

BIRMINGHAM CITY COUNCIL

AUDIT COMMITTEE 20 NOVEMBER 2018

MINUTES OF A MEETING OF THE AUDIT COMMITTEE HELD ON TUESDAY, 20 NOVEMBER 2018 AT 1400 HOURS IN COMMITTEE ROOM 6, COUNCIL HOUSE, BIRMINGHAM

PRESENT:-

Councillor O'Shea in the Chair;

Councillors Afzal, Bridle, Jenkins, Shah, Tilsley, Trickett and Webb.

NOTICE OF RECORDING/WEBCAST

- 61 The Chairman advised and the meeting noted that this meeting would be webcast for live or subsequent broadcast via the Council's Internet site (www.birminghamnewsroom.com) and members of the press/public could record and take photographs except where there were confidential or exempt items.

The business of the meeting and all discussions in relation to individual reports was available for public inspection via the web-stream.

MINUTES

- 62 **RESOLVED:-**

That the Minutes of the last meeting be confirmed and signed.

PARADISE CIRCUS – GOVERNANCE ARRANGEMENTS

Clive Heaphy, Strategic Director, Finance and Governance and Rob Groves, Development Manager, Argent presented the following slides:-

(See document No. 1)

Clive and Rob provided a detailed commentary on the background and the up to date position of the Enterprise Zone and Paradise Circus. This included the financial challenges that had to be faced and the governance changes that had been put in place in order to best manage the project going forward.

In response to Members' comments the following points were captured:-

Rob made reference to the enterprise zone model and explained that the private sector since 2015 had been paying and would continue to pay business rates on council buildings that were no longer in existence, adding that there was no loss of rates to either BCC or the Local Enterprise Partnership (LEP) and that it was a significant investment return over time.

He further alluded to the income BCC received directly from the development to ensure that the city was not losing rental throughout the construction phase of the development and when the development completed, explained how BCC would have gained more freehold and subsequently explained the income that would be received from this, adding that BCC's investment during construction was effectively covered by the private sector but also getting an uplift in the Enterprise Zone and the LEP and also having secured a long-term revenue stream.

He further explained the merits of the investment for the private sector and the fact that they get an opportunity to develop buildings in what is a prime location and the expectation of a long-term revenue stream from the office development.

Clive highlighted that from the funders' perspective, it was ensuring that it was at a level that was consistent with its funding model for the number of jobs added and for the benefit to cost ratio. He subsequently explained how the cost ratio was a measurement of money going in verses the long-term value coming out of the site, adding that it remained strong and that they were now working on the update and would return in due course with the final figure.

Clive briefly explained the financial advantage for BCC regarding the uplift in business rates up until 2046 and how they had managed to unlock the rest of business rates due to the fact that it had been done through US TIF model.

Clive confirmed that the decision to spend Phase 1 and 2 allocations in Phase 1 was taken over time and that the decisions within the Paradise Circus Limited Partnership (PCLP) were not being communicated up through the capital side of BCC and the LEP Board.

Clive confirmed that they would be conducting a full audit across the whole range from the beginning of the scheme up until the current time, to understand exactly what had happened and how this could have been prevented. He referred to BCC and the LEP and stated that there would most likely be a joint commissioned piece of work, adding that there were learning points for both parties.

He confirmed that he became aware of the situation in the early part of the year and highlighted that was it was not an overnight problem and that it had been working its way through the system since 2013/2014, adding that he was unable to confirm the gap between decisions taken and BCC being aware of the decisions being changed.

Rob referred to the costing of the development and stated that the team running the project had not spent a penny without the PCLP approval and confirmed that everything went through a due process. Further reference was made to the additional offer from the private sector and with the anticipation of market demand whereby there will be rental increases providing the ability for money to be captured back or less of the money is required for the Phase 3 element when that comes forward.

Rob highlighted that there would be an element of attraction with jobs here and provided an example of where PwC had doubled their space in the city based on the offer they had received. He further highlighted the importance of providing quality office space and also good public places which would be a much bigger attractor for those investors that come out of London, adding that the development like this does attract more people into the city.

Rob highlighted that although EZ investment was significant, the private sector investment was massively higher which would also be the same for Phase 2 and that the values would be even greater once the development was completed.

Rob confirmed that while he had been satisfied with the information that had provided was somewhat surprised where there had been additional scopes of work which he anticipated would not have been foreseen by the team.

Clive referred to the £1m of underwriting working capital which was the current exposure and was working with KPMG advisors and the LEP advisors in this regard. He added that he would continue to monitor the exposure and should there be any increase this would be reported through the normal channels. He subsequently apologised for the lateness of this report and stated that as he wanted to provide the most up to date information and it would have been difficult to provide this a week ago.

Clive made reference to the way the LEP worked regarding the 3 criteria mentioned; the value added, the benefit cost ratio and the jobs created as the key measure of the success of the scheme which has to be evidenced that it can be delivered, and if they are satisfied the money will be provided on that basis. He highlighted that it was about making sure that BCC together with the LEP deliver the scheme properly with no more hiccups.

