

Report to:	AUDIT COMMITTEE
Relevant Officer:	Steve Thompson – Director of Resources Alan Cavill – Director of Communications and Regeneration Mark Towers – Director of Governance and Partnerships
Meeting	18 January 2024

WHOLLY OWNED COMPANIES LEASES, ASSET REGISTERS, CONTRACTS AND OPERATING AGREEMENTS AUDIT FOLLOW-UP

1.0 Purpose of the report:

1.1 To consider a progress report on the recommendations made in the internal audit report relating to Wholly Owned Companies Leases, Asset Registers, Contracts and Operating Agreements issued on the 28 November 2022.

2.0 Recommendation(s):

2.1 To consider the actions being implemented to address the audit recommendations relating to the Wholly Owned Companies Leases, Asset Registers, Contracts and Operating Agreements 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 None.

5.0 Council priority:

5.1 This audit impacts on the Council’s organisational resilience priority.

6.0 Background information

- 6.1 Over the years, the Council has established a number of wholly owned companies, covering a diverse range of services and obligations. Robust governance structures and processes are therefore required to manage risk and ensure that the companies meet the authority's expectations, delivering real benefits and providing value for money.

In September 2021, Local Partnerships published a toolkit titled 'Local Authority Companies Review Guidance' to help councils carry out effective reviews of companies they own and 'avoid the obvious traps' involved in running commercial endeavours. This document was published at a time of growing concern over the governance arrangements of council-owned companies, following recent high profile downfalls such as Nottingham City Council's 'Robin Hood Energy'. External Auditor Public Interest Reports have illustrated that the failings of companies owned by other authorities have primarily been due to governance and financial deficiencies. The Local Authority Companies Review Guidance (2021) focuses on the effectiveness and appropriateness of companies' governance arrangements, and provides a best practice checklist of issues to consider while conducting governance reviews. It also sets out questions and challenges relevant to the decision-making processes for establishing wholly or partly owned entities.

Following the publication of the Local Authority Companies Review Guidance and receipt of the Wholly Owned Subsidiaries Governance Review report, the Company Secretaries (Director of Governance & Partnerships and Head of Democratic Governance) proposed an updated Governance Framework for managing the Council's wholly owned companies.

Since the audit was carried out the 'Local Authority Companies Review Guidance' was reviewed by Local Partnership in September 2023 and it is planned to take this to the Shareholder Committee early in the new year.

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

Scope

The scope of the audit included:

- Whether accurate, complete and up-to-date leases, asset registers, contracts and operating agreements are in place between the Council and each of the wholly-owned companies;
- Whether roles and responsibilities relating to these documents are clear in order to ensure compliance with obligations and to support financial management of each subsidiary; and
- Whether plans are in place to address any shortfalls relating to these documents.

Assurance Statement

We consider that controls relating to wholly owned companies leases, asset registers, contracts and operating agreements are adequate with most risks identified and assessed and some changes necessary. The Council has made progress over recent year to strengthen the governance arrangements for the wholly owned companies.

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 and the impact of this decision for our children and young people :

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 None.

APPENDIX 3(a) - Agreed Action Plan

Recommendation		Priority	Agreed Action	Responsible officer	Target Date	Revised Target Date for outstanding actions	Progress
R1	To ensure continuity in the governance of the wholly-owned companies, we recommend that the senior management Employment Committees for each company consider working in conjunction with the Shareholder Liaison Officers to ensure that appropriate succession plans are in place for senior management teams and key roles.	2	Business Continuity Plans for each of the companies should consider the risk of the loss of senior management and other key positions and how any gaps will be mitigated. The Shareholder Liaison Officers should gain assurance that this is routinely considered through this documentation.	Director of Strategy & Assistant Chief Executive Director of Communications & Regeneration Director of Community & Environmental Services	31st March 2023	31 st March 2025	Succession planning arrangements are being implemented at the Council for the Senior Leadership Team and a similar approach is being rolled-out to the companies. The intention is that the Employment Committees will hold a periodic private meeting to review plans for senior management and will invite their HR advisor and Shareholder Lead.

Recommendation		Priority	Agreed Action	Responsible officer	Target Date	Revised Target Date for outstanding actions	Progress
R2	To ensure that the Council's and BECL's repairing liabilities associated with the Winter Gardens Complex are appropriately documented, we recommend that a timescale is set to renew the lease and that the Shareholder Committee are consulted to make a decision as to whether the lease and operating agreement should be merged.	2	The Shareholder Committee have been consulted regarding the documentation to be put in place for BECL and it has been raised at the Relationship Meeting. It has been agreed that an Operating Agreement will be put in place.	Director of Communications & Regeneration	31 st March 2023	31 st March 2024	This will be included in a service level agreement between the Council and the Company. The Heads of Terms were agreed at the BECL Board meeting in December 2023 and the full agreement should be implemented by March 2024.

