ST EDMUNDSBURY BOROUGH COUNCIL

PERFORMANCE AND AUDIT SCRUTINY COMMITTEE

Minutes of a meeting held on Monday 30 January 2012 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 Cox, Farmer, Mrs Hind, Redhead, Mrs Richardson, Simner and Spicer
BY INVITATION:	Councillor Ray, Portfolio Holder for Performance and Resources, and Councillor Nettleton.

42. Apologies for Absence

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

43. Substitutions

No substitutions were declared.

44. Minutes

The minutes of the meeting held on 28 November 2011 were confirmed as a correct record and signed by the Chairman.

The officers agreed to ascertain what action had been undertaken in respect of the inadequate changing facilities at Gainsborough Road Playing Field in Bury St Edmunds recorded in minute 40, Review of Capital Programme.

45. Declarations of Interest

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

46. Third Quarter Internal Audit Progress Report

The Committee received and noted Report C299 (previously circulated) which updated on the work undertaken by Internal Audit within the first nine 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 nine 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 nine months of the financial year 17 internal audit reports had been issued within this category and, in addition, a number of audits were in progress and/or nearing completion.

In response to questions the Internal Audit Manager informed the Committee that:-

(1) 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. Often the request was associated with tendering for a large contract, and recently vetting had taken place on the companies tendering for the construction of the Nowton Park Visitors’ Centre, window cleaning and resurfacing Olding Road Car Park;

(2) the Audit Plan was on track for substantial completion by 31 March 2012;

(3) it was anticipated that the work on the Shared Internal Audit Service with Forest Heath District Council (FHDC) would be completed in the first quarter of the 2012/2013 financial year. It was considered that the current heavy workload was sustainable provided there was an early completion of this shared services work; and

(4) the Internal Audits listed in Section 4.9 included items suggested by the Chairman and Vice Chairman of this Committee, and the Committee endorsed this approach.

47. Audit Commission Presentation of 2010/2011 Annual Audit Letter

The Committee received and noted Report C300 which contained the Annual Audit Letter issued by the Audit Commission that summarised the findings of the 2010/2011 Audit.

The audit covered:-

(1) the audit of the financial statements; and
(2) an assessment of the arrangements to achieve value for money in the use of resources.

The Audit Letter included only significant recommendations and the Borough Council had already accepted these. The Audit Commission had issued an unqualified audit opinion on the financial statements and also an unqualified value for money conclusion, which stated that the Borough Council had proper arrangements to secure economy, efficiency and effectiveness in the use of resources. The audit did not identify any significant weaknesses in internal control arrangements. However, weaknesses were identified in three key controls in respect of the benefits system reconciliations and journal authorisation and the Borough Council had already addressed these.

Neil Harris, District Auditor, presented the Annual Audit Letter. He wished to thank the staff for their help and co-operation in the audit. He considered that the Borough Council should be congratulated in its work which was undertaken against the economic background, the work on shared services with Forest Heath District Council but also the significant changes arising from the introduction of the International Financial Reporting Standards (IFRS) for local government accounting. The IFRS had a significant impact on the accounts preparation procedures but despite the significant change the Borough Council had submitted its financial statements for audit before the statutory deadline of 30 June 2011. He added that this was an excellent achievement given the complexities involved with preparing IFRS accounting entries in 2010/2011.

Mr Harris then informed the Committee that the audit team had experienced difficulties in obtaining resolution to queries in some key areas of the IFRS Code. For this reason, he had confirmed with the Chief Finance Officer that an additional audit fee of £9,800 was needed to cover the cost of this extra work.

Mr Harris concluded by stating that for the next meeting of the Committee he would present the audit plan for the audit of the 2011/2012 financial statements.

48. Key Performance Indicators: Third Quarter 2011/2012

Prior to consideration of this item the Committee was given a brief presentation on the use of the Covalent Performance Management Software, which would help if Members wished to see more detailed information than that contained within the report.

The Committee received and noted Report C301 (previously circulated) which was the third quarterly Performance Monitoring Report for 2011/2012 for the Key Performance Indicators (KPIs).

Attached as Appendix A to Report C301 was the quarterly report of key performance indicator data covering the period 1 October to 31 December 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 six had red indicators, five 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) Indicator 18 Number of Working Days Lost to Sickness: Human Resources would be asked to supply a response on an analysis of sickness absence;

(2) Indicator 33 Number of complaints against Borough Councillors: this was an historical indicator and would be reviewed for the next reporting year;

(3) Indicator 14 Average Stay in Bed and Breakfast: finding bed and breakfast accommodation was a 'last resort' as alternatives offered 'better value for money'; and

(4) Indicators 10 and 21 Visitor numbers to various leisure facilities: the collection of visitor data was undertaken by using a number of methods. However, it was suggested that the visitor attendance statistics should be recorded against individual venues, and this information could be obtained from the Leisure Services Policy Officer.

