

## **FINANCE AND AUDIT SCRUTINY PANEL 23 NOVEMBER 2010**

*Present :-* Councillor Dennis Willetts (Chairman)  
Councillors Scott Greenhill, Sue Lissimore,  
Jon Manning, Colin Mudie, Kim Naish and Colin Sykes

*Substitute Member :-* Councillor Peter Chillingworth  
for Councillor Christopher Arnold

*Also in Attendance :-* Councillor Tina Dopson  
Councillor Paul Smith  
Councillor Tim Young

### **33. Minutes**

The minutes of the meeting held on 19 October 2010 were confirmed as a correct record.

### **34. Annual Audit Letter**

#### **Have Your Say**

Mr. Andy Hamilton addressed the panel to say he had hoped to see some improvement on the previous District Auditor's report, but to no avail. Mr. Hamilton expressed disappointment that the District Auditor's representative had not looked at the Visual Art Facility (VAF) accounts, instead looking at the £1 million loss on what he described as a disastrous decent homes project. Mr. Hamilton said the auditor's letter within the report and subsequent follow-up report on the VAF showed the external auditor still refuses to recognise the obscene waste of public money on this project. Mr. Hamilton said the Council refused to make public the real costs of this project that had steadily risen, now standing at £30 million.

Mr. Hamilton said the Council lacks the expertise this type of project build required, and could only be described as an unintelligent client. The public would now subsidise this building to the tune of £1 million a year, but the public are completely ignored, with no referendum, public enquiry on the VAF, and all requests under freedom of information ignored. On top of that the Bus Station is being closed with no replacement.

Mr. Hamilton concluded by saying he believed Firstsite was a secretive group, with no talent except to con the Council in to handing over huge amounts of public money without any questions asked and refusing to answer questions.

#### **Audit Commission Presentation**

Ms. Debbie Hanson, District Auditor and Ms. Christine Connolly, Senior Audit Manager attended the meeting for this item and presented the Audit Commission's report on the Annual Audit letter.

Ms. Hanson explained that the report was an annual summary of the results of the 2009/10 audit. Ms. Hanson spoke about the key messages concerning the audit opinion and financial statements, Value for Money and the current and future challenges.

Ms. Hanson concluded by saying the Council was in the midst of fundamental service reviews, placing the Council in a good position to tackle the significant changes that would be required over the coming years, and its resources were at as healthy a level as they had been for a number of years.

## **Discussions**

In response to Councillor Willetts enquiry about the points raised by the Have Your Say speaker, Ms. Hanson said the Council had made significant progress with the VAF though some risks still remained, completing stage 2 of the project, ongoing legal action and the uncertainties around budget reductions for all public funded financial partners. That said the Audit Commission remained happy with the ongoing progress.

In response to Councillor Lissimore, and the collapse of the Icelandic banking system, Ms. Hanson said there remained legal challenges under review and it was conceivable that Councils will not be preferential creditors. That said, the Audit Commission were satisfied with the action taken by the Council, with the situation being nothing to do with the Treasury Management approach which was sound. The Council's reserves were sufficient to cover the loss of the £4 million investment.

Mr. Charles Warboys, Head of Resource Management said the Council had made provision in their accounts for all the potential losses currently advised by CIPFA and the Local Government Association, which allowed for compensation of 95 pence in the pound on the £4 million investment. Mr. Warboys said the Council's reserves could cover a loss of the whole investment, but this would restrict the ability to respond to other issues. Ms. Hanson clarified that the 95% compensation of the original investment was a CIPFA estimate, not an Audit Commission recommendation.

Councillor Dopson, Portfolio Holder for Communities addressed the panel, speaking about the Audit Commission's audit of Health Inequalities across the whole of the County. The local situation had shown to be significantly strengthened since the 2007/08 review, and the partnership effort by the Council, Essex County Council and the local health authority should be commended.

In response to Councillor Manning, Ms. Hanson confirmed the level of fees for 2010/11, calculated in line with Commission's framework, and inclusive of rebates. Councillor Willetts said the Annual Audit Letter was useful to members, providing a contextual framework, and the work was much appreciated.

In response to Councillor Mudie, Ms. Hanson said the Audit Commission would continue to provide services until December 2012 and the Secretary of State will report in January 2011 on how these services will be provided thereafter.

Ms. Ann Wain, Executive Director explained to members that the Value for Money

criteria was now different, previously being the 'Use of Resources' with point scores, now show either yes or no as to whether there are adequate arrangements. Ms. Hanson said 95% of the work had been completed as part of a 'Use of Resources' piece of work, but changed when the Government announced the abolition of 'Comprehensive Area Assessment' and 'Use of Resources', and it was not possible to finalise scores. Councillor Willetts said he was reassured the Council had adequate arrangements, even without the detailed scores.

