

AUDIT COMMITTEE

Monday, 23 April 2007

6.00 p.m.

Council Chamber,
Council Offices,
Spennymoor

AGENDA and REPORTS



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العربية (Arabic)

إذا أردت المعلومات بلغة أخرى أو بطريقة أخرى، نرجو أن تطلب ذلك منا.

বাংলা (Bengali)

যদি আপনি এই ডকুমেন্ট অন্য ভাষায় বা ফরমেটে চান, তাহলে দয়া করে আমাদেরকে বলুন।

(中文 (繁體字)) (Cantonese)

如欲索取以另一語文印製或另一格式製作的資料，請與我們聯絡。

हिन्दी (Hindi)

यदि आपको सूचना किसी अन्य भाषा या अन्य रूप में चाहिये तो कृपया हमसे कहे

polski (Polish)

Jeżeli chcieliby Państwo uzyskać informacje w innym języku lub w innym formacie, prosimy dać nam znać.

ਪੰਜਾਬੀ (Punjabi)

ਜੇ ਇਹ ਜਾਣਕਾਰੀ ਤੁਹਾਨੂੰ ਕਿਸੇ ਹੋਰ ਭਾਸ਼ਾ ਵਿਚ ਜਾਂ ਕਿਸੇ ਹੋਰ ਰੂਪ ਵਿਚ ਚਾਹੀਦੀ, ਤਾਂ ਇਹ ਸਾਥੋਂ ਮੰਗ ਲਓ।

Español (Spanish)

Póngase en contacto con nosotros si desea recibir información en otro idioma o formato.

اردو (Urdu)

اگر آپ کو معلومات کسی دیگر زبان یا دیگر شکل میں درکار ہوں تو برائے مہربانی ہم سے پوچھیے۔

AGENDA

1. **APOLOGIES**
2. **DECLARATIONS OF INTEREST**
To notify the Chairman if you have an interest in any of the following items.
3. **MINUTES**
To confirm as a correct record the minutes of the meeting held on 29th January 2007. (Pages 1 - 6)
4. **AUDIT COMMISSION ANNUAL MANAGEMENT AND INSPECTION LETTER**
To consider the attached letter from the Audit Commission. (Pages 7 - 20)
5. **USE OF RESOURCES AUDITOR JUDGEMENT**
To consider the attached judgement from the Audit Commission. (Pages 21 - 34)
6. **INTERNAL AUDIT PLAN FOR 2007/08**
Report of Director of Resources (Pages 35 - 50)
7. **COLLECTION AND RECOVERY OF COUNCIL TAX**
Report of Director of Resources. (Pages 51 - 58)
8. **ANNUAL BENEFIT FRAUD REPORT - 2006/7 FINANCIAL YEAR**
Report of Director of Resources. (Pages 59 - 64)
9. **ANY OTHER ITEMS WHICH THE CHAIRMAN DECIDES ARE URGENT**
Members are respectfully requested to give the Chief Executive notice of items they would wish to raise under the heading not later than 12 noon on the day preceding the meeting, in order that consultation may take place with the Chairman who will determine whether the item will be accepted.

B. Allen
Chief Executive

Council Offices
SPENNYMOOR
13th April 2007

Councillor M.A. Dalton, Chairman)
Councillor B.M. Ord (Vice Chairman)

Councillors Mrs. K. Conroy, Mrs. A.M. Fleming, Mrs. C. Potts and J.M. Smith

B. Argyle - Independent Member

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Item 3

SEDGEFIELD BOROUGH COUNCIL

AUDIT COMMITTEE

Conference Room 1,
Council Offices,
Spennymoor

Monday,
29 January 2007

Time: 6.00 p.m.

Present: Councillor M.A. Dalton (Chairman) and
Councillors Mrs. A.M. Fleming, B.M. Ord and Mrs. C. Potts
B. Argyle (Independent Member)

Apologies: Councillors Mrs. K. Conroy and J.M. Smith

AC.21/06 DECLARATIONS OF INTEREST
Members had no interests to declare.

AC.22/06 MINUTES
The Minutes of the meeting held on 30th October 2006 were confirmed as a correct record and signed by the Chairman.

AC.23/06 DATA QUALITY ARRANGEMENTS FEEDBACK
The Committee considered a report prepared by the Audit Commission, which summarised feedback from its review of the Council's corporate management arrangements for data quality. (For copy see file of Minutes).

Catherine Andrew of the Audit Commission presented the report.

Members noted that the Commission's approach to the audit had been significantly changed for the reasons detailed in section 3 of the report.

The Commission's work on data quality had been undertaken in the following three stages:

- **Stage 1 – Management Arrangements**
The assessment of the Council's corporate management arrangements for data quality using Key Lines of Enquiry (KLoE's) developed by the Audit Commission.

The work related specifically to the arrangements for monitoring and reviewing performance, including arrangements to ensure data quality.
- **Stage 2 (Completeness Check)**
The review of queries on individual BVPIs submitted to the Audit Commission by the Council.

The number and extent of those queries had been determined by the Audit Commission following its review of data nationally.

- **Stage 3 (Data Quality Spot Checks)**

The detailed audit of individual BVPIs.

The number of BVPIs selected for review had been determined by the outcomes of Stages 1 and 2 and had been selected from a list developed by the Audit Commission.

The Committee's attention was drawn to the main conclusions of the review and the Action Plan detailed in Appendix 4.

Members noted that an overall data quality policy had been drafted, however, it had not yet been submitted to the Council's Management Team for consideration.

It was pointed out that the report was very positive and Sedgefield Borough, when compared with the other District Councils in the County, came out very well.

RESOLVED : That the report be received.

AC.24/06

AUDITOR'S REPORT ON THE BEST VALUE PERFORMANCE PLAN

The Committee considered a report prepared by the Audit Commission regarding the audit undertaken in respect of the Council's Best Value Performance Plan in accordance with section 7 of the Local Government Act 1999 and the Audit Commission's statutory Code of Audit Practice. (For copy see file of Minutes).

Catherine Andrew presented the report.

Members noted that the Audit Commission had not identified any matters to report to the authority or any recommendations on procedures in relation to the Plan.

RESOLVED : That the report be received.

AC.25/06

YOUR BUSINESS @ RISK SURVEY

The Committee considered a report prepared by the Audit Commission regarding the above. (For copy see file of Minutes).

Catherine Andrew presented the report.

It was explained that the Audit Commission in partnership with Sedgefield Borough Council had undertaken an on-line survey in mid-September 2006. The survey was designed to help organisations to:

- Raise awareness of the risks associated with increasing the use of technology.
- Gauge the level of knowledge within the organisation of such risks.

- Highlight areas where risks were greatest
- Take positive action to reduce risks

Appendix 1 to the report provided a summary of the survey questions and the results of the Council.

Members noted that overall the results of the survey were positive. In most areas the Council's users scored highly and better than the national average. The main areas highlighted by the survey requiring further improvements/improved procedures were:

- Absence of IT policies, for example, information, security and e-mail
- Business continuity arrangements
- Promoting the anti-fraud strategy
- Knowledge of key areas of relevant legislation

Specific reference was made to paragraph 8 of the report, which set out the Commission's recommendations.

It was noted that officers had accepted the recommendations in principle and were to improve awareness within the Council to ensure that the suggested policies and procedures were developed.

RESOLVED : That the report be received.

AC.26/06

RISK MANAGEMENT PROGRESS REPORT 2006

The Committee considered a report of the Director of Resources detailing progress made in developing risk management within the Council. (For copy see file of Minutes).

It was reported that effective risk management was widely acknowledged as an essential element of quality corporate governance and should be an integral part of an organisation's processes and culture. The requirements of the Comprehensive Performance Assessment and the Statement of Internal Control necessitated a strong risk management culture.

Specific reference was made to the CIPFA/SOLACE report entitled, "Corporate Governance in Local Government – A Keystone for Community Governance" which stated that every organisation needed to:

- Develop and maintain robust systems for identifying and evaluating all significant risks, which affect the planning and delivery of services.
- Put in place effective risk management systems, including systems of internal control and an internal audit function.
- Ensure that services were delivered by trained and experienced people.
- Have effective arrangements for an objective review of risk management and internal control, including internal audit.
- Maintain an objective and professional relationship with external

auditors and inspectors.

- Publish a relevant annual report on risk management and internal control mechanisms and their effectiveness.

Members noted that a number of the above good practices had been well established within the Council for many years, however, the continuing development of risk management was essential to achieving a strong governance position.

It was pointed out that the Risk Management Group had been re-established in 2004 as an officer group, reporting to the Strategic Leadership Group. The Group considered a wide range of risk management items including health and safety issues.

Specific reference was made to Section 5 of the report, which detailed the main areas of risk management activity around the Council.

Members expressed general satisfaction with the effectiveness of the risk management arrangements around the Council and with the initiatives undertaken by the Risk Management Group. They also recognised the importance of the corporate development areas, aimed at ensuring a comprehensive approach to the identification of risks and actions to minimise such risks. The Committee therefore considered that:

- a) The Council's electronic risk register was a valuable tool to properly ensure that risks can be managed effectively. All services of the Council must further develop the initiative.
- b) All significant projects to enhance service delivery must be risk assessed using the Risk Matrix procedure developed by the Risk Management Group. Some projects had been satisfactorily assessed in this way, but it was important that the concept was adopted across all areas of the Council.
- c) The Council's statutory Statement of Internal Control was an important position statement covering various governance issues affecting the Council, including financial control, performance management and risk. All areas of internal control must be maintained at a high level and efforts must continue to ensure that unqualified statutory assurance statements can be made.

