

ST EDMUNDSBURY BOROUGH COUNCIL

PERFORMANCE AND AUDIT SCRUTINY COMMITTEE

**Minutes of a meeting held on Monday 31 October 2011 at 4.30 pm
in the Conference Chamber West (F1R09), West Suffolk House, Western Way,
Bury St Edmunds**

PRESENT: Councillor J R Hale (Chairman)
Councillors Mrs Broughton, Cox, Mrs Hind, Marks (Substituting for Farmer), Redhead, Mrs Richardson, Simner and Spicer

BY INVITATION: Councillor Mrs Mildmay-White (Portfolio Holder for Culture and Sport), Councillor Ray, Portfolio Holder for Resources, Performance and Organisational Development, and Councillor Nettleton.

22. Apologies for Absence

Apologies for absence were received from Councillors Farmer and Mrs R V Hopfensperger.

23. Substitutions

The Committee Services Manager informed the Committee that Councillor Marks had been appointed as a temporary Substitute for Councillor Farmer in accordance with the Council Procedure Rule in Part 4, Rules of Procedure, of the Council's Constitution.

24. Minutes

The minutes of the meeting held on 20 September 2011 were confirmed as a correct record and signed by the Chairman.

25. Declarations of Interest

Members' declarations of interest are recorded under the item to which the declaration relates.

**26. Treasury Management Performance Report and Investment Activity:
1 April to 30 September 2011**

The Committee received and noted Report C176 (previously circulated) the purpose of which was to:-

- (1) provide an update on Treasury Management activity and performance for the period 1 April to 30 September 2011;
- (2) provide an economic update for the first six months of 2011/2012; and
- (3) advise of a joint procurement exercise currently being undertaken to appoint a Treasury Management Adviser for the Council with effect from 1 April 2011.

Report C176 had also been considered by the Committee's Treasury Management Sub-Committee, and Councillor Hale, Chairman of the Treasury Management Sub-Committee provided an oral report on the deliberations of the Sub-Committee.

The 2011/2012 Annual Treasury Management and Investment Strategy set out the Council's projection for the current financial year. The budget for investment income in 2011/2012 was £457,000, equivalent to £11.97 for each Council Tax Band D property. This represented the target rate of return on investments of 1.5%.

The total amount invested at 1 April 2011 was £32.4m and at 30 September 2011 was £39.65m. The increase in balances over this period was due primarily to timing differences in respect of the collection of local taxes and the payment of precepts. The average level of funds available for investment purposes in the first six months of 2011/2012 was £38.8m. At the end of September 2011, interest actually earned during the first six months of the financial year amounted to £280,000 against the profiled budget for the period of £238,000, a budgetary surplus of £42,000, which was primarily due to higher than projected average cash holdings during the period. The average rate of return on investments during the period was 1.44% against a target rate of 1.5%, reflecting the continuation of historically low interest rates during the period. The Committee noted that if the current interest rates continued to prevail, the budgeted income from investments for 2011/2012 may still not be achieved. In this situation any shortfall in budgeted income would be met from the Interest Equalisation Reserve. A full list of investments held at 30 September 2011 was shown at Appendix 1 to the report.

The Council's treasury management adviser, Sector Treasury Services Ltd (Sector), had provided an update on the performance of the economy and the potential impact upon future interest rates, which was replicated within the report. Some concern was expressed at the projections made by Sector but there was a consensus that Sector provided the professional 'expertise' and that the Council had to place reliance on its advice.

The Council uses Sector as its external Treasury Management adviser. The Chartered Institute of Public Finance and Accountancy (CIPFA) Treasury Management Code stated that relationships with advisers should be subjected to regular review to ensure that value for money was being obtained. The existing contract with Sector was due to end on 31 March 2012. The Council was currently engaged in a joint procurement exercise with East Cambridgeshire and Forest Heath District Councils for the appointment of a treasury management adviser with effect from 1 April 2012.

In response to a question, the Committee was informed that a 'short term investment' was one of up to one years duration. In addition, it was agreed that the Committee would be informed of those countries that had a AAA credit rating at the time of writing the report.

27. Mid-Year 2011/2012 Internal Audit Progress Report

The Committee received and noted Report C192 (previously circulated) which updated on the work undertaken by Internal Audit within the first six months of the financial year, and the progress made towards achieving the 2011/2012 Audit Plan.

The Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice for Internal Audit and Local Government in the UK 2006 (the Code) stated under Standard 10-Reporting that *'in addition to the annual report, the Head of Internal Audit should make arrangements for interim reporting to the organisation in the course of the year'*. Such interim reports should address emerging issues in respect of the whole range of areas to be covered in the annual report.