The Chairman thanked Ms. Hanson and Ms. Connolly for attending the meeting, presenting the report and responding to questions from the Panel.

RESOLVED that the panel considered and noted the contents of the 2009/10 Annual Audit Letter.

### **35. Colchester Borough Council Progress report and Briefing**

Ms. Debbie Hanson, District Auditor and Ms. Christine Connolly, Senior Audit Manager attended the meeting for this item and Ms. Connolly presented the Audit Commission's report on the Progress report and briefing.

Ms. Connolly said the report was a summary of the progress of the work of the Audit Commission against the audit plans for 2009/10 and 2010/11, drawing to a close the 2009/10 audit and detailing what would happen in 2010/11. The report did reflect on the revision of the audit fee and the move from the 'Use of Resources' to the new value for money conclusion criteria.

In response to Councillor Manning, Ms. Connolly said the Audit Commission make it clear at the beginning of each year the audit plan and level of fees that are billed in advance, allowing Councils to position their budgets accordingly. Ms. Hanson said she would feed back to the Audit Commission Councillor Manning's comment that it would be more appropriate to bill the Council on a monthly basis, for the work actually completed.

RESOLVED that the panel noted the contents of the progress report.

### **36. Audit Commission's Benefit Services Report**

Mr. Kevin Sutch from the Audit Commission attended the meeting for this item and presented the Audit Commission's report on the Benefits Service Inspection.

Mr. Sutch said the Audit Commission had completed 47 Benefit Service audits to date, commencing this work in August 2008. The Colchester review started in June, culminating in a judgement based on 'How good the service is now' judged to be fair, and 'Prospects for Improvement' judged to be promising.

Mr. Sutch said a lot of work had been undertaken to improve the service, to bring it on

to a different level. The service was moving in the right direction, with the introduction of some cutting edge initiatives.

Mr. Charles Warboys said that on the whole, the report was reasonable and quite well balanced. That said, officers believed a more realistic judgement was fair, with excellent prospects. Mr. Warboys said officers felt the fundamental service review was addressing almost all of the issues raised by the Audit Commission, with the value for money exercise producing very large savings. All in all it was felt Colchester had a strong case for excellent prospects, but further research showed the principal difference between Colchester and another Council that achieved excellent prospects was simply a lack of a track record that one year on was able to identify the delivery of improvements.

In response to Councillor Willetts, Mr. Sutch said the Councils inspected to date were a wide spectrum in terms of size. The Audit Commission website provided details of the Councils reviewed and members could view this to benchmark the Colchester results with those of other similar authorities. Family groups is a historic benchmarking exercise from the days of Best Value Reviews.

Mr. Sutch said details of the fundamental service review were examined, but a substantial amount of the improvements was based on new untried technology, the electronic claim form and a new initiative with the Department of Work and Pensions (DWP) which allows an on-line assessment of risk whereas the judgement was based on the current service and not based on what was to happen in the future.

Mr. Warboys said there had been a soft-launch of the electronic claim form in 2010, with little publicity. There had been 500 electronic claims received to date, an encouraging take-up, and these claims can be processed in five working days where complete information is included. This trial was proving the software to be a very good, but the emphasis needs to be to ensure the claim comes with the requisite evidence / information. The new DWP initiative was also proving very effective. Mr. Warboys said a full-launch was anticipated shortly. Later in the debate, Mr. Warboys, assisted by Mr. John Fisher, Revenues and Benefits Manager, said documented evidence such as wage slips, scanned and sent by email by the claimant could be accepted if of sufficient quality. Officers are trained in detecting fraudulent documentation, but if the officer is confident the documentation is reliable it will be accepted. Mr. Warboys said the Council are keen to offer a variety of ways of customer contact and will encourage email, with customer research indicating that 73% of respondents are happy to communicate with the Council electronically. It was confirmed that officers will visit homes for further information or where claimants need help in completing their application. Mr. Warboys said the Council does have the necessary control over the letters to customers, making them as friendly and easy to understand as is possible, but under continuous review for improvement.

Councillor Mudie was reassured to hear systems and fraud detection was improving, given that on-line applications could increase the likelihood of fraud. Mr. Warboys said the Council has a dedicated Fraud Team, and part of the new software is 'an assessment of risk' that detects potential fraud. The Council also remains committed to positive legal action being taken against people making fraudulent claims. Mr.

