

Audit Panel			
Report Title	Catford Regeneration Partnership Limited – 2017/18 Internal Audit Review Update		
Key Decision	No	Item No.	
Ward	Rushey Green		
Contributors	SGM Capital Programmes		
Class	Part 1	Date	11 th December 2018

1. Summary:

- 1.1 The Catford Regeneration Partnership Limited (CRPL) is a wholly owned company of Lewisham Council. The company was originally created in January 2010 to purchase the leasehold interests in and around the Catford Centre in order to manage and regenerate the properties to improve the economic, social and environmental wellbeing of the people of the London Borough of Lewisham.
- 1.2 In January 2018, the company was the subject of an internal audit for the 2017/18 financial year. The company received limited assurance during the audit as a result of which a number of areas were highlighted for further action and or improvement. The purpose of this report is to update the Audit Panel on progress relating to the specific actions identified during the audit.

2. Recommendation:

- 2.1 It is recommended that the Audit Panel notes the contents of this report.

3. Background:

- 3.1 The Catford Regeneration Partnership Limited (CRPL) is a wholly owned company of Lewisham Council. The company was originally created in January 2010 to purchase the leasehold interests in and around the Catford Centre in order to manage and regenerate the property to improve the economic, social and environmental wellbeing of the people of the London Borough of Lewisham.
- 3.2 The current operating Articles of Association were agreed at the inception stage of the Company in 2010. These detail how and when the company must interact with its shareholders. In this case it is Lewisham Council, which is the sole shareholder.

- 3.3 Currently, operational responsibility for the company is delegated to Lewisham Council nominated company directors of which there are current 2 named officers of the Council.
- 3.4 The company, as part of its Articles of Association, is required to submit a business plan and budget for approval by the Council as sole shareholder for each financial year. The Articles of Association also includes an extensive list of reserved matters for the shareholder which have been designed to ensure that the company operates strictly within the approved business plan for any given year.
- 3.5 In January 2018, the Company was subject to an internal audit by Mazars, the Council's appointed Internal Auditors, for the financial year 2017/18. The main areas of focus for the audit were governance and a review of processes related to the accountability of the Company.
- 3.6 The audit identified a number of areas that worked well including fact that the Company's annual Business Plan was approved in line with the shareholder reserved matters and an external audit of the Company's accounts being carried out recently.
- 3.7 The audit also identified a number of areas of improvement which meant that the audit received a limited assurance rating requiring further management action to improve. The specific areas identified are listed below:
- There were no contracts in place with providers of key professional services;
 - Board meeting quorum is not defined for the Catford Regeneration Partnership Board meetings;
 - There were no documented financial regulations for performing financial transactions;
 - There was no effective budgetary control system in place; and
 - The 2017/ 18 annual budget was not evidenced as approved by the Council.
- 3.8 The following section seeks to update on the specific areas of concern during the audit.

4. 2017/18 Audit Actions:

- 4.1 As noted in 3.5 above, the focus of the audit was across the two key areas of governance and accountability. This update on the relevant actions from the audit have therefore been set out in a similar way as identified in the audit.

4.2 **Governance:**

4.2.1 Recommendation 1: Service support contracts

- (a) The audit noted that there were no current contracts in place between CRPL and the Managing Agents, Retail Letting Agents and the Surveyors and Rent Review Negotiators with respect to the arrangements in place. The recommendation was for management to ensure that there were contracts in place for key professional services that support the Company.

Progress Update:

- (b) CRPL has various professionals that support its activities the principal ones include Managing Agent, Landlord and Tenant surveyors, Agency surveyors (Lettings) and Lawyers. The first three were originally appointed by the previous owner of the Centre St Modwen and retained their positions when CRPL bought the Centre. The audit found that the relevant contracts had expired. Following the findings of the audit, they were all put on temporary extensions till March 2019 to allow for their contracts to be re-tendered.
- (c) The Managing agent tender has been tendered and an appointment will be made before Christmas and the new Managing Agent will start on the March quarter day due to the level of information to be transferred and set up.
- (d) The L & T and Agency contracts were again taken over when CRPL bought the Centre. An extension was granted to end of March 2019 following the audit. Both services are currently being tendered with a tender return date in January 2019. This will ensure that that service provision starts at the beginning of the new financial year.
- (e) The Lawyers appointment was tendered in 2015 and will run till at least 2019 when a decision will be taken to appoint to 2020 or re tender.
- (f) In summary and as noted above, at the time of the audit, it became clear that the existing contracts for professional services support for the Company had expired. Immediate steps were taken to extend all contracts on existing terms to March 2019. This timeframe was to allow for steps to be taken to let new contracts for the identified key services. A process is now underway for a new set of 3-year contracts for all services.