The report reminded the Committee of the role and requirement for Internal Audit and then detailed the corporate work undertaken during the first six months of the financial year. It was noted that the work on Core Financial Systems and Fundamental Review Work was concerned with documentation, evaluation and testing of the effectiveness of the systems of internal control within the Council's financial and

information systems, including compliance with the Council's rules and policies and its overall risk management and corporate governance arrangements. Six of these audit reviews had been completed and issued as final reports and seven were in progress.

The work on 'departmental' system reviews was concerned with reviewing internal controls within 'departmental' systems, areas for review being identified by a risk analysis undertaken before the start of the financial year. During the first six months of the financial year 12 internal audit reports had been issued within this category and in addition a number of audits were in progress and/or nearing completion.

The Council was required to participate in the bi-annual National Fraud Initiative (NFI), the Audit Commission-led exercise involving data matching of records such as benefits, payroll, pensions, student awards, housing rents (where appropriate), licenses, parking permits and travel concessions. Internal audit was taking a leading role in co-ordinating this exercise within the Council working across a number of service areas to support staff and providing data and subsequently investigating and recording the results of data matches. Work was also continuing on raising fraud awareness within the Council. In response to the Bribery Act 2010, Internal Audit was undertaking some work which included revision of the Council's Anti-Fraud and Anti-Corruption Strategy to reflect the implications of the Bribery Act, and had suggested amendments to various Council documents.

The Internal Audit Manager informed the Committee regarding staff arrangements. Four members of staff were included in the establishment of the Internal Audit Section, however, two of the team were currently on maternity leave. Some staff resource had been brought in from two other Suffolk local authorities to partially cover this reduction in resource and to try and ensure that Internal Audit remained on track to achieve the Audit Plan. In addition, the Internal Audit Manager continued to perform the role of acting Internal Audit Manager at Forest Heath District Council, following the departure of the previous post holder in January 2011.

Internal Audit actively contributed to the Suffolk Working Audit Partnership (SWAP). This partnership allowed local authorities in Suffolk to share resources, knowledge, and experience regarding internal audit issues in order to identify and promote the adoption of best practice. In addition, the Suffolk Chief Executives had identified Internal Audit as one of the services that could be delivered more efficiently across all councils through a shared approach. In order to take this forward a Suffolk Internal Audit Partnership Board had been established to lead the process.

The Internal Audit Manager stated that all reports issued to date had been given a 'substantial assurance' opinion, which meant that there were no matters to bring to the attention of the Committee.

In response to questions the Committee was informed:-

- (1) that the Internal Audit Section undertook financial vetting of companies at the request of officers where officers had some concerns on whether the company had the capability to fulfil a contract with the Council. Usually the request was associated with tendering for a large contract, and recently vetting had taken place on the companies tendering for the catering contract at The Apex and other locations;
- (2) of the procedures relating to the Council making and monitoring Grants;
- (3) that reminders were issued for Members to regularly update their Register of Interests; and

- (4) that the Council had explored ways of reducing cash collections and that each location that collected cash had been issued with cash handling procedures.

28. Key Performance Indicators: Second Quarter 2011/2012

The Committee received and noted Report C193 (previously circulated) which was the second quarterly Performance Monitoring Report for 2011/2012 for the Key Performance Indicators (KPIs).

Attached as Appendix A to Report C193 was the quarterly report of key performance indicator data covering the period 1 July to 30 September 2011. The columns included in the table and a description of the data they contained, were as follows:-

- (1) the performance indicator giving details of what was being reported, including indicator code and a short description;
- (2) the annual target;
- (3) columns showing the performance (value) and target for each quarter;
- (4) the quarterly traffic light icon which reflected the status of the KPI, quarterly performance against target;
- (5) the short term trend arrows, which compared the current quarter with the previous quarter. A downward arrow indicated a negative trend regardless of calculation method of indicator;
- (6) the comparison column showed the 2011/2012 performance to date against the 2010/2011 performance; and
- (7) the notes column provided an opportunity to explain performance and identify any actions to improve performance.

The report provided KPIs in respect of 40 items, of which eight had red indicators, three amber, 14 green, 11 were contextual indicators and data was not available for four items.

