

Audit and Pensions Committee

Supplementary Agenda

Thursday 8 December 2011

7.00 pm

COMMITTEE ROOM 1 - HAMMERSMITH TOWN HALL

MEMBERSHIP

Administration:	Opposition	Co-optees
Councillor Michael Adam (Chairman) Councillor Nicholas Botterill Councillor Marcus Ginn Councillor Robert Iggulden	Councillor Michael Cartwright (Vice-Chairman) Councillor PJ Murphy	Eugenie White

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Date Issued: 05 December 2011

Audit and Pensions Committee Agenda

8 December 2011

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10.	WORMWOOD SCRUBS ANNUAL GOVERNANCE REPORT 2010-11 Further to the above, this report presents the 2010/11 Wormwood Scrubs Charitable Trust statement of financial activity. The Audit Committee is the specific body that the Council has established to receive the annual reports of the trust.	1 - 21
14.	ST MARY'S PRIMARY SCHOOL AUDIT The report updates the committee on the latest position with regard to the Audit at St. Mary's School and developments in Financial Management responsibility for Local Authorities.	22 - 31
15.	PARKING PAY AND DISPLAY DEPARTMENTAL RESPONSE This report is in response to a request for further information on the subject made by the Committee at its meeting on the 22 nd September 2011.	32 - 37



AUDIT AND PENSIONS COMMITTEE

8 December 2011

CONTRIBUTORS

Residents Services
Department

**2010/11 WORMWOOD SCRUBS
CHARITABLE TRUST ACCOUNTS**

WARD/S

All

This report presents the 2010/11 Wormwood Scrubs Charitable Trust statement of financial activity. The Audit Committee is the specific body that the Council has established to receive the annual reports of the trust.

Recommendations:

1. To approve the Wormwood Scrubs Charitable Trust's 2010/11 audited statement of accounts and Trustee's report.
2. To approve the 2011/12 contribution to the running costs of Linford Christie stadium up to a maximum of £115,500.

1. PURPOSE OF REPORT

- 1.1 The report presents the statement of financial activity for 2010/11 for the Wormwood Scrubs Charitable Trust. The Audit Commission must report their findings to a properly constituted governance body of the Trust before they can publish their signed and final opinion on the integrity of the Trust's accounts.
- 1.2 These accounts have been audited and are presented for approval.

2. INTRODUCTION

- 2.1 Wormwood Scrubs is the subject of a charitable trust created by the Wormwood Scrubs Act 1879. The Council of the London Borough of Hammersmith & Fulham is the sole corporate trustee and holds the land in trust for the "use by the inhabitants of the metropolis for exercise and recreation".
- 2.2 The statement of financial activities and trustees report have been prepared in accordance with the Charities' Statement of Recommended Practice 2005
- 2.3 A draft set of 2010/11 accounts is provided as Appendix A.

3. STATEMENT OF FINANCIAL ACTIVITIES 2010/11

- 3.1 Wormwood Scrubs Charitable Trust started the year with an opening balance of £5,698,247. Net incoming resources for the year totalled £(18,796) which resulted in a year-end balance of £5,679,451.

Summary of Financial Position	2010/11
	£
Total Incoming Resources	654,208
Total Resources Expended	(673,004)
Net Incoming Resources	(18,796)
Total funds brought forward	5,698,247
Total funds carried forward	5,679,451

- 3.2 The amount carried forward consists of unrestricted income funds of £679,450 and a revaluation reserve for land and buildings of £5,000,001.
- 3.3 The Trust's Land includes Athletics Stadium, Pony Centre, three bedroom cottage and single storey parks depot, all of which are valued as £1. It also includes the car park valued at £5,000,000 at 31st March 2004.

4 SUMMARY

- 4.1 The Trust's main source of income is achieved through the use of the car parks that append Wormwood Scrubs. The income is generated from 2 areas, Pay and Display income from people using the Trusts' facilities and a licence agreement with Hammersmith Hospital.
- 4.2 The majority of expended resources relate to maintenance for the Trusts' facilities.
- 4.3 The main areas of financial activity are set out below

Income and Expenditure	2010/11	2009/10
	£	£
Incoming Resources		
Pay and Display Parking Meters	379,345	400,153
Hammersmith Hospital Car Park Licence	226,000	221,451
Other Income	45,889	109,528
Interest Receivable	2,974	4,126
Total Incoming Resources	654,208	735,258
Resources Expended		
Costs of generating Parking Income	3,979	20,381
Contribution to Linford Christie Stadium	0	110,000
Non Routine Maintenance of Wormwood Scrubs	0	167
Routine Grounds Maintenance of Wormwood Scrubs	642,700	630,820
Charitable activities	0	0
Governance costs	21,737	21,593
Other resources expended	4,588	2,485
Total Resources Expended	673,004	785,445
Net Incoming Resources	(18,796)	(50,186)

