

Audit & Governance

Committee

16th January 2014

MINUTES

Present:

Councillor Roger Hill (Vice-Chair in the Chair) and Councillors Roger Bennett, John Fisher (during Minute No's 30 to 40), Yvonne Smith and Pat Witherspoon (during Minute No's 24 to 30 and 37 to 39)

Dave Jones – Independent Member (non-voting co-opted)

Also Present:

Phil Jones and Zoe Thomas (Grant Thornton – External Auditors)

Officers:

A Bromage, C Felton, S Morgan, G Revans, A de Warr and J Willis

Committee Officer:

D Parker-Jones

24. WELCOME - NEW INDEPENDENT MEMBER ON AUDIT & GOVERNANCE COMMITTEE

The Chair welcomed Dave Jones, the Audit & Governance Committee's first Independent Member, to the meeting.

It was noted that Mr Jones had been appointed to the role of Independent Member in December 2013. This was a non-voting co-opted role for a 12-month trial period.

The Chair highlighted the importance of the Committee's work for the Borough, and advised Mr Jones that he should feel free to join in the Committee discussions, raise any questions and put forward any suggestions at meetings.

25. APOLOGIES

An apology for absence was received on behalf of Councillor Derek Taylor.

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Chair

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It was also noted that Councillor Fisher would be arriving a little late owing to traffic problems.

26. DECLARATIONS OF INTEREST

There were no declarations of interest.

27. MINUTES

RESOLVED that

the minutes of the Committee held on 26th September 2013 be confirmed as a correct record and signed by the Chair.

28. AUDIT & GOVERNANCE COMMITTEE - ACTION LIST AND WORK PROGRAMME

Action List

(i) Ref 1 – Lead Fraud & Risk Member training

It was reported that Councillors Hill and Fisher had received individual training with Officers for their Lead Fraud Member roles on the Committee.

Councillor Smith, in her capacity as Lead Risk Member, confirmed that she had received one-to-one training with the Head of Customer Access and Financial Support and had been looking into current customer service issues. She had also received separate training from the former Head of Finance and Resources on the operation of the 4Risk (risk reporting) system, and was hoping to attend a further risk session with Officers in due course.

Councillor Bennett confirmed that he would contact Officers to make the necessary arrangements for his risk training.

Action: item to be removed from Action List.

(ii) Refs 2, 3, 4 & 6

Officers advised that these matters would be reported on at the 24th April 2014 meeting.

Action: items to remain on Action List for reporting at next meeting.

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- (iii) Ref 5 – External sale of previously used car parking machines

Officers confirmed that the car parking machines in question had now been removed and sold on to Wychavon District Council.

Action: item to be removed from Action List.

- (iv) Ref 7 – Future monitoring of use of balances to support expenditure

It was noted that this remained an ongoing item for periodic updating and that Councillor Fisher, Portfolio Holder for Corporate Management, would also now be providing financial monitoring update reports at each Committee meeting.

Action: to remain on Action List for future monitoring and reporting.

Work Programme

Officers advised on the following Work Programme updates:

- (v) 24th April 2014 meeting
The Treasury Management Strategy, Prudential Indicators and Minimum Revenue Policy Provision 2014/15 report was to be removed from the Work Programme and would instead form part of the general Budget report to full Council.

Grant Thornton, the Council's External Auditors, would also be presenting a Grant Claims Certification Work 2012/13 report to the April meeting.

- (vi) Meeting date to be determined

Members agreed to the removal of the External Audit – 'Councillors on the frontline' report. This would be replaced with External Audit training prior to the first meeting of the Committee of the new Municipal Year (provisional meeting date 3rd July 2014). The training, which would be combined with the Internal Audit training which currently took place annually for the Committee, would cover the latest best practice elements for good Audit & Governance Committees.

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RESOLVED that

subject to the comments detailed in the preamble above, the Committee Action List and Work Programme be noted and the amendments and updates highlighted be agreed.

29. RISK MONITORING & REPORTING

The Committee received three separate presentations from Heads of Service on the operational risks identified within the following service areas:

- Community Services;
- Environmental Services; and
- Legal, Equalities and Democratic Services.

Community Services

The Community Services presentation detailed the operational risks within CCTV and Lifeline, Dial-a-Ride and Shopmobility, Areas of Highest Need (including the Winyates Project), Ant-Social Behaviour, Community Safety and Early Help (formerly Sure Start and Children's Centres).

