

CORPORATE AFFAIRS AND AUDIT COMMITTEE

A meeting of the Corporate Affairs and Audit Committee was held on Thursday 4 March 2021.

PRESENT: Councillors J Rathmell (Chair), B Hubbard (Vice-Chair), T Higgins, J Hobson, T Mawston, D Rooney and C Wright

ALSO IN ATTENDANCE: D Coupe, C Hobson (Executive Member for Finance and Governance), P Jeffrey (Internal Auditor) (Veritau), S Reid (External Auditor) (Ernst Young), M Rutter (External Auditor) (Ernst Young), J Dodsworth (Veritau) and R Smith (Internal Auditor) (Veritau)

OFFICERS: S Lightwing, C Benjamin, S Reynolds, J Weston and I Wright

APOLOGIES FOR ABSENCE: None received

20/56 **DECLARATIONS OF INTEREST**

Name of Member	Type of Interest	Item/Nature of Interest
Councillor Higgins	Non pecuniary	Agenda Item 6 - Member of Teesside Pension Fund
Councillor C Hobson	Non pecuniary	Agenda Item 6 - Member of Teesside Pension Fund
Councillor Hubbard	Non pecuniary	Agenda Item 6 - Member of Teesside Pension Fund
Councillor Rooney	Non pecuniary	Agenda Item 6 - Member of Teesside Pension Fund

20/57 **MINUTES - CORPORATE AFFAIRS AND AUDIT COMMITTEE - 4 FEBRUARY 2021**

The minutes of the Corporate Affairs meeting held on 4 February 2021 were submitted and approved as a correct record.

20/58 **CAPITAL STRATEGY 2021-2022**

The Head of Finance and Investment presented a report of the Director of Finance for Members of the Committee to note the key elements of the Council's Capital Strategy and understand how the prudential indicators and treasury strategies ensured that it was affordable and sustainable over the medium term.

The report was an Appendix to the Revenue Budget and Medium Term Financial Plan report approved by Council on 24 February 2020. The two CIPFA codes that covered the prudential code on capital finance and the treasury management code of practice for local authorities recommended that the capital strategy was independently scrutinised by a local authority committee outside the budget approval process.

The Capital Strategy Report for the Council included the following areas:

- How the Investment Strategy was funded;
- The relevant prudential Indicators to monitor the performance, affordability and sustainability of the capital expenditure being proposed in line with the requirements of the prudential code;
- Treasury Management arrangements in place for investing surplus funds and borrowing to fund capital expenditure;
- The types of investments the Council made as part of managing its cash balances – the Annual Investment Strategy;
- Knowledge and skills of staff involved in the Treasury Management process;
- Minimum Revenue Provision policy – including outlining how much the Council set aside to re-pay debt built up to fund prior year's capital expenditure in the Borough.

A copy of the Capital Strategy Report 2021/2022 was attached at Appendix 1 to the submitted report. The Head of Finance and Investment provided a detailed explanation of the Council's capital expenditure and financing, treasury management, revenue budget implications and treasury management practices.

Responding to Members' questions, the Head of Finance and Investment explained that each capital funding decision was based on the resources available to fund it. Capital investment allowed the Council to create new assets, transform existing services and provide a better quality of life to residents. It was a statutory requirement for the Council to set an authorised limit for external debt at the start of each financial year and the limit was set based on the Investment Strategy.

It was highlighted that although the Council had undertaken some capital projects in recent years that have generated a revenue income stream, the primary aim had always been to regenerate the areas involved and to grow the wider economy within the Town.

AGREED as follows that:

1. the information provided was received and noted.
2. Members' suggestions for the format of future Committee training sessions were forwarded to the Chair or Director of Finance.

20/59

AUDIT RESULTS REPORT - MIDDLESBROUGH COUNCIL - 2019/20

The External Auditor presented the final Audit Results Report in respect of the audit of Middlesbrough Council for the year ended 31 March 2020. The report provided an update on the matters noted as outstanding in the provisional Audit Results Report presented to the November 2020 meeting of the Corporate Affairs and Audit Committee.

The External Auditor confirmed that an unqualified opinion had now been issued on the financial statements and a qualified value for money opinion in respect of the provision of Children's Services following the OFSTED inspection findings published in January 2020.

The draft financial statements included impairment charges of £13.6 million for TAMP and £7.9 million for the Centre Square buildings. TAMP was constructed by the Authority, however the Centre Square assets were recognised under finance leases. The initial recognition of both these assets and the finance lease liabilities was overstated by £8.5 million. The valuation as at 31 March 2020 was unaffected by the misstatement of the valuation on initial recognition, however the in-year revaluation loss of £7.9 million had been revised to a gain on revaluation of £0.6 million.