5 Review of Balances

- 5.1 Interest is calculated on an average cash position for the year and is included in the accounts at year end. The interest rate used is the 7 day LIBOR rate, which reduced from 0.55% in 2009/10 to 0.42% in 2010/11. This has reduced interest received in year.
- 5.2 Routine Grounds Maintenance is undertaken in accordance with a series of schedules that form part of the new contract. The fixed element of the contract has increased from £630,820 in 2009/10 to £642,700 in 2010/11 due to the annual inflationary uplift in line with the terms of the contract.

- 5.3 In 2009/10 the required contribution to Linford Christie stadium was £110,000. There was no contribution required in 2010/11 due to a significant increase in sports income, thereby reducing the net running cost of the Stadium in 2010/11.
- 5.4 The underlying position is that the Wormwood Scrubs Charitable Trust reserve has reduced by £18,796 in 2010/11 to £5,679,451.
- 5.5 It is recommended that the Committee approve the 2011/12 contribution to the running costs of Linford Christie stadium to a maximum of £115,500.
- 5.6 Currently, the Fund's Reserves are in the region of 104% of the turnover of the trust, which is considered prudent given the dependency on a single source of income and planned expenditure for 2011/12.

6 COMMENTS OF THE DIRECTOR OF FINANCE

- 6.1 The 2010/11 audited statement of financial activities and trustees report are attached as Appendices A and B. It is a statutory requirement that the accounts are approved by the Audit committee and signed by the Chairman as representatives of trustees of Wormwood Scrubs Charitable Trust.

7 PUBLICATION AND AUDIT OF ACCOUNTS

- 7.1 The District Audit report has been submitted separately for consideration by the Audit & Pensions Committee. Following the Audit & Pensions Committee's consideration of this report, the District Auditor will issue an opinion on the financial statements.

LIST OF BACKGROUND PAPERS

No.	Description of Background Papers	Name/Ext of Holder of File/Copy	Department/Location
1.	Statement of Financial Activity and Trustee's Report 2010/11 Charities SORP 2005	Mark Jones Ext 6700	Residents Services 1 st Floor 77 Glenthorne Road

Wormwood Scrubs Charitable Trust

Statement of Financial Activities for Year ended 31 March 2011

Income and Expenditure		2010/11	2009/10
		£	£
Notes			
2	Incoming Resources		
	Pay and Display Parking Meters	379,345	400,153
	Hammersmith Hospital Car Park Licence	226,000	221,451
3	Other Income	45,889	109,528
4	Interest Receivable	2,974	4,126
	Total Incoming Resources	654,208	735,258
	Resources Expended		
	Costs of generating Parking Income	3,979	20,381
5	Contribution to Linford Christie Stadium	0	110,000
6	Non Routine Maintenance of Wormwood Scrubs	0	167
6	Routine Grounds Maintenance of Wormwood Scrubs	642,700	630,820
7	Charitable activities	0	0
8	Governance costs	21,737	21,593
	Other resources expended	4,588	2,485
	Total Resources Expended	673,004	785,445
	Net Incoming Resources	(18,796)	(50,186)
	Reconciliation of Funds		
	Total funds brought forward	5,698,247	5,748,433
	Total funds carried forward	5,679,451	5,698,247

Wormwood Scrubs Charitable Trust

Balance Sheet at 31 March 2010

9	Tangible Fixed Assets	2010/11 £	2009/10 £
	Land and Buildings	1	1
	Car Park	5,000,000	5,000,000
	Total Fixed Assets	5,000,001	5,000,001
	Add: Current Assets		
	Cash in Bank	690,950	708,111
	Debtors	0	0
	Total Current Assets	690,950	708,111
	Less: Liabilities		
10	Creditors: Amounts falling due within one year	(11,500)	(9,865)
	Total Liabilities	(11,500)	(9,865)
	Total Net Assets and Liabilities	5,679,451	5,698,247
		£	£
	The funds of the charity:		
11	Unrestricted income funds	679,450	698,246
	Revaluation reserve	5,000,001	5,000,001
	Balance of the Charitable Trust held by the London Borough of Hammersmith and Fulham	5,679,451	5,698,247

Notes to the Accounts

(1) Statement of Accounting Policies

The Financial Statements have been prepared on a historic cost basis and in accordance with the Statement of Recommended Practice, Accounting and Reporting by Charities (SORP 2005) and the Companies Act 1985.

(i) Accounting Concept

The accounts have been prepared on an accruals basis. That is, on the basis of income being due and expenditure being payable in the related financial year.