The impact of the proposed Worcestershire County Council budgets cuts was highlighted as a key risk to the service, together with possible cuts/changes in funding from other sources.

This would see changes in the current format and amount of Supporting People funding, loss of the Community Safety Grant in its current format and a reduction in the funding for the Early Help contract from Year 2 onwards. The Borough Council had submitted a bid to run the Bromsgrove Early Help contract and were currently waiting to hear whether this had been successful. The authority had previously been successful with external funding and a new bid-writing post had been included within the service. The Kingfisher Shopping Centre had confirmed that they would continue with their funding for Dial-a-Ride and Shopmobility for 3 years, and the Areas of Highest Need had 18 months of funding remaining.

The Supporting People Grant from County Council was due to cease on 31st March 2014, which could see a loss in funding of £202,000 to the Borough Council for users of the Lifeline service. Over 1,000 service users were assisted through Supporting People funding. Those users who were graded as either a significant or critical risk would continue to receive funding. However it was not known at this stage how many people would be eligible for funding under the new system as full details of the funding proposals were not yet available from the County Council.

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The Executive Committee had earlier that week agreed that Officers should consult Lifeline Service users to determine the future of the service should there be such a reduction in County Council funding, including ascertaining whether users would be willing to pay for the service should they not be eligible for funding.

Environmental Services

The Head of Environmental Services detailed the operational risks within his areas, which covered refuse collection, street cleansing, landscape and grounds maintenance, crematorium and cemeteries, fleet management, supplies unit and car parking (including on street car parking), land drainage and climate change.

It was noted that some of the operational risks remained long-term, with others being linked to specific projects such as reduced waste collection services and the crematorium project, and some being health and safety related. Risk management was a continually developing process within Environmental Services, with all identified operational risks having been adjudged as either low or medium risks.

He added that a number of services were currently working their way through the transformation process, with the management of identified risks being key in the future given the budgetary situation. Officers were currently in negotiation with Worcestershire County Council on highway maintenance contracts, with the Borough Council also seeking to take on highways maintenance for the Bromsgrove area.

The service was struggling with the Government's new Green Deal initiative as the planned external provider for this was no longer proceeding with the partnership owing to current market-driven issues.

Legal, Equalities and Democratic Services

The Head of Legal, Equalities and Democratic Services explained the different elements which formed part of the Legal Services, Democratic Services and Elections teams.

The main risks which had been identified were:

- failure to effectively manage neighbourhood referendums;
- lack of capacity and capability to manage legislative change;
- lack of capacity to manage high profile legal cases;
- failure of Member conduct;
- failure to provide independent advice to two Councils;
- failure to respond to changes in political control; and

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- the impact of budgetary restraints on service delivery.

Members were advised that the elections process contained significant risks, which were subject to a separate Cabinet Office risk register.

It was noted that whilst the Localism Act 2011 provided for referendums, the risk of a referendum actually taking place was relatively slim in view of the process which had to be gone through to reach that stage.

RESOLVED that

the presentations be noted.

30. CORPORATE RISK REGISTER

The Financial Services Manager gave a presentation on the Council's Corporate Risk Register.

She informed Members that the risks identified in the Corporate Risk Register could, if realised, fundamentally affect the way in which the Council existed or provided services over the next 5 years. These risks would have a detrimental effect on the Council's achievement of its Strategic Purposes, and would lead to material failure, reputational damage, loss or lost opportunity.

The following were confirmed as corporate risks:

- partners being unable (or unwilling) to change how they do things (transformation);
- Council's failure to respond to financial constraints effectively;
- failure to manage financial and service-based impacts of the County Council's commissioning on the Council;
- political change/influence (from a national, regional or local perspective);
- failure of Local Enterprise Partnerships' (and interactions with them) to operate effectively;
- Council's failure to effectively deliver transformed services; and
- failure of Shared Services to deliver/satisfy the needs of the Council.

The following controls were in place to mitigate against corporate risks:

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- 3 year budget planning;
- regular finance reports to Members;
- Shared Services Board;
- regular Trade Union liaison;
- regular Group Leaders' meetings;
- Council's Strategic Purposes based on wider strategic aims;
- senior Officer input into Local Enterprise Partnerships and County Council discussions; and
- plans to deliver transformational services.

