

North East Derbyshire District Council

Audit and Corporate Governance Scrutiny Committee

14 July 2016

Key Issues of Financial Governance

Report of the Executive Director Operations

This report is public

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 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 both the Mill Lane the Coalite site. Given the extent of the public sector austerity agenda which needs to be balanced against the requirement to deliver services to local residents work to ensure the sustainability of both the General Fund and the HRA will be ongoing for the foreseeable future. Audit Committee will be aware that the external audit process in respect of 2015/16 is now underway and that an updated External Audit report will be presented to the Audit Committee in September 2016. This will provide Council with an updated external view of its financial governance arrangements.

- 1.4 With respect to the work of Internal Audit the position in respect of last financial year was reported to the previous meeting of this Committee on 19th May. During 2015/16 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 were assessed as unsatisfactory. The Audit Committee will need to continue to undertake an active role in monitoring progress in addressing the issues raised by Internal Audit reports. 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 need to be addressed. Whilst there is clearly a need to address the issues identified and to improve standards of internal control generally it is important to place these issues into perspective. The Internal Audit Annual Report summarises the position as follows:

“Overall, 84% of the areas audited received a good or satisfactory opinion demonstrating that there are effective systems of governance, risk management and control in place. However, this is a reduction on the previous year when 95% of the areas examined were deemed good or satisfactory.”

- 1.5 As part of the process of ensuring that effective action is being taken to address the issues raised by Internal Audit the Assistant Director Planning and the Assistant Director Property and Estates will be attending the meeting of this Committee in September in order to update the Committee with progress made in implementing the recommendations in respect of S106 Payments and Commercial and Industrial Property rents respectively. The key issue to note in respect of Planning S106 agreements is that with support from the Accountancy and legal a robust schedule of current S106 agreements has been developed. Planning staff are now working to ensure that this is kept up to date for new S106 agreements and is reported to Planning Committee on a regular basis. Although the schedule has not yet been reported to Planning Committee Officers are working to ensure that the schedule is reported to the next meeting of the Planning Committee on 2nd August 2016. In

respect of progress in addressing the issues identified in respect of Health and Safety Officers have now agreed the specifications of the work required and an appropriate external organisation has commenced this work. As an outcome of this work existing arrangements will be independently quality assured and brought up to good practice standards.

- 1.6 Appendix 2 sets out the position with respect to outstanding debt. Whilst existing procedures are operating appropriately officers are continuing to monitor performance and review arrangements. In particular it should be noted that Cabinet in May 2016 approved a proposal that the Council become a member of a Derbyshire Wide Consortium in respect of enhanced Revenues and Benefits software which should assist in improving our debt collection arrangements.
- 1.7 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.

Other Issues Raised at Previous Audit and Corporate Governance Scrutiny Committee Meetings.

- 1.8 During recent meeting several issues have been raised at Committee where supplementary information has been requested. These included the following:
 - Meeting the cost of agency staff: Details of expenditure on Agency Staff were provided by Internal Audit at the meeting of the Committee on the 16th April. At that meeting Officers expressed the view that the costs of agency staff had been met from within existing budgets. To verify the position – as requested – a further piece of work has been undertaken in respect of Street Scene, Planning and Revenues and Benefits in respect of both 2014/15 and 2015/16. This demonstrates that costs have been met from within approved budgets. Officers have continued to advertise vacant posts and particularly in the Planning Service have had some success in the recruitment process. The issues in both Streetscene and Revenue and Benefits have been resolved as the incidence of temporary absence has declined.
 - Investment into Commercial and Industrial Units: A summary of the 2015/16 revenue account is given below for information

	£000's
Buildings Maintenance	57
NNDR and Utilities	66
Supplies and Services	34
Commercial Property Rent	(490)
Rent of Land	(48)
Contribution to General Fund	(381)

In addition to the repairs work where necessary the Capital Asset Refurbishment Fund is utilised for renovation or upgrade type work.

- Development of a sustainable Leisure Service: A report taken to the Cabinet meeting of 29 June 2016 secured agreement for the implementation of a strategy designed to further reduce the level of subsidy into leisure to upgrade the quality of the facilities and to improve usage levels.

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 an executive decision 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	Debt Management Performance Update Schedules
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 "Internal Audit Consortium Annual Report 2015/16" Audit and Corporate Governance Committee Meeting 16 May 2016	
Report Author	Contact Number
Executive Director – Operations	7154

Appendix 1

ACTION PLAN

KEY ISSUES OF FINANCIAL GOVERNANCE 2016/17

Issue	Current Position	Sponsor / Lead Officer
<p>1. Progress actions necessary to achieve a balanced budget over the period of the MTFP 2016/17 to 2018/19.</p> <p>Minimise the risk of a reduction in the General Fund (£2.0m) and HRA balances (£2.8m) in order to help ensure the continued financial and operational sustainability of the Council.</p>	<p>The savings target in respect of 2015/16 has been secured and a contribution made to the Invest to Save Reserve. 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 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.</p> <p>The HRA performed in line with the budgeted position during 2015/16 producing a surplus of £0.173m at the year end. Officers continue to review the 30 Year HRA Business Plan in the light of legislative and other changes.</p>	SAMT/ CFO
<p>2. 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</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>	SAMT / CFO