(ii) Depreciation

Depreciation has not been charged to the land or the car park. Any changes in value will be reported as gains or losses on revaluations. The trustees are not aware of any indication that an impairment has occurred.

(iii) Fixed Assets

The Trust has ownership of land, passed under the Wormwood Scrubs Act 1879 for the perpetual use of the inhabitants of London for exercise and recreation. Due to the restrictions on the use of the land and its disposal, it is included in the balance sheet at a fair value at the point of donation, as there are no records of this value a nominal value of £1 is used. This is in line with the Charities SORP. The car park is held at historic value. This was initially established by a valuation in 2004, though the trust does not operate a policy of revaluation.

(2) Incoming Resources

The Trust has a licensing agreement with Hammersmith Hospital NHS Trust (HHT), for the use of a limited number of parking spaces within the car park, making use of surplus capacity. The Trustees consider that the arrangement is consistent with the Trust's objectives, as the arrangement can be terminated at any time.

(3) Other Income

	2010/11	2009/10
	£	£
LBHF Contribution to the Trust	0	(95,000)
Filming income	(808)	
Exchange of land - Crossrail	(40,001)	
Other rental income	(5,080)	(14,528)
	<u>(45,889)</u>	<u>(109,528)</u>

(4) Interest Received

Interest is calculated on an average cash position for the year and is included in the accounts at year end. The interest rate used is the 7 day LIBOR rate, which reduced from 0.55% in 2009/10 to 0.42% in 2010/11.

(5) Contribution to Linford Christie Stadium

The Charity contributes to the up-keep of an athletic stadium located on the Trust grounds, not as a cost apportionment exercise but in furtherance of the objectives of the Trust to support recreation. Linford Christie Stadium is managed by the Resident Services Department.

On 27 November 2006 a yearly contribution of £110,000 to the running costs of the stadium was approved by Cabinet as an ongoing commitment. In 2010/11 Linford Christie Stadium made a surplus of 17,408. No contribution was required from the Charity.

(6) Grounds Maintenance

The grounds maintenance work undertaken at Wormwood Scrubs is undertaken by the Council's external contractor under a Grounds Maintenance contract that was tendered in 2008 for a period of 7 years. The award of this contract was considered in the best interest of both the Council and the Trust. Until 2001-02 the Trust was not in a position to fund the entire cost of the works and until this point, the Council only received a contribution. Since this time, the Trust has funded the full cost of grounds maintenance costs at Wormwood Scrubs. Grounds Maintenance services are currently provided by the Residents Services Department of the Council. The continuation of these services are periodically approved by Cabinet Members.

Routine Grounds Maintenance is undertaken in accordance with a series of schedules that form part of the new contract. The fixed element of the contract has increased from £630,820 in 2009/10 to £642,700 in 2010/11 due to a 2.1% inflationary uplift in line with the terms of the contract. The specification included in the new Grounds Maintenance contract represents a significant enhancement to the level of grounds maintenance that currently takes place at Wormwood Scrubs, which is reflected in the increased costs.

Non-routine Grounds Maintenance is identified and commissioned on behalf of the trust by the contractor. Due to the comprehensive specification of works outlined in the new grounds maintenance contract there was no non-routine ground maintenance work.

The Council's Audit Committee formally approved the continuation of the service provided by the Residents Services Department in June 2009.

(7) Charitable activities

These costs represent the activities undertaken and advice provided by project and policy officers in enabling the trustees to make informed decisions impacting on the trust and the Council and so delivering the charity's objectives. There were no charges for charitable activities in 2010/11.

(8) Governance costs

The resources expended that relate to the governance of the charity consist of the following:	2010/11	2009/10
	£	£
Financial Administration and Support fees - these costs result from the statutory requirement to prepare accounts. Also included are the costs of the time spent liaising and meeting with auditors, and attending closing of account meetings.	7,334	6,295
Legal Fees - In the management of the trust during the year legal advice was required. This was provided by Legal Services of LBHF and the charges were based on a staff time basis.	4,683	3,901
Audit Fees - It is a statutory requirement that the accounts of the trust should be audited. The service is provided by the Audit Commission.	9,720	11,397
	21,737	21,593

(9) Tangible Assets

The Trust's Land and Buildings includes an Athletics Stadium, Pony Centre, three bedroom cottage and single storey parks depot, all of which are valued as a nominal £1 due to the restrictions placed on the use of the land and its disposal.

The Athletics Stadium was built in 1961 under the Greater London Council (GLC) and prior to the creation of the London Borough of Hammersmith and Fulham, who are now responsible for administering the Trust. There is no available documentation to demonstrate that approval has been gained by the Secretary of State for Defence.