- RESOLVED :*
- 1. That the report be noted.*
 - 2. That the Committee informs Cabinet of its findings on the effectiveness of the Council's risk management arrangements.*
 - 3. That an annual review of the risk management arrangements be undertaken by the Audit Committee.*

AC.27/06**TREASURY MANAGEMENT STRATEGY 2007/08**

The Committee considered a report of the Director of Resources detailing the Treasury Management Strategy for 2007/08. (For copy see file of Minutes).

It was explained that the report outlined the strategy to be followed by the Council over the medium term in relation to its treasury management activities, which took account of guidance on investments issued by the DCLG and the Prudential Code for Capital Finance in Local Authorities.

The strategy covered the existing Treasury position, the anticipated movement in interest rates, the Council's borrowing, debt strategy and investment strategy as well as local treasury management indicators.

- RESOLVED :*
1. *That Cabinet be recommended to make the following proposals to Council:*
 - *To approve the Treasury Management Strategy 2007/08.*
 - *To approve the Investment Strategy 2007/08.*
 - *To adopt the Prudential Indicators and Limits 2007/08 to 2009/10*
 - *To approve the "Authorised Limit" for borrowing as shown in Appendix B to the report.*

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Annual Audit and Inspection Letter

Sedgefield Borough Council

The Audit Commission is an independent body responsible for ensuring that public money is spent economically, efficiently and effectively, to achieve high-quality local services for the public. Our remit covers around 11,000 bodies in England, which between them spend more than £180 billion of public money each year. Our work covers local government, health, housing, community safety and fire and rescue services.

As an independent watchdog, we provide important information on the quality of public services. As a driving force for improvement in those services, we provide practical recommendations and spread best practice. As an independent auditor, we ensure that public services are good value for money and that public money is properly spent.

Status of our reports

This report provides an overall summary of the Audit Commission's assessment of the Council, drawing on audit, inspection and performance assessment work and is prepared by your Relationship Manager.

In this report, the Commission summarises findings and conclusions from the statutory audit, which have previously been reported to you by your appointed auditor. Appointed auditors act separately from the Commission and, in meeting their statutory responsibilities, are required to exercise their professional judgement independently of the Commission (and the audited body). The findings and conclusions therefore remain those of the appointed auditor and should be considered within the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission.

Reports prepared by appointed auditors are:

- prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission; and
- addressed to members or officers and prepared for the sole use of the audited body; no responsibility is taken by auditors to any member or officer in their individual capacity, or to any third party.

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Our overall summary

- 1 This report provides an overall summary of the Audit Commission's assessment of the Council. It draws on the findings and conclusions from the audit of the Council and from any inspection work that has been undertaken in the last year. The letter includes our review of how well the Council has progressed (our Direction of Travel report) and our assessment of how well the Council has managed its finances (the Use of Resources scores). These latter components will be an important feed into any future decision regarding the potential for a rescoring the Council's Comprehensive Performance Assessment (CPA) category.
- 2 The report is addressed to the Council; it has been written for councillors in particular. It is available as a public document for stakeholders, including members of the community served by the Council.
- 3 The main messages for the Council from our Direction of Travel are as follows.
 - The Council is making effective use of its corporate planning arrangements, resources, partnership working and external funding to support improvements and contribute to wider community outcomes.
 - The Council is improving services in its priority areas but there are some areas of weaker performance which need to be addressed.
 - In 2005/06 the Council had slightly more than average Best Value Performance Indicators at the top level nationally, but its rate of improvement was significantly below the average for district councils.
- 4 The key issues arising from our audit are as follows.
 - The Council continues to perform well, with particular strengths in financial reporting and financial standing.
 - Arrangements in all areas are developing and have become embedded.
 - There was an overall improvement in value for money arrangements with the Council able to demonstrate that relatively high spending is related to key priorities.
- 5 The Council is facing a period of uncertainty arising out of the potential offered by the Local Government White Paper for local government re-organisation. Any consultation on these proposals will present challenges in terms of compliance with the requirements of the Code of Practice on Local Authority Publicity, and any changes to the structure of local government in the county will present challenges in terms of maintaining and improving local services.

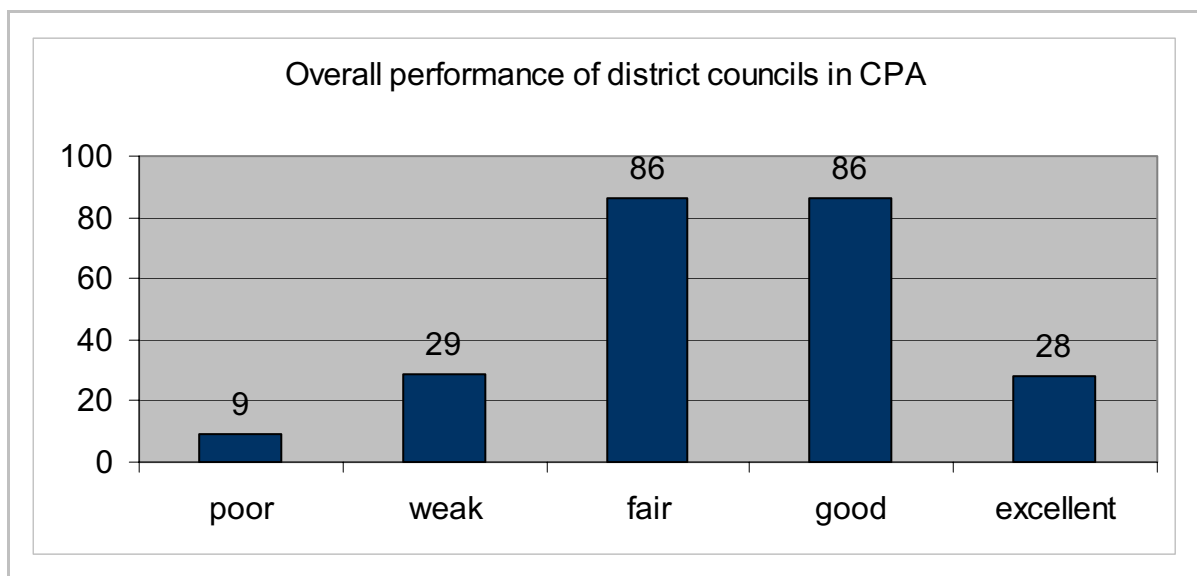
Action needed by the Council

- 6 The Council should increase the pace of improvement in its services by:
 - embedding improvements to target setting;
 - ensuring that recent improvements in housing services are maintained; and
 - taking action to tackle sickness absence if this does not decline.
- 7 The Council should continue to build on its good performance in Use of Resources by:
 - ensuring the cash flow statement is reviewed for accuracy and supported by exemplary working papers; and
 - ensure that savings and efficiency gains are separately profiled throughout the year and monitored by councillors to ensure their achievement.
- 8 In the context of the potential for reorganisation of local government in the county, it is important that the Council continues to review governance arrangements and maintains its momentum in terms of performance management, including complying with the duty of best value to improve services, during a period of uncertainty. Equally it is important that the Council is seen to abide by the requirements of the Code of Practice on Local Authority Publicity throughout the consultation period and thereafter.

How is Sedgefield Borough Council performing?

- 9 Sedgefield Borough Council was assessed as good in the Comprehensive Performance Assessment carried out in 2003. These assessments have been completed in all district councils and we are now starting to update these assessments, through an updated corporate assessment, in councils where there is evidence of change. The following chart is the latest position across all district councils.

Figure 1 Overall performance of district councils in CPA



Source: Audit Commission

The improvement since last year - our Direction of Travel report

- 10 The Council is improving in its priority areas. It has improved opportunities for vulnerable people. There are improved leisure and cultural opportunities which contribute to improved health and well being. Environmental services have improved generally, in particular the cleanliness of streets and planning application performance, although environmental health performance has not improved. The Council is making a valuable contribution to improving the economy through improving opportunities for new businesses and reducing worklessness. Anti-social behaviour continues to reduce and generally crime is reducing.
- 11 The Council is making effective use of its corporate planning arrangements, resources, partnership working and external funding to support further improvements and contribute to wider community outcomes.

