



Internal Audit Report

NHDC – Community Halls and Centres

February 2016

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Report Status: Final

Reference: N1190/15/001

Overall Assurance: Moderate

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1. EXECUTIVE SUMMARY

Introduction

- 1.1 Internal Audit provides the Council with an independent and objective opinion on the organisation's governance arrangements, encompassing internal control and risk management, by completing an annual risk-based audit plan. This audit forms part of the 2015/16 approved North Hertfordshire District Council (NHDC) Annual Audit Plan.
- 1.2 There is a commitment within the Community Halls Strategy to review lease agreements with Council-owned urban community centres to reduce the cost to the council tax payer. To reduce the overall net cost of providing community centres in the District, the Council is exploring ways of achieving this with respective community associations whilst recognising that each association and centre is different and has different opportunities and challenges. To this end, active discussions are currently taking place with Trustees of Walsworth Community Association (Walsworth Community Centre) and Trustees of the Royston Community Association (Coombes Community Centre) amongst others.
- 1.3 There are currently 11 urban community centres managed and operated under leased terms from the Council by local voluntary groups, the majority of which have been established as companies limited by guarantee, with charitable status. The majority of existing leases were established over a period of 42 years and many are approaching or have reached the time for renewal. The original leases were set at 'peppercorn' levels, which were in all cases minimal, e.g. £1; however these are often not collected.
- 1.4 The negotiation of new lease terms links to the Council's priorities of "living within our means" and "working with our communities". Additionally the Medium Term Financial Strategy (paragraph 6.8) states that "The Council will seek to manage all its assets cost-effectively and also encourage community lessees to move towards running assets on a self-sustaining financial basis to reduce/remove the financial impacts on the wider taxpayer". The Community Halls Strategy states the total Council Support cost for 2010/11 was £215,757. As some buildings turn over large sums of money (in some cases several hundred thousand pounds) and some organisations hold significant reserves, the process by which the NHDC tax payer contributes towards these costs is unsustainable, given current pressures on Council funding.
- 1.5 This audit has focused on evaluating progress to date regarding the renewal of leases on all urban community halls and centres, future plans and the approach to taking these forward. This was achieved through discussions with relevant officers and review of recent documentation.

Overall Audit Opinion

- 1.6 Based on the work performed during this audit, we can provide overall **Moderate Assurance** that there are effective controls in operation for those elements of the risk management processes covered by this review. These are detailed in the Assurance by Risk Area Table in section 2 below.

- 1.7 Discussions undertaken during audit fieldwork highlighted officers' extensive efforts in respect of the lease negotiation process and their joined-up approach to implementing the Community Halls Strategy. The requirements of the lease negotiations are clearly understood and supported by a political will to bring about change. Additionally, measures have been taken to protect NHDC in the interim through the preparation and agreement of tenancies at will, which provide both parties with four weeks' notice terms.
- 1.8 However, despite the work undertaken by the Council to date, an impasse in negotiations appears to have been reached with certain community centres. To successfully implement the Community Halls Strategy objective of renegotiating leases and the objective of the Medium Term Financial Strategy to achieve cost-effective asset management, Members need to articulate the future approach required of officers to successfully conclude the lease negotiation process – see Recommendation 1.
- 1.9 There are numerous obstacles in the achievement of lease negotiations. Each community centre has unique situations that need to be overcome and there is also a lack of specific contract requirements or 'terms' being provided by community groups to enable negotiation with the Council to take place. It appears that there is a lack of understanding within some community groups regarding their role and liabilities and a lack of independent legal guidance being used by community groups. This has led to some groups believing that tenancies can continue as they always have, however, this cannot be maintained with the current financial constraints placed on the Council. Additionally, it was noted during audit fieldwork that in some situations Members also act as trustees for community groups, posing a potential conflict of interest that does not support the successful completion of lease negotiations.
- 1.10 The Council have made significant efforts to support the community groups through providing links to low cost legal advice and services such as 'Community Matters' and most recently through commissioning independent support to community groups involved in current lease negotiations through Herts Community Development Agency; the cost of the latter has been borne by NHDC in order to build greater awareness, community capacity and identify other means by which centres may generate greater income.
- 1.11 Through discussion with the Head of Policy and Community Services it is understood that the current grants review considers the Member role outside of Council duties and also the potential to utilise grant funding to provide education to community groups that could support activities such as lease renegotiations. Discussion with the Head of Policy and Community Services also established that consideration has been given to purchasing low cost lease negotiation packs that could be lent to community groups to support negotiations, ultimately supporting the implementation of the Community Halls Strategy.
- 1.12 It should be noted that issues discussed during this audit also point to wider issues for the Council to consider. These include: Member conflicts of interest in this area of activity through holding multiple roles both within and outside the Council; the District's need in line with Local Plan requirements and whether all existing halls and centres are essential; and the recognition that there are numerous older properties within the

Council's portfolio which may require review to ensure the Council is achieving best use of assets.

