Questions to Audit Committee - 10/12/2019.

N Quinn (Local Resident). I am speaking to Agenda items 6 (Performance and Risk) and 8 (Internal Audit Report).

<u>Firstly</u>: In the Risk Report Appendix 6 there is a risk "*SPV – 3 Rivers – Failure of the Company*", in which the current Risk Likelihood is reported as high (4). One of the impacts of this risk is the inability of 3 Rivers to service and repay the loans from MDDC. Such an inability is already being reported!

A Financial Update Report has been given to the last Cabinet meeting, and to all of the PDG's, which states that the 3 Rivers is likely to overspend on the St George's Court project by around £377,000. The report also states that the company have said that they are unlikely to be able to repay the Working Capital loan, of £504,000 - within the promised timeframe.
Your Accountants are proposing to impair (or write-off) all this money – noting that "*this will have a real impact on the revenue account*".

It seems very odd, to me, that Audit Committee should not be given information about a situation with such a high financial impact or an up to date risk report reflecting this.

My questions are: Why is the situation not being reported to Audit Committee? and why has the Risk Likelihood factor not been set higher?

Response: This was debated at length during the meeting, with the Committee receiving a full explanation as to what the term 'impairment' meant. As the Mr Quinn was in attendance the entire meeting, he will have witnessed this discussion, so I would hope he is suitably reassured that the Committee is indeed fully aware of this point. The point about risk factors was also explained at the meeting.

<u>Secondly</u>: At this Committee, last year, I asked about the loan of £750,000 that was made to 3 Rivers in March 2018. I was told that the loan was open-ended but would be repaid after the sale of the properties in the St George's Court development.

My question is: In the light of the reported 3 Rivers situation, is this loan still secure or also in danger of not being repaid?

Response: The decision to apply an impairment reflects the level of accountancy risk as required under international practice. As was made clear during discussion, this does not mean the debt is 'written off'. The level of 'danger' to it not being repaid is reflected by the impairment, however the council continues to expect the debt to be repaid in full, and it will remain on the company's accounts as a debt to be repaid in full.

<u>Thirdly</u>: In the Internal Audit Report covering the Property Development Company, Governance Review - showing improvements are still required. The text identifies two areas of risk to the primary objective of the company – which is to provide additional income for the Council.
Audit did not identify the selection of projects as a risk area, but I wonder whether they should have. At the last Cabinet meeting, when responding to questions about the proposed financial impairments, the Deputy Chief Executive said "*in the first year we have taken on the St George's Court scheme, there was obviously no profit on it. To be honest, if 3 Rivers had been offered it on a commercial basis, it would not have taken it. So we are delivering a project that the Council wanted to see done, that was likely to only break-even*".

My question is: If there was never any profit in the St Georges Court development and 3 Rivers would have refused it, if they could. Why was the company's prime objective put at risk by giving it this profitless project to complete?

Response: As the Chief Executive reminded the Audit Committee, the gestation of this particular project spanned the initiation of the development by the council (who agreed how it should proceed, how the architects should be chosen and the ultimate selection of the design), and the genesis of the company. To that effect, the Deputy Chief Executive's comments reflect that this project was not one that was wholly within the control of the company from the outset.