- 12 As measured by the Direction of Travel 2005/06 basket of best value performance indicators (BVPIs), the Council's rate of improvement was less than the average for district councils, but it had slightly more than average BVPIs in the top quartile:
- 48 per cent improved compared to an average for district councils of 58 per cent; and
 - 34 per cent were in the best quartile compared with an average 32 per cent.
- The Council achieved or exceeded 60 per cent of its BVPI targets in 2005/06.
- 13 The Council is making a good contribution towards its ambition of a healthy borough. All but one of the relevant BVPIs and local performance indicators (LPIs) improved in 2005/06. It has improved opportunities for independent living through the borough's Adult Community Care Partnership; five integrated care teams coordinate services for vulnerable adults locally. It has also delivered successful Sure Start schemes to over 500 children in disadvantaged areas and has improved leisure and cultural opportunities through a £3million Youth Opportunity Card Pilot scheme.
- 14 The Council is making progress on the two community outcomes which underpin its ambition of a prosperous borough. Most benefits service BVPIs improved in 2005/06. Thirteen of the 15 relevant local performance indicators (LPIs) are improving. The Council has worked well with its partners in the LSP to deliver its aims to develop an employability framework for the borough and to develop entrepreneurship in deprived communities. It helps to provide personalised support to job seekers in disadvantaged neighbourhoods facing specific barriers to entering employment. It also uses existing facilities to provide learning opportunities for example through Locomotion, where workshop events have helped to provide opportunities for local people to undertake training and development. This activity has contributed to 257 local people being assisted into employment against a target of 46, 25 new start businesses being created in disadvantaged areas and an increase in jobs created and safeguarded.
- 15 Key actions are delivering good progress on the three community outcomes which support the ambition of an attractive borough. The quality of the local environment is a priority for local people. Nine of the relevant 12 BVPIs have improved including significant improvements in street scene indicators with the proportion of land with deposits of litter, graffiti and dirt reducing by 8 per cent and low rates for abandoned vehicles. The Council has met its targets for recycling but the amount and cost of waste collected have risen. The Council has successfully turned round poor performance in its planning service and has secured extra planning grant; however, the number of successful planning appeals against Council decisions rose in 2005/06. Significant work around preserving and improving the biodiversity of the borough and improving access to the countryside has resulted in designating five local nature reserves and external funding of £56,800 has been levered in for conservation works.

- 16 Progress towards achieving the Council's ambition of strong communities is mixed. The Council is making good progress on improving community engagement. It plays a key role in the Children and Young People's Partnership and takes a corporate approach through cross departmental working to co-ordinate activity and funding. This has resulted in initiatives such as a youth development fund of over £100,000, activity directories, bids for £233,000 external funding and a young person's sporting ambassador programme.
- 17 Performance in the 'strong communities' ambition was mixed in 2005/06. Only four of the Direction of Travel BVPIs were at the top level of performance nationally in 2005/06 and 10 had declined. A number of these related to housing. However, the Council has been taking action to improve its housing services following the rejection of the transfer proposals by tenants. It is on track to meet its improvement targets for repairs and maintenance and achievement of the Decent Homes Standard. The Council's figures for 2006/07 have showed a marked improvement in repairs and maintenance services and targets are now either being met or exceeded. The delivery plan for the achievement of the Decent Homes Standard is on target to raise performance from 62.5 per cent to 83 per cent between 2006/07 and 2008/09. It has made significant progress in addressing previous problems in homelessness: levels have almost halved applications and acceptances have fallen from 882 and 441 respectively in 2004/05 to 531 and 271 in 2005/06.
- 18 A wide range of initiatives is successfully promoting safer neighbourhoods. A multi-agency action plan designed to lessen the high incidence of domestic violence across the borough has resulted in a 27 per cent fall in repeat victimisations in the last year. Similarly, implementation of plans designed to reduce criminal damage, anti-social behaviour and hate crime has resulted in a drop in calls to the police by 69 per cent, a 48 per cent decrease in deliberate vehicle fires and reduced repeat offenders. Overall the borough is a relatively low crime area, but vehicle crime and domestic burglaries have risen and fear of crime remains high.
- 19 The Council is working well with partners through its cross-cutting priorities to contribute to improving wider community outcomes. In addition to this it is implementing a Local Improvement Programme to tackle a series of issues facing the borough. £3.8m is being invested in local schemes designed to bring under used or vacant land or property back into a productive use and generate other regeneration benefits such as skills training, improved health, community safety and greater social and community cohesion. This for example has resulted so far in the refurbishment of two community centres, six play areas and industrial land being converted back to its natural habitat.
- 20 Access to services and facilities is being improved through increased opening hours in housing offices and new telephone systems enabling direct access. It is implementing customer management systems which are already running in the street scene service. The Council runs an enhanced concessionary fares scheme which allows free travel across the county for people who might otherwise not be able to travel.

- 21 Value for money (VfM) has improved. Some service costs are high in comparison with other district councils but areas of higher spending are in line with priority areas and these services are mostly performing well. The Council displays a good understanding of where it can reduce costs and where it can improve the quality of the services. It takes a robust approach to driving efficiencies, including running guidance workshops for managers. The emphasis is on real tangible cashable efficiencies; the current target of £400,000 is monitored monthly ensuring no surprises.
- 22 Performance management arrangements at departmental, corporate and member level are in place and the Council can demonstrate clear service improvements as a result, for example, planning performance has been turned round from worst to best quartile performance. The Council has revised its four corporate ambitions and 12 community outcome areas to become more focused on improvements for local people. It has also strengthened its range of local performance indicators (LPis) to help it to assess the effectiveness of its actions and demonstrate the quality of performance in priority areas.
- 23 The Council is focusing improvement through three overarching themes of customer focus, efficiency and organisational development. In addition specific reviews and improvement plans are being used to drive improvement in a number of areas including customer focus, community safety and housing. Further work is being done to improve target setting through improved understanding of customer needs and more realistic analysis of the necessary resources.
- 24 Capacity to deliver improvements in priority areas is improving. The Council is implementing an organisational development plan to ensure it has the right management skills at all levels. It has introduced home working within the benefits section with a targeted aim to improve productivity. It is open to improving its capacity through external partnerships; it is procuring a partner to deliver its housing repairs and maintenance programme and is working with other councils to maximise skills, for example there are arrangements in place for joint working with several district councils on Carelink and ICT. BVPIs relating to corporate functions have mostly improved including those for equalities and diversity. The Council postponed the target date for reaching level 3 of the Equalities Standard for Local Government to June 2007 to enable more detailed community engagement.
- 25 However, sickness absence remains a problem. The Council has improved its occupational health arrangements but although absence reduced significantly up to March 2006 it has increased again more recently. As a result of a review by Overview and Scrutiny, the Council has provided additional resources for tackling sickness absence and is implementing a nine point plan designed to reduce repeated occurrences of absence and address long term sickness.
- 26 The Council's corporate governance arrangements are robust and provide a sound basis for continued improvement. There are good relations among political parties, councillors and officers. The Council has worked with partners to address the weaknesses in the local Strategic Partnership identified by Government Office North East.

Data quality

- 27 The approach to the audit of performance information changed significantly in 2005/06 with the introduction of detailed key lines of enquiry for data quality management arrangements.
- 28 Overall we found that the Council had arrangements in place for ensuring data quality and responded positively to the findings of the work by:
- introducing an overall data quality policy;
 - developing subordinate policies to support the overall policy covering financial, human resources, performance and customer data; and
 - preparing a detailed action plan to develop arrangements further in line with the key lines of enquiry.

Service inspections

- 29 We carried out no inspections of the Council's services in 2005/06.

Financial management and value for money

- 30 We have reported separately to the Audit Committee and Council acting as those charged with governance on the issues arising from our 2005/06 audit and have provided:
- an unqualified opinion on your accounts;
 - a conclusion on your vfm arrangements to say that these arrangements are adequate; and
 - a report on the Best Value Performance Plan confirming that the Plan has been audited.
- 31 Audit findings are an important component of the CPA framework described above. In particular the Use of Resources score is derived from audit assessments made in the following areas.
- Financial reporting (including the preparation of the accounts of the Council and the way these are presented to the public).
 - Financial management (including how the financial management is integrated with strategy to support council priorities).
 - Financial standing (including the strength of the Council's financial position).
 - Internal control (including how effectively the Council maintains proper stewardship and control of its finances).
 - Value for money (including an assessment of how well the Council balances the costs and quality of its services).
- 32 For the purposes of the CPA we have assessed the Council's arrangements for use of resources in these five areas as follows.

Table 1

Element	Assessment
Financial reporting	3 out of 4
Financial management	3 out of 4
Financial standing	4 out of 4
Internal control	3 out of 4
Value for money	3 out of 4
Overall assessment of the Audit Commission	3 out of 4

(Note: 1=lowest, 4=highest)

- 33 The key issues arising from the audit, as reflected in the above judgements where appropriate, are as follows.
- The Council continues to perform well, with particular strengths in promoting external accountability through the publication of financial information, ensuring that the medium-term financial strategy, budgets and capital programme are soundly based and in managing spending within budgets.
 - Arrangements in all areas are developing and have become embedded.
 - There was an overall improvement in value for money arrangements with the Council able to demonstrate that relatively high spending is related to key priorities.
- 34 The key actions needed to further strengthen arrangements are as follows.
- Ensure the cash flow statement is reviewed for accuracy and supported by exemplary working papers.
 - Ensure that savings and efficiency gains are separately profiled throughout the year and monitored by members to ensure their achievement.

Local Government Review

- 35 Perhaps one of the most significant issues facing the Council at this point is the potential re-organisation following the Local Government White Paper of last year.
- 36 It is important that the Council continues to review governance arrangements and maintains its momentum in terms of performance management, including complying with the duty of best value to improve services, during this period of uncertainty. Equally it is important that the Council is seen to abide by the requirements of the Code of Practice on Local Authority Publicity throughout the consultation period and thereafter.

