

# Finance and Audit Scrutiny Panel

Town Hall, Colchester  
20 November 2012 at 6.00pm

The Finance and Audit Scrutiny Panel deals with the review of service areas and associated budgets, and monitors the financial performance of the Council. The panel scrutinises the Council's audit arrangements and risk management arrangements, including the annual audit letter and audit plans, and reviews Portfolio Holder 'Service' decisions referred to the Panel under the Call in procedure.

# Information for Members of the Public

## Access to information and meetings

You have the right to attend all meetings of the Council, its Committees and Cabinet. You also have the right to see the agenda, which is usually published 5 working days before the meeting, and minutes once they are published. Dates of the meetings are available at [www.colchester.gov.uk](http://www.colchester.gov.uk) or from Democratic Services.

## Have Your Say!

The Council values contributions from members of the public. Under the Council's Have Your Say! policy you can ask questions or express a view to meetings, with the exception of Standards Committee meetings. If you wish to speak at a meeting or wish to find out more, please refer to Attending Meetings and "Have Your Say" at [www.colchester.gov.uk](http://www.colchester.gov.uk)

## Private Sessions

Occasionally meetings will need to discuss issues in private. This can only happen on a limited range of issues, which are set by law. When a committee does so, you will be asked to leave the meeting.

## Mobile phones, pagers, cameras, audio recorders

Please ensure that all mobile phones and pagers are turned off or switched to silent before the meeting begins and note that photography or audio recording is not permitted.

## Access

There is wheelchair access to the Town Hall from St Runwald Street. There is an induction loop in all the meeting rooms. If you need help with reading or understanding this document please take it to Angel Court Council offices, High Street, Colchester or telephone (01206) 282222 or textphone 18001 followed by the full number that you wish to call and we will try to provide a reading service, translation or other formats you may need.

## Facilities

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## **Terms of Reference**

### **Finance and Audit Scrutiny Panel**

To review all existing service plans and associated budget provisions against options for alternative levels of service provision and the corporate policies of the Council, and make recommendations to the Cabinet

To have an overview of the Council's internal and external audit arrangements and risk management arrangements, in particular with regard to the annual audit plan, the audit work programme and progress reports, and to make recommendations to the Cabinet

To monitor the financial performance of the Council, and to make recommendations to the Cabinet in relation to financial outturns, revenue and capital expenditure monitors

To scrutinise the Audit Commission's annual audit letter

To scrutinise executive 'service' decisions made by Portfolio Holders and officers taking key decisions which have been made but not implemented referred to the Panel through the call-in procedure

**COLCHESTER BOROUGH COUNCIL  
FINANCE AND AUDIT SCRUTINY PANEL  
20 November 2012 at 6:00pm**

**Members**

Chairman : Councillor Dennis Willetts.  
Deputy Chairman : Councillor Marcus Harrington.  
Councillors Cyril Liddy, Jon Manning, Gerard Oxford,  
Ray Gamble, Glenn Granger, Scott Greenhill, Julia Havis  
and Theresa Higgins.

**Substitute Members** : All members of the Council who are not Cabinet members or members of this Panel.

**Agenda - Part A**

(open to the public including the media)

**Members of the public may wish to note that Agenda items 1 to 5 are normally brief and items 6 to 9 are standard items for which there may be no business to consider.**

**Pages**

**1. Welcome and Announcements**

(a) The Chairman to welcome members of the public and Councillors and to remind all speakers of the requirement for microphones to be used at all times.

(b) At the Chairman's discretion, to announce information on:

- action in the event of an emergency;
- mobile phones switched off or to silent;
- location of toilets;
- introduction of members of the meeting.

**2. Substitutions**

Members may arrange for a substitute councillor to attend a meeting on their behalf, subject to prior notice being given. The attendance of substitute councillors must be recorded.

**3. Urgent Items**

To announce any items not on the agenda which the Chairman has agreed to consider because they are urgent and to give reasons for the urgency.

**4. Declarations of Interest**

The Chairman to invite Councillors to declare individually any interests they may have in the items on the agenda. Councillors should consult Meetings General Procedure Rule 7 for full guidance on the registration and declaration of interests. However Councillors may wish to note the following:-

- Where a Councillor has a disclosable pecuniary interest, other pecuniary interest or a non-pecuniary interest in any business of the authority and he/she is present at a meeting of the authority at which the business is considered, the Councillor must disclose to that meeting the existence and nature of that interest, whether or not such interest is registered on his/her register of Interests or if he/she has made a pending notification.
- If a Councillor has a disclosable pecuniary interest in a matter being considered at a meeting, he/she must not participate in any discussion or vote on the matter at the meeting. The Councillor must withdraw from the room where the meeting is being held unless he/she has received a dispensation from the Monitoring Officer.
- Where a Councillor has another pecuniary interest in a matter being considered at a meeting and where the interest is one which a member of the public with knowledge of the relevant facts would reasonably regard as so significant that it is likely to prejudice the Councillor's judgment of the public interest, the Councillor must disclose the existence and nature of the interest and withdraw from the room where the meeting is being held unless he/she has received a dispensation from the Monitoring Officer.
- Failure to comply with the arrangements regarding disclosable pecuniary interests without reasonable excuse is a criminal offence, with a penalty of up to £5,000 and disqualification from office for up to 5 years.

## **5. Minutes**

The minutes of the meeting held on 13 November 2012 will be confirmed at the next meeting.

## **6. Have Your Say!**

(a) The Chairman to invite members of the public to indicate if they wish to speak or present a petition at this meeting – either on an item on the agenda or on a general matter not on this agenda. You should indicate your wish to speak at this point if your name has not been noted by Council staff.

(b) The Chairman to invite contributions from members of the public who wish to Have Your Say! on a general matter not on this agenda.

**7. Items requested by members of the Panel and other Members**

(a) To evaluate requests by members of the Panel for an item relevant to the Panel's functions to be considered.

(b) To evaluate requests by other members of the Council for an item relevant to the Panel's functions to be considered.

***Members of the panel may use agenda item 'a' (all other members will use agenda item 'b') as the appropriate route for referring a 'local government matter' in the context of the Councillor Call for Action to the panel. Please refer to the panel's terms of reference for further procedural arrangements.***

**8. Decisions taken under special urgency provisions**

To consider any Portfolio Holder decisions taken under the special urgency provisions.

**9. Referred items under the Call in Procedure**

To consider any decisions taken under the Call in Procedure.

**10. Interim Annual Governance Statement**

**1 - 6**

See report from the Head of Resource Management.

**11. Internal Audit Monitor - April - September 2012**

**7 - 15**

See report from the Head of Resource Management.

**12. Financial Monitoring report - April - September 2012**

**16 - 30**

See report from Head of Resource Management.

**13. Capital Expenditure Monitor**

**31 - 38**

See report from the Head of Resource Management.

**14. Certification of Claims and Returns 2011-12** **39 - 54**

See covering report from the Head of Resource Management.

**15. Treasury Management - Half Yearly review** **55 - 61**

See report from the Head of Resource Management.

**16. Work Programme** **62 - 63**

See report from the Head of Corporate Management.

**17. Exclusion of the public**

In accordance with Section 100A(4) of the Local Government Act 1972 and in accordance with The Local Authorities (Executive Arrangements) (Access to Information) (England) Regulations 2000 (as amended) to exclude the public, including the press, from the meeting so that any items containing exempt information (for example confidential personal, financial or legal advice), in Part B of this agenda (printed on yellow paper) can be decided. (Exempt information is defined in Section 100I and Schedule 12A of the Local Government Act 1972).





**COLCHESTER BOROUGH COUNCIL  
FINANCE AND AUDIT SCRUTINY PANEL  
20 November 2012 at 6:00pm**

**Agenda - Part B**

(not open to the public or the media)

	<b>Pages</b>
<b>18. Treasury Management - Half Yearly review</b>	<b>64</b>
See Appendix B to Treasury Management report from the Head of Resource Management.	



# Finance & Audit Scrutiny Panel

Item  
**10**

20 November 2012

Report of

Head of Resource Management

Author

Hayley McGrath  
508902

Title

Interim Review of the Annual Governance Statement Action Plan.

Wards  
affected

Not applicable

**This report reviews the implementation of the actions highlighted on the Annual Governance Statement for 2011/12.**

## 1. Actions Required

- 1.1 Consider and note the work undertaken to implement the current Annual Governance Statement action plan.

## 2. Reason for Scrutiny

- 2.1 Regulation 4(1) of the Accounts and Audit Regulations 2011 requires the council to ensure that it operates a sound system of internal control and to conduct an annual review of the effectiveness of its governance and internal control arrangements. The findings from this review, the Annual Governance Statement (AGS), must be signed by the Leader of the Council and the Chief Executive, reported to the Accounts and Regulatory Committee and published for public inspection. The regulations require the statement to be accompanied by an action plan for improving any issues identified.
- 2.2 The Annual Governance Statement for the 2011/12 financial year was reported to the Accounts and Regulatory Committee in June 2012. This included an action plan for issues to be resolved during the current financial year.
- 2.3 The Audit Commission are keen to ensure that the annual governance review is not considered to be just a year end exercise. Therefore it is essential to ensure that governance issues are considered during the year and it was agreed by the Accounts & Regulatory Committee that an interim report regarding progress against the action plan would be provided to this panel during the year.

## 3. Key Messages

- There has been progress against all of the issues identified in the action plan.
- The audit of the final accounts for 2011/12 did not raise any concerns with the Annual Governance Statement or the action plan. Accordingly the statement was published for inspection.

## 4. Supporting Information

- 4.1 The issues that were included on the action plan have been discussed with the relevant lead officers, and the action plan has been updated with the progress made. The action plan is included at appendix 1.

4.2 The Council's joint services – Colchester & Ipswich Museum Service and The Parking Partnership – also issue governance statements. These are reported to, and monitored by, their respective committees but a copy has been attached at appendix 2 for your information.

## **5. Proposals**

5.1 To note and comment upon the Councils progress in implementing the current Annual Governance Statement action plan.

## **6. Strategic Plan Implications**

6.1 The achievement of the strategic plan requires a sound system of governance to ensure the effective delivery of services. Therefore improving on existing governance arrangements will help to ensure that the strategic plan objectives can be achieved.

## **7. Risk Management Implications**

7.1 Risk Management is a fundamental part of the Governance process and a failure to implement the action plan may have an effect on the ability of the Council to control its risks.

## **8. Other Standard References**

8.1 There are no direct Publicity, Financial, Consultation, Equality Diversity and Human Rights, Community Safety or Health and Safety implications as a result of this report.

**Colchester Borough Council**  
**Annual Governance Statement – Action Plan for 2012/13**  
**Interim Review October 2012**

**Significant Internal Control Issues – Relating to 2011/12 Financial Year**

No.	Issue	Action	Due Date	Responsible Officer	Update
1.	<p><b>Vehicle Workshop</b>            An external audit review of assets carried out in 2011/12 found that a recorded vehicle could not be located. This led to a further internal audit review of the systems in place at the vehicle workshop. This review found that there were insufficient controls in place and a no assurance report was issued. During the review concerns were raised over the income being received for Ministry of Transport (MOT) testing. Further work on this area was carried out and a member of staff was dismissed as a result.</p>	<p>The management of the workshop and fleet was outsourced on 01 April 2012. However it is recognised that the failures in control could occur in other service areas, therefore a formal process has been put in place to review the control weaknesses and ensure that all functions operate correctly.</p>	Ongoing	Executive Director (Customer Excellence)	The control issues have been identified and all services have provided details about how those controls are enforced in their areas. Further work is also being undertaken to incorporate the issues into the risk management process.
2.	<p><b>Contract Register</b>            A contracts register has been compiled and is maintained by Resource Management. However it was found that in some cases it is not being updated by service areas. Also contract procedure rules, such as forwarding documents to Legal Services or updating Resource Management, were not being complied with and in some instances services were being procured without proper contracts being in place. This issue was also highlighted in 2010/11.</p>	<p>A guide to letting contracts should be agreed and issued as soon as possible. Followed up by specific training for key staff.</p>	December 2012	Head of Resource Management	The contract procedure rules and financial regulations are currently being updated. A procurement guide is also being produced and a report is being submitted to PMB in December 2012.

No.	Issue	Action	Due Date	Responsible Officer	Update
3.	<p><b>Parking Services</b> An internal audit of Parking Services income was carried out in December 2011. This produced 11 level 2 recommendations relating to policies and procedures, health and safety processes, security, authorisation processes and reporting performance to members.</p> <p>An audit of the partnership arrangements was carried out in March 2012 and whilst it has yet to be finalised it has flagged two priority 1 recommendations and has also be graded as limited assurance. The recommendations related to preparation of budgets and monthly reconciliations.</p>	<p>Management have agreed the recommendations in the report and these include:</p> <ul style="list-style-type: none"> <li>• Updating policies</li> <li>• Reviewing risk assessments</li> <li>• Reviewing vehicles and processes used for cash collection</li> <li>• Carrying out reconciliations</li> <li>• Updating authorisation processes</li> <li>• Regularly reporting to the Portfolio Holder</li> </ul> <p>Many of the recommendations have already been implemented. This service only began on 1 April 2011 and the audit was a useful check on new policies and procedures.</p>	June 2012	Parking Manager	<p>The recommendations identified in the two audits were agreed and many were implemented with immediate effect. Internal audit will carry out follow-up testing later in the financial year to verify that the controls are working.</p>
4.	<p><b>Corporate Debt</b> An internal audit of corporate debt highlighted issues surrounding debt write-offs and appointment of bailiffs. The audit showed that not all services were following the corporate debt management policy and there is not a corporate approach to appointing bailiffs. The report is still in draft format.</p>	<p>A formal procedure for processing write offs for parking services is to be included in the corporate debt policy.</p> <p>A formal tender exercise is to be carried out to appoint bailiffs.</p>	<p>June 2012</p> <p>July 2012</p>	<p>Head of Resource Management</p>	<p>Parking Services have not yet finalised the procedure and therefore it has not yet been incorporated into the corporate debt policy.</p> <p>The corporate bailiff contract expires in May 2013 and an extension is being considered.</p>

**Colchester & Ipswich Museum Service  
Annual Governance Statement – Action Plan for 2012/13  
Significant Internal Control Issues – Relating to 2011/12 Financial Year**