The valuation of the Authority's pension liabilities as at 31 March 2019 were adjusted in 2018/19 to reflect the estimated impact of addressing age discrimination within the Local Government Pension Scheme highlighted by the McCloud legal case. The valuation of liabilities at 31 March 2020 continued to include this adjustment, updated in-line with other assumptions.

In relation to the qualified value for money opinion in respect of the provision of Children's Services, the Chief Finance Officer confirmed that the opinion was in relation to the effectiveness of the expenditure. Once the Children's Services Improvement Plan was fully delivered, the Officer was confident that the Council would achieve value for money in that area.

Responding to a query in relation to potential increases in interest rates, the Auditor stated that the going concern disclosures within the financial statements were confirmed as robust up to the end of March 2022. The Chief Finance Officer highlighted that the Council's unallocated reserves had been increased for the financial year 2021/2022 and additional funds had been allocated to the Capital Finance Budget.

Finally, in relation to Officers' Remuneration, it was confirmed that it was the Chief Education post (or equivalent) which was incorrectly stated and the errors in the statement of exit packages related to banding issues. The Auditor agreed to email the details to the Chair post meeting.

AGREED as follows that:

1. the Middlesbrough Council Audit Results Report for the Year Ended 31 March 2020 was received and noted.
2. the External Auditor would provide details of the errors in the statement of exit packages related to banding issues to the Chair of the Committee in writing.

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AUDIT RESULTS REPORT - TEESSIDE PENSION FUND 2019/20

The External Auditor presented the final Audit Results Report for the Teesside Pension Fund for the year ended 31 March 2020. The Report provided an update on the matters noted as outstanding when the provisional audit results were presented to the November 2020 meeting of the Corporate Affairs and Audit Committee.

The External Auditor confirmed that an unqualified audit opinion had been issued on the financial statements. The final opinion did not include additional narrative to highlight financial statement disclosures that the valuations of directly held property had been prepared on the basis of a 'material valuation uncertainty', as indicated previously, as it had been subsequently concluded that such a narrative was not required.

A Member queried the unadjusted difference in relation to £0.6 million costs incurred to surrender a lease to enable the sale of associated land. It was clarified that the accounting treatment applied was an error, however due to the low value in relation to the materiality threshold of approximately £9 million, it remained unadjusted. The Auditor clarified that the £0.6 million lease costs related to Middlesbrough Council and not the Teesside Pension Fund.

Another query was raised in relation to a balance of £13.9m for which management had been unable to provide supporting evidence to justify its recognition as an asset of the Fund. The External Auditor explained that this sum had built up over a number of years and was not actually an asset of the Pension Fund. Council Officers had agreed to investigate this issue in advance of next year's audit.

The External Auditor extended his thanks to Middlesbrough Council Officers for their assistance during the completion of the audits.

AGREED that the Teesside Pension Fund Audit Results Report for the Year Ended 31 March 2020 was received and noted.

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CERTIFICATION OF CLAIMS AND RETURNS - ANNUAL REPORT 2019/20

The External Auditor presented a report summarising the results of work performed on Middlesbrough Council's claims and returns for 2019/2020.

The report set out the findings from certification work on the Housing Benefits Subsidy Claim and the Certification of Teachers' Pensions Return.

AGREED that the information provided was received and noted.

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REDMOND REVIEW

A report of the Director of Finance was presented to inform Members of the Committee of the key points of the Redmond Review and discuss the next steps for compliance at the Council.

The key findings of the report were as follows:

- An ineffective balance between price and quality with 40% of external audits relating to the 2018-19 financial year failing to meet required reporting deadlines, in part due to under-resourcing and lack of experienced staff.
- A lack of co-ordination and regulation of audit activity across the sector.
- Outcomes from statutory accounts and external audit work not always being effectively communicated and presented to the local authority and public.

- The technical complexity of statutory accounts limiting public understanding of the financial position of local authorities and reducing the effectiveness of any scrutiny processes.

The findings from the Review had a direct bearing and relevance to the audit of the Council's 2019/20 accounts. In summary:

- The statutory deadline of the end of November for the audit had not been met and was now only just complete towards the end of February.
- There was an ongoing dialogue with the external auditors over a large increase in the level of fees payable for this work.
- The timeliness of the Council's ability to publish the audited results of the 2019/20 audit meant that they would be quickly superseded by the 2020/21 accounts.
- The accounts were very complex and were not understood by the public or other stakeholders. This had been demonstrated by no questions during the public inspection of accounts period over the last two years and Members needing specific training and direction when reviewing and scrutinising the accounts.
- Due to the regulatory demands on local authority accounts, most of the additional audit work had been on areas of material value that involved technical complexity and professional judgement when preparing. These areas did not have immediate or even medium term bearing on the Council's financial position.