Local Area Agreement

- 37 The Council is a member of the Durham Local Area Agreement covering the period 2006/07 to 2008/09.
- 38 Monitoring of expenditure during 2006/07 indicated, even at the six month stage, that there was a strong possibility of a significant underspend. However, by the year end it is envisaged that £5.247m or 95.53 per cent of the total allocation will be spent, with just under 5 per cent of funding being carried forward to the next year. The possibility of an underspend remains an issue for the future as funding allocations increase substantially for 2007/08 to approximately £25m. As a signatory to the LAA, the Council should monitor developments; in particular the risk of any significant underspends given that only a maximum of 5 per cent could be carried forward from 2006/07.

- 39 The Government Office recently carried out a six monthly review of the Durham LAA assessing overall progress as 'amber' and the direction of travel of the agreement as 'green'. The most recent performance report to the LAA board (Programme Report No. 7) refers to work continuing on 'developing a strategic approach to commissioning of funds in 2008/09' and an agreement to take 'an incremental approach to change in the use of LAA pooled funds'.

Conclusion

- 40 This letter has been discussed and agreed with the Chief Executive and Director of Resources. A copy of the letter will be presented at the Audit Committee and Cabinet on 26 April 2007.
- 41 The Council has taken a positive and constructive approach to our audit and inspection I would like to take this opportunity to express my appreciation for the Council's assistance and co-operation.

Availability of this letter

- 42 This letter will be published on the Audit Commission's website at www.audit-commission.gov.uk, and also on the Council's website.

Sarah Diggle

Relationship Manager

Use of Resources

Date

Last saved: 21/03/2007 11:09:00



Use of Resources Auditor Judgements 2006

Sedgefield Borough Council

- Audit Commission descriptor to be inserted by Publishing-

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Introduction

- 1 The annual Use of Resources (UoR) assessment evaluates how well councils manage and use their financial resources. The assessment focuses on the importance of having sound and strategic financial management to ensure that resources are available to support the Council's priorities and improve services, covering five themes.
- 2 This is the second year of carrying out the assessment and our work has focused on building on our previous year's work and updating it for any changes and improvements to the Council's arrangements.
- 3 Judgements are made for each theme on the following scale which has been standardised by the Audit Commission across inspection and performance assessment frameworks.

Table 1 Standard scale used for assessments and inspections

1	Below minimum requirements – inadequate performance
2	Only at minimum requirements – adequate performance
3	Consistently above minimum requirements – performing well
4	Well above minimum requirements – performing strongly

The overall score for Use of Resources assessment was reported to the Council by the Audit Commission on 15 March 2007.

- 4 In forming our assessment, we followed the methodology set out in the Use of Resources Guidance for Councils, 2006 assessment. In particular, in order to support scores of 3 and above, we need to consider whether relevant arrangements are 'embedded' that is, they have been operating consistently with clear outputs and having an impact. For scores of 4 (performing strongly) we are required to consider whether, in addition to meeting the descriptors/criteria, councils can demonstrate innovation or best practice that can be shared with other authorities. The descriptors/criteria at level 4 have been kept to a minimum so as to avoid them becoming unnecessarily prescriptive and limiting.
- 5 In relation to future assessments, as outlined in the CPA framework documents for 2006 for district councils, the status of a number of criteria will change to 'must have status'. For information, these criteria have been summarised at Appendix 1. In order for the Council to sustain or to improve upon its current performance at the next assessment, it will need to take these criteria into consideration.
- 6 The five theme scores for Sedgefield Borough Council are outlined overleaf. This summary sets out our key findings in relation to each theme and key areas for improvement.

Use of resources judgements

Table 2 Summary of scores at theme and KLOE level

Key lines of enquiry (KLOEs)	Score 2006	Score 2005
Financial reporting	3	3
1.1 The Council produces annual accounts in accordance with relevant standards and timetables, supported by comprehensive working papers.	3	3
1.2 The Council promotes external accountability.	4	4
Financial management	3	3
2.1 The Council's medium-term financial strategy, budgets and capital programme are soundly based and designed to deliver its strategic priorities.	4	3
2.2 The Council manages performance against budgets.	3	3
2.3 The Council manages its asset base.	3	3
Financial standing	4	4
3.1 The Council manages its spending within the available resources.	4	4
Internal control	3	3
4.1 The Council manages its significant business risks.	3	3
4.2 The Council has arrangements in place to maintain a sound system of internal control.	3	3
4.3 The Council has arrangements in place that are designed to promote and ensure probity and propriety in the conduct of its business.	3	3
Value for money	3	2
5.1 The Council currently achieves good value for money.	3	2
5.2 The Council manages and improves value for money.	3	3

Theme summaries

- 7 The key findings and conclusions for each of the five themes are summarised in Table 3.

Table 3 Summary of findings and conclusions by theme

Financial reporting	
Theme score 3	
Key findings and conclusions	
<p>Accounts were produced well within deadlines, they presented the Council's financial position fairly and only contained a small number of trivial errors. The accounts were subject to robust member scrutiny and we issued an unqualified opinion.</p> <p>The Council produced summary accounts and an annual report in a format that had been subject to consultation with a range of stakeholders.</p>	
Improvement opportunities	
<p>KLOE 1.1 The Council produces annual accounts in accordance with relevant standards and timetables, supported by comprehensive working papers.</p>	<p>Ensure the cash flow statement is reviewed for accuracy and supported by exemplary working papers.</p>
<p>KLOE 1.2 The Council promotes external accountability.</p>	<p>None</p>

Financial management

Theme score 3

Key findings and conclusions

The Council has taken effective action over the past two years to ensure that its medium-term financial strategy, budgets and capital programme are soundly based and are designed to deliver its strategic priorities. Performance is actively managed against budgets and the Council manages its asset base.

Improvement opportunities

KLOE 2.1 The Council's medium-term financial strategy (MTFS), budgets and capital programme are soundly based and designed to deliver its strategic priorities.

None

KLOE 2.2 The Council manages performance against budgets.

Ensure that savings and efficiency gains are separately profiled throughout the year and monitored by members to ensure their achievement

KLOE 2.3 The Council manages its asset base.

Continue to develop performance measures and benchmarking to describe and evaluate how the Council's asset base contributes to the achievement of corporate and service objectives, including improvement priorities

Develop an approach for the co-ordination of asset management information and its integration with relevant organisational financial information

<h2>Financial standing</h2> <p>Theme score 4</p>	
<p>Key findings and conclusions</p> <p>Financial standing is good, there is a comprehensive medium term financial plan linked to the corporate plan and to the annual budget. Target levels of reserves and balances are set and monitored by Members. Income collection targets are set and monitored by Members. The Council monitors the opportunity costs of maintaining its levels of reserves and balances and compared these to the benefits it accrues.</p>	
<p>Improvement opportunities</p>	
<p>KLOE 3.1 The Council manages its spending within the available resources.</p>	<p>None</p>

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Internal control

Theme score 3

Key findings and conclusions

Risk management arrangements have been enhanced and are now embedded. The Council has included risk management in its corporate planning process and training has been undertaken for all Members but this has not been carried out at regular intervals and is not embedded. Positive risks are not currently considered and this is to be considered for 2006-07.

The Council has a history of strong internal control and established an Audit Committee in June 2006.

Anti fraud and corruption arrangements are well established and the monitoring officer is proactive in his role. Work is currently being carried out to further strengthen the counter fraud culture. Proven cases of fraud and corruption are not publicised to all staff.

Improvement opportunities

KLOE 4.1 The Council manages its significant business risks.

Further refine risk management arrangements to demonstrate that risk management is embedded in corporate business processes
Ensure that risk management training is provided to appropriate Members on an ongoing basis
Consider positive risks (opportunities) as well as negative risks (threats)

KLOE 4.2 The Council has arrangements in place to maintain a sound system of internal control.

Continue to embed and develop the role of the Audit Committee

KLOE 4.3 The Council has arrangements in place that are designed to promote and ensure probity and propriety in the conduct of its business.

Continue to develop the counter fraud culture
Ensure all proven cases of fraud and corruption are publicised to all staff

<h2>Value for money</h2> <p>Theme score 3</p>	
<p>Key findings and conclusions</p> <p>Overall spending in Sedgefield is relatively high in relation to nearest neighbour comparators. However, spending on key services is not significantly higher than other similar authorities after taking into account the geography, deprivation and population factors. The Council places a high priority on economic and community development. This is reflected in comparatively high spend and a considerable amount of partnership working to maximise investment. Corporate and democratic overheads are comparatively high. This is mainly due to the Council placing importance on good and effective support for Members. The Council has two scrutiny support officers who assist members in their research. Scrutiny has a track record of identifying areas of poor performance or high cost and effectively formulating plans for improvement. A recent example is sickness absence.</p> <p>Relatively high spending is generally matched with improvements in performance for key services and higher level of activity and satisfaction. The Council also has a number projects that are externally funded for example NRF and Surestart. This will contribute to a relatively higher spend than some district councils who do not have this funding. Areas of higher spend are in line with the Council's priorities and there is a general trend of improvement in these areas. The Council has invested in adult social care and transport which are not statutory functions but are a high priority. There is a clear understanding that employees are required to identify efficiencies where at all possible. For example the Council has introduced home working in benefits with specific targets of improved performance. Improved performance has been achieved with no additional costs incurred.</p> <p>The Council levers in external funding to match capital spend, for example the Shildon museum. This has also had an impact on increased spend in the locality of £400,000. The council has a programme of capital spend for regeneration in areas identified by area forums. These range from community centres to conservation areas.</p>	
<p>Improvement opportunities</p>	
<p>KLOE 5.1 The Council currently achieves good value for money.</p>	<p>Continue to analyse information on spending and performance and how this compares to others and demonstrate this is used to design further service improvements</p>
<p>KLOE 5.2 The Council manages and improves value for money.</p>	<p>Continue to improve the approach to improving value for money through performance management, service review and revision, procurement and</p>