49. Annual Treasury Management and Investment Strategy 2012/2013 and 1 April to 31 December 2011 Performance Report

The Committee considered Report C294 (previously circulated) the purpose of which was to:-

(1) provide an update on Treasury Management activity and performance for the period 1 April to 31 December 2011;

(2) advise the Committee of changes made to the Council's lending criteria;

(3) advise on the outcome of the recent joint procurement exercise for the appointment of the Borough Council's Treasury Management Advisors; and

(4) seek approval for the Annual Treasury Management and Investment Strategy Statements for 2012/2013 and Prudential Indicators.

Report C294 had also been considered by the Committee's Treasury Management Sub-Committee, and Councillor Hale, also Chairman of the Treasury Management Sub-Committee, provided an oral report on the deliberations of the Sub-Committee.

(a) Investment Activity: 1 April to 31 December 2011

The total amount invested at 1 April 2011 was £32.4 million and at 31 December 2011 was £39 million. 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 2011/2012 Annual Treasury Management and Investment Strategy set out the Council's projections 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 a target rate of return on investments of 1.5%. At the end of December 2011 interest actually earned during the first nine months of the financial year amounted to £433,000 against the profiled budget for the period of £354,000, a budgetary surplus of £79,000. The Committee was informed that this surplus was due primarily to higher than projected average cash holdings during the period arising from timing differences between planned and actual capital expenditure and receipt cash flows.

In the nine month period covered by this report the average rate of interest achieved was 1.45% against the target rate of 1.50%. It was estimated that if the current rates continued to prevail it was projected that the budgeted income from investments in the financial year 2011/2012 should be exceeded by between £80,000 and £100,000. This budgetary surplus would be included within the year end General Fund Reserve balance.

A full list of investments held as at 31 December 2011 was shown at Appendix A.

(b) Changes in Council's Lending Criteria

The Council's 2011/2012 Treasury Management and Investment Strategy required that deposits were only placed with a limited number of high quality banks and building societies whose credit rating was independently assessed as sufficiently secure by the Council's treasury management advisors, Sector Treasury Services Ltd (Sector), or for non-rated building societies. During November and the early part of December 2011 this Strategy was coming under increasing pressure due to the continued downgrading of banks and building societies. In particular, the Council's Treasury Management Team were affected by:-

(1) Sector's temporary cap on investments;
(2) continued reduction in approved counter-parties; and
(3) the move away from non-rated building societies.

As a result of these factors the Treasury Management Team was experiencing considerable difficulties in finding sufficient approved counter-parties with which to place Council funds. As discussed at the Sub-Committee meeting on 24 October 2011, Sector had been asked to review the Council's lending criteria and a summary of the main findings of the review were provided at Appendix 2.

In view of the outcome of this review and the difficulties being experienced in finding suitable counter-parties with which to place Council funds, following consultation with members of the Sub-Committee, approval was obtained from the Portfolio Holder for Performance and Resources and the Chief Finance Officer to amend the lending criteria for Council investments including:-

(1) extension of the credit limits for part nationalised banks; and
(2) extension of investment values and durations for highly rated banks and building societies.

These changes to the Council's lending criteria were made with effect from 14 December 2011, and had been incorporated into the 2012/2013 Treasury Management and Investment Strategy.

In response to a question, the Committee was informed that the use of non-rated Building Societies was subject to their meeting minimum financial criteria, based on asset base size and Dun and Bradstreet credit checks. As a result of the ending of the Government's formal bank support scheme, the Council had sought to reduce the value and duration of funds invested in non rated building societies.

(c) Appointment of Treasury Management Advisors

The Council used Sector Treasury Services Limited (Sector) as its external treasury management advisor. The Chartered Institute of Public Finance and Accountancy (CIPFA) Treasury Management Code stated that relationships with advisors should be subject 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, and the Council had participated in a joint procurement exercise with East Cambridgeshire and Forest Heath District Councils for the appointment of advisors with effect from 1 April 2012. Following evaluations of the submissions received, the Borough Council and East Cambridgeshire District Council both decided to renew their existing contracts with Sector. Sector provided the lowest quoted annual charge for services and were also deemed to provide a higher quality of service than currently provided. Forest Heath District Council (FHDC) decided to defer the appointment of advisors pending a full review of its Treasury Management Strategy for 2012/2013. As a result of this procurement exercise the Borough Council managed to secure a slightly higher level of service at a reduced rate, approximately 8% of the annual charge. The contract was at a fixed rate for three years.

In response to a question, the Committee was informed that the Borough Council would not receive a further discount if FHDC decided to retain Sector as advisors.

