

FINANCE AND AUDIT SCRUTINY PANEL 20 NOVEMBER 2012

Present :- Councillor Dennis Willetts (Chairman)
Councillors Glenn Granger, Scott Greenhill, Marcus Harrington, Julia Havis, Theresa Higgins, Cyril Liddy, Jon Manning and Gerard Oxford

Substitute Member :- Councillor Colin Mudie for Councillor Ray Gamble

Also in Attendance :- Councillor Paul Smith

30. Items requested by members of the Panel and other Members

Councillor Granger requested the Panel to consider a review of the income from selling recycling materials.

Councillor Granger asked that such a review would consider how the Council is performing, the current revenue for this year and the forecast revenue for 2013-14, and the volume of recycling by material type for this year and previous years for comparison, and the assumptions for 2013-14.

Councillor Smith, Portfolio Holder for Business and Resources said this work has been subject to a review in the past when some of the issues were the separation of plastic and cardboard. Recycling remained a volatile market, but Councillor Smith said there was no reason why this area of work should not be scrutinised.

Councillor Willetts and Manning agreed that officers should provide a briefing note to the Chairman and Group Spokespersons at the next Panel briefing, to decide if it warrants a detailed scoping report to include the information requested plus graphs showing trends, to a future Panel meeting.

31. Interim Annual Governance Statement

Mrs. Hayley McGrath, Risk and Resilience Manager presented the report 'Interim Annual Governance Statement'.

Mrs. McGrath explained that the Annual Governance Statement for 2011-12 had been reported to the Panel in June, plus the annual review of Internal Control Arrangements, and that as part of this process an annual action plan for 2012-13 was produced.

The Panel were asked to consider the progress of the work undertaken to implement the current Annual Governance Statement Action Plan.

The key messages within the report were explained these being that there has been progress against all of the issues identified in the action plan and the audit of the final accounts 2011/12 did not raise any concerns with the Annual Governance Statement or the action plan, and accordingly the statement was published for inspection.

The issues that were included in the action plan had been discussed with the relevant

lead officers, and the action plan has been updated to include the progress. This was included as an appendix to the report. The second key message was that the Council's joint services, Colchester & Ipswich Museum Service and The Parking Partnership had also issued governance statements. Whilst these are reported to their respective committees, a copy of the statements had also been included as an appendix to the report.

In response to Councillor Willetts, Mrs. McGrath said the new bailiff contract from 2013 will bring together into one contract all the separate contracts currently held with the Council. Separate contracts evolved over the years, for example, the North Essex Parking Partnership, who came into being in 2011 entered into a separate bailiff contract whilst other bailiff contracts were already in existence.

In response to Councillor Harrington, Mrs. McGrath said that whilst the review of the new Parking Partnership had raised significant internal control issues, and the twelve recommendations was above average, not all of these are high level, with the majority at level 2. Given the need to merge processes from all seven Councils within the partnership identifying areas for improvement was inevitable, but the process is being managed with many of the recommendations already implemented. Mrs. McGrath also said no issues had been raised as part of the governance review, so quality wasn't considered, however if it is an issue it will be included in the next annual governance statement process.

RESOLVED that the Panel considered and noted the work undertaken to implement the current Annual Governance Statement Action Plan.

32. Internal Audit Monitor - April - September 2012

Ms. Elfreda Walker, Finance Manager presented the report 'Half Year Internal Audit Assurance Report 2012-13'.

The key messages within the report were explained, that the Council has continued to provide an effective internal audit service during the first half of the 2012/13 financial year, that 5 priority 1, 32 priority 2 and 8 priority 3 recommendations had been raised and all these had been accepted by management. Mrs. Walker said there continues to be good progress made in implementing and verifying outstanding recommendations.

Ms. Walker explained the maintenance of an effective internal audit function is a key part of the Council's governance framework, and that the Council has a strategic internal audit work programme covering the period 2011/12 – 2013/14, and this has been approved by SMT and members. The programme showed the work required to enable internal audit to provide a reasonable level of assurance in internal control, and meets the needs of our external auditors.

The proposed 2013-14 work programme (as shown in appendix 1 of the report) has been approved by the Performance Management Board and provided a workload of 381 audit days, increasing from the 360 audit days for 2012-13.

With regards to the use of audit resources, Ms. Walker confirmed that 46% of the work programme was delivered between April – September 2012, in line with the profiled plan. A total of fourteen audits have been completed in this timeframe and the assurance rating remained the same in 70% of the systems audited. Officers remained confident that the work programme will be completed by the end of the year.

The report noted that during the period, internal audit have been monitoring 209 recommendations, and by the end of the period 45 recommendations (22%) had been implemented and verified, 47 (22%) had been implemented and were awaiting verification from internal audit, 112 (54%) were not due and 5 (2%) were overdue. Progress in implementing overdue recommendations will continue to be closely monitored with priority being given to the recommendations awarded a higher priority rating.

