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Steve Atkinson MA(Oxon) MBA FIoD FRSA
Chief Executive

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Hinckley & Bosworth
Borough Council

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To: **Members of the Finance, Audit & Performance Committee**

Mr PAS Hall (Chairman)
Miss DM Taylor (Vice-Chairman)
Mr JG Bannister
Mrs R Camamile

Mr R Mayne
Mr JS Moore
Mr K Morrell

Copy to all other Members of the Council

(other recipients for information)

Dear Councillor,

There will be a meeting of the **FINANCE, AUDIT & PERFORMANCE COMMITTEE** in the Committee Room 2 on **MONDAY, 4 MARCH 2013 at 6.30 pm** and your attendance is required.

The agenda for the meeting is set out overleaf.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Denise Bonser'.

Denise Bonser
Democratic Services Officer

A G E N D A

11. HOUSING REPAIRS REVIEW (Pages 1 - 12)

Report to follow.

FINANCE, AUDIT & PERFORMANCE COMMITTEE

REPORT OF DEPUTY CHIEF EXECUTIVE (CORPORATE DIRECTION)

RE: HOUSING REPAIRS REVIEW

1 PURPOSE OF REPORT

To provide members with an update on the recent reviews completed of the Housing Repairs Service and to present an Action Plan produced in response to the findings of the reviews.

2 RECOMMENDATIONS

That members:

- Note the findings of the Reviews
- Note and endorse the Action Plan

3 BACKGROUND TO THE REPORT

3.1 During 2013/14, it was noted by the Finance Team that the budgets for both programmed and responsive repairs were considerably under-spent. The under spend position for both headings is mapped below:

	Programmed	Responsive
	£	£
Jun-12	62,847	214,990
Jul-12	82,869	248,801
Aug-12	157,524	278,910
Sep-12	272,322	353,556
Oct-12	179,361	280,093

3.2 Following preliminary investigation, it was established that the main reason for this under spend was actually backlog of “work in progress” held within Orchard (Housing Repairs System). This relates to jobs that are in the various stages of completion and have yet to be closed off for payment on Civica (Financial Management System).

3.3 To understand the reasons for the backlog, Internal Audit (IA) were asked to complete a specific review based on sample testing of the backlog, plus a sample of paid contractor invoices. This was also to identify any potential control weaknesses.

- 3.4 From the IA Review, there were a number of key findings which included those shown below. Each point includes specific reference numbers which relate to the corresponding points within the attached Action Plan.
- 88% of transactions from the sample tested had exceptions to note. (AP 1, 4, 5).
 - Authorisation of jobs (in Orchard) is not subject to the same controls as within Civica and is therefore not always in accordance with Financial Procedures. (AP5)
 - A significant number of variations to work are being issued after work is actually complete (AP5, 12).
 - There is insufficient evidence of work and costs being agreed with external contractors in advance of the work being instructed. (AP6, 8).
 - In nearly 50% of the transactions tested, the jobs appeared to have been long standing and either completed and should have been invoiced, had not been completed and needed investigation or where no longer required. (AP1, 3)
- 3.5 Clearly, the Internal Audit Review demonstrated weaknesses in the application of the control systems that were in place.
- 3.6 In addition, a neighbouring Local Authority was requested to support the review process by completing a high level Peer Assessment of the Service. This independent review was undertaken by North West Leicestershire District Council (NWLDC) and the final report was completed by mid February which included a number of findings and recommendations.
- 3.7 In addition to reinforcing key findings from the IA Review, key findings from the peer review included the following:
- There is a lack of clarity about key roles and separation of responsibilities within the structure which can lead to a lack of ownership of issues. (AP7,10).
 - Not all of the skills required to effectively run the new in-house service were transferred over from the former arrangements with Wilmott Dixon. This has left gaps in the skills and experience base from the very beginning of the new arrangements which need to be addressed. (AP 7, 10, 13, 14).
 - No effective target setting or performance monitoring could be evidenced within the service. (AP 11).
- 3.8 In response to both independent reviews and a further internal financial review by the Head of Finance, an Action Plan has been developed to address the issues identified. This Plan is attached as Appendix 1. Delivery against this Plan will be closely monitored by senior management.
- 3.9 As work continues to deliver this Plan, it is likely that it will be amended to reflect new issues or requirements that are identified. Any significant variations to the Plan will be reported back to members.