No.	Issue	Action	Due Date	Responsible Officer	How Issue was Identified
1.	<p><b>Management Agreement</b></p> <p>The management agreement has been in place for five years and parts of it are out of date. Significant issues are:</p> <ul style="list-style-type: none"> <li>➢ The funding agreement</li> <li>➢ Identification of baseline services</li> <li>➢ Updating the shared vision and consideration of potential future opportunities</li> <li>➢ Specification of the JMS Managers role.</li> </ul>	<p>The agreement needs to be reviewed to ensure that it still accurately reflects the objectives of the service. Once the draft is completed it needs to be reported to the joint committee for approval, prior to being submitted to each Executive committee for adoption by each Authority.</p>	<p>Draft available by December 2012.</p>	<p>Co-ordinated by the JMS Manager.</p>	<p>Annual governance review process.</p>
2.	<p><b>Development Plan</b></p> <p>The management agreement is the strategic vision for the service. However there is no formal plan in place demonstrating how the vision will be achieved.</p>	<p>A development plan needs to be drawn up annually detailing the actions necessary to achieve the vision contained in the management agreement.</p>	<p>Draft available by December 2012.</p>	<p>Co-ordinated by the JMS Manager.</p>	<p>Annual governance review process.</p>
3.	<p><b>Regularisation of use of premises</b></p> <p>There is no formal agreement allowing Colchester Borough Council to use the Ipswich properties or vice versa. Also a franchisee using any of the properties, such as a provider of refreshments, would need to have a formal agreement from the Joint Service. Therefore it is recommended that a review of use/tenancy arrangements is carried out and use of the premises is regularised wherever necessary. This has been reported previously.</p>	<p>A review of the agreement to be carried out.</p>	<p>Draft available by December 2012.</p>	<p>Co-ordinated by the JMS Manager.</p>	<p>Annual governance review process.</p>

**North Essex Parking Partnership  
Annual Governance Statement  
Issues Identified 2011/12**

No.	Issue	Action	Due Date	Responsible Officer	How Issue was Identified
1	<p><u>Parking Services Income</u></p> <p>An audit of the parking services income was carried out in September 2011. Whilst there were no significant issues that required immediate senior management intervention the report did make 12 recommendations for improvement. These related to issues such as policies and procedures, health and safety processes, security, authorisation processes and reporting performance to members</p>	<p>Management have agreed the recommendations in the report and these include:</p> <ul style="list-style-type: none"> <li>• Updating policies</li> <li>• Reviewing risk assessments</li> <li>• Reviewing cash collection processes</li> <li>• Carrying out reconciliations</li> <li>• Authorisation processes</li> <li>• Reporting to the Portfolio Holder</li> </ul>	March 2013	Parking Partnership Group Manager	Internal Audit
2	<p><u>Write-Offs</u></p> <p>Presently the process for writing off parking tickets stands alone from the Corporate Debt policy, therefore there is no formal procedure for review and authorisation. Warrants are also only valid for one year after issue and currently expired warrants are still recorded. The expired warrants need to be removed.</p>	<p>A procedure for collecting parking fines and dealing with uncollectable items needs to be drawn up and formally incorporated into the Corporate Debt Policy. This should also include a process for monitoring warrants and removing expired ones from the system.</p>	March 2013	Parking Partnership Group Manager	Annual governance review process.
3	<p><u>Service Level Agreement Off-Street Parking</u></p> <p>The main objective of the NEPP is to provide on-street parking control. However the partners are able to transfer the management of their off-street parking functions to the lead partner. There is provision for this in the formal partnership agreement, however whilst the provision sets out details of what can and can't be transferred in respect of off-street parking it is not very detailed and does not set out specific roles and responsibilities.</p>	<p>A detailed service level agreement should be drawn up for the off-street parking functions. This should detail specific roles and responsibilities to ensure that all parties have the same expectations from the service.</p>	March 2013	Parking Partnership Group Manager	Annual governance review process.



# Finance & Audit Scrutiny Panel

Item  
**11**

20 November 2012

Report of

Head of Resource Management

Author

Elfreda Walker  
282724

Title

Half Year Internal Audit Assurance Report 2012/13

Wards  
affected

Not applicable

**This report summarises internal audit activity between April – September 2012, and contains the proposed internal audit work programme for 2013/14.**

## 1. Actions Required

### 1.1 To note and comment on:

- Internal audit activity for the period April – September 2012
- Performance of internal audit by reference to national best practice benchmarks;
- The proposed 2013/14 internal audit work programme

## 2. Reason for Scrutiny

- 2.1 The Accounts and Audit Regulations 2003 require local authorities to maintain an adequate and effective system of internal audit.
- 2.2 Internal audit is a key element of the Council's corporate governance framework. Robust implementation of audit recommendations gives assurance to members and management that services are operating effectively, efficiently and economically and in accordance with legislative requirements and professional standards.

## 3. Key Messages

- The Council has continued to provide an effective internal audit service during the first half of the 2012/13 financial year.
- Five priority 1, 32 priority 2 and eight priority 3 recommendations have been made. All recommendations have been accepted by management.
- No recommendations were raised in relation to the regularity audits of Leisure World – Cash Up, NNDR and Decriminalised Parking.
- There continues to be good progress made in implementing and verifying outstanding recommendations

## 4. Internal Audit Work programme

- 4.1 The Council has a strategic internal audit work programme covering the period 2011/12 – 2013/14, which has been approved by SMT and members.
- 4.2 The maintenance of an effective internal audit function is a key part of the Council's governance framework. It assists the Council in identifying key internal control weaknesses, so that action plans can be put in place to address the key risks. An effective internal audit function is also important to provide the external auditors with the assurances they need on the effectiveness of internal controls.



- 4.3 The programme shows the work required to enable internal audit to:
- provide a reasonable level of assurance on the internal control environment, which comprises risk management, control, and governance processes
  - support the completion of the Annual Governance Statement
  - comply with the requirements of the CIPFA Code of Practice for Internal Audit in Local Government
  - cover the key financial systems to a level that meets the requirements of the external auditors (managed audits)
- 4.4 The fundamental role of internal audit is to provide the Panel and senior management with independent assurance on the adequacy, effectiveness and efficiency of the system of internal control, and to report major weaknesses together with recommendations for improvement. This is achieved by carrying out appropriate audit work, normally in accordance with a work programme approved by the Head of Resource Management and the Section 151 Officer.
- 4.5 Appendix 1 provides an outline work programme for the 2013/14 financial year. The timing, scope and objectives of each audit will be agreed with management prior to commencement.

## **5. Summary of internal audit activity during the period 1<sup>st</sup> April 2012 – 30<sup>th</sup> September 2012**

- 5.1 There continues to be a very positive relationship between officers of the Audit and Governance Team and the internal audit provider and regular meetings take place to discuss various issues, including internal audit briefs, recommendations and audit planning.
- 5.2 There are also regular meetings with the external audit provider. This helps to ensure that the work of the internal and external auditors is complementary.

## **6. Supporting Information**

- 6.1 This report has been designed to show:
- Summary information concerning audits finalised in the period receiving a 'Full' or 'Substantial' assurance rating and more detailed information on those audits receiving a 'Limited' or 'No' assurance rating
  - The effectiveness of the Internal Audit provider in delivering the service
- 6.2 Using a risk-based approach, Internal Audit generates reports for all audits, with recommendations to improve the effectiveness of the internal control framework and maximise potential for service improvement across the Council. The audit plan consists of a mix of regularity, systems and probity audits. Only systems audits generate an assurance level and these are categorised as follows:
- Full Assurance – there is a sound system of internal control designed to achieve the client's objectives
  - Substantial Assurance – while there is a basically sound system of internal control, there are weaknesses, which put some of the client's objectives at risk
  - Limited Assurance – weaknesses in the system of internal controls are such as to put the client's objectives at risk
  - No Assurance – control processes are generally weak leaving the processes/systems open to significant error or abuse

- 6.3 Internal Audit categorises recommendations according to their level of priority as follows:
- Priority 1 – issues for the attention of senior management and the Finance and Audit Scrutiny Panel
  - Priority 2 – Important issues to be addressed by management in their areas of responsibility
  - Priority 3 – Minor issues resolved on site for local management
- 6.4 Internal audit categorise the tracking of recommendations as follows:
- Implemented and verified
  - Implemented awaiting verification
  - Not implemented – not due
  - Not implemented – overdue

## 7. Internal Audit Performance

### 7.1 Use of Audit Resources:

	Days	%
Audit days delivered April - September	166	46%

This is in-line with the profiled plan as a number of the key financial audits are scheduled for completion in quarters 3 and 4.

### 7.2 Summary of Audits Finalised During the Period

During the period a total of 14 audits have been finalised. The assurance rating remained the same in 70% of the systems audits carried out and declined in 30%.

Audit	Assurance Level	Change in Level	Priority of Recommendations			Agreed
			1	2	3	
636 – Parking Partnership	Limited	▼	2	2	0	4
703 – Leisure World Site Cash Up	Regularity	N/A	0	0	0	0
704 – Zone Working	Substantial First Audit	►	0	3	0	3
705 – Pest Control	Limited	►	1	5	1	7
706 – Health and Safety	Substantial	►	0	3	3	6
707 – Parks and Recreation – Procurement Processes	Limited First Audit	►	1	1	0	2
708 – Section 106	Substantial	►	0	2	0	2
710 – Data Protection	Limited First Audit	►	1	8	4	13
712 – Council Tax	Regularity	N/A	0	1	0	1
713 – Housing and Council Tax Benefits	Substantial	▼	0	2	0	2
714 – Benefit Fraud	Substantial	►	0	2	0	2
715 – NNDR	Regularity	N/A	0	0	0	0
716 – Treasury Management	Substantial	▼	0	3	0	3
718 – Decriminalised Parking	Regularity	N/A	0	0	0	0

	Total No. of Reports		Level of Assurance – Systems Audits*				Change in Assurance Level – compared to last audit		
	Other	Systems	Full	Substantial	Limited	No	▲	▶ (or 1 <sup>st</sup> Audit)	▼
Audits Finalised April – September 2012*	4	10	0	6	4	0	0	7	3

\*Only systems audits are given an assurance level.

Please see Appendix 2 for a summary of the audits receiving a ‘Limited’ or ‘No’ assurance rating.

## 8. Status of all recommendations as at 30<sup>th</sup> September 2012:

- 8.1 Following the completion of each audit, a report is issued to management, incorporating recommendations for improvement in controls and management’s response to those recommendations.
- 8.2 The table below provides a breakdown of the outstanding recommendations as at the 30<sup>th</sup> September 2012.

	Outstanding Recommendations That Are:			
Date	Implemented & Verified	Awaiting Verification	Not Due	Overdue
30/09/12	45	47	112	5

- 8.3 During the period internal audit have been monitoring 209 recommendations. At 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. 17 of the recommendations awaiting verification relate to managed audits and in accordance with the agreed protocol will be followed up at the time of the next annual audit.
- 8.4 Progress in implementing overdue recommendations will continue to be closely monitored with priority being given to the recommendations awarded a higher priority rating and / or those that have been outstanding the longest. Progress will continue to be reported to the panel.

## 9. Performance of Internal Audit 2012/13 to date – Key Performance Indicators (KPIs):

KPI	Target	Actual
<b>Efficiency:</b>		
Percentage of annual plan completed (to at least draft report stage)	50%	42%
Average days between exit meeting and issue of draft report	10 max	7.5
Average days between receipt of management response and issue of final report	10 max	1
<b>Quality:</b>		
Meets CIPFA Code of Practice – per Audit Commission	Positive	Positive
Results of Client Satisfaction Questionnaires (Score out of 10)	7.8	8.3
Percentage of all recommendations agreed	96%	100%

9.1 The key performance indicators show that the internal audit provider is meeting the majority of the standards set.

## **10. Colchester Borough Homes Limited**

10.1 Colchester Borough Homes Limited has its own agreed audit plan which is administered separately by Deloitte and Touche Public Sector Internal Audit Limited, who are also the Council's auditors. The coverage of the plan, and the scope of the audits, is decided by Colchester Borough Homes Limited and whilst there is some additional CBH specific testing around the key financial systems, generally the audits do not affect the systems operated by the Council.

10.2 However, there are a few audits that, whilst they are carried out for either Colchester Borough Homes Limited or the Council, have a direct relevance and impact on the other organisation and in these circumstances it is appropriate that the results of the audit are reported to both organisations. These are known as joint audits.

10.3 There have been no joint audits carried out during the period.

10.4 In accordance with agreed protocol, Colchester Borough Homes Limited reports would be presented to FASP as part of an Annual Report on performance.

## **11. Proposals**

To note and comment upon the Council's progress and performance relating to:

- Internal Audit activity during the first half of 2012/13
- Performance of Internal Audit by reference to national best practice benchmarks

## **12. Strategic Plan Implications**

The audit plan has been set with due regard to the identified key strategic risks to the Council. The strategic risk register reflects the objectives of the strategic plan. Therefore, the audit work confirms the effectiveness of the processes required to achieve the strategic objectives.

## **13. Risk Management Implications**

The failure to implement recommendations may have an effect on the ability of the Council to control its risks and therefore the recommendations that are still outstanding should be incorporated into the risk management process.

## **14. Other Standard References**

Having considered consultation, equality, diversity and human rights, health and safety and community safety and risk management implications, there are none that are significant to the matters in this report.