Ms. Walker concluded by saying the key performance indicators showed that the internal audit provider is meeting the majority of the standards set.

Ms. Walker confirmed to Councillor G. Oxford that the number of audit days in the 2013-14 work programme has been increased by 21, and this was considered sufficient to meet demand.

In respect to the Housing & Council Tax Benefit and the NNDR reviews, Ms. Walker said the days have been increased due to the significant legislative changes happening in 2013-14. In addition, IT audit work will also be carried out in these areas and the total number of IT audit days is shown in the work programme. It was however stressed that the IT reviews to be completed has still to be finalised.

In response to Councillor Harrington, Ms. Walker said there are no concerns regarding the Parking Partnership, that despite the audit receiving 2 priority 1 recommendations, and 2 priority 2 recommendations, the recommendations were not overdue, and as previously mentioned the process is being managed, and the audit recommendations are being implemented.

In response to Councillor Willetts and with regard to the Parking Partnership audit and the recommendation to consider the need for an alternative officer to reconcile Penalty Charge Notice payments in the absence of the service accountant, Ms. Walker said policies and procedures are now in place to pick up this work in the officer's absence. As part of the internal auditing process, the auditors do look at business continuity issues when key posts need covering during periods of absence. Councillor T. Higgins was reassured because continuity avoided people waiting for a response for weeks while an officer is on leave. Mrs. Hedges, Executive Director explained that there are some areas of work where the Council only have one person / expert, so there will inevitably be times when this person is on leave. To address this, and as part of the Fundamental Service Review of Customer Contact, process journeys are being mapped and documented with a view to helping towards simplifying processes and covering work during officer's absence.

Responding to Councillor Granger, Mrs. Hedges said with respect to the Data Protection audit, the key outcomes underplayed where the authority is on data

protection. The overarching Data Protection Structure is underpinned by the appropriate procedures, to be strengthened as a result of the audit. Any data protection breaches are reported directly to Mrs. Hedges.

RESOLVED that the Panel commented on and noted the internal audit activity for the period April – September 2012, the performance of internal audit by reference to national best practice benchmarks and the proposed 2013/14 internal audit work programme

33. Financial Monitoring report - April - September 2012

Councillor Havis declared a non-pecuniary interest in the following item (in respect of being a Director of the Mercury Theatre) pursuant to the provisions of Meetings General Procedure Rule 7(5);

Financial Monitoring Report – April to September 2012

Mr. Sean Plummer, Finance Manager presented the report 'Financial Monitor – April to September 2012'.

Mr. Plummer explained that the projected outturn for the General Fund is currently been forecasted as a net overspend of £83k and does exclude the risk factor allowance of £285k.

With regards to service budgets, Mr. Plummer said the forecast outturn for all service budgets shows a net forecast overspend of £421k, with a breakdown detailed in appendix C of the report.

Mr. Plummer said the budget includes a number of corporate and technical budget areas such as net interest earnings, the provision to repay debt, pension costs and some non service specific grants, and currently there is a total net underspend of £338k in these areas. The main reason for the position is in respect of the interest budget where costs of borrowing are expected to be lower due to timing of capital schemes, funding decisions and the current strategy.

In respect of the Housing Revenue Account the Council has received £168k more income at the end of September 2012. This has primarily arisen due to less rental income lost through void dwellings than anticipated, and more income from Tenant and Leaseholder service charges. The budget also assumed a loss of garage rental income from the redevelopment of some sites. Given these have not been demolished yet, there is more garage rental income to date than anticipated. Mr. Plummer said the Housing Revenue Account forecast outturn position is currently showing a £150k underspend.

Mr. Plummer responded to Councillor Willetts to explain that in respect of net interest earnings there had been variances and shortfalls in the last 2 years, but in 2012-13 this had shifted the other way. The Council takes a prudent view with an ongoing strategy of internal borrowing on a short-term basis and in the knowledge that if external rates

become advantageous the Council can take advantage of this.

In respect to the New Burdens Grant, Mr. Plummer explained that if this money is not used, it is not returned. That said it is possible the Community Right to Challenge will incur costs, though at this stage no additional costs had been identified.

In respect of the Housing Revenue Account, and more specifically the £307k underspend on Repairs and Maintenance, Mr. Plummer explained to Councillor T. Higgins that what is reported is at a point in time, so at this stage of accounting there will always be variances. Whilst this particular underspend suggested spending on Repairs and Maintenance was below budget, even though Councillors were hearing anecdotally that some residents are experiencing problems in getting repairs and maintenance work completed, it may be the case that this work is in-hand and it was expected that this year's spending will be on-budget. Mr. Plummer agreed to provide Panel Member with a more detailed breakdown of the spending on repairs and maintenance.