Value for money

Theme score 3

joint partnering to identify efficiencies that result in improved customer focus, service improvement and savings

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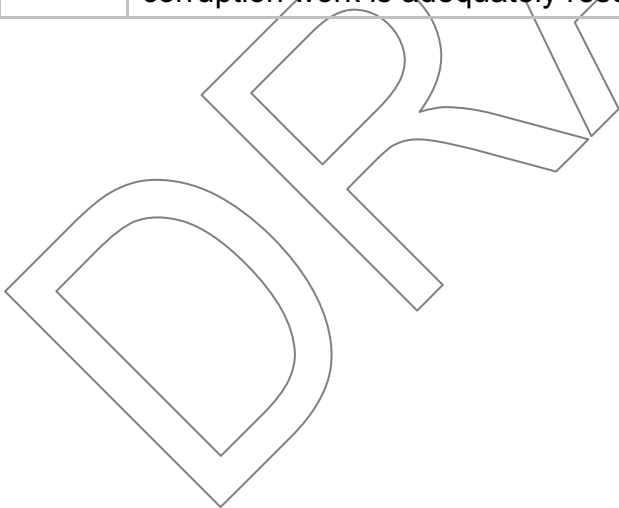
Appendix 1 – Criteria which will gain 'must have' status for the next assessment

New criteria in bold type ('must have') for 2006/07 assessment

- 1 This table summarises criteria that are currently included in the KLOE but are not in bold type and do not have 'must have' status, but which will have such status for the 2006/07 assessment.

KLOE	Summary of criteria
Financial reporting	
1.1	Requests for information from audit are dealt with promptly.
1.2	Summary financial information that meet the needs of a range of stakeholders is published and their views are considered in deciding whether to publish an annual report.
Financial management	
2.1	There are arrangements for monitoring cash flow.
2.1	The medium-term financial strategy is communicated to staff and stakeholders.
2.2	Profiled financial monitoring reports are produced within ten days of the month-end.
2.2	The financial performance of significant partnerships is reviewed.
2.2	There is a training programme in place for members and staff on financial issues.
2.3	A member has been allocated portfolio responsibility for asset management and local performance measures in relation to assets have been developed.

KLOE	Summary of criteria
Financial standing	
3.1	Collection and recovery of material categories of income is monitored.
Internal control	
4.1	Appropriate staff are trained in risk management.
4.2	Criterion in relation to effective arrangements for internal financial control, for example, carrying out regular bank reconciliations and reconciliations of major feeder systems.
4.2	Arrangements for carrying out the functions of an audit committee are effective.
4.2	Standing orders, standing financial instructions and system procedure notes are reviewed and updated as appropriate.
4.2	Criterion at level two in relation to business continuity plans as required by the Civil Contingencies Act (2004).
4.2	Governance arrangements are in place for significant partnerships.
4.3	The Council is proactive in raising standards of ethical conduct among members and staff and can demonstrate that counter fraud and corruption work is adequately resourced.



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23rd APRIL 2007

REPORT OF DIRECTOR OF RESOURCES

Portfolio: STRATEGIC LEADERSHIP

INTERNAL AUDIT PLAN 2007/2008

1. SUMMARY

The Internal Audit Plan for the period 1st April 2007 to 31st March 2008 has been prepared and takes into account the changes affecting the Council's services as well as the wide range of corporate governance issues considered an integral part of any well-run organisation. Consultation with the Internal Audit service customers has taken place and views expressed have been fully considered in the Audit Plan's production.

2. RECOMMENDATIONS

It is recommended that:

- 2.1 The Internal Audit Plan for 2007/2008, as detailed in Appendix 1, be approved.
- 2.2 Half-yearly progress reports are submitted to future meetings of this Committee.
- 2.3 Significant developments associated with the Audit Plan be reported to this Committee as necessary.

3. AUDIT PLAN DETAIL

3.1 **Background**

The production of a comprehensive Audit Plan is an essential requirement for the delivery of an effective Internal Audit service. In addition to the identification of planned areas of audit activity, the Plan provides the structure for the essential performance management work needed to ensure the practical completion of identified projects. The Plan recognises the continuing importance of the developmental areas of corporate governance, including risk management, performance management, Comprehensive Performance Assessment (CPA)/Key Lines of Enquiry (KLOE) and Statement of Internal Control.

The Audit Plan and associated management and monitoring also assists the Audit Commission in forming judgements in relation to their statutory duty to express opinion to the Council on the service provided by Internal Audit.

The Plan has been prepared following an assessment of the staffing resources expected to be available during the year. At the present time efforts are being made to appoint a Principal Auditor to fill the current vacancy (a progress report will be given verbally at the meeting). For planning purposes the availability of the equivalent of 5.5 persons for 2007/08 has been assumed, of which the equivalent of 4.7 persons is available to deliver the work detailed in the Audit Plan.

3.2 **Audit Plan 2007/08**

The proposed Internal Audit Plan for the year is attached at Appendix 1 and shows a total of 911 days, compared with the approved Plan for 2006/07 of 915 days. The content of the Plan reflects a wide range of Council activities and has been developed following consultation across all departments to ensure that changing priorities and pressures have been recognised. The maintenance of a proper control environment is fundamental to delivery of services and must be the main focus of internal audit activity.

3.3 **Corporate Governance**

The increasing emphasis in recent years on corporate governance continues to be a dominant feature affecting all large organisations. Subjects such as performance management, risk management, procedural frameworks, internal control and financial management continue as essential features of the Audit Plan.

The development of procedures associated with the Statement of Internal Control (SIC), continue to impact and this is likely to prevail during 2007/2008. The comprehensive compliance on SIC issues will enhance the Council's overall governance framework and complement the audit activity.

The continuing development of risk management will be a strong focus of audit activity during 2007/2008, with the identification of the key strategic risks currently being progressed. The governance of the Council's key partnerships is likely to be a key risk and the Audit Plan includes review work in this area.

4. **RESOURCE IMPLICATIONS**

- 4.1 Whilst this report has no direct implications for resources, the Plan work undertaken could highlight issues requiring action, resulting in additional costs or savings being made.

5. **CONSULTATION**

- 5.1 The Audit Plan has been prepared following consultation with all departments, and recognises Audit Commission requirements detailed in the Internal Audit Protocol guidance, Inspection Plan and revised Code of Audit Practice.

6. **OTHER MATERIAL CONSIDERATIONS**

6.1 **Links to Corporate Objectives/Values**

The audit activity effectively supports all services in the delivery of the Council's priorities, together with a reinforcement of the need for accountability for public finances.

6.2 **Risk Management**

Much of the work undertaken by Internal Audit relates to minimising the risk to the Council of major system problems and failure of the internal control arrangements. Activity is directed towards providing assurances on the control environment, thereby highlighting any risk issues capable of causing damage to the Council.

Audit efforts to embed good risk management practices around the Council also form a significant element of the Audit Plan. Of course, the full co-operation of management across the Council is essential to the maintenance of quality corporate governance, including risk management.

6.3 **Health and Safety**

No additional implications have been identified, beyond those contained within the Risk Management development work around the Council.

6.4 **Equality and Diversity**

No material considerations have been identified.

6.5 **Legal and Constitutional**

The Audit Plan recognises the statutory framework associated with services and the corporate governance framework, as well as the Council's constitutional arrangements. No other legal or constitutional implications have been identified.

6.6 **Other Material Considerations**

No other material considerations have been identified.

7. **OVERVIEW AND SCRUTINY IMPLICATIONS**

- 7.1 Following the establishment of the Audit Committee in 2006/2007, the role of overseeing the Internal Audit activity transferred away from Overview and Scrutiny. Half-yearly progress reports will be presented to this Committee during 2007/2008 and these will detail the work undertaken as well as any significant issues highlighted in the course of this audit work.

8. **LIST OF APPENDICES**

- 8.1 Audit Plan Man Days 2007/2008.

Contact Officer: Dennis McKinnell
Telephone No.: 01388-816166 ext. 4245
E-Mail Address: dmckinnell@sedgefield.gov.uk
Ward(s): Not Ward specific.

