

CORPORATE AFFAIRS AND AUDIT COMMITTEE

A meeting of the Corporate Affairs and Audit Committee was held on Thursday 5 August 2021.

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

PRESENT BY INVITATION: Councillors D Coupe

ALSO IN ATTENDANCE: A Metcalfe

OFFICERS: C Benjamin, S Bonner, D Johnson, P Stephens, J Weston and I Wright

21/2 **WELCOME AND EVACUATION PROCEDURE**

The Chair welcomed all present to the meeting and read out the Evacuation Procedure.

The Chair welcomed Councillor Jim Platt as the Committee's new Vice Chair and Cllr David Coupe.

21/3 **DECLARATIONS OF INTEREST**

Name of Member	Type of Interest	Item/Nature of Interest
Councillor Higgins	Non pecuniary	Agenda Item 7 – Member of Teesside Pension Fund
Councillor Hubbard	Non pecuniary	Agenda Item 7 - Member of Teesside Pension Fund
Councillor Rooney	Non pecuniary	Agenda Item 7 - Member of Teesside Pension Fund

21/4 **MINUTES - CORPORATE AFFAIRS AND AUDIT COMMITTEE**

The minutes of the Corporate Affairs and Audit Committee meetings held on 29 April and 22 July 2021 were submitted and approved as a correct record.

21/5 **MIDDLESBROUGH COUNCIL LONG-TERM FINANCIAL SUSTAINABILITY**

A report of the Director of Finance was submitted, the purpose of which was to inform the Corporate Affairs and Audit Committee of the publication of the new CIPFA Financial Management Code (FM Code) which was applicable in shadow form during 2020/21, with the first full year of compliance being 2021/22.

An initial self-assessment that had been undertaken of the Council's assessed level of compliance compared to the Standards contained within the CIPFA Financial Management Code and the associated actions arising to ensure full compliance was attached at Appendix 1 to the submitted report. The results of the CIPFA Financial Resilience Index 2021 and a comparison and analysis with other Local Authorities, was attached at Appendix 2 to the submitted report.

The Director of Finance advised the Committee that the report had already been approved by Executive and it would be beneficial for all Members to be aware of its contents.

Members were also advised that despite requisite systems in place to manage issues, staffing in this area had been impacted over the previous 10 to 15 years.

The levels of Council reserves were discussed during which it was clarified the s.151 officer assessed reserve levels based on budgetary activity year to year.

In terms of Middlesbrough's council tax base; it was confirmed that Middlesbrough was oversubscribed with properties with lower Council Tax bandings. It was important for Middlesbrough to grow its council tax base by increasing the number of homes with a council tax band of either D, E or F. It was also commented that despite being the fourth best improver for council tax collection, more improvement was required.

Borrowing levels were discussed during which it was confirmed the Council's current levels of borrowing stood at £218 million. The Director of Finance agreed to supply further details on spend against borrowing to Members outside of the meeting.

Members discussed how due diligence was carried out with stakeholders and how scenario testing was involved in this process. It was clarified that due diligence was robustly carried out, but could be strengthened in places. Scenario testing had been carried out for a number of years informally, and informed the Medium Term Financial Plan (MTFP). However this needed to become formally embedded in the process.

Members queried if there was a limit to the number of houses to be built in order to satisfy financial need. It was clarified house building would have a limit but it was important to try and reach a normal mix of housing type across the town. Members were also advised that, where appropriate, they would always be involved in future decisions regarding house building in the town.

The Chair queried what the ideal level of reserves were and it was clarified reserves currently stood at £11.5 million and the s.151 officer was comfortable with this level.

AGREED that the following were noted by the Committee:

1. the contents of the report.
2. the key points of the CIPFA Financial Management Code (FM Code) and the initial self-assessment of compliance with the Code, the associated actions arising to ensure full compliance, and the next steps.
3. the results of the analysis of the CIPFA Financial Resilience Index 2021.

21/6

ANNUAL REPORT OF THE HEAD OF INTERNAL AUDIT AND ANNUAL COUNTER FRAUD REPORT

A report of the Head of Internal Audit was presented to provide Members with a summary of internal audit work undertaken in 2020/21 and provide an opinion on the overall adequacy and effectiveness of the Council's framework of governance, risk management and internal control.

The annual report was included at Appendix 1 to the submitted report and included a summary of findings from recently finalised audit work as well as the status of agreed audit actions. The report also provided details of Veritau's Quality Assurance and Improvement Programme (QAIP) which included ongoing quality assurance arrangements and activities, annual self-assessment, external assessments at least once every five years, as well as an annual survey of senior management in each client organisation.