Clive reiterated that he would be commissioning an audit at they would be looking right back to the start of the scheme, the basic set up, the governance and what has happened in the intervening years, changes of personnel and how they have been dealt with. He referred to the reporting lines both internally and to the LEP and to ensure in going forward, there was the right structure in place and to make sure the right people see it at the right time.

He stated that within BCC there was the Capital Board chaired by the Leader and there would be regular reporting and gave assurance that Audit Committee would be alerted if there were any concerns around the project.

In response to the Chair and members' comments relating to the Commonwealth Games, Clive explained how each project within the games had its own board that was overseen by various people which included Sport England who sat on the Commonwealth Games Federation.

He referred to the Capital Programme Board which he chaired which pulled together all of the capital projects and confirmed that it enabled them to look at the interplay between all of the projects to make sure that if one was slipping it was not impacting on another. He added that there was a contingency to cover any cost increases and explained how it was managed through agreement with the DCMS in terms of the way that it was operated.

He referred to the 'dashboard' reporting, the regular monthly meetings and if there were any amber or red lights on the project plans, explained how these were addressed and how they would be escalated if necessary. He stated that there were learning points that they were now putting in place as better practice within the Commonwealth Games.

The Chair explained that Councillor Ian Ward, Leader of BCC, was invited to the meeting due to the fact the Enterprise Zone had been flagged up on the Risk Register.

In response to members' comments, Councillor Ian Ward, Leader, BCC, confirmed that he had been made aware of the overspend when it had been reported to Clive earlier this year, and was aware of the BCC investment in the Commonwealth Games. He referred to the areas where there had been failings which he believed were the incorrect level of governance and communication back to both BCC and the LEP when the overspend was taking place.

He stressed that there were questions to be asked regarding the fact that BCC had representatives on the Joint Venture and it was important that past mistakes could not be repeated and lessons learnt when moving forward. He was of the belief that the numbers could be explained and why they were where they are today.

He made reference to other projects that BCC were taking forward which included the Commonwealth Games Village, and highlighted that there was now a very different approach being taken to how the business case is put together rather than when this particular project was developed. He added that any lessons learnt can now be fed into further improvement on further developments that may be brought forward in the future.

He alluded to when the decision was taken to create the Enterprise Zone, there was the need to bear in mind that it was about capturing business growth rate that would not have been captured and with the retention of 50% back then, BCC was now in a different position.

He was of the opinion that when the decision was taken to develop this site, it was recognised that it was strategically important for the city and believed that it still remained the case today. He highlighted the need to ensure it had the appropriate governance in place and the changes outlined in Clive's

presentation were about addressing the deficit and ensuring that these problems do not re-occur in the future. He added that the fact there was a return to the LEP through business growth rate and there was a return to BCC outlined by Rob, believed that there was the need to find a way of ensuring that this development continued, otherwise, BCC would be left with a problem in that particular location for some years to come.

He agreed that there was the need for transparency in these matters and subsequently referred to the positive aspects of the development which were job retention and job creation, adding that they would not want to see a new office development constructed elsewhere and PwC relocate.

In response to further comments from Members, Clive explained that all developments would go through the phase of having to put costing up front to derive future benefit, and highlighted that the benefit would be on the economic prosperity of the city and subsequently detailed the ways in which this would be evidenced.

He added that the long-term benefits would be making a city where companies would want to inwardly invest albeit takes time for these developments to work through and inevitably the capital costs of any development have to be repaid before you begin to see the real financial benefits.

He confirmed that part of his role was to make sure the capital programme and other programme controls are reviewed and when undertaking a programme like this to ensure the costs and benefits are monitored and that they are delivered on budget and referred to the establishment of the Capital Board chaired in order to do that as the main mechanism, adding that it will be the guardian of everything and ensure that those controls are strengthened.

Clive confirmed that they would continue to work very closely with the LEP in terms of funding and the gap being funded by the growth in business rates and creating the economic and financial arguments to support the work that is ongoing. He referred to the work undertaken by KPMG which will result in the presentation report to the LEP in January 2019 whereupon a decision is expected at that point in time.

He stated there if they could continue to prove that there is a strong financial case underneath this and what needs strengthening is the governance, controls and reporting then would expect no reason why BCC would not be successful in the bid and the scheme to continue. He added that from a LEP Board perspective, they fully understood the importance of this scheme not just for the city but for the region as a whole and that it had the full support within the LEP in going forward.

He reiterated the importance of ensuring that the appropriate controls were in place to prevent issues repeating in the future

The Chair concluded by thanking the Leader, Clive and Rob for their attendance and presentation.

Upon further consideration it was:-

63

RESOLVED:-

That the Committee noted the presentation and comments.

HIGHWAYS PFI CONTRACT - PUBLIC

64

The following briefing note and presentation was submitted:-

(See document Nos. 2 and 3)

Dominic DeBechi, PFI Contract Manager, Kevin Hicks, Assistant Director, Economy referred to the briefing note and slides, confirming that ultimately from the contract, there had not been the investment from Amey that there should have been.

