

**FROM:** Audit and Risk Manager  
**TO:** Deputy Chief Executive (BH)  
**C.C.** Chief Executive  
Head of Housing Services  
Head of Finance  
Interim Asset Manager  
Building Surveyor  
Business Administration Manager  
Portfolio Holders (Cllrs AM & PP)

**SUBJECT:** Energy Management  
**DATE:** 11 December 2017

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## 1 Introduction

- 1.1 In accordance with the Audit Plan for 2017/18, 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 2012.
- 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 budget for the current financial year for energy supplies is £915,400, broken down as:

	£
Electricity	663,000
Gas	143,500
LPG	78,900
Biomass	15,000
Fuel Oil	15,000

- 2.2 Biomass is currently used in three properties (Oakley Wood Crematorium, Tannery Court, and Sayer Court), with LPG only used at the Crematorium, and fuel oil being used at Jubilee House.
- 2.3 The audit was undertaken during a period of transition, with Asset Management having recently moved from the old Housing & Property service area into the Chief Executive's Office.
- 2.4 The Interim Asset Manager (IAM) in post at the start of the audit moved to a different role and was replaced by a new interim member of staff. In addition, the Energy Manager had been off work since December 2016 resulting in the

interim management arrangements being deployed for the staff reporting to the post.

### 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:

- Energy supply procurement
- Management of energy usage
- Bill payments and recharges
- Compliance with legislation.

3.3 The control objectives examined were:

- The Council has compliant contracts in place for the supply of energy
- Energy usage in Council buildings is appropriately monitored and managed
- New Council buildings are energy efficient
- The council does not become subject to debt recovery procedures
- Payments and recharges **can be** appropriately apportioned
- Payments and recharges **are** appropriately apportioned
- The Council complies with applicable legislation.

### 4 **Findings**

#### 4.1 **Recommendations from Previous Report**

4.1.1 The report relating to the previous audit of this topic, undertaken in December 2012, did not include any recommendations.

#### 4.2 **Energy Supply Procurement**

4.2.1 The Council currently has formal contracts in place for four of the energy supplies referred to above. However, the (original) IAM advised that there is a need for the 'regularisation' of the procurement for the supply of biomass fuels.

4.2.2 The Council has spent approximately £32,000 with the current supplier (Forest Fuels) since the start of the 2016/17 financial year, with a further £19,000 having been spent with the previous supplier, MWF, at the start of that period.

4.2.3 This would suggest a contract value over the £50,000 threshold set out within the Code of Procurement Practice for which competitive tenders are required. The IAM suggested that there is a framework that the Council can use and this was being looked into.

#### **Risk**

**The Code of Procurement Practice has not been followed for the procurement of biomass fuel.**

### **Recommendation**

**A procurement process compliant with the Code of Procurement Practice should be undertaken for the supply of biomass fuel.**

- 4.2.4 Upon review of the contract register, it was suggested that there is no copy held of the gas supply contract in place with Gazprom. The IAM advised that this had been let prior to him being in the AM role, so was unaware of what had happened in this instance. However, it subsequently transpired that an electronic copy of the document is held.

### **Risk**

**Staff may be unaware of the existence of relevant documentation.**

### **Recommendation**

**The contract register should be updated to reflect the existence of the Gazprom contract document.**

## **4.3 Management of Energy Usage**

- 4.3.1 The Contract Administrator (M&E) (CA) provided an overview of the building management system that is in use at the Council (Trend 963). This covers various properties although he highlighted that the Harbury Lane Sports Pavilion wasn't currently connected.
- 4.3.2 This allows the potential for energy to be wasted if users forget to switch things off when they leave.

### **Risk**

**Energy may be wasted.**

### **Recommendation**

**The Harbury Lane Sports Pavilion should be connected to the building management system.**

- 4.3.3 The system is fairly prescriptive and is, in effect, a programmable timer with thermostat control which allows specific settings to be input (e.g. the times that the buildings are operational). The settings for some buildings will rarely be changed, but others (such as the Royal Spa Centre and Town Hall) will be amended on a monthly basis to take account of any events that are taking place. In these instances timetables are provided by the building 'managers'.
- 4.3.4 The system also sends emails that flag if any issues have occurred (e.g. boiler breakdown), although the CA suggested that it is sometimes not easy to interpret all of the emails that are received. Some meter readings are also available on the system although no specific use is made of this information.
- 4.3.5 However, there is nothing in the way of data monitoring which would allow for energy efficiency to be measured / improved. That being said, the CA suggested that the full capabilities of the system are not used and, as he had only received limited training on the use of the system, he was unaware of whether there was something that could be extracted.

