

Finance and Audit Scrutiny Committee

Minutes of the meeting held on Tuesday 12 November 2019 at the Town Hall, Royal Leamington Spa at 6.00pm.

Present: Councillor Nicholls (Chair); Councillors: Bartlett, R Dickson, Evans, Jacques, Kennedy, Leigh-Hunt, Syson, Tracey and Wright.

65. Apologies and Substitutes

- (a) there were no apologies for the meeting; and
- (b) Councillor Kennedy substituted for Councillor J Dearing and Councillor Evans substituted for Councillor Tangri.

66. Declarations of Interest

Minute Number 68 – Executive Agenda (Non-Confidential Items & Reports – Wednesday 13 November 2019)

Executive Item 7 – Climate Change Emergency Action Plan

At the time of discussing this item, Councillor Nicholls declared an interest because he was a Member of the Climate Change Emergency Task & Finish Group.

Executive Item 8 – Relocation of Kenilworth Wardens

Councillor Hales, the Portfolio Holder for Finance, declared an interest because he used to be a director of Kenilworth Wardens until 2016.

67. Minutes

The Minutes of the meeting held on 26 September 2019 were taken as read and signed by the Chairman as a correct record.

68. Executive Agenda (Non-Confidential Items & Reports – Wednesday 13 November 2019)

The Committee considered the following non-confidential items which would be discussed at the meeting of the Executive on Wednesday 13 November 2019.

Item 3 - Housing Services Redesign – Additional Budget Requirement

The Finance & Audit Scrutiny Committee supported the recommendations in the report.

(Councillor R Dickson joined the meeting.)

Item 7 - Climate Change Emergency Action Plan Update

The Finance & Audit Scrutiny Committee supported the recommendations in the report.

Item 11 - Creative Quarter – conclusion of phase I and next steps

The Finance & Audit Scrutiny Committee supported the recommendations in the report.

69. **National Fraud Initiative Update**

The Committee received a report from Finance that presented to Members the interim results of the Council's investigations into the data matches from the 2018-19 National Fraud Initiative (NFI) programme. Members had requested annual updates on NFI activities.

The NFI considered itself to be a major contributor to public sector counter-fraud activity and continually sought to expand its influence in both the public and private sectors. The contribution of the NFI to Warwick District Council's own fraud prevention and detection accomplishments had always been marginal, but had been seen as offering significant value as a source of independent assurance on the effectiveness the Council's preventative controls and as a deterrent against fraud.

The interim results from the 2018-19 NFI programme were detailed in Appendix 1 to the report, along with the final results from the 2016-17 cycle for comparison. It should be noted that only interim mid-cycle results were represented for 2018-19.

Under current arrangements, processing of the bulk of the matches was assigned to officers of the Council's fraud investigation partnership with Oxford City Council Investigation Service.

The Key Contact processes matched in respect of payroll and creditors, along with other groups of matches where they were relatively few in number.

It was emphasised that there was no strict requirement under the NFI to examine all matches referred. These were expected to be prioritised on a risk basis, especially where there were large numbers involved (all individual matches came with fraud risk scores based on the NFI's own profiling criteria). This approach applied in particular to Housing Benefit, Council Tax Discount and Council Tax Reduction matches.

Although investigation of housing benefit fraud was now the responsibility of the Single Fraud Investigation Service (Department for Work and Pensions), the Cabinet Office advised that the Council was expected to 'sift' all NFI housing benefit matches initially. Any cases found to warrant further investigation would be referred individually to the Single Fraud Investigation Service (no such referrals were in evidence for 2018-19 matches to date).

From 2016, the decision was taken to discontinue processing NFI matches in relation to council tax single person discount (SPD) in favour an alternative independent approach. The fraud investigation partners were

commissioned to undertake a risk-based matching exercise using their own data intelligence solution which was geared towards producing better filtered and up to date matches. Processing of these matches was in progress at the time of the previous report to this Committee in October 2018.

Final figures received from this exercise show that, of approximately 1,200 matches generated, 122 cases resulted in penalties totalling £8,595. The amount of incorrectly claimed SPD recovered was not known for certain but estimated, based on data available, to be in the region of £50,000. As this exercise was independent of the NFI, the figures were not reflected in the outcomes table in Appendix 1 to the report.

A new full SPD checking exercise was anticipated for the coming year, again independently of the NFI either commissioned from the Fraud Investigation Partnership or utilising services under the newly procured enforcement agency contract.

The single duplicate creditor payment related to professional services procured from BTNet and pre-dated the implementation of invoice auto-matching which might have prevented this occurrence. The amount had been recovered, subject to formal processing through the Council's accounts.

