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NORTH HERTFORDSHIRE DISTRICT COUNCIL

FINANCE, AUDIT AND RISK COMMITTEE

MEETING HELD IN THE COUNCIL CHAMBER, DISTRICT COUNCIL OFFICES,
LETCWORTH GARDEN CITY, SG6 3JF
ON WEDNESDAY, 19TH JUNE, 2024 AT 7.30 PM

MINUTES

Present: *Councillors: Sean Nolan (Chair), Vijaiya Poopalasingham (Vice-Chair), Steven Patmore, Paul Ward, Stewart Willoughby and Daniel Wright-Mason.*

John Cannon (Independent Member) Non-voting advisory role.

In Attendance: *Georgina Chapman (Policy & Strategy Team Leader), Ian Couper (Service Director - Resources), Caroline Jenkins (Committee, Member and Scrutiny Officer), Sarah Kingsley (Service Director - Place) and Sjanet Wickenden (Committee, Member and Scrutiny Officer).*

Other Presenters: *Chris Wood (Head of Assurance Services (HCC) & Client Audit Manager (NHDC)), Debbie Hanson (Ernst and Young) and Jessica Hargreaves (KPMG).*

Also Present: *There were no members of the public present.*

1 APOLOGIES FOR ABSENCE

Audio recording – 2 minutes 10 seconds

Apologies for absences were received from Councillor Tina Bhartwas and Ruth Brown.

Having given due notice Councillor Daniel Wright-Mason substituted for Councillor Tina Bhartwas.

Councillor Dominic Griffiths was absent.

2 MINUTES - 13 MARCH 2024

Audio Recording – 2 minutes 35 seconds

Councillor Sean Nolan, as Chair, proposed and Councillor Vijaiya Poopalasingham seconded and, following a vote, it was:

RESOLVED: That the Minutes of the Meeting of the Committee held on 13 March 2024 be approved as a true record of the proceedings and be signed by the Chair.

3 NOTIFICATION OF OTHER BUSINESS

Audio recording – 4 minutes 7 seconds

There was no other business notified.

4 CHAIR'S ANNOUNCEMENTS

Audio recording – 4 minutes 15 seconds

- (1) The Chair advised that, in accordance with Council Policy, the meeting would be recorded.
- (2) The Chair drew attention to the item on the agenda front pages regarding Declarations of Interest and reminded Members that, in line with the Code of Conduct, any Declarations of Interest needed to be declared immediately prior to the item in question.
- (3) The Chair advised that section 4.8.23(a) of the Constitution did not apply to this meeting.
- (4) The Chair advised a change in the order of the agenda. Agenda item 12 Finance, Audit and Risk Committee Annual Report 2023-24 would be considered after Agenda item 5.

5 PUBLIC PARTICIPATION

Audio recording – 5 minutes 13 seconds

There was no public participation at this meeting.

6 FINANCE, AUDIT AND RISK COMMITTEE ANNUAL REPORT 2023-24

Audio recording – 5 minutes 40 seconds

The Service Director – Resources presented the report entitled 'Finance, Audit and Risk Committee Annual Report 2023-24' and highlighted that:

- The report provided Council with a performance overview of the Finance, Audit and Risk Committee (FAR) for the civic year 2023-24.
- The report described the role of the Committee, with the main achievements for 2023-24, being the approval of the accounts for 2021-22 and the report regarding the external audit backlog.
- There was a national backlog of external audits, partly due to the strengthening of the rules and regulations of the Financial Reporting Council after recent failures at both companies and public organisations and this had meant more detailed work was required.
- The audit sector had been experiencing resourcing issues both within their teams and at various Councils and this had impacted on the backlog. North Herts had a backlog of 1 year and a stable team available to assist with the accounts.
- In January 2024 there had been a proposal to resolve the backlog and introduce backstop dates for approval of accounts. It was proposed that for all years up 2022-23 that any remaining accounts would be approved at the end of September 2024, even if the audit work was not fully completed, with further backstop dates being put in place for future years.
- The approval of an uncompleted account would lead to extra work for the subsequent audit year and this would lead to an increase in auditor fees.
- This backstop date was now uncertain as the legislation was stalled following the dissolution of Parliament ahead of the General Election.
- The proposed reporting dates for 2024-25 were listed on page 184 of the report, however these were now likely to change due to the delays in passing the legislation.
- The Annual Governance Statement (AGS) was linked to the statement of accounts, and this was now likely to be presented at a later date.
- Amendments to the table on page 184 of the report would be made prior to this report being presented to the July Council meeting.
- Ernst and Young were auditors for the Council for Civic Year 2022-23.