- 4.3.6 He advised that he was briefly shown how to use the system but has had no formal training as such and, to the best of his knowledge, there are no procedure notes. He suggested, however, that Sertec (who provide some of the related equipment) will provide assistance when required.

**Risk**

**Energy usage may not be optimised.**

**Recommendation**

**Training should be obtained by the Contract Administrators to ensure best use of the building management system is made.**

- 4.3.7 In terms of new Council buildings it has been confirmed that energy efficiency is being appropriately considered.
- 4.3.8 The Project Manager advised that the Council is aiming to ensure that the new HQ building will obtain a BREEAM (Building Research Establishment Environmental Assessment Method) rating of 'Very Good' and this will become part of the design and build contract.
- 4.3.9 The leisure centre refurbishments have also taken energy efficiency into account. The Project Officer highlighted that planning conditions were included and provided reports which showed how these conditions had been satisfied.
- 4.3.10 The IAM advised that Sayer Court had been built to the standards contained within the Code for Sustainable Homes. However, due to the departure of the previous AM and the Energy Manager currently being out of the business, he was unable to confirm whether the suggested assessments had been undertaken.

**4.4 Bill Payments & Recharges**

- 4.4.1 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.
- 4.4.2 A sample of bills from the contracted suppliers was selected and all bills were found to have been paid in a timely manner.
- 4.4.3 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 based on estimates.

**Risk**

**Incorrect payments may be made.**

**Recommendation**

**Actual meter readings should be taken and provided wherever possible.**

- 4.4.4 The BAM advised that, where estimates were being used, the bills would be reviewed to ensure that they seemed reasonable and if anything odd was

noted the CAs would be asked to go to the property to ascertain whether there were any problems and to take an actual reading.

- 4.4.5 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.
- 4.4.6 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.
- 4.4.7 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.
- 4.4.8 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 team who would deal with the tenants.
- 4.4.9 The Business Administration Assistant (BAA) advised that electricity costs are recharged to leaseholders in blocks with communal electricity usage, with the figures being included in their service charges.
- 4.4.10 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.
- 4.4.11 Similarly, the billing processes for the golf course and catering contractors, who are recharged for their energy usage, has been covered in audits undertaken during 2016/17 and recommendations were made accordingly.
- 4.4.12 However, it is worth noting that £17,900 had been written off in relation to the golf course electricity charges due to an ongoing dispute over the readings. However, invoices are now being raised on a quarterly basis for electricity recharges as appropriate.
- 4.4.13 Upon review of spreadsheets detailing bills paid to the electricity supplier, a number of other properties were identified for which the Council was paying for energy despite tenants being in the properties.
- 4.4.14 The LAMP building in Adelaide Road is currently not recharged for their energy usage. The Estates Manager (EM) advised that this is a historical position. However, a new lease is being entered into which will make energy bills the tenant's responsibility.
- 4.4.15 The Council is also charged for electricity used at St Margaret's Shopping Centre in Whitnash. The EM initially advised that the supply related to housing properties, so the BAM was queried as to whether any recharges were made to the relevant leaseholders.

- 4.4.16 The BAM advised that Active H shows these as corporate shops, hence the charges were going to the Shop Maintenance code on TOTAL. Following the production of the draft report, the BAM was able to confirm that there is a communal supply to the flats.

**Risk**

**The Council may not receive all income due.**

**Recommendation**

**Correct recharges should be raised for the leaseholders of the flats at St Margaret's Shopping Centre.**

- 4.4.17 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.
- 4.4.18 The Allocations Officer (AO) provided copies of the sign-up sheets for the standard tenancies and for the Very Sheltered Schemes (VSSs). The standard tenancy form highlights that British Gas provides the gas and electricity for the properties and gives details as to how to contact them with regards to setting up accounts.
- 4.4.19 The VSS document does not go into the same level of detail but the AO advised that the tenant would be advised of the inclusion of any energy charges (including the communal aspects) as part of the sign up process.
- 4.4.20 However, there is currently no documentation for Sayer Court where the Council pays the bills initially and then recharges the tenants based on the readings taken. This was due to the fact that staff were unsure what the process was to be when the tenants moved in to the new properties.

**Risk**

**The Council may not receive all income due.**

**Recommendation**

**A formal sign up document should be implemented for Sayer Court that includes details of energy charges.**

- 4.4.21 The EM 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 the leases which states that the lessee will 'reimburse to the Lessor the cost of all electricity consumed by the Lessee on the demised premises'.
- 4.4.22 In terms of internal recharges, the BAA advised that the majority of the invoices received, with the exception of Gazprom, are building specific and the associated orders are raised with the relevant cost codes included directly, rather than having to be recharged. These have historically been raised on a monthly basis (after the receipt of the invoice) although attempts are being made to raise annual orders.