The Committee discussed a number of the indicators, and in response to questions the Committee was informed that:-

- (1) although the occurrences of fly-tipping had decreased, the negative indicator was attributable to the number of enforcement actions not having increased;
- (2) the number of working days lost to sickness did not include any allowance for staff to take 3 days a year as 'duvet days'. These 'concessionary' days did not apply to the Borough Council;
- (3) the determination of planning applications had been affected by the implementation of the new computer system and staff on maternity leave. The target period of time to determine different types of application used in the indicators had been those used in previous statutory indicators, which were no longer required, but which officers considered were still appropriate. It was also still considered to be appropriate to aspire to the hundred percent target;
- (4) further information would be provided at the next meeting of the Committee on annual target and actual delivery of affordable homes; and

- (5) a written response would be given on the progress of the annual canvass of electors.

It was agreed that at the Committee meeting in January 2012 Members would be given an overview on the KPIs and, their calculation and interpretation through Covalent, the Council's performance management system.

29. Apex Performance

The Committee received and noted Report C194 (previously circulated) which advised of recent changes to the budget monitoring templates, and demonstrated key performance indicators which would be used in assessing the future performance of the project.

The Venues Director had worked with the Finance Team to develop a method of budget monitoring which identified the true value of distinct areas of operation and allowed a more commercial approach to be taken. The latest budget monitoring figures reflected the period to the end of September 2011, and were presented in a new format with the following four main headings:-

- (1) Apex Box Office (events);
- (2) Apex Hired Events;
- (3) Apex Catering and Bar; and
- (4) Apex (building).

As well as monitoring financial performance against the four headings, further data under key performance indicators would be collated and would include:-

- (1) numbers of people attending ticketed events;
- (2) estimated number of people attending hired events; and
- (3) percentage occupancy of auditorium for ticketed events.

In addition, benchmarking performance against similar sized venues in the UK would be developed. The relevant Portfolio Holders would also closely monitor the performance of The Apex, and consider development issues.

The latest Budget Monitoring Report to the end of September 2011 indicated an overspend of just under £61,000. This remained unchanged from the position at the end of August 2011. The reasons for the variance under the four headings were explained within the report. However, in general terms, they related to the different rates of development of the various component parts of the overall project.

In respect of box office (events) it was noted that the budget monitoring figure was showing a positive return compared to the stated ambition to break even on this activity. This was due to income being 'banked' relating to future performances against which no costs had yet been incurred.

Activity in respect of hired events related to income from room hires and technical equipment hires. An internal conference management report prepared in September 2011 was attached as Appendix A to the report. It was anticipated that income for this cost centre would begin to increase as the effect of ongoing promotional and marketing campaigns began to bear fruit. Implementation of these campaigns had strategically been held back until the building and the operational staff were ready to accommodate business to business events, and a graph within the report demonstrated this assumption.

The catering and bars were not achieving their full potential for a number of reasons that were being actively addressed, and it was recognised that an 'expert partner' to help develop the catering offer fully was required to ensure that the building was successfully up and running and its potential more evident.

A discussion was held on the catering contract that was currently out to tender along with other locations within the Borough Council. The tender had attracted a significant response, including from national companies. It was recognised that even if a national company was awarded the contract it would employ largely local people. The Committee was also informed of further developments to reduce the budgeted 'subsidy'.

In response to questions the Committee was also informed that:-

- (1) the conference section of the website would be updated to incorporate details about the easily accessible parking in close proximity;
- (2) the issues associated with the front of the building were being addressed; and
- (3) wayfinding signs were being considered.

(Councillor Mrs Mildmay-White left the meeting at the conclusion of the discussion on this item.)

30. Biannual Corporate Complaints and Compliments Digest

The Committee received and noted Report C195 (previously circulated) which was the Biannual Corporate Complaints and Compliments Digest covering the period 1 April to 30 September 2011.

The aim of the Digest was to provide an overview of the quantity and range of corporate complaints, those complaints monitored by the Chief Executive's Office, that the Council received, as well as monitoring effectiveness at responding and learning from any mistakes that had been made. 23 complaints had been received between April and September 2011, which compared to 30 during the same period last year. In addition, the report highlighted the 36 compliments which had been received across the Authority during the reporting period.

Attached as Appendix A was the report from the Local Government Ombudsman which summarised the complaints about the Council which had been investigated in 2010/2011. It showed that there were 10 enquiries and complaints received about the Council, compared to nine in the previous year. Of this 10, only four were considered by the investigative team, and there were no instances found of maladministration.

31. Delivering a Sustainable Budget: 2012/2013

The Committee received and noted Report C196 (previously circulated) which reported on the context of the 2012/2013 budget and the progress made on delivering a balanced budget.

