

Coast to Capital

Meeting: Coast to Capital Audit and Risk Committee Meeting
Date: 29 September 2021
Report Title: Matters Arising Schedule
Report by: Nicholas Darwin
Item No: 1 b)
Part: A

Meeting Reference	Action	Lead	Status
1) 24 June (2021) Item 2	Further development on Business Case for Innovation Centre	AM	Issue has been addressed outside of Audit and Risk Committee
2) 24 June (2021) Item 3	Board to approve Financial Statements	AM/ND	Board has approved Financial Statements
3) 24 June (2021) Item 4	Risk Review to be undertaken in line with changes to business	CG	Risk Management Report to be presented at Item 3
4) 24 June (2021) Item 5	Development of Audit Plan in light of lack of internal resource	ND/CG	Audit Plan reported on at Item 4
5) 24 June (2021) Item 6	Articles of Association to be approved by Board and published	ND	Articles have been approved by Board and have been published
6) 24 June (2021) Item 7	Committee to assess impact of LEP review	AM	LEP review will be covered in Chief Executives Statement at Item 2

Coast to Capital

Audit and Risk Committee Meeting

Thursday 24 June 2021: 2:30 pm – 4:00 pm

By Zoom Video Conference

Committee Members:

- Chair: Amanda Jones (AJ)
- Directors: Mark Brunt (MB) and Rosaleen Liard (RL).
- Independent Members: Karen Hayes (KH); Chris Maidment (CM); Mike La Roy (MR) and Andrew Swayne (AS).
- Finance and Resources Committee: Rosaleen Liard (RL); Martin Harris (MH); Steve Waight (SW).

Attendees:

- Accountable Body: Kate Edwards (KE); Nigel Manvell (NM); Alice Rowland (AR); Wendy McRae-Smith (WMS).
- Coast to Capital: Cali Gasson (CG); Kristel Smith (KS); Nicholas Darwin (ND); Anthony Middleton (AM); and Jonathan Sharrock (JS).
- Guests: Richard Spofforth (RS) – Kreston Reeves; Justine Toucher (JT) – DMH Stallard; Jon Foster (JF) – Oxford Innovation; Elaine McKechnie (EMK) – Oxford Innovation; Rob Bennet (RB) – SQW; Louise Sadler (LS) - BDO – for item 5.

1. Introduction

a) Welcome and Apologies.

AJ welcomed everyone to the Zoom meeting.

It was noted that members of the Finance and Resources Committee had joined this meeting to discuss Item 2 and vote on recommendations relevant to that Committee.

AJ welcomed WMS, NM, AR as the Accountable Body representatives to the meeting. It was noted this was the first Audit and Risk Committee with the new Accountable Body in place.

AJ welcomed the Guest speakers to the meeting. These speakers would contribute to the discussions at Items 2 and 3.

b) Minutes from last meeting and Matters Arising.

The Committee noted that all the actions in the Matters Arising document had been completed and approved the Minutes of the meeting held on February 25th 2021.

c) Conflicts of Interest

AJ read the conflicts of interest statement and invited any necessary declarations.

CM and KH noted interests in respect of Item 2 which they did not believe were direct conflicts. This was agreed. KH additionally noted she would prefer to abstain from the vote on the resolutions presented for that item.

2. Innovation Centre

AM introduced the Crawley Innovation Centre project (the Fusion Centre) and his view on its strategic importance to the region. He explained that the Committee is being asked to vote on the resolutions as presented which include a scheme of delegation.

RB and EMK introduced the most up to date financial model, outlining the detail these models cover, specifically around occupancy and rent. JS further noted progress and developments on the subjects discussed and welcomed any challenges raised by the Committee. AM advised on conversations being held with Thales in respect of a rental agreement that is acceptable for the project. He advised that he supported the figures relating to occupancy of the Innovation Centre and noted the conservative estimate should work in the projects favor. AJ thanked RB and EMK for their contribution and all their work on the Business Case to date. RB, JF and EMK then left the meeting.

RS from Kreston Reeves presented his report on their review of the business case and financial model, highlighting strengths and any possible weaknesses in the model as currently presented.

He noted that the role Coast to Capital would have in the SPC would give it better control. He noted that the figures were still to be finalised, and once this was completed it would give greater certainty on outcomes. He confirmed that the model would work provided the comparisons and assumptions within it are accurate.

RS raised concerns in relation to predicted occupancy levels, possible increases in exit costs and overall risks pertaining to Coast to Capital as a result of the project. The need for a fully integrated business model was stressed.

Risks and opportunities of the project were discussed at length with RS, in the context of Coast to Capital's stated risk appetite. In particular, questions were raised over the financial forecasting and the assumptions stipulated;

The Committee were concerned on how risks were represented in this report, primarily those reputational risks for C2C. RS also fielded further questions on the accuracy of numbers behind the report and the assumptions behind those figures, especially exit costs. RS noted that his report could only go so far on commentating on those risks as it was a review that was specifically financial in nature. RS also expanded on his understanding of the rationale behind the figures presented to Kreston Reeves. AM relayed to the committee a summary of conversations with Thales with respect to costs and highlighted the public funding available. JS also noted further work could be done on the model. and that The weaknesses of the length of the term of the lease had been discussed and alternative models had been considered in respect of this, but these alternative models also presented other weakness to consider.