The Pony Centre was given approval to be built by the Secretary of State for Defence.

The car park is included in the accounts at historic cost in line with the charity SORP. To establish a proxy for historic cost the asset was valued on the 31st March 2004. The Trust does not operate a policy of revaluation.

(10) External Creditors

The creditor liability relates to audit services by the Audit Commission not invoiced to date.

	2010/11	2009/10
	£	£
External creditors at the start of the year	(9,865)	(3,500)
New creditors recognised in year	(11,500)	(9,865)
Adjustment to creditor liability during the year	0	(1,532)
Creditors paid during the year	8,085	5,032
Over accrual 2009/10	1,780	
Amount of creditor liabilities as at 31 March	(11,500)	(9,865)

(11) Fund Structure:

All Income and Expenditure are Unrestricted funds solely used for the specific purpose of the Trust. Expenditure which meets this criteria is charged to the fund, together with a fair allocation of management and support costs.

(12) Related Party Transactions:

The Council of London Borough of Hammersmith and Fulham (LBHF) is the trustee of the charity. Most expenditure transactions of the Trust are with LBHF and therefore fall under the definition of related party transactions. However, as stated this does not conflict with the charity's ability to meet its objectives.

	2010/11 £	2009/10 £
<u>a) London Borough of Hammersmith and Fulham as transacting party</u>		
- LBHF as contractor to the Trust		
Residents Services Department for the provision of Routine Grounds Maintenance of Wormwood Scrubs (Ref Note 4)	642,700	630,820
LBHF - Parking Control for the collection of Parking income	3,979	20,381
- LBHF as recipient of contribution		
Contribution to Linford Christie Stadium (Ref Note 4)	0	110,000
- LBHF as provider of administrative and management support to the Trust		
Residents Services Department for management of Charitable Activities	0	0
Residents Services Department for financial administration services of Wormwood Scrubs	7,334	6,295
Legal Services for the provision of legal advice required in the management of Wormwood Scrubs	4,683	3,901
	<u>658,696</u>	<u>771,396</u>
<i>Amounts due to or from related parties:</i>	0.00	0.00

(13) Trustee Remuneration, Benefits and Expenses

The Charities SORP (2005) requires all trustee (or people connected with the charity) remuneration, benefits and expenses to be disclosed, regardless of size. There has been no remuneration, other benefit or expense payments to trustees, or people connected with the charity.

Approval by the Board

These financial statements were authorised for issue on 8th December 2011 by the London Borough of Hammersmith & Fulham's Audit Committee. The financial statements do not reflect events after this date.

For and on Behalf of
The Mayor and Burgesses of the London Borough of Hammersmith and Fulham

Mark Jones
Assistant Director of Finance & Resources - Residents Services

Date:
08.12.11

APPENDIX B - WORMWOOD SCRUBS CHARITABLE TRUST TRUSTEES REPORT

▪ Reference and Administrative details

<u>Charity Name and Number</u>	Wormwood Scrubs Charitable Trust, Registration No. 1033705
<u>Charity Correspondent</u>	MARK JONES AD FINANCE & RESOURCES RESIDENTS SERVICES DEPARTMENT FIRST FLOOR 77 GLENTHORNE ROAD LONDON W6 0LJ
<u>Trustees</u>	The Council of the London Borough of Hammersmith & Fulham
<u>Telephone</u>	020 8753 6700
<u>Email Address</u>	mark.jones@lbhf.gov.uk
<u>Governing Document</u>	WORMWOOD SCRUBS ACT 1879 AS AMENDED BY SCHEME OF THE CHARITY COMMISSIONERS DATED 25 MARCH 2002.
<u>Objects</u>	FOR RECREATIONAL USE AS SET OUT IN THE WORMWOOD SCRUBS ACT 1879.
<u>Area of Benefit</u>	WORMWOOD SCRUBS AND WEST LONDON. (Area prescribed by Governing Document)
<u>Area of Operation</u>	GREATER LONDON-HAMMERSMITH AND FULHAM-FULHAM
<u>Registration History</u>	23 Feb 1994 Registered
<u>Auditor Details</u>	Audit Commission, 1st Floor, Millbank Tower, Millbank, London, SW1P 4HQ

TRUSTEE'S REPORT FOR THE YEAR ENDED 31st MARCH 2011

Structure, Governance and Management

The Wormwood Scrubs Charitable Trust shares similar governance arrangements with the Council. Depending upon the scale of the proposal, decisions relating to the trust will be taken either by Council or the Cabinet, an executive body set up to which operational decisions are delegated. Decisions under £50,000 are delegated to the Cabinet Member for Residents Services, Cllr. Greg Smith.