Veritau also provided a counter fraud service to the Council and the annual report setting out counter fraud activity and performance was included as part of the submitted report, attached at Appendix 2.

From the report Veritau drew the Committee's attention to the following areas:

- There was no single register showing what CCTV equipment or systems were in use across the Council and so demonstrating relevant compliance was difficult;
- The report presented was at the draft stage. Any future actions agreed with service would be brought back to a future meeting of the committee and;
- It was not possible to fully assess the impact the Covid Pandemic had on the Council.

A Member queried if further information could be provided regarding the delay in responding to information requests. It was clarified that the performance management dashboard, which

was monitored by Senior Management, would monitor Fol response times.

The Committee expressed their thanks to Veritau for their work.

AGREED that the following were noted by the Committee:

1. the results of internal audit work and counter fraud work undertaken.
2. the opinion of the Head of Internal Audit on the adequacy and effectiveness of the Council's framework of governance, risk management and internal control.
3. the significant control issue identified by internal audit which was considered relevant to the preparation of the Council's Annual Governance Statement.
4. the outcome of the Quality Assurance and Improvement Programme and the confirmation that the internal audit service conformed with the Public Sector Internal Audit Standards.

21/7

2020-21 EY PLANNING REPORT

The 2020-21 Audit Planning Reports for Middlesbrough Council and the Teesside Pension Fund were presented. The reports set out how EY would carry out its responsibilities as auditor.

The purpose of the reports was to provide the Corporate Affairs and Audit Committee with a basis to review EY's proposed audit approach and scope for the 2020/21 audit in accordance with the requirements of the Local Audit and Accountability Act 2014, the National Audit Office's new 2020 Code of Audit Practice, the Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA) Ltd, auditing standards and other professional requirements. The report was also intended to ensure that EY's audits were aligned with the Committee's service expectations.

The plans summarised EY's initial assessment of the key risks driving the development of an effective audit for the Council and the Teesside Pension Fund, and outlined EY's planned audit strategy in response to those risks. EY's planning procedures were not yet fully completed and if any material changes arose they would be communicated to the Committee, as appropriate.

AGREED that the 2020-21 Audit Planning Reports for Middlesbrough Council and the Teesside Pension Fund were received and noted.

21/8

DRAFT STATEMENT OF ACCOUNTS 2020/21

A joint report of the Director of Finance and the Executive Member for Finance and Governance was presented for Members of the Corporate Affairs and Audit Committee to note and review the draft Statement of Accounts for 2020/21.

The Audit and Accounts regulations 2015 had been amended for 2021. The statutory timetable had been revised to reflect the continuing impact on local authorities and their finance teams of the pandemic, plus recommendations from the Redmond Review. The dates had been revised to the end of July and the end of September for the draft and audited accounts respectively.

Although Covid-19 had had a significant effect on both the Council and the preparation of the statement of accounts for this year, the statutory deadline had been met for the preparation of the draft Statement of Accounts.

The draft Statement of Accounts for 2020/21 agreed with the Financial Outturn report to Executive on 15 June 2021 which showed an almost balanced revenue budget position and the year-end position on the Investment Strategy. The general fund balance was £10.5 million as at the 31 March 2021 and slightly above the minimum level recommended by the Director of Finance within the Council's medium term financial plan, of £9.4m. There had been a number of significant changes in the balance sheet of the Council, mainly increases in pension liabilities and changes in earmarked reserves. Although the balance sheet now had more liabilities in total than assets, it was expected that the asset values on both pensions and property would recover in the medium to longer term. There would be no immediate financial pressures on the Council's financial plans as a result of this

The Head of Finance and Investment provided a detailed presentation of the Draft Statement of Accounts 2020/2021 highlighting the following elements:

- The report was complex, and Members were required to consider the draft statement of accounts and highlight any issues they were interested in.
- Members were encouraged to ask questions and seek further information.
- The report was only for noting until external auditors had qualified the accounts. The Committee would then be responsible for signing off the accounts from a political perspective.
- The Covid pandemic had changed the time scales for completing this work, which was a reflection of how complex the accounts now were. For example, this year's draft accounts needed to be completed by the end of July and finalised by the end of September.
- The audit process had taken longer than normal, due to resourcing issues. The committee was advised it was probable the September deadline would be missed. If auditor exceeded their deadline a notice will be issued advising of this.

Members were invited to make general comments and observations for further analysis. Comments and observations included; how Covid payments worked; the investment strategy; the Middlesbrough Development Company; explanation of business rates reduction in the town; town centre development and training on officer remuneration. TM: More information on the MDC and its actions in Middlesbrough; code of corporate governance review and what progress had been made on this issue.

AGREED as follows:

1. the Draft Statement Accounts published by the Director of Finance on the 19 July 2021, was noted.
2. Committee Members would undertake further training to enable them to fulfil their statutory role.