RESOLVED that

the presentation be noted.

31. FRAUD MONITORING & REPORTING

The Committee received a report which advised on the performance of the Benefits Services Fraud Investigation Service from 1st September 2013 to 30th November 2013.

The issues highlighted in the report in relation to the limited amount of information received by the Council on changes to Department for Work and Pensions (DWP) benefits and Tax Credits, which provided for a risk of fraud and error entering the system, were noted. Officers advised that the Chief Executive was due to write to central government to explain the extra work which was required on the part of authorities in obtaining the required information. Whilst both the DWP and the authority shared legally required information on claimants, there was no statutory requirement for the DWP to provide particular information which the Council would find helpful when dealing with its claimants.

As both Housing Benefit and Council Tax Support were means tested there was potential for claimants to under-declare. Data-matching was a key tool to identifying fraud and approximately 26% of fraud referrals received during the period came from members of the public.

Members queried whether the £32m in Housing Benefit and Council Tax Benefit paid in the financial year 2012/13 was a rising figure. Officers confirmed that this was not the case, with projected claims for 2013/14 being £32.2m. It was further noted that recent changes to the benefits system would make it difficult to make any similar comparisons in the future.

Members also queried whether information was available showing how well the service was performing in comparison with

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neighbouring authorities' services. Officers responded that whilst certain information was shared between authorities it was difficult to benchmark such data given the varying circumstances involved. The forthcoming Single Fraud Investigation Service (SFIS) which was to be introduced as part of the government's welfare reform plans also impacted on how the authority evaluated its performance against other authorities. Officers agreed to look into whether it was possible to obtain any relevant comparison data for future reporting to Members.

In response to a Member request, Officers went on to explain the background to Administrative Penalties and how and when these were applied.

Members queried how likely it was that the £36k overpaid in Housing Benefit would be recovered. Officers responded that there was a reasonable likelihood of this being recovered, although this would be over a significant period of time as the authority did not want to put families in crisis when clawing back overpayments as this would only serve to make matters worse.

The update provided in the report in relation to the SFIS was noted, with current implementation due to take place on a phased basis between October 2014 and March 2016. Alongside the roll out of the SFIS, the Department for Communities and Local Government and DWP were also investigating local government's capacity to tackle non-welfare fraud, which would include extra funding for local authorities for 2014/15 and 2015/16.

The Independent Member queried whether the 225 fraud referrals received during the period of the report was an increasing figure, and whether there had been a year-on-year increase in referral numbers. Officers were unsure on this and agreed the report back to the Committee at the next meeting under the Action List item on past referral numbers. Future benefits investigations reports would also include relevant comparison figures.

RESOLVED that

subject to the required follow-up actions by Officers, as detailed in the preamble above, the report be noted.

32. DEBT RECOVERY UPDATE - QUARTERS 1 AND 2 2013/14

The Committee received a report advising Members on the collection and recovery processes of the Council's income team, and on outstanding debt levels.

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Officers highlighted the key elements of the report, which was the first such report to the Committee.

It was noted that former tenancy arrears, whilst relatively low in number, were labour intensive and created the most work for the Income Team of any individual debt type. Former tenancy arrears were reducing year-on-year owing to how the Income Team operated, transformation work and early intervention with cases. Current arrears for 2013/14 at the end of the second quarter stood at £336,723, which related to 395 individual cases. As part of transformation work the team were also assisting customers who were getting into debt with budget planning.

Other debt owed to the Council (excluding former tenancy arrears) totalled £918,000. This related to 11,335 outstanding invoices or instalments which had been issued, many of which would be paid before the end of the financial year. Collection rates over the last 3 years had improved, with there being a demonstrable improvement in the Council's debt collection.

The Independent Member queried what appeared to be a disproportionate number of live accounts compared with the number of invoices raised. Officers stated that this was due to changes in some of the processes involved, which reflected in the figures.

Officers advised that cases were dealt with by the authority as far as possible, with only a small number being referred to court in the reporting period. Officers worked with customers and were careful not to pursue debts where it was uneconomical to do so, for example, where court costs would be higher than the original debt.

Officers responded to Member questions on debt issues, including the invoicing of and methods of payment for council-owned garages, and commission rates on debt balances collected by external debt collection agents.

