

BOROUGH COUNCIL OF KING'S LYNN & WEST NORFOLK

AUDIT COMMITTEE

Minutes from the Meeting of the Audit Committee held on Monday, 10th February, 2020 at 5.00 pm in the Council Chamber, Town Hall, Saturday Market Place, King's Lynn PE30 5DQ

PRESENT: Councillor A Dickinson (Chair)
Councillors Miss L Bambridge, B Jones, C Joyce, A Kemp, C Manning,
J Moriarty, C Morley, A Ryves and Mrs V Spikings

Portfolio Holders

Councillor P Kunes, Terrington Ward
Councillor B Long
Councillor G Middleton

Members present under Standing Order 34

Councillors Miss L Bambridge, C Joyce, M Moriarty and C Morley

Matthew Head, Audit
Matthew Henry, Assistant Director, Property and Projects
Tina Stankley, Financial Services Manager

A42 **APPOINTMENT OF VICE CHAIR**

RESOLVED: In the absence of Councillor J Collop, Councillor A Ryves be appointed Vice-Chair for the meeting.

A43 **APOLOGIES**

Apologies for absence were received from Councillors Mrs J Collingham, J Collop and S Dark.

A44 **DECLARATIONS OF INTEREST**

There were no declarations of interest.

A45 **URGENT BUSINESS UNDER STANDING ORDER 7**

There was no urgent business.

A46 **MEMBERS PRESENT PURSUANT TO STANDING ORDER 34**

Councillors Miss L Bambridge, C Joyce, J Moriarty and C Morley.

A47 **CHAIR'S CORRESPONDENCE**

There was no Chair's correspondence.

A48 **EXCLUSION OF PRESS AND PUBLIC**

RESOLVED: The Committee resolved to consider the report in open session.

A49 **REPORT OF THE CROSS PARTY GROUP TO REVIEW THE KING'S LYNN INNOVATION CENTRE (KLIC) PROJECT**

The Vice-Chair chaired the meeting for this item. As the Chair of the Audit Committee had also chaired the Cross Party Working Group she handed the proceedings to the Vice Chair for the remainder of the meeting, in order that she could present the report and answer questions.

The Chair of the Cross Party Working Group presented the report on the Review of the King's Lynn Innovation Centre Project.

The Chair of the Cross Party Working Group drew attention to page 9 of the report:- "Nautilus is also a member of the NALEP" - and advised the statement was incorrect and was therefore withdrawn from the report.

The Vice Chair invited comments and questions from the Audit Committee.

Councillor Kemp commented that it was a detailed report, but expressed concern that the lessons learnt had not yet been implemented in particular with regard to due diligence when considering major projects.

In response, the Chair of the Cross Party Working Group explained that, as stated in the report, not all the terms of reference had been addressed and that the remaining two areas (to consider the Terms of Reference for the Major Projects Board and to consider the role of Council appointed Directors to an outside body) would be the subject of a separate report. The Chair of the Cross Party Working Group advised that work was ongoing and a meeting of the working group would be convened as soon as possible to complete the remaining two areas of the terms of reference.

In response to a question from Councillor Jones on the options for the future management of the KLIC building, the Leader advised that it would be a Cabinet decision.

Under Standing Order 34, Councillor Joyce addressed the Committee.

Councillor Joyce stated that the cost of the building and associated car parking had cost £6m, which was £2m over budget and added that

questions had yet to be answered, including where the money went and that £150,000 was not a good return on £6m cost.

In response, the Chair of the Cross Party Working Group explained that the working group were not in a position to comment on the cost of the building but commented that the rate of return was based on the value of the asset and land and not on the cost of the KLIC building. The Interim Financial Services Manager (s151 Officer) explained that the rate of return was calculated as a percentage of the value of the asset on the Council's Balance Sheet, not the cost of the building which is standard accounting practice.

Councillor Joyce commented that officers working on the project had not carried out due diligence checks and a charge had not been placed on the building. Councillor Joyce also asked why the Councillors involved had been so naïve.