Proposed Internal Audit Work Programme 2013/14		
Audit Area	2013/14	Managed Audit / AGS
<b>Cross Cutting Reviews</b>		
Corporate Governance & Scrutiny	10	✓
Single Data Set	5	✓
<b>IT Audits</b>		
General IT - (to be allocated)	25	
<b>Corporate Management</b>		
Contract Management Audits	15	
Payroll	5	✓
Retention of Crucial Records	7	
Security of Premises	7	
<b>Customer Service Centre</b>		
Complaints Procedures	7	
<b>Resource Management</b>		
Asset Register	7	
Business Continuity Planning	7	
Business Rates	10	✓
Council Tax	10	✓
Creditors including cheque control	10	✓
Debtors	10	✓
General Ledger	10	✓
Housing / Council Tax Benefits	12	✓
Housing Benefit Overpayments	8	✓
Income	8	✓
Risk Management	5	✓
Site Cash Ups	3	✓
Treasury Management	5	✓
<b>Strategic Policy and Regeneration</b>		
Council Property Exchange / Choice Based Lettings	10	
Feed In Tariffs	7	
Housing Rents (shared audit with CBH)	5	✓
Management of Expenditure CBH	7	✓
Service Charges & Ground Rent	5	
<b>Environmental and Protective Services</b>		
Emergency Planning	10	
Houses in Multiple Occupation Licenses	7	
Licensing – Night Time Economy	7	
Museums - Merged Services	12	✓
Planning Fees	6	
Visitor Information Centre	5	
<b>Street Services</b>		
Parking Services – Partnership & Income	14	✓
Waste Management	15	
<b>Life Opportunities</b>		
Leisure World	15	✓
<b>Other Areas</b>		
Safeguarding	5	
Financial Management Arrangements	15	
Follow Up of Recommendations	15	
Risk Mapping & Management of Contract	35	
<b>Total No. of Days</b>	<b>381</b>	

## Summary of Audits with a Limited or No Assurance Rating:

636 – Parking Partnership	Days	Assurance Limited	Priority of Recommendations			Agreed
			1	2	3	
	10		2	2	0	4

**Scope of Audit:** This review examined the following areas:

- Partnership Agreement;
- Policies and Procedures;
- Partnership Costs;
- Joint Committee; and
- Management Information

**Key Outcomes:** The recommendations resulting from this review are summarised as follows:

- Management should be reminded to provide all partner authorities with necessary updates on parking enforcements and ensure all appropriate reports are provided to the partner authorities five days prior to the scheduled Joint Committee Meeting. (2)
- Budgets that detail agreed contributions from the relevant parking authorities and set out the budget for maintenance work should be prepared and agreed at the start of each financial year. (1)
- Management should ensure that the invoices for the quarterly partner contributions are raised in a timely manner, in line with the agreement. It is noted that this recommendation was also raised as part of the 2010/11 audit. (2)
- Consideration should be given to appointing an alternative officer to undertake monthly reconciliations on Penalty Charge Notice payments in the absence of the Service Accountant. (1)

705 – Pest Control	Days	Assurance Limited	Priority of Recommendations			Agreed
			1	2	3	
	7		1	5	1	7

**Scope of Audit:** This review examined the following areas:

- Policies and procedures;
- Scheduling of work;
- Collection of Income;
- Raising of sundry debtor accounts;
- Monitoring of contractors and works undertaken;
- Stock control and ordering;
- Vehicle costs;
- Health and safety; and
- Management information.

**Key Outcomes:** The recommendations resulting from this review are summarised as follows:

- A secure filing system should be introduced in respect of pest control job sheets. (3)
- Management should investigate the possibility of having the CIVICA system updated so that it shows the actual amount paid in cases where a reduced charge is levied due to the customers' benefit entitlement. (2)
- The pest control officers should be reminded that customers should sign the job sheets. (2)
- A formal reconciliation of pest control income should be carried out on a monthly basis with details on the CIVICA system matched against the payments received. (1)

- The system should be amended to enable a report to be produced listing all commercial jobs undertaken. The report should then be produced on a regular basis to verify that invoices have been correctly and promptly raised for all works undertaken. (2)
- The electronic feedback process should be made available to customers via the Council's website as soon as possible. (2)
- Information regarding vehicle use should be reviewed by management within the Pest Control Team on a regular basis. (2)

707 – Parks and Recreation – Procurement Processes	Days	Assurance Limited	Priority of Recommendations			Agreed
			1	2	3	
	8		1	1	0	2

**Scope of Audit:** This review examined the following areas:

- Placement of orders;
- Use of approved suppliers;
- Quotations and tenders;
- Approval/authorisation of orders;
- Financial accounting and management information; and
- Record keeping.

**Key Outcomes:** The recommendations resulting from this review are summarised as follows:

- Management should implement a procedures to ensure that the total spend with organisations is examined to verify that the correct procurement processes are followed. (1)
- The standard quotation recording form should be made available to all applicable staff across the service and staff should be reminded of the need to make use of it in all cases. (2)

710 – Data Protection	Days	Assurance Limited	Priority of Recommendations			Agreed
			1	2	3	
	10		1	8	4	13

**Scope of Audit:** This review examined the following areas:

- A governance structure is in place to manage the Council's compliance with the Act. This includes processes to manage the handling of person identifiable and sensitive data, monitor and respond to subject access requests and educate staff in their responsibilities under the Act.
- Process controls exist to ensure that data is processed fairly and in accordance with the Act.
- Process controls exist to ensure that manual records are stored securely and available if required.
- Procedures are in place to manage the collection of personal and/or sensitive data and respond to subject access requests in line with the legislative requirements.
- The Council's Data Protection Notification is maintained up-to-date to ensure that it accurately reflects the Council's data processing activities.
- Information security arrangements are in place to govern manual and electronic data and the staff and organisations that handle this information.
- Retention and disposal procedures and arrangements are in place for manual and electronic data.

**Key Outcomes:** The recommendations resulting from this review are summarised as follows:

- A Data Protection Policy should be introduced and Council staff made aware of the requirements for compliance with the Policy. (1)

- The Colchester Borough Council Data Protection procedures were issued in July 2003 and should be reviewed to ensure that they accurately reflect the current process including the process to approve subject access requests. (2)
- The council communicate that all queries related to Subject Access Requests are communicated to the Information Officer. (3)
- The Code of Practice for the Colchester Borough Council Town Centre Closed Circuit Television (CCTV) System issued in 2009 should be scheduled for review. (3)
- The Council should review their data collection forms used to obtain data for the fulfilment of Council services. This should also ensure that a standard statement is present on all forms regarding the fair processing in line with the Data Protection Act 1998. (2)
- A procedure to help confirm that the Data Controller is notified of new or amended systems should be implemented. (2)
- Management should ensure that training arrangements for information handling are established and that training is compulsory for all staff, including temporary staff who are involved with processing personal data. (2)
- The Colchester Borough Council Subject Access Request form should contain details of the address where requests should be sent. (3)
- The Council should amend the Data Protection Register contact details to the Data Co-ordinator rather than a named individual. (3)
- The Council should review the Corporate Information Security Policy and introduce a formally defined policy that documents the Council's Information Sharing procedures. (2)
- The Council should review its current arrangements for information sharing to help ensure that appropriate protocols have been established for the sharing of data. (2)
- Clear Desk Policy guidance should be introduced to help confirm that the Council is able to meet the legal requirements for handling personal data. (2)
- The Council should implement a protocol regarding the destruction schedules including the details of what has been destroyed. Staff guidance should be placed on the Intranet regarding the process for confidential waste disposal. (2)



20 November 2012

<b>Report of</b>	<b>Head of Resource Management</b>	<b>Author</b>	<b>Sean Plummer</b> ☎ 282347
<b>Title</b>	<b>Financial Monitoring Report – April to September 2012</b>		
<b>Wards affected</b>	Not applicable		

**The Panel is invited to review the financial performance of all General Fund services and the Housing Revenue Account for the first six months of 2012/13**

## 1. Action required

- 1.1 The panel is asked to note the financial performance of General Fund Services and the Housing Revenue Account (HRA) in the first six months of 2012/13.

## 2. Reason for scrutiny

- 2.1 Monitoring of financial performance is important to ensure that:
- Service expenditure remains within cash-limited budgets.
  - Potential variances at year-end are identified early so that remedial action can be taken to recover the position or 'recycle' any surplus budgets.
  - Performance targets are being met.
- 2.2 This report also gives the panel the opportunity to hold Service Managers and Portfolio Holders accountable for their budgets.

## 3. Background and Summary Position

- 3.1 This report reviews the Council's overall position based on profiled income and expenditure for the six months to 30 September, and also shows a projection of the outturn figures for the full year. All the information presented in respect of General Fund Services shows the position based on net 'direct costs'. The review of the Housing Revenue Account is different in that it shows all costs, both direct and indirect.
- 3.2 The projected outturn for the General Fund is currently a net overspend of £83k (excluding the risk factor allowance). The Housing Revenue Account forecast outturn position is currently to for a £150k underspend.
- 3.3 The General Fund position is set out in more detail in the following paragraphs and the HRA position explained in section 6.

## 4. General Fund – Position to 30 September 2012

### *Service Budgets*

- 4.1 Appendix A summarises the Council position by expenditure group and by Service Group. The net position shows a variance against profiled budget for General Fund Services (excluding benefits) of £718k (favourable). This comprises total expenditure being £989k lower than expected and less income than expected totalling £271k.

Appendix B provides a more detailed view, breaking this information down by individual Service Groups.

4.2. Both Appendices A & B to the report include traffic light indicators. The thresholds are as follows:

Green – Variance less than £50k and 5% of budget  
 Amber – Variance greater than £50k **OR** 5% of budget  
 Red – Variance greater than £50k **AND** 5% of budget

4.3. Benefits payments are not shown in Appendix A to avoid distorting the reported position for Service Groups. It is currently projected that this area will be on budget at year end, when the final subsidy claim is paid.

## 5. Outturn Forecast / Risk Areas

5.1 This is the second review this year of the 12/13 budget position and the current forecast outturn is net overspend of £83k. This does though exclude the risk factor allowance of £285k within the budget.

	£'000	
Service budgets	421	See paras. 5.2 – 5.3 and Appendix C
Technical Items - Interest	(338)	See paras. 5.5.
<b>Potential net overspend</b>	<b>83</b>	
<i>Risk factor allowance</i>	<i>(285)</i>	<i>See para. 5.7</i>
<i>Potential addition to balances</i>	<i>(202)</i>	

### *Service Budgets*

5.2 The following table sets out the forecast outturn for all service areas with outturn variances. This shows a net forecast overspend of £421k. As the table shows the key variances are in respect of forecast shortfalls in income which in several cases have been offset by cost savings.

Service	Forecast outturn		
	<i>Expenditure</i>	<i>Income</i>	<i>Net</i>
	£'000	£'000	£'000
Corporate Management	15	124	139
Customer Service Centre	(10)	-	(10)
Environmental and Protective Services	-	(40)	(40)
Life Opportunities	(576)	358	(218)
Resource Management (incl. CDC)	(56)	100	44
Strategic Policy and Regeneration	58	56	114
Street Services	250	142	392
<b>Total all services</b>	<b>(319)</b>	<b>740</b>	<b>421</b>

5.3 Appendix C sets out details of all forecast variances against service budgets at the year-end totalling £471k. These include a budget shortfall of £50k in respect of Museum income. Under the terms the joint museum service if this forecast transpires then this overspend will be carried forward and as such will not impact on balances. Therefore, this has been excluded from the table at paragraph 5.1.

5.4 In the review of the position at the end of June it was highlighted that other risks, both positive and negative, to the outturn position were not currently shown at that time. Some of these identified areas such as planning land charges income have now been reflected in the outturn forecast and whilst there remain other variables a realistic view of current pressures has been shown.

### *Corporate / Technical Items – Interest earnings*

- 5.5. 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. The table below sets out that currently there is 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. This figure has been revised from that shown at Quarter 1 to reflect the latest position.

<b>Area</b>	<b>Net £'000</b>	<b>Comment</b>
Net Interest	(300)	Currently expect net interest costs will be less than budget due to:- <ul style="list-style-type: none"><li>• Ongoing strategy of 'internal borrowing'</li><li>• Reduced borrowing on existing programme (see MRP comment below)</li><li>• Underspend on provision for new borrowing (FSR allocation)</li></ul> Net underspend should be delivered based on current strategy of internal borrowing.
Minimum Revenue Provision (MRP)	(30)	Decision to use revenue funds to support part of the capital programme means that borrowing level was lower resulting in reduced MRP.
New Burdens Grant	(8)	New grant received in respect of "Community Right to Challenge". No specific additional costs identified at this stage.
<i>Total</i>	<i>(338)</i>	

### *Summary position and action proposed*

- 5.6. The forecast outturn shows a potential net overspend of £83k. As part of the 2012/13 budget an allocation of £285k was made in respect of a risk factor against the budget savings. Based on the position currently reported part of this may be required with any remaining sum being returned to balances.
- 5.7. SMT continues to monitor the budget position on a monthly basis. The next report to the Panel will consider the position after 9 months. This will provide a better opportunity to assess progress against budget targets and income levels. In addition an update of the current year's budget forecast will be reported to Cabinet in January as part of the final 2013/14 budget proposals. This report will be submitted prior to this for this Panel to scrutinise.

## **6. Housing Revenue Account**

- 6.1 The Housing Revenue Account (HRA) is a ring-fenced account which is affected by a number of variable factors. At the end of September 2012, the HRA is showing a net underspend of £632k compared to the budget for the same period. This is primarily due to lower expenditure on Premises costs (£394k) and Support service costs (£53k). Furthermore, we have received £168k more income than anticipated.

### *Position to date*

- 6.2 Premises related costs are showing an underspend of £394k as at the end of September 2012. Overall, there is a net underspend of £307k on Repairs and Maintenance. The repairs budget reflects the re-profiling provided by CBH. The remainder of the underspend on R&M to date relates to the timing of expenditure on the external

decorating programme and the gas servicing contract, along with repairs and maintenance of pumping stations, Homeless Persons Units and other delegated areas. There are underspends of £47k on Grounds Maintenance budgets which relate to the timing of expenditure. There is an underspend of £24k on Utility and Water costs.

- 6.3 Support service costs are underspent by £53k at the end of September. The HRA receives recharges from a number of services and given the level of expenditure currently experienced within these areas as at September 2012, there is a resultant impact upon the HRA for recharges from these services.
- 6.4 We have 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.

#### *Forecast Outturn*

- 6.6 The current projected outturn for the HRA is that it will be underspent by around £150k, which primarily relates to more rental and service charge income due to a lower number of void properties and garages than assumed within the budget. However, one other issue should be noted at this stage is in respect of Capital Financing Charges. As reported to Cabinet in January 2012 as part of the 2012/13 HRA Budget setting report, it was prudently assumed that we would borrow the £74.338 million to fund our HRA self-financing payment to DCLG at a rate of 4.5%. However, subsequent to the budget being set the final settlement figure was reduced by DCLG to £73.694 million, and more importantly the actual loans we took out on the 28<sup>th</sup> March 2012 were at a lower average rate of 3.5%. This will produce recurring annual savings to the HRA the impact of which will be considered alongside updates to the HRA business plan and as such are not reflected in this report.

