

FROM: Audit and Risk Manager
TO: Head of Assets
C.C. Chief Executive
Deputy Chief Executive
Compliance Manager
Compliance Team Leader
M&E & Energy Officer
Head of Finance
Portfolio Holder (Cllr Matecki)

SUBJECT: Utilities Management
DATE: 29 November 2021

1 Introduction

- 1.1 In accordance with the Audit Plan for 2021/22, an examination of the above subject area has recently been completed by Jemma Butler, Internal Auditor, and this report presents the findings and conclusions for information and, where appropriate, action.
- 1.2 Wherever possible, findings have been discussed with the staff involved in the procedures examined and their views are incorporated, where appropriate, into the report. My thanks are extended to all concerned for the help and cooperation received during the audit.

2 Background

- 2.1 Utilities management covers the management of energy and water used by and billed to the Council. Previously audited as Energy Management this is the second audit of Utilities Management.
- 2.2 The budget for the current financial year for the supply of utilities is £1,127,300, broken down as:

	£
Electricity	642,600
Gas	191,600
LPG	82,100
Biomass	19,200
Water (metered)	174,600
Water Rates	17,200

- 2.3 Biomass is currently used in three properties (Oakley Wood Crematorium, Tannery Court, and Sayer Court), with LPG used only at the Crematorium.

3 Objectives of the Audit and Coverage of Risks

- 3.1 The audit was undertaken to test the management and financial controls in place. This was achieved through a 'risk-based audit' approach whereby key risks are identified and then processes are assessed to provide assurance that the risks are being managed effectively. This approach has been in place by

WDC Internal Audit since only the start of this financial year following an external review of the function.

3.2 In terms of scope, the audit covered the following risks:

- Excessive cost through poor purchasing arrangements and uncontrolled utilities usage.
- Inflation of fuel prices are not considered when setting budgets resulting in additional spending from the general fund.
- Non-compliance with Heat Network (Metering & Billing) Regulations 2014 and/or Energy Act 2010.
- Adverse publicity due to inappropriate procurement practices.
- New builds found to be energy inefficient.
- Utilities not managed in line with the Councils Climate Emergency Agenda.
- The 'thermal comfort' of staff at work is not met, leading to a breach of the Workplace (Health, Safety, and Welfare) Regulations 1992 and other relevant legislation.
- Loss of utilities supply (e.g. through non-payment of bills).

3.3 Potential risks were also identified in the Significant Business Risk Register, the departmental risk register, and discussion between the Internal Auditor and the Mechanical and Electrical and Energy Officer.

3.4 These risks, if realised, would be detrimental to the Council with regards to meeting the following corporate objectives, as set out in the Fit for the Future Strategy:

- The management of utilities usage falls under a number of different corporate priority 'themes' of the Fit for the Future strategy. The internal Money aspects are directly affected by the appropriate procurement of utilities supplies and the billing / recharging for usage, whilst the external People aspects are indirectly affected, with health and housing related needs being impacted by the provision of appropriately managed utilities resources.

4 Findings

4.1 Recommendations from Previous Reports

4.1.1 The current position in respect of the recommendations from the audit reported in August 2019 was also reviewed. The current position is as follows:

	Recommendation	Management Response	Current Status
1	Utility related budget lines with large variances should be reviewed to ensure future budgets are more closely aligned with actual expenditure, with the Jubilee House budget	Budget codes will be reviewed for the new financial year and the change required for Jubilee House enacted.	Fuel oil has been removed from the budget at Jubilee House. The budgets are more aligned with the previous expenditure and predicted costs.