4 FINANCIAL IMPLICATIONS (KB)

The level of Work in Progress (WIP) held on the Orchard system and the associated impact on the performance on the in house “trading account” has been reforecast on a periodic basis following the identification of the back log. It is expected that as a result of the delay in posting costs to the financial ledger, there may be an overspend on the housing repairs revenue and capital account at year end. The level of this overspend is difficult to ascertain and therefore an approach to charging the costs in year is being discussed with the Council’s External Auditors. Once concluded, a revised position will be communicated to this committee.

5 LEGAL IMPLICATIONS (AB)

None raised directly by this report.

6 CORPORATE PLAN IMPLICATIONS

The Housing Repairs Service significantly contributes to the delivery of “Decent, Well Managed and Affordable Housing”

7 RISK IMPLICATIONS

It is the Council’s policy to proactively identify and manage significant risks which may prevent delivery of business objectives.

It is not possible to eliminate or manage all risks all of the time and risks will remain which have not been identified. However, it is the officer’s opinion based on the information available, that the significant risks associated with this decision/project have been identified, assessed and that controls are in place to manage them effectively.

The following significant risks associated with this report/decision were identified from this assessment:

Management of Significant (Net Red) Risks		
Risk Description	Mitigating Actions	Owner
Variances to Housing Repairs Account	Operational controls are in place to minimize additional expenditure. Reconciliations are taking place on a regular basis and weekly budget monitoring is now taking place. An improvement plan for the service has also been developed.	Julie Kenny

8. KNOWING YOUR COMMUNITY – EQUALITY AND RURAL IMPLICATIONS

None.

9. CORPORATE IMPLICATIONS

By submitting this report the author has taken the following into account:-

- Community Safety Implications
- Environmental Implications
- ICT Implications
- Asset Management Implications
- Human Resources Implications

Background Papers: None

Author: Julie Kenny (Chief Officer (Finance, ICT, Assets, Audit & Procurement))

Executive Member: Councillor KWP Lynch



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Hinckley & Bosworth Borough Council Housing Repairs Action Plan

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Key Task	Target Date	Comments
AP1. Clear historical backlog of jobs through the Orchard System.	Ongoing	At the time of the Internal Audit Review there were a significant number of jobs still within the system that related to previous months and financial year(s). Additional resources should be utilised to focus in clearing the backlog whilst the ongoing data to day is maintained by the existing staff.
AP2. Review structure and allocation of budgets.	31/03/2013	A mapping exercise has been completed to understand how the client and contractor budgets have been set up. There were some erroneous codes that have been removed as part of the budget setting for 13/14. A dedicated detailed plan is in place for this significant area (see attached).
AP3. Work in Progress (WIP) within the Orchard System is to be analysed and monitored.	31/01/13	This is now being reviewed on a monthly basis as a minimum.

Key Task	Target Date	Comments
AP4. Map existing processes for responsive repairs.	15/03/2013	Processes need to be documented and challenged to identify efficiencies and control weaknesses.
AP5. Update Service Procedures and Controls.	30/06/2013	The service has a suite of Procedures; however they still reflect the service when contracted with Wilmott Dixon. Following completion of process mapping, they need to be updated to reflect the in-house service provision. Controls also need to be reviewed and should reflect those required by FPR and the Civica system. A dedicated detailed plan is being developed for this significant area (see attached).
AP6. Review use of Schedule of Rates and Job Cost Data.	31/03/13	A contributing factor to the backlog has been the methodology for capturing job cost data. Job costs have been adjusted from the SOR within the main system. This has resulted in significant delays and variances and should cease as soon as possible. It has also contributed to the overall contractor deficit. Actual job cost data will be recorded and available once the Contractor ICT system has been implemented (this is currently on hold).
	30/09/13	The current SOR should also be benchmarked against industry standards.
AP7. Training.	TBC – awaiting dates from Orchard	<p>Training is required on an number of areas:</p> <ul style="list-style-type: none"> • Orchard System – there is reliance on key individuals within the service which is a key weakness. All users need training on the Repairs system asap. • Procedures and Controls – training is required to update on the appropriate controls but also to reinforce the necessity of controls. • Call Diagnosis – there has been some significant progress in this area although there is still an ongoing issue of duplicate jobs. Improved diagnosis of the initial reports will lead to a much more efficient service overall. • Basic finance – it would be useful for all of the team to understand the financial implications of their activities. This should improve accuracy and reduce errors in coding etc.