## **7. Strategic Plan references**

- 7.1 The priorities within the Strategic Plan are reflected in the Medium Term Financial Forecast. This makes assumptions regarding government grant and Council Tax income, and identifies where necessary savings will be found in order to achieve a balanced budget. The 2012/13 revenue budget was prepared in accordance with the Strategic Plan's priorities, in the context of the Council facing growing financial pressures. Budget monitoring enables the financial performance against these priorities to be assessed.

## **8. Financial implications**

- 8.1 As set out above.

## **9. Risk management implications**

- 9.1 Risk management is used throughout the budget cycle, and this is reflected in the strategic risk register. The 2012/13 revenue budget report that was approved by Council in February 2012 detailed a number of potentially significant risk areas that had been identified during the budget process. In addition, Heads of Service identify a number of both positive and negative risk areas during the year.

## **10. Other Standard References**

- 10.1 Having considered consultation, publicity, equality, diversity and human rights, community safety, and health and safety implications, there are none that are significant to the matters in this report.

<b>Budget Summary - April - Sept 2012</b>		<b>April - September</b>		<b>Full Year Position</b>		
<b>Account Description</b>	<b>Budget to date £'000</b>	<b>Actual to date £'000</b>	<b>Variance (fav) / adv £'000</b>	<b>Annual Budget £'000</b>	<b>Projected Outturn £'000</b>	<b>Variance (fav) / adv £'000</b>
<b>By Subjective Group</b>						
Employees	12,097	11,920	(177)	24,218	24,062	(156)
Premises Related	4,612	4,192	(420)	7,699	7,565	(134)
Transport Related	997	981	(16)	2,226	2,278	52
Supplies & Services	5,279	4,995	(284)	9,235	9,177	(58)
Third Party Payments	645	550	(95)	1,258	1,288	30
Transfer Payments	143	146	3	284	232	(52)
Capital Financing Costs	-	-	-	100	100	-
<b>Subtotal Expenditure</b>	<b>23,773</b>	<b>22,784</b>	<b>(989)</b>	<b>45,020</b>	<b>44,702</b>	<b>(318)</b>
Government Grant	(333)	(438)	(105)	(496)	(496)	-
Other Grants & Reimbursements	(1,661)	(1,772)	(111)	(3,107)	(3,193)	(86)
Customer & Client Receipts	(10,029)	(9,521)	508	(19,478)	(18,602)	876
Income-Interest	(1)	(22)	(21)	(2)	(2)	-
Inter Account Transfers	-	-	-	-	-	-
<b>Subtotal Income</b>	<b>(12,024)</b>	<b>(11,753)</b>	<b>271</b>	<b>(23,083)</b>	<b>(22,293)</b>	<b>790</b>
<b>Total General Fund Services</b>	<b>11,749</b>	<b>11,031</b>	<b>(718)</b>	<b>21,937</b>	<b>22,408</b>	<b>471</b>
<b>By Service Group</b>						
Corporate & Democratic Core	140	74	(66)	321	307	(14)
Executive Management Team	275	249	(26)	879	879	-
Corporate Management	3,459	3,248	(211)	6,360	6,500	140
Customer Service Centre	493	493	-	1,009	999	(10)
Environmental & Protective Services	1,227	1,054	(173)	2,394	2,404	10
Life Opportunities	2,708	2,180	(528)	5,282	5,064	(218)
Resource Management	2,112	2,074	(38)	3,426	3,484	58
Strategic Policy & Regeneration	(264)	(253)	11	7	121	114
Street Services	1,599	1,912	313	2,259	2,650	391
<b>Subtotal General Fund Services</b>	<b>11,749</b>	<b>11,031</b>	<b>(718)</b>	<b>21,937</b>	<b>22,408</b>	<b>471</b>

APPENDIX B

Budget Monitoring Report for All Services - April - September 2012

Account Description	Corp & Democractic Core	EMT	Corporate Mgt	CSC	Env. & Protective	Life Opps	Resource Mgt.	Strategic Policy and Regen	Street	
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	
<b>EXPENDITURE</b>										
<b>EMPLOYEES</b>										
Profiled Budget to Date	-	392	1,379	527	2,511	2,624	1,245	860	2,559	12,097
Actual to Date	-	393	1,344	517	2,450	2,506	1,225	847	2,638	11,920
Variance to Date	-	1	(35)	(10)	(61)	(118)	(20)	(13)	79	(177)
	green	green	green	green	amber	amber	green	green	amber	amber
Annual Budget	-	825	2,700	1,067	5,129	5,244	2,525	1,716	5,012	24,218
Projected Outturn	-	825	2,725	1,057	5,107	5,016	2,499	1,699	5,134	24,062
Variance	-	-	25	(10)	(22)	(228)	(26)	(17)	122	(156)
<b>PREMISES</b>										
Profiled Budget to Date	-	1	980	-	451	2,020	-	210	950	4,612
Actual to Date	-	1	905	-	387	1,690	(1)	263	947	4,192
Variance to Date	-	-	(75)	-	(64)	(330)	(1)	53	(3)	(420)
	green	green	red	green	red	red	amber	red	green	red
Annual Budget	-	1	1,459	-	753	4,040	-	287	1,159	7,699
Projected Outturn	-	1	1,459	-	753	3,782	-	362	1,208	7,565
Variance	-	-	-	-	-	(258)	-	75	49	(134)
<b>TRANSPORT</b>										
Profiled Budget to Date	-	2	30	-	29	11	6	6	913	997
Actual to Date	-	2	15	-	21	10	4	4	925	981
Variance to Date	-	-	(15)	-	(8)	(1)	(2)	(2)	12	(16)
	green	green	amber	green	amber	amber	amber	amber	green	green
Annual Budget	-	4	60	-	57	23	9	12	2,061	2,226
Projected Outturn	-	4	60	-	57	35	9	12	2,101	2,278
Variance	-	-	-	-	-	12	-	-	40	52

APPENDIX B

**Budget Monitoring Report for All Services - April - September 2012**

Account Description	Corp & Democractic Core	EMT	Corporate Mgt	CSC	Env. & Protective	Life Opps	Resource Mgt.	Strategic Policy and Regen	Street	
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	
<b>SUPPLIES &amp; SERVICES</b>										
Profiled Budget to Date	140	114	1,541	20	584	699	1,229	448	504	5,279
Actual to Date	74	83	1,460	7	582	700	1,175	422	492	4,995
Variance to Date	(66)	(31)	(81)	(13)	(2)	1	(54)	(26)	(12)	(284)
	red	amber	red	amber	green	green	amber	amber	green	red
Annual Budget	321	330	3,021	49	703	1,336	1,439	1,055	981	9,235
Projected Outturn	307	330	3,012	49	725	1,271	1,423	1,055	1,005	9,177
Variance	(14)	-	(9)	-	22	(65)	(16)	-	24	(58)
	green	green	amber	green	amber	amber	green	red	green	red
<b>THIRD PARTY</b>										
Profiled Budget to Date	-	75	43	-	16	208	-	96	207	645
Actual to Date	-	75	23	-	18	191	-	29	214	550
Variance to Date	-	-	(20)	-	2	(17)	-	(67)	7	(95)
	green	green	amber	green	amber	amber	green	red	green	red
Annual Budget	-	75	104	-	30	237	81	191	540	1,258
Projected Outturn	-	75	104	-	30	252	81	191	555	1,288
Variance	-	-	-	-	-	15	-	-	15	30
	green	green	green	green	green	amber	green	green	green	green
<b>TRANSFER PAYMENTS</b>										
Profiled Budget to Date	-	-	-	-	-	72	71	-	-	143
Actual to Date	-	-	-	-	-	46	100	-	-	146
Variance to Date	-	-	-	-	-	(26)	29	-	-	3
	green	green	green	green	green	amber	amber	green	green	green
Annual Budget	-	-	-	-	-	144	140	-	-	284
Projected Outturn	-	-	-	-	-	92	140	-	-	232
Variance	-	-	-	-	-	(52)	-	-	-	(52)
	green	green	green	green	green	amber	amber	green	green	green





**Budget Monitoring Report for All Services - April - September 2012**

Account Description	£'000	Democractic Core	EMT	Corporate Mgt	CSC	Env. & Protective	Life Opps	Resource Mgt.	Strategic Policy and Regen	Street	£'000	£'000
<b>OTHER GRANTS</b>												
Profiled Budget to Date	-		(277)	(7)	(43)	(508)	(155)	-	(89)	(582)	(1,661)	
Actual to Date	-		(273)	(41)	(22)	(523)	(171)	(22)	(58)	(662)	(1,772)	
Variance to Date	-	green	4	(34)	21	(15)	(16)	(22)	31	(80)	(111)	red
Annual Budget	-		(304)	(24)	(85)	(843)	(346)	-	(152)	(1,353)	(3,107)	
Projected Outturn	-		(304)	(10)	(85)	(843)	(378)	-	(96)	(1,477)	(3,193)	
Variance	-		-	14	-	-	(32)	-	56	(124)	(86)	
<b>CUST &amp; CLIENT RECPTS</b>												
Profiled Budget to Date	-		-	(507)	(11)	(1,806)	(2,771)	(233)	(1,794)	(2,907)	(10,029)	
Actual to Date	-		-	(458)	(9)	(1,738)	(2,778)	(202)	(1,739)	(2,597)	(9,521)	
Variance to Date	-	green	-	49	2	68	(7)	31	55	310	508	red
Annual Budget	-		(20)	(960)	(22)	(3,344)	(5,396)	(540)	(3,100)	(6,096)	(19,478)	
Projected Outturn	-		(20)	(850)	(22)	(3,334)	(5,006)	(440)	(3,100)	(5,830)	(18,602)	
Variance	-		-	110	-	10	390	100	-	266	876	
<b>INCOME-INTEREST</b>												
Profiled Budget to Date	-		-	-	-	-	-	-	(1)	-	(1)	
Actual to Date	-		-	-	-	-	-	-	(22)	-	(22)	
Variance to Date	-		-	-	-	-	-	-	(21)	-	(21)	
Annual Budget	-	green	green	green	green	green	green	green	amber	green	amber	amber
Projected Outturn	-		-	-	-	-	-	-	(2)	-	(2)	
Variance	-		-	-	-	-	-	-	(2)	-	(2)	
	-		-	-	-	-	-	-	-	-	-	

**Budget Monitoring Report for All Services - April - September 2012**

Account Description	£'000	Democractic Core	EMT	Corporate Mgt	CSC	Env. & Protective	Life Opps Mgt.	Resource Mgt.	Strategic Policy and Regen	Street	£'000	£'000
<b>TOTAL INCOME</b>												
Profiled Budget to Date	-	green	(309)	(514)	(54)	(2,364)	(2,926)	(439)	(1,884)	(3,534)	(3,534)	(12,024)
Actual to Date	-		(305)	(499)	(31)	(2,404)	(2,963)	(429)	(1,818)	(3,304)	(3,304)	(11,753)
Variance to Date	-	green	4	15	23	(40)	(37)	10	66	230	230	271
Annual Budget	-		(356)	(984)	(107)	(4,278)	(5,742)	(868)	(3,254)	(7,494)	(7,494)	(23,083)
Projected Outturn	-		(356)	(860)	(107)	(4,268)	(5,384)	(768)	(3,198)	(7,352)	(7,352)	(22,293)
Variance	-		-	124	-	10	358	100	56	142	142	790
<b>TOTAL NET</b>												
Profiled Budget to Date	140	red	275	3,459	493	1,227	2,708	2,112	(264)	1,599	1,599	11,749
Actual to Date	74		249	3,248	493	1,054	2,180	2,074	(253)	1,912	1,912	11,031
Variance to Date	(66)	red	(26)	(211)	-	(173)	(528)	(38)	11	313	313	(718)
Annual Budget	321		879	6,360	1,009	2,394	5,282	3,426	7	2,259	2,259	21,937
Projected Outturn	307		879	6,500	999	2,404	5,064	3,484	121	2,650	2,650	22,408
Variance	(14)		-	140	(10)	10	(218)	58	114	391	391	471

## Forecast Outturn Variances

Service Area	Variance			Comment
	Spend £'000	Income £'000	Net £'000	
<b>Life Opportunities</b>				
Parks Recreation	(18)	(6)	(24)	Grounds contract % increase lower than allowed for in 12/13 budget allows for an £18k saving. Extra rental income as a result of PCT parking arrangements.
Sport & Leisure	(323)	190	(133)	On track to deliver FSR target saving (£200k) but the half year trading position combined with the manager's outturn forecasts in relation to certain income streams has improved on the first quarter's forecast, but still below the target.
Housing Comm's	(235)	174	(61)	Delays in the transfer of Abbots Activity Centre are likely to result in a £39k salary pressure. £100k net underspend currently forecast within Housing. Primarily relates to salary savings in the PSU, and an underspend in respect of Homeless Persons Units.
<b>Resource Management (incl. CDC)</b>				
Financial Management	(10)	0	(10)	£10k saving forecast due to vacant posts
Revenue Holding Accounts	14	0	14	£20k extra vehicle insurance costs in 2012/13 offset by a £6k saving on the internal audit contract.
Head Resource Management	(46)	0	(46)	Further saving on vacant Head of Service post until March 2013 £16k (£30k already taken to shared services target). Saving of £30k on one-off sum agreed in budget to finance potential costs of exploring partnership opportunities not now needed.