	Recommendation	Management Response	Current Status
	being amended to remove the fuel oil budget and include a budget for gas.		
2	The saving included in the FFF Change Programme in relation to energy costs (FFF3) should be reviewed to identify whether this is achievable, with the change programme being amended if required.	The Head of Finance has agreed that base year for savings is 2020/21. Assets is drawing up a project plan and looking to use data from DEC and also from external advisers to look at energy saving proposals. These will need to tie in to the recent Climate Change resolution. Head of Finance is aware that there may be some investment budget required to generate energy revenue savings.	Energy savings are considered within the climate agenda. Investments into sustainable energy is thoroughly reviewed comparing the potential savings against the costs.
3	A decision should be taken as to whether AMR or 'smart meters' should be installed for all relevant utilities supplies at relevant Council properties.	An options appraisal report will be prepared for consideration by CMT.	All properties which require a meter have had one installed. There are a number of properties which don't require the installation of meters but they have had one installed to allow energy monitoring to be carried out.
4	The utilities providers should be advised that accounts should be arranged with the relevant tenants, with the tenants being reminded of the terms of their leases with regards to utilities payments.	We will ensure that, going forwards, tenants are required to pay for utilities used.	There were no invoices identified where the Council were paying for tenant's accounts.
5	A decision should be taken as to whether monies paid by the Council in relation to utilities previously used by these tenants should be recovered from them.	We will look at individual leases to establish if recovery of earlier monies paid is possible.	A recent leaseholder audit review established that tenants are charged a portion of the utility costs within their leaseholder charges.

	Recommendation	Management Response	Current Status
6	A review of water charges at cemetery lodges should be undertaken to ensure that tenants are being treated equally.	The existing tenancy agreements for the cemetery lodges will be reviewed and legal advice sought on the potential to vary current agreements to rationalise water charging. If this is not possible a revised charging regime will be implemented when a tenancy changes.	This is included as part of the tenancy agreement review project. The Landlord Services Manager is due to have a draft ready by the end of March 2022.

4.2 **Financial Risk**

4.2.1 **Excessive cost through poor purchasing arrangements and uncontrolled utilities usage.**

The budgets were reviewed for the various utilities used by the Council. Variances were noted for metered water, where 84% of the budget had been spent, and rated water, where 110% of the budget has been spent. Electricity at Sayer Court is also overspent by 8% of the total budget. Other spending is within the expected amount of the budget set for the year to date.

The budget has been based on the previous year's spend with an additional amount added to allow a fluctuation in prices of utilities.

The Council's Business Strategy document mentions cost saving but not directly for utilities. The Climate Change programme reflects on the use of renewable utilities. This is covered below at para. 4.3.3.

Utility usage is monitored through the use of meters installed at various Council properties with the consumption being reviewed on a monthly basis by the M&E and Energy Officer. The data for the total consumption per month is held for a couple of previous years which allows a basic method of monitoring the usage at the various locations. The building management system in place doesn't provide a monitoring function but is a method of controlling the utilities used. There is not the metering infrastructure in place to enable a breakdown of consumption within each building. Some sites require half hourly metering by law if their consumption meets a designated set point (100,000kWh of electric per annum). There are thirteen Council properties which meet this condition including Riverside House, Royal Spa Centre, The Royal Pump Rooms and a number of car parks and sheltered housing sites.

4.2.2 **Inflation of fuel prices are not considered when setting budgets resulting in additional spending from the general fund.**

The budgets were reviewed and were compared to the previous two years' spend. The budgets were all set at amounts similar to the spend from the

previous two years with an amount added to account for inflation. As fuel prices are frequently changing it is difficult to predict the budget in advance.

No information was provided for the audit regarding the frequency of budget meetings. The budgets for gas and water exceed the contracted amount so this may need to be reviewed and the terms updated.

Recommendation

The budgets should be reviewed frequently to monitor variances and to allow for fluctuation in utility prices.

4.3 Legal and Regulatory Risks

4.3.1 Non-compliance with Heat Network (Metering & Billing) Regulations 2014 and / or Energy Act 2010.

Public authorities must have a Display Energy Certificate (DEC) for a building if all the following apply:

- It is at least partially occupied by a public authority (e.g. council, leisure centre, college, NHS trust).
- it has a total floor area of over 250 square metres.
- it is frequently visited by the public.