Councillor Paul Smith, Portfolio Holder for Business and Resources said Cabinet Members are aware of an increase in complaints in respect of repairs and maintenance and this was of some concern to Councillor Bourne. There does seem to be a bottleneck as funds are available for this work.

Councillor Manning suggested a simplified breakdown of the Housing Revenue Account figures, including details of money spent against budget on repairs and maintenance should be presented to the Panel at the meeting on 26 February 2013.

Mr. Plummer responded to Councillor Harrington saying the net forecast variance to date was for the first six months of 2012-13, and showed an overspend of £421k, due to a reduction in income of £740k mainly from fees and charges. Mr. Plummer said the middle column of Appendix C 'Income Variance' provided a breakdown of individual variances.

RESOLVED that the Panel;

- i) Noted the financial performance of General Fund Services and the Housing Revenue Account in the first six months of 2012-13.
- ii) Requested a simplified breakdown of the Housing Revenue Account figures, including details of money spent against budget on repairs and maintenance should be presented to the Panel at the meeting on 26 February 2013.

34. Capital Expenditure Monitor

Mr. Steve Heath, Finance Manager presented the report 'Capital Expenditure Monitor 2012-13 – Quarter 2'.

Mr. Heath referred members to the appendix to the report, which provided progress on all capital programmes for the first six months of 2012-13. The format of the appendix

had been changed to provide more detailed profiling of capital schemes.

Mr. Heath explained that the Capital Programme has increased by £987.5k since the previous report, due to new funding including £434k grant funding for Mandatory Disabled Facilities Grants, along with further contributions from other external parties and Section 106 monies. The Capital Programme now stands at £26.7 million.

Following a request at the previous review it was explained that the sources of internal funding are as follows, Capital Receipts 24.41%, Borrowing 13.51%, Revenue Contributions 1.83% and others 10.37%. The sources of external funding was Grants 45.24%, EU 0.43%, Section 106 2.97% and others 1.24%.

Forecast spending for 2012/13 stood at £19.2 million, with the remainder of the programme planned for 2013/14 and beyond, and the forecast net overspend on the capital programme was £22.1k.

In response to Councillor T. Higgins, Mr. Heath said the Town Centre Station project had been delayed, but was still expected to be completed in 2012-13, and officers said there was a possibility of the project finishing inside 2012. Mr. Heath said an update on progress will be reported back to the Panel.

In response to Councillor Mudie, Mr. Heath said that he would obtain more information for the panel regarding the Abberton Church extension scheme.

RESOLVED that the Panel noted the level of capital spending during 2012-13 and forecasts for future years.

35. Certification of Claims and Returns 2011-12

Mr. Heath presented the report 'Certification of Claims and Returns 2011-12'.

The report summarises the outcomes of the Auditor's certification work on the Council's claims and returns for 2011/12 and includes agreed actions relating to recommendations arising from the Auditor's work. The main focus of the report was on the National Non-Domestic Rates return and the Housing and Council Tax Benefit claim, and the one qualification letter relating to the £1,826 difference in reconciliation of the rent allowances in the claim form and the benefit granted, out of a total claim of £64m.

Ms. Debbie Hanson, Officer of the Audit Commission responded to Councillor Manning, explaining that the simple errors mentioned arise from reconciliations and had in the main been errors when transposing figures from working papers. The errors can lead to over / under payments and can effect the overall grant claim, though in general the performance was very good.

RESOLVED that the Panel commented on and noted the contents of the 2011/12 Certification of Claims and Returns report from the Audit Commission.

36. Treasury Management - Half Yearly review

Mr. Heath presented the report 'Treasury Management Strategy Statement, Mid Year Review 2012-13'.

The report provided details of the activities and performance relating to treasury management for the first six months of 2012/13.

Mr. Heath explained that the report showed that activities and performance at the half-year stage are moving along in line with the strategy. Coupled with this, Mr. Heath said the latest economic forecast shows that the base-rate is not likely to increase until 2015. With no deviation from the strategy during this year and satisfied the strategy is fit for purpose, Mr. Heath confirmed no change for the remainder of the year.

Mr. Heath said that in regard to investments and the Icelandic monies, it was expected that approximately 50% of the investment has so far been return, which is ahead of the projected profile, with the Council still expecting to receive a 100% return in due course.

Mr. Heath confirmed to Councillor Manning that the Council did not have any direct exposure to the Euro zone.

In response to Councillor Harrington, Mr. Heath said the Economic Background (paragraph 4) was information mainly gained from the Council's treasury advisors. Whilst it was accepted that some areas of the economy are improving, the sentiment within the text supported the advisors view of the risks that remain within the economy, which in turn informs the approved Treasury Strategy. Councillor Smith said there was a degree of pessimism in the report, though it was broadly understood that the forecast for economic growth until 2015 remained weak.

RESOLVED that the Panel noted the activities and performance relating to treasury management for the first six months of 2012/13.

37. Work Programme

RESOLVED that the Panel noted the current Work Programme.