Service Area	Variance			Comment
	Spend £'000	Income £'000	Net £'000	
Local Taxation	0	100	100	Expected shortfall in court fees recovered as already under budget by £45k
Corporate & Democratic Core	(14)	0	(14)	Saving on Audit fees for 2012/13 although reduced by new approach for new external audit arrangements for 2013/14.
<b>Street Services</b>				
Head of Street	68	-	68	The salary savings target will not be met due to low staff turnover.
Strategy & Business	16	83	99	Overspends on Middleborough car park service charge and St John's car park insurance. Shortfalls on income budget for Community Alarms although the number of customers has increased by 250 as a result of successful publicity campaigns in conjunction with the CSC. Car parking income is also slightly below target at this point but it is hoped that the latest tariff changes will increase usage particularly over the Christmas and New Year period.
Zones	(1)	30	29	Income budget for market included third trading day, which has not been approved, therefore income projected to be under budget.
Recycling & Fleet	167	29	187	Overspends in the following areas:- <ul style="list-style-type: none"> <li>agency staffing costs incurred due to reliability and suitability of interim fleet. New fleet has now been delivered and operational from 30<sup>th</sup> October.</li> <li>Unbudgeted expenditure on previous satellite tracking devices that have now been removed from vehicles.</li> <li>Cost of sacks and boxes due to increased demands following recycling promotional work by Zone teams.</li> <li>Unbudgeted staff and premises costs in respect of workshop at Westside, incurred in lieu of charge for property dilapidation.</li> <li>fleet costs (though with saving on fuel costs.)</li> </ul> Income shortfalls in the following areas:- <ul style="list-style-type: none"> <li>FSR (fundamental service review) targets (shown in income) for trade refuse and depot will not be met due to yard / trade refuse partnership not being implemented this year, partly mitigated as materials sales and recycling credits higher than budgeted.</li> <li>FSR income target for Void clearance as promised business did not materialise from Housing Associations.</li> </ul>

Service Area	Variance			Comment
	Spend £'000	Income £'000	Net £'000	
				<ul style="list-style-type: none"> <li>Trade refuse lower than budgeted for existing client base and increase in customers not in line with predictions.</li> </ul> Income in respect of hire vehicles returned in 2011/2012 has helped to contain pressures.
<b>Corporate Mgt</b>				
Head of Service	25	0	25	Ongoing work to identify the vacancy factor savings.
Legal Services	(9)	94	85	Expenditure: £5k on employee costs, £4k saving on IT costs. Income: Land Charges £80k under budget, Legal income from Braintree will not be realised as we are no longer carrying out work on their behalf.
Democratic Services	(7)	0	(7)	Committee Services printing costs.
Human Resources	5	0	5	Employee costs pressure.
Facilities	3	0	3	Employee costs pressure.
Communications & MFDs	(1)	0	(1)	Employee costs saving.
ICT	0	30	30	Pressure of £30k due to budgeted income from Serco that will not materialise.
<b>CSC</b>	(10)	0	(10)	£10k under on salaries
<b>Env &amp; Protective Servs</b>				
Planning	0	(100)	(100)	Forecast to be £100k more than budgeted on Planning Application Income
Environmental Services	0	22	22	Expected to be £22k less than budgeted on Pest Control income (mainly due to unseasonal weather affecting Wasp numbers)

Service Area	Variance			Comment
	Spend £'000	Income £'000	Net £'000	
Customer & Business	0	38	38	Expected to be £38k less income than budgeted for Bereavement Services, due to drop in death rate
Museums	0	50	50	£50k less income than budgeted expected at year end due to Castle Museum closure, lower than expected numbers of visitors to the China exhibition and low retail sales.
<b>SP&amp;R</b>				
Strategic Housing	(5)	0	(5)	Salary underspend
Enterprise	2	56	58	Small salary overspend forecast. Potential partner for Digital Strategy has withdrawn from contract negotiations, alternative provider deciding whether to proceed. Negotiations ongoing with CCTV contractor, but unlikely to generate any income in 12/13.
Regeneration and Estates Management	75	0	75	£75k pressure due to ongoing full year NNDR costs for vacant St James/Roman House
Cultural Services	(7)	0	(7)	Salary underspend
Spatial Policy	(7)	-	(7)	£7k Salary underspend. Net £85k underspend on Local Development Framework/Community Infrastructure Levy and associated income from ECC is likely this year. This is currently not shown in the forecast outturn as the underspend will be a carry forward request into 2013/14, given the budget was originally allocated for a two year project.

## Housing Revenue Account – April - September

September 2012	Current Period - September 2012			Forecast Year-End Position			
	Account Description	Profiled Budget £'000	Actual £'000	Variance (under) / over £'000	Annual Budget £'000	Projected Outturn £'000	Variance (under) / over £'000
<b>EXPENDITURE</b>							
Employees	122	121	(1)	Green	245	245	- Green
Premises Related	2,935	2,541	(394)	Red	6,654	6,654	- Green
Transport Related	3	1	(2)	Amber	4	4	- Green
Supplies & Services	247	228	(19)	Amber	657	657	- Green
Third Party Payments	2,222	2,228	6	Green	3,340	3,340	- Green
Transfer Payments	102	100	(2)	Green	260	260	- Green
Support Services	1,550	1,497	(53)	Amber	3,364	3,364	- Green
Capital Financing Costs	-	-	-	Green	14,004	14,004 *	- Green
<b>TOTAL EXPENDITURE</b>	<b>7,181</b>	<b>6,716</b>	<b>(465)</b>	<b>Red</b>	<b>28,528</b>	<b>28,528</b>	<b>- Green</b>
<b>INCOME</b>							
Other Grants & Reimbursements	(61)	(61)	-	Green	(134)	(134)	- Green
Customer & Client Receipts	(14,458)	(14,626)	(168)	Amber	(27,563)	(27,713)	(150) Amber
Income-Interest	(2)	(1)	1	Amber	(24)	(24)	- Green
Inter Account Transfers	-	-	-	Green	(260)	(260)	- Green
<b>TOTAL INCOME</b>	<b>(14,521)</b>	<b>(14,688)</b>	<b>(167)</b>	<b>Amber</b>	<b>(27,981)</b>	<b>(28,131)</b>	<b>(150) Amber</b>
<b>TOTAL NET - HRA</b>	<b>(7,340)</b>	<b>(7,972)</b>	<b>(632)</b>	<b>Red</b>	<b>547</b>	<b>397</b>	<b>(150) Red</b>

\* Savings will be delivered as a result of the reduced interest rate achieved on new borrowing.



# Finance and Audit Scrutiny Panel

Item  
**13**

20 November 2012

<b>Report of</b>	<b>Head of Resource Management</b>	<b>Author</b>	<b>Graham Coleman</b> ☎ 282741
<b>Title</b>	<b>Capital Expenditure Monitor 2012/13 – Quarter 2</b>		
<b>Wards affected</b>	Not applicable		

**The Panel is invited to review the progress against all capital schemes in the first six months of 2012/13**

## 1. Action Required

- 1.1 To note the level of capital spending during 2012/13 and forecasts for future years.

## 2. Reason for scrutiny

- 2.1 Monitoring capital spending is important to ensure:
- Spending on projects is within agreed scheme budgets.
  - The overall programme is delivered within budget.
- 2.2 This report also gives the Panel the opportunity to hold Service Managers and Portfolio Holders accountable for their budgets.

## 3. Background

- 3.1 This report sets out details of spending for the financial year 2012/13 (April to September) and revised forecasts for future years.
- 3.2 The report includes new capital funding and changes to the capital programme as revised by Cabinet on 4 July 2012.
- 3.3 The report includes capital expenditure in respect of the Housing Investment Programme, including expenditure on the Council's housing stock.

## 4. 2012/13 position to quarter 2

- 4.1 **Appendix A**, which sets out details of spending and forecasts on all schemes, now includes quarterly forecasts of spend for the current year provided by budget managers to provide an improved indication of progress against schemes in monetary terms. The report compares the projected position to quarter 2 as determined at the time of the previous report, with the accrued expenditure position to quarter 2. It should be pointed out that variances are unlikely to indicate any over or under spending against the project as a whole, but may identify divergences from planned activity that should be brought to Members' attention.
- 4.2 In the first six months of this year capital spending totalled £3.8 million, compared to a forecast of £5.6 million. The reasons for the main variances are detailed below:
- Osborne Street Bus Station – (£494k). Variance relates to the timing of payments. Progress against the scheme has been good, with opening planned for November.
  - Sports & Leisure FSR – (£447k). The building works commenced on 17<sup>th</sup> September, and the scheme is currently on programme and budget.
  - Decent Homes & Upgrades – (£382k). Forecast relates to the timing of the release of works to contractors. The timing of the works is largely due to contractors' capacity to undertake work and gain access to properties.



- Firstsite – (£187k). The variance relates to the reversal of accruals for contract retention sums.
- Mercury Theatre Roof & Windows – £171k. Scheme expected to be within budget. Majority of the work completed within quarter 2.
- Carbon Management Programme Phase 2 – (125k). Variance relates to timing of payments. Small overspend predicted.

4.3 The Capital Programme has increased by £987.5k since the previous report. New funding has been added to the capital programme including £434k grant funding for Mandatory Disabled Facilities Grants. Also included are further contributions from other external parties and Section 106 monies. The Capital Programme now stands at £26.7 million, which is funded as follows:

Sources of Funding	%
<b>Internal Funding</b>	
• Capital Receipts	24.41
• Borrowing	13.51
• Revenue Contributions	1.83
• Other	10.37
<b>Total Internal Funding</b>	<b>50.12</b>
<b>External Funding</b>	
• Grants	45.24
• EU	0.43
• Section 106	2.97
• Other	1.24
<b>Total External Funding</b>	<b>49.88</b>

4.4 It should be noted that the programme includes a number of major schemes where spending is planned across more than one year. Budget managers have re-profiled their forecasts for expenditure in line with expectations for 2012/13 and beyond.

4.5 Forecast spending for 2012/13 is £19.2 million, with the remainder of the programme planned for 2013/14 and beyond. The table below provides a summary of the capital programme by service area:

Service / Scheme	Total Programme	2012/03		2013/14 and Beyond Forecast	(Surplus) / Shortfall
		Spend to date	Forecast for year		
	£'000	£'000	£'000	£'000	£'000
<b>SUMMARY</b>					
Corporate Management	1,420.7	423.2	1,318.8	109.0	7.1
EMT	0.0	0.0	0.0	0.0	0.0
Resource Management	3.1	0.0	0.0	3.1	0.0
Street Services	354.4	57.3	297.1	57.3	0.0
Environmental & Protective Serv.	4,852.1	165.0	1,134.3	3,717.8	0.0
Strategic Policy & Regeneration	4,294.2	(145.9)	3,230.0	1,079.2	15.0
Life Opportunities	5,152.1	1,170.0	4,391.3	760.8	0.0
Completed Schemes	16.7	9.6	16.7	0.0	0.0
<b>Total (General Fund)</b>	<b>16,093.3</b>	<b>1,679.2</b>	<b>10,388.2</b>	<b>5,727.2</b>	<b>22.1</b>
Housing Revenue Account	10,567.8	2,109.0	8,810.8	1,757.0	0.0
<b>Total Capital Programme</b>	<b>26,661.1</b>	<b>3,788.2</b>	<b>19,199.0</b>	<b>7,484.2</b>	<b>22.1</b>

4.6 As shown in the table above there is currently a forecast net overspend on the capital programme of £22.1k. This is detailed below:

<b>Scheme</b>	<b>Over/ (Under) £'000</b>
Town Hall DDA Sensory Project	3.1
Carbon Management Programme Phase 2	4.0
Site Disposal Costs	15.0
<b>Total Net Overspend</b>	<b>22.1</b>

4.7 This sum will be referred to Cabinet to consider alongside an updated forecast of capital receipts later in the year.

## **5. Strategic Plan references**

5.1 The Council's Capital Programme is aligned to the Strategic Plan.

## **6. Financial implications**

6.1 As set out above.

## **7. Risk management implications**

7.1 Risk management issues are considered as part of all capital projects.

## **8. Other Standard References**

8.1 Having considered consultation, publicity, equality, diversity and human rights, community safety, and health and safety implications, there are none that are significant to the matters in this report.

### **Background Papers**

None

Disabled Facilities Grant 2012-13	434.0
2011-12 additional RCCO for HIP programme	327.3
S106 release - Salvation Army Centre Butt Road	10.5
SOS Bus - revenue contribution from Jubilee Fund	60.0
S106 Town Station Square	(2.2)
New Braiswick Park - external & revenue funding	1.7
S106 High Woods Country Park Visitor Centre	31.2
S106 Shrub End Sports Ground car parking facilities	67.7
S106 Grove Road Tiptree skate park	57.3
<b>Current Programme</b>	<b>26,661.1</b>

## CORPORATE MANAGEMENT

<b>Town Hall DDA Sensory Project</b>	183.9	2.5	4.0	(1.5)	18
Details of Scheme: Replacement of existing hearing loop and PA systems within the Town Hall and enhancement of audio visual equipment in Training Room. Small overspend predicted based on tender returns, however these include contingencies. Works commencing in 2012.					
<b>Carbon Management Programme phase 2</b>	269.7	143.8	268.7	(124.9)	26
Details of Scheme: Phase 2 schemes: Rowan House Lighting and filming of windows, Multi-storey car park lighting, and upgrading of Building Information Systems in operational buildings. Predicted small overspend due to costs of car park lighting being higher than expected.					
<b>Moot Hall Organ</b>	18.3	0.0	9.0	(9.0)	1
Details of Scheme: Project funded by the Heritage Lottery Fund and Friends of the Moot Hall Organ. Restoration and repair of Moot Hall Organ prepared for submission 28/11/12.					
<b>Mercury Theatre - Roof &amp; Windows</b>	372.0	271.7	100.3	171.4	36
Details of Scheme: Replacement of flat roof and windows to bar and circulation spaces. Small underspend anticipated, but dependent on final snagging.					
<b>Provision for Fundamental Service Reviews</b>	379.0	0.0	0.0	0.0	37
Details of Scheme: Funding for future Fundamental Service Reviews agreed by Council on 22 February 2012.					
<b>Customer Service Centre Redesign</b>	95.5	0.0	0.0	0.0	
Details of Scheme: Work required following the completion of the flexible working project and sale of Angel Court, and development of information systems through the Universal Customer Contact Fundamental Service Review.					
<b>ICT Strategy Phase 2</b>	102.3	5.2	0.0	5.2	10
Details of Scheme: Second phase of ICT capital investment - remaining spend dependent on outcome of Universal Customer Contact Fundamental Service Review.					

<b>TOTAL - Corporate Management</b>	<b>1,420.7</b>	<b>423.2</b>	<b>382.0</b>	<b>41.2</b>	<b>1,31</b>
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## EMT

<b>TOTAL - EMT</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	
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## RESOURCE MANAGEMENT

<b>Financial Systems Migration</b>	3.1	0.0	0.0	0.0	
Details of Scheme: Upgrade of Financial Systems. Final phase is to integrate CLW & CBH Debtors. This is now awaiting the outcome of the requirements.					