DECs show the energy performance of public buildings. The ratings range from A-G with A being the most efficient. DEC's last between one and ten years depending on the size - the larger buildings lasting for one year. The DEC must be displayed in a prominent place visible to the public near to the entrance of the building. The Council could be fined £500 if the certificate is not displayed.

There are currently sixteen Council properties and four facilities contracted out which are listed as having 250 square metres of usable floor area. Anything with a usable floor area of less than 550 square meters requires a new certificate every ten years; sites with more than 500 square meters require an annual renewal.

A review was completed of the certificates held. Six of the sites had DEC's which had recently expired. The new certificates were being processed and a sample was able to be viewed. Once completed they will be added to the relevant folder and printed and placed on display in the appropriate location.

There was only one recently-produced recommendation report held. Recommendation reports are not completed every time a certificate is renewed. There are currently no outstanding actions being undertaken to address previous energy report recommendations.

All DEC's are published on a government managed website for all public properties. A review was completed and the up-to-date DEC's were located for properties managed by Warwick District Council.

Physical copies are put on display at the relevant council buildings. This could not be fully checked due to Covid restrictions in place but the M&E and Energy Officer was able to inform the auditor of their location. As hybrid working had recently been introduced the DEC was able to be viewed at Riverside House.

As mentioned at para. 4.2.1, to meet compliance the Council are required to have half-hourly metering installed at a number of sites as their consumption is high enough to meet the threshold.

4.4 **Reputational Risks**

4.3.1 **Adverse publicity due to inappropriate procurement practices.**

There are four contracts in place, covering gas, electricity, liquid petroleum gas (LPG) and biomass fuel. The procurement of the energy contracts was reviewed at the last audit where it was found that they had been procured correctly following the Council's procurement policy. A further review has not been completed this time.

The contract for LPG has been renewed in the current financial year, agreed through the ESPO framework. The contract runs until June 2022 and is held by Calor Gas. Calor Gas do not enter into longer contracts due to the fluctuations in cost. The contract value is £246,300.

There is no contract in place for the supply of water. As the only water provider in the district, Severn Trent invoices the Council for both metered water and rated.

4.3.2 **New builds found to be energy inefficient.**

The utility use is considered when planning new build Council buildings to ensure they are as energy efficient as possible. For example, recently approved plans for a local leisure centre show that energy usage and efficiency was considered throughout the planning decisions. With an aim to be net zero carbon (operationally) a number of energy options had been explored and reviewed for initial outlay and savings as well as considering the suitability of the location of the centres. The options include simple changes such as LED lighting, metering as well as more sustainable energy sources such as PV panels and air source heat pumps.

Current plans are being worked on for a community stadium. Rather than just offsetting the carbon these plans are looking at embedding carbon within the build of the stadium. Sustainable transport methods will be encouraged to reduce the need for car parking facilities. The feasibility of various alternative heating options will also be reviewed for their suitability at the location, with the intention to reduce the need for utilities as well as ensuring the heat source is energy efficient.

4.3.3 **Utilities not managed in line with the Council's Climate Emergency Agenda.**

The Climate Change Programme was written in 2020 but, due to the pandemic, the adoption of it was delayed until July 2021. Since its adoption there have been no new utility contracts agreed in which the relevant actions could be embedded.

Within the Climate Change Programme there are targets which impact utilities. These include energy audits, metering, voltage optimization, energy loss reduction, conversion to LED and installation of solar or PV panels where suitable. Although there have been no new contracts implemented, the targets and measures are monitored and reported frequently. Where possible, lighting is being changed to LED bulbs and new buildings are reviewed for the suitability of other energy saving methods.