Background Papers: Scrutiny Committee 1 – 28th March 2006
- Internal Audit Plan 2006/2007
Audit Committee – 30th October 2006
- Internal Audit Plan 2006/2007 – Half-Year Report

Examination by Statutory Officers:

	Yes	Not Applicable
1. The report has been examined by the Council's Head of the Paid Service or his representative.	<input type="checkbox"/>	<input type="checkbox"/>
2. The content has been examined by the Council's S.151 Officer or his representative.	<input checked="" type="checkbox"/>	<input type="checkbox"/>
3. The content has been examined by the Council's Monitoring Officer or his representative.	<input type="checkbox"/>	<input type="checkbox"/>
4. Management Team has approved the report.	<input type="checkbox"/>	<input type="checkbox"/>

SEDGEFIELD BOROUGH COUNCIL

INTERNAL AUDIT PLAN

2007/08

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AUDIT PLAN 2007/08

<u>LEISURE SERVICES</u>	AUDIT MANDAYS 2007/08
<u>Leisure Centres & Pools</u>	
Ferryhill Leisure Centre	6
Newton Aycliffe Leisure Centre	6
Spennymoor Leisure Centre	6
Shildon Sunnydale Leisure Centre	6
Fishburn Swimming Pool	4
Fitness Suites	3
Bars & Catering	<u>5</u>
	<u>36</u>
<u>Other Leisure Activities</u>	
Arts Development & Leisure Events	3
Cyber Cafes	4
Depot Catering	4
Gaming Contracts	3
Grants and Interest Free Loans	1
Green Lane Catering	4
Leisure Partnerships	2
Locomotion	4
Mobile Skate Park	1
Playleadership Schemes	3
Private/Public Sector Project Funding	2
Torex System	<u>3</u>
	<u>34</u>
<u>TOTAL</u>	<u>70</u>

AUDIT PLAN 2007/08

<u>NEIGHBOURHOOD SERVICES</u>	AUDIT MANDAYS 2007/08
<u>Regularity & Systems Audits</u>	
Building Control Trading Account	2
Building Regulations & Planning Fees	5
Carelink	7
Carelink Club Bus	1
CCTV	2
Community Telemedicine	1
Concessionary Fares	3
Concessionary TV Licences	5
Drain Rodding	3
Fleet Management System	3
Home Improvement Agency	5
Homelessness	4
Horticulture	2
Licensing	7
Neighbourhood Wardens	5
Outdoor Markets	3
Shop Improvement Grants	3
Supporting People Programme	7
Trade Refuse Charges	4
Vehicle Maintenance Operation	7
<u>TOTAL</u>	<u>79</u>

AUDIT PLAN 2007/08

<u>HOUSING SERVICES</u>	AUDIT MANDAYS 2007/08
<u>Property Services</u>	
Central Heating Contract	3
Central & Fuel Stores, Maintenance Vans	11
Contract Management & Monitoring	6
Contractors' Final Accounts	20
Disabled Persons' Adaptations	4
Fire & Security Alarms Contract	2
Housing Maintenance System	<u>3</u>
	49
<u>Management & Rents</u>	
Disturbance & Redecoration Allowances	3
Housing Management	10
Portable Data Capture System	4
Rent Accounting	5
Rent Arrears Management	5
Rent Arrears Monitoring	5
Rent Debit Reconciliation	<u>2</u>
	34
<u>Other</u>	
Rechargeable Works	5
Service Improvement Plan	<u>4</u>
	9
<u>TOTAL</u>	<u>92</u>

AUDIT PLAN 2007/08

<u>CHIEF EXECUTIVE OFFICER</u>	AUDIT MANDAYS 2007/08
<u>Regularity & Systems Audits</u>	
Human Resources System	5
Civic Car	2
Employment Training	12
Land Charges	<u>5</u>
	<u>24</u>
<u>Economic Development</u>	
Business Centres	6
Industrial Estates	4
Industrial Promotions	2
Regeneration Initiatives	5
Incentives Programmes	<u>5</u>
	<u>22</u>
<u>TOTAL</u>	<u>46</u>

AUDIT PLAN 2007/08

<u>RESOURCES DEPARTMENT</u>	AUDIT MANDAYS 2007/08
<u>Income Audits</u>	
Bank Reconciliations	5
Collection Section	10
Rent Interfaces Reconciliation	2
Emergency Receipts & Receipt Books	3
<u>Cash Offices</u>	
- Green Lane	4
- Ferryhill	4
- Newton Aycliffe	4
- Shildon	4
Postal Remittances	4
Recurring Receipts	3
	<u>43</u>
<u>General Audits</u>	
Car Allowances	3
Car Leasing and Loans	1
Charges for Services	3
Cheque Production Controls	12
Council House Sales & Mortgages	4
Emergency Cheques	2
Financial Checks	16
Imprests & Floats Systems	2
Inventories	1
Members Expenses	2
Petty Cash	1
Rent and Other Refunds	4
Rent Uprate Tests	2
Use of the Bailiff	3
VAT Return	3
	<u>59</u>
<u>Sub Total</u>	<u>102</u>

AUDIT PLAN 2007/08

<u>RESOURCES DEPARTMENT</u>	AUDIT MANDAYS 2007/08
<u>Systems Audits</u>	
<u>Capital Accounting</u>	
Capital Receipts, Asset Register	<u>5</u>
<u>Council Tax</u>	
Valuation, Liability, Recovery	<u>15</u>
<u>Non - Domestic Rates</u>	
Valuation, Liability & Recovery	<u>14</u>
<u>Information Technology</u>	
Environmental Controls	<u>5</u>
ICT Application Controls	<u>5</u>
ICT Procurement & Maintenance	<u>5</u>
ICT Strategy & Policies	<u>5</u>
Telecommunications	<u>5</u>
	<u>25</u>
<u>Treasury Management</u>	
Loans, Cash Flow, Financial Director	<u>10</u>
<u>Sub Total</u>	<u>69</u>

AUDIT PLAN 2007/08

<u>RESOURCES DEPARTMENT</u>	AUDIT MANDAYS 2007/08
<u>Systems Audits (contd)</u>	
<u>Accounts Payable</u>	
Risk Assessment	1
System Review and Tests	7
Paysheet & IDEA Tests	7
Duplicate Payments & Queries	<u>3</u>
	18
<u>Accounts Receivable</u>	
Risk Assessment	1
System Review and Tests	7
Arrears Monitoring	<u>4</u>
	12
<u>Payroll</u>	
Risk Assessment	1
System Review and Tests	<u>20</u>
	21
<u>Housing Benefits</u>	
Risk Assessment	2
System Review	10
Rent & Council Tax Rebates & Allowances	38
Performance Review	<u>5</u>
	55
<u>Other</u>	
Insurances	3
Parish Recharges	<u>3</u>
	6
<u>Sub Total</u>	112
<u>TOTAL</u>	283

AUDIT PLAN 2007/08

<u>CORPORATE STUDIES & PROJECTS</u>	AUDIT MANDAYS 2007/08
<u>Corporate Work</u>	
Comprehensive Performance Assessment/KLOE	5
Contract Procedure Rules	5
Corporate Governance	10
Energy Management	20
Freedom of Information & Data Protection Acts	2
NFI Data Matching Exercise	10
Performance Indicators Compliance Reviews	5
Performance Management	15
Procurement Compliance	3
Risk Management	50
Risk Register	5
Special Investigations	4
Statement of Internal Control	10
Partnership Governance	5
<u>TOTAL</u>	<u>149</u>

AUDIT PLAN 2007/08

<u>AUDIT POLICY & MANAGEMENT & CONTINGENCY DAYS</u>	AUDIT MANDAYS 2007/08
<u>Chargeable Management</u>	
Audit Planning and Administration	40
Audit Management & Supervision	12
District Audit Liaison	5
All Departments Miscellaneous	5
Development & Awareness	40
Audit Risk Analysis	<u>2</u>
	<u>104</u>
<u>Non - Chargeable Management</u>	
Audit Manual Update	1
CFO Audit Sub-Group	8
CFO Risk Management Sub-Group	2
External Training Courses & Seminars	7
Internal Training Courses & Seminars	5
Section & Other Staff Meetings	25
Time Management System	<u>20</u>
	<u>68</u>
<u>Sub Total Management</u>	<u>172</u>
<u>Contingency Audit Days</u>	
Contingency Days	<u>20</u>
<u>TOTAL</u>	<u>192</u>

AUDIT PLAN 2007/08

<u>AUDIT MANDAYS TOTAL</u>	AUDIT MANDAYS 2007/08
<u>Departments & Other Areas</u>	
LEISURE SERVICES	70
NEIGHBOURHOOD SERVICES	79
HOUSING SERVICES	92
CHIEF EXECUTIVE OFFICER	46
RESOURCES DEPARTMENT	283
CORPORATE STUDIES & PROJECTS	149
AUDIT POLICY & MANAGEMENT	172
CONTINGENCY DAYS	<u>20</u>
<u>TOTAL</u>	<u>911</u>

23 APRIL 2007

REPORT OF THE DIRECTOR OF RESOURCES

Portfolio: **STRATEGIC LEADERSHIP**

COLLECTION AND RECOVERY OF COUNCIL TAX

1. SUMMARY

- 1.1 At the meeting of the Audit Committee on 30 October 2006, it was requested that a report be submitted to a future meeting of this Committee to inform members of the Council Tax collection and recovery procedures used by the Council.
- 1.2 This report provides the information requested by the Committee and considers options available to improve cash flow.

2. RECOMMENDATION

- 2.1 That the information be received.