<b>TOTAL - Resource Management</b>	<b>3.1</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	
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<b>TOTAL - Street Services</b>	<b>354.4</b>	<b>57.3</b>	<b>155.9</b>	<b>(98.6)</b>	<b>29</b>
<b>ENVIRONMENTAL &amp; PROTECTIVE SERVICES</b>					
<b>Heritage Fund - incl. Roman Walls</b>	353.8	59.5	38.1	21.4	7
Details of Scheme: Heritage Fund used to enhance public spaces and historic sites, and protect key buildings. The repairs on the Middlebo Wall, specifically at St Mary's Steps commenced on 14 May 2012. This phase of repairs is scheduled to continue until m English Heritage.					
<b>Heritage Fund - Castle Park Interpretation</b>	23.3	0.0	0.0	0.0	
Details of Scheme: Heritage Fund used to enhance public spaces and historic sites, and protect key buildings. The remainder of the money refurbishment of Colchester Castle Museum as this project includes heritage interpretation in the Castle Park.					
<b>Cemetery Extension</b>	125.0	0.0	0.0	0.0	4
Details of Scheme: Acquisition of land and provision of infrastructure to enable continuation of burial services. The capital funding identified the land including site survey, mapping, levelling, landscaping and fencing, along with any access roads that may need					
<b>Replacement of Cremators</b>	29.5	0.0	0.0	0.0	2
Details of Scheme: Replacement of Cremators at Colchester Crematorium to deliver mercury abatement in compliance with environmental concluded and the final invoice for the installation has been paid. The remaining capital programme has been put aside of the works.					
<b>Abberton Church Extension</b>	50.0	50.0	50.0	0.0	5
Details of Scheme: Payment from S106 funds for extension and alterations to St Andrews Church in Abberton.					
<b>Roman Circus</b>	69.2	0.0	0.0	0.0	3
Details of Scheme: Interpretation/Visitor Centre for Roman Remains. This is now firmly linked to the larger Castle redevelopment project					
<b>Castle Walls</b>	114.1	3.5	3.5	0.0	
Details of Scheme: Repair works to the external walls of Colchester Castle. Current funding relates to repairs to the North wall. This was in 2012 but has now been deferred until the summer of 2013 to coincide with the Castle closure.					
<b>Redevelopment of Castle Museum</b>	4,087.2	52.0	132.0	(80.0)	90
Details of Scheme: Funding for redevelopment of Castle Museum, funded mainly from Heritage Lottery Fund plus other contributions. Colch re-open in March 2014. Project completion is September 2014.					
<b>TOTAL - Env &amp; Prot Services</b>	<b>4,852.1</b>	<b>165.0</b>	<b>223.6</b>	<b>(58.6)</b>	<b>1,13</b>

<b>King Edward Quay</b>	3.5	(7.1)	(7.1)	0.0	
Details of Scheme:					
Transformation of Quay. The major works are completed but there are a number of minor snagging issues relating to st					
<b>St Botolphs Regeneration</b>	504.0	63.7	54.1	9.6	12
Details of Scheme:					
Fund to progress elements within the St Botolphs regeneration area. Nearing completion of Vineyard Gate Development commence on planning application. Hotel subject to funding delays in respect of end user but work ongoing to resolve t					
<b>St Botolphs Public Realm</b>	0.0	1.4	0.0	1.4	
Details of Scheme:					
Public Realm Improvements in the St Botolphs area. Public realm works adjacent to firstsite complete, some snagging i reconciliation of spend underway to be completed this quarter.					
<b>Town Centre Improvements</b>	155.4	7.8	1.6	6.2	
Details of Scheme:					
Improvement works to Town Centre, including removal of unnecessary traffic and improved public realm (including Hist ECC regarding implementation of temporary scheme.					
<b>Town Station Square</b>	266.3	5.0	0.0	5.0	26
Details of Scheme:					
Development of Public Open Space between railway station and new Court Building funded from Section 106 - work on partners Greater Anglia and Court Service.					
<b>Bus Station - CBC Enhancements</b>	420.0	0.0	0.0	0.0	42
Details of Scheme:					
Enhanced features of new bus station including new paving, public information systems and signage. Good progress on facility on November 18th.					
<b>Osborne Street Bus Station</b>	1,500.0	5.9	500.0	(494.1)	1,50
Details of Scheme:					
Creation of new bus station facility with toilets, new waiting room, passenger shelters, and real time information. Progress November 18th.					
<b>A12 Junction Facilitation</b>	168.7	3.5	3.5	0.0	8
Details of Scheme:					
Contribution towards A12 Junction Facilitation costs. Final spend on drainage works.					
<b>Creative Business Hub</b>	140.7	0.0	0.0	0.0	4
Details of Scheme:					
Contribution to Creative Business Centre to be formed in the St Botolphs Quarter (old police station). Funding bids subr					
<b>Transcoast</b>	146.1	2.8	0.0	2.8	8
Details of Scheme:					
Design, manufacture and installation work to improve public realm and access routes to redevelop and integrate old por moorings and pontoons. Community event and engagement programme.					
<b>New Braiswick Park Cycle Route</b>	25.3	1.4	0.2	1.2	2
Details of Scheme:					
To provide better access to the rail station for pedestrians and cyclists. Improved fence will also make fence line more s open.					
<b>Firstsite (VAF)</b>	384.6	(187.4)	0.0	(187.4)	38
Details of Scheme:					
New Visual Arts Facility. Contract retention sums will be retained for a year following Practical Completion sign off. Sign are being submitted.					
<b>Site Disposal Costs</b>	6.9	10.4	10.9	(0.5)	2
Details of Scheme:					
Costs of securing capital receipts. Current funds nearly fully spent. Also committed to agent fees and marketing expense will be required.					
<b>Moler Works Site</b>	41.4	0.0	0.0	0.0	
Details of Scheme:					
Costs associated with provision of three commercial shop units - no spend anticipated during 2012-13.					

<b>Salvation Army Centre S106</b>	10.5	10.5	10.5	0.0	1
Details of Scheme:					
Grant towards installation of lift at Salvation Army Centre in Butt Road Colchester					
<b>Mandatory Disabled Facilities Grants</b>	1,120.5	218.6	297.0	(78.4)	1,120.5
Details of Scheme:					
We are obliged to approve any grant requests for this budget that meet the criteria. There is, however, a time lag between we pay after adaptations work is complete. There are currently also delays in the completion of Occupational Therapist					
<b>Private Sector Renewals - Loans and Grants</b>	728.1	63.4	63.0	0.4	15
Details of Scheme:					
Loans and grants to private householders					
<b>Temporary Accommodation Review</b>	400.0	0.0	0.0	0.0	40
Details of Scheme:					
Rebuilding and refurbishment of temporary accommodation. Payment due on practical completion of Ascot House - exp					
<b>Sport &amp; Leisure FSR - Building works to Colchester</b>					
<b>Leisure World</b>	1,445.5	51.7	498.4	(446.7)	1,445.5
Details of Scheme:					
Extension of Activa Gym, creation of new multi-purpose room at first floor level and re-modelling and extension of main catering concession at LWC. Works commenced on site 17/09/12 and are currently on programme and on budget.					
<b>Sport &amp; Leisure FSR - IT works</b>	166.0	43.4	48.2	(4.8)	15
Details of Scheme:					
A personal leisure card/account providing a number of benefits for the customer and customer insight and marketing information service opportunities for customers both online and in the facilities					
<b>Clubhouse - Abbey Field</b>	681.3	681.3	681.3	0.0	681.3
Details of Scheme:					
Payment to Ministry of Defence for construction of new clubhouse					
<b>Old Heath Multi Use Games Area Installation &amp; Landscape Improvements</b>	10.5	0.0	0.0	0.0	
Details of Scheme:					
Works to recreation ground. Remaining budget to be spent on notice boards, link paths, seating and bins. Forming part					
<b>Castle Park - Playground Refurbishment</b>	30.7	0.0	0.0	0.0	30.7
Details of Scheme:					
Refurbishment of Playground					
<b>Repairs to walls of closed churchyards</b>	24.2	0.9	0.1	0.8	
Details of Scheme:					
Health & safety works to walls of closed churchyards. Works delayed for warmer weather.					
<b>Resource Centre - Highwoods Country Park</b>	183.5	14.9	3.5	11.4	183.5
Details of Scheme:					
S106. Provision of Resource Centre. Planning approval received 1 November. Works to start in November.					
<b>Grove Rd Tiptree Skatepark S106</b>	77.3	0.0	0.0	0.0	
Details of Scheme:					
Expansion of existing youth facilities at Grove Road Recreation Ground Tiptree. Project being developed by Tiptree Park and subject to TPC receipt of external funding					
<b>Broad Lane Sports Ground S106</b>	4.5	4.5	4.5	0.0	
Details of Scheme:					
Contribution to construction and fitting out of new toilet block					
<b>King George V Pavilion Wivenhoe S106</b>	12.5	0.0	0.0	0.0	12.5
Details of Scheme:					
Contribution to Upgrade of sports pavilion at King George V Playing Field					
<b>Bergholt Road Play Area</b>	15.0	0.0	0.0	0.0	
Details of Scheme:					
Improvements to Bergholt Road Play Area. Seeking match funding.					
<b>Holly Trees WCs Castle Park</b>	41.0	0.8	0.0	0.8	41.0
Details of Scheme:					
Refurbishment of Holly Trees toilet block to provide improved visitor facilities and experience. Toilets maintained as part of contract.					

Improvements made to Council's sheltered housing accommodation.

**Housing ICT Development**

313.8 14.5 63.8 (49.3) 15

Details of Scheme:

Improvements to Housing IT systems – Work on the previously purchased Capita Open Contractor system continues, in Christmas. Further projects on IT Streamlining and developments to the Capita system have been placed on hold pending Business Case approval.

**TOTAL - HRA** **10,567.8** **2,109.0** **2,592.5** **(483.5)** **8,81**

**COMPLETED SCHEMES (OR WHERE RETENTION ONLY OUTSTANDING)**

**Electronic Service Delivery**

3.0 2.0 2.0 0.0

Details of Scheme:

Customer Service Centre. Furtherance of electronic service facilities includes areas identified in business case for CSC

**Boada Skatebowl**

4.4 4.2 0.0 4.2

Details of Scheme:

Provision of new activity area targeted at young people

**Gladiator Way - Play Equipment S106**

0.4 0.0 0.0 0.0

Details of Scheme:

Provision of new play equipment

**Barbour Gardens - Play Equipment S106**

0.1 0.0 0.0 0.0

Details of Scheme:

Provision of new play equipment

**Colchester Leisure World - Fitness Pool LACM and Modernisation**

5.4 0.0 0.0 0.0

Details of Scheme:

Refurbishment of Fitness Pool building

**Support for Parish Councils and Community Groups**

3.4 3.4 3.4 0.0

Details of Scheme:

Grants scheme to provide funding to Parishes in delivering projects in their areas

**TOTAL - COMPLETED SCHEMES** **16.7** **9.6** **5.4** **4.2** **1**



## Finance and Audit Scrutiny Panel

Item  
**14**

20 November 2012

<b>Report of</b>	<b>Head of Resource Management</b>	<b>Author</b>	<b>Steve Heath</b>
<b>Title</b>	<b>Certification of Claims and Returns – Annual Report 2011/12</b>		
<b>Wards affected</b>	Not applicable		

**The Panel is invited to note and comment on the contents of the  
2011/12 annual grant claims report**

### **1. Action required**

- 1.1 To note and comment on the contents of the 2011/12 Certification of Claims and Returns report from the Audit Commission.

### **2. Reason for scrutiny**

- 2.1 The Accounts and Audit Regulations require the Council to consider this report.

### **3. Supporting information**

- 3.1 This report summarises the outcomes of the Auditor's certification work on the Council's claims and returns for 2011/12. It includes agreed actions relating to recommendations arising from the Auditor's work.
- 3.2 This was the final report to be prepared prior to the Council's Auditors changing to Ernst & Young with effect from November 2012. The report will be presented to the Panel by the Finance Manager as the new auditors are unable to present a report prepared by the previous auditor.

### **4. Strategic Plan references**

- 4.1 The objectives and priorities of the Strategic Plan informed all stages of the budget process for 2011/12.

### **5. Other Standard References**

- 5.1 Having considered financial implications, publicity, equality, diversity and human rights, health and safety, community safety and risk management implications, there are none that are significant to the matters in this report.



# Certification of claims and returns - annual report

Colchester Borough Council

Audit 2011/12



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# Introduction

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**Local authorities claim large sums of public money in grants and subsidies from central government and other grant-paying bodies and are required to complete returns providing financial information to government departments. My certification work provides assurance to grant-paying bodies that claims for grants and subsidies are made properly or that information in financial returns is reliable. This report summarises the outcomes of my certification work on your 2011/12 claims and returns.**

- 1 Under section 28 of the Audit Commission Act 1998, the Audit Commission may, at the request of authorities, make arrangements for certifying claims and returns because scheme terms and conditions include a certification requirement. Where such arrangements are made, certification instructions issued by the Audit Commission to its auditors set out the work auditors must do before they give their certificate. The work required varies according to the value of the claim or return and the requirements of the government department or grant-paying body, but in broad terms:
  - for claims and returns below £125,000 the Commission does not make certification arrangements and I was not required to undertake work;
  - for claims and returns between £125,000 and £500,000, I undertook limited tests to agree form entries to underlying records, but did not undertake any testing of eligibility of expenditure; and
  - for claims and returns over £500,000 I planned and performed my work in accordance with the certification instruction to assess the control environment for the preparation of the claim or return to decide whether or not to place reliance on it. Depending on the outcome of that assessment, I undertook testing as appropriate to agree form entries to underlying records and test the eligibility of expenditure or data.
- 2 Claims and returns may be amended where I agree with your officers that this is necessary. My certificate may also refer to a qualification letter where there is disagreement or uncertainty, or you have not complied with scheme terms and conditions.

# Summary of my 2011/12 certification work

## The Authority has performed well in preparing claims and returns

- 3 Colchester Council receives £75.1 million in funding from various grant paying departments. The grant paying departments attach conditions to these grants and the Council must show that it has met these conditions. If the Council cannot evidence this, the funding can be at risk. It is therefore important that the Council manages certification work properly and can demonstrate to us, as auditors, that the relevant conditions have been met.
- 4 In 2011/12, I certified four claims and returns with a total value of £117.4 million. This figure includes the National Non Domestic Rate (NNDR) return, with a value of £56.8 million (the amount the Council pays over to the relevant government department). Of these four claims, I carried out a limited review of one and a full review of three (paragraph 1 explains the difference in approach). I amended two claims and for one claim, I was unable to fully certify the claim and issued a qualification letter to the respective grant-paying body. Table 1 sets out a summary of the claims and returns audited and table 2 sets out a full summary of my findings on the individual claims.