The two Waiting List error cases related to deceased joint housing applicants. As both applications were re-confirmed in the sole names of the surviving joint applicants, the notional savings value supplied by the NFI was not seen as applying in this case.

In a new departure, the NFI had released matches of tenancy, benefit and council tax reduction data to HMRC extracts. These were designed to help pinpoint potential frauds in those areas in respect of undisclosed property ownership, earnings/capital and household residents.

These matches were only released last August and arrangements for processing them would be considered in due course.

The Chairman thanked the Senior Internal Auditor for his hard work and wished him a great retirement.

Resolved that the interim outcomes to from the 2018-19 round of the NFI, along with relevant explanations, be noted.

70. **Corporate Fraud Update**

The Committee received a verbal update from the Benefits Manager regarding the Corporate Fraud Update. A briefing paper was circulated ahead of the meeting.

Oxford City Council had been providing a fraud investigation service to the Council since February 2016. Warwick District Council currently paid for one full time resource, and this was split between three staff members employed by Oxford. They were responsible for preventing, detecting and investigating frauds committed by the public in order to obtain or attempt to obtain public funds.

The table below represented the results obtained directly as a result of the work undertaken by the Fraud team for the last financial year. However, it should be noted that not all of the outcomes resulted in a financial gain for the Council, but were based on formulae used across the public sector to measure the success of their counter fraud work.

Outcomes 1st April 2018 to 31st March 2019.

Type of Fraud	Number of cases	Value
Council Tax Reduction Overpayments	16	£21,140.50
Council Tax Reduction Future Savings	9	£10,055.12
Housing Benefit Overpayments	11	£61,539.70
Housing Benefit Future Savings	6	£39,566.80
Discretionary Housing Payment	3	£2,514.60
Council Tax Discount	11	£22,877.74
Council Tax discount Future Increase	11	£17,386.81
Social Housing Properties Recovered	3	£69,000.00
Housing Applications Cancelled	3	£13,800.00
Right To Buy Cancelled	3	£161,800.00
Totals	76	£419,681.27

As part of the contract, the team from Oxford provided fraud awareness training sessions to all staff across the Council, and this had now been included into the corporate induction training. More recently, as part of their fraud prevention work, the team had been providing additional assistance to staff in the housing advice team, to assist with their investigative interviewing skills when interviewing customers who presented themselves as homeless. Further guidance had also been provided to help them interpret information obtained through the national anti-fraud network.

From the 4 November 2019, the management of the contract with Oxford moved to the Audit and Risk section and would become the responsibility of the Audit and Risk Manager.

71. Executive Agenda (Non-Confidential Items & Reports – Wednesday 13 November 2019)

The Committee considered the following item which would be discussed at the meeting of the Executive on Wednesday 13 November 2019.

Item 6 - Council Tax Reduction Scheme 2020/2021

The Finance & Audit Scrutiny Committee supported the recommendations in the report.

72. Treasury Management Activity Report for the period 1 April 2019 to 30 September 2019

The Committee received a report from Finance which detailed the Council's Treasury Management performance for the period 1 April 2019 to 30 September 2019.

The Council's 2019/20 Treasury Management Strategy and Treasury Management Practices (TMP's) required the performance of the Treasury Management Function to be reported to Members on a half yearly basis in accordance with the Treasury Management Code of Practice.

One of the Council's 2019/20 Prudential Indicators required an amendment to provide sufficient flexibility to the Council's future long-term borrowing and future-proof the Council's Prudential Indicators against any change in accounting practice relating to internal borrowing.

Members thanked officers for a very good report.

Resolved that

- (1) the report be noted; and
- (2) the changes to the Prudential Indicators for 2019/20 as shown at Appendix E to the report, be approved.

73. Executive Agenda (Non-Confidential Items & Reports – Wednesday 13 November 2019)

The Committee considered the following non-confidential item which would be discussed at the meeting of the Executive on Wednesday 13 November 2019.

Item 8 - Relocation of Kenilworth Wardens

The Finance & Audit Scrutiny Committee supported the recommendations in the report but noted the risks concerning the possible sustainability and long term financial stability of Kenilworth Wardens Limited and asked the Executive that these risks be looked at carefully in the future.

74. Managing Securities in Council Contracts Update Report

The Committee received a report from Finance which provided an update to Members on the progress being taken in managing securities within contracts following the report to Finance and Audit Scrutiny Committee in November 2018.

