

North East Derbyshire District Council

Audit and Corporate Governance Scrutiny Committee

21 April 2016

Key Issues of Financial Governance

Report No: EDO/23/15-16/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 to 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 With respect to the assessment of the Council's External Auditors (KPMG) the most recent assessments are set in the "Annual Audit Letter 2014/15" which was reported at the November 2015 meeting of this Committee and in the "Report to those Charged with Governance (ISA 260)" which was considered by this Committee at its meeting on 24 September 2015. These are a generally positive reports which note that the auditor's issued an unqualified conclusion on the Authority's arrangements for securing Value for Money, together with an unqualified certificate in relation to the Statement of Accounts. While the overall conclusions clearly represent a satisfactory outcome the reports also set out a number of areas where the Council needs to continue to effectively manage its position so as to ensure its financial standing is not undermined: These areas included:
 - The Council continues to be required to achieve significant on going financial savings amounting to £1.8m over the period of the current MTFP (to March 2019).

- The need to progress its plans to dispose of the Saltergate site and Mill Lane land in order to secure the projected savings on its revenue budget.
- The ongoing need to mitigate risks and ensure benefits are realised for major economic regeneration projects such as the Coalite site
- The need to adjust housing business plans to reflect the impact of the annual 1% rent reduction over the next 4 years.

It should be noted that progress has been made in respect of a number of the issues raised in those reports especially in respect of the Saltergate site which has now been sold, and in the development of an active partnership with DCC in respect of progressing work on the Coalite site.

- 1.4 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 appears elsewhere on this agenda. To date the Council has received three internal audit reports where the internal controls operating in a particular service area have been assessed as marginal. Of greater concern is the report on S106 payments where the Internal Control arrangements have been assessed as unsatisfactory. Full details of this report together with the management response have been provided to Members of the Committee. It is proposed that the Audit Committee play a role in monitoring progress in addressing the issues raised by that Audit report with progress against the recommendations to be monitored as part of the Key Issues of Financial Governance report. Given that no marginal reports were received in 2014/15 this is a clear indication that standards of internal control in a limited number of areas have slipped to an unacceptable level.
- 1.5 **Appendix 2** sets out the position with respect to outstanding debt. Whilst existing procedures are operating appropriately officers are continuing to review these arrangements to consider whether further improvements in our operating arrangements can be secured.
- 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. It should be noted that it is the intention that the issue of S106 Contributions will be incorporated within this Action Plan for the next meeting of this Committee.

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
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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 31 March 2016
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 Corporate Governance Committee Meeting 24 September 2015 KPMG "Annual Audit Letter 2014/15" Audit and Corporate Governance Meeting 26 November 2015 "Summary of Progress on the 2015/16 Internal Audit Plan" Audit and Corporate Governance Meeting 24 September 2015.	
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Appendix 1

ACTION PLAN

KEY ISSUES OF FINANCIAL GOVERNANCE 2016/17

Issue	Current Position	Sponsor / Lead Officer
1. Progress actions necessary to achieve a balanced budget over the period of the MTFP 2015/16 to 2018/19.	On the basis of the Revised Budget for 2015/16 the Council will secure its targeted level of savings in respect of 2015/16 and make a contribution to Reserves of some £0.4m. The MTFP as agreed in February 2016 indicated a shortfall of £0.395m with respect to the current financial year, with a cumulative shortfall to March 2019 of £1.945m. Cabinet has already agreed actions which will help secure the majority of the savings necessary for next financial year. The savings required over the period of the current MTFP are however significant, especially given the level of savings already achieved in previous years. 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 should secure in full the savings required in respect of both 2015/16 and 2016/17 it is important that the Council continues to address the 2017/18 and 2018/19 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</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 approaching £2m is currently forecast. In addition to meeting some challenging efficiency targets the Council will need to ensure that it effectively manages the strategic risks which face it. If any of these risks materialise then there will be a significant financial impact. The current level of General Fund balances amounts to some £2m, against an assumed level of risk of £1.8m.</p> <p>HRA</p> <p>The HRA carries general balances of some £2.8m with an identified level of risk of some</p>	SAMT/ CFO

Issue	Current Position	Sponsor / Lead Officer
	<p>£2.3m.</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 national Auste agenda, 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. 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 HRA 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 to support 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 changes to rent levels, 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 East Midlands Local Economic Partnership. 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</p>	<p>SAMT / CFO</p>