(d) Annual Treasury Management and Investment Strategy 2012/2013

The CIPFA Code of Practice required that a Treasury Management and Investment Strategy was approved by full Council prior to the beginning of the financial year to which it related. The proposed Treasury Management and Investment Strategy statements for 2012/2013 were attached as Appendix 3 to the report and met the requirements of the CIPFA Code, together with the Department for Communities and Local Government's Guidance on Local Government Investments and the statutory requirements of the Local Government Act 2003. The Strategy confirmed the Borough Council's debt free status and indicated that there were no plans to borrow monies for capital purposes in the foreseeable future. Within this overall strategy the Chief Finance Officer may approve short-term borrowings to provide for day to day cash flow management. This did not affect the Council's debt free status.

It was estimated that in 2012/2013 treasury management activity would generate income of £569,000, which was equivalent to £14.84 for each Council Tax Band D property. This represented an average target investment rate for the year of 1.5%. The increase in projected investment income compared to 2011/2012 took into account:-

(1) revised projections for Council Tax balances; and
(2) maturity dates for the Council's current fixed term investments.

Appendix 4 provided a summary of the national and international forecasts provided by the Council's treasury management advisors, Sector, which supported the underlying interest rate projections used in the preparation of these estimates.

It was noted that £569m was incorrectly stated in paragraph 6.6 of the Strategy, it should have read £569,000.

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RECOMMENDED:-

That the Annual Treasury Management and Investment Strategy for 2012/2013 and Prudential Indicators, attached as Appendix 3 to Report C294 be approved.

50. Delivering a Sustainable Budget: 2012/2013

The Committee considered Report C302 (previously circulated) which reported on the context of the 2012/2013 budget and the progress made on delivering a balanced budget.

A number of savings areas and new income opportunities had been progressed since the last meeting of the Committee, and these were now being presented for recommendation to the Cabinet and set out in Table 2 of the report. If all the savings were recommended to, and approved, by Cabinet, the Borough Council would have delivered some £240,000 in excess of the 2012/2013 budget gap. However, as reported at the November 2011 meeting, a number of the shared services savings were uncertain in terms of timing and projected amount of actual savings, and it was, therefore, prudent to continue on that basis, in order to allow some flexibility if necessary. There was also renewed uncertainty around future Government grant funding following the

Chancellor's Autumn Statement. Should all the shared services savings be delivered as planned in 2012/2013, the budget gap for 2013/2014 would be reduced by approximately £240,000.

A summary of the entire budget consultation exercise and the outcomes of each proposal were attached as Appendix A for reference. It was noted that the budget proposals contained in the report were all supported by the public.

Two further items for revenue growth were included in the report: the establishment of an Elections Reserve and £30,000 would be contributed annually, which effectively spread the cost of elections over four years; an increase in the annual contribution to the Building Maintenance Reserve of £11,250.

A detailed discussion was held on a wide range of issues associated with car parking and whether the times that charges applied were increased, and also whether car parks when not the subject of a charge should be physically locked. It was recognised that each car park should be treated differently because of its utilisation and there was a consensus that the current arrangements should continue. There was also a consensus that the Council should not charge for the use of the toilets in the Abbey Gardens.

A detailed discussion was also held regarding the Tourist Information Centre in Bury St Edmunds and its location. The Committee was informed that the Borough Council currently held a lease with the Bury Trust for the current premises on Angel Hill, and it would be ill advised to relocate the Tourist Information Centre until a time when the Borough Council could vacate the premises without any financial penalty. There was a divergence of opinion as to whether the Tourist Information Centre should remain on Angel Hill or be relocated to Moyses Hall.

In response to a question, the Committee was informed that the grants to voluntary, arts and community organisations had been reduced prior to the public consultation exercise.

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RECOMMENDED:- That:-

(1) the proposals for savings and additional income, as set out in Table 2 of Report C302, be included in the 2012/2013 budget and, where indicated, beyond; and

(2) the proposed areas of revenue growth as set out in Section 2.2 of Report C302, be included in the 2012/2013 budget and beyond.

(Councillor Cox wished it be recorded that he voted against these recommendations. Councillor Hale left the meeting during the consideration of this item.)

51. Review of the Capital Programme

The Committee considered Report C303 (previously circulated) which sought approval for the updated and rescheduled capital programme at Appendix A to the report.

A formal review of the Council's capital programme was undertaken annually as part of the budget setting process. The resulting rescheduled and updated programme was used, not only to set out the Borough Council's future capital expenditure plans, but also through the Medium Term Financial Strategy, to help determine the extent and timing of associated revenue implications, including the loss of interest on the Borough Council's capital reserves and the revenue impact of new or updated facilities.