Following the difficulties encountered two years ago when one of the Council's contractors ceased to trade, a review was undertaken by the Council's Internal Audit Section entitled "The Assigning of Parent Company

Guarantees and Other Types of Securities to Council Contracts". This review was reported to this Committee in March 2018.

A further report on the progress in implementing the recommendations within that report was reported to the Committee in November 2018. This report presented a further update on those recommendations. The recommendations and progress to date were detailed in Appendix 1 to the report.

The Appendix showed that significant progress had been made since the original report in March 2018. The notable changes were:

- The financial standings of all contractors was now actively monitored using "Credit Safe".
- Credit checks continued to be carried out for new contracts and renewals, now using Credit Check.
- In addition to Credit Check, the Accountants would review contractors for high value or high risk contracts.
- Contract Management Training was being rolled out and included a section on securities.
- Alongside the update to the Code of Procurement Practice, supporting guidance was available to officers.
- WCC Legal services had advised upon and assisted with updating the guidance and new contract templates.
- Further reviews of the Procurement function were proposed, including a review by Internal Audit of the Council's approach to contract management.

Resolved that the actions being taken within Appendix 1 to the report, in respect of the Managing Securities audit reported to the Committee in March 2018, be noted.

(Councillor Evans left the meeting.)

75. **Annual Audit letter 2018/19**

The Committee received a report from Finance which brought to Members' attention the External Auditor's 2018/19 Annual Audit Letter.

The Annual Audit Letter summarised the key findings arising from the work that the external auditors had carried out on the 2018/19 Statement of Accounts and Value For Money Conclusion.

The Annual Audit Letter brought together information that had previously been reported to the Committee, notably within the Audit Findings Letter in July.

Progress on the closure of accounts and audit for 2018/19 had been subject to regular reports to Members over the last year. A further report was being prepared to Executive in November. This report would consider the actions coming out of the 2018/19 closure and the plan for the closure of the 2019/20 accounts.

The auditors still had to complete the Benefits Subsidy Audit. This had commenced and was due to be completed by the end of November. The

Pooling of Housing Capital Receipts was also to be completed. Details of these audits would be reported to the Committee in due course.

The Committee congratulated the Finance team for their hard work.

Resolved that the conclusion of the 2018/19 Audit be noted.

76. **Development Portfolio – Service Review**

The Committee received a report from Development Services which brought together the contract register, risk register and budget for the Development Portfolio.

Following several years of reviewing service contract and risk registers, it had been requested by Members that the two registers for each Service Area should be considered together, along with details of the budget and performance for the relevant service.

It should be noted that Development Services also encompassed the Business Portfolio. Updates relating to the Business Portfolio were not included in this report and would be the subject of a separate report to the Committee in December 2019.

The risk register was last reviewed on 22 October 2019. This version of the risk register (including track changes to show changes since the last review) was set out as Appendix A to the report.

The scoring criteria for the risk register were subjective and were based on an assessment of the likelihood of something occurring, and the impact that might occur.

In line with the traditional risk matrix approach, greater concern should be focused on those risks plotted towards the top right corner of the matrix whilst the converse was true for those risks plotted towards the bottom left corner of the matrix. If viewed in colour, the former-described set of risks were within the area shaded red, whilst the latter-described set of risks were within the area shaded green; the mid-range were in the area seen as yellow.

The Development Portfolio was responsible for a wide range of services which consequently led to a number of potential risks. There were 31 risks contained in the risk register.

There were five risks rated "green", 26 rated "yellow", and none rated "red", in accordance with the Council's risk scoring matrix.

As with all the risks in the register, it was the controls and mitigations that were being undertaken to control the risks that were of importance. These reflected the tangible actions over which there was more control. As a result, many of the risks had reduced in likelihood over time, which explained why a significant proportion were now within the "yellow" band. In addition, a number of risks that were included within the risk register in previous years had now fallen away.

The latest version of the contract register in so far as it related to the Development Portfolio was set out in Appendix B to the report. There were nine live contracts listed, plus four service level agreements with Warwickshire County Council. Three of the live contracts (plus four of the service level agreements) were due to be re-procured during 2019/20.

Details of Development Services budgets were included as Appendix C to the report.

Management of the budget set out in Appendix C to the report was part of the ongoing processes which ensured that significant variances were discussed with finance. The budgets were devolved to budget managers who were responsible for the delivery of specific services. Each budget manager was trained on their responsibilities. Those responsibilities included regular liaison with the relevant accountant in finance to discuss and resolve issues and variances associated with the budget. Managing expenditure in line with the budget was therefore part of the established practice of the service.

A more challenging aspect of the Development Services budget was monitoring and managing income. Both Development Management and Building Control generated significant amounts of income for the Council.