- KPMG were now the auditors for the Financial year 2023-24 onwards.
- This Committee set the internal audit plan at the end of each financial year and monitored the progress of the plan throughout the year.
- The Shared Anti-Fraud Service (SAFS) were a shared service hosted by the County Council with the aim to investigate, prevent and detect fraud from staff and the public. SAFS used specialist staff, data bases and information to investigate fraud, SAFS also provided information regarding the prevention of fraud.
- Throughout the year key financial and risk reports were presented to FAR. The Committee were then able to question the Officer, focusing on financial elements and controls and comment on the report prior to the item being referred to Cabinet.
- The Committee received the draft budget setting report to its January meeting for the following Civic Year and looked at the Medium-term Financial Strategy at the November meeting.
- The table on page 182 of the report detailed the reports the Committee received in the Civic Year 2023-24.
- The peer support recommendations for the Committee were highlighted on pages 180 and 181 of the report with the appropriate action points.
- This report belonged to the Chair of the Committee.

The Chair, Councillor Sean Nolan, noted his thanks to the internal auditors, external auditors and Officers for their support over the year and to previous Committee Members for their input and service.

In response to a question from Councillor Paul Ward, the Service Director – Resources advised:

- There had been no impact on staffing levels in relation to the backstop audits, however the timings of the work had moved slightly.
- The backstop fees for the 2022-23 audit were as yet unknown, but as this was a limited scope audit with less work involved, it was anticipated that these would be less than previously forecasted. However the new auditors KPMG would be required to complete more work than previously expected due to this limited scope backstop audit.

Councillor Stewart Willoughby proposed and Councillor Paul Ward seconded and, following a vote, it was:

RESOLVED: That the Committee considered and commented on the Annual Report of the Finance, Audit and Risk Committee as attached at Appendix A and noted that there may be delays to some of the Planned Work for 2024-25, detailed on page 184, and this would be updated by the Service Director – Resources.

RECOMMENDED TO COUNCIL: The Annual Report of the Finance, Audit and Risk Committee (as amended) be noted.

REASON FOR RECOMMENDATION: To enable the Committee to consider the report before it is presented to Full Council. To provide Full Council with assurance as to the effectiveness of the Finance, Audit and Risk Committee.

7 VALUE FOR MONEY INTERIM REPORT 22/23 (ERNST AND YOUNG)

Audio recording – 19 minutes 2 seconds

Debbie Hanson, Ernst & Young, presented the report 'Value for Money Interim Report 2022-23' and highlighted that:

- This report was noted as interim and could not be concluded until an audit opinion could be issued on the financial statement for 2022-23.
- The financial statements for 2022-23 were likely to be a modified opinion with a disclaimer of opinion due to the statutory backstop.
- This would not be a reflection on the Councils arrangements as the disclaimer would be due to the statutory legislation to clear the audit backlogs.
- The Value for Money report commentary would form part of the Auditors Annual Report, and it was not expected to differ significantly from this interim report.
- The National Audit Office (NAO) code required three key areas to be considered for Value for Money arrangement namely, financial sustainability, Governance arrangements and the arrangements of the Council to make economic, efficient and effective use of resources.
- As part of the assessment process, Ernst and Young were required to identify any risks or weaknesses. None were identified and Ernst and Young were satisfied with the arrangements of the Council in the three key areas.
- There were significant challenges facing Local authorities and it was important that the Council focused on delivering savings, bridging any budget gaps, ensuring that there was an appropriate level of reserves, and that the Section 151 Officer reported any reliance on using the reserves.
- There had been an internal audit review and a peer review that had highlighted some area of improvement regarding the Committees of the Council. Training had been undertaken to strengthen these areas.
- The internal auditors had given a reasonable assurance opinion on the 2022-23 controls, and governance framework that were in place.
- Checks had been made regarding the disclosure requirements of the 2022-23 financial statement and included that cash and banking reconciliations were taking place. Ernst and Young were satisfied with the arrangements.
- There were queries regarding the accounting classification of the Churchgate centre, currently classed as an investment property, and work was ongoing within the Council to consider this matter. This was a technical accounting area and did not raise any concerns in relation to governance.
- Performance indicators were in place to report and monitor the economy, efficiency and effectiveness of the Council.
- The Council had procurement arrangements in place and had partnership working arrangement with other local authorities.

In response to a question from the Independent Member, the Service Director – Resources stated that a professional valuer would have been used for the Churchgate centre and the valuation was based on the income stream generated. If the project was reclassified it was not expected to have any significant impact on the valuation but a different valuation basis may be used. This work was ongoing and would be resolved shortly.