A Member queried whether the debt recovery figures would be incorporated into the corporate dashboard for performance monitoring. Officers responded that this was not currently in the strategic measures but could be reported on generally. Members agreed that a regular 6-monthly debt recovery update report be referred to the Committee.

RESOLVED that

- 1) the contents of the report be noted; and**

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- 2) a regular 6-monthly debt recovery update report be referred to the Committee.

33. INTERNAL AUDIT - MONITORING REPORT

Members considered the Internal Audit Monitoring Report as at 30th November 2013.

Officers highlighted the Final Report for the Palace Theatre issued on 25th October 2013, which had resulted in a Limited Assurance level. The audit had identified a number of expected controls which were not in place at the time of the audit taking place, together with some which were not working properly. The proposed Internal Audit recommendations detailed in the report were noted, together with management's responses and action plans to address the recommendations. Internal Audit would report back to Members on the Palace Theatre as part of their follow-up monitoring work.

Officers also highlighted the Allotments audit which, whilst resulting in a Moderate Assurance level, had given rise to some concerns with some expected controls either not being in place and/or operating effectively. In particular, there was no formal agreement in place to govern the operation of the Allotment Associations which were run under the Council's Leisure and Cultural Services Team.

Officers went on to explain the Internal Audit Plan delivery 2013/14 and key performance indicators 2013/14. Steady progress had been made against the plan with Officers being on target to deliver the full plan as expected.

RESOLVED that

the report be noted.

34. INTERNAL AUDIT - PROVISIONAL AUDIT PLAN 2014/15

The Committee received a report on the Provisional Internal Audit Operational Plan for 2014/15 and the key performance indicators for the Worcestershire Internal Audit Shared Service for the same period.

Officers advised that owing to new Internal Audit regulations, Internal Audit would in future be looking to link audits with the Council's corporate (strategic) priorities.

The number of audit days in the draft plan for 2013/14 and 2014/15 remained the same. In light of progress which was being made as a result of the Council's transformation programme, the Committee

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felt that there was some value in the Worcestershire Internal Audit Shared Service Manager and the authority's Section 151 Officer reviewing the number of future audit days and coverage to be provided. It was noted that a number of other local authorities were looking to reduce their audit days.

Members highlighted the importance of ensuring that the Council's financial systems were sufficiently robust, particularly in view of the issues highlighted earlier in the evening by the External Auditors in relation to the ongoing financial pressures faced by the Council.

Officers responded that from an Internal Audit perspective, financial system weaknesses would not be expected as the current systems in place, based on current staff numbers, were felt to be reasonable and fit for purpose. If, for example, staffing numbers reduced significantly then the associated risk would increase and the position would need to be reviewed.

RESOLVED that

- 3) **the report be noted; and**
- 4) **the Worcestershire Internal Audit Shared Service Manager and Section 151 Officer review the number of planned audit days and coverage to ascertain whether there was any value in reducing these over future years.**

35. ANNUAL GOVERNANCE STATEMENT 2013/14 - PROGRESS UPDATE

Officers advised that there was no update to be provided on current progress with the drafting of the Annual Governance Statement for 2013/14, and that an update on this would be forthcoming at the next meeting of the Committee.

RESOLVED that

the position be noted.

36. PORTFOLIO HOLDER UPDATE - QUARTERLY BUDGET MONITORING

Councillor Fisher, Portfolio Holder for Corporate Management, provided his first oral Quarterly Budget Monitoring update report to the Committee.

The Portfolio Holder confirmed that the most recent Finance Monitoring Report, for Quarter 2 of 2013/14 (covering the period

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April to September 2013), had been referred to the Executive Committee on 10th December 2013.

The Portfolio Holder spoke on elements of the 2013/14 budget, including the unidentified savings element of this which the External Auditors had stated they would like to see details of proposed savings for moving forward. He stated that it was important to look at services and to understand service needs from the customer's perspective. As part of that process services would be reviewed and transformed and the consequences of any service changes known.

The Council was on target to make £508k of savings by the end of the year. Officers were reviewing every area of expenditure, with the current shortfall for 2013/14 standing at £42k.

Over the course of the current financial year the Portfolio Holder had met regularly with Finance Officers and Heads of Service on budget monitoring and reporting, and in recent months had held weekly meetings with the Director of Finance and Resources.

