



Northumberland

County Council

AUDIT COMMITTEE

23 MAY 2018

ARCH: Updated Matters of Concern

Report of the Executive Director of Finance

Cabinet Member: Councillor Nick Oliver, Portfolio Holder for Corporate Resources

Purpose of report

The purpose of this report is to advise the Audit Committee of further emerging matters of concern which have recently been brought to the attention of the Council. Such matters may have a significant financial impact on Arch Group and/or County Council.

This report follows a previous report presented to the Audit Committee by Councillor Wearmouth and Councillor Oliver and there will be a requirement to provide a further update to the next meeting of the Audit Committee on the following matters:

- (1) Arch Group – Asset revaluations
- (2) Use of the Arch Group Company Credit Cards
- (3) Procurement matters, and recent notification of a supplier's liquidation
- (4) Referral to Northumbria Police
- (5) Ongoing Governance Matters in relation to the Arch Group

Recommendations

It is recommended that that the Audit Committee:

- (a) Notes that investigatory work is continuing in relation to matters 1 – 3 outlined above;
- (b) Notes that the Council is exploring all possibilities regarding the recovery of outstanding monies which appear to be owed to the Council and to Arch;
- (c) Notes the continued work within the Arch Group to improve organisational governance;
- (d) Considers this matter as part of its understanding of the Authority's framework of governance, risk management and control.

Link to Corporate Plan

The work of the Audit Committee contributes to the achievement of all priorities in the Council's Corporate Plan 2018-2021.

Key issues

Background

Audit Committee members will be aware that there has been an independent investigation of the Arch Group, a wholly owned subsidiary of Northumberland County Council.

This report is to notify the Audit Committee that matters of concern continue to be raised with the Arch Group Board and Northumberland County Council and that investigatory work continues to further understand in full the implications of each of the additional matters of concern which are itemised below:

1. Arch Group – Asset revaluation

On 11 May 2018, the Board of the Arch Group received a briefing on the provisional final accounts position for the Group of companies as part of their normal board meeting. As part of this briefing the Board was advised of the outcome of the revaluation of assets exercise which is required to be undertaken as part of the accounts closure process on an annual basis. This information was subsequently shared with Northumberland County Council on 15 May 2018.

Issues relating to the asset revaluation are as follows:

- The annual revaluation of the assets of the Arch Group for 2017-18 has produced some significant variations in relation to individual assets and the overall asset position for Arch Commercial within the Arch Group. The annual revaluation of assets within Arch Housing has produced a small increase in the value of the portfolio overall. More evaluation is needed to understand why the valuations have varied within Arch Commercial and to understand the impact in the short, medium and long term for the Arch Group overall.
- The methodology used for the recently commissioned revaluation of the assets of the Arch Group has in some instances been different to the previous method of revaluation used. However, new valuers were appointed to undertake the exercise in 2017-18.
- Whilst there have been variations upwards and downwards in relation to assets within Arch Commercial, the overall net effect has been a downward valuation in the portfolio as a whole. Overall, there is an approximate net negative movement of £9 million, against a total asset portfolio of around £300 million. This is based on before and after figures within the revaluation assessment.

2. Use of the Arch Group Company Credit Cards

Further to the information brought to Audit Committee previously, work is continuing analysing the hospitality funded by the Arch Group. More information will be brought to

the Audit Committee as appropriate. The use of credit cards to pay for hospitality has been a key focus of this work.

It has been identified that there were several credit cards in use across four companies within the Arch Group.

On records currently available, spend of circa £246k has been identified across several credit cards in the period from January 2013 to June 2017. As set out above, work is continuing to isolate the proportion of this spend which relates to hospitality, and to understand for which other spend categories credit cards have been used.

Work is underway within Arch to control the use of credit cards and to ensure that their use is appropriate.

3. Procurement matters, and recent notification of a supplier's liquidation

A supplier to both the County Council and Arch has recently gone into liquidation. In total, the County Council and Arch have expended gross funding of £6.075 million to this supplier, in a combination of direct payments from the County Council and Arch for supply (totalling £3.8 million) as well as a loan authorised by the former Chief Executive Officer of the Council to a third party (£2.2 million) specifically to commission work with the supplier.

Analysis of payments made to, and monies owed by this supplier has raised a number of concerns regarding the nature of this supplier's relationship with both the County Council and Arch. These concerns include:

- The adequacy, completeness and appropriateness of record keeping;
- The procurement approaches adopted within Arch in relation to this supplier;
- The provision of a loan by the County Council to a third party, for the purposes of that third party commissioning further work from the named supplier;
- The nature of the relationship with the supplier.

At the present time, records indicate that the company owes the County Council £11k and Arch £24k and that there is further work required to ensure that all work that has been commissioned has been delivered appropriately in line with the contracting and procurement arrangements in place.

4. Referral to Northumbria Police

Following on from further investigative work which has been undertaken within the County Council, there has been a further formal referral made to Northumbria Police.

The details of this referral cannot be shared with the Audit Committee in full but the referral may be categorised as a potential breach of the law in relation to clearly outlined local government and statutory procedures in relation to the potential misuse of public funds.

5. Ongoing Governance Matters in relation to the Arch Group

Progress continues to be made in relation to improving the governance of the Arch Group of companies. It has now been agreed that the Chief Executive of the Council regularly attends the Arch Group Board meeting to provide challenge. Other areas of support including Corporate Services are now being provided.

Conclusion

The matters outlined above are for Audit Committee's information only. The Audit Committee will receive an update at the July 2018 meeting when more detailed information will be available.

Implications

Policy	Not applicable.
Finance and value for money	The finance and value for money implications of all matters set out in this report are in the process of being assessed and further updates will be brought back to Audit Committee as appropriate.
Legal	The legal implications of all matters set out in this report are in the process of being assessed and further updates will be brought back to Audit Committee as appropriate.
Procurement	The procurement implications of all appropriate matters set out in this report are in the process of being assessed and further updates will be brought back to Audit Committee as appropriate.
Human Resources	None
Property	The issue of property asset revaluations requires further assessment to understand its true implications.
Equalities (Impact Assessment attached) Yes <input type="checkbox"/> No <input type="checkbox"/> N/A <input type="checkbox"/>	Not applicable
Risk Assessment	All risk implications are currently being evaluated.
Crime & Disorder	Section 17 of the Crime and Disorder Act 1998 has been considered, and no implications have been identified.
Customer Consideration	Not applicable

Carbon reduction	Not applicable
Wards	All

Background papers:

Procurement and payment information retained within the County Council and Arch.

Report sign off.

Finance Officer	N/A
Monitoring Officer/Legal	N/A
Human Resources	N/A
Procurement	N/A
I.T.	N/A
Portfolio Holder(s)	N/A

Author and Contact Details