Warboys also confirmed that the current on-line 'benefit calculator' was very much improved, a more reliable indicator.

Mr. Sutch confirmed to Councillor Willetts that with the Audit Commission to be abolished, there was no function for carrying out future audits, though the DWP are looking to see how auditing will continue.

In terms of the audits, the Commission determine and utilise a 'key line of enquiry', setting out what they expect as 'good'. Beyond this, the judgement goes to 'excellent'. A panel at the Commission benchmark the results of an audit against other local authority results in making their judgement, and to ensure consistency. In response to Councillor Manning, Mr. Sutch said he appreciated members' confusion with an assessment that can be excellent with poor prospects or poor with excellent prospects, but the audit makes a judgement on what has the local authority got in place that can improve and what capacity is there to move the service on.

Councillor Sykes said given that of the 47 benefit reviews so far, no authority had been given an assessment better than average, was there something fundamentally difficult about benefit assessment. Mr. Warboys said the Audit Commission had taken a risk based approach to this work, looking at authorities with a high risk through to a medium risk. Colchester was one of the last authorities to be reviewed within this audit, an authority with a medium risk. Mr. Sutch said the high risk authorities were audited in the first year of the audit and were judged poor to fair, with uncertain to promising prospects for improvement.

In response to Councillor Naish, Mr. Warboys said the new electronic claims process speeded up the time to process claims, with the results where information is complete so far averaging five days, an exceptional improvement. This would contribute significantly in lowering the overall average time to complete new claims. That said, it was recognised that many claimants are vulnerable people, and new claims are prioritised to ensure these claimants receive benefit as soon as possible. Mr. Warboys said the length of time to process a claim in some authorities commences from when all the required documentation is received, but at Colchester the time starts from when the initial contact is made, considered a much fairer and more accurate assessment of the claimant's experience.

RESOLVED that the panel;

- i) Noted the findings from the Audit Commission's Inspection report.
- ii) Noted the progress that has been made by the Council in developing an action plan to address the recommendations in the inspection report.

**Councillor Colin Mudie and Councillor Kim Naish (in respect of being a member of the Board of Colchester Borough Homes) declared a personal interest in the following item pursuant to the provisions of Meetings General Procedure Rule 7(3)**

**Councillor Colin Sykes (in respect of his spouse being a Board Member of Colchester Borough Homes) declared a personal interest in the following item pursuant to the provisions of Meetings General Procedure Rule 7(3)**

**37. Capital Improvement Programme (Decent Homes) progress**

Councillor Tim Young, Portfolio Holder for Housing and Community Safety, Ms. Lindsay Barker, Head of Strategic Policy and Regeneration, Mr. John Rock, Contracts Risk and Service Manager, Mr. Mark Wright, Director of Property Services, Colchester Borough Homes and Mr. Matthew Armstrong, Asset Manager, Colchester Borough Homes all attended the meeting for this item.

Councillor Young introduced the review of the Capital Improvement Programme. Councillor Young said this was now a good news story, giving an encouraging picture of the progress to date, and to his knowledge he was not aware of any problems in respect of progress and standards of the contract.

A lengthy discussion took place over the graph presented to members. The graph was produced following a request at the Chairman's briefing the previous Thursday.

Mr. Wright gave an explanation of the graph that indicated via a time line (April 2008 to the completion date of December 2012), the number of homes that it was predicted would not be in decency (that is, that they had not yet been modernised to the decent homes standard). This prediction (highlighted in red) showed a large increase at the beginning of each April due to a readjustment based on the preceding years work. The actual number of failures (highlighted in blue) was the number of properties at any given time that still required a decent homes upgrade.

Mr. Wright said the actual figure now stood at 799 properties, well below the predicted figure of 1,270, and the programme was well on track to meet the December 2012 deadline for all properties to be made decent.

Officers said a caveat to this was that refusals count towards the overall statistical decency, therefore the blue line on the graph did not include those properties where a decency upgrade was offered but declined.

It was later agreed that the terminology used on the graph could be improved to give greater clarification to members.

Ms. Barker also confirmed that the level of costs also remains on track against budget.

Mr. Wright reassured Councillor Lissimore that tenants are not being forced or coerced into undertaking some form of upgrade or refurbishment. The Liaison Officer at Property Services is fully briefed and speaks with tenants directly about what can be done. Individual elements of work are offered, it is not the case of take all or nothing. Where it is not possible to speak with a tenant, the case is referred to the Housing Officer. Ms. Barker confirmed that the satisfaction levels on customer relations and communication levels were extremely good. Councillor Young said the relationship between Colchester Borough Council and Colchester Borough Homes was stronger

than it had ever been, and the work of Property Services has been transformational. Members and officers alike should be justifiably proud of the quality of work now being undertaken.

