

**North East Derbyshire District Council**

**Audit and Corporate Governance Scrutiny Committee**

**25 June 2015**

**Key Issues of Financial Governance**

**Report No: EDO/7/15/16/BM of the Executive Director Operations**

**Purpose of the Report**

- To update the Audit and Corporate Governance Scrutiny Committee regarding progress in addressing the key issues of financial governance.

**1 Report Details**

- 1.1 For the Committee to consider the progress made in addressing the key issues of financial governance as set out in the Action Plan attached at **Appendix 1**.
- 1.2 One of the standing items on the Audit and Corporate Governance Scrutiny Committee agenda is the Action Plan in respect of the Key Issues of Financial Governance. This Action Plan covers the most significant issues raised by External Audit, other inspections, or other matters which would significantly impact upon our Financial Governance arrangements. Given the importance of the issues that are raised regarding the sound governance of the Council it seemed appropriate that the Council should maintain an Action Plan to address the issues raised, and that progress against this Action Plan should be monitored as a standing item at all meetings of the Audit and Corporate Governance Scrutiny Committee.
- 1.3 This report reflects the contents of the 2013/14 External Auditor report "Report to those Charged with Governance (ISA 260)" from KPMG which was reported to the September meeting of this Committee together with the Annual Audit Letter which was reported to the November 2014 meeting.
- 1.4 The External Auditor's most recent letters to the Council are positive and note both the continued improvement in the quality of the Council's Annual Statement of Accounts (which are an important element of public accountability), together with the fact that the Council has to date successfully addressed the issues of financial resilience that it faces. While the Accountancy team is now operating to a high standard in respect of both the preparation of final accounts and in the Council's financial management arrangements it is critical that these standards are maintained. Robust accountability arrangements are at the heart of both financial governance and the effective financial management of the Council. Accordingly while the performance of the Accountancy team is currently strong it is important

that this standard is maintained and therefore it is intended that this issue will remain on the Key Issues of Financial Governance as an area to be monitored. A particular pressure at this point in time and particularly during the closing of the Accounts is that the position of Chief Accountant will not be filled on a full time basis until the autumn of 2015. While Officers are of the view that this has been effectively managed there has been a requirement to prioritise careful some of the conflicting demands upon the finance team.

- 1.5 While the most recent External Audit reports acknowledge that the Council has implemented the recommendations made in the previous ISA260 report, the current version of the ISA260 continues to identify a key risk under the Value for Money assessment which is as follows:

“Against a backdrop of reduced funding and continued demand pressures it will become increasingly difficult to deliver savings in a way that secures longer term financial and operational sustainability.”

This issue is one of those covered in **Appendix 1**.

- 1.6 The Action Plan covering the agreed Key Issues of Financial Governance appears as **Appendix 1** to this report. It is requested that Members consider the actions identified and the updated comments on progress against agreed actions. These are shown in **Appendix 1**. Committee should note that the Council's Asset Management Plan which will be launched in the new municipal year will provide full details of the Council's assets as requested at a previous meeting.

## **2 Conclusions and Reasons for Recommendation**

- 2.1 The report seeks to present to the Audit and Corporate Governance Scrutiny Committee an update concerning progress in resolving a range of identified issues where poor performance could impact on the robustness of the Council's internal control arrangements and upon the financial governance of the authority. As such it is seeking to provide information on which the Audit and Corporate Governance Scrutiny Committee can make an assessment of the Council's performance in respect of financial governance.

### **Reasons for Recommendation**

- 2.2 This report is intended to monitor the Council's progress in addressing those issues which have been identified as the key issues of financial governance. Accordingly, the recommendation requests the Committee to consider the report.

## **3 Consultation and Equality Impact**

### **Consultation**

- 3.1 There are no issues arising from this report which necessitate a detailed consultation process.

### **Equalities**

- 3.2 There are no direct implications arising from this report.

## **4 Alternative Options and Reasons for Rejection**

4.1 These are outlined in the main body of the report.

## **5 Implications**

### **5.1 Finance and Risk Implications**

#### **Financial**

There are no additional financial implications arising directly out of this report.

#### **Risk**

The Action Plan as set in **Appendix 1** is intended to help to mitigate the risk that the Council's financial and wider governance arrangements will deteriorate. The risks associated with poor governance include ineffective decision making, an increased possibility of financial loss or poor value for money for the Council together with the prospect of significant reputational damage.

### **5.2 Legal Implications including Data Protection**

There are no legal or data protection implications arising directly out of this report.

### **5.3 Human Resources Implications**

These are detailed in the attached report.

## **6 Recommendations**

6.1 That the report be noted, and the Audit and Corporate Governance Scrutiny Committee raise any issues of concern with the updated Action Plan and the reported progress to date.

## **7 Decision Information**

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|--|--|
| <b>Is the decision a Key Decision?</b><br>(A Key Decision is one which results in income or expenditure to the Council of £50,000 or more or which has a significant impact on two or more District wards) | No   |
| <b>District Wards Affected</b>   | None Directly  |
| <b>Links to Corporate Plan priorities or Policy Framework</b>  | Robust Governance arrangements underpin the effective operation of the Council and its ability to secure all of the Corporate Plan priorities. |

## 8 Document Information

| Appendix No  | Title  |
|--|--|
| 1  | Key Issues of Financial Governance : Action Plan |
| <b>Background Papers</b> (These are unpublished works which have been relied on to a material extent when preparing the report. They must be listed in the section below. If the report is going to Cabinet (NEDDC) or Executive (BDC) you must provide copies of the background papers) |  |
| KPMG "Report to those Charged with Governance (ISA 260) 2013/14"<br>See Audit and Governance Committee Meeting 25 <sup>th</sup> September 2014<br>KPMG "Annual Audit Letter 2013/14"<br>See Audit and Governance Committee Meeting 20th November 2014                                    |  |
| Report Author  | Contact Number                                   |
| Executive Director – Operations  | 7154   |

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# Appendix 1

## ACTION PLAN

### KEY ISSUES OF FINANCIAL GOVERNANCE 2014/15

| Issue  | Current Position   | Sponsor / Lead Officer |
|--|--|------------------------|
| 1. Progress actions necessary to achieve a balanced budget over the period of the MTFP 2014/15 to 2016/17. | The Council will deliver a balance budget in respect of the previous financial year (2014/15) with the savings target of £0.371m secured in full, together with a contribution to balances. The shortfall in respect of 2015/16 is one of £0.5m with a further £1.3m for 2016/17 and £0.9m for 2017/18. On the basis of the MTFP in respect of the period 2015/16 to 2017/18 the total savings over the 3 year period of the MTFP now amount to some £2.7m which given the level of savings already achieved in previous years represents a challenging target. Accordingly, it is important that the Council continues to take steps at the earliest possible opportunity to reduce its underlying level of expenditure in respect of future financial years. While Council has agreed areas to secure the £0.5m savings required in respect of 2015/16 it is important that the Council starts to address the 2016/17 financial shortfall at the earliest opportunity given the scale of the savings that need to be achieved. | SAMT/<br>CFO           |
| 2. Minimise the risk of a reduction in financial balances.   | <p>General Fund</p> <p>If the Council is to protect its level of financial balances then it needs to continue to balance its budget over the period of the MTFP where a total savings requirement of £2.7m is currently forecast. In addition to meeting some challenging efficiency targets the Council will need to ensure that it manages the strategic risks which face it effectively. If any of these risks materialise then there will be a significant financial impact. The current level of General Fund balances amounts to some £1.8m.</p> <p>HRA</p> <p>The HRA carries general balances over the period of the current MTFP of some £2.8m.</p> <p>While the level of balances and reserves have been gradually increased to above minimum</p>  | SAMT/<br>CFO           |

| Issue  | Current Position  | Sponsor / Lead Officer |
|--|---|------------------------|
|  | <p>levels the Council will continue to face financial pressures arising from the Comprehensive Spending Review, from the wider economic position and from projects which may require a call on reserves (Invest to Save). While Balances are now sufficiently robust to offer some limited protection against unforeseen financial expenditure or loss of budgeted income it does need to be recognised that there are a range of risks which could impact adversely upon financial balances. The level of General Fund balances of £1.8m also needs to be considered against the projected total level of savings of £2.7m. Accordingly continued savings and careful expenditure management will be required in order to maintain financial stability and an appropriate level of financial balances.</p>   |                        |
| <p>3. Manage our key partnership arrangements.</p> <p>The Council's service delivery plans and its financial strategy are heavily dependent upon partnership working with Rykneld Homes its Housing ALMO and Bolsover District Council its strategic partner. There will be a growing reliance on the two LEP's and the Combined Authority to support and drive the economic prosperity of the District and to support the growth agenda which is key to delivering enhanced local income streams.</p> | <p>Whilst the three key partnerships are currently working well the Council needs to ensure that it effectively manages these relationships in order to deliver our services and our savings strategy.</p> <p>Rykneld Homes are continuing to deliver the Council's Capital Programme in order to maintain homes at Decent Homes Standard and to address the issues associated with non traditional properties. Rykneld Homes will, however, need to manage the reductions in funding associated with the ending of the Decent Homes Programme, together with the reduction in the level of the Council's Housing capital programme.</p> <p>The Strategic Alliance has exceeded its initial savings target of £1.5m across the two authorities. A further savings target of some £1.2m has now been established for the Strategic Alliance to secure which will need to be achieved mainly through the Transformation Agenda.</p> <p>The Council has for some time been a Member of both the Sheffield City Region and the D2N2 Local Economic Partnership. It has agreed to be a member of the Derbyshire Combined authority. The Council needs to work effectively within these partnerships if it is to continue to secure the economic growth that is central to both the wellbeing of our local communities and to the income necessary to support effective Council services.</p> | <p>SAMT / CFO</p>      |
| <p>4. Improve the quality of Performance Monitoring within the Council to ensure our services are performing at the required standards.</p>  | <p>This is an action designed to help ensure we continue to effectively manage the performance of our services in light of the issues facing the Council. These include budget reductions, increased service demands, service transformation plans etc.</p> <p>Officers will continue with the quarterly performance, risk and finance meetings but greater</p>   | <p>CFO / AD</p>        |

| Issue  | Current Position  | Sponsor / Lead Officer |
|--|---|------------------------|
|  | <p>emphasis must be placed on identifying key performance measures and monitoring these measures. Any significant performance monitoring issues identified will be reported to Members. The quarterly Performance Reports are brought to Audit Committee as part of the reporting cycle.</p> <p>The Council is in the process of agreeing its new Corporate Plan which will establish refreshed corporate priorities and service targets covering the next three years.</p>   |                        |
| <p>5. Set appropriate targets for the recovery of arrears and monitor recovery procedures and their cost effectiveness.</p>  | <p>The Council has put in place procedures and processes that have significantly improved its performance in the area of sundry debtors. Staffing resources have now been moved from Sundry Debtors to provide the additional capacity necessary to ensuring the effective recovery of overpaid housing benefits, while the Debtors team itself will now be integrated within the Accountancy team ensuring the effective operation of the new financial ledger. Given the importance of effective debt recovery arrangements to the financial well being of the Council the position is now reported to the Audit Committee on a quarterly basis detailing the full range of debtor accounts including Housing Rent, Overpaid Housing Benefit and Sundry debtors. This is considered to be of particular importance in that there is evidence that levels of arrears are rising while the wider economic climate and welfare reform make it increasingly difficult to maintain good levels of performance. The position in respect of debtors at the end of the 2014/15 financial year was reported to the June meeting of this Committee. Officers are monitoring the capacity within the Revenues team to ensure that adequate resources are available to secure effective management of debt.</p> |                        |
| <p>6. Monitor the impact of new legislation.</p> <p>In a number of areas such as the reform of the HRA, and the localisation of both Council Tax Benefit and Business Rates there will be a transfer of greater responsibility, financial burdens and risk to the local authority.</p> <p>While the Council has firm figures in respect of the</p> | <p>The Council has successfully implemented the changes around the reform of the HRA, the localisation of Council Tax Benefits and reforms of the Business Rates. Whilst all these reforms have been successfully implemented they have involved a transfer of risk from central to local government which could result in additional calls upon the Council's resources.</p> <p>While previous changes have been successfully implemented it is likely that the next 18 months will see a further range of legislative change covering such areas as devolution and welfare reform which are both anticipated to have a significant impact upon local government.</p>  | <p>FFO / AD</p>        |

| Issue  | Current Position   | Sponsor / Lead Officer |
|--|--|------------------------|
| <p>Local Government Financial Settlement for next year (2015/16), that for the following year is unlikely to be available until the Autumn Statement. The consensus is that the Autumn Statement will be a difficult one for Local Government.</p>   |  |                        |
| <p>7. Internal Controls are maintained.</p> <p>The Council needs to ensure that its internal control arrangements are maintained to a high standard. This issue will cover making sure our accounting arrangements remain fit for purpose. The Internal Audit Section is performing to the new required standards and the Council's general control environment is maintained.</p> | <p>Internal Control is a key element in maintaining good governance arrangement for the Council. In respect of the current financial year the Internal Audit programme has already identified areas of work where internal control is classed as marginal.</p> <p>Accountancy Section<br/>The Key Issues of Financial Governance report has continued to monitor the position in respect of the accountancy team. Officers are currently in the process of preparing the Statement of Accounts in respect of 2014/15 which will be subject to independent audit by KPMG the Council's external audit. The outcome of that audit will provide an independent assessment of the resilience of the team given that the position of Chief Accountants will not be filled until later summer 2015.</p> <p>Internal Audit Section<br/>The Internal Audit Section from 1 April 2013 is required to operate to the new Public Sector Internal Audit Standards. The revised Standards have been successfully implemented by further work is necessary to ensure that appropriate arrangements are maintained which will require the active involvement of the Audit Committee.</p> <p>Audit Committee.</p> <p>An effective Audit Committee is a key element in the financial governance arrangements of an authority. The Council's Audit Committee held an event during October 2014 at which it undertook a self assessment of its effectiveness against the benchmark provided by CIPFA / SOLACE. This work will be used to support and improve this Committee's contribution to the effectiveness of the Council's financial governance arrangements.</p> | CFO                    |



**Named Officers (Sponsor / Lead Officer)**

| <b>Initials</b> |                                 |
|-----------------|---------------------------------|
| SAMT            | Senior Alliance Management Team |
| CFO             | Chief Financial Officer         |
| AD              | Assistant Director Finance      |