Key Task	Target Date	Comments
AP8. Develop Procurement Plan.	31/03/13	The service has been making significant use of external contractors on an informal basis to supplement the in-house provision. Formal contracts need to be put in place to assist with the responsive and voids work. This procurement plan should also cover the Major Project (Capital) schemes.
AP9. Review Invoicing Procedures.	28/02/13	There is currently a delay of approximately 2 months for invoices from materials suppliers which impacts on budget monitoring. This is to be addressed with the suppliers and Procurement for Housing (Framework for materials).
AP10. Review staffing structure.	31/03/13	Whilst a structure is in place and the harmonisation of TUPE staff is complete, it is unclear if there has been a strategy for the future structure of the service. There is currently a significant reliance on agency staff and this needs to be evaluated. The structure also needs to give greater clarity for the Client / Contractor function(s) and enable financial transparency.
AP11. Introduce Performance Management.	31/05/13	When the service was outsourced, there was a suite of KPIs that were used to manage the contractor performance. As an in-house service, we need to be able to demonstrate that we are a high performing service and there are set of standard measures that should be used, including: <ul style="list-style-type: none"> • % of urgent repairs completed within target time, • % of routine repairs completed within target time, • % of repairs completed right first time As we are now a member of Housemark, it will also be useful to benchmark our performance against comparable organisations. This will also have to be considered as part of the review of the structure.
AP12. Review pre and post inspection regime.	30/04/13	Whilst it is acknowledged an inspection regime for an in-house service need not be as robust for an external contractor, some is required to enable greater financial control and transparency. There is currently limited inspection activity.

Key Task	Target Date	Comments
AP13. Complete "health check" of Orchard System and data.	31/07/13	There is limited knowledge regarding the Orchard system and the expertise we do have is held by a small number individuals, some of which are leaving the organisation. Orchard will be key to advising on making the best use out of the system moving forward and will also assist in cleansing the historical data no longer required.
AP14. Consideration to diagnostic software.	30/06/13	Whilst there has been some significant progress in this area although there is still room for improvement to prevent unnecessary calls or incorrect classification of jobs. Improved diagnosis of the initial reports will lead to a much more efficient service overall.
AP15. Manage risk of overspend.	28/02/13	Analyse outstanding works on a weekly basis.



Housing Repairs Finance & Budget Review (AP2)

No	Action	Who	When
1.	Identify all relevant budgets and extract data.	KB	End Dec 2013.
2.	Map budgets and recharging mechanism.	KB	End Dec 2013.
3.	Extract data from Orchard system for WIP position. Test data from Orchard and actuals within Civica to confirm 1 and 2 above.	KB	End Dec 2013.
4.	Resolve issue of transfer accounts. Can we not have them go straight to the capital codes (even if we have to create new capital codes to accommodate)?	JK	Determine if possible by 28th Feb 2013 . If possible, to be in place by 31st Mar 2013 .
5.	Determine how contractor surplus / deficit to be apportioned (% capital / % revenue) in advance on an annual basis. Will still be journalled annually as now, but monitored on a monthly basis. KB/IB/TO to draft proposal to be put to Ext Audit.	KB/IB/TO	Determine methodology by 15th Feb 2013 . Agreed with EA by 28th Feb 2013 .
6.	Capital income to the contractor is to be shown in new separate income line so new detail income code to be set up. In future, interface file will be analysed to sub total capital and revenue income for the contractor accordingly.	IB	New detail code by 28th Feb 2013 . Revised treatment of income from 1st Mar 2013 .
7.	The current capital code "saf" contains numerous schemes. New capital codes and budgets are to be set up for each scheme within overall budget figure.	IB / IP	By 28th Feb 2013 .
8.	New detail codes to be set within "jaa" and "kaa" to enable identification and analysis of subcontractor spend. This will be based upon historical external spend. Detail codes to be set up to reflect analysis required by Housemark.	TO to provide data on external spend. JK/IP/IB/TO to review data and agree new codes and breakdown	By 15th Feb 2013 . By 28th Feb 2013 .