Twenty three recommendations were made as a result of the review and were considered in four main themes which were detailed in the submitted report as follows:

External Regulation and Oversight.

Financial Reporting.

Governance.

Financial Resilience and Sustainability.

The implementation of some of the recommendations required changes to primary legislation, however, many of them could be implemented without.

Assuming that the recommendations were implemented, the key implications for the Council and the Committee would include:

- A likely increase in audit fees; with evidence suggesting audit fees collectively were at least 25% lower than required to fulfil current local audit requirements effectively.
- The requirement for the auditor to present an annual report to Full Council.
- The appointment of at least one suitably qualified independent member to Audit Committee to assist with scrutinising the accounts.
- An additional requirement to produce a standardised statement of service information and costs.
- A revised timetable for the statutory accounts process, with a change in the reporting deadline for local audit from 31 July to 30 September.

Although further consideration of the recommendations was needed, Officers and Members were supportive of the suggestion of appointing a suitably qualified independent member to the Committee.

The Ministry of Housing, Communities and Local Government (MHCLG) and the National Audit Office (NAO) were currently in the process of establishing a sector led working party to take forward the other recommendations. Progress on this would be reported to Members at regular intervals.

The Chief Finance Officer wished to place on record his thanks to the Auditors and Council Officers for their work during the last year, acknowledging some of the difficulties currently being encountered in local government finance.

AGREED that the information provided was received and noted.

20/63

INTERNAL AUDIT AND COUNTER FRAUD PLANS 2021/2022

A report of the Head of Internal Audit was presented to request the Corporate Affairs and Audit Committee's approval for the Internal Audit and Counter Fraud Plan for 2021/22.

A copy of the Internal Audit and Counter Fraud Plans 2021/2022 were attached as appendices to the submitted report.

Appendix 1 set out proposed internal audit work for 2021/22. The planned work was based on an initial assessment of risk undertaken by Veritau alongside discussions with Chief Officers and Members. Discussions would continue in the lead up to the 2021/22 audit year. As in 2020/21, the plan was a high-level document with an allocation of days for key areas of assurance. The detailed audits to be included within these areas would be agreed with Officers in the coming months. The plan was also flexible and would be updated if the Council's priorities or risks changed during the year.

It was expected that the Covid-19 pandemic and the Council's response, would be a significant priority for the Council throughout 2021/22. Veritau would continue to set time aside to provide support and challenge for this. The flexibility of the Audit Plan would assist in this regard. The total number of days allocated to internal audit assurance in 2021/22 was 555.

The proposed areas of counter fraud work in 2021/22 were set out in Appendix 2. No estimate of time was made for each area as this was dependent on the levels of suspected fraud reported to the Audit Team. The priorities for the work programme were set annually in the Council's Counter Fraud Strategy Action Plan and annual Fraud Risk Assessment. The total number of days allocated to counter fraud work in 2021/22 was 150.

AGREED that the Internal Audit and Counter Fraud Plan 2021/2022 was approved.

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INTERNAL AUDIT AND COUNTER FRAUD PROGRESS REPORT

The Head of Internal Audit presented a progress report on the delivery of the 2020/2021 Internal Audit and Counter Fraud Plan and the outcomes from work completed since the last report to Committee.

Appendix 1 to the submitted report summarised the progress made in delivering 2020/21 internal audit work. The audits listed had been agreed with management as a priority for review during the year, and had either commenced been scheduled to take place. No further audits would be added to the programme of work, although support would be provided when requested if additional assurance was required.

A number of areas had been added to the work programme since the last report, including work relating to Covid-19 such as a review of arrangements relating to supplier relief, post-assurance work on business grants paid out and the returns provided for the government's income compensation scheme. A number of other audits had been deferred including commissioning (within Children's Services), the housing delivery vehicle and public health. These audits would be considered along with other priorities for inclusion in the 2021/22 audit plan.

The Auditor clarified that the additional work related to Covid-19 work which was prioritised as a necessity. The work that was deferred was planned for quarter four and had not yet started and in discussion with senior officers it was agreed they were not a priority.