4.4.23 All properties are covered on one Gazprom invoice each month (although supporting sheets provided the details for each property) and, once paid, the BAA prepares a journal spreadsheet which is provided to Accountancy so that the charges can be allocated appropriately.

#### 4.5 **Compliance with Legislation**

- 4.5.1 The IAM advised that he has recently undertaken a review to ascertain whether DECs (Display Energy Certificates) are in place for relevant Council buildings and has visited each building to confirm the details. The details had been recorded in a spreadsheet which was provided to Internal Audit.
- 4.5.2 This highlighted that the certificates have not been in place or are out of date in the majority of cases. However, the IAM advised that a contractor has now been appointed to undertake the work to ensure that the Council becomes compliant in this regard.
- 4.5.3 A subsequent query was raised following receipt of an email from the new Sustainability Officer regarding the absence from the list of the Council's sheltered schemes and whether DECs would be required.
- 4.5.4 The IAM was unsure whether they would be required or whether EPCs (Energy Performance Certificates) would be needed instead. As a result, the contractor had been asked to investigate whether these were relevant and action would be undertaken accordingly.
- 4.5.5 The IAM highlighted that, following the abovementioned reviews, advisory reports will be obtained from the contractor and relevant works will be included in the work plans for each building. However, where previous advisory reports were thought to be in place (as per the spreadsheet), these could not be located.
- 4.5.6 The Council also need to comply with the Heat Network (Metering & Billing) Regulations 2014. Evidence was provided which confirmed that the Council had submitted relevant notifications to the National Measurement & Regulation Office.
- 4.5.7 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. However, the IAM advised that, with the exception of Sayer Court, this had not been implemented at relevant properties.
- 4.5.8 This was 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.
- 4.5.9 The IAM provided evidence that tenders had been sought from companies to review the cost effectiveness elements of any works required and this would be taken forward when appropriate.

## 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 Energy 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:

- Biomass fuel supply is not compliant with the Code of Procurement Practice.
- The contract register does not reflect the existence of the Gazprom contract.
- The Harbury Lane Sports Pavilion is not connected to the building management system.
- The best use of the building management system may not be being made as staff have not received training.
- A number of bills are based on estimated usage.
- Recharges to leaseholders are required for energy usage at St Margaret's Shopping Centre.
- Documentation was not in place to formally advise tenants of Sayer Court that they are responsible for energy usage charges.
- A number of DEC's are out of date or are not in place, although action is being taken to address this.

5.4 Whilst a moderate assurance level has been given it is acknowledged that staff in post have had to pick up a number of new tasks and have already taken action to address a number of issues identified.

## 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 Energy Management – December 2017

Report Ref.	Recommendation	Risk	Risk Rating*	Responsible Officer(s)	Management Response	Target Date
4.2.3	A procurement process compliant with the Code of Procurement Practice should be undertaken for the supply of biomass fuel.	The Code of Procurement Practice has not been followed for the procurement of biomass fuel.	Medium	Contract Administrator M&E (IR)	Revised contract arrangements, that are fully procurement compliant, will be in place by 31 March 2018.	April 2018
4.2.4	The contract register should be updated to reflect the existence of the Gazprom contract document.	Staff may be unaware of the existence of relevant documentation.	Low	Contract Administrator M&E (IR)	A copy of the contract has been scanned and retained by Assets and the contract register updated.	Complete
4.3.2	The Harbury Lane Sports Pavilion should be connected to the building management system.	Energy may be wasted.	Low	Contract Administrator M&E (RJ)	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.	April 2018
4.3.6	Training should be obtained by the Contract Administrators to ensure best use of the building management system is made.	Energy usage may not be optimised.	Medium	Interim Asset Manager	Training has been booked for both CA's scheduled for end of January 2018.	February 2018
4.4.3	Actual meter readings should be taken and provided wherever possible.	Incorrect payments may be made.	Low	Business Administration Manager	Procedures are being developed to ensure that meter readings are captured.	April 2018

<b>Report Ref.</b>	<b>Recommendation</b>	<b>Risk</b>	<b>Risk Rating*</b>	<b>Responsible Officer(s)</b>	<b>Management Response</b>	<b>Target Date</b>
4.4.16	Correct recharges should be raised for the leaseholders of the flats at St Margaret's Shopping Centre.	The Council may not receive all income due.	Low	Business Administration Manager	Bill payments have been moved to the correct cost centre and charges recorded to be apportioned to the leaseholders.	Completed
4.4.20	A formal sign up document should be implemented for Sayer Court that includes details of energy charges.	The Council may not receive all income due.	Low	Sustaining Tenancies Manager	Legal Services have been contacted for advice.	April 2018

\* 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.