Table 1: **Summary of 2011/12 certification work**

<b>Number of claims and returns certified</b>	
Total value of claims and returns certified	£117,426,636
Number of claims and returns amended due to errors	2
Number of claims and returns where we issued a qualification letter because there was disagreement or uncertainty over the content of the claim or return or scheme terms and conditions had not been complied with	1
Total cost of certification work	£37,478

# Results of 2011/12 certification work

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**This section summarises the results of my 2011/12 certification work and highlights the significant issues arising from that work.**

## **Control environment**

- 5 I assess the control environment for claims and returns over £500,000. Where I am able to place reliance on the control environment, I undertake only limited testing (Part A testing).
- 6 Overall the control environment for claims requiring certification at the Council is good, which has resulted in reduced testing. Officers are experienced in compiling the relevant claims and have the necessary capacity to answer audit queries.
- 7 All claims were supported by appropriate working papers.

## **Specific claims**

- 8 Outlined below are details of those claims where issues were raised during the audit, resulting in amendment to the claim and/or a qualification letter reported to the grant-paying body.

## **National non-domestic rates return (NNDR)**

- 9 My audit of the NNDR return is undertaken in line with the approach agreed with the Department for Communities and Local Government (DCLG). I was able to place reliance on the control environment for the NNDR return. However, under the certification instruction requirements, detailed testing needs to be performed once every 3 years, and 2011/12 was the third year in the testing cycle. As a result, I undertook testing to agree entries on the

return to underlying records and test the eligibility of expenditure. The work undertaken to support the certification of the claim is integrated with my audit opinion work.

**10** One amendment was made to the NNDR return. £179,461 had to be added to 'gross rates payable in respect of previous years', due to the 2011/12 element of the 2009/10 deferral not being accounted for and disclosed correctly in the draft return. This resulted in an increase in the Council's overall contribution to the NNDR pool from £56,798k to £56,978k.

### **Recommendation**

**R1** Ensure that amounts relating to deferrals are accounted for and disclosed correctly in the NNDR return.

### **Housing and council tax benefit claim (BEN01)**

**11** My audit of the BEN01 claim is undertaken in line with the approach agreed with the Department for Work and Pensions (DWP), which requires detailed testing of individual benefit cases. The work undertaken to support certification of the claim is integrated with my audit opinion work.

**12** Minor amendments were made to the BEN01 claim, which increased the overall amount due to the Council by £2,284. This is a complex and high value claim and this low level of error therefore represents good performance. The main errors noted from my audit included:

- errors in the classification of non-HRA rent rebates within subsidy entitlement cells; and
- errors in rent rebates due to the way in which the benefits system applied subsequent savings credit up rate notifications (some notifications were applied from April 2011 by default, rather than being applied from the actual respective change date).

**13** In both cases, the Council reviewed and amended 100% of the affected cases and therefore no qualification was required.

**14** The Council uses the Capita benefits system, which provides a method for the Council to reconcile benefit granted to benefit paid. However, the benefit granted figures for rent allowances in the claim form and the benefit granted figures used in the reconciliation differed by £1,826. The Council has claimed the lower figure, in line with DWP guidance, however I was required to report the difference to the DWP in a qualification letter.

<b>Recommendation</b>
<b>R2</b> Ensure that for non-HRA rent rebates, expenditure is correctly classified within subsidy entitlement cells.
<b>R3</b> Take action to ensure that savings credit up rate notifications are actioned on the benefits system from the correct date.
<b>R4</b> Resolve any reconciliation differences between amounts granted on the BEN01 return and amounts granted per the system.

### Overall summary

15 Table 2 below sets out a full summary of our findings on the individual claims audited in 2011/12.

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Table 2: **Claims and returns above £500,000**

<b>Claim or return</b>	<b>Value of claim or return presented for certification (£'000)</b>	<b>Was reliance placed on the control environment?</b>	<b>Value of any amendments made (£)</b>	<b>Was a qualification letter issued?</b>
Housing and council tax benefit scheme (BEN01)	63,934	Yes	2,284 The grant due to the Council increased by £2,284. See paragraph 12 for more detail.	Yes A difference of £1,826 was noted between the benefit granted per the return and the benefit granted as per the software supplier's reconciliation. The Council used the lower

Claim or return	Value of claim or return presented for certification (£'000)	Was reliance placed on the control environment?	Value of any amendments made (£)	Was a qualification letter issued?
Pooling of housing capital receipts (CFB06)	1,319	Yes	Nil	No
HRA subsidy (HOU01)	-4,625	Yes	Nil	No
National non-domestic rates return (NNDR)	56,798	Yes	179,461 The Council's overall contribution to the NNDR pool increased to £56,978k. See paragraph 10 for more detail.	No

figure in the claim form, but I was required to report the difference to the DWP in a qualification letter.



# Summary of progress on previous recommendations

This section considers the progress made in implementing recommendations I have previously made arising from certification work.

16 Table 3 summarises the recommendations made and progress against the actions agreed.

Table 3: Summary of progress made on recommendations arising from certification work undertaken in earlier years

Agreed action	Priority	Date for implementation	Responsible officer	Current status	Comments
R1 Reduce instances of simple errors, such differences between claim values and supporting documentation, by performing a thorough review of the claim and associated working papers prior to submission to audit. <i>Action: Noted for future claims.</i>	Medium	March 2012	Head of Resource Management	Implemented	Errors noted in 2010/11 have not reoccurred in 2011/12.
R2 Ensure all grant claims/returns are produced in	Medium	March 2012	Head of Resource Management	Implemented	The recommendation related to the Housing

Agreed action	Priority	Date for implementation	Responsible officer	Current status	Comments
<p>line with the certification instruction guidance notes.</p> <p><i>Action: Noted. The Housing Finance base data return relies on data that is held on the Academy Housing system.</i></p>					<p>Base Data return, which is no longer required to be produced by the Council due to HRA self financing reform. Recommendation is therefore not applicable for 2011/12.</p>
<p>R3 Take action to prevent the errors noted in the BEN01 audit from occurring in future.</p> <p><i>Action: We are targeting those areas that caused errors within the claim this year to make sure they are corrected pre audit. We are also looking at policies and procedures to prevent them reoccurring.</i></p>	Low	March 2012	Head of Resource Management	Partially implemented	<p>Errors noted in 2010/11 have not reoccurred in 2011/12. However further errors have been identified from our BEN01 testing in 2011/12 which has resulted in amendment and a qualification letter. Refer to Table 2 above.</p>

# Summary of recommendations

This section highlights the recommendations arising from my certification work and the actions agreed for implementation.

Table 4: Summary of recommendations arising from 2011/12 certification work

Recommendation	Priority	Agreed action	Date for implementation	Responsible officer
R1 Ensure that amounts relating to deferrals are accounted for and disclosed correctly in the NNDR return.	Medium	Noted for future claims.	March 2013	Finance Manager (PSU & Income Management)
R2 Ensure that for non-HIRA rent rebates, expenditure is correctly classified within subsidy entitlement cells.	Medium	We will have checking built in at an earlier date so that any issues are resolved pre-claim. This issue has largely been resolved through a patch that has been added to the system.	March 2013	Finance Manager (PSU & Income Management)
R3 Take action to ensure that savings credit up rate notifications are actioned on the benefits system from the correct date.	Medium	We will have checking built in at an earlier date so that any issues are resolved pre-claim. However, it should be noted that the way we deal with these claims will change in April next year.	March 2013	Finance Manager (PSU & Income Management)
R4 Resolve any reconciliation differences between amounts granted	Low	Until we come to balancing the claim, we cannot say whether or not we will	March 2013	Finance Manager (PSU & Income Management)

Recommendation	Priority	Agreed action	Date for implementation	Responsible officer
on the BEN01 return and amounts granted per the system.		have an imbalance, but if we do, we will do all we can to resolve it prior to the claim being certified.		Management)

# Summary of certification fees

This section summarises the fees arising from my 2011/12 certification work and highlights the reasons for any significant changes in the level of fees from 2010/11.

17 Refer to table 5 for an analysis of certification fees charged.

Table 5: Summary of certification fees

Claim or return	2011/12 fee	2010/11 fee	Reasons for changes in fee greater than +/- 10 per cent
Housing and council tax benefit scheme (BEN01)	£32,561	£36,498	Efficiencies in the audit resulted in a reduction in the time taken to audit.
Pooling of housing capital receipts (CFB06)	£1,325	£2,000	Efficiencies in the audit resulted in a reduction in the time taken to audit.
HRA subsidy (HOU01)	£877	£1,236	Decrease on fees charged in 2010/11 due to parts A and B testing (detailed sample testing) being performed in 2010/11, and only part A testing (reduced testing) being performed in 2011/12. Under the certification instruction requirements, parts A and B testing need to be performed every 3 years, and 2010/11 was the third year in the testing cycle. Part B testing was therefore required in 2010/11 but not 2011/12.

Claim or return	2011/12 fee	2010/11 fee	Reasons for changes in fee greater than +/- 10 per cent
National non-domestic rates return (NNDR)	£2,715	£3,179	Efficiencies in the audit resulted in a reduction in the time taken to audit.
<b>Total</b>	<b>£37,478</b>	<b>£42,913</b>	

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The Statement of responsibilities of grant-paying bodies, authorities, the Audit Commission and appointed auditors in relation to claims and returns issued by the Audit Commission explains the respective responsibilities of auditors and of the audited body.





## Finance & Audit Scrutiny Panel

Item  
**15**

20 November 2012

<b>Report of</b>	<b>Head of Resource Management</b>	<b>Author</b>	<b>Steve Heath</b>
<b>Title</b>	<b>Treasury Management Strategy Statement – Mid-Year Review Report 2012/13</b>		
<b>Wards affected</b>	Not applicable		

**The Panel is invited to review treasury management performance for the first six months of 2012/13**

### 1. Action required

- 1.1 To note the activities relating to treasury management for the first six months of 2012/13 and consider performance.

### 2. Reason for scrutiny

- 2.1 The Chartered Institute of Public Finance and Accountancy's (CIPFA) revised Code of Practice on Treasury Management was adopted by this Council on 17 February 2010. The primary requirements of the Code include the production of an annual Treasury Management Strategy Statement - including the Annual Investment Strategy and Minimum Revenue Provision Policy - for the year ahead, a Mid-year Review Report and an Annual Report covering activities during the previous year. This mid year report has been prepared in compliance with CIPFA's Code of Practice.

### 3. Introduction

- 3.1 The Council operates a balanced budget, which broadly means that income raised during the year will meet its expenditure. Part of the treasury management operations ensure that the cash flow is adequately planned, with surplus monies being invested in low risk counterparties, providing adequate security and liquidity before considering investment returns.
- 3.2 The second main function of the treasury management service is the funding of the Council's capital plans. These capital plans provide a guide to the borrowing need of the Council, essentially the longer term cash flow planning to ensure the Council can meet its capital spending operations. This management of longer term cash may involve arranging long or short term loans, or using longer term cash flow surpluses, and on occasion any debt previously drawn may be restructured to meet Council risk or cost objectives.
- 3.3 Treasury management is defined as "The management of the local authority's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks."
- 3.4 The Council employ Sector Treasury to provide a consultancy service in respect of treasury management, to include advice on both debt and investments. During the year Sector have provided advice on borrowing, investments, counterparty credit details and general capital accounting information. 55



## 4. Economic Background

- 4.1 Economic sentiment, in respect of the prospects for the UK economy to recover swiftly from recession, suffered a major blow in August when The Bank of England Quarterly Inflation Report pushed back the timing of the return to trend growth and also lowered its inflation expectations. Nevertheless, concern remains that the Bank's forecasts of a weaker and delayed robust recovery may still prove to be over optimistic given the world headwinds the UK economy faces. It was noted that the UK economy is heavily influenced by worldwide economic developments, particularly in the Eurozone, and that on-going negative sentiment in that area would inevitably permeate into the UK's economic performance. Weak export markets will remain a drag on the economy and consumer expenditure will continue to be depressed due to a focus on paying down debt, negative economic sentiment and job fears.
- 4.2 Consumer confidence remains very depressed with unemployment concerns, indebtedness and a squeeze on real incomes from high inflation and low pay rises, all taking a toll. The UK's recovery from the initial 2008 recession has been the worst and slowest of any G7 country apart from Italy (G7 = US, Japan, Germany, France, Canada, Italy and UK). It is also the slowest recovery from a recession of any of the five UK recessions since 1930 and total GDP is still 4.5% below its peak in 2008.
- 4.3 This weak recovery has caused social security payments to remain elevated and tax receipts to be depressed. Consequently, the Chancellor's plan to eliminate the annual public sector borrowing deficit has been pushed back further into the future. The Monetary Policy Committee has kept Bank Rate at 0.5% throughout the period while quantitative easing was increased by £50bn to £375bn in July. In addition, in June, the Bank of England and the Government announced schemes to free up banking funds for business and consumers.
- 4.4 On a positive note, despite all the bad news on the economic front, the UK's sovereign debt remains one of the first ports of call for surplus cash to be invested in and gilt yields, prior to the ECB bond buying announcement in early September, were close to zero for periods out to five years and not that much higher out to ten years.
- 4.5 The overall balance of risks is, therefore, weighted to the downside:
- Sector expects low growth in the UK to continue, with Bank Rate unlikely to rise in the next 24 months, coupled with a possible further extension of quantitative easing. This will keep investment returns depressed.
  - The expected longer run trend for PwLB borrowing rates is for them to eventually rise, primarily due to the need for a high volume of gilt issuance in the UK and the high volume of debt issuance in other major western countries. However, the current safe haven status of the UK may continue for some time, tempering any increases in yield.
  - This interest rate forecast is based on an assumption that growth starts to recover in the next three years to a near trend rate (2.5%). However, if the Eurozone debt crisis worsens as a result of one or more countries having to leave the Euro, or low growth in the UK continues longer, then Bank Rate is likely to be depressed for even longer than in this forecast.
- 4.6 Sector's latest economic forecast is shown in **Appendix A**.

## 5. Treasury Management Strategy Statement 2012/13

- 5.1 The Council's Treasury Management Strategy Statement (TMSS) for 2012/13 was approved by full Council on 22 February 2012. The strategy is as follows:
- The UK bank rate has been unchanged from a historically low 0.5% since March 2009. The view from the Council's<sup>56</sup> treasury advisers is that the UK economy is

expected to be weak in the next two years, and the Bank Rate is not expected to start increasing until quarter three of 2013.

