

INTERNAL AUDIT REPORT

FROM: Audit and Risk Manager
TO: Deputy Chief Executive (BH)
C.C. Chief Executive
Head of Housing Services
Head of Finance
Asset Manager
Compliance Manager
Business Administration Manager
Portfolio Holders (Cllrs Day & Matecki)

SUBJECT: Utilities Management
DATE: 29 August 2019

1 Introduction

- 1.1 In accordance with the Audit Plan for 2019/20, an examination of the above subject area has been undertaken and this report presents the findings and conclusions drawn from the audit for information and action where appropriate. This topic was last audited in December 2017.
- 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 The previous audit was entitled Energy Management. However, the scope was extended to include water and, as such, was renamed Utilities Management.
- 2.2 The budget for the current financial year for the supply of utilities is £993,700, broken down as:

	£
Electricity	659,900
Gas	136,300
LPG	78,900
Biomass	18,500
Fuel Oil	15,000
Water	139,700
Water Rates	16,700
Photo Voltaic Feed-In Tariffs	(71,300)

- 2.3 Biomass is currently used in three properties (Oakley Wood Crematorium, Tannery Court, and Sayer Court), with LPG only used at the Crematorium. Fuel oil had previously been used at Jubilee House, although the property is now connected to the mains gas supply.

2.4 This was the first audit undertaken of the topic since the reorganisation of the Assets team and the departure of the previous Energy Manager.

3 **Scope and Objectives of the Audit**

3.1 The audit was undertaken to test the management and financial controls in place.

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

- Utilities supply procurement
- Management of utilities usage
- Finance
- Compliance with legislation.

3.3 The control objectives examined were:

- The Council has compliant contracts in place for the supply of utilities
- The Council achieves value for money from the procurement processes undertaken
- Utilities usage in Council buildings is appropriately monitored and managed
- New Council buildings are energy efficient
- Budget variances are limited as the budgets are set appropriately in line with known areas of income and expenditure
- Savings figures contained in the FFF strategy are achievable
- The Council does not become subject to debt recovery procedures
- Payments and recharges **can be** appropriately apportioned
- Payments and recharges **are** appropriately apportioned
- Income due to the Council from renewable energy sources is received as appropriate
- Tenants benefit as appropriate from the renewable energy generated
- The Council complies with applicable legislation.

4 **Findings**

4.1 **Recommendations from Previous Report**

4.1.1 The current position in respect of the recommendations from the audit reported in December 2017 was also reviewed. The current position is as follows:

Recommendation	Management Response	Current Status
1 A procurement process compliant with the Code of Procurement Practice should be undertaken for the supply of biomass fuel.	Revised contract arrangements, that are fully procurement compliant, will be in place by 31 March 2018.	A new, compliant, contract is in place. This was let via an existing framework. (See 4.2.1 below)

Recommendation	Management Response	Current Status
2 The contract register should be updated to reflect the existence of the Gazprom contract document.	A copy of the contract has been scanned and retained by Assets and the contract register updated.	The Gazprom contract is no longer in place. Testing on the current contracts confirmed that signed copies were in place in each case. (See 4.2.3 below)
3 The Harbury Lane Sports Pavilion should be connected to the building management system.	We are currently obtaining quotes to assess if it will be cost effective to get the pavilion connected. A new Wi Fi connection would be required for the remote location.	This situation is still ongoing and it now applies to Newbold Comyn Sports Pavilion as well. (See 4.3.2 below)
4 Training should be obtained by the Contract Administrators to ensure best use of the building management system is made.	Training has been booked for both CA's scheduled for end of January 2018.	The M&E & Energy Officer (MEEO) confirmed that training had been undertaken and that, as the system is due to be upgraded, further training will be undertaken accordingly. (See 4.3.5 below)
5 Actual meter readings should be taken and provided wherever possible.	Procedures are being developed to ensure that meter readings are captured.	Upon review of recent bills paid, it was confirmed that some estimated readings are being used. However, some 'automatic meter readers' are now installed which automatically transmit actual readings. There is scope for more of these to be installed although this requires a corporate decision. (See 4.4.8 below)
6 Correct recharges should be raised for the leaseholders of the flats at St Margaret's Shopping Centre.	Bill payments have been moved to the correct cost centre and charges recorded to be apportioned to the leaseholders.	Leaseholder recharges are now being performed as appropriate. (See 4.4.17 below)