In response to a question from the Independent Member, Ms Hanson advised that the asset may have a different value depending on the classification applied to the property and therefore the resulting valuation approach, but this had not been confirmed.

Councillor Daniel Wright-Mason proposed and Councillor Stewart Willoughby seconded and, following a vote, it was:

RESOLVED: That the Value for Money Interim Report 22/23 from Ernst and Young was noted.

REASON FOR DECISION: To enable the Committee to be provided with information on the work undertaken by the Auditors Ernst and Young and to highlight any significant weaknesses identified along with recommendations for improvement.

8 EXTERNAL AUDIT PLAN & STRATEGY 23/24 (KPMG)

Audio recording – 28 minutes 38 seconds

Jessica Hargreaves KPMG, introduced the report titled 'External Audit Plan & Strategy 2023-24' and highlighted that:

- This was the first year that KPMG had audited the Council and the report contained the plan and strategy.
- Work was unable to commence on the financial statement 2023-24 until the audit for 2022-23 had been completed, however planning and risk assessment work had commenced. KPMG would be ready to commence the 2023-24 audit when Ernst and Young had completed the 2022-23 audit.
- Materiality levels would be set at an expected limit of 3% of the forecasted expenditure, namely £1.85M, and items above this limit would be required to be changed by Council following any discussion and debate.
- A triviality threshold had been set at £92,500, which was calculated as 5% of the materiality threshold, any differences identified above this limited would be highlighted in the year-end report to the Committee.
- The report identified four significant risks and these were detailed on page 43 of the report.
- The valuation of land and buildings was considered as a significant risk due to the estimation and assumptions of the valuation. Work was ongoing to understand the methodology underpinning the valuations and the supporting data.
- The valuation of investment properties was identified as a significant risk as there were a different set of assumptions used depending on the different classifications of each property.
- The management override of control was recognised as a significant risk on all KPMG audits, and focused on journal entries on the general ledger system and that these were relevant and appropriate.
- The valuation of the Pension Scheme was the last identified significant risk, due to the valuation and estimates applied.
- The consideration of fraudulent revenue risk was required by the Professional Standards but had been rebutted due to the nature of income of the Council.
- The approach for the Value for Money reporting was outlined on page 55 of the report and differed slightly from the approach of Ernst and Young.
- Key members of the audit team and an anticipated timetable to complete the audit was listed on page 57 and 58 of the report.
- A confirmation of independence was noted on page 61 of the report.
- KPMG had been asked to undertake a Housing Benefit Grant Certification, and discussions had commenced regarding this matter and the fees associated with the work.
- This was a draft plan and was awaiting confirmation after a consultation.

In response to a question from Councillor Sean Nolan, Ms Hargreaves advised that there was a benchmark range for the entity materiality measure and the 3% level was within this range.

Councillor Vijaiya Poopalasingham proposed and Councillor Paul Ward seconded and, following a vote, it was:

RESOLVED: That the draft Audit Plan for 23/24 was noted.

REASON FOR DECISION: To enable the Committee to be provided with the outlined approach by KPMG to the audit of the Council's financial statements for the year ending 31 March 2024.

9 **SIAS ANNUAL ASSURANCE STATEMENT AND INTERNAL AUDIT ANNUAL REPORT 2023-24**

Audio recording – 38 minutes 32 seconds

The Head of Assurance presented the report entitled 'SIAS Annual Assurance Statement and Internal Audit Annual Report 2023-24' and highlighted that:

- An annual assurance opinion is issued every year based on the internal audit work plan, this was approved by the Committee each March and updates on the delivery of the internal audit plan were given to the Committee four times per year.
- Each individual audit in the internal audit plan receives an audit opinion, and the year-end report confirms the overall assurance opinion for the Council. This year the assurance opinion was reasonable overall assurance.
- There had been three limited assurance opinions this year and three high priority recommendation, however these did not affect the overall assurance opinion.
- The Council has a strong culture around implementing its high priority recommendations and these were highlighted on page 79 of the report.
- SIAS confirmed their independence as required by the Public Sector Internal Audit Standards and confirmed that the scope and resources for internal audit were not subject to inappropriate limitations in 2023/24.
- SIAS are required to complete a self-assessment review under the Public Sector Internal Audit Standards (PSIAS), the result was 'generally conforms' the highest possible rating. Every five year an external assessment was required by the PSIAS.
- SIAS were required by the PSIAS to report any non-conformances to the Committee. There were two non-conformances and these related to the shared service arrangements.
- The Committee were required to approve the audit charter in appendix D of the report. The audit charter was owned and approved by the Committee on behalf of the authority as part of their role to support good governance and the roles and responsibilities of internal audit.
- The audit charter was prepared adhering to the Global Internal Audit Standards.

