

<b>Report to:</b>	<b>AUDIT COMMITTEE</b>
<b>Relevant Officer:</b>	Mark Towers – Director of Governance and Partnerships Lorraine Hurst – Head of Democratic Governance
<b>Meeting</b>	24 November 2022

**INTERNAL AUDIT FOLLOW-UP: GOVERNANCE OF WHOLLY OWNED COMPANIES**

**1.0 Purpose of the report:**

1.1 To consider a progress report on the recommendations made in the internal audit report of the Governance of Wholly Owned Companies issued on the 30 November 2021.

Mersey Internal Audit Agency were appointed to undertake this piece of work given that the Council’s Head of Audit and Risk is involved in company governance and to avoid any perceived conflict of interest.

It should be noted that progress against the implementation of these actions is also reported to the Shareholder Committee on a regular basis.

**2.0 Recommendation(s):**

2.1 To consider the actions being implemented to address the audit recommendations relating to the Governance of Wholly Owned Companies audit.

**3.0 Reasons for recommendation(s):**

3.1 To enable Audit Committee to consider an update and progress report on the audit recommendations.

3.2 Is the recommendation contrary to a plan or strategy adopted or approved by the Council? No

3.3 Is the recommendation in accordance with the Council’s approved budget? Yes

**4.0 Other alternative options to be considered:**

4.1 N/a

**5.0 Council priority:**

5.1 The relevant Council priority is community.

## 6.0 Background information

6.1 In recent years there have been a number of high-profile instances where council owned subsidiary businesses have failed and had almost catastrophic consequences for the councils involved. The failings have been documented in External Auditor Public Interest Reports and in the main point to inadequate governance and financial management at council level.

As the Council own a number of wholly owned companies it was felt prudent to ensure that the Council (as Shareholder) had learned from lessons elsewhere in order to embed effective governance. The companies owned by the Council at the time of the audit review included:

- Blackpool Coastal Housing
- Blackpool Housing Company (trading as My Blackpool Home)
- Blackpool Transport Services
- Blackpool Waste Services (trading as Enevco)
- Blackpool Entertainment Company (Winter Gardens Complex)
- Blackpool Airport Operations
- Blackpool Operating Company (Sandcastle Waterpark)

6.2 The scope and assurance statement of the audit was as follows:

### Scope

The scope of the audit was to identify and evaluate the overarching governance arrangements in place at the Council, in its role as Shareholder, to manage the effective oversight of the wholly owned subsidiaries.

### Assurance Statement

In relation to risk management there is a compromised system of internal control as weaknesses in the design and/or inconsistent application of controls puts the achievement of the system objectives at risk.

In all other areas reviewed there is an adequate system of internal control, however, in some areas weaknesses in design and/or inconsistent application of controls puts the achievement of some aspects of the system objectives at risk.

6.3 Does the information submitted include any exempt information? No

## 7.0 List of Appendices:

7.1 Appendix 3(a): Internal Audit Recommendations and Agreed Actions.

## 8.0 Financial considerations:

8.1 The controls being implemented will be done so within current budget constraints.

**9.0 Legal considerations:**

9.1 Risks need to be effectively managed in order to comply with relevant legislation.

**10.0 Risk management considerations:**

10.1 To enable the Audit Committee to gain assurance that risks are being effectively managed.

**11.0 Equalities considerations:**

11.1 Where equality analysis is appropriate these will have been undertaken whilst making decisions relating to the subject.

**12.0 Sustainability, climate change and environmental considerations:**

12.1 Any matters relating to sustainability, climate change and environmental considerations will be considered when making decisions relating to the subject.

