



The Northumberland
Development Company

(NR - Final)

Arch Group Board

Report to NCC's Audit Committee

Matters of Concern

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Chairman - Arch

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Wednesday 28th March 2018

NCC Audit Committee 28th March 2018

Matters of Concern

Introduction

The purpose of this paper is to provide an update to NCC's Audit Committee following a meeting at the Arch Group Board on Friday 23rd March 2018 which considered a number of matters that have come to light and raise concerns regarding the previous governance arrangements of the Arch Group.

As Arch Group is a wholly owned subsidiary of Northumberland County Council, this paper is to provide information in relation to the matters which have come to light and to provide assurance to the Council's Audit Committee in relation to addressing such matters of concern going forward.

Matters of Concern

1. *MIPIM (Le marche international des professionnels de l'immobilier, The international market for real estate professionals)*

During the strategic review of Arch Group initial concerns were raised about gifts and hospitality. As part of further investigations into this area Internal Audit has identified that there have been regular trips, by Arch Group delegates, to MIPIM (Cannes, France) and to MIPIM, UK.

In Autumn 2017, a request was made by a small number of employees within Arch Group to attend MIPIM (Cannes) in 2018 and a business case was prepared to support attendance at MIPIM (UK) 2017 and MIPIM Cannes 2018. A decision was taken to withdraw from the event in Cannes and not field any delegates. At the time of this decision, Internal Audit were asked to review MIPIM attendance to date and have undertaken an investigation which has now been completed.

Matters to highlight to the Audit Committee from this investigation are:

- That there was attendance at MIPIM events by Arch Board members, Council Elected Members (and/or external guests) as outlined in Appendix 1

- Significant expenditure (approximately £73k in total) has been spent by Arch Group on 7 MIPIM events (Cannes and UK) with no evidence of an evaluation of the benefits
- Of the £73k expenditure, Internal Audit have confirmed that a significant proportion of this expenditure has been spent on hospitality including the purchase of high cost meals and alcoholic beverages for Arch Group delegates which on occasion has been nearing an amount of up to £200 per head.
- Of the £73k expenditure, significant amounts have been spent on first class travel and accommodation, for which no policy could be evidenced and which would be outwith the expectations of a wholly owned local authority company. On one occasion, travel and accommodation costs were in excess of £13k for that event. Half of the expenditure on accommodation for this trip was recharged out to two external firms whose delegates had been invited to attend MIPIM Cannes as part of the Arch Group party of delegates. However, it subsequently transpired that Arch Group had booked the accommodation with a company which was latterly found to be fraudulent. Arch Group subsequently had to refund the sums paid by the two companies (meaning that Arch Group has suffered the £13k fraudulent loss). One of the external companies who had been invited to the event, booked alternative accommodation and recharged Arch Group for their proportion of the cost, resulting in accommodation being paid for twice.
- Of the £73k expenditure, Internal Audit has not been able to source detailed evidence (receipts) on what this expenditure has fully consisted of. This has resulted in undertaking a time consuming reconciliation of credit card statements and receipts to identify what has been purchased and who has benefitted from hospitality. As an example a receipt identifies 18 guests for a particular event, however only 14 guests can be evidenced on the guest list obtained. In addition, there is no detailed receipt and generic information supplied such as "MIPIM UK Client Business Meal" exists on the credit card statement only. Please see Appendix I for further information.
- Attendance at MIPIM UK hospitality events appears to have included contractors, several MP's and others (some of whom's relationship with Arch Group is unknown at the time of writing this paper).
- Regarding MIPIM Cannes, there is evidence that an individual from a local taxi private hire firm was flown to Nice, France and provided with a vehicle and accommodation which was paid for by Arch Group. The purpose of this action was to have a driver for the party of delegates attending MIPIM Cannes.

2. Amount of and Declaration of Gifts and Hospitality

As a separate matter, and in addition to the £73k expenditure associated with MIPIM, Internal Audit identified that, from 1st April 2016 to 30th June 2017 (approximately 15 month period), the overall level of expenditure on the provision of hospitality is significant on the Arch Group visa credit card alone (of individual payments). Initial evidence suggests that the level of expenditure on hospitality during the identified period could be significantly higher once other payment methods such as invoices, petty cash etc., have been analysed.