The Service Director – Resources provided management assurances that the scope and resources for internal audit were not subject to inappropriate limitations in 2023/24. SIAS were encouraged to look at areas of concern to ensure the maximum value for the Council.

In response to a question from Councillor Paul Ward, the Head of Assurance advised that assurance on the implementation status and completion of reported high priority recommendations comes from responsible Officers accounting for this in a public report and Member forum. Periodic reviews were undertaken of the evidence and if required the auditors would revisit those areas, to confirm implementation.

Councillor Vijaiya Poopalasingham proposed and Councillor Daniel Wright-Mason seconded and, following a vote, it was:

RESOLVED: That the Finance, Audit and Risk Committee:

- (1) Noted the Annual Assurance Statement and Internal Audit Annual Report.
- (2) Noted the results of the self-assessment required by the Public Sector Internal Audit Standards (PSIAS) and the Quality Assurance and Improvement Programme (QAIP).
- (3) Approved the Shared Internal Audit Service Audit Charter for 2024/25.
- (4) Received management assurance that the scope and resources for internal audit were not subject to inappropriate limitations in 2023/24.

REASON FOR DECISION: To enable the Committee to be provided with the ails the Shared Internal Audit Service's overall opinion on the adequacy and effectiveness of North Herts Council's framework of governance, risk management and control.

10 DRAFT ANNUAL GOVERNANCE STATEMENT 2023/24

Audio recording – 49 minutes 57 seconds

The Policy and Strategy Team Leader presented the report entitled 'Draft Annual Governance Statement 2023-24' and highlighted that:

- It was a requirement of the Committee to approve the Annual Governance Statement (AGS) for 2023-24 which included an action plan for the year 2024-25.
- The Committee were asked to consider this draft version of the AGS and to provide comments on the effectiveness of the statements, governance and internal controls.
- SIAS, Shared Anti-Fraud Services (SAFS) and KPMG would also review and comment on the draft version.
- The Leadership Team reviewed the scorings of the effectiveness, governance and the internal controls, based on the Local Code of Governance principles A to G, and based on the CIPFA/SOLACE Framework Delivering Good Governance in Local Government 2016 Edition principles.
- The final version of the AGS would be presented to the Committee after the statement of accounts for 2023-24 had been prepared as per CIPFA/SOLACE guidelines.
- Once approved the AGS self-assessment documents would be published on the Corporate Governance webpage.
- Work would commence on the action plan detailed on page 115 of the report.
- The Action plan would; monitor the success of the Members Induction Programme 2024, evaluate Officers uptake of essential training and provide updates when the completion rate was below 75%, improve the oversight of cyber security risks and develop controls or actions, provide residents with an opportunity to engage through the Budget Hub platform, develop an action plan for the recommendations of the Corporate Peer challenge, provide actions regarding the Social Value from the procurement process and the collecting of information around Social Value, develop reporting on Social Value and review the organisation structure of the Council plan under the new 4 year administration.
- The review found no significant governance issues and the leadership self-assessment document proposed an assurance level of 'substantial'.

The following Members asked questions:

- Councillor Sean Nolan
- Independent Member John Cannon

In response to questions the Policy and Strategy Team Leader advised that:

- Further details regarding the Information Commissioners Office (ICO) case would be sent outside of this meeting.
- The wording on Principle E on page 111 of the report can be reviewed.

Councillor Paul Ward proposed and Councillor Daniel Wright-Mason seconded and, following a vote, it was:

RESOLVED: That the Committee reviewed and commented on the draft Annual Governance Statement Action Plan that would be finalised for approval once the Council's External Audit had been completed.

REASON FOR DECISION: The Committee is the legal body with responsibility for approval of the Annual Governance Statement. Reporting the draft Annual Governance Statement and Action Plan at this stage provides an opportunity for the Committee to assess and comment on the draft, before it is finalised and brought back for approval.