Kevin detailed the series of events leading to the court case, the successful outcome resulting in Amey owing BCC a significant amount of money. He highlighted that Amey had not provided the programme of works that was expected and regardless of moving forward as a council which was part of the ongoing negotiations with Amey, during this time they were still obliged to fulfil their obligations within the contract.

He confirmed that they were working with all parties which was not only Amey but lenders and various government departments that supported this in order to try and find a resolution that achieved the requirements and expectations from the contract.

In response to Members' comments the following points were captured:-

Keven referred to the difficulties in extracting the appropriate information from Amey relating to the current condition of the road network. As a result of that; they were unable to place an accurate value on the level of investment that had been put in, what the true level of investment would be to correct it, and what the cost would be to bring it to the condition that it should be and what should have been expected.

He added that the value of work that has been put in was one question, however, explained that with the funding going into the various resources, the problem was whether it had been allocated into the appropriate areas of work which was what the dispute was about on how the money had been spent.

Kevin referred to the project and confirmed that whilst performance had been poor, and the investment having been the major legal issue in this regard, the project has been well-managed by way of BCC making the contractor accountable in order to ensure that all the obligations of the contract were being enforced, and all money due is paid.

At this juncture, the Committee agreed to exclude the public in order to discuss issues relating to the Highways PFI Contract.

The web-streaming of the meeting was suspended during the private discussion.

EXCLUSION OF THE PUBLIC

65 **RESOLVED:-**

That, in view of the sensitive nature of the discussion due to take place relating to the PFI Contract, the public be now excluded from the meeting.

PUBLIC

66 For ease of reference all of the public part of the meeting has been kept together in the Minutes.

At 1620 hours, after representations in private concerning the PFI Contract (Minute No 74 refers), the Committee returned to the public agenda.

The web-streaming of the meeting re-commenced.

LOCAL INNOVATION FUND

The following report of the Head of Service – Neighbourhood Development and Support Unit was submitted:-

(See document No. 4)

Councillor Bridle provided a brief overview of the Local Innovation Fund (LIF) by highlighting the objective of the scheme was working with partners in bringing about sustainable solutions to local problems. She made reference to issues relating to transparency and learning and the need for these to be flagged up, adding that if an evaluation of the scheme is commissioned then there should be some public scrutiny.

She suggested that when the final evaluation did take place that it would be helpful to know what was achieved in terms of public outcomes and the need to know what has not worked, and suggested that after the second evaluation report is completed, that elected members meet up to discuss.

At this juncture, Karen Cheney, Head of Service – Neighbourhood Development and Support Unit provided a comprehensive breakdown of the report which included; the interim external evaluation and an outline of the final external evaluation of LIF from October 2018 – February 2019.

In response to Councillor Bridle's request that when the next report was commissioned that there was the opportunity for elected members to meet and discuss achievements and innovation, Karen confirmed that it had already been requested to be included within the next evaluation report.

The Chair commented that it was an informative and honest report.

Upon further consideration it was:-

67

RESOLVED:-

The Committee noted the update report and comments.

Due to the over-running of the meeting, Councillor Webb submitted an apology for having to leave the meeting due to a further commitment.

CORPORATE RISK REGISTER UPDATE

68

Due to time constraints, the above-mentioned item was deferred until the next meeting.

BIRMINGHAM AUDIT – HALF YEAR UPDATE REPORT 2018/19

69

Due to time constraints, the above-mentioned item was deferred until the next meeting.

AUDIT FINDINGS REPORT RECOMMENDATIONS – PROGRESS REPORT

The following report of the Corporate Director – Finance and Governance was submitted:-

(See document No. 5)

Martin Stevens, Head of City Finance Accounts, made introductory comments to the report. He highlighted the recommendation that was also to be considered at Cabinet Committee Group Company Governance relating to subsidiaries, and the importance of it being considered there and for any comments then to be fed into this committee.

Upon further consideration it was:-

70

RESOLVED:-

That the Committee:-

Noted the progress in implementing management actions, attached as Appendix 1, to address the recommendations set out by the External Auditor in his Audit Findings Report issued in July 2018.

Seek updated reports to future meetings of this Committee on the continued progress in implementing the management actions proposed.

AUDIT PROGRESS REPORT AND SECTOR UPDATE

The report of the external auditor was submitted:-

(See document No. 6)

Tess Barker-Phillips, Grant Thornton made introductory comments to the report and sector update.

The Chair concluded by thanking Tess for attending the meeting and presenting.

Upon further consideration it was:-

71 **RESOLVED:-**

The Committee noted the report.

DATE OF NEXT MEETING

72 The next meeting was scheduled to take place on Tuesday, 20 January 2019 at 1400 hours in Committee Room 6.

AUTHORITY TO CHAIRMAN AND OFFICERS

73 **RESOLVED:-**

That in an urgent situation between meetings the Chair, jointly with the relevant Chief Officer, has authority to act on behalf of the Committee.

The meeting ended at 1705 hours.

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CHAIRMAN