Issue	Current Position	Sponsor / Lead Officer
	Council services.	
4. Maintain the quality of Performance Monitoring within the Council to ensure our services are performing at the required standards.	<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 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>	CFO / AD
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 has been 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. 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 second 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</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
authority.		
<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 and one where it is unsatisfactory.</p> <p>Accountancy Section The Key Issues of Financial Governance report has continued to monitor the position in respect of the accountancy team. The outcome of the 2014/15 external audit supports the view that the team operated to a high standard during that financial year, whilst effectively managing the introduction of a new financial ledger and the absence of a Chief Accountant for much of that period.</p> <p>Internal Audit Section 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 and Corporate Governance Scrutiny Committee.</p> <p>Internal Control Arrangements It is disappointing to note that one Internal Audit Review has identified an area with unsatisfactory internal controls which a further three audit reports have classified the controls operating in particular areas as being marginal. Officers will continue to work to address the concerns that have been raised and to seek to ensure that the outcome of internal audit work in the next financial year indicates an improving position.</p> <p>Audit Committee. 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 2015 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

Aged Debt Reporting – Sundry Debtors (as at 31/03/2016) : APPENDIX 2

Dept/Section	Not yet due	Current	90 - 179	180 - 364	1-2 years	2-3 years	3-4 years	4-5 years	Over 5	Credits	Total
	£	£	£	£	£	£	£	£	£	£	£
Chief Executive	0	1,000	0	0	0	0	0	0	0	0	1,000
Partnerships	0	9,750	0	0	0	0	0	0	0	0	9,750
Economic Development	0	0	0	0	75	0	0	0	0	0	75
Independent Living	22,654	1,069	477	353	192	76	0	0	0	(2,060)	22,760
Housing Options	0	0	100,000	0	719	648	0	5,438	3,071	0	109,876
Planning	3,275	10,507	3,150	1,015	0	2,173	0	0	1,305	0	21,425
Environmental Health	1,146	13,725	8,205	1,299	646	26,928	1,980	33,661	0	(8,740)	78,849
Environmental Health											
Licensing	80	1,280	3,960	718	700	0	0	0	0	(189)	6,549
Legal	33	342	0	535	1,970	600	0	0	0	(264)	3,216
Elections	28,231	74	0	0	0	0	0	0	0	0	28,305
Growth Total	55,418	37,746	115,792	3,920	4,302	30,426	1,980	39,099	4,376	(11,253)	281,805
ICT	700	0	0	0	0	0	0	0	0	0	700
Customer Services	0	5,612	0	5,038	0	0	0	0	0	0	10,649
Print & Design	3,289	960	1	0	128	0	0	0	0	0	4,378
Dronfield Leisure Centre	3,976	11,642	285	1,236	1,055	544	0	0	0	(240)	18,498
Eckington Pool	0	9,948	180	162	243	0	0	0	0	0	10,533
Sharley Park Leisure Centre	541	21,769	610	888	2,093	280	0	0	1,663	(445)	27,400
Healthy Lifestyles	777	9,861	0	3,071	0	0	0	0	0	0	13,709
HR & Payroll	302	1,620	243	0	2,403	2,037	0	0	0	0	6,605
Housing Revenue Account - RHL	2,423	0	0	566	584	252	0	8	1,059	(415)	4,476
Transformation Total	12,009	61,412	1,318	10,961	6,507	3,113	0	8	2,723	(1,100)	96,950
Coney Green Business Centre	91,416	20,791	3,744	2,411	8,085	0	0	0	0	(550)	125,898
Industrial Property	136,868	11,776	7,286	9,422	10,074	9,484	8,083	440	3,653	(1,660)	195,425
Midway Business Centre	2,110	577	0	464	407	348	0	0	0	0	3,906
Engineers	19,293	57,432	0	15,414	0	0	0	0	0	0	92,139
Estates	42,652	81,837	16,140	8,082	17,402	5,913	2,341	2,935	694	(3,900)	174,096
Community Safety	0	0	110	0	0	0	0	0	0	0	110
Accountancy	168,660	151,456	275	0	374	134	219	0	0	(11)	321,105
Financial Support Services	0	0	0	0	0	0	0	0	0	(14,368)	(14,368)
Revenues & Benefits	14,590	400	0	0	0	0	0	0	10,848	(47,782)	(21,944)
Grounds Maintenance	661	6,746	0	1,239	2,290	376	0	0	0	(37)	11,276
Trade Waste	62,493	2,803	7,769	5,240	6,551	2,099	383	0	0	(1,791)	85,546
Transport	30,654	35,311	0	0	1,103	0	0	0	0	(72)	66,995
Cleansing	32,602	6,692	1,948	407	733	0	0	0	0	(57)	42,323
Street Scene	14,694	117,992	0	0	18,362	0	0	0	0	0	151,048
Operations Total	616,694	493,811	37,272	42,680	65,380	18,354	11,025	3,375	15,195	(70,229)	1,233,556
Grand Total	684,120	592,969	154,382	57,561	76,189	51,893	13,005	42,481	22,294	(82,582)	1,612,312