11 REVENUE BUDGET OUTTURN 2023/24

Audio recording – 57 minutes 9 seconds

The Service Director – Resources presented the report entitled 'Revenue Budget Outturn 2023/24 and highlighted that:

- The report highlighted the year end 2023-24 position of the Revenue Budget however, the data was subject to audit and there may be some amendments as a result of the audit process.
- Table 4 of the report highlights the budget areas with significant variances to the forecasted position at year end, again these figures were subject to audit changes.
- The third item on table 3 related to the External Audit Fees, with a value for the additional audit fees and an estimated ongoing impact of these fees.
- The key sources of income were highlighted in table 5 of the report on page 129, these sources were monitored throughout the year and are linked to performance indicators and usage.
- Table 6 highlighted the areas that had not achieved the expected budget income.
- There was an assumption made at the beginning of 2023/24 that the interest rate would drop, as they rate remained stable at 5% there had been an increase in the General Fund balance as stated on page 131 of the report.
- The appendix on page 135 detailed the significant revenue budget variances.
- The report was to be referred to Cabinet and Council to agree the transfers to the General Fund and the earmarked reserves.
- There were reserves set aside to purchase new waste vehicles for the new waste contract in May 2025.
- The DLUHC Grant Reserves related to compensation received from policy decision on Business Rates and any surplus gains from pooling Business Rates. This helped to mitigate any timing impacts risks.
- Overtime any surplus reserve funds were released into the General Fund and this helped to balance the uncertainty of the Business rates income.

The following Members asked questions:

- Councillor Paul Ward
- Councillor Daniel Wright-Mason
- Councillor Sean Nolan

In response to questions, the Service Director – Resources stated that:

- The treasury management budget was included in Managing Director total.
- In April 2024 there was a new contract for the Leisure Management Centre fees, and this alleviated any concerns going into 2024-25.
- The budget going forward for Car parking fees had been lowered (for 24/25 onwards) after the impact of post Covid changes and therefore next year this area was expected to be met.
- Planning application fees varied according to the size of the development, it was not currently considered as a concerning item.
- There had been some changes to Commercial waste, bin numbers were stable and overall, this was a small variance to monitor compared with the budgeted income.

- The thresholds for material concerns in relation to income could be changed, if this was agreed by the Finance, Audit and Risk Committee and Cabinet.
- The Car Parking Fee were the only item to receive new baselining.

Councillor Paul Ward proposed and Councillor Daniel Wright-Mason seconded, and following a vote, it was:

RESOLVED: That the Finance, Audit and Risk Committee provided comments and recommended to Cabinet the Revenue Budget Outturn 2023/24.

RECOMMENDATIONS TO CABINET:

- (1) That Cabinet note this report.
- (2) That Cabinet approves a decrease of £194k in the 2023/24 net General Fund expenditure, as identified in section 8 of the report, to a total of £16.494million.
- (3) That Cabinet approves the adjustments to the 2024/25 General Fund budget, as identified in table 4 and paragraph 8.3 of the report, a total £634k increase in net expenditure.

That Cabinet recommends to Council.

- (4) That Council approves the net transfer to earmarked reserves, as identified in table 9 of the report, of £2.028million.

REASONS FOR RECOMMENDATIONS:

- (1) Members are able to monitor, make adjustments within the overall budgetary framework and request appropriate action of Services who do not meet the budget targets set as part of the Corporate Business Planning process.
- (2) Changes to the Council's balances are monitored and approved.

12 INVESTMENT STRATEGY (CAPITAL AND TREASURY) END OF YEAR REVIEW 2023/24

Audio recording – 1 hour 11 minutes 24 seconds

N.B Councillor Paul Ward declared an interest and did not take part in the debate or vote on this item.

The Service Director – Resources presented the report entitled 'Investment Strategy (Capital and Treasury) End of Year Review' and highlighted that:

- The report monitored the spend on the capital programme and the investment of surplus cash.
- The movement of the capital programme over the last quarter was highlighted in Table 2 of the report.
- There were items that had not been completed or started as expected in the capital programme 2023 -24 and the Council were seeking approval to move these items into the capital programme 2024-25. The reasons for the delays were stated on page 141 of the report.
- In the last quarter there had been more cash to invest due to the delayed capital programme funds.
- Changes to the costs of the capital programme 2023-24 were detailed in table 3 of the report.
- Paragraph 8.6 of the report detailed the capital schemes completed in 2023-24.

- The funding details of the capital programme were stated at 8.7 of the report and included Section 106 money, reserves and grant funding.
- The Capital Reserves were running low and can only be used once. There was some land that could be sold, but this would generate only a small amount of reserves relative to the overall capital programme.
- It was anticipated that the Council would need to borrow fund in the next civic year and this was detailed in 8.9 of the report.
- The average return on investment over the year was 5.57%, new investment deals were now being offered at 5.34%, and all investments complied with the investment strategy.
- Lloyds bank were offering a call account with a 5% interest rate and no fees, this was an improvement on the 2% currently received for amounts in the current account. The risks had been assessed with the view that this was a viable option.