Recommendation	Management Response	Current Status
7 A formal sign up document should be implemented for Sayer Court that includes details of energy charges.	Legal Services have been contacted for advice.	A document has now been introduced as recommended. (See 4.4.26 below)

4.2 Utilities Supply Procurement

- 4.2.1 New contracts have been let since the last audit for the supply of gas and electricity and these were placed with Total Gas & Power Ltd. via ESPO frameworks by Procurement. A framework mini competition was also undertaken for the provision of biomass fuel (with Forest Fuels / AMP Clean Energy) and this was also done with Procurement involvement.
- 4.2.2 The LPG contract with Calor Gas Ltd. was extended for two years as allowed for in the original contract, subject to an amendment on the rates to be paid. An extension had also been agreed to the contract in place with RIX Petroleum, to allow for a changeover period whilst Jubilee House was being connected to mains gas.
- 4.2.3 These contracts are recorded on the contract register with details of their location and, upon review, signed copies were found to be in place in each case.
- 4.2.4 It was also highlighted that water supplies can now be procured from different suppliers as opposed to the previous area-based supplies. The Senior Procurement Business Partner (SPBP) advised that a framework agreement is to be used with a CCS (Crown Commercial Service) auction taking place.
- 4.2.5 Whilst not a supply contract, the Compliance Manager (CM) also flagged an 'issue' with the use of Sertek (who provide the Building Management System (see 4.3.1 below)). They have always been used as a subcontractor of D&K and their continuing use is seen as essential, and more cost effective than running a separate procurement exercise and potentially changing systems.
- 4.2.6 The SPBP confirmed that a contract variation is being pursued with D&K to ensure that Sertek are included as a named subcontractor and the Procurement Business Partner was to meet with the CM to progress this.
- 4.2.7 The signed documents held in relation to the contracts with Total Gas & Power Ltd do not go into details as to the pricing etc. However, the framework details on ESPO's website show that the contracts are fixed in price as at a certain point each year which removes some of the risk in relation to price fluctuations.
- 4.2.8 A similar situation is in place in relation to the contract with Forest Fuels Ltd for the biomass fuel supply. The framework in place in this instance is via YPO.

4.2.9 The contract with Calor Gas Ltd. had been for two years and a two-year extension was subsequently agreed at a different rate. The CM advised that Calor will not enter into agreements of more than two years due to price fluctuations.

4.3 **Management of Utilities Usage**

4.3.1 The MEEO advised that the building management system (BMS) in use is the same as at the time of the previous audit although the system (software) is due to be upgraded to a new version in the near future. As such, it was not considered necessary to review the existing system in any depth.

4.3.2 As at the time of the previous audit, the Harbury Lane Sports Pavilion is not connected to the system. The Newbold Comyn Sports Pavilion is now, similarly, not connected as the connection had to be cut during the redevelopment of the leisure centre.

4.3.3 The ICT Infrastructure Manager advised that, due to the (lack of) proximity of the telephone lines, it has not been possible to establish a regular connection to these buildings. Various alternatives have been considered and he is awaiting a quote from BT in relation to a SIM based solution in order to take this forward.

4.3.4 The current system is web-based although a link has to be installed on individual machines for access to be gained. At present, there are three users of the system and they all use a generic log in. However, when the system is upgraded, they will each have individual user accounts.

4.3.5 The MEEO advised that training had been received on the current system as recommended at the time of the previous audit. Training would also be undertaken on the upgraded system so that best use can be made of it.

4.3.6 He further advised that little had changed since the last audit in relation to any kind of data analysis from the system, with it still being mainly used as a programmable timer with thermostat control and, whilst issues can be identified and settings can be changed, there is generally no data extraction regarding energy consumption. Again, once the system is upgraded, there is a chance that this becomes possible, but it is not yet known whether the system contains this level of functionality.

4.3.7 In terms of new Council buildings it has been confirmed that energy efficiency is being appropriately considered.

4.3.8 The Programme Manager advised that the Council is not yet at the relevant design stage for Phase 2 of the leisure development programme or for the new community stadium. However, he suggested that energy efficiency (including issues such as rain water capture) would be considered when relevant and advised that the designers were being asked to produce reports on energy efficiency, especially in light of the increased number of Green Party councillors following the recent local elections.