The Audit Committee is the specific body that the Council has established to receive the annual reports of the trust.

Day to day running of the trust is undertaken by officers in line with the Council's scheme of delegation. The *de facto* chief executive of the trust, is the Council's Chief Executive, Mr. Derek Myers. Ms. Lyn Carpenter (Director of Residents Services) and Ms. Sue Harris (Assistant Director, Cleaner, Greener & Cultural Services) are the main officers responsible for the day to day running.

Ms Jane West, the Council's Director of Finance is the trust's Chief Finance Officer but day to day financial management of the trust is undertaken by Mr. Mark Jones (Assistant Director of Finance and Resources, Residents Services).

Risk Management

The trustees have a risk management strategy which comprises:

- An annual review of the risks the charity may face;
- Establishment of plans to mitigate those risks identified;
- Implementation of steps designed to minimise any potential impact on the charity should those risks materialise.

The work has identified only a few minor risks and the situation is being monitored (Appendix B).

A key element in the management of risk is the setting of a reserves policy and its regular review by trustees.

Objectives and Activities

Wormwood Scrubs is the subject of a charitable trust created by the Wormwood Scrubs Act 1879. The Council of the London Borough of Hammersmith & Fulham is the sole corporate trustee and holds the land in trust for the "use by the inhabitants of the metropolis for exercise and recreation". This is the Trust's sole objective.

In discharging this objective, the trust seeks to encourage sporting and recreational use of Wormwood Scrubs through the provision and maintenance of an environment that is conducive to its objective.

APPENDIX B - WORMWOOD SCRUBS CHARITABLE TRUST TRUSTEES REPORT

The Linford Christie stadium is sited on Wormwood Scrubs and was built by the Greater London Council when that body was responsible for the scrubs. The stadium is run by the Council and the trust makes an annual contribution to its running costs.

In addition to supporting the recreational activities provided by the Council through the Linford Christie stadium, the trust's main activity relates to the maintenance of the scrubs itself. Since 6th May 2008 Quadron Services Ltd has provided a grounds maintenance service at Wormwood Scrubs following a procurement exercise run by the Council.

Achievements and Performance

In 2010-11 the Trust maintained day to day operation of the scrubs.

On the 3rd December 2007, the Cabinet of the London Borough of Hammersmith and Fulham approved the award of a contract on behalf of the Council and the Wormwood Scrubs Charitable Trust for grounds maintenance to Quadron Services Ltd for a period of seven years with an option to extend for a further seven years. The contract commenced on 7th May 2008.

Financial Review

Summary of Financial position	2010/11	2009/10	2008/09
Total Incoming Resources	654,208	735,258	750,588
Total Resources Expended	-673,004	-785,445	-699,602
Net Incoming Resources	-18,796	-50,186	50,986
Total funds brought forward	5,698,247	5,748,433	5,697,447
Total funds carried forward	5,679,451	5,698,247	5,748,433

The main income sources are pay and display income from the 5 machines in Wormwood Scrubs Car Park and licence income for the use of the car park. Expenditure is deemed to be in line with the objectives of the Trust.

The Trust's policy is to consider the level of its Balance annually;

- Whether the Trust has approved a balanced budget,
- The robustness of the assumptions and calculations that have underpinned the budget strategy,
- The frequency and effectiveness of in year budget monitoring,
- The effectiveness of Risk Management,
- The affordability of its commitments in respect of grounds maintenance and support of the Linford Christie Stadium,
- The review of, and the opinion of, the Trust's financial standing by the External Auditor,
- The condition of the Trust's assets,
- The affordability considerations of prudential borrowing

Currently, the Fund's Reserves are in the region of 104% of the turnover of the trust, which is considered prudent given the factors identified above.

Determining an adequate level of Balance requires professional judgement in the context of assessing performance against the key criteria listed above. Consequently, it is considered inappropriate to stipulate either a minimum or a maximum level of Trust Balance. It is considered more important that the key criteria are reviewed annually at the time of preparing the annual Revenue Budget and reviewing the previous year's performance.

The trust's investments are managed by the Council. Please see appendix A for an extract from the **Council's Treasury Management Strategy Report** governing the investment policy adopted, adopted by the Council in February 2011.

Plans for future periods

There are a number of issues which are being considered.

During the lead up to the London 2012 Olympics and Paralympics the Linford Christie Outdoor Sports Centre (LCOSC) is potentially hosting a number of new sporting events, tournaments and activities. This in part is an overflow facility as competing countries establish themselves at various stadiums around the South East, resulting in annual events and tournaments seeking to relocate to alternative suitable venues. There continues to be scope for the stadium to act as a preparation camp for smaller teams involved in athletics, football and hockey. Most countries are looking for multi-sports venues where their team can train together for security and logistic reasons. However there is a role for smaller centres like the LCOSC in providing training facilities for teams from less affluent countries. The LCOSC has been included in a consortium of West London boroughs who are marketing their facilities jointly.