3. PERFORMANCE MEASURES

- 3.1 There is one Key Best Value Performance Indicator (BVPI) in relation to this service. BVPI 009 "Proportion of Council Tax collected in year" is a measure of performance that the Audit Commission regularly reviews.
- 3.2 Since the introduction of the Key BVPIs in 2002/03 the Council's performance in respect of this Indicator had improved year on year until 2006/07 as shown below:

Year	%
2002/03	94.6
2003/04	94.9
2004/05	95.3
2005/06	95.4
2006/07	95.0

- 3.3 Although this is a bottom quartile level of performance, the Council has taken a view over the years that there was no benefit in increasing the resources within the Council Tax Service to improve the in-year collection rate as it had been calculated that the additional staffing costs would exceed the extra investment income received as a result of any improved cash flow.

- 3.4 The table below confirms that the Council is very effective in collecting Council Tax “over time”.

Year	Total due	Total paid	%age collected	%age written off
	£000	£000		
1993/94	10,435	10,382	99.5	0.5
1994/95	11,850	11,800	99.6	0.4
1995/96	13,018	12,986	99.6	0.4
1996/97	13,890	13,832	99.6	0.4
1997/98	16,090	16,023	99.6	0.3
1998/99	18,137	18,052	99.5	0.3
1999/00	19,073	18,963	99.4	0.3
2000/01	20,206	20,064	99.3	0.2
2001/02	21,309	21,124	99.1	0.2
2002/03	24,383	24,151	99.1	0.1
2003/04	26,604	26,298	98.9	0.1
2004/05	28,416	28,008	98.6	0.05
2005/06	29,563	28,957	98.0	0.04
2006/07	31,079	28,536	95.0	0.03

- 3.5 The following table shows the volumes of bills and recovery notices sent out during the 2006/07. It should be noted bills include balances for previous years but separate recovery notices are issued for each year of debt. Consequently, many more notices are sent than those shown.

Council Tax recovery notices issued during 2006/07 in respect of the 2006/07 financial year

Bills	119,501
Reminders	10,952
Second Reminders	1,868
Final Notices	6,723
Summonses	3,864
Liability Orders	3,182
Further warning letters	3,889

- 3.6 As pointed out in 3.3 above, the Council has in the past determined that the cost of additional staff would be greater than the cost benefit of improved cash flow. However, the amount due for 2007/08 of £33M is going to be approx. 200% more than 1993/94 when council tax was first introduced, there may now be a case to review the level of staffing to improve cash flow. Furthermore, the Council’s Use of Resources Assessment could be compromised if nothing is done to address the ongoing bottom quartile performance. Options to improve cash flow that are available to the Council are set out in paragraph 5 below.

4. RECOVERY PROCEDURES

4.1 The recovery of council tax is set out in the Local Government Act 1992 and pursuant regulations. The Council must follow each of the procedures set out below to obtain a liability order. The liability order gives the Council a range of further recovery powers.

4.2 At **ALL** stages, arrangements to clear the debt will be considered and agreed with the debtor instead of proceeding to the next stage. In some cases, arrangements will be made as well as proceeding to the next stage. This is to protect the Council's interests where it is considered that there is a risk of further non-payment.

Bill	A bill sets out the dates and amounts of instalments.
First Reminder	A reminder is issued where one or more instalments is overdue.
Second Reminder	A second reminder is issued where the instalments were brought up to date but further instalments have subsequently become overdue.
Final Notice	A final notice cancels the right to statutory instalments for the year and requires the full amount to be paid where instalments have not been brought up to date despite the issue of a first or second reminder.
Summons	The Council requests Sedgefield Magistrates to issue a summons where the full amount remains unpaid. At this stage court costs of £47 are incurred.
Liability Order	The Council requests Sedgefield Magistrates to grant a liability order.
Further warning letter	This letter advises the debtor that the Magistrates have issued a liability order and what action can be taken by the Council if the debt remains unpaid. It also requests details of the debtor's employment or other income.

4.3 The liability order gives the Council the following powers to recover the amount outstanding:

- To serve an Attachment of Earnings Order on the debtor's employer. The weekly/monthly amount deducted is determined by the level of wages/salary in accordance with legislation and can include an administrative charge for the employer.
- To request the Department for Work and Pensions to make deductions of £2.95 per week from a claimant's income support or jobseekers allowance.

- To instruct a bailiff to recover the amount due. The debtor also has to pay the bailiff's costs of £24.50 for the first visit and £18.00 for the second visit. Further costs of up to £160 can be incurred where attendance is made to remove goods.
 - To make a charging order on the property so that when it is sold, the debt is paid from the equity. The total of debt(s) has to be over £1,000.
 - To take committal proceedings where all other avenues of recovery have been exhausted. Further costs are payable by the debtor.
- 4.4 Attachment of Earnings Orders are made wherever possible because this is the quickest means of recovery. 396 Orders were made during 2006/07 in respect of 2006/07 debts. However, there may be other orders already in place that prevent the Council's from being implemented. Also, not everyone responds to the further warning letter.
- 4.5 Council tax records show those debtors who are in receipt of income support or jobseekers allowance and deductions are set up in these cases. During 2006/07, deductions were set up for 78 cases in respect of 2006/07 debts.
- 4.6 Cases are referred to the bailiff only where arrangements are not adhered to and other means of recovery cannot be followed.
- 4.7 The Council has not yet been in a position to make a charging order on a property. It is envisaged that this would only happen, for example, in the case of an elderly person with little means of paying immediately.
- 4.8 The final stage of recovery is committal to prison which is very labour-intensive in the time needed to prepare each case with evidence and in attendance at Court. It is therefore an expensive means of recovery. It is a last resort and a balance has to be struck between recovering the amount due and the cost of recovering it. In recent years, the Magistrates have been extremely reluctant to imprison someone for council tax debt and instead, they are likely to order a weekly/monthly payment and adjourn the case. These cases have to be monitored by the Council and brought back the Court where the debtor defaults, increasing our costs. Because of this, no new cases for committal have been taken recently but debtors are reminded of the possibility of committal proceedings to encourage payment.
- 4.9 Bankruptcy proceedings have been considered but this is now thought to have little impact in encouraging payment. Increasingly, debtors see bankruptcy as a means of ridding themselves of debts. Indeed, insolvency is advertised on television as a means of such.
- 4.10 In 2005, a contract was agreed with Experian, a credit reference agency that enables officers to search their records and, in some cases, identify a debtor's employer and/or to trace them to a new address. This enables us to follow other preferred means of recovery.

5. IMPROVING CASH FLOW

- 5.1 The Council has a duty to maximise collection and cash flow and the Government has determined that all District Councils should achieve 98.3% in-year collection. The table at 3.2 above indicates that the Council is unlikely to achieve this target with the present resources.
- 5.2 Direct debit is the most cost-effective means of collecting monies due to the Council and mail shots over the years have increased take-up. Since 1993, tax payers paying by direct debit have been allowed to pay from May to February each financial year. Since April 2006, new taxpayers are required to pay from April to January but they are offered a choice of three payment dates – 1st, 11th or 21st. Cash flow could be improved by moving all direct debit payments to April. This would be unpopular with the existing direct debit payers who currently pay from May and they would have to be given adequate notice together with the reasons why the change is necessary. However, it would yield an improved cash flow.
- 5.3 The collection rate could also be improved by issuing reminders, etc earlier in the year. This would require additional resources but it is considered that if we were able to increase the collection rate by 1%, we would bring in an additional £330k in-year. If we were able to achieve the Governments target of 98.3% in-year i.e. 3% higher than at present, that could improve the in-year cash flow by an additional £1m. In terms of additional investment income, that could produce up to an extra £60k of cashable savings that could be ploughed back into the service as well as providing other non cashable savings and there would be less old debt to pursue in subsequent years. The additional resource could also provide for further savings by allowing visits to be made, particularly to cases that are repeatedly referred to the bailiff. Such visits could reduce the number of cases referred to bailiff and thereby reduce fees payable by the Council. Visits would also allow us to establish if the debtor was entitled to any reductions or benefit for which they had not applied and also secure information to set up attachments of earnings.

6. RESOURCE IMPLICATIONS

- 6.1 As mentioned in paragraph 3.3 above the Council has in the past considered the financial implications of improving the in-year collection rate but concluded that it was not cost-effective to do so. The Council has always had a very low cost of collection in comparison to other local authorities but this is no longer a Performance Indicator and comparisons are not now available.
- 6.2 The Council Tax Section achieved its best ever collection rate of 95.4% in 2005/06. However, this was only sufficient to rank Sedgfield ninth worst in comparison with all Districts in the country. The table below compares the collection rates for Co Durham Districts in 2005/06.

Chester-le-Street	97.69%
Derwentside	98.30%
Durham City	97.65%
Easington	96.26%
Sedgefield	95.40%
Teesdale	98.72%
Wear Valley	99.09%

- 6.3 There were significant staffing problems in the Council Tax Section during 2006/07 and the collection rate worsened to 95.0%. In view of the above and the Government's expectation of Districts achieving an in-year collection rate of 98.3%, it may now be timely to give consideration to options to improve the present in-year collection rate and to the possible use of any additional investment income to further improve the performance of the Council Tax Service which would underpin the Use of Resources Assessment.