Recommendation		Priority	Agreed Action	Responsible officer	Target Date	Revised Target Date for outstanding actions	Progress
R3	To ensure that the repairing liabilities of the Council and wholly owned companies are clearly defined, we recommend that the completion or renewal of the leases and sub-leases for the Sandcastle Waterpark, Coastal House, The Tramshed, Layton Depot and the HWRC are accelerated.	2	<p>The completion and renewal of outstanding leases will be addressed.</p> <p>The renewal of the lease for the Sandcastle Waterpark may take longer to arrange pending the outcome a review of management arrangements at the company.</p>	Director of Resources	31 st March 2023	31 st March 2024	Most leases are in place. The update to the BECL lease will be included in the new Service Level Agreement. A project team is in place to address the leases required for BTS. The lease for BOCL is currently on hold pending a decision on the future management of the facility.

Recommendation		Priority	Agreed Action	Responsible officer	Target Date	Revised Target Date for outstanding actions	Progress
<i>R4</i>	To ensure that the parties involved in the long leasehold agreements for Hangars 3 and 4 at Blackpool Airport are accurately recorded, we advise that these leases are updated.	3	The leasehold agreements for Hangars 3 and 4 will be updated to reflect the current parties involved.	Director of Communications and Regeneration	31 st March 2023	N/a	<p>The freeholder is Blackpool Airport Properties Ltd and the leaseholder at a peppercorn rental is Blackpool Council, who sublet to aviation operators on short lease agreements at market rentals.</p> <p>The properties and the leases have all been appropriately recorded with Legal Services acting in the grant of the occupational leases and the original purchase of the unexpired term of the long leases from third parties.</p>

Recommendation		Priority	Agreed Action	Responsible officer	Target Date	Revised Target Date for outstanding actions	Progress
R5	To ensure that BECL and the Council have appropriate oversight over all operating assets associated with the Winter Gardens Complex, we recommend that an asset register is produced which captures all assets held within the premises.	2	BECL will be responsible for producing a full asset register for the assets held at the Winter Gardens Complex. This requirement will be discussed with the company during the next Relationship Meeting. BECL will be requested to report progress producing this register to the Shareholder Liaison Officer.	Director of Communications and Regeneration	31 st March 2023	31 st March 2024	This will be included in a service level agreement between the Council and the Company. The Heads of Terms were agreed at the BECL Board meeting in December 2023 and the full agreement should be implemented by March 2024.
R6	We recommend that a consistent approach is agreed for documenting the roles and responsibilities of the Council and each of the companies regarding the recording and maintenance of assets.	2	This will be reviewed by the Shareholder Liaison Officers in order to ensure that appropriate arrangements are in place for each company.	Director of Strategy & Assistant Chief Executive Director of Communications & Regeneration Director of Community & Environmental Services	31 st March 2023	30 th September 2024	Work is underway to develop a list of requirements. Once a draft has been prepared by the Company Secretaries this will be discussed with the Shareholder Lead and then with the companies.

Recommendation		Priority	Agreed Action	Responsible officer	Target Date	Revised Target Date for outstanding actions	Progress
R7	To support the Council with maintaining direct oversight over the HRA assets, we advise that consideration is given to adding the Council's social housing stock to the P2.net system or determining whether an alternative system for tracking these assets would be more efficient.	2	As BCH use Orchard to maintain a register of the social housing stock that they manage on behalf of the Council, it will be ensured that Property Services also have access to this system.	Director of Resources	31 st March 2023	31 st March 2024	CIPFA are currently carrying out a property compliance audit at the housing companies and this will inform how Property Services access property data going forward.

Recommendation		Priority	Agreed Action	Responsible officer	Target Date	Revised Target Date for outstanding actions	Progress
<i>R8</i>	In connection with Recommendation 6, we recommend that it is clearly defined what documentation is required for each wholly owned company to help govern internal operations and mitigate risk to the Council.	2	The Company Secretaries will liaise with the Shareholder Liaison Officers to determine what documentation is required for each company in order to manage internal operations and mitigate risk to the Council.	Director of Governance & Partnerships Head of Democratic Governance	31 st March 2023	30 th September 2024	Work is underway to develop a list of requirements. Once a draft has been prepared by the Company Secretaries this will be discussed with the Shareholder Lead and then with the companies.