

# Finance and Audit Scrutiny Committee

Minutes of the meeting held on Tuesday 17 December 2019 at the Town Hall, Royal Leamington Spa at 6.00pm.

**Present:** Councillor Nicholls (Chair); Councillors: R Dickson, Jacques, Leigh-Hunt, Illingworth, Syson, Tangri and Wright.

## 82. Apologies and Substitutes

- (a) there were apologies for absence from Councillors Bartlett and J Dearing; and
- (b) Councillor Illingworth substituted for Councillor Tracey.

## 83. Declarations of Interest

Minute 85 – Executive Agenda (Non-Confidential Items & Reports – Wednesday 18 December 2019)

Executive Item 7 – Relocation of Kenilworth School – Playing Pitch Strategy and Land Purchase

Councillor Wright declared an interest because of his association with the school and left the room while the item was considered.

## 84. Minutes

The Minutes of the meeting held on 12 November 2019 were taken as read and signed by the Chairman as a correct record.

## 85. Executive Agenda (Non-Confidential Items & Reports – Wednesday 18 December 2019)

The Committee considered the following non-confidential items which would be discussed at the meeting of the Executive on Wednesday 18 December 2019.

Item 7 – Relocation of Kenilworth School – playing pitch strategy and land purchase

The Committee were appreciative of the assurances from the Deputy Chief Executive in respect of the current governance structure for the project and the opportunities this project provided for the Council. The Committee noted the report.

(Councillor R Dickson left the meeting after this item.)

## 86. Environment & Business Portfolio – Service Review

The Committee received a report from the Environment & Business Portfolio Holder that detailed the performance within the Portfolio area.

The Business part of this portfolio predominantly focused on services within the Development Services. The Development Services risk register, contracts register and budget had been used as the basis for reporting on this. However, the Environment part of this portfolio cut across all services and was a new dimension to the portfolio created in May 2019. This part of the portfolio was subject of a report to the Executive in November 2019. It did not have an independent risk register, contracts register or budget because these were dispersed across all services. The reporting and governance arrangements for the Environment element of the portfolio were still being established following the approval of the update on the Climate Change Emergency Action Plan at Executive. The report therefore concentrated on the Business element of the portfolio.

Updates relating to the Development Portfolio were not included in the report and were the subject of a separate report to the Committee in November 2019.

The Business Portfolio risk register was last reviewed on 26 November 2019. This version of the risk register was set out as Appendix A to the report.

The scoring criteria for the risk register were subjective and were based on an assessment of the likelihood of something occurring, and the impact that might occur.

In line with the traditional risk matrix approach, greater concern should be focused on those risks plotted towards the top right corner of the matrix whilst the converse was true for those risks plotted towards the bottom left corner of the matrix. If viewed in colour, the former-described set of risks were within the area shaded red, whilst the latter-described set of risks are within the area shaded green; the mid-range were in the area seen as yellow.

The Business element of the portfolio was responsible for a wide range of services which consequently led to a number of potential risks. There were 21 risks contained in the risk register.

There were four risks rated "green", 16 rated "yellow", and one rated "red", in accordance with the Council's risk scoring matrix. The risk rated red was the risk of *"Network Rail arches to be sold (confirmed - this refers to ALL arches whether under active or inactive tracks)"*.

As with all the risks in the register, it was the controls and mitigations that were being undertaken to control the risks that were of importance. These reflected the tangible actions over which there was more control. As a result, many of the risks had reduced in likelihood over time which explained why a significant proportion were within the "yellow" band. In addition, a number of risks that were included within the risk register in previous years had now fallen away.

The latest version of the contract register that related to the Business element of Portfolio was set out in Appendix B to the report and was last reviewed on 19 November 2019. There were 17 live contracts listed. All the contracts reviews planned for 2019 had been completed.

Details of the budgets relevant to the Business element of the Portfolio were included as Appendix C to the report.

Management of the budgets was part of the ongoing processes which ensured that significant variances were discussed with finance. The budgets were devolved to budget managers who were responsible for the delivery of specific services. Each budget manager was trained on their responsibilities. Those responsibilities included regular liaison with the relevant accountant in finance to discuss and resolve issues and variances associated with the budget. Managing expenditure in line with the budget was therefore part of the established practice of the service.