In response to a question from Councillor Sean Nolan, the Service Director – Resources stated that the risks for the Lloyds Call account were the same as all of the institutions and these were highlighted on page 171 of the report.

RESOLVED: That the Finance, Audit and Risk Committee provided comments and recommended to Cabinet the Investment Strategy (Capital and Treasury) End of Year Review 2023-24.

RECOMMENDATIONS TO CABINET:

- (1) That Cabinet notes expenditure of £2.409million in 2023/24 on the capital programme, paragraph 8.3 refers.
- (2) That Cabinet approves the adjustments to the capital programme for 2024/25 as a result of the revised timetable of schemes detailed in table 2, increasing the estimated spend by £2.655million and £0.193million in 2025/26.
- (3) That Cabinet notes the position of the availability of capital resources, as detailed in table 4 paragraph 8.7 of the report and the requirement to keep the capital programme under review for affordability.
- (4) That Cabinet approves the application of £1.313million of capital receipts/set aside towards the 2023/24 capital programme, paragraph 8.7 refers.
- (5) Cabinet is asked to note the position of Treasury Management activity as at the end of March 2024.
- (6) Cabinet is asked to recommend this report to Council and ask Council to:
 - 1) Approve the actual 2023/24 prudential and treasury indicators.
 - 2) Note the annual Treasury Report for 2023/24.
 - 3) Approve a change to the Investment Strategy allowing investments to be placed on Lloyds Call Account so the combined total of Current Account and Call Account is up to £5M.

REASONS FOR RECOMMENDATIONS:

- (1) Cabinet is required to approve adjustments to the capital programme and ensure the capital programme is fully funded.
- (2) To ensure the Council's continued compliance with CIPFA's code of practice on Treasury Management and the Local Government Act 2003 and that the Council manages its exposure to interest and capital risk.

13 ANNUAL REPORT ON RISK MANAGEMENT GOVERNANCE

Audio recording – 1 hour 29 minutes 8 seconds

The Service Director – Resources presented the report entitled 'Annual Report on Risk Management' and highlighted that:

- The Committee received two reports on risk management, a mid-year and an end of year report.
- Risk was an important part of governance, the report aimed to give the Committee an oversight of how risk management was operating in the Council.
- There was a risk management framework, with the definitions of likelihood and impact and this was detailed at 8.2.4 of the report.
- The corporate risks matrix for the year-end 2023-24 Council Delivery Plan, was shown at 8.25 of the report.
- There were 3 overarching risks that had effect on the delivery of any project namely, the financial sustainability of the Council, resourcing and cyber security.
- The resourcing risk related to staff recruitment and retention, and work was ongoing to make roles more attractive.
- Cyber security related to cyber-attacks and the potential impact of a successful attack and the significant effect this would have on the operation of the Council.
- The details of the year-end services risks could be found at 8.2.6 of the report.
- The details relating to how risks were reviewed were stated in 8.3 of the report, all risks had mitigation in place and the scores were reviewed on a regular basis.
- A horizon scanning project had been undertaken to look at future risks as detailed at 8.5.3 of the report.
- There were details of the insurance arrangements of the Council in paragraph 9 of the report.
- The report discussed Business Continuity and the processes put in place.
- Health and safety was a known risk, keeping people safe reduced their risks and those of the Council and this improved the potential of the Council to achieve the required outcomes.
- The risk management action plan for 2023-24 was detailed in paragraph 12 of the report with proposed actions for 2024-25 highlighted in paragraph 13.

The following Members asked questions:

- Councillor Daniel Wright-Mason
- Councillor Vijaiya Poopalasingham
- Councillor Paul Ward

In response to questions, the Service Director – Resources stated that:

- There had been risks associated with the Baldock fire, the recovery work, time and cost to make the area safe and these had been included within the report. It was noted that there was still a risk of fires happening in the district but as this was a remote possibility, the risk was not included in the register.
- Horizon scanning and post Brexit legislation details would be provided outside of this meeting.
- The current risk scores and their mitigation were shown at 8.25 of the report, more in-depth information could be supplied to future meetings in an appendix.

RESOLVED: That the Finance, Audit and Risk Committee noted and provided comments to Cabinet on this report

RECOMMENDATION TO CABINET: That Cabinet notes and provides comments to Council on this report.