Investment into the facility continues and has had a significant impact on user experience. The most recent project involved an £87k upgrade to the lighting of the changing facilities and internal communal areas. During December 2011 work to repair the fencing of the all weather pitch is due to take place at a total cost of £24k (approached on a phased basis). During early 2012 work will commence on a project utilising £160k of section 106 money that will include extensive repair of the changing block roof, a sanitary ware replacement programme and repair/replacement of doors and shutters.

Future projects in the pipeline include the potential restoration of the covered running track. Appropriate funding opportunities are currently being identified and the project is being considered in partnership with Thames Valley Harriers.

The car park has a maintenance regime identifying minor repairs that have safety implications. A full survey was carried out in 2004 identifying the need for more extensive work to be carried out in the medium term. This requirement is being kept under review but there are no immediate plans to commission the works.

The artillery wall was noted in 2009 as being in need of repair. The Council had identified a contractor to demolish the wall at zero cost but subsequent investigations found that part of the wall is listed so demolition is no longer an option. The deterioration of the wall will continue to be monitored.

Trustees' responsibilities in relation to financial statements

Charity law requires the trustees to prepare financial statements for each year which show a true and fair view of the state of affairs of the charity and its financial activities for the period. In preparing the financial statements, the trustees are required to:

- Select suitable accounting policies and apply them consistently.
- Make sound judgements and estimates them are reasonable and prudent.
- Prepare financial statements on the going concern basis unless it is not appropriate to assume that the charity will continue in operational existence.

The trustees are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position and to enable them to ensure that the financial statements comply with the Charities Act 1993. They are also responsible for safeguarding the assets of the charity and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Auditors

The trustees have appointed the Audit Commission to undertake the audit of accounts in the following year.

For and on Behalf of Wormwood Scrubs Charitable Trust

Signed

Name

Date

Appendix A – Investment Strategy

Extract from Council's Treasury Strategy Management Report February 2011

8. Annual Investment Strategy

- 8.1 The Council will have regard to the CLG's Guidance on Local Government Investments ("the Guidance") and the 2009 CIPFA's Treasury Management in Public Services of Practice and Cross Sectoral Guidance Notes ("the CIPFA TM Code").

Although the annual investment strategy has to be approved by full Council, it is proposed that amendments to the investment methodology are delegated to Cabinet to enable changes to be made on a timely basis to reflect changes in market conditions.

- 8.2 The Council's investments priorities are:-

- (a) the security of capital and
- (b) the liquidity of its investments.

The Council will also aim to achieve the optimum return on its investments commensurate with proper levels of security and liquidity. The risk appetite of this Council is low in order to give priority to security of its investments

- 8.3 The borrowing of monies purely to invest or on-lend and make a return is unlawful and this Council will not engage in such activity.
- 8.4 Investment instruments identified for use in the financial year are listed below under the 'Specified' and 'Non Specified' Investment categories. Counterparty limits will be as set by Council.
- 8.5 The Council in conjunction with its treasury advisor Sector, will use Fitch, Moody's and Standard and Poor ratings plus data on movements in credit default swap to derive its credit criteria. Credit ratings alerts and changes are notified to treasury officers on a daily basis and these are acted upon immediately. In addition officers monitor the financial press and economic reports. The Council is alerted to changes to ratings of all three agencies through its use of the Sector creditworthiness service.
- If a downgrade results in the counterparty/investment scheme no longer meeting the Council's minimum criteria, its further use as a new investment will be withdrawn.
 - In addition to the use of Credit Rating the Council will be advised of information in movements in Credit Default Swaps (CDSs) against the iTraxx benchmark and other market data on a weekly basis. Extreme market movements may result in downgrade of an institution or removal from the Councils lending list. It should be noted that the Council is only monitoring CDS movements for information purposes, and is not actually purchasing any CDSs.

APPENDIX B - WORMWOOD SCRUBS CHARITABLE TRUST TRUSTEES REPORT

- 8.6 The DCLG guidance requires authorities to specify their minimum acceptable credit rating. The minimum ratings required by the Council are:

Fitch Long Term	Short Term	Individual	Support
A-	F2	C	2

Moody's Long Term	Short Term	Financial Strength
A3	P-2	C

S & P Long Term	Short Term
A-	A-3

- 8.7 Country Limits

The Council has determined that it will only use approved counterparties from countries with a minimum sovereign credit rating of AA+ from Fitch Ratings (or equivalent from other agencies) see Appendix B. This list will be added to, or reduced, by officers should ratings change in accordance with this policy.