4.4 **Finance**

- 4.4.1 A review of the relevant cost centres and subjective codes relating to utilities was undertaken via TOTAL. This highlighted that only two budgets had changed between 2018/19 and the current financial year.
- 4.4.2 As there is always likely to be a degree of uncertainty about the usage of utilities (due to various different factors such as the weather etc.), it is accepted that there will always be variances. However, upon review, it was noted that 18 budget lines had a variance of more than £5,000 when comparing the actual income / expenditure to the budget for 2018/19, with the largest overspend being roughly £38,000 (electricity for the 'Communal Areas' budget) whilst the largest underspend was almost £33,000 (LPG at the Crematorium).
- 4.4.3 It was also noted that a budget of £15,000 remains for fuel oil at Jubilee House. There was no expenditure against this budget last year and, as previously highlighted (see 4.2.2 above), the building is now connected to the mains gas, so there is not going to be any expenditure against this code for this year either. Furthermore, the review identified that no budget had been set for mains gas usage at Jubilee House.

Risk

Budget management and monitoring may be inaccurate.

Recommendation

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 being amended to remove the fuel oil budget and include a budget for gas.

- 4.4.4 The Asset Manager (AM) advised that the Fit for the Future (FFF) Change Programme includes a saving of £35,000 for 'built corporate assets energy costs' (FFF33). The report that was presented to Executive on 27 June 2018 covering this 'programme' suggests that this will be a recurring saving.
- 4.4.5 However, upon discussion with various senior members of staff (Head of Finance, Deputy Chief Executive and the AM), it was unclear how this figure had been arrived at and was probably a notional figure. It is, therefore, unclear whether this is achievable.

Risk

The savings needed to be made by the Council may not be achievable.

Recommendation

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.

- 4.4.6 The Business Administration Manager (BAM) advised that all bills are processed for payment when they are received and are passed to the FS Team for inclusion in the normal payment runs.
- 4.4.7 A sample of bills from the contracted suppliers was selected and bills were generally found to have been paid in a timely manner.
- 4.4.8 The sample was also reviewed to ascertain whether the bills were based on actual or estimated meter readings. This highlighted that a number of bills were still based on estimates.
- 4.4.9 The BAM advised that, where estimates were being used, the bills are reviewed to ensure that they seemed reasonable and if anything 'odd' was noted the MEEOs would be asked to go to the property to ascertain whether there were any problems and to take an actual reading, with actual readings being performed on, at least, an annual basis.
- 4.4.10 The MEEO advised that AMR (automatic meter readers) were now in place for a number of the Council's larger properties in relation to gas meters, so these provided actual readings that would be used for the bills raised. A number of corporate properties also had these types of meters for electricity charges as well. However, he highlighted that a (corporate) decision was required as to whether these should be installed in other buildings as approximately 300 needed to be installed.

Risk

Budget management and monitoring may be inaccurate.

Recommendation

A decision should be taken as to whether AMR or 'smart meters' should be installed for all relevant utilities supplies at relevant Council properties.

- 4.4.11 Recharges are processed for a number of different housing tenants and leaseholders. Some are direct recharges (e.g. Sayer Court), whereas others are recharged as part of their service charges with the bills calculated based on previous energy usage.
- 4.4.12 The meter readings for Sayer Court are taken remotely with recharges being based on the actual figures recorded. The figures are imported into spreadsheets that are used as the source for the mail merge used to create the individual bills.
- 4.4.13 Some of the residents pay by direct debit, with a set amount being paid each month for six months before the position (under or over payment) is reviewed and a new figure arrived at, with others paying on a monthly basis.
- 4.4.14 Upon review of the sample monthly bills provided it was noted that a number of tenants had outstanding debts. The BAM advised that these cases were raised with the Housing Support & Lifeline team who would deal with the tenants.