1.13 For definitions of our assurance levels, please see Appendix B.

Summary of Recommendations

1.14 We have made one high and one medium priority recommendation to further strengthen the internal controls and management / audit trail.

1.15 The recommendations cover next steps to support the Council in ensuring progress is made in the renegotiation of community centre leases and potential Member conflicts of interest.

1.16 Please see Management Action Plan at Appendix A for further detail.

Annual Governance Statement

1.17 This report provides moderate levels of assurance to support the Annual Governance Statement.

2. ASSURANCE BY RISK AREA

2.1 Our specific objectives in undertaking this work, as per the Terms of Reference, were to provide the Council with assurance on the adequacy and effectiveness of internal controls, processes and records in place to mitigate risks in the following areas:

Risk Area	None	Limited	Moderate	Substantial	Full
Financial considerations – relating to the renewal of leases, and costs to NHDC of provision, for community halls and centres, including current active discussions in line with the Community Halls Strategy, tenancy options, categorisation and centre assessments and progress of the decision-making process.					
Community considerations - relating to the renewal of leases for community halls and centres, including support and guidance available, community group self-sustainability and councillor					

interests.					
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Overall					
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2.2 See definitions for the above assurance levels at Appendix B.

No.	Finding / Associated Risk	Priority	Recommendation	Management Response	Target Date
1.	<p data-bbox="181 268 734 746">Progress of Lease Negotiations Through discussions during audit fieldwork it was established that a report was drafted in June 2015 (following an initial report to Overview & Scrutiny Committee in December 2014) to present a summary of the current position reached in negotiations for new leases of three Community Centres owned by NHDC, and options for the way forward.</p> <p data-bbox="181 788 734 1043">Negotiations have since stalled and although the Council is continuing to meet with the relevant community groups to implement the Community Halls Strategy, no significant progress has been made and therefore a review may be required.</p> <p data-bbox="181 1085 734 1410"><u>Associated Risk</u> The Council is unable to implement the current strategy and further guidance has not been sought from members, leading to wasted resources, financial loss and bad publicity leading to reputational damage. Potential for challenge in regard to equality of</p>	High	It is recommended that an updated report be taken to Cabinet to obtain a formal decision on how the Council should progress and complete community centre lease negotiations, in order to conclude this process and set the expectations for future lease negotiations for other NHDC owned community assets. This should include an update of the current position, including work undertaken to date and also tenancy options to be considered.	<p data-bbox="1447 341 1883 596">Agreed – updated report to be produced and taken to Cabinet, seeking guidance on how officers should now progress remaining lease negotiations and/or review agreed policy.</p> <p data-bbox="1447 676 1883 820">Responsible Officers: Senior Estates Surveyor and Head of Policy & Community Services</p>	June 2016

No.	Finding / Associated Risk	Priority	Recommendation	Management Response	Target Date
	access/opportunity, as others may wish or be better able to run properties others remain in without a formal lease.				
2.	<p>Member Conflicts of Interest</p> <p>It was noted during audit fieldwork that in some situations Members also act as trustees for community groups, posing a potential conflict of interest that does not support the successful completion of lease negotiations.</p> <p><u>Associated Risk</u> Obstacles to progress are not acted on, leading to inability to implement strategy.</p>	Medium	It is recommended that the wider issue of members acting in additional outside roles be reviewed by the Council and further guidance be produced to limit the impact of potential conflicts.	<p>Agreed – guidance to be produced, and distributed after the Annual Council meeting on 19 May 2016, when nominations are made to outside bodies</p> <p>Responsible Officer: Acting Corporate Legal Manager and Monitoring Officer</p>	June 2016

Levels of assurance	
Full Assurance	There is a sound system of control designed to achieve the system objectives and manage the risks to achieving those objectives. No weaknesses have been identified.
Substantial Assurance	Whilst there is a largely sound system of control, there are some minor weaknesses, which may put a limited number of the system objectives at risk.
Moderate Assurance	Whilst there is basically a sound system of control, there are some areas of weakness, which may put some of the system objectives at risk.
Limited Assurance	There are significant weaknesses in key control areas, which put the system objectives at risk.
No Assurance	Control is weak, leaving the system open to material error or abuse.

Priority of recommendations	
High	There is a fundamental weakness, which presents material risk to the objectives and requires urgent attention by management.
Medium	There is a significant weakness, whose impact or frequency presents a risk which needs to be addressed by management.
Merits Attention	There is no significant weakness, but the finding merits attention by management.