9. Interest rate outlook for investments

- 9.1 Bank Rate has been unchanged at 0.50% since March 2009. Bank rate is forecast to commence rising in quarter 3 of 2011 and then to rise steadily from thereon. Bank Rate forecasts for financial year ends (March) are as follows:-

2010/11	0.50%
2011/12	1.00%
2012/13	2.25%
2013/14	3.25%

- 9.2 There is downside risk to these forecasts if recovery from the recession proves to be weaker and slower than currently expected.
- 9.3 The Council will avoid locking into longer term deals while investment rates are down at historically low levels unless exceptionally attractive rates are available with counterparties of particularly high creditworthiness which make longer term deals worthwhile and within the risk parameters set by this council.
- 9.4 For its cash flow generated balances, the Council will utilise its business reserve accounts, money market funds and short dates deposits (overnight to three months) in order to benefit from the compounding of interest.

The Council will report on its investment activity as part of a mid year review and at the end of the financial year as part of the Annual Outturn Report.

9.5 Specified Investments

A specified investment is defined in the guidance as an investment which satisfies the conditions set out below:

- (a) The investment is denominated in sterling and any payments or repayments in respect of the investment are payable only in sterling.
- (b) The investment is not a long-term investment (ie over 364 days)
- (c) The investment does not involve the acquisition of share capital or loan capital in any body corporate

Types of specified investments include and may be used by the Council are:

Term deposit – UK government
Term deposits – other Local Authorities
Term deposits – banks and building societies
Money market funds
Callable deposits – under 1 year
Certificates of deposits - issued by banks and building societies.
UK Government Gilts
Treasury Bills

9.6 Non-Specified Investments

The Council has made no investments in non-specified investments to date. These are any investments not meeting the definition in para 9.5 above.

9.7 However if there was a core cash balance available after taking into account the cash flow requirements and the outlook for short-term interest rates then the following non-specified investments could be used after consultation with our Treasury Advisor.

- Term deposits with banks with maturities in excess of one year.
- Term deposits with building societies with maturities in excess of one year
- Term deposits with Local Authorities with maturities in excess of one year.
- Structured deposits.
- Bond Funds with AAA rating credit criteria
- Callable deposits in excess of one year
- Certificates of deposits - issued by banks and building societies in excess of one year.
- UK Government Gilts in excess of one year

10. Credit Criteria

- 10.1 Each week the Treasury Section receives an up to date list of the credit rating for individual counterparties from our treasury advisors. In addition to this if any changes in the credit rating of individual counterparties or in banking structures e.g. on mergers or takeovers occur during the month Sector e-mail the amendments to the Treasury Section on a daily basis and the section adds/deletes counterparties as appropriate to/from the approved counterparty list.
- 10.2 The banking sector is still a volatile area and the current policy is that whilst we maintain our full lending list in accordance with the methodology in approved by Council on the 24th February 2010 we have been operating a more **restricted lending list**, lending only to UK banks, other Local Authorities and AAA Money Market Funds. For illustrative purposes Appendix B is attached to show the countries and organisations on the lending list at the present time using the approved methodology.
- 10.3 However, it is part of the Treasury Management Code of Practise that the Council needs a sound diversification policy with high credit quality counterparties. Such a policy is needed to prevent overreliance on a small number of counterparties and should also consider country, sector and group limits. In addition, there is a possibility that within the next 12 months the government will lower its support to RBS, Lloyds Bank and NatWest and therefore they will no longer have the creditworthiness of the government itself. The effect of this means the credit rating of these banks will be lower as the rating agencies will rate these banks without the government guarantee, this in turn means the Council will have to reduce the amount and duration the Council can lend to these banks. It is therefore proposed that we expand our current restricted list and diversify our lending portfolio now to other highly credit rated banks within highly credit rated countries. This will enable the Council to spread its credit risk but still maintain a low risk investment strategy.
- 10.4 Below is the proposed list of banking institutions which it is recommended the Council now adds to its **restricted lending list** use as well as the UK banking institutions, the AAA Money Market Funds and other Local Authorities. All of which are on our current lending list maintained in accordance with the agreed methodology approved by Council on 24 February 2010 for convenience it is shown as Appendix C.
- 10.5 Added to this the Nat West Call Account that we presently use will be affected by the new FSA liquidity rules and it is likely that call account deposits with instant access will pay a much lower rate of interest, possibly below base rate, this will further reduce the Council's investment options.