In response to questions from the Committee, the Portfolio Holder explained that:

- the mitigation relating to Risks 15 and 16, relating to enterprise projects, had been completed, and the scoring shown in the Appendix reflected this;
- there was continual monitoring ; of how the local economy was performing and for opportunities of how the Council could further enhance this;
- an Economic Impact Assessment had been commissioned to review the impact of events held in the District, which would then be used to inform decisions on which events to support in future;
- the majority of key performance indicators had been agreed with Shakespeare England and more were under discussion to ensure the Council achieved value for money from the contract;
- there was a need to monitor the exposure of the District from events and this formed a part of the Economic Impact Assessment;
- there was a need to consider disruption to local businesses when holding events in Town Centre but this needed to be balanced against the overall economic benefit from an event; and
- the new events officer had been appointed and was due to start in the new year.

**Resolved** that the report be noted.

87. **Executive Agenda (Non-Confidential Items & Reports – Wednesday 18 December 2019)**

The Committee considered the following item which would be discussed at the meeting of the Executive on Wednesday 18 December 2019.

Item 5 – Housing Revenue Account (HRA) Base Budgets 2020/21

The Committee noted the report and that paragraph 8.2.4 was included in error and should not be considered.

88. **Public and Press**

**Resolved** that under Section 100A of the Local Government Act 1972 that the public and press be excluded from the meeting for the following item by reason of the likely disclosure of exempt information within paragraph 3 of Schedule 12A of the Local Government Act 1972, following the Local

**89. Executive Agenda (Confidential Items & Reports – Wednesday 18 December 2019)**

The Committee considered the following confidential item which would be discussed at the meeting of the Executive on Wednesday 18 December 2019.

Item 13 – Acquisitions and Disposals of Land and Property North of Gallows Hill, Warwick District Council

The Committee noted the report and that there was a known error with current Land Registry Certificate that Officers were in the process of resolving.

(The meeting resumed in public session.)

**90. Executive Agenda (Non-Confidential Items & Reports – Wednesday 18 December 2019)**

The Committee considered the following item which would be discussed at the meeting of the Executive on Wednesday 18 December 2019.

Item 3 - Council Loans Policy

The Committee suggested to Executive that (1) they amended the Policy so that Officers could refuse loan requests that did not meet the criteria; (2) the policy clearly stated it was for capital schemes only; and (3) there were some minor wording amendments that the Deputy Chief Executive would feedback to the Executive.

**91. Financial implications of the delayed HQ relocation**

The Committee received a report from the Deputy Chief Executive (BH) regarding the financial update on Covent Garden Car Park and the financial implications of delaying the HQ relocation.

The two issues were fundamentally linked following the Council decision in April 2016 to relocate the Council's HQ offices, allowing the Riverside House site, allocated for housing development in the Local Plan, to be vacated to enable that development to come forward and approve a comprehensive redevelopment of the Covent Garden site comprising of:

- a new multi-storey car park providing more spaces than contained in the existing multi-storey and surface car parks combined;
- an office block providing new HQ offices to allow the Council to vacate both Riverside House and the Town Hall; and
- 'enabling development' of housing apartments.

Council had agreed that the development of both sites would be delivered through the PSP Warwick Limited Liability Partnership (LLP) that the Council had established with a private company, Public Sector PLC, in 2013.

The Council subsequently signed a Project Agreement with the LLP in July 2016. Under this agreement, the Council would fund the construction of the

new car park (with costs recovered from future income) and the LLP would fund the development of the new offices and enabling housing development. The LLP would be granted an option on the Riverside House site and would dispose of the site to a housing developer once the Council had moved to the new offices. The sale of the Riverside House site for development would cover the costs of the construction of the offices and enabling development, the LLP's Facilitation Return and return a profit to be shared by the partners.

The HQ relocation was scheduled to deliver £300,000 per annum of revenue savings to the General Fund and facilitate the relocation of Council functions from the Town Hall, saving a further £85,000 per annum.

The Executive considered a confidential report on the PSP Warwick LLP on 21 August 2019. Following that meeting, the Council issued a press statement on 3 September 2019 confirming the HQ relocation project would not be delivered by the LLP and, as the project was the only one that the LLP was responsible for, the Council would now be working with its partner, PSP, to discuss the future of the LLP. The statement included the following quote from the Leader of the Council: "No decisions have been made on the proposed HQ relocation or the future redevelopment of the Covent Garden area pending the outcome of the review that was announced by the new administration. These issues will be considered by the Council at a future date."