4.2.2 Recommendation 2: Board meeting frequency and quorum

- (a) The audit noted that the frequency of meetings of the 'Board' were inconsistent with its terms of reference and that its quorum was not clearly defined. The audit therefore recommended that the 'Board' defines its quorum more clearly.

Progress Update:

- (b) It would appear that the audit conflated activities of the CRPL Board with those of the Catford Regeneration Programme Board (CRPB). While the former comprises the current Directors and relevant support staff who meet more regularly in keeping with their Articles of Association, the latter is separate internal governance Board of the Council which exists to provide oversight for the overall Catford Town Centre regeneration plans.
- (c) The frequency of meetings noted during the audit were consistent with the terms of reference of the programme board. This recommendation is therefore not relevant to this audit and has been superseded.

4.2.3 Recommendation 3: Directorships

- (a) The audit noted that there were only two Directors of the Company and that they were responsible for the day to day running of the company in line with the articles of association and have other statutory duties as defined by the Companies Act 2006.
- (b) The audit also noted a resolution of the Overview & Scrutiny Business Panel to Full Council to direct the Constitution Working Party to review the governance of Catford Regeneration Partnership Limited, with a view to increasing the current number of Directors to include a Non-Executive Member.
- (c) The audit recommended that if required, officers should assist the Constitutional Party, to review the governance arrangements of Catford Regeneration Partnership Limited.

Progress Update:

- (d) The number of Company Directors is a matter within the Council's discretion as the Council is the only shareholder of the Company. Currently the Articles of Association of the Company provide for there to be at least 1 director, but there is no maximum permitted number.
- (e) The query relating to the current number of Directors had previously been reviewed by the Head of Law following a referral by Business Panel in February 2014. The advice then, was that it is not unusual or inappropriate to have just two Directors considering the extensive list of reserved matters. The advice also noted that two Directors was sufficient for CRPL's current role of managing the Company within an agreed business plan approved by the Council. This advice is still relevant.
- (f) Further, if the role and function of CRPL were to change, in light of the ongoing development of the Town Centre masterplan, then the Directors believe an enlargement of the board, by the Council, would be essential to include both executive and non-executive directors.

4.3 Accountability:

4.3.1 Recommendation 4: Financial transactions

- (a) It was noted at the time of audit that there were no documented financial regulations in place to provide guidelines relating to financial activities.
- (b) The audit recommended that documented financial regulations were put in place to provide guidelines for the Company in the performance of financial transactions.

Progress Update:

- (c) The Company follows the Council's financial procedures and standing orders. As a holding company for assets, these procedures are felt to be adequate but will be reviewed depending on any future role CRPL plays in the wider regeneration of Catford Town Centre.

4.3.2 Recommendation 5 – Budget monitoring

- (a) The Audit found that the process for budgetary control for the CRPL was not documented. It also found that there was no evidence of budget monitoring in the same way other mainstream Council budgets were monitored.
- (b) It therefore concluded that there should be an effective budgetary control system in place. That it should be documented in the financial regulation guidelines.

Progress Update:

- (c) The annual budget for the Company is approved together with the business plan by Mayor and Cabinet and then Full Council, usually at the start of each financial year. All spend from the budget is monitored by the Finance Manager and any issues are immediately brought to the attention of the Directors as required. The Finance Manager also monitors spend and reports on finance to the Directors at its Board meetings.
- (d) This process of budget monitoring has been effective to date but could be improved. As noted in 4.3.1 above, this process will be fully reviewed depending on any future role CRPL plays in the wider regeneration of Catford Town Centre.

4.3.3 Recommendation 6 – Annual budget approval

- (a) The Audit noted from a review of the minutes of Full Council meeting at which the Business Plan was approved that only the Business plan was noted as being approved. The Shareholder Reserved Matters however states that the annual budget also required approval of the Council.

- (b) The Audit therefore recommended that the Directors should ensure that the Company's annual budget is approved by Council as required.

Progress Update:

- (c) The 2017/18 CRPL Business Plan and budget were approved by Mayor and Cabinet and then full Council in keeping with the Company's reserved matters. An error in compiling the audit documents meant that this was missed at the time of the audit.

6. FINANCIAL IMPLICATIONS

- 6.1 There are direct financial implications arising from this update report.

7. LEGAL IMPLICATIONS

- 7.1 There are no legal implications directly arising from this report.

8. EQUALITY IMPLICATIONS

- 8.1 There are no immediate equalities implications directly arising from this report.

For further information please contact Kplom Lotsu, SGM Capital Programmes on Ext: 49283