APPENDIX B - WORMWOOD SCRUBS CHARITABLE TRUST TRUSTEES REPORT

10.6 The limits are driven by the methodology which is shown in full in Appendix C the maximum limits for these banks are shown in the table below. The limits can change if there are rating changes, however the maximum limit would never be more than £25 Million.

	Fitch	Moody's	S&P	Max Limit
Australia	AA+	Aaa	AAA	£'000
Australia & New Zealand Bank	AA-, F1+, B, 1	Aa1, P-1, B	AA, A-1+	25,000
Commonwealth Bank of Australia	AA, F1+, A/B, 1	Aa1, P-1, B	AA, A-1+	25,000
National Bank of Australia	AA, F1+, B, 1	Aa1, P-1, B	AA, A-1+	25,000
Westpac Bank Corporation	AA, F1+, A/B, 1	Aa1, P-1, B	AA, A-1+	25,000
Canada	AAA	Aaa	AAA	
Bank of Montreal	AA-, F1+, B, 1	Aa2, P-1, B-	A+, A-1,	20,000
Bank of Nova Scotia	AA-, F1+, B, 1	Aa1, P-1, B	AA-, A-1+	25,000
National Bank of Canada	A+, F1, B, 2	Aa2, P-1, B-	A, A-1	20,000
Toronto Dominion Bank	AA-, F1+, B, 1	Aaa, P-1, B+	AA-, A-1+	25,000
France	AAA	Aaa	AAA	
Societe Generale	A+, F1+, B/C, 1	Aa2, P-1, C+	A+, A-1	20,000
Germany	AAA	Aaa	AAA	
Deutsche Bank	AA-, F1+, B/C, 1	Aa3, P-1, C+	A+, A-1	20,000
Singapore	AAA	Aaa	AAA	
DBS Ltd	AA-, F1+, B, 1	Aa1, P-1, B	AA-, A-1+	25,000
Overseas Chinese Banking Corporation	AA-, F1+, B, 1	Aa1, P-1, B	A+, A-1	25,000
United Overseas Bank Ltd	AA-, F1+, B, 1	Aa1, P-1, B	A+, A-1	25,000

11. Nationalised Banks and Part Nationalised Banks

In the UK, the nationalised and part-nationalised banks have credit ratings which do not conform to the credit criteria usually used to identify banks which are of high credit worthiness, as they are no longer separate institutions in their own right. However, the Council has agreed to invest in these institutions as they are now recipients of an F1+ short term rating as they effectively take on the creditworthiness of the Government itself i.e. deposits made with them are effectively being made to the Government. They also have a support rating of 1; in other words, on both counts, they have the highest ratings possible.

12. Debt Rescheduling

12.1 The introduction by the PWLB in 2007 of a spread between the rates applied to new borrowing and repayment of debt, which has now been compounded since 20 October 2010 by a considerable further widening of the difference between new borrowing and repayment rates, has meant that PWLB to PWLB debt restructuring is now much less attractive than it was before both of these events. In particular, consideration would have to be given to the large premiums which would be incurred by prematurely repaying existing PWLB loans and it is very unlikely that these could be justified on value for money grounds if using replacement PWLB refinancing. However, some interest savings might still be achievable through using LOBO (Lenders Option

Borrowing Option) loans, and other market loans, in rescheduling exercises rather than using PWLB borrowing as the source of replacement financing.

12.2 As short term borrowing rates will be considerably cheaper than longer term rates, there may be potential for some residual opportunities to generate savings by switching from long term debt to short term debt. However, these savings will need to be considered in the light of the size of premiums incurred, their short term nature, and the likely cost of refinancing those short term loans, once they mature, compared to the current rates of longer term debt in the existing debt portfolio. Any such rescheduling and repayment of debt is likely to cause a flattening of the Council's maturity profile as in recent years there has been a lean towards longer dated PWLB.

12.3 The reasons for any rescheduling to take place will include:

- The generation of cash savings and / or discounted cash flow savings
- Help fulfil the strategy outlined in paragraph 8 above; and
- Enhance the balance of the portfolio (amend the maturity profile and/or the balance of volatility).

APPENDIX B - WORMWOOD SCRUBS CHARITABLE TRUST TRUSTEES REPORT

▪ **Appendix B – Risk Assessment**

Risk Index No.	AREA OF RISK	IMPACT OF RISK	SEVERITY High/Medium/Low	POTENTIAL High/medium/Low	VALUATION	COMMENT
001	Pay and Display income level	i) Theft of cash boxes. ii) Lower income levels due to decisions taken about Pay and Display tariffs.	Medium	Medium	Potential loss of income.	No immediate impact expected.
002	Hammersmith Hospital Trust car park income	The licensing agreement with Hