

North East Derbyshire District Council

Audit and Corporate Governance Scrutiny Committee

24 September 2015

Key Issues of Financial Governance

Report No: EDO/12/15-16/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 and Internal 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 is 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 Elsewhere on this agenda is the 2014/15 External Auditor reports "Report to those Charged with Governance (ISA 260)" which constitutes the most recent external assessment of the Council's arrangements. The key messages of that report concern firstly the Statement of Accounts where the external auditors are of the view that they will be in a position to issue an unqualified audit opinion on the Statement of Accounts by the 30th September. Secondly, the auditors have concluded that the Authority has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources. While the overall conclusions clearly represent a satisfactory outcome it is important to consider the report in more detail in order to identify those areas where improvement is required.
- 1.4 Firstly, in respect of the Council's accounting arrangements the following sections are extracted from the ISA 260 report.

“We are pleased to report that our audit of your financial statements has not identified any material adjustments. We have agreed minor presentational changes to the accounts with Finance. Overall, the quality of the financial statements was goodNorth East Derbyshire District Council has good processes in place for the production of the accounts and good quality supporting working papers.”

Given that this was the first year the Accounts were provided from a new financial year together with a change in banks during the year, without a Chief Accountant being in position the production of a robust set of accounts was a significant achievement. All three of these issues have been resolved which should put the Council in a far better position to secure the completion of the Statement of Accounts in future financial years. While the Accountancy team is continuing to operate 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 one of the areas to be monitored within the Key Issues of Financial Governance report.

- 1.5. With respect to the Auditors report two issues were identified in respect of Payroll reconciliation and Journal authorisation. These recommendations are agreed by management with the Journal Authorisation to be auctioned with immediate effect. The more detailed reconciliation of payroll to the general ledger at a detailed level will be undertaken as at the end of September 2015 and in future will be maintained on a quarterly basis.
- 1.6 Secondly, with respect to the Value for Money conclusion the External Auditors report notes that while the Council has continued to achieve its in year savings targets the Medium Term Financial Plan identifies savings requirements on the General Fund of some £1.349m in respect of next year (2016/17) with a further requirement of £0.850m in the year after. Alongside continuing challenging savings targets the Council is part way through a programme of property rationalisation while it is seeking to work with a variety of public and private sector partners to secure the regeneration of the Coalite site. These projects will need careful management if they are to secure the potential benefits for both the Council's financial position and the ongoing regeneration of the wider district. In addition the external auditors report notes that the proposed changes concerning rent levels on social housing will have a detrimental impact on the financial sustainability of the HRA which will need to be addressed. Again progress on these issues will be monitored as part of this report.
- 1.7 In addition to the issues raised within the External Auditors report the Audit Committee will also have noted the report of the Head of the Internal Audit Consortium concerning progress on the 2015/16 Audit Plan. At what is the halfway stage in the year the Council has already received three internal audit reports where the internal controls operating in a particular service area have been assessed as marginal. Given that no marginal reports were received in 2014/15 this is a clear indication that we need to continue to work to maintain standards of internal control.

- 1.8. Appendix 2 sets out the position with respect to outstanding debt. Whilst existing procedures are operating in a satisfactory manner officers are reviewing these arrangements to consider whether further improvements in our operating arrangements can be secured.
- 1.9 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.

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

Is the decision a Key Decision? (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
District Wards Affected	None Directly
Links to Corporate Plan priorities or Policy Framework	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
2	Aged Debtors as at June 2015
Background Papers (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) 2014/15" Audit and Governance Committee Meeting 24 th September 2015 "Summary of Progress on the 2015/16 Internal Audit Plan" Audit and Corporate Governance Meeting 24 th September 2015.	
Report Author	Contact Number
Executive Director – Operations	7154

Appendix 1

ACTION PLAN

KEY ISSUES OF FINANCIAL GOVERNANCE 2015/16

Issue	Current Position	Sponsor / Lead Officer
1. Progress actions necessary to achieve a balanced budget over the period of the MTFP 2015/16 to 2017/18.	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. 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 is making good progress in securing the £0.5m savings required in respect of 2015/16 it is important that the Council continues to address the 2016/17 financial shortfall at the earliest opportunity given the scale of the savings that need to be achieved.	SAMT/ CFO
2. Minimise the risk of a reduction in financial balances.	<p>General Fund 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 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 levels the Council will continue to face financial pressures arising from the Comprehensive</p>	SAMT/ CFO

Issue	Current Position	Sponsor / Lead Officer
	<p>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>With respect to the HRA recent Government measures in respect of rent setting guidance, Right to Buy and welfare reform will all impact upon the rental stream that is available to support services. Officers will continue to manage these additional pressures within the context of the HTRA Business Plan.</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 is now in place 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 and the Derbyshire NNDR pool. 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>	SAMT / CFO
<p>4. Maintain the quality of Performance Monitoring</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</p>	CFO / AD

Issue	Current Position	Sponsor / Lead Officer
within the Council to ensure our services are performing at the required standards.	<p>reductions, increased service demands, service transformation plans etc.</p> <p>Officers will continue with the quarterly performance, risk and finance meetings with outcomes being measured against those in the Corporate Plan. Any significant performance monitoring issues identified will be reported to Members through the quarterly performance management process. The quarterly Performance Reports are brought to Audit Committee as part of the reporting cycle.</p>	
5. Set appropriate targets for the recovery of arrears and monitor recovery procedures and their cost effectiveness.	<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 continues to be 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 first quarter 2015/16 is set out in Appendix 2. Officers are continuing to monitor 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>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>	CFO / AD

Issue	Current Position	Sponsor / Lead Officer
<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:</p> <p>(i) Ensuring our accounting arrangements remain fit for purpose.</p> <p>(ii) The Internal Audit Section is operating in line with revised standards</p> <p>(iii) 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 three areas of work where internal control is classed as marginal.</p> <p>Accountancy Section</p> <p>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</p> <p>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)

Initials	
SAMT	Senior Alliance Management Team
CFO	Chief Financial Officer
AD	Assistant Director Finance

APPENDIX 2 : TABLE 1

Aged Debt Reporting – Sundry Debtors

Debt Outstanding as at	Current Debt	90 – 365 Days	1 to 2 years	2 – 3 years	3 – 4 years	4 – 5 years	5+ years	Total	Write Offs in Year
	£000	£000	£000	£000	£000	£000	£000	£000	£000
Average Debt 2010/11	665	180	83	81	59	59	74	1,201	75
Average Debt 2011/12	697	130	41	37	28	24	40	997	125
Average Debt 2012/13	925	87	44	10	10	3	26	1,105	17
30 June 2013	584	83	64	15	4	4	19	773	
30 September 2013	1,263	115	28	43	14	3	18	1,484	
31 December 2013	835	90	27	43	10	7	17	1,029	
31 March 14	617	108	21	44	2	5	20	817	
Average Debt 2013/14	825	99	35	36	8	5	18	1,026	21
30 June 2014	1,106	196	20	56	6	3	24	1,411	
30 September 2014	1,585	148	31	18	43	6	24	1,855	
31 December 2014	1,233	268	52	19	43	5	24	1,644	
31 March 15	1,396	109	65	15	44	5	24	1,658	
Average Debt 2014/15	1,330	180	42	27	34	5	24	1,642	7
30 June 2015	918	190	69	15	52	5	24	1,272	
30 September 2015									
31 December 2015									
31 March 16									
Average Debt 2015/16	918	190	69	15	52	5	24	1,272	0

Aged Debt Reporting – Overpaid Housing Benefits

Debt Outstanding as at	Current Debt	90 to 365 days	1 to 2 years	2 – 3 years	3 – 4 years	4 – 5 years	Over 5 years	Total	Write offs
	£000	£000	£000	£000	£000	£000	£000	£000	£000
Average Debt 2010/11	99	161	107	117	66	40	10	600	47
Average Debt 2011/12	110	191	138	92	88	50	18	687	18
Average Debt 2012/13	74	238	199	115	70	70	51	817	0
30 June 2013	121	192	229	150	72	74	79	917	
30 September 2013	110	181	244	165	86	58	108	952	
31 December 2013	76	205	206	174	112	52	122	947	
31 March 2014	111	198	196	177	123	56	130	991	
Average Debt 2013/14	105	194	219	166	98	60	110	952	34
30 June 2014	98	199	208	191	130	60	140	1,026	
30 September 2014	125	190	199	206	147	77	152	1,096	
31 December 2014	188	244	197	175	159	106	159	1,228	
31 March 2015	126	291	224	165	165	115	169	1,255	
Average Debt 2014/15	137	211	201	191	145	81	150	1,116	0
30 June 2015	172	309	220	181	176	123	183	1,364	
30 September 2015									
31 December 2015									
31 March 2016									
Average Debt 2015/16	172	309	220	181	176	123	183	1,364	0

HRA total Indebtedness

Debt Outstanding as at	Total	Write Offs in Year
	£000	£000
31 March 2011	1,387	64
31 March 2012	1,562	77
31 March 2013	1,987	85
30 June 2013	2,323	
30 September 2013	2,584	
31 December 2013	2,408	
31 March 2014	1,973	
Average Debt 2013/14	2,322	231
30 June 2014	2,445	
30 September 2014	2,634	
31 December 2014	2,355	
31 March 2015	2,002	
Average Debt 2014/15	2,359	143
30 June 2015	2,457	
30 September 2015		
31 December 2015		
31 March 2016		
Average Debt 2015/16	2,457	0

APPENDIX 2 : TABLE 4**SUMMARY OF PROVISION FOR DOUBTFUL DEBTS 2015/16**

	General Fund Sundry Debtors	Over Paid Housing Benefit	HRA Rents	Total
	£000's	£000's	£000's	£000's
Balance B/Fwd	(184)	(882)	(1,177)	(2,243)
Write offs in current financial year	0	0	0	0
Actual increase in provision	(10)	(0)	(0)	(10)
Projected Provision C/fwd	(194)	(882)	(1,177)	(2,253)
Current Debt position	1,272	1,364	2,457	5,093
Percentage Coverage	15.2%	64.7%	47.9%	44.2%