The Internal Auditors continued to prioritise financial system audits that were not completed in 2019/20 due to the Covid-19 pandemic. An audit of debtors had been finalised and other financial systems audits were either underway or were scheduled to commence soon.

A summary of work completed since the last report to this Committee, including the number of actions agreed and key issues identified, was included in Appendix 2 to the submitted report and a summary of the number of new actions agreed and implemented during 2020/21 was included at Appendix 3.

The Council approved a new Counter Fraud Policy, Counter Fraud and Corruption Strategy

(with associated action plan), as well as considering an updated Fraud Risk Assessment in September 2020. Revised Whistleblowing and Anti-Money laundering policies were agreed in December 2020.

Councils had been given responsibility for the administration of Covid-19 grants to businesses across a number of schemes, e.g. Small Business Grant Fund, Local Authority Discretionary Grant Fund and Retail, Hospitality and Leisure Grant Fund.

These schemes had been targeted by organised criminals operating nationally and internationally, as well as false applications for grants by local businesses.

The Department for Business, Energy, and Industrial Strategy (BEIS) had required all councils administering grants to undertake an independent review of payments made during the first phase of lockdown. The counter fraud and internal audit teams would undertake this work for Middlesbrough Council. A 5% sample of payments would be taken, evidence scrutinised, and checks made with external data sources to identify potential fraud and error. From work already undertaken by the Auditor with various other Councils, it appeared that they had administered the grants correctly in a diligent way and it was expected that Middlesbrough would be no different in this respect.

The 2020/21 National Fraud Initiative (NFI) was underway and it would also examine Covid-19 payments this year. Grant payment data would be used to detect where businesses had erroneously or fraudulently accessed multiple grants, payments that may have been made to accounts linked to organised crime, and whether state aid thresholds have been breached.

A key objective for the counter fraud team was raising awareness of fraud with staff. The team had met with key service areas to arrange fraud awareness sessions and has already delivered training to members of staff in the Human Resources department. Further work was planned to help promote and raise awareness of the Council's whistleblowing procedure.

AGREED that the information provided was received and noted.

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UPDATE ON POLLING STATIONS AND OTHER ELECTION PROCESSES FOR 6 MAY 2021 ELECTIONS

A report of the Returning Officer was presented to update Members on recent government guidance and delivery plans for 6 May 2021 Elections and to advise of possible changes to the location of a number of polling stations as listed at Paragraph 4.6 of the submitted report, in response to further guidance that was recently issued to schools in respect of use of a school as a polling station.

The vast majority of electoral rules and procedures would remain as they were at the previous local, mayoral and Police and Crime Commissioner Elections, and other local elections and referendums, which took place between 2016 and March 2020. The UK Government did not support all-postal voting and it did not propose to introduce early voting or change the hours of polling. However, running elections during a pandemic posed a number procedural and operational issues for a Returning Officer and the Elections team.

The Government policy paper on the May 2021 polls delivery plan stated that given the importance of avoiding any further disruption to education, schools should not be used as polling stations, where alternative venues were available. The UK Government particularly discouraged the use of schools where this would result in closure and would provide support to Returning Officers to explore the use of other community or commercial facilities, to minimise disruption to schools.

Middlesbrough had 28 schools currently used as polling stations. In preparation for the elections due to take place on 6 May 2021, the premises previously agreed by Committee as polling stations were contacted. At present a number of schools had indicated that if their premises were to be used as a polling station, the school would need to be closed. In addition, some of the community venues that were used as polling stations had vulnerable people accessing the premises and had also expressed reticence/refusal for use.

As a consequence of the pandemic and the above guidance the Returning Officer, used

emergency delegated powers and requested the Elections Team find temporary alternative venues to be used for this election only. This included use of community or private venues and/or mobile stations. The availability of mobile stations to hire would also be a concern, since all other local authorities would be undertaking similar reviews.

A list of premises that the Council were unable to use for these elections, and the proposed alternative venue for each polling station was included at paragraph 4.6 of the submitted report. However, current and alternative polling station venues might still be subject to change.