- 4.4.15 The Business Administration Officer (BAO) advised that electricity costs are recharged to leaseholders in blocks with communal electricity usage, with the figures being included in their service charges.
- 4.4.16 The bills for the year are included in monthly spreadsheets, with a summary spreadsheet being pulled together when the service charges are to be calculated. These figures are then included on the overall service charges spreadsheet to calculate the individual recharges. Further testing of these service charges was not performed as a separate audit of Leaseholder Service Charges is undertaken.
- 4.4.17 The previous audit had highlighted two issues where tenants were not being charged appropriately for their energy usage. One of these (in relation to communal electricity usage by leaseholders at St Margaret's Shopping Centre in Whitnash) had been successfully resolved.
- 4.4.18 The other issue related to energy charges at the LAMP building is Adelaide Road ('Club Land'). A new lease had now been entered into with the tenant which confirmed that they were responsible for paying for their own utilities. However, upon review of the supporting spreadsheets submitted in relation to the gas and electricity invoices, it was noted that payments were still being made by the Council in relation to this building (although it appears erroneously on the documents as Nelson's Gym).
- 4.4.19 Following the identification of the continuing issue, the Estate Management Surveyor (EMS) advised that steps would be taken to ensure that LAMP were billed directly in the future.
- 4.4.20 A further issue was noted, however, in that water payments were being made by the Council in relation to the Sea Cadets building in Club Land. These bills should similarly be payable by the tenant and not by the Council.

Risk

The Council may continue to pay for utilities that are used by tenants.

Recommendation

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.

Risk

The Council may not receive income that is due.

Recommendation

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.

- 4.4.21 A similar issue was noted in relation to water usage at one of the Creative Arches. However, the Business Manager (Enterprise) advised that this had already been identified and steps were being taken to get the tenant to pay themselves. In the meantime, recharges are being raised with the tenant as appropriate.
- 4.4.22 During the course of this audit, an audit was also being undertaken in relation to Bereavement Services. Previous audits of this topic had raised an issue with regards to a disparity between different 'lodges' as some tenants were being charged for their water where as others were not.
- 4.4.23 The current (Bereavement Services) audit confirmed that this issue still exists and this was confirmed upon review of the water bills and the spreadsheet provided by the BAO which showed that the Council was paying for water at the Birmingham Road and Old Milverton Road cemetery lodges but not at the other lodges.
- 4.4.24 The BAO provided copies of the previous tenancy agreements which state that the tenants are responsible for paying all relevant utility charges. However, there was nothing that she could find in the current agreements to suggest that this was still the case.

Risk

The Council may not be treating all tenants fairly.

Recommendation

A review of water charges at cemetery lodges should be undertaken to ensure that tenants are being treated equally.

- 4.4.25 For Housing properties where the Council is not responsible for the energy charges the tenants are informed of the processes as part of the tenancy sign up with the sign-up sheets for the standard tenancies and for the Very Sheltered Schemes (VSS) being the same as at the time of the previous audit.
- 4.4.26 A new document has also now been introduced for tenants at Sayer Court which confirms that they are responsible for their own electricity and that the heating charges will be recharged to them by the Council.
- 4.4.27 The EMS advised that there is a standard clause in the leases for non-operational properties which covers the need for the lessee to 'pay bear and discharge all existing and future rates taxes water charges assessments and outgoings' which effectively covers the payment of utility bills directly. There is also a further safeguard in some leases which state that the lessee will 'reimburse to the Lessor the cost of all electricity consumed by the Lessee on the demised premises'.
- 4.4.28 In terms of internal recharges, the BAO advised that where utilities are building specific, the associated orders are raised with the relevant cost codes included directly, rather than having to be recharged. These had historically

been raised on a monthly basis (after the receipt of the invoice) although annual orders are now being raised.

- 4.4.29 The electricity and gas charges are covered by corporate bills with supporting spreadsheets showing how the charges are broken down by individual buildings. These bills are initially charged against holding codes with summary and journal upload spreadsheets being prepared to allow for the costs to be recharged appropriately.
- 4.4.30 Back in 2011, a decision was made to install Photo Voltaic (PV) panels on the roofs of a number of housing properties, with the intention that the properties would benefit from reduced electricity costs. As the decision was taken a number of years ago, this has not been covered as part of this audit. However, decisions around the continuing use of renewable energy sources and the potential for further installations will be covered under a planned audit of Housing Stock Asset Management which will include the strategic decisions taken with regards to Council-owned properties.
- 4.4.31 One aspect that was covered under this audit was the receipt of 'Feed-in Tariffs'. The capital costs of the scheme were to effectively be offset by the future 'Feed-In Tariffs' (FiT) received, with the continuing tariffs providing the Council with a surplus.
- 4.4.32 The MEEO provided a list of current sites where PV panels are installed, as per the meter reading submissions. However, it was not possible to directly link the payments received to the readings as no supporting documentation is held.
- 4.4.33 The MEEO advised that he used to receive occasional statements regarding the income that was to be paid although these haven't been received for a while. However, this may be due to the fact that the company paying us has old contact details and the MEEO advised that this is being addressed.
- 4.4.34 At the year-end, he provides a spreadsheet of readings to the Strategic Finance Manager (SFM) so that income can be checked. The SFM provided a copy of the spreadsheet which he had used to compare the expected income to the actual received and the resulting accrual that was required.

