivery of the ITTP residual projects.

#### Appendix 3 - Capital Programme Governance

- BCC brought in long-term partner Arcadis in February to assess the governance arrangements for the capital programme. You can find this in the summary report.
- Arrangements show a reasonable level of assurance but need to be at a consistent level across the whole portfolio.
- External Audit will build on the findings of Internal Audit in their own examination of the Capital Programme. The Internal Audit follow up will be by Quarter 4, so expect this in the February or March Audit Committee.
- Finance Officers will bring more detail in September about the Council Improvement Board, which is a long-term programme of improvements rather than a one-off review.

#### Appendix 4 – Affordable Housing.

- There are some concerns from Registered Housing Providers about affordable housing delivery. BCC Scrutiny are seeking assurance on what can be delivered.
- The Value of Grants is circa £28m. These are not forward grants; developers must be committed to the build before grants are awarded.
- The housing team has an internal audit system that monitors delivery milestones to keep track of project delivery.

### **1 Review of Specific Corporate Risk (Affordable Housing)**

#### **4**

Zoe Willcox introduced the report and highlighted the following points:

- This particular risk is CRR32 (affordable homes), which is a subset of CRR18 (total homes delivered). The report is split into two sections: delivering all homes and delivering affordable homes.
- In general terms all Local Authorities monitor the housing supply in their area to ensure ongoing effectiveness and capacity. There are a series of measures and mechanisms in place to mitigate and address shortfalls.
- While BCC monitors supply and delivery there are big macro factors that can affect housing, e.g. Brexit, Covid. Local Authorities are enablers rather than deliverers.
- Delivery has fluctuated as can be seen in the report. There are 13k homes with planning permission and 1300 completions. BCC should embrace mitigations to address under delivery.



- For affordable housing, BCC are also enablers to accelerate delivery. Cost is subsidised so homes can be sold at less than market rates. They are often delivered through Registered Housing Providers.
- 450 affordable homes per year is the target, with a mix of delivery methods. Mitigations are listed in the report. Recording and monitoring delivery is important. We are now recording on a per unit basis rather than by development as this is more accurate.
- Officers report regularly to the Housing delivery Board and Scrutiny.

#### Discussion Notes:

- Macro factors are generally negative and provide downwards pressure. However, there can also be positive levers such as central government providing a positive benefit policy.
- Generally Local Authorities are judged on housing delivery despite the nature of the housing market. There has been no change to national requirements during Covid.
- There were significant build numbers in the early 2000s that have dropped off significantly. This is a product of the housing market and the three-year lag in completion after planning approval.
- A high number of flats were built in the centre during the pre-2008 boom. There were lots of brownfield sites available. There are less sites available now and they are harder to develop.
- There is an upward trend recently as more sites are appearing with better funding. Permission may be granted but delivery is not as fast as it used to be.
- The role of Audit Committee is to analyse risk and the governance systems in place. The level of risk regarding housing has been identified correctly. Scrutiny will go through delivery in much more detail.
- Officers are putting together a housing supply statement about the pipeline going forward. The Bristol challenge is the nature of supply, there are lots of small sites which makes them harder to develop. We are seeing delays on affordable housing on large sites.
- The target for all house construction is circa 2000 per year, but this figure is subject to annual review.

## 1 Companies Assurance Report

### 5

Alex Wiseman (Chair ARC) introduced the report and highlighted the following points:

- The Bristol Holding Company Audit and Risk Committee (ARC) was set up after the inception of BHC to improve governance of the company subsidiaries.
- ARC reviews and monitor controls, sets up internal and external processes and determines processes for compliance with laws and codes of practice.
- ARC has set up an audit review process from scratch. We analyse the risk register to identify and analyse issues. We also supply compliance reports in regular management information bulletins.
- The governance for companies has strengthened over the past 18 months.
- The Corporate Risk Register is not in the pack as advertised but was reviewed by this committee last year and is available on request.
- The Audit body is separate from the companies themselves. This is a better model than previously.





Discussion Notes:

- There was a question on the process for selecting audits. These are prioritised based on risk by identifying high risks from group and individual registers. A good example in that list is corporate governance.
- The ARC only covers wholly owned issues, not joint ventures.
- The 2019 Business Case to create a special purpose vehicle (now Bristol Heat Networks Ltd) was presented to cabinet to justify the grant funding. The setup of a heat company and network was a condition of receiving the £10m HNIP grant.
- Following BHL's recommendation to Shareholder, the decision to wind up Bristol Energy was done rapidly. Liquidation is a lengthy process, and energy is a highly regulated environment. Problems were identified in early February 2020, there was a shareholder meeting at the end of February, with a recommendation and decision by cabinet to sell the business in June 2020.
- ARC was formed in September / October 2019 so cannot comment on governance before this.

**1 Exclusion of the Press and Public**

**6**

As no confidential information was discussed during the Companies Assurance Report, exclusion of the press and public was not required.

Meeting ended at 5.30 pm

**CHAIR** \_\_\_\_\_