REASONS FOR RECOMMENDATION:

- (1) The responsibility for ensuring the management of risks is that of Cabinet.
- (2) This Committee has responsibility to monitor the effective development and operation of Risk Management

14 EXCLUSION OF PRESS AND PUBLIC

Audio recording – 1 hour 54 minutes 25 seconds

Councillor Sean Nolan, as Chair, proposed and Councillor Vijaiya Poopalasingham seconded and, following a vote, it was:

RESOLVED: That under Section 100A of the Local Government Act 1972, the Press and Public be excluded from the meeting on the grounds that the following report will involve the likely disclosure of exempt information as defined in Paragraph 3 of Part 1 of Schedule 12A of the said Act (as amended).

15 LEISURE INVESTMENT OPTIONS - PART 2

N.B. This item was considered in restricted session and therefore no recording is available.

RESOLVED: That the Finance, Audit and Risk Committee provided comments and recommended to Cabinet the Leisure Investment Options – Part 2.

RECOMMENDATIONS TO CABINET: That the Part 2 report is considered when reaching the decisions detailed in Part 1.

REASON FOR RECOMMENDATION: As detailed in the Part 1 report.

16 LEISURE INVESTMENT OPTIONS - PART 1

Audio Recording – 2 hours 12 minutes and 26 seconds

The Executive Member for Finance and IT presented the report 'Leisure Investments and Decarbonisation Project Part 1' and advised that:

- Funding of £7.7M had been secured from the Public Sector Decarbonisation Scheme in February 2024 for the decarbonisation of our leisure centres.
- The Council had previously agreed £3.06M of match funding.
- There would be a reduction of over 60% on carbon dioxide emissions for the three leisure centres, assisting the Council in meeting its target of being carbon neutral by 2030.
- Willmott Dixon had been commissioned to carry out feasibility studies as detailed in paragraph 8.6 of the report.
- There was a termination fee for the Combined Heat and Power (CHP) units as highlighted in paragraph 8.10.

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- Willmott Dixon also considered the feasibility of the Royston Gym extension and the Learner Pool, with both being built to net zero carbon standards, and this was detailed in paragraph 8.15 of the report.
- There was a positive business case for the Royston Gym extension.
- There were strict conditions attached to the decarbonisation funding, £6.165M had to be spent in the civic year 2024-25 and the remaining balance in 2025-26, there was no flexibility to change this.
- The funding was front loaded to enable the purchase of the heat pumps and PV panels
- A decision was required from Council on 11 July 2024 to enable a preconstruction service agreement with Willmott Dixon to commence.
- An external Quantity Surveyor was proposed to be appointed to oversee the project with the aim that they will drive down the project costs which would in turn cover the costs of employing a Quantity Surveyor.
- The Overview and Scrutiny Committee had amended recommendation 2.3 and added an additional recommendation during their meeting of the 18 June 2024.
- There were already lessons available at Royston Leisure Centre for children to learn to swim.
- Should the Learner Pool project be agreed then savings would need to be found in the future.

The following Members asked questions:

- Councillor Vijaiya Poopalasingham
- Councillor Paul Ward
- Independent Member John Cannon

In response to questions, the Service Director – Place stated that:

- Centrica defined end of life for the CHP's as units over 10 years old. The boilers in our leisure centres were currently all over this age and funding had been allocated in the capital programme to replace them.
- The grant funding had a requirement to spend the funds by March 2026, with the majority of the funding being used to purchase heat pumps and panels by March 2025.
- Under the terms and condition of Centrica their units would need to operate for 19 hours per day, so using for less than that time would be in breach of the funding agreement.
- There was a taper on the termination fees and the actual figure may be lower depending on the changeover timing.
- A 15 year contract with Centrica was a standard in these situations, and common practice in the public sector.
- When the climate emergency was called in 2020 the technology and cost of heat pumps was not as advanced as now.
- It was not possible under the current contract to create and export power from the CHP's.

In response to questions, the Executive Member for Finance and IT stated that:

- There was no guarantee of any grant funding being available should the Council wait another 12 months to reduce the termination fees.
- It was not viable to export any power back to the grid.

The following Members took part in debate:

- Councillor Paul Ward
- Councillor Sean Nolan
- Councillor Vijaiya Poopalasingham
- Councillor Daniel Wright-Mason
- Independent Member John Cannon

Points raised in debate include that:

- There were reservations regarding the termination costs.
- There would be higher costs to continue with Centrica.
- Could Centrica supply the heat pumps in exchange for a reduction in the termination fees.
- Would this type of funding be available at a later date.
- The termination fee was significant.
- The learner pool would benefit the residents.