The report set out the budget context and provided historical details of the savings attributable to the Council's Dynamic Review – Innovation, Value and Enterprise (DR-IVE) initiative which were listed in Table 1. This initiative started in 2005/2006 and to date had realised a cumulative reduction in the revenue budget of £8.2m. Table 1a detailed the reduction in staffing levels both as full time equivalent (fte) numbers and as a head count. During this period there had been a reduction of 91 FTE staff or 175 in number.

The latest copy of the Medium Term Financial Strategy (MTFS) was attached as Appendix A. Given the recent announcement about a Government grant for freezing

Council Tax, 2012/2013 had been modelled on the basis of a freeze. The Comprehensive Spending Review, and in particular the front loading of the cuts, had a direct and significant effect on the budget. The gap going forward was as follows:-

2012/2013: £2m;
2013/2014: £1.3m; and
2014/2015: £0.8m.

In addition, there were a number of uncertainties in the projections within the MTFs, and a range of assumptions incorporated which increased the sensitivities in terms of projecting forward. The report listed the main areas of uncertainty and the Chief Finance Officer explained these in detail.

Attached as Appendix B was the current list of budget assumptions, and Members noted that small changes in the assumption percentages could have significant impact on the budget.

As usual, there were areas of work across the Council where an increase in the budget was required, revenue growth items. The known areas were listed within the report and it was possible that further demands would be discovered during the course of the next two to three months, and if so, they would be reported to a future Committee meeting.

The Committee was also advised that there may be some requirement for capital growth in order to deliver income generating opportunities. These would be brought to the next meeting of the Committee scheduled for 28 November 2011.

The Council had determined that full budget consultation should be undertaken on some of the more sensitive budget options. Consultation took the form of focus groups for residents, focus groups with parishes and town councils, a postal survey of 2,000 households and an on-line survey. The results from this consultation could be found at Appendix C. There were 20 areas in the public consultation. Having reviewed the results, Cabinet Members had expressed a view that there were some areas which the public were clearly not in favour of, and which officers should, therefore, not pursue. These included:-

- (1) voluntary/art/community sector grant cuts of 10%;
- (2) reduced community work;
- (3) reduced standards of planting, floral displays, grass cutting and tree placement;
- (4) major reduction of park ranger service; and
- (5) closure of the Tourist Information Centre.

The Committee noted that, depending on how the budget developed, it may be that the Council would need to use some of its reserves to balance the 2012/2013 budget. As with the previous two years such use would be kept to a minimum.

Appendix D detailed the 'banked' saving already delivered as part of the budget setting process, and these totalled £800,000 of the overall target across these three financial years, with £598,000 being 'banked' in respect of 2012/2013.

Following the public consultation, officers were now working on developing options which were broadly supported by the public, as well as areas which would deliver savings/increase income that were not the subject of consultation. These would be brought to the Committee on 28 November 2011, and any remaining items to the meeting scheduled for 30 January 2012.

A detailed discussion was held on the MTFs, Appendix A, and in response to questions the Committee was informed that:-

- (1) the Council currently had a policy whereby the General Fund Reserve should not fall below £1.75m. Therefore, funds above that level could be used to balance the budget; and
- (2) bids for growth related to:-
 - (a) the permanent employment of waste operatives instead of using agency staff;
 - (b) the need to annually allocate funds to replace leisure assets;
 - (c) the increase in the employer's contribution of 1% year on year to finance the pension fund deficit as agreed with Suffolk County Council;
 - (d) the re-introduction of items which had created one-off DR-IVE savings in previous years;
 - (e) annual contributions to replace vehicles and plant; and
 - (f) an allowance for growth items.

A discussion was held on Appendix B, Budget Assumptions, and the Committee was informed that the assumption on the Council Tax Freeze Grant was based on a recent Government announcement, and that the assumptions on salary increases were not included in general expenditure inflation but were shown as a separate item.

The Committee welcomed the consultation on the budget and discussed some issues raised in Appendix C. The questions were tested with the focus groups before being incorporated in the questionnaire. The results of the consultation were considered to be statistically valid.

During the discussion a suggestion was made that the grant to Abbeycroft Leisure could be reduced to take into account the capital expenditure by the Borough Council to enhance the facilities within the Leisure Centres, which should lead to increased income generation opportunities. The Committee was informed that this issue was already being addressed and would be included in the report to its next meeting.

Car parking charges were discussed, and it was noted that charges were venue specific, with service officers holding discussions with the Parking Services Manager.

32. Local Government Resource Review: Commentary and Response to Consultation

The Committee received and noted Report C197 (previously circulated) which reported on the significant changes proposed to the way in which local authorities were financed through the 'localisation' of business rates and provided, as Appendix A, a copy of the Council's response to the Government's consultation.