To date Internal Audit has been able to obtain limited evidence of any declarations being made of the receipt of gifts and hospitality by any member of Arch Group staff, board members or representatives regarding attendance at the MIPIM events. The limited evidence obtained by Internal Audit of any declarations being made by Arch Group staff, board members or representatives suggests a culture of entitlement to expensive trips and acceptance of hospitality being the norm.

Other examples examined as part of this work include:

- A leaving event for the former Chief Executive of Arch Group at a Newcastle Hotel which was for a party which did not go ahead. This was subsequently cancelled at late notice and it was too late to recover any costs and therefore the Arch Group were charged at a cost of approximately £1,000.
- Arch Group funded annual staff christmas parties at a Newcastle venue which have been charged to Arch Group at a value of almost £6,000.
- Arch Group funded a contractors christmas party at Ashington Community Football Club which has been charged to Arch Group at a value of approximately £3,000 plus additional costs for taxi travel for attendees.
- Three board members, the former Chief Executive of Arch Group, one employee of Arch and two guests from a firm in the Midlands attended a sporting event to Wembley during which Arch Group spent approximately £3.5k on travel, accommodation and hospitality (including alcohol).

3. Ashington Community Football Club

Arch Group has been providing significant support over and beyond what would be expected to Ashington Community Football Club including:

- funding salaries with associated on-costs (costing £132k from February 2015 to December 2017) provided for at least 2 members of staff who have not undertaken any work for Arch Group but worked directly for ACFC.
- provided payment of the ACFC utilities bill, alarm repair costs and brewery invoices (Heineken) relating to ACFC of approximately £17k on the premise of assisting with ACFC's cash flow issues but to date these monies have not been repaid or recovered from ACFC
- providing excessive capital expenditure on improving the ACFC facilities of approximately £1.6m (with initial approval from the Arch board for £981,500)
- providing sponsorship of ACFC, sportsman dinners, a corporate evening for the new facility and some Christmas entertaining to the value of approximately £23k.

4. Procurement

There is evidence that best practice has not been followed in relation to the procurement of goods and services to a significant value which require further investigation. For example, Arch Group's contracting arrangements with Saving Energy UK Ltd (now in liquidation) for the installation of solar panels on commercial properties, installation of ground source heat pumps and installation of central heating; and the appointment of a number of 'consultants' in respect of various engagements.

5. People Management

HR and Payroll management processes have been significantly lax in the majority of employee information which has been seen to date, this includes:

- funding of driving lessons and driving test costs for a member of staff who did not require a driving licence for the role that they were undertaking
- funding relocation expenses paid to an individual member of staff living within the same area of Northumberland without any documented rationale or due process and further analysis is required into whether HMRC guidance was adhered to
- No clear evidence of salary structures with some employees receiving 50% salary increases without any rationale being documented.
- Employee benefits being excessive including examples of:

- a vehicle being purchased by Arch for an individual's sole professional and personal use in excess of £24k without any rationale or HMRC declarations being made
- sums of up to £5,000 being awarded to new employees for a car allowance which does not appear to comply with HMRC guidance
- payments made to employees which suggest that they appear to be duplicates of employee benefits and therefore not appropriate
- employee benefits have not been calculated appropriately for the purposes of HMRC tax returns and in some instances HMRC submissions such as P11D's which may have not been completed in full (and may need rectifying within the 7 year time window).

6. Arch Group Financial Regulations and Memorandum of Delegated Authority

There is evidence that the Arch Group Financial Regulations and Memorandum of Delegated Authority have been insufficient for robust financial management. Based on the information gathered to date, there is significant doubt that previous appropriate decision making has taken place in support of a range of financial commitments or expenditure incurred by Arch Group.

Conclusion

This report provides a summary of matters of concern which have been raised with the Arch Group Board. Further analysis will be required by Internal Audit to continue to ensure that all of the issues identified within this report are addressed as the new business is established. It is unacceptable that public funds have been utilised in this way and the Arch Group Board are confident that they will continue to address these issues in line with the recommendations of the Strategic Review.

Recommendations

To agree the following recommendations:

1. Agree that the matters of concern should be highlighted to the Council's Audit Committee in relation to transparency of the management of the wholly owned subsidiary.