In response to points raised in debate, the Service Director – Place stated that there had been some negotiations with Centrica regarding the supply of heat pumps in exchange for termination fees, however having sought advice from Willmott Dixon, a commercial decision was made that the heat pumps and panel could be purchased for a better price elsewhere. Attempts would continue to try and reduce the termination costs.

In response to points raised in debate, the Service Director – Resources stated in referring the report to Cabinet the concerns from the Finance, Audit and Risk Committee could be presented.

Councillor Stewart Willoughby proposed and Councillor Daniel Wright-Mason seconded and, following a vote, it was:

RESOLVED: That the Finance, Audit and Risk Committee provided comments and recommended to Cabinet the Leisure Investment Options – Part 1.

RECOMMENDATIONS TO CABINET:

That Cabinet takes into account the matters set out in the Part 2 report when reaching the following decisions:

- 2.1 That Cabinet agree in principle to terminate the Combined Heat and Power Centrica contracts at North Herts Leisure Centre (NHLIC) and Hitchin Swimming and Fitness Centre (HSFC) at the appropriate time during the PSDS project and recommend to Council as per 2.6 below regarding the termination fee.
- 2.2 That Cabinet expresses its profound disappointment at the position taken by Centrica over the cost of the CHP contract termination, given the company's stated position as "Energising a greener, fairer future" and requests that the Council continues to raise, and seek solutions to, the issue of long-term inflexible agreements for gas CHPs with Salix and Government, which will inevitably prevent many public sector organisations from achieving their net zero ambitions.
- 2.3 That Cabinet does not approve the business case for Royston Leisure Centre Learner Pool and the capital budget is removed from the capital programme, due to the matters identified in the Part 2 report.

That Cabinet recommends to Council:

- 2.4 An increase in capital expenditure of £2.4m into the capital programme for the decarbonisation work to the three leisure centres. The overall budget will be profiled across 2024/25 and 2025/26.
- 2.5 An increase in the capital budget of £250k for the Royston Leisure Centre (RLC) gym extension, to ensure the extension is built to net zero carbon standards.

2.6 Approval of revenue expenditure of up to £757k for termination and removal fees of the gas CHPs at North Herts Leisure Centre and Hitchin Fitness and Swimming Centre. This would be funded from General Fund reserves.

REASONS FOR RECOMMENDATIONS:

- (1) North Herts Council passed a climate emergency motion in May 2019. This declaration asserted the council's commitment toward climate action beyond current government targets and international agreements. This is currently pursued through the North Herts Climate Change Strategy 2022-2027 which sets out what the council will aim to do to reduce its own carbon emissions to achieve Carbon Neutrality for the Council's own operations by 2030 and a Net Zero Carbon district by 2040.
- (2) Gas use from our leisure centres is a significant contributor towards the Council's own emissions. In 2022-23, gas use across the three leisure centres accounted for 1,428 tonnes CO₂e. This equates to 45% of the Council's Scope 1-3 emissions. Taking action to replace gas heating for our leisure centres with low carbon alternatives is the single most effective action we can take towards meeting our target of being carbon neutral by 2030.
- (3) There is currently a capital allocation in the 2024/25 budget to build a gym extension and learner pool (subject to business case) at Royston Leisure Centre.
- (4) During the procurement for the leisure and active communities contract, the Council committed to deliver the gym extension project which is incorporated in to the contractual management fee. The initial tender stage returns showed that extension would generate additional income of at least £150k per year, and subject to inflationary increases. The latest estimate is that the capital costs will be £1.25m. This is an increase from the initial estimate of £1m and includes making the extension net-zero. The income generated will still exceed the revenue cost of capital (at around £90k per year), but in line with the financial regulation the increased capital spend needs to be approved by Cabinet.
- (5) The business case for the learner pool has not yet been agreed and is included in the Part 2 report.

17 POSSIBLE AGENDA ITEMS FOR FUTURE MEETINGS

Audio Recording – 2 hours 48 minutes 16 seconds

The Chair led a discussion regarding possible agenda items for future meetings.

The Chair noted that the agenda was not normally this long, and should Members have a request on a particular risk or financial area then the relevant Service Directors could attend to provide further information.

Councillor Paul Ward stated that more information on inherited versus mitigated risks would be useful as well as more in-depth information regarding the risks around the fixed financial obligations of the Council.

The Service Director – Resources stated that a risk report was normally presented to the Committee at the December meeting, however if there was a short agenda for September this could be added sooner.

The Chair requested that, should any Members have any suggestions for agenda items for future meetings, they could advise himself, relevant officers or the Committee, Member and Scrutiny Team.

Wednesday, 19th June, 2024

The meeting closed at 10.20 pm

Chair