There was a current freeze on jobs unless posts were deemed to be business critical and the staff training budget had been significantly reduced. As the Council's transformation programme progressed work processes were being reviewed and restructures had taken place in some service areas. Additional income had been forthcoming from the Crematorium and Palace Theatre.

Major challenges with the 2014/15 budget lay ahead for the Council over the coming months. More detail on how the budget shortfall would be addressed would emerge over the months ahead.

Officers advised that they were currently working on the Finance Monitoring Report for Quarter 3 of 2013/14, and that whilst savings had been identified unanticipated issues could still arise which might affect the position.

RESOLVED that

the Portfolio Holder's update report be noted.

37. GRANT THORNTON - ANNUAL AUDIT LETTER 2012/13

Members were presented with the Annual Audit Letter for 2012/13 from Grant Thornton, the Council's External Auditors.

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Phil Jones, Engagement Lead from Grant Thornton, spoke briefly on the report and referred to the report's Executive summary which detailed the key areas for the Council's attention.

Work undertaken by the External Auditors was in line with the plan issued to Members in March 2013, with the fees charged being consistent with those set out in the fee letter issued in April 2013. Fees for the work carried out by the External Auditors on the certification of grant claims and returns would be confirmed in a separate report once complete.

Mr Jones highlighted the financial pressures which the Council was facing given the significant reductions in central government grants. He advised that he had recently met with Councillor Fisher, Portfolio Holder for Corporate Management, to discuss how the Council would be tackling this issue. Other key messages from the External Auditors included business rate pooling, the Council's transformation programme and possible consequences to the Council of the government's welfare reform.

Unqualified opinions had been received on the 2012/13 accounts and in relation to value for money. Assurance of the Whole of Government Accounts Statement had been made to the National Audit Office and 2 grant claims had been audited without amendment.

RESOLVED that

the report be noted.

38. GRANT THORNTON - GRANT CLAIMS CERTIFICATION WORK 2012/13

The External Auditors confirmed that this report would now be referred to the next meeting of the Committee as confirmation was awaited from the Audit Commission on the fees for this work.

RESOLVED that

the position be noted.

39. GRANT THORNTON - UPDATE REPORT 2013/14

Members were presented with a progress report for the financial year 2013/14 from Grant Thornton, the Council's External Auditors. The report also included a summary of emerging national issues and developments of relevance to the Council.

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A report of the Executive Director, Finance and Resources, setting out an action plan to address the issues raised in the External Auditors progress report would be presented to the next meeting of the Committee.

Members noted that, in line with the process followed for the 2012/13 financial year, Officers would forward a copy of the 2013/14 draft accounts to the members of the Committee at the end of June; the point at which they were submitted to Grant Thornton for auditing. The final accounts, including any changes made to the draft version post-audit, would then be signed off by the Committee at the end of September.

RESOLVED that

the report be noted.

40. GRANT THORNTON - REVIEW OF FINANCIAL RESILIENCE

Members received a report from the Council's External Auditors, Grant Thornton, which presented their views on the financial resilience of the Council for the year ended 31st March 2013.

Phil Jones, Engagement Lead at Grant Thornton, highlighted the Local Context detailed in the report. This confirmed that in Redditch between 2009 and 2015 the impact of the reduction in government grant reflected a 41% cut in funding cumulatively, with further cuts also due. The External Auditors had met with the Leader of the Council and the Executive Director, Finance and Resources, with future budget plans beginning to emerge.

One area of concern highlighted in the report related to the adequacy of certain planning assumptions under the Medium Term Financial Strategy (MTFS). The corporate plan issued in 2013 was not keyed into the budget setting process, meaning there was a disconnection between the two. Issues linked with the Housing Revenue Account since this had become self-financing in 2012 would also need to be kept under review and duly planned for.

The Council had yet to fully identify all of the required savings in the MTFS, that being £1.8m by 2014/15 and further savings beyond. The Council would need to take some difficult decisions in order to cut costs and increase revenue in order to achieve required savings. Earmarked balances should be robustly reviewed and further considerations given to the minimum level of balances in view of the financial risk the Council was facing.

RESOLVED that

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the report be noted.

The Meeting commenced at 7.00 pm
and closed at 9.05 pm