21/9

DRAFT ANNUAL GOVERNANCE STATEMENT

The Draft Annual Governance Statement was presented to the Committee.

The Annual Governance Statement (AGS) formed part of the Statement of Accounts that the Council must produce on an annual basis and have approved by the Mayor of Middlesbrough and the Council's Chief Executive and Section 151 Officer.

The following points were highlighted:

- The previous Chair had requested Internal Audit look at a range of governance issues, including how the Annual Governance Statement was developed. These had now been done and provided a substantial level of assurance.
- Overall good progress had been made despite the Covid Pandemic.
- There were no Priority 1 issues identified in the draft and action was underway to address the lack of a CCTV register identified by auditors.
- A deadline of March 2022 was identified to complete key actions.
- Overall the assessment of the Council's corporate governance was sound with areas for improvement.
- An improvement plan would be created and monitored throughout the year.

A question was raised regarding how procurement processes aligned with the Annual Governance Statement. It was clarified that procurement processes featured throughout the Statement but that a separate, detailed, training exercise on procurement would be beneficial for Members.

It was also agreed that training opportunities on this matter would be cascaded to political groups.

AGREED that the draft Annual Governance Statement was noted.

LESSONS LEARNT - BEST VALUE INSPECTION OF LIVERPOOL CITY COUNCIL

A joint report of the Director of Legal and Governance Services and Director of Finance (Section 151 Officer) was presented, setting out the governance issues identified in the Best Value Inspection of Liverpool City Council (LCC) report and assessed whether there were any lessons to be learnt for corporate governance within Middlesbrough Council. The report also provided an update on actions previously agreed for Middlesbrough Council following consideration of the Best Value inspection of Northamptonshire County Council and the public interest report issued by the external auditor of London Borough of Croydon Council.

The following areas were highlighted in the report:

- Officer structures, roles and responsibilities.
- Regeneration and planning.
- Elected members – roles and responsibilities understanding.
- Corporate governance compliance.
- Legal corporate governance.
- Use of Local Authority Trading Companies.
- Inspection Team recommendations.
- Consequences of the inspection.
- Improvement actions.

LCC had the same democratic governance model as Middlesbrough Council. It was therefore not surprising that the inspector's recommendations relating to governance and structure were relevant to Middlesbrough Council. The self-assessment identified a range of planned actions that focussed on member and officer relationships and awareness and understanding of roles and responsibilities. Those recommendations aligned with a recent internal audit report on Member decision-making, which was currently at the draft report stage. There was a risk that if roles and responsibilities were not fully understood and adhered to by both Members and officers, Middlesbrough Council could experience the same issues as LCC.

The actions previously agreed for Middlesbrough Council following consideration of the public interest report issued by the external auditor of London Borough of Croydon Council had been completed as follows:

- The Reserves Risk Assessment was shared with Scrutiny as part of the consultation for the 2020/21 budget setting process.
- Training on treasury management had been planned into the work programme of Corporate Affairs and Audit Committee for 2021/2022.
The first session took place on the 24th June 2021 focusing on Treasury Management Principles with a second to follow on the Prudential Code.
- Council approved a revised Investment Strategy and a Capital Strategy including Treasury Management Policy, Borrowing Strategy, Minimum Revenue Provision Policy and Prudential Indicators on 16 February 2021. These had all been considered in light of the COVID-19 pandemic.

All actions following a self-assessment against a Best Value inspection report on Northamptonshire County Council had also been completed; with the exception of the overarching partnership governance action. Plans for this changed with the political administration, however a partnership governance policy was now in place which would ensure partnerships were developed and managed in alignment with the Council's strategic priorities.

Work was progressing to expand demand forecasting products in Children's safeguarding to incorporate financial forecasting. Further work was planned in relation to lessons learnt from complaints during 2021 to strengthen practice in this area.

A Member remarked that prior to the meeting they had submitted a significant number of queries. The Director of Finance responded in general terms advising the Committee that while the Council had reduced resilience, staff were doing their best and that Senior Management was could not be classed as a more inexperienced.

A discussion took place regarding decision transparency and how Executive decisions were made and recorded. The Monitoring Officer advised she was confident that decisions were

adequately recorded as well as their reasons. It was commented that all Members should be aware of their responsibilities during the decision making process.

AGREED as follows that the Committee:

1. noted the contents of the report and the planned actions to ensure lessons are learnt from events at Liverpool City Council (LCC).
2. noted an update on previously agreed actions to ensure lessons were learnt from the issues experienced by London Borough of Croydon Council (LBCC) and Northamptonshire County Council (NCC).

21/11

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

None.