A significant amount of additional work had been undertaken in this area since the November 2011 report. This further work had been prompted by the financial constraints that the Borough Council currently faced and the fact that the Borough Council's existing programme of major capital expenditure was now coming to an end. The review sought to address:-

(a) the potential impact of the new capital expenditure projections included in the proposed Leisure Asset Management Plan (AMP), which was considered by the Overview and Scrutiny Committee in October 2011. This identified the need for substantial additional capital expenditure over the next 11 years to maintain and enhance existing leisure facilities and assets; and

(b) the affordability and sustainability of capital expenditure proposals in the light of the Borough Council's limited available capital reserves and significantly reduced future capital disposals programme, including consideration of appropriate means of funding future capital programme expenditure.

Appendix B showed the impact of the revised capital expenditure programme on future levels of usable capital reserves for the period 2011/2012 to 2017/2018, and took account of the latest projection on the timings and value of capital grants and receipts, together with the proposed increased use of revenue budgets and reserves for the funding of future capital expenditure. This demonstrated that in the short to medium term the proposals set out in this report should enable the Council to maintain levels of usable capital receipts reserves at between £8m to £9m over this period, which was considered to be a prudent level for such reserves. However, this approach still did not address the funding of longer term requirements for major capital repairs to key Council assets including, for example, the £11m for major repairs and refurbishment of the Council's two leisure centres included in the leisure Asset Management Plan for the period 2020/2021 to 2022/2023. Consideration of the affordability of these major capital expenditure proposals, including options for funding, would need to be included in the options and investment appraisals for these projects.

A discussion was held on the works associated with the Leisure Asset Management Plan Schemes and whether the resurfacing of the all weather pitch in Bury St Edmunds could be undertaken within the indicated budget, and whether works associated with Haverhill Leisure Centre could be brought forward and be undertaken before those planned for the Bury St Edmunds Leisure Centre. The Committee was informed that the budget for the resurfacing of the all weather pitch was considered to be realistic provided that the works were undertaken at the appropriate time and not when the pitches had deteriorated into very poor condition. The timing of the investment in the facilities at Bury St Edmunds and Haverhill Leisure Centres was dependent upon when the current works were undertaken and the life expectancy of those works.

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RECOMMENDED:-

That the updated and rescheduled capital programme, detailed in Appendix A to Report C303, together with the revised capital strategy set out in Section 3 of Report C303, be approved, as part of the 2012/2013 budget setting process.

52. Budget Monitoring Report: 1 April to 31 December 2011

The Committee received and noted Report C304 (previously circulated) which was the budget monitoring report for the period to 31 December 2011.

Attached to the report was the General Budget Monitoring report which indicated an overall underspend for the period of £509,000. 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 £646,000 and income above budget of £633,000. Adverse variances included overspends on budget of £485,000 and income below budget of £382,000.

The capital budget monitoring report showed net expenditure of £396,000 for the period to 31 December 2011 compared to a revised full year capital budget of £7,192,000. 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 £542,000 against a full year disposals estimate of £2,190,000. Details of these disposals were provided at Appendix D.

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

(1) the budget in respect of allotments related to allotments in Haverhill, and that negotiations were ongoing to transfer these to an ‘allotment association’; and

(2) any underspend on capital projects was ‘put back into the pot’.

53. Corporate Risk Register: Quarterly Monitoring Report

The Committee received and noted Report C305 (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. No new risks had been added to the register in this quarter, and three risks had been closed:-

Risk 10: The Apex Capital: The final account had been settled;

Risk 23: Anticipation and implementation of new legislation. New legislation launched by the Coalition Government; and

Risk 46: West Suffolk House (Building): The capital works on this project had been completed.

The Committee noted that Risk 14, Local Authority Leadership Role, and Risk 53, Localism Bill and Public Sector Reform Bill, had been merged since there was considerable duplication in them both.

3 residual risk colours had changed from red to amber:-

Risk 47: Maintenance of Leisure Assets: A reserve fund was being recommended as part of the current budget setting process;

Risk 49: Public Sector Spending Cuts: 70% of the savings required for 2013/2014 had been identified; and

Risk 52: Suffolk County Council budget savings: Suffolk County Council had changed its approach to divesting services.

Councillor Nettleton enquired as to where the final expenditure had been reported in respect of both the construction of The Apex and West Suffolk House. It was agreed that a written response would be given.

54. Review of the impact on customers and stakeholders of the Council joining the Anglia Revenues Partnership

The Overview and Scrutiny Committee had requested that a member of the Performance and Audit Scrutiny Committee be nominated to join its Task and Finish Group to review the impact of the Borough Council joining the Anglia Revenues Partnership.

RESOLVED:-

That either the Chairman, Councillor Hale, or Vice Chairman, Councillor Spicer, would become the Committee's representative on the Overview and Scrutiny Committee Task and Finish Group reviewing the Council joining the Anglia Revenues Partnership.

The meeting concluded at 6.22 pm.

J R HALE
CHAIRMAN