7. CONSULTATION

- 7.1 No consultations have been undertaken with regard to the production of this report

OTHER MATERIAL CONSIDERATIONS

8. LINKS TO CORPORATE OBJECTIVES/VALUES

- 8.1 The arrangements made to collect and recover Council Tax meet the Council's Corporate Values of
- Being responsible with and accountable for public finances

9. RISK MANAGEMENT

- 9.1 If the Council did not have effective arrangements in place to collect and recover Council Tax, there would be a risk that good payers might be discouraged from paying if they considered that the Council was not taking appropriate action to collect the Tax from those payers who are reluctant to pay. The Council's Use of Resources Assessment could be adversely affected by the Audit Commission if action is not taken to improve the present bottom quartile level of performance.

10. HEALTH AND SAFETY

- 10.1 There are no health and safety issues arising from this report

11. EQUALITY AND DIVERSITY

- 11.1 There are no equality and diversity issues arising from this report.

12. LEGAL AND CONSTITUTIONAL

- 12.1 The Council is the responsible authority to collect and recover Council Tax and appropriate arrangements have been made within the Constitution to undertake these responsibilities.

13. CRIME AND DISORDER

- 13.1 There are no crime and disorder issues arising from this report

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Ward(s): Not Ward Specific

Key Decision Validation: Not a key decision

Background Papers: None

Appendices None

Examination by Statutory Officers:

	Yes	Not Applicable
1. The report has been examined by the Council's Head of the Paid Service or his representative.	<input type="checkbox"/>	<input checked="" type="checkbox"/>
2. The content has been examined by the Council's S.151 Officer or his representative.	<input checked="" type="checkbox"/>	<input type="checkbox"/>
3. The content has been examined by the Council's Monitoring Officer or his representative.	<input type="checkbox"/>	<input checked="" type="checkbox"/>
4. Management Team has approved the report.	<input type="checkbox"/>	<input checked="" type="checkbox"/>

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Item 8

AUDIT COMMITTEE

23 APRIL 2007

REPORT OF THE DIRECTOR OF RESOURCES

PORTFOLIO: PROSPEROUS BOROUGH

ANNUAL BENEFIT FRAUD REPORT-2006/07 FINANCIAL YEAR

1. SUMMARY

- 1.1 The purpose of the Report is to review the results of investigating allegations of Housing and Council Tax benefit fraud during the 2006/07 Financial Year.

2. RECOMMENDATION

- 2.1 To note the progress in investigating alleged benefit fraud during the 2006/07 financial year.

3. BACKGROUND

- 3.1 Sedgefield Borough Council is committed to preventing and detecting fraud. The Council recognises that benefit fraud in particular is difficult to prevent and subsequently detect, without the assistance of the public and data matching with other agencies.
- 3.2 A reduction in the level of fraud remains one of the Benefits Section key priorities.
- 3.3 A dedicated Benefit Fraud Team form an important part of the Council's Benefit Services consisting of the following Officers:
- Senior Benefits Officer (Fraud and Investigations)
Investigations Officers (2)
Clerical Assistant
- 3.4 In addition to the Dedicated Fraud Team , the Senior Benefits Officer (Fraud and Investigations) is also responsible for 2 Interventions Officers who review benefit claims during the year and undertake home visits and postal checks. From April 2007 they will also be working towards assisting the Section to achieve the Governments new target for the Council to reduce the amount of fraud and error in benefit claims. The target set for this Council is to find reductions in benefits from 6880 claims within the present caseload of approximately 11,500 claimants.
- 3.5 A Benefit Anti-Fraud Policy has been introduced to ensure a consistent and rigorous approach is followed to prevent and detect fraud.

- 3.6 As well as ensuring that arrangements are made to ensure that the overpayments will be recovered, the Policy states that specific outcomes, known as sanctions, can be imposed on claimants who have submitted fraudulent benefit claims.
- 3.7 There are a number of different sanctions available to the Council following a successful investigation namely :-
- Prosecution
 - Issue of a formal caution
 - Issue of an administration penalty (fine)

4. OUTCOME OF INVESTIGATIONS

- 4.1 During the 2006/07 financial year, the Investigations Team received 780 cases of suspected fraud following anonymous letters and telephone calls from the public, mainly using the Benefits Fraud Hot Line (0800 783 0050), tip offs from other Departments and data matching information from other agencies. The Team were able to investigate a total of 607 cases, including 226 received from the Housing Benefit Matching Service.
- 4.2 In respect of 420 of the cases investigated, sufficient evidence was obtained to confirm that a total value of £399,689 fraudulent overpayments had been made of which only £34,273 (8.6%) remains to be paid.
- 4.3 These investigations have resulted in the issue of 46 sanctions being issued in accordance with the Council's Sanctions Policy, including 10 prosecutions, 21 cautions and 15 administration penalties details of which are as follows.

Prosecutions

During the year 10 claimants were successfully prosecuted for having made fraudulent claims totalling of £24,799. The Court sentences included fines of up to £200 (2 cases), community orders of up to 12 months (3 cases, including 1 who was ordered to undertake 100 community hours) and in 5 cases, conditional discharges of up to 24 months were imposed.

The overpayments are being recovered, usually on a weekly basis or from a reduction to an ongoing benefit entitlement. One offender did make a repayment of £2,896 in full.

Cautions

21 Cautions were issued in accordance with the Council's Sanctions Policy in respect of £15,006 fraudulent claims.

Administrative Penalties

15 Administrative Penalties were issued in accordance with the Council's Sanction Policy in respect of £13,496 fraudulent claims. The total value of the Penalties imposed amounted to £4,049 i.e. 30% of the value of the fraudulent overpayment.

- 4.4 The types of fraud committed included
- undeclared tax credits, work, income or capital,
 - claiming income support or job seekers allowance when working,
 - couples living together but claiming to be in a single person household and
 - "non residency's" where people claim to be living in a property but live elsewhere

- 4.5 Joint working with the Department for Work and Pensions (DWP) is still ongoing and has been working well throughout the year with 2 successful prosecutions undertaken on our behalf by the DWP solicitors and 3 Joint Cautions and 1 Administrative Penalty issued. These figures are included in paragraph 4.3 above.
- 4.6 During the year there were 4 directed surveillance activities undertaken by the Fraud Team as part of our joint working arrangements with the DWP. These were carried out in accordance with the Regulation of Investigatory Powers Act 2000 (RIPA) regulations. Of these cases, one led to sufficient evidence been gathered to allow the potential fraudulent claimant to be formally interviewed by Fraud Team. As a result the claimants benefits have been withdrawn and a Caution is going to be offered in accordance with the Council's Sanctions Policy.
- 4.7 The bi annual data matching exercise undertaken by the Audit Commission, the NFI (National Fraud Initiative) commenced in January 2007. This involves information being sent to local authorities to highlight possible discrepancies in benefit claims. All of the cases referred to the Council have been looked at and 14 cases are currently being investigated.

5. RESOURCE IMPLICATIONS

- 5.1 It is estimated that the Council granted approximately £31m housing benefits during the 2006/07 financial year and will be able to claim all of that sum from the DWP.
- 5.2 Unfortunately local authorities no longer receive any financial incentives from the DWP to detect fraud. The rewards for issuing sanctions had previously been used to generally support the benefit service and the reduction in income from the DWP was taken into account in the setting of the budget for the 2006/07 financial year. Every effort will continue to be made to prevent and detect fraud despite the withdrawal of the incentives
- 5.3 The amount of benefit fraud identified during the financial year represents less than 1.3% of the total value of benefits granted during that period.
- 5.4 The total direct cost to the Council of providing the Fraud Team during 2006/07 was £95,886, excluding the costs of the Interventions Officers, supervision, support service costs, office accommodation etc.

As the Government provides a formula-based Administration Grant to the Council to meet the costs of providing a local Benefit Service within its area which must include the provision of a fraud prevention and detection activity, there is no cost falling on the Borough Council for this service. It is for the Council to determine the appropriate staffing resources to be allocated to either the processing of claims (for which national performance standards and targets are set and measured) and/or to deal with the prevention and detection of fraud. The Government does suggest that, as a guide, that they expect local authorities to direct around a third of their total allocation to the "security of benefits" through effective reviews, visits and counter-fraud investigations.

The total Administration Grant received from the Government during 2006/07 was £1,035,468.

6. CONSULTATION

- 6.1 The Council is regularly in discussions with other agencies and other local authorities to consider best practice in the prevention and detection of fraud.

OTHER MATERIAL CONSIDERATIONS

7. LINKS TO CORPORATE OBJECTIVES/VALUES

- 7.1 The prevention and detection of housing benefit fraud meets the Council's Corporate Values of
- Being responsible with and accountable for public finances
 - Taking into account crime

8. RISK MANAGEMENT

- 8.1 It is important that adequate and suitable arrangements are made to prevent the risk of fraudulent claims being made against the Council.

9. HEALTH AND SAFETY

- 9.1 Arrangements are made to minimise the risk to the health and safety of Officers when carrying out their investigations.

10. EQUALITY AND DIVERSITY

- 10.1 The present Policy is under review following the introduction of new legislation to prevent age discrimination

11. LEGAL AND CONSTITUTIONAL

- 11.1 There are no new Legal or Constitutional issues arising from this report.

12. CRIME AND DISORDER

- 12.1 It is important that the Council makes reasonable arrangements to detect and prevent fraudulent Benefit claims being made.

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Ward(s): Not Ward Specific

Key Decision Validation: Not a key decision

Background Papers: None

Appendices None

Examination by Statutory Officers:

	Yes	Not Applicable
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