

FINANCE AND AUDIT SCRUTINY PANEL

24 JULY 2012

Present :- Councillor Dennis Willetts (Chairman)
Councillors Ray Gamble, Glenn Granger,
Scott Greenhill, Julia Havis, Cyril Liddy and
Jon Manning

Substitute Members :- Councillor Sonia Lewis for Councillor Marcus
Harrington
Councillor Nick Cope for Councillor Theresa Higgins

Also in Attendance :- Councillor Will Quince
Councillor Paul Smith

7. Minutes

The minutes of the meeting held on the **26 June 2012** was confirmed as a correct record.

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

The item requested by Councillor G. Oxford on the High Woods Country Park charges, was deferred until the next meeting due to Councillor Oxford's absence.

Councillor Granger commented that the new refuse collection and recycling services has been in operation for one year, and he had heard anecdotally that things could in places be improved. Councillor Granger asked if the Panel would support a report being provided that gave an update on the changes, how it has gone, and what corrections and improvements have been made.

Councillor Manning whilst in favour of a review said the timing of any review should be mindful of the ongoing food waste trial. Councillor Lewis whilst accepting Councillor Manning's comment said she was happy with the timing taken account of the food waste trial provided it did not delay a review too long.

Mrs. Hedges, Executive Director, said Street Services is subject to continuous monitoring, and information will be available in respect of a range of financial and performance monitoring reports. Mr. Judd, Democratic Services Officer said the Panel's comments would be shared with the Head of Street Services and a response will be fed back to the Panel at the next meeting, so that a decision can be made by the Panel on the need for further scrutiny and the scope of that scrutiny if required"

9. Audit Commission Update

Mr. Gary Belcher, Audit Commission, presented the Audit Committee Update report.

Mr. Belcher said this report is now presented on a regular basis and provides an

update on the Audit Commission services. Mr. Belcher said the report highlighted key local issues and emerging national issues.

Mr. Belcher drew member's attention to the report's Summary of Progress against the 2011/12 Audit Plan, including Financial Statements, Grant Claims and the Value for Money (VFM) arrangements in place at Colchester. It was confirmed that a report on VFM will be finalised and reported to the Panel at September's meeting.

Mr. Belcher confirmed the new fees and charges for 2012/13, representing a forty percent reduction on the previous year's fees. The fees and charges would be fixed for a five year period.

In response to Councillor Manning who asked whether the large reduction in the charges was due to previous overcharging or to service provision cuts that could be detrimental to the Council, Mr. Belcher said the fee was set by the Audit Commission against their scale of fees, with fees reduced overall due to the tendering exercise. Mrs. Hedges said the Audit Commission's charges are dependent on the work to be done, and the overall services provided have radically changed in complexity and scale, with some previously significant pieces of work no longer required.

RESOLVED that the Panel considered and noted the contents of the progress report.

10. 2011/12 Internal Audit Report

Ms. Elfreda Walker, Finance Manager, presented the Year end Internal Audit Assurance Report 2011/12.

Ms. Walker said the use of resources was 100%, with 352 of 360 audit days used, and eight days carried forward to 2012/13.

Ms. Walker said during the reporting period there were a total of 15 audits finalised, with three audits receiving a Limited or No Assurance rating and included Parking Services Income, Corporate Debt and Vehicle Workshop. There was one joint audit on Housing Rents completed for Colchester Borough Council and Colchester Borough Homes, given a Substantial Assurance rating.

The key messages within the report are that the Council continued to provide an effective internal audit service during the second half of the 2011/12 financial year.

During 2011/12 there had been a total of 38 audits finalised, with the assurance rating improving in 14% in the systems audits carried out, remaining the same in 79% of audits, and decreasing in 7% of audits. Of the outstanding recommendations, there remained 2 overdue as at 31-March-2012.

Finally, the key performance indicators show that the internal audit provider has achieved 100%, exceeding the standard set of 96%.

In response to Councillor Granger, Ms. Walker said the Corporate Debt audit was given

limited assurance due to the procedures adopted for writing-off debts by Parking Services. Whilst Parking Services had been complying with Corporate Debt Policy, write-offs had been based on various local arrangements (for partner authorities). Mr. Alan Woodhead (Deloitte) said the Parking Partnership had written off small debts without following the corporate debt procedure. This was now rectified with the Parking Partnership now compliant. Mr. Woodhead said this was for small debts only, and whilst he did not know the overall amount written-off, he could provide this information to members of the panel.

Ms. Walker confirmed that there are no concerns in respect of the Licensing audit where there are two overdue recommendations to be implemented.

RESOLVED that the Panel commented on and noted the Council's performance relating to the Internal Audit Plan 2011/12, the internal audit activity from 1-October-2011 to 31-March-2012, and the performance of internal audit in reference to national best practice.

11. 2011/12 Year End Review of Risk Management

Ms. Hayley McGrath, Risk and Resilience Manager, presented the 2011/12 Year End Review of Risk Management that forms part of the Council's policy framework.

The key messages within the report was that the economy and cuts in public spending continue to have had a significant impact on the key risks during the year and the highest risk on the year end strategic register remains the potential impact of future central government decisions to reduce public funding, including that of the Council's partners. As well as having a direct effect on resources, cuts in public spending are also influencing non-financial risk areas, such as staff motivation, as a result of implementing required savings.