2. Agree that the Arch Group Financial Regulations and Memorandum of Delegated Authority is reviewed and re-submitted to the Arch Group Board for consideration and appropriate implementation based on the findings within this report.
3. For NCC's Audit Committee to receive assurance that there has been initial remedial work undertaken in relation to these areas and an immediate management arrangements are now in place to ensure that such practice does not happen in the future.
4. For NCC's Audit Committee to recognise that the new organisation will be formed shortly and an appropriate and suitably strong framework will now be in place to support ongoing robust governance and control arrangements for Arch Group going forward.

Appendix 1

2017

| MIPIM Cannes March 2017 | MIPIM UK October 2017 |
|-----------------------------------|--------------------------------------|
| Arch Chief Executive | Arch Head of Investments |
| Arch Head of Investments | Arch Interim Head of Economic Growth |
| Arch Head of Economic Growth | |
| Member of local private hire firm | |

2016

| MIPIM Cannes March 2016 | MIPIM UK October 2016 | MIPIM UK Arch Guests for a dinner at Min Jiang Restaurant, Royal Garden Hotel 20 October 2016 |
|--------------------------------|------------------------------|--|
| Chair of Arch | Chair of Arch | Representative from Hanro |
| Arch Board Member | Arch Chief Executive | Representative from Invest NE |
| Arch Chief Executive | Arch Head of Economic Growth | Representative from Invest NE |
| Arch Head of Economic Growth | Arch Head of Investments | Representative from Savills |
| | | Representative from BNP Paribas |
| | | Representative from BNP Paribas |
| | | Representative from BNP Paribas |
| | | Representative from DWF |
| | | Representative from Mall Solutions Group |

| | | |
|--|--|--|
| | | Representative from Arlington Real Estate |
| | | Representative from Montagu Evans |

Cost of the dinner was £1,972.58. This included a deposit of £400 with *Min Siang Restaurant* *MIPIM UK Client Business Meal 20.10.16* written on the receipt. A visa chitty was the only evidence available in support of the balance payment of £1,572.58, no detailed receipt.

2015

MIPIM Cannes 2015 - no evidence was found of attendance at this event.

| MIPIM UK October 2015 | MIPIM UK Arch Guests for a dinner at Babylon Roof Gardens Restaurant, 21 October 2015 | MIPIM UK Arch Guests for a dinner at Min Jiang Restaurant, Royal Garden Hotel 22 October 2015 |
|------------------------------|--|--|
| Arch Chief Executive | Representative from Inn Collection Group | Representative from Hanstead |
| Arch Head of Investments | Representative from Inn Collection Group | Representative from Hanro |
| Arch Marketing Manager | Representative from Triselhus UK | Representative from Chalfort |

| | | |
|--------------------------|----|-------------------------------------|
| Arch Marketing Assistant | MP | Representative from UK Land Estates |
| Arch Assistant | MP | Representative from UK Land Estates |
| | MP | Representative from NLP |
| | | Representative from DTZ |
| | | Representative from BNP Paribas |
| | | Representative from Clouston Group |
| | | Representative from Home Group |
| | | Representative from NECA |
| | | Representative from Gladman |
| | | Representative from ORCA |

The receipt for the meal on 21 October is for £1,081.95 and is possibly for ten people, there are eleven between the guest list and the Arch representatives.

The receipt for the meal on 22 October is for £2,013.79 and is for nineteen set dinners and there are eighteen between the guest list and the Arch representatives.

2014

MIPIM Cannes 2014 - no evidence was found of attendance at this event.

| MIPIM UK October 2014 | MIPIM UK Arch Guests for a dinner at Min Jiang Restaurant, Royal Garden Hotel 20 October 2016 |
|------------------------------|--|
| Arch Chief Executive | Representative from CACI |
| Arch Head of Investment | Representative from iCube |
| Arch Marketing Manager | Representative from Trivselhus |
| Arch Marketing Assistant | Representative from Charlford Land |
| Arch contractor | Representative from UK Land Estates |
| | Representative from DTZ |
| | Representative from Ryder Architecture |
| | Representative from Hanro Group |
| | Representative from Connectives |

The dinner receipt for £2,211.55 identifies eighteen guests, however, the nine guests and five in the Arch party only identifies fourteen people.