The Covent Garden car park remained operational and would continue to do so until a future decision was made on whether the site was redeveloped in part or full. Equally, a final decision would be required on whether to relocate the Council's HQ offices from the Riverside House site and until that time, the building would need to remain fully operational.

The 511 spaces Covent Garden multi-storey car park was a predominantly concrete structure. The Council routinely inspected its three multi-storey car parks and additionally, it commissioned periodic specialist structural surveys. Survey work undertaken in 2015 had identified two significant issues at Covent Garden:

- Corrosion of the rebar (internal steel rods within the concrete supporting structure) within the ramp to the upper decks and extensive delamination of the concrete structure on those decks following water ingress as a result of sealing to the upper (open) decks failing.
- Identification of Alkali Silica Reaction (ASR), which occurred when the alkaline pore fluid in concrete and the siliceous minerals in some aggregates used to form it reacted to form a calcium alkali silicate gel. This gel expanded when it absorbed water to 'blow' open the concrete, allowing further chemical reactions to occur and water ingress to the rebar. ASR could not be repaired and could only be slowed by preventing moisture ingress into the concrete and this was problematic in this structure due to the issues with the upper decks.

As a result of this survey work the top two floors of the car park, decks 7 and 8 were closed in 2015, reducing the operational capacity of the car park to 387 spaces. Significant remedial repairs were also undertaken to:

- replace/enhance vehicle impact barriers to protect the parapet walls, identified as at risk of being weakened by ASR;
- replacement of handrails;

- refurbishment of the drainage system to prevent further water ingress to the central ramp 'core'; and
- additional pedestrian protection along the ramps.

A further survey was commissioned in respect of the ASR with the findings reported to Executive in February 2016. This survey concluded that "ASR is present throughout the building but at a lower risk than first considered and can be managed in the short term. There are however, substantial costs associated with maintaining Covent Garden for any length of time". Those costs were identified as c£2.3m, of which £814,000 was required within three years, that could allow the car park to remain operational for up to 20 years, although this life-cycle could not be guaranteed given the unknown factor of how quickly the ASR could activate and lead to the deterioration of the structural integrity of the building. These considerations were explored in more detail in the April report and were an important factor in determining the decision to relocate the HQ offices to Covent Garden, with the financial modelling indicating it was more cost effective to replace the car park than repair it.

As a result of the decision to defer the relocation project, a further specialist structural survey had been commissioned. This had found:

- No evidence of any new areas of ASR since the 2015 survey but micro-cracking as a result of ASR to the parapets on the north/south elevation.
- Significantly increased chloride levels since the 2015 survey which found negligible levels to all decks. The latest survey found over half of the test locations showed medium levels of corrosion and five test locations showed high levels of corrosion (Chloride ion content in concrete was one of the most common initiators of corrosion in the steel reinforcement embedded in concrete). The highest levels of corrosion were identified in the soffits and decks at levels 3, 5 and 7, with lower levels on decks 2 and 6. Of these, all except deck 7 were currently operational.
- No evidence that structural reinforcement was fundamentally compromised in any area, but continuing justification for the closure of decks 7 and 8, a need for remedial repairs to inhibit salt accumulation and water ingress, and continued monitoring given the on-going deterioration of the structure.

If the car park was to remain open, it was estimated that repair work to the value of c£1.3m (2019 prices) would be required in the next two to five years. This expenditure would need to be incurred every 10 years to maintain the effectiveness of the works. Although the current survey indicated that this level of expenditure should allow the car park to remain operational for c10 years, the works would not resolve the existing ASR and chloride corrosion and any further deterioration could lessen the remaining lifespan of the structure.

In addition, there were on-going maintenance costs for the car park which were currently averaging at £30,000 per annum. If the car park were to remain open long-term, the likely future costs were estimated as set out in Table 1 below.

**Table 1**

Term	Total Estimated Cost	R & M based on £30k p.a.	Cumulative Total
Immediate (1yr)	£44,000	£30,000	£74,000
Short (2yr)	£916,000	£30,000	£1,020,000
Medium (5yr)	£380,000	£90,000	£1,490,000
Long (beyond 10 years)	£1,340,000	£300,000	£3,130,000

The immediate expenditure requirements for 2020/21 could be accommodated within the proposed Planned & Preventative maintenance Budget that would be presented to for approval in February 2020 as part of the Councils budget. However, the costs beyond that period were currently unfunded and careful consideration needed to be given as to how they could be met in future years, pending future decisions made by Council.