JT presented her report on DMH Stallard's legal review of the proposal to enter into an SPV. She focused on three key details. Firstly, confirmation that the Articles of Association allow Coast to Capital to enter into and participate in an SPV. Secondly, the importance of how to best reduce director liability and risk for C2C. Thirdly, how to best structure the shareholder agreement between the three parties (Thales, Crawley Borough Council and Coast to Capital). JT advised spending time on obtaining clear agreement of the Heads of Terms in advance of proceeding to full agreement. In response to a question from AJ she advised this process would take approximately six weeks.

The risks and opportunities of entering into an SPV were further discussed with JT. AR highlighted rules around subsidy control and how the partners can mitigate these going forward and offered the help of the Accountable body in meeting these requirements.

At the completion of the discussions, the Chair asked Committee members to vote on the recommendations as presented in the papers:

The Audit and Risk Committee voted on the following:

- Coast to Capital is legally permitted to become a shareholder in a special purpose company (SPC): This resolution was passed.
- Informed by the view of the Finance & Resources Committee, Coast to Capital's financial risk exposure in entering into the SPC (including both capital and revenue phases), is acceptable. This resolution was not passed. Note – voting on this recommendation took place after the conclusion of voting on all other recommendations.
- Coast to Capital's reputational risk exposure in entering into the SPC (including both capital and revenue phases), is acceptable: This resolution was not passed.

The Finance and Resources Committee voted on the following:

- After assessing the Executive's proposal to enter into the SPC (in this paper), along with the supporting business case and due diligence reports, the board is recommended to agree that Coast to Capital enters into a shareholding in the SPC (including both capital & revenue elements). This resolution was not passed.
- That they (the Finance and Resources Committee) are delegated to sign off the final shareholder agreement, subject to:
 - a) The Coast to Capital Board approving shareholder participation.
 - b) Board approval of the capital grant of £8.6m for development of the Centre.
 - c) The other two partners (Thales & Crawley Council) also agreeing to become shareholders.The vote for this resolution was split equally (to pass, to not pass).
- That the Board remits the final authority to sign off the business case, to the Finance and Resources Committee informed by the view of the Audit and Risk Committee. This Resolution was not passed.

SW, MH, AM, JT left the meeting at this point once this item was concluded.

3. Annual Financial Statements

The Committee noted that as good practice it had taken the opportunity to undertake a pre-meeting with RS without Executive colleagues present. They reported there was nothing raised with them during that session that they needed to report.

RS presented his report and audit opinion on the Annual Financial Statements for the year end 31 March 2021.

It was noted that differences in the Income Statement were due predominantly to an increase in income as a result of the Backing Business Grant and Business Recovery Grant. Certain fluctuations in interest earned on various loans were also pertaining to the differences compared to last year's accounts. A healthy cash flow position was noted.

RS reported that some audit adjustments had required to be made but that the accounting appeared to have been undertaken to a high standard throughout the year. These changes mainly related to changes in accounting for grants since the previous year and depreciation charges. RS additionally made two recommendations in respect of C2C's accounting system and processes. The Committee confirmed a desire to work on the area's highlighted. It was noted that the new Finance and Resources Committee would assist in this undertaking.

The Committee recommended that the director's statement be reviewed in advance of signing given the UK Government's ongoing review of LEPs.

It was agreed that the recommendation to the Board was for the Annual Financial Statements to be approved.

Special thanks were passed to KE for all her hard work and dedication to C2C. This was KE's last Audit and Risk Committee with the role now passed across to a permanent role with the new Accountable Body. NM announced the new Head of Finance as Stephen Trigg.

The Chair thanked RS for all his and his team's work on the accounts and audit. RS left the meeting at this point.

4. Risk

CG gave an update on the status of the risk register and risk monitoring at Coast to Capital. The Committee noted the company risks and the external risk log.

The Committee also paid due attention to the need for C2C to undertake a risk review after the outcome of the UK Government's review of LEPs was known. JS asked for it to be expressly noted that in his view the decisions taken at this meeting and other recent committees will significantly affect C2C's risk profile and risk appetite.

5. Audit Review

LS was invited to join the meeting at this stage. She presented the findings from the GDPR audit that had been undertaken by BDO, which confirmed that Coast to Capital's GDPR adherence was compliant. Recommendations on email retention periods and asset registers were discussed. It was agreed these would be applied following the audit and that actions had already been taken for these to be implemented.

The Committee noted the status of the Internal Audit plan, with the recent staffing restructure and the UK Government's review of LEPs affecting how this would be structured in the future. An update was given on the audit for the Backing Business Grant.

Special thanks were asked to be passed on to Anna Meredith, who previously oversaw the internal audit process and had now left C2C to pursue new opportunities.

6. Governance

The Committee noted the progress on the relationship with the Accountable Body and reviewed the amendments to the Articles of Association. These were agreed to be recommended to the Board for acceptance at their meeting in July.

7. Close

a) AOB

AJ invited any matters of AOB from the Committee. It was raised that the impact on C2C of the UK Government's review of LEPs would need to be assessed by the Committee once the review had concluded.

b) Future Meetings

The next Audit and Risk Committee will take place on 29 September 2021.

Unconfirmed minutes – to be approved at next Audit and Risk Committee