4.5 **Compliance with Legislation**

- 4.5.1 The MEEO provided a spreadsheet containing details of the buildings that fall under the DEC (Display Energy Certificate) regulations. This contains details including the date of the certificate and the associated renewal date, and the location of the certificate in each building. Copies of all certificates and the associated recommendation reports are available online.
- 4.5.2 The MEEO advised that the recommended works have not generally been undertaken, although a meeting had been held to discuss the completion of some of the recommended jobs although noted that there would be a need to spend money to save over the longer term.
- 4.5.3 He also highlighted that a similar process was in place for air conditioning (TM44). He advised that inspections had recently been undertaken, although

the certificates and associated reports had not been received at the time of audit testing and had not been uploaded onto the website.

- 4.5.4 The Council also has to comply with the Heat Network (Metering & Billing) Regulations 2014. As part of this, the Council had to submit notifications to the National Measurement & Regulation Office (now part of the Office for Product Safety & Standards). The MEEO advised that there is no requirement to provide any regular updates, although if any relevant changes were made a new notification would be required. However, none had been required to date.
- 4.5.5 As part of the regulations, the Council was expected to install meters or 'cost allocators' unless the Council could prove that it is not cost effective or technically feasible to do so. The situation again was as it was at the time of the previous audit in that, with the exception of Sayer Court, this had not been implemented at relevant properties.
- 4.5.6 This was (and still is) largely due to the on-line assessment tool being taken down and guidance being given that assessments regarding cost effectiveness of the required works should not be undertaken until the new tool became available. However, a letter has been received from the Department for Business, Energy & Industrial Strategy advising that full policy consultation will be undertaken later in the year.

5 Conclusions

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

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 A number of issues were identified:

- Budgets are not being amended in relation to large variances, with the Jubilee House budget not reflecting the current utilities used.
- The energy related saving in the FFF Change Programme is not supported by reasoning as to whether it is achievable.
- Some bills are still based on estimated readings which could be alleviated by the use of 'smart meters'.
- The Council is paying for utilities used by tenants of Club Land properties.

- Tenants of cemetery lodges are not being treated equally in relation to water charges.

6 **Management Action**

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

Richard Barr
Audit and Risk Manager

Action Plan

Internal Audit of Utilities Management – June 2019

Report Ref.	Recommendation	Risk	Risk Rating*	Responsible Officer(s)	Management Response	Target Date
4.4.3	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 being amended to remove the fuel oil budget and include a budget for gas.	Budget management and monitoring may be inaccurate.	Low	Asset Manager	Budget codes will be reviewed for the new financial year and the change required for Jubilee House enacted.	31 March 2020 30 September for Jubilee House
4.4.5	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 savings needed to be made by the Council may not be achievable.	High	Asset Manager	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.	31 March 2020 for energy savings plan 31 March 2021 for first full year of savings

Report Ref.	Recommendation	Risk	Risk Rating*	Responsible Officer(s)	Management Response	Target Date
4.4.10	A decision should be taken as to whether AMR or 'smart meters' should be installed for all relevant utilities supplies at relevant Council properties.	Budget management and monitoring may be inaccurate.	Low	Asset Manager	An options appraisal report will be prepared for consideration by CMT.	31 December 2019
4.4.20	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.	The Council may continue to pay for utilities that are used by tenants.	Medium	Estates Management Surveyor	We will ensure that, going forwards, tenants are required to pay for utilities used.	31 December 2019
4.4.20	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.	The Council may not receive income that is due.	Low	Estates Management Surveyor	We will look at individual leases to establish if recovery of earlier monies paid is possible.	31 March 2020
4.4.24	A review of water charges at cemetery lodges should be undertaken to ensure that tenants are being treated equally.	The Council may not be treating all tenants fairly.	Low	Service Manager - Landlord Services	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.	31 December 2019

* Risk Ratings are defined as follows:

High Risk: Issue of significant importance requiring urgent attention.

Medium Risk: Issue of moderate importance requiring prompt attention.

Low Risk: Issue of minor importance requiring attention.