On 18 July 2011, the Government issued its consultation paper on the Local Government Resource Review: Proposals for Business Rate Retention. A further eight technical papers followed on 19 August 2011. The Government's four principles for reform were as follows:-

- (1) to build into the local government finance system an incentive for local authorities to promote local growth over the long term;
- (2) to reduce local authorities' dependency upon central Government by producing as many self-sufficient authorities as possible;
- (3) to maintain a high degree of redistribution of resources to ensure that authorities with high need and low tax bases were still able to meet the needs of their areas; and

- (4) protection for businesses and specifically, no increases in locally imposed taxation without the agreement of local businesses.

The report detailed the potential implications for the Borough Council and the other local authorities within Suffolk. Since 2006/2007 real growth of Suffolk's business rates, if discounted by the Retail Price Index, were negligible and below the national average. Should this situation continue there was the potential that Suffolk's baseline business rates figure would be set higher than the business rates that would actually be collected in 2013/2014. Being 1% below the national average growth rate would lead to a loss of cash across Suffolk of approximately £2.5m in 2013/2014 and £5m in 2014/2015.

It was noted that gaining continual growth in business rates in a rural area was a challenge for reasons mentioned in the report. At face value, the Borough Council had strong growth, the strongest in the County, and might be tempted to avoid joining a pool. However, in a bid to encourage pooling, and therefore reduced volatility, the Government had made it financially attractive to pool. The Chief Finance Officer stated that she would continue to inform Members about this significant change to local authority financing as information became available to her.

33. Budget Monitoring Report: 1 April 2011 to 30 September 2011

The Committee received and noted Report C198 (previously circulated) which was the budget monitoring report for the period to 30 September 2011.

Attached to the report was the General Budget Monitoring report which indicated an overall underspend for the period of £335,000. A full analysis of the budget variances was provided at Appendix A. An explanation of variances over £10,000 was attached as Appendix B. Favourable variances included underspends on budget of £384,000 and income above budget of £356,000. Adverse variances included overspends on budget of £243,000 and income below budget of £307,000.

The capital budget monitoring report showed net expenditure of £83,000 for the first half of the financial year compared to a revised full year capital budget of £6,996,000. As in previous reports, the underspend was due to slippage in the capital programme. The capital disposals programme showed capital receipts for the period of £21,000 against a full year disposals estimate of £2,190,000. Details of these disposals were provided at Appendix D. The Reserves Monitoring Report was attached as Appendix E and showed that the Council had earmarked reserves of £11,904,000 as at 30 September 2011.

Discussions were held on a number of issues and in response to questions, the Committee was informed that:-

- (1) the Athenaeum was showing an overspend of £57,955 for the 6 months, and that this was partly attributable to a reduction in the number of hirings. Issues were being addressed in the current DR-IVE initiative; and
- (2) the Nowton Park Visitors Centre was estimated to cost, under Sustainable Development, £17,000 in the year.

It was agreed that the end column in Appendix C, Capital Programme, be amended to read 'Total Excluding' and not 'Total Less', in order to clarify the interpretation of the table.

34. Corporate Risk Register: Quarterly Monitoring Report

The Committee received and noted Report C199 (previously circulated) which was the quarterly monitoring report in respect of the Corporate Risk Register.

The Committee had the responsibility of keeping the Corporate Risk Register under quarterly review and for advising the Cabinet whether:-

- (a) the actions planned to mitigate the identified risk were adequate; and
- (b) whether there were any other risks that should be added to the register.

The report provided a traffic light system whereby:-

- (1) Green indicated a low risk;
- (2) Amber indicated a medium risk; and
- (3) Red indicated a high risk.

The latest copy of the revised risk register was attached as Appendix A to the report. One new risk had been added to the register in this quarter, Haverhill Office Refurbishment, and no risks had been closed. Three residual risk colours had changed;

Risk 10: The Apex (capital): The final account was almost complete and within budget, and, therefore, both the inherent and residual risks had decreased accordingly;

Risk 41: Waste Handling: Suffolk County Council announced that it was not in a position to sign the inter-authority agreement, which had left the Borough Council with an increased level of risk in respect of the cost of waste disposal. Both inherent and residual risks had increased accordingly; and

Risk 50: The Apex (operations): The residual risk had reduced in line with the view that the risk was less likely to materialise.

In response to a question, the Committee was informed that the refurbishment of Queen Street, Haverhill had been completed, but that Suffolk County Council would be informed of concerns regarding the erection of bollards to protect the shop fronts.

The meeting concluded at 6.21 pm.

**J R HALE
CHAIRMAN**