4.5 **Health and Safety Risks**

4.3.1 **The 'thermal comfort' of staff at work is not met, leading to a breach of the Workplace (Health, Safety, and Welfare) Regulations 1992 and other relevant legislation.**

The building management system allows the energy team to remotely monitor and control the temperatures in the buildings where staff work. A demonstration of the system to the auditor showed that the temperature of RSH was set to 21 degrees and had reached an ambient temperature of 19.1 degrees. The system adjusts the flow and temperature output based on the external temperature, managing the internal temperature to be maintained at what is considered to be a comfortable level for the majority of staff.

Energy costs over the last 18 months are expected to be higher due to the changes and adjustments needed to the systems so they are able to operate effectively whilst reducing Covid risks. This systems in some of the buildings now only use air from outside rather than recirculating it. To maintain a comfortable temperature this means more energy will be used to heat or cool the air (depending on the outside temperature).

The building management system operates in the main Council properties, such as Riverside House, Royal Pump Rooms, the Town Hall and Royal Spa Centre as well as housing sites such as Sayer Court and Tannery Court. The costs are higher at the RPR due to the system needing to also maintain a precise level of humidity to protect the artwork.

There are three staff members who have access to the building management system. One of them has view-only access, allowing them to log in daily in the morning to identify any faults. Another has the ability to turn the heating off and on and the third had full access allowing them to adjust the settings and to set up schedules for the heating, cooling, air handling and lighting.

The temperature is set to 21C at sites, which has been a long-standing agreed setting. The building managers provide a timetable when they expect staff to be present to allow the heating to be active whilst the building is in use.

The building management system is provided and maintained by SER-TEC Systems who also have remote access. They provide training on how to use the system to one main operator who can then provide basic training to other staff members.

Information is readily available to staff to help them to manage and reduce their energy use when working from home. This has included a webinar and tips posted on the big buttons on the intranet. There is a standard page within the sustainability pages which provides information to staff to help to reduce the impact they have on the environment with ways to manage their electric and gas usage and therefore reduce costs.

4.5 **Other Risks**

4.3.1 **Loss of utilities supply (e.g. through non-payment of bills).**

A sample of bills for the utilities was reviewed. All the bills in the sample had been paid in a timely manner and where costs were across multiple locations the invoice had been recharged appropriately to the correct cost code.

The costs associated with each property could be easily identified on all of the bills where either a meter reading had been completed or estimated. The bills show all Council properties including flats and assisted living blocks with communal areas.

5 **Conclusions**

5.1 Following our review, in overall terms we are able to give a SUBSTANTIAL degree of assurance that the systems and controls in place in respect of Utilities Management are appropriate and are working effectively to help mitigate and control the identified risks.

5.2 The assurance bands are shown below:

Level of Assurance	Definition
Substantial Assurance	There is a sound system of control in place and compliance with the key controls.
Moderate Assurance	Whilst the system of control is broadly satisfactory, some controls are weak or non-existent and there is non-compliance with several controls.
Limited Assurance	The system of control is generally weak and there is non-compliance with controls that do exist.

5.3 One issue was identified that involved budget monitoring and setting.

6 **Management Action**

- 6.1 The recommendation arising above is reproduced in the attached Action Plan (Appendix A) for management attention.

Richard Barr
Audit and Risk Manager

Action Plan

Internal Audit of Utilities Management – November 2021

Report Ref.	Risk Area	Recommendation	Rating*	Responsible Officer(s)	Management Response	Target Date
4.2.2	Inflation of fuel prices are not considered when setting budgets resulting in additional spending from the general fund.	The budgets should be reviewed frequently to monitor variances and to allow for fluctuation in utility prices.	Low	Contract Administrator and Finance Partner	Should be reviewed on an ongoing basis at Finance budget meetings.	Completed

* The ratings refers to how the recommendation affects the overall risk and are defined as follows:

- High: Issue of significant importance requiring urgent attention.
Medium: Issue of moderate importance requiring prompt attention.
Low: Issue of minor importance requiring attention.