The following update was provided at the meeting:

- St Edwards RC Primary School – new polling station confirmed: Aapna House (old Library site).
- Waiting Room, Berwick Hills Primary School – proposed new polling station: the Neptune Centre, to be confirmed following site visit.
- Pallister Park Primary School - new polling station confirmed: Old Middlebeck Social Club, Homerton Road.
- Kader Academy – new polling station confirmed: Kader Academy Nursery.
- Newham Bridge Primary School - replaced with Mobile Station.
- Captain Cook Primary School – proposed new polling station: Marton Library, to be confirmed following site visit.
- Hemlington Hall Academy - replaced with Mobile Station in car park.
- Otterhill Court Community Centre - replace with Mobile Station in the Phoenix car park at the rear of number 31, to be confirmed following site visit.
- Viewley Hill Academy – new polling station confirmed: Hemlington Children's Centre.
- Lingfield Primary School - Replaced with Mobile Station in car park.
- Glastonbury House - Replaced with Mobile Station in car park.
- Lingfield Ash Meeting Hall - Replaced with Mobile Station in car park.
- Bellamy Courts Residents' Lounge - replace with Mobile Station in car park, to be confirmed following site visit.
- The Avenue Primary School – new polling station: St Bernadette's Primary School: Mobile Station in car park, to be confirmed.
- The Brunton Suite – new polling station: land opposite the Avenue shops or Brunton Arms car park: Mobile Station, to be confirmed following a site visit.
- Macmillan College: Replaced with Mobile Station in car park.

The number of Mobile Stations being used had increased to 15 and potentially up to 17 from 7 at previous elections. All polling station venues had to be confirmed by 10 March 2021, when the data would be sent to printers to produce the poll cards.

In accordance with Government guidance it was confirmed that no Middlesbrough schools would be forced to close for the Combined Elections on 6 May 2021.

Details of arrangements for nominations, campaigning, and alterations to proxy arrangements were also included in the submitted report. Stockton Council were the lead authority for the direction and co-ordination of these regional elections and the compilation of the regional results. Due to social distancing requirements each authority would be conducting the verification and the Count for both elections in their own venues and submitting results electronically to Stockton who would announce the results.

The Council was conducting a social media campaign to try and encourage more electors to register for a postal vote. A leaflet advising on how to register for a postal vote would be delivered to every household at the same time as the poll cards.

Verification for both elections would take place after the close of Poll on Thursday 6 May and the Count for both elections would take place on Friday 7 May at Middlesbrough Sports Village. As the primary election, the Police and Crime Commissioner Count would take place first starting at 10.00 am, followed by the Tees Valley Combined Authority Mayoral election at approximately 2:00 pm.

Social distancing and other safety measures, such as marshalls, hand sanitiser, screens and distance markings would be in place at the Count venue and in polling stations.

An estimated £92 million of government grant funding would be provided to local authorities for the elections. £31 million of this funding was an uplift to directly address costs associated with making the elections COVID-19 secure. Increased costs of the Police and Crime Commissioner elections would be met by the UK Government. Additional costs in relation to the Tees Valley Combined Authority Mayoral election would be recharged to the TVCA.

Risk assessments had been developed for each aspect of the election and project teams were reviewing and amending procedures to ensure appropriate measures were in place and ensure the plans remain flexible to ensure delivery of a safe election. A request was made for all Councillors to receive an updated list of polling stations. It was highlighted that there was a postcode checker on the Council website to help people identify their polling station and the details would also be printed on poll cards.

It was confirmed that the old Middlebeck Social Club was no longer a licensed premises and was now a community venue.

Whilst electors were asked to wear face coverings, if they arrived to cast their vote without a face covering, and were able to wear one, a face covering would be provided by polling station staff.

A query was raised in relation to leafletting and whether parish councils and community councils were allowed to distribute leaflets under current Covid-19 restrictions. It was confirmed that the relaxation in restrictions on leafletting only applied when an election was taking place.

It was also confirmed that all the new polling stations had been visited and assessed against a checklist to ensure accessibility for all. Where possible, the use of Mobile Stations was avoided, but for the forthcoming elections they would need to be used where schools or alternative venues were not available. Staff were trained to take the ballot paper and box to any elector who was unable to access the polling station.

In terms of encouraging more people to vote in Middlesbrough, it was highlighted that promoting democracy was considered all year round. In the past events had taken place at the University and Middlesbrough College, school pupils had visited the Town Hall and taken place in Democracy Counts events and articles had been published in the Middlesbrough Football Club and LoveMiddlesbrough magazines.

AGREED as follows:

1. The Government's May 2021 Elections Delivery Plan, including guidance on proxy voting, campaigning, door knocking and leafletting during the current lockdown was received and noted.
2. Members' noted potential changes to polling stations in Middlesbrough as listed at paragraph 4.6 of the submitted report and updated at the meeting.
3. Once confirmed, a list of polling stations for the Combined Elections on 6 May 2021 would be circulated to all Councillors.

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ANY OTHER URGENT ITEMS WHICH IN THE OPINION OF THE CHAIR, MAY BE CONSIDERED

None.