- The Council currently has an under-borrowed position. The borrowing strategy is to reduce the difference between gross and net debt by continuing to 'borrow internally', which is primarily due to investment rates on offer being lower than long term borrowing rates. This has the advantages of maximising short-term savings and reducing the Council's exposure to interest rate and credit risk. This approach is intended to be maintained during the year.
- The investment policy reflects the Council's low appetite for risk, emphasising the priorities of security and liquidity over that of yield. The main features of the policy are as follows:
  - The Council will only invest with institutions with the highest credit ratings, taking into account the views of all credit rating agencies and other market data when making investment decisions.
  - The Council will use Sector Treasury's creditworthiness service, which combines data from credit rating agencies with credit default swaps and sovereign ratings. However, whereas this service uses ratings from all agencies in a weighted scoring system, the Council will continue to follow the approach suggested by CIPFA of using the lowest rating from all the agencies (i.e. the lowest common denominator).
  - The Council will only use approved counterparties from countries with the highest credit rating of 'AAA', together with those from the UK.
  - The Council will continue to avoid longer term deals while investment rates are at such low levels. The budgeted return on investments placed for up to three months during the year is 0.7%.
- The Council's Prudential and Treasury Indicators for 2012/13 through to 2014/15 have been produced to support capital expenditure and treasury management decision making, and are designed to inform whether planned borrowing and the resultant revenue costs are affordable and within sustainable limits.
- The Minimum Revenue Provision (MRP) Policy Statement for 2012/13 states that the historic debt liability will continue to be charged at 4%, with the charge for more recent capital expenditure being based on the useful life of the asset and charged using the equal annual instalment method.

5.2 There are no proposed policy changes to the TMSS for 2012/13 as a result of the updated economic position.

## **6. The Council's Capital Position (Prudential Indicators)**

6.1 This part of the report is structured to update:

- The Council's capital expenditure plans;
- How these plans are being financed;
- The impact of the changes in the capital expenditure plans on the prudential indicators and the underlying need to borrow; and
- Compliance with the limits in place for borrowing activity.

6.2 The table below shows the revised estimates for capital expenditure and the changes since the Prudential Indicators were agreed. The borrowing element of the table increases the underlying indebtedness of the Council by way of the Capital Financing Requirement (CFR), although this will be reduced in part by revenue charges for the repayment of debt (the Minimum Revenue Provision).

<b>Capital Expenditure 2012/13</b>	<b>Original Estimate £'000</b>	<b>Current Position £'000</b>	<b>Revised Estimate £'000</b>
Total Spend	24,442	3,788	23,549
Total Financing	20,571	3,788	19,665
Borrowing Need	3,871	0	3,884

6.3 The following table shows the CFR, which is the underlying external need to incur borrowing for a capital purpose. It also shows two further prudential indicators relating to the level of borrowing. The Operational Boundary reflects the Council's expected debt position during the year, whilst the Authorised Limit is the 'affordable borrowing limit' required by s3 of the Local Government Act 2003. The table demonstrates that the Council has maintained gross borrowing within its authorised limit during the first six months of 2012/13.

	<b>Original Estimate £'000</b>	<b>Current Position £'000</b>	<b>Revised Estimate £'000</b>
<b>Prudential Indicator - Capital Financing Requirement</b>			
CFR - non housing	28,085	24,137	27,900
CFR - housing	125,221	124,577	128,339
Total CFR (year end position)	153,306	148,714	156,239
Net movement in CFR	3,166	0	7,525
<b>Prudential Indicator - the Operational Boundary</b>			
Borrowing	136,396	136,094	136,396
Other long term liabilities	4,350	0	4,350
<b>Total</b>	<b>140,746</b>	<b>136,094</b>	<b>140,746</b>
<b>Prudential Indicator - the Authorised Limit</b>			
Borrowing	153,306	148,714	153,306
Other long term liabilities	15,300	14,900	15,300
<b>Total</b>	<b>168,606</b>	<b>163,614</b>	<b>168,606</b>

6.4 The first key control over the treasury activity is a prudential indicator to ensure that over the medium term, net borrowing (borrowings less investments) will only be for a capital purpose. Net external borrowing should not, except in the short term, exceed the total of CFR in the preceding year plus the estimates of any additional CFR for 2012/13 and the next two financial years. This allows some flexibility for limited early borrowing for future years. No difficulties are envisaged for the current or future years in complying with this prudential indicator.

	<b>Original Estimate £'000</b>	<b>Current Position £'000</b>	<b>Revised Estimate £'000</b>
Gross Borrowing	136,396	136,094	136,094
Plus other long term liabilities	4,350	0	4,350
Less investments	12,146	34,540	19,000
Net borrowing	128,600	101,554	121,444
CFR (year end position)	153,306	148,714	156,239

## 7. Borrowing

7.1 The Council's CFR denotes the underlying need to borrow for capital purposes. If the CFR is positive the Council may borrow from the PWLB or the market (external borrowing) or from internal balances on a temporary basis (internal borrowing). The balance of external and internal borrowing is generally driven by market conditions. The Council has borrowings of £136m and has therefore utilised £12m of cash flow funds in lieu of borrowing. This is a prudent and cost effective approach in the current economic climate.

7.2 No new long-term or temporary borrowing has been undertaken so far this financial year in accordance with the TMSS. The general trend has been a reduction in PWLB interest rates during the six months across all maturity bands. However, it is anticipated that no new borrowing will be undertaken during this financial year.

7.3 Debt rescheduling opportunities have been limited in the current economic climate and consequent structure of interest rates. No debt rescheduling was undertaken during the first six months of 2012/13.

## **8. Investments**

8.1 In accordance with the Code, it is the Council's priority to ensure security of capital and liquidity, and to obtain an appropriate level of return which is consistent with the Council's risk appetite. It is a very difficult investment market in terms of earning the level of interest rates commonly seen in previous decades as rates are very low and in line with the 0.5% Bank Rate. The continuing Euro zone sovereign debt crisis, and its potential impact on banks, prompts a low risk and short term strategy. Given this risk averse environment, investment returns are likely to remain low.

8.2 The Council held £36.0m of investments as at 30 September 2012 (£19m at 31 March 2012) and the investment portfolio yield for the first six months of the year is 0.77% against the three-month LIBID benchmark of 0.73%. A full list of investments held as at 30 September 2012 is shown in **Appendix B**. It should be noted that the level of investments held, and therefore the total returns available, are likely to reduce during the remainder of the year as a result of the continuing strategy of internal borrowing.

8.3 The current investment counterparty criteria selection approved in the TMSS is meeting the requirement of the treasury management function. Officers can confirm that the approved limits within the Annual Investment Strategy were not breached during the first six months of 2012/13.

## **9. Icelandic Investments**

9.1 The Council invested a total of £4m in Icelandic banks in September 2008, which suffered a default following the collapse of the Icelandic banking system. The impairments recognised in the 2010/11 accounts reflected the guidance issued by CIPFA in May 2011. The level of the impairment was left unchanged in the 2011/12 accounts due to uncertainties over the level and timing of future distributions.

9.2 The Landsbanki winding up board made a second distribution to creditors in May 2012, making the total distribution around 42% of the claim. A further distribution was made in a basket of currencies in October, increasing the total distribution to approximately 50% of the claim. The current position on estimated future payouts is based on recovering 100p in the £. Members will be kept updated on the latest developments on these efforts.

## **10. Strategic Plan references**

10.1 Prudent treasury management underpins the budget required to deliver all Strategic Plan priorities.

## **11. Publicity considerations**

11.1 **Appendix B** to the attached background paper is confidential.

## **12. Financial implications**

- 12.1 The Central Loans and Investment Account (CLIA) comprises the Council's borrowing costs and investment income. The CLIA is difficult to predict and can be affected by several factors. The majority of the Council's debt is on fixed rates reflecting the longer-term nature of the borrowing decisions. Investments are generally made for shorter periods, making returns more variable. This mix is generally more beneficial when interest rates are high or increasing. It is important to add that the exposure to interest rate movements is regularly monitored to minimise risks to changes in returns.
- 12.2 The outturn position for the CLIA is currently projected to be a favourable variance of £300k, with a risk to the downside. The main factor affecting the forecast is the intention to continue to internally borrow due to the low levels of investment returns available. The position will continue to be reviewed as part of the regular budget monitoring reports.

## **13. Risk Management implications**

- 13.1 Risk Management is essential to effective treasury management. The Council's Treasury Management Policy Statement contains a section on treasury Risk Management (TMP1).
- 13.2 TMP1 covers the following areas of risk all of which are considered as part of our treasury management activities:
- Liquidity.
  - Interest rates.
  - Exchange rates.
  - Inflation.
  - Credit and counterparty.
  - Refinancing.
  - Legal and regulatory.
  - Fraud, error and corruption, and contingency management.
  - Markets.

## **14. Other Standard References**

- 14.1 Having considered consultation, equality, diversity and human rights, health and safety and community safety implications, there are none which are significant to the matters in this report.

### **Background Papers**

**Appendix A:** Economic Forecast

**Appendix B:** Outstanding Temporary Investments 2012/13 (**confidential**)

# APPENDIX A

## Economic Forecast

	NOW	Dec 2012	Mar 2013	Jun 2013	Sep 2013	Dec 2013	Mar 2014	Jun 2014	Sep 2014	Dec 2014	Mar 2015
<b>Bank Rate</b>	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.75	1.00
3 month LIBID	0.55	0.60	0.60	0.60	0.60	0.60	0.60	0.70	0.90	1.10	1.40
6 month LIBID	0.85	0.85	0.85	0.85	0.85	0.85	1.00	1.10	1.30	1.50	1.80
12 month LIBID	1.30	1.30	1.30	1.30	1.40	1.50	1.70	1.90	2.10	2.30	2.60
5yr PWLB Rate	1.89	1.50	1.50	1.50	1.60	1.70	1.80	1.90	2.00	2.10	2.30
10yr PWLB Rate	2.91	2.50	2.50	2.50	2.60	2.70	2.80	2.90	3.00	3.20	3.30
25yr PWLB Rate	4.15	3.70	3.70	3.70	3.80	3.80	3.90	4.00	4.10	4.20	4.30
50yr PWLB Rate	4.32	3.90	3.90	3.90	4.00	4.00	4.10	4.20	4.30	4.40	4.50



# Finance and Audit Scrutiny Panel

Item  
**16**

20 November 2012

Report of	Head of Corporate Management	Author	Robert Judd Tel. 282274
Title	Work Programme 2012-13		
Wards affected	Not applicable		

**This report sets out the 2012-13 work programme for the Accounts and Regulatory Committee and Finance and Audit Scrutiny Panel**

## 1. Decision Required

1.1 The Committee is asked to consider and note the 2012-13 work programme.

## 2. Reason for Decision

2.1 This function forms part of the Committee's Terms of Reference in the Constitution.

## 3. Outstanding review items (dates to be confirmed)

- i) The financial impact of a new Park and Ride Scheme
- ii) firstsite project

## 4. Work Programme

### 4.1 26 June 2012

- 1. Honorary Alderman (A&R)
- 2. Myland Community Governance Review (A&R)
- 3. Annual review of the Governance Framework and 2011-12 Statement (A&R)
- 4. 2011-12 Revenue Expenditure Monitoring Report
- 5. 2011-12 Capital Expenditure Monitoring Report

### 4.2 24 July 2012

- 1. Draft Annual Statement of Accounts (A&R)
- 2. 2011-12 Internal Audit Report
- 3. Annual Report on Treasury Management
- 4. 2011-12 Risk Management Summary & Strategy Review

### 4.3 21 August 2012

- 1. 2012-13 Revenue Expenditure Monitoring Report, period April to June
- 2. 2012-13 Capital Expenditure Monitoring Report, period April to June

### 4.4 25 September 2012

Annual Statement of Accounts (A&R) briefing 20 September 2012

- 1. Audited Annual Statement of Accounts
- 2. Annual Governance Report (AC)
- 3. Consultation on name of 'HARBOUR WARD'

- 4.5 **16 October 2012**
1. Call-in – COM-003-12 Proposed Transfer of the Abbots Building
  2. Call-in – REN-001-12 Setting Local Speed Limits
  3. Publication of the Audited SofA – A&R
  4. Annual Audit letter – A&R
- 4.6 **13 November 2012 (extra meeting)**
1. Annual Business Continuity Year end
  2. Risk Management, period April – September 2012
  3. Review of Waste Collection and Recycling
  4. CGR Myland CC – A&R
- 4.7 **20 November 2012**
1. 2012-13 Revenue Expenditure Monitoring Report, period April to September
  2. 2012-13 Capital Expenditure Monitoring Report, period April to September
  3. Treasury Management – 6-monthly update
  4. Interim Annual Governance Statement review
  5. 2012-13 Internal Audit Monitor, period April to September
  6. Certification of Claims and Returns Annual Report
- 4.8 **22 January 2013**
1. Audit Opinion Plan (AC)
  2. Audit Commission Progress report (AC)
  3. 2013-14 Revenue Budget
  4. Treasury Management - Investment Strategy
  5. Housing Revenue Account Estimates and Housing Investment Programme
- 4.9 **26 February 2013**
1. Review of Grounds Maintenance Contract
  2. 2012-13 Revenue Expenditure Monitoring Report, period April to December
  3. 2012-13 Capital Expenditure Monitoring Report, period April to December
- 4.10 **26 March 2013**
1. Annual Governance Statement Process
  2. Certificate of Claims and Returns (AC)
- 4.11 **2013-14**
- To consider updated information on income and expenditure for the High Woods Country Park in June 2013.

## **5. Standard and Strategic Plan References**

- 5.1 The Council recognises that effective local government relies on establishing and maintaining the public's confidence, and that setting high standards of self governance provides a clear and demonstrable lead. Effective governance, of which scrutiny is a part, underpins the implementation and application of all aspects of the Council's work.
- 5.2 Scrutiny is a key function to ensure decisions have been subject to full appraisal and that they are in line with the Council's strategic aims. The role of scrutiny is also an important part of the Council's risk management and audit process, helping to check that risks are identified and challenged.
- 5.3 There is no publicity, equality and diversity, human rights, community safety, health and safety, risk management or financial implications in this matter.