Following the comments made by Councillor Joyce, the Leader advised that at the inception of the project, NWES had a track record of delivering similar projects across East Anglia and that at the time there was no alternative service provider and highlighted that Full Council had approved NWES being appointed. The Leader emphasised that there was a need to have a business incubation hub in West Norfolk and that the KLIC was now providing a business hub. The Borough Council had envisaged that NWES would pay back the loan within the agreed terms, and until NWES defaulted on the loan repayment there had been no issues identified with the service which the organisation provided. In conclusion, the Leader explained that the Council now had the building in its ownership which was provided an income stream and provided an overview of the benefits from the KLIC. The Leader added that his own opinion was that the benefits from that building still outweigh the fact the procedures the Council followed were not as robust as they should have been, but those areas had been set out in the Lessons Learnt report from Internal Audit and that the Independent Inquiry would commence as soon as possible.

The Chair of the Cross Party Working Group added that the Borough Council now had the building in its ownership and that NWES had been identified as the market leader but that the organisation had not previously undertaken a project management role in constructing such a building. For clarification purposes, the Leader explained that NWES were appointed to provide a business service to tenancies. The Chair of the Cross Party Working Group confirmed that the loan had not been repaid on the due date, but was currently being repaid.

In response to questions regarding the Council placing a charge on the building and the loan not being repaid on the due date, the Assistant Director, Property and Projects explained that there was a mechanism in the Partnership Agreement if the loan was not repaid.

Councillor Joyce commented that at the time NWES requested an additional £250,000 loan, concerns were expressed by a previous Chair of the Audit Committee on NWES' ability to repay the loan, which were ignored. The Chair of the Cross Party Working Group explained that the grant of the £250,000 loan had been addressed in the report.

In response to a question from Councillor Jones as to when the full amount of the loans would be paid back, the Chair of the Cross Party Working Group explained that the scheduled date for repayment in full was 2024.

Councillor Middleton, Portfolio Holder for Business Development commented that the Borough Council now owned the building and was therefore in a position to ensure that the asset remained a sustainable facility for the town which provided the Council with a good rate of return. The Borough Council promoted invest to save as a way forward to generate a rate of return. Reference was made to the Internal Audit reports and the action arising therefrom, the work being undertaken by the Cross Party Working Group and the External Independent Inquiry which would now commence. In conclusion, Councillor Middleton highlighted that it was important to move forward to continue to provide this valued business service at KLIC and not to continue to look at the negatives from the project.

Councillor Kemp stated that the Borough Council did not have control of the KLIC project and added that it was important that with any future major projects involving partners that the Borough Council as the public body should be in control.

In response, the Leader explained that currently with similar projects, the Borough Council would manage the entire project and gave an example of the units on the Enterprise Zone.

The Chair of the Cross Party Working Group explained that the Borough Council had acknowledged that there were lessons to be learnt and provided an overview of the positive points from the project and invited the Committee to consider the recommendations set out at Section 6 and that the report be presented to Cabinet, which was unanimously agreed by the Committee.

RESOLVED: A) The Audit Committee agreed the recommendations set out below:

- 1) Notwithstanding the requirements of the Major Projects Boards, all major projects should have a designated Project Manager of sufficient seniority in the Council's hierarchy to make appropriate decisions.
- 2) In the event that a major project involves a third party in order to bring it to fruition the Chief Executive Officer or appropriate Assistant Director should oversee the project's management.

- 3) If a loan is granted or investment made under any statutory power that in ordinary circumstances would fall within the Treasury Management Procedures it should be governed by those Procedures, especially as regards to the 3 principal elements, i.e. risk/security, liquidity and return.
 - 4) Any joint venture with a third party must undergo rigorous examination before being entered into to ensure as far as reasonably practicable the third party's financial visibility for a period exceeding the life of the project.
 - 5) If a loan is entered into with a third party that does not fulfil the council's requirements for creditworthiness such a loan must be secured on a tangible asset wholly owned by the third party that is not otherwise secured elsewhere.
 - 6) Each and every project involving a third party should be included in the Council's Risk Register following a risk assessment.
 - 7) The loans to NWES should immediately be either reinstated to the half yearly reports on Treasury Management to Audit Committee or be reported on separately to Audit Committee at a shorter frequency.
 - 8) All legal documents should be signed off before funds are released.
- B) The report be presented to Cabinet by the Chair of the Cross Party Working Group.

A50 **DATE OF NEXT MEETING**

The next meeting of the Audit Committee will take place on 11 March 2020 at 5 pm in the Council Chamber, Town Hall, Saturday Market Place, King's Lynn.

The meeting closed at 5.45 pm