**13.0 Internal/external consultation undertaken:**

13.1 The progress report has been prepared in conjunction with the relevant Head of Service and Chief Officer.

**14.0 Background papers:**

14.1 N/a

**Appendix 3(a) - Agreed Action Plan**

Recommendation		Priority	Agreed Action	Responsible Officer	Target Date	Progress
R1	<p>There should be a requirement for all WOCs to provide Risk Reporting and an Audit Committee annual report to their Boards and also to the Shareholder Committee.</p> <p>The Shareholder Committee should also prepare a report to the Council's Audit Committee.</p> <p>An overarching Strategic WOC Risk Register should be created, monitored and reported to the Shareholder Committee. Key risks should be escalated to the Council's Strategic Risk Register where appropriate.</p>	1	Agreed	Director of Governance and Partnerships / Head of Audit and Risk	April 2022	<p>All WOCs are now required to report to the Shareholder Committee on risk.</p> <p>A review of Strategic Risk Registers has taken place across the company group and most have now been completed with the exception of Blackpool Transport Services and Blackpool Housing Company (incorporating Lumen) both of which are scheduled to go to the company Audit committees and onto Boards.</p> <p>Chair of Audit reports are now submitted to Boards and these, along with the Strategic Risk Registers, are being formally reported to Shareholder Committee:</p> <p>Blackpool Waste Services Ltd - 23 September 2022</p> <p>BCH – 25 November 2022</p> <p>with others scheduled to report before the end of the financial year.</p> <p>An overarching risk register will be developed when all company SRRs have been reviewed. At that point, a report from the Shareholder Committee will go to the Council's Audit Committee.</p>

Recommendation		Priority	Agreed Action	Responsible Officer	Target Date	Progress
R2	<p>The progress of the Operational agreements should be reported to the newly formed Shareholder Committee.</p> <p>Management Service Agreements (MSAs) should be put in place for all companies pulling together the Service Level Agreements (SLAs).</p>	2	Agreed	Director of Governance and Partnership / Shareholder Liaison Officers	September 2022	<p>There are currently operating agreements between Blackpool Waste Services Ltd and the Council and Blackpool Coastal Housing and the Council. No other agreements exist with the other companies at this time although an operating lease for Blackpool Entertainment Company Ltd is currently being developed.</p> <p>An Audit review has been carried out into this areas and is currently being finalised. This will be submitted to the Council's Audit Committee.</p> <p>A draft MSA for BWS has been developed. The same MSA will then be applied to other companies.</p>
R3	<p>Governance Framework documents should be completed and agreed with the WOC. The core document should be reported to the Shareholder Committee in the first instance prior to adoption by each of the WOCs.</p> <p>Policy Framework will be an appendix to the governance framework document. Actions where the Shareholder requires the WOCs to adopt will be approved by the Shareholder Committee in the first</p>	2	Agreed	Director of Governance and Partnerships	April 2022	<p>The Shareholder Committee agreed a governance framework on 18 March 2022. This framework has since been approval by all WOC boards.</p> <p>Most companies have developed a policy framework document that has been approved by the Board. Work is ongoing to map company policies and provide a template framework for consistency.</p>

Recommendation		Priority	Agreed Action	Responsible Officer	Target Date	Progress
	<p>instance for example Living Wage, Climate Change and Public Sector Equality Duty.</p> <p>Actions should be monitored via the Shareholder Committee.</p>					The Shareholder Committee monitors actions and a timetable for reporting mechanism is being developed.
R4	<p>A WOC structure review should be undertaken to establish if the WOCs are set up to best achieve efficiency and effectiveness.</p> <p>The results should be reported to the Shareholder Committee with an action plan for any weaknesses identified.</p>	3	Agreed	Chief Executive	Ongoing	A review of Blackpool Coastal Housing was undertaken in 2020. Further discussions are required regarding the future scrutiny of companies.
R5	Detailed recovery financial plans will be included in reporting packs and scrutinised, challenged and reviewed at the Shareholder Committee.	2	Agreed	Director of Governance and Partnerships	November 2021	Financial reporting takes place at each Shareholder Committee on a group basis (via the Council's Director of Resources) and on a detailed individual basis at the respective company Shareholder Committee meeting.
R6	Reporting requirements should be established with templates for consistent reporting. These should include Financial Performance, KPI reporting, Recovery Loan reporting, Risk Management, Business Plans, Strategy Documents and Project performance.	2	Agreed	Director of Governance and Partnerships	January 2022	<p>Templates for the KPI reporting are in place.</p> <p>Business Plan and Annual Report templates are being developed.</p>

Recommendation		Priority	Agreed Action	Responsible Officer	Target Date	Progress
R7	There should be cyclical training requiring mandatory participation that is tracked and logged and networking events where Council objectives and vision can be shared along with providing opportunities for participants to share best practice and any group synergies for efficiency.	3	Agreed	Director of Governance and Partnerships	April 2022	So far this financial year, the following cyclical training sessions have been held for NEDs: Introduction to Financial Statements held on 24/05/22 Role of External Audit – 09/06/22 GDPR training – 17/11/22 A fully revised rolling training programme for non-executive directors is also being launched at end November 2022.