Issue	Current Position	Sponsor / Lead Officer
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.	The Council has for some time been an active participant in both the East Midlands Local Economic Partnership and the Sheffield City Region. 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. Significant progress is being made in ensuring that the Council secures access to external funding in order to address key economic regeneration projects.	
3. 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. In addition the Audit Committee receives quarterly reports in respect of debt.</p>	CFO / AD
<p>4. 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 NNDR, the HRA, devolution and welfare reform which are anticipated to have a significant impact upon local government.</p>	CFO / AD
5. Internal Controls are maintained.	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	CFO

Issue	Current Position	Sponsor / Lead Officer
<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>The Audit Committee will be aware that during the 2015/16 financial year the Council received 1 Internal Audit report where arrangements were classed as unsatisfactory and a further three where arrangements were described as marginal. This is a significantly poorer outcome than that achieved in previous financial years.</p>	<p>identified three areas of work where internal control is classed as marginal and one where it is unsatisfactory.</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. The outcome of the 2014/15 external audit supports the view that the team operated to a high standard. Performance will effectively be reassessed as part of the External Audit process for the 2015/16 financial year.</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 but 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</p> <p>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.</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 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>	
<p>6. An Internal Audit review of the Council's arrangements concerning the administration of S106</p>	<ul style="list-style-type: none"> • Officers have agreed an Action Plan with Internal Audit which will include some major changes in the way in which these payments are monitored and managed. • All future meetings of the Planning Committee will consider a report detailing all outstanding S106 payments. 	<p>AD P & EH, CFO.</p>

Issue	Current Position	Sponsor / Lead Officer
Payments concluded that these were unsatisfactory (Unacceptable risks identified, changes should be made)	<ul style="list-style-type: none"> • The scope of the Corporate S106 monitoring meeting has been extended from the consideration of 'live' S106 arrangements to incorporate all S106 agreements including those where the Planning Application and associated S106 agreement have been approved, but development work on site has not commenced. • The Assistant Director Planning and Environmental Health will attend the September meeting of this Committee to outline what action has been taken in respect of the findings of the Internal Audit report. • An update on the Council's S106 arrangements will be provided as part of the Key Issues of Financial Governance Report to all future meetings of this Committee, until the issues identified are resolved. 	

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 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
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 2015	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	893	142	75	17	13	42	27	1,209	
31 December 2015	880	261	85	26	13	43	25	1,333	
31 March 2016	1,195	212	76	52	13	42	22	1,612	
Average Debt 2015/16	972	201	76	27	23	33	25	1,357	0
30 June 2016	1,616	108	67	52	13	50	19	1,925	
30 September 2016									
31 December 2016									
31 March 2017									
Average Debt 2016/17	1,616	108	67	52	13	50	19	1,925	10

APPENDIX 2 : TABLE 2

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 2011/12	110	191	138	92	88	50	18	687	18
Average Debt 2012/13	74	238	199	115	70	70	51	817	0
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	221	321	237	173	183	133	205	1,473	
31 December 2015	196	336	298	168	148	138	221	1,505	
31 March 2016	140	380	296	165	132	138	228	1,479	
Average Debt 2015/16	182	336	263	172	160	133	209	1,455	0
30 June 2016	141	362	310	173	130	139	215	1,470	
30 September 2017									
31 December 2016									
31 March 2017									
Average Debt 2016/17	141	362	310	173	130	139	215	1,470	0

HRA total Indebtedness

Debt Outstanding as at	Total	Write Offs in Year
	£000	£000
Average Debt 2011/12	1,562	77
Average Debt 2012/13	1,987	85
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	2,456	
31 December 2015	2,136	
31 March 2016	1,763	
Average Debt 2015/16	2,203	266
30 June 2016	2,157	
30 September 2016		
31 December 2016		
31 March 2017		
Average Debt 2016/17	2,157	

APPENDIX 2 : TABLE 4**SUMMARY OF PROVISION FOR DOUBTFUL DEBTS 2016/17**

	General Fund Sundry Debtors	Over Paid Housing Benefit	HRA Rents	Total
	£000's	£000's	£000's	£000's
Balance B/Fwd	(292)	(1,072)	(1,045)	(2,409)
Write offs in current financial year	10	0	0	10
Actual increase in provision	(10)	(0)	(50)	(60)
Projected Provision C/fwd	(292)	(1,072)	(1,095)	(2,459)
Current Debt position	1,925	1,470	2,157	5,552
Percentage Coverage	15.2%	72.9%	50.8%	44.3%