		of budget.	
9.	Codes in Orchard to be amended to ensure costs are coded correctly and posted into new codes under "jaa" on the ledger.	JK/IP	Tested by 15th March 2013 Live by 28th March 2013.
10.	Within "cva" for 12/13 a1005 needs to be split to a3005 & a3010.	TO	By 15th February 2013.
11.	JK to review breakdown of staffing allocation currently in "cva" and "iea".	TO to provide breakdown	Breakdown provided by 20th February 2013.
12.	Remove g5044 (subcontractor) budget from cva for 12/13 which should not have been included. Adjust t5025 accordingly to reflect this.	TO	By 8th February 2013.
13.	Accruals for 11/12 to be reviewed to agree timescale for ceasing adjustments for actual costs in Orchard.	KB/IB	By 15th February 2013.
14.	Housing Repairs to cease adjusting jobs issued to reflect job costs based upon timesheet and invoices (this data to be collected once Contractor Module is in place).	JK	By 28th February or 31st March 2013 depending upon 10 above.
15.	Arrange weekly meetings until end March 2013.	JK	By 8th February 2013.
16.	Business Object report to be produced to ensure consistency of WIP reporting for budget monitoring purposes.	IP/DH/AC	By 31st March 2013.
17.	Budget Monitoring Report to be amended to an agreed format to include summary of WIP and forecast position.	TO/IB	By 31st March 2013.
18.	For 13/14, a standard variance to be applied to the WIP position. This variance will be agreed based upon a sample of two months actual data from April and May 2013. This is to enable a prediction of likely variations to jobs.	IB/KB to analyse data	Data produced and analysed by June 20th 2013. Variance to be agreed and applied by end June 2013.
19.	All contractor income relating to "cvb" for External Painting needs to be processed to come across to Civica.	IP/EB	By 15th March 2013.
20.	Data used to journal income into Civica must be reconciled on a weekly basis to the interfaced file.	TO/IB	Immediate & Ongoing



Housing Repairs Service Procedures and Controls Review (AP5)
Overall Completion date 30/06/13

No	Action	Who	When
1.	All works orders to be raised in accordance with system controls and at the first point of contact from the tenant.	ALL	Immediate
2.	All authorisations within Orchard are to reflect FPR limits and authorisations within Civica.	JK/IP	End Feb 2013.
3.	All new voids work is to be added asap following initial inspection but in no event later than 48 hours.	ALL	Immediate
4.	All variations to be added asap but no later than 24 hours following instruction. All variations to be appropriately authorised.	ALL	TBC
5.	No contractors are to be utilised until they have been authorised and set up within Orchard with agreed SOR. SOR Agreement is to be evidenced.	ALL	Immediate
6.	All voids work is to be post inspected and evidence of inspection retained within Orchard.	GH/SO/AB	Immediate
7.	All responsive repairs over £100 is to be post inspected and evidence of inspection retained within Orchard.	GH/SO/AB	Immediate
8.	Sufficient segregation of duties should be in place to ensure the same individual raising a job cannot raise and authorise variations, close jobs and invoice through to payment.	JK	Immediate
9.	Jobs are to be closed and invoiced when work is complete and evidence is provided (completed job ticket / timesheet / inspection).	ALL	Commence April 2013

10.	Where no evidence exists of work completed, a monthly schedule will be completed and passed to Chief Officer (Finance, ICT, Assets, Audit & Procurement).	GH/NW	Commence April 2013
11.	Schedule of works not evidenced as complete is to be reviewed and jobs will either be agreed to carry across to Civica or they will be taken through to rejection. Evidence of decision will be recorded within Orchard.	JK/IP	Commence April 2013
12.	Explore possibility of electronic issuing of jobs to contractors.	JK/IP/DH	By 31st Mar 2013