Whilst the Covent Garden car parks remained operational, they generated an income for the Council. The current estimate for 2019/20 was £450,000 and a similar sum for 2020/21 had been built into the base budget. These estimates were based on the following income receipts for recent years as set out in Table 2 below.

**Table 2**

	Short stay	Long stay (Multi storey only)	Season Tickets	Total
	£	£	£	£
2016/17	145,000	330,000	58,000	533,000
2017/18	142,000	300,000	48,000	490,000
2018/19	134,000	288,000	25,000	447,000
2019/20 Q1	57,000	125,000	19,000	201,000

One further complication for the continued operation of the Covent Garden car parks was the age of the current Pay on Foot equipment. This was now obsolete and parts difficult to obtain, causing inconvenience for customers, loss of ticket income due to delays in repairs being able to be completed and additional repair costs. In the short term, it was intended to install Pay and Display ticket machines using old machines recycled from other car parks, although these could not be made operational until the new Parking Orders for 2020 were approved and sealed in January. However, this was a stop-gap solution and if the car park was to remain operational in the medium to long term, a new ticketing system would be required. This had not been costed and was not included in the sums referred to in Table 1 above.

The delays to the project meant that the revenue savings planned of £300,000 per annum, from the relocation of the HQ, to the General Fund budget would not be made as originally profiled within the Medium Term Financial Strategy. Within the July 2019 Fit For the Future Report, it was reported that the savings were now profiled from April 2022. The slipping of the project had not reduced the overall level of savings to be found by the Council on an on-going basis and required other savings to be secured sooner.

While active plans for the office move had been in place, expenditure on repairs and maintenance at Riverside House had been kept to a bare minimum for several years with only responsive repairs being undertaken. Despite this, it was an expensive building to operate and expenditure on repairs, utilities, maintenance contracts and other operating costs in recent years were set out in Table 3 below.

**Table 3**

<b>Financial Year</b>	<b>£</b>
2016/17	493,250
2017/18	534,700
2018/19	643,270

With the decision to put the relocation project on hold pending a future Council decision, it had not been possible to keep repair expenditure at historic low levels during the current financial year. In addition to any responsive repairs, expenditure estimated at c£70,000 would have been incurred on 'backlog' repairs.

Further expenditure on the building would need to be included within the draft Planned and Preventative Maintenance budget for 2020/21. This was currently estimated at £172,000.

If the Council decided to stay in the building in the longer term, further estimated expenditure of £1,890,000 would be required within the next five years.

The building had an extremely high carbon footprint and the above sums were likely to increase significantly were carbon reduction measures to be included in the maintenance programme.

The future costs of replacing the ICT cabling within Riverside House were also not included in the costs set out above. This was currently certified until 2025 but would work beyond that date. The data centre fabric, such as power, cooling and fire suppression, had been reviewed by the Assets team and expenditure to update the fire suppression and cooling systems was included within the figures above.

The servers, storage and backup solution were unaffected by the delay to the development of the new Council offices and their replacement was accounted for in the ICT Asset Reserve.

The physical computer network, including items such as switches, routers and firewalls were also largely unaffected by the delay and their replacement was accounted for in the ICT Asset Reserve. However, unlike the servers and storage which would be moved to the new build when it occurs, the network equipment was, to a degree, bespoke to the building and the services it supported. Greater certainty about a relocation date would allow the network asset replacements to be aligned to the office move.

If significant remodelling of Riverside House was to occur in the short to medium term and/or new working practices were introduced, such as hot-desking, then this could lead to additional ICT costs.

The printers/copiers currently within Riverside House (and the Town Hall) were leased on three and five-year leases. The shorter leases were to enable the number of machines to be reduced on the office move. With the delay to the office move, it was expected that four of the five short-term leased machines would be required for the full five years. Extending the leases on the four machines was estimated to cost an £9,993.28 for two years. This sum was allowed for within current budgets but would have been a saving as part of the office move.

The delays to the project meant that the revenue savings planned of £85,000 per annum from the Town Hall would not be made as originally profiled within the Medium Term Financial Strategy. Within the July 2019 Fit For the Future Report, it was reported that the savings were now profiled from July 2022.