Ms. McGrath said that in summary for 2011/12, the requirement to raise the profile of the Council's anti-fraud and corruption processes was identified on the Annual Governance Statement for 2010/11, and therefore a significant focus for 2011/12 has been to work with the Monitoring Officer to revise the relevant policies and embed risk management processes throughout the organisation. The Risk and Resilience Manager has attended at least one Group Management Team meeting for each service to discuss current risk issues and review their operational risk register, and the risk registers for the Joint Museum Service and the North Essex Parking Partnership both continue to be produced and reported to the respective joint committees.

Ms. McGrath confirmed that during 2011/12 the Strategic Risk Register had been reviewed and changed, with one risk removed and two risks added, one of these being 6e, the increased risk to ICT resilience with migration to new supplier and ever increasing demands around information security. Mrs. Hedges said there remain actions around this and all other risks, and would not anticipate this situation changing. For the risks associated with ICT resilience, the risks may have reduced due to the new IT provider being in-place and forging a solid relationship with the Council, but it has to

be recognised that this still remains a high risk due to the fundamental impact that a system closure would have on all users. It was confirmed to Councillor Greenhill that the Council was looking to the IT supplier to build risk into the resilience arrangements.

RESOLVED that the Panel considered and noted the risk management work undertaken during 2011/12, the current strategic risk register, and the proposed risk management strategy for 2012/13, and endorsed the submission of this report to Cabinet.

12. 2011/12 Annual Report - Treasury Management

Mr. Steve Heath, Finance Manager, presented the 2011/12 Annual Treasury Management Report.

Mr. Heath confirmed this report was the first of three Treasury Management reports to be presented to the Panel in 2012/13 and would include a mid-term report in November and an Investment Strategy report in January 2013, a piece of pre-Cabinet scrutiny.

Mr. Heath said the average rate of the new borrowing was 3.5% as a result of the lower margins available from the Public Works Loans Board (PWLB) for housing reform borrowing. This has resulted in the average rate of the Council's debt falling to 4.56% from 5.80% at the end of 2010/11.

In regards to Housing Finance Reform that has abolished the housing subsidy system financed by central government and consequently, all housing debt has been reallocated nationally between housing authorities, Mr. Heath said the result of this reallocation is that this Council has made a capital payment to the Department of Communities and Local Government of £73.694m. This has resulted in an increase in the Capital Financing Requirement and total borrowing at the end of the year which was financed by new external borrowing. There has been no impact on HRA revenue finances in 2011/12 due to compensating adjustments being made in the HRA determination.

In regards to investments, Mr. Heath said the Council had no direct exposure to the Euro Zone, though the financial contagion element cannot be quantified at present.

In regards to the Icelandic Investments the Landsbanki winding up board made a distribution to creditors in a basket of currencies in February 2012, which amounted to approximately 30% of the total claim. A small element of this distribution was in Icelandic Kroner which has been placed in an escrow account in Iceland and is earning interest of 3.35%. This element of the distribution has been retained due to currency controls currently operating in Iceland and as a result is subject to exchange rate risk, over which the Council has no control.

Mr. Heath said a further distribution in Sterling was received in May 2012, making the total distribution around 42% of the claim. The current position is ahead of the estimated future payouts within the 2010/11 accounts and it is now expected that 100% of the investment will be repaid by 2019, an improvement on the previous expectation

of 95%. Mr. Heath confirmed to Councillor Manning that the figure of 42% was above the projected figure of 22%.

In response to Councillor Granger, Mr. Heath said the Council expects to receive, subject to exchange rates, slightly more than the original £4m investment. The impairment was recognised in the 2010/11 Accounts, though a prudent approach has been taken in regards to crediting the repayments to the Revenue Account, and has yet to be completed. Mr. Heath confirmed that legal representatives had been appointed by the Local Government Association to provide assistance to all Councils in recovering these investments.

In regards to the Council borrowing £73.694m on 26 March (for the Housing Finance reform) at an average rate of 3.5%, Mr. Heath confirmed to Councillor Cope that this preferential reduced rate was available for 1 day only, and provided flexibility going forward and the ability to start paying off the loan fifteen years into the borrowing period. The 3.5% borrowing rate is a fixed rate, over a 25-30 year period, with discounts provided for early repayments. Councillor Smith, Portfolio Holder for Business and Resources said the flexibility with the new Housing Finance arrangements allowed for proceeds from Right to Buy to be retained by the Council provided they re-invest the income into the Council's Housing Investment Programme.

Responding to Councillor Granger, Mr. Heath confirmed that of the overall debt of £136.094m included a debt of £73.694 borrowed at an average rate of 3.5%, with the remainder borrowed at an average of 5.80% that included a range of loans, with one in particular being a 15 year bond borrowed at a rate of 8.8% in 1995. Loans are now primarily Public Works Loan Board loans or LOBO (Lender Option Borrower Option) loans.

RESOLVED that the Panel noted the activities relating to treasury management in 2011/12, considered and noted the performance of treasury management and noted the performance of the Council's treasury management advisors.

13. Work Programme

RESOLVED that the Panel considered and noted the current Work Programme.