The key income budgets were:

- **Income from Planning Applications:** This was budgeted to generate £1.7m during 2019/2020. The budget manager was currently predicting that this budget would not be met, due to a reduction in the income received in quarter 2 (following a healthy income in quarter 1). This prediction was based on his analysis of income to date in the year combined with intelligence regarding major applications that were likely to be received during the year. In general, around half the income from this source arose from routine minor applications (income from these was relatively stable on a month by month basis) whilst the other half was generated from major applications (income from these could fluctuate significantly depending on which major schemes were submitted when). This reflected the difficulty in being accurate about planning income as in reality, the income was not something the service could directly control, even though it had a significant impact on the general fund budget.
- **Income from pre-application advice:** Income from pre-application advice for 2018/19 was £85,935 (up from (£57,800 in 2017/18). Pre application appeared to have reduced in 2019/20. If the current monthly average was maintained for the remainder the year, the total income was projected to be around £49,000.
- **Building Control Income:** This was budgeted to generate £836,000 during 2019/20. Income from the first six months of the financial year was £452,000. It was expected the income would be slightly lower during the winter months and so, based on previous years, total income for 2019/20 was predicted to be approximately £850,000. It should be noted that there was a Government requirement for the Building Control budget to be ring-fenced and to be managed in such a way that it did not deliver a surplus or a loss over a three-year period. Due to increased recharges (relating predominantly pensions), expenditure during 2019/20 was expected to approximately match income.

Income from CIL and Section 106 agreements was not part of the Development Services budget because it was passed on to infrastructure providers on (or soon after) receipt.

In answer to questions from Members, the Head of Development Services and the Portfolio Holder for Development Services advised that:

- there were no red risks on the register;
- until October 2019, there had been a red risk in relation to CIL;
- it was predicted that the income from Planning Applications would now be £1.5 as opposed to the forecasted £1.7 during 2019/2020;
- the seven contracts due for renewal were not all for the same section and would not be dealt with by the same officers;
- every quarter, the Development Services Manager and one of the accountants had a meeting to look at the number of planning applications;
- there were a number of temporary staff members so there was flexibility from that point of view; and
- risk 8a had been achieved and things were improving.

Councillor Cooke, the Portfolio Holder for Development Services, thanked the Head of Development Services and his team for all their hard work.

Resolved that the contact register, risk register and budget, be noted.

77. Executive Agenda (Non-Confidential Items & Reports – Wednesday 13 November 2019)

The Committee considered the following non-confidential item which would be discussed at the meeting of the Executive on Wednesday 13 November 2019.

Item 13 – Review of Final Accounts 2018/19

The Finance & Audit Scrutiny Committee supported the recommendations in the report.

78. Public and Press

Resolved that under Section 100A of the Local Government Act 1972 that the public and press be excluded from the meeting for the following items by reason of the likely disclosure of exempt information within paragraph 3 of Schedule 12A of the Local Government Act 1972, following the Local Government (Access to Information) (Variation) Order 2006.

79. **Summary of the new Council house programme purchased or constructed since 2015**

The Committee received a confidential report from Housing providing a summary of all new Council housing purchased or constructed since 2015.

An addendum was circulated prior to the meeting, advising Members of a change to Section 8.2 in the report.

Councillor Syson thanked officers and emphasised how helpful and important it was to have the figures within the report.

The Portfolio Holder for Housing, Councillor Matecki, informed Members of Members on the restrictions in place.

The Committee asked that the table at section 8.1 in the report should be included in the Housing Annual Report in the future.

Resolved that the confidential report be noted.

(The meeting resumed in public session.)

80. **Executive Agenda (Non-Confidential Items & Reports – Wednesday 13 November 2019)**

The Committee considered the following non-confidential items which would be discussed at the meeting of the Executive on Wednesday 13 November 2019.

Item 14 – Asset Management Strategy

The Finance & Audit Scrutiny Committee supported the recommendations in the report.

Item 5 – Budget Review to 30 September 2019 and Other Financial Matters

The Finance & Audit Scrutiny Committee supported the recommendations in the report.

81. **Review of the Work Programme and Forward Plan & Comments from the Executive**

The Committee received a report from Civic & Committee Services which informed the Committee of its work programme for 2019 as attached at Appendix 1 to the Report, as well as the current Forward Plan.

Resolved that

- (1) the report and its Appendices be noted;
- (2) the Closure of Accounts item be moved from December to February; and
- (3) at its December meeting, the Committee will discuss the service area reviews and how they are done.

(The meeting ended at 9.00pm)

CHAIR
17 December 2019