The Town hall building was within the proposed remit of the Creative Quarter, but at its November meeting, the Executive agreed that the Council would determine the future of the building before inviting its regeneration partner, CDP, to develop any proposal for the building.

Officers were considering options, in open dialogue with Leamington Town Council, and these would be reported to a future Executive meeting. Any cost implications and/or impact on the current saving assumptions would be included as part of that report.

In response to a question from the Committee, the Deputy Chief Executive confirmed that at some point, a decision would need to be taken on the future of the Covent Garden Car Park.

It was observed by the Committee that there was a risk with the Covent Garden Car Park that it might be unavailable, either at short notice or because of redevelopment, for use during the Commonwealth Games in the summer of 2022.

**Resolved** that the report be noted.

## 92. **Internal Audit Quarter 2 2019/20 Progress Report**

The Committee received a report from Finance that advised on progress in achieving the Internal Audit Plan 2019/20, summarised the audit work completed in the second quarter and provided assurance that action had been taken by managers in respect of the issues raised by Internal Audit.

Members had a responsibility for corporate governance, of which internal audit formed a key part. This Committee was the Council's audit committee in the context of receiving and acting upon this report. Guidance on the role and responsibilities of audit committees was available from a number of sources. That which related to audit committees' relationship with internal audit and in particular the type and content of reports they should receive from internal audit was summarised in Appendix 1 to the report. However, essentially, the purpose of an audit committee was:

- To provide independent assurance of the associated control environment.

- To provide independent scrutiny of the authority's financial and non-financial performance to the extent that it affected the authority's exposure to risk and weakened the control environment.

To fulfil these responsibilities, audit committees should review summary internal audit reports and the main issues arising, and seek assurance that action had been taken where necessary.

At the request of the Deputy Chief Executive (AJ) and the Head of Health and Community Protection, an audit of Crime and Disorder had been replaced with a consultancy review of CCTV in order to help the Council prepare for an inspectorate review. The Crime and Disorder audit would be carried forward to next year. Previous reviews of this subject did not reveal any significant problems so this deferral was not considered a risk.

Seven audits were completed in the second quarter of 2019/20. Copies of all the reports issued during the quarter were available online.

The action plans accompanying all Internal Audit reports issued in the quarter were set out as Appendix 3 to the report. These detailed the recommendations arising from the audits together with the management responses, including target implementation dates. Responses had been received from managers to all recommendations contained in audit reports issued during the quarter in question.

Two audits completed in the quarter were awarded a lower than substantial assurance opinion. These were in respect of the 'Grounds Maintenance' and 'Utilities Management'.

**Resolved** that the report, including its appendices, be noted.

93. **Executive Agenda (Non-Confidential Items & Reports – Wednesday 18 December 2019)**

The Committee considered the following non-confidential item which would be discussed at the meeting of the Executive on Wednesday 18 December 2019.

Item 4 – General Fund Base Budgets 2020/21

The Committee noted the report and the addendum with regard to Shakespeare England.

Item 9 – Finance Systems Replacement

The Committee supported the recommendations in the report and recommended to the Executive that a non-Executive Member should be on the Project Board for the report.

Item 6 – Rural/Urban Capital Improvement Scheme (RUCIS) Changes

The Committee noted the report.

94. **Review of the Work Programme and Forward Plan & Comments from the Executive**

The Committee received a report from Committee Services which informed the Committee of its work programme for 2019 as attached at Appendix 1 to the Report, as well as the current Forward Plan.

**Resolved** that the report and its Appendices be noted.

95. **Public and Press**

**Resolved** that under Section 100A of the Local Government Act 1972 that the public and press be excluded from the meeting for the following item by reason of the likely disclosure of exempt information within paragraph 3 of Schedule 12A of the Local Government Act 1972, following the Local Government (Access to Information) (Variation) Order 2006.

96. **Confidential Minutes**

The Confidential minutes of the meeting held on 12 November 2019 were taken as read, subject to a clarification in Minute Number 79, regarding the answers provided by the Portfolio Holder for Housing so that it read "40% social housing had been achieved by Warwick District Council in the houses that it has built". The minutes were signed by the Chairman as a correct record.

(The meeting ended at 8.00pm)

CHAIR  
11 February 2020