Ms. Barker confirmed to Councillor Chillingworth that there is no penalty for not bringing a property up to the decency standard, but the property remained a Council asset, and therefore is addressed within the Council's Asset Management Strategy and the property will be brought up to a decency standard once it becomes a void. This is a challenge, as it was recognised a property like this may not become a void property for many years.

Mr. Wright confirmed to members that because through refusals, anticipated work will not be taken up by the time the contract is complete, this reduction in expenditure will be reflected in the final year's accounts. Ms. Barker said upgrade, repair and refurbishment works will continue to be funded in the future following the completion of the decency work programme.

RESOLVED that the panel considered and noted the progress on the Capital Improvement Programme (Decent Homes).

### **38. Interim Review of Annual Governance Statement Action Plan**

Ms. Hayley McGrath, Risk and Resilience Manager attended the meeting for this item and presented the report on the Interim Review of the Annual Governance Statement Action Plan, a six-monthly progress update following the implementation of the plan.

Councillor Willetts believed the internal control issue relating to Members of Outside Bodies and the need for a formal review and feedback on progress relating to these appointments was a laudable requirement, and asked how would it operate. Ms. McGrath said the format for the response from outside bodies is being drafted by the Monitoring Officer and will be openly discussed at the latter part of 2010/11.

Mr. Adrian Pritchard, Chief Executive of Colchester Borough Council addressed the Panel, saying that if the Council, Cabinet or Leader make outside appointments, it was right and proper that the Council receives feedback on such appointments, and the new draft, to be discussed, would provide the mechanism for getting this feedback.

Mr. Pritchard also confirmed that feedback would be sought from all organisations regardless of size.

RESOLVED that the panel considered and noted the work undertaken to implement the current Annual Governance Statement action plan.

### **39. 2nd Quarter Internal Audit Assurance Report 2010-11**

Ms. Elfreda Walker, Finance Manager and Mr. Alan Woodhead, Deloitte attended the

meeting for this item and Ms. Walker presented the 2<sup>nd</sup> Quarter Internal Audit Assurance report for 2010/11.

Ms. Walker drew members attention to the 8 audits completed in the reported period and as shown in appendix 1 of the report, and to the key messages as reported in section 3 of the report, including i) the Council continued to provide an effective internal audit service during the 2<sup>nd</sup> quarter of 2010/11 financial year, ii) The assurance rating for the Business Continuity Planning audit has increased from “Limited” to “Substantial”, iii) The assurance rating for the Treasury Management audit has increased from “Substantial” to “Full”, iv) that 21 priority 2 and one priority 3 recommendations have been made, v) All recommendations have been fully accepted by management, and finally vi) There continues to be good progress made in implementing and verifying outstanding recommendations.

Ms. Walker confirmed to Councillor Manning that the Panel would receive detailed feedback in the next report on the 2009/10 audit on Pest Control and the two outstanding priority 1 recommendations.

RESOLVED that the panel considered and noted the Council’s performance relating to i) executing the 2<sup>nd</sup> quarter of the internal audit plan for 2010/11, ii) the performance of internal audit by reference to national best practice benchmarks, and iii) the status of outstanding recommendations.

#### **40. 2010-11 Financial Monitoring report - period April to September**

Mr. Sean Plummer, Finance Manager attended the meeting and presented the 2010-11 Financial Monitoring Report for period April to September.

Mr. Plummer drew members attention to the Outturn Forecast, with the position at the end of quarter 1 being a potential net overspend of £1.14 million and a current forecast being a net overspend of £1.035 million, including the current overspend on service budgets of £310,000 as illustrated in paragraph 5.2. Paragraph 5.11 gave an updated position on the work of the Senior Management Team to reduce the current budget gap, confident that further savings will be identified in 2010/11 that will be used as part of the update on the 2011/12 budget to be reported to Cabinet in December.

Councillor Smith, Portfolio Holder for Resources and Diversity addressed the panel to explain Members will be asked to make some very difficult decisions due to the Governments Comprehensive Spending review, circumstances out of the Council’s control. Budgeting for 2011/12 was very difficult to estimate due to the uncertainty of future income, but that said, officers should be thanked for their significant effort in bringing the general fund balance within the forecast of £0.5 million above the Council’s current assessed minimum level.

RESOLVED that the panel noted the financial performance of the General Fund Services and the Housing Revenue Account (HRA) in the first six months of 2010/11.



## **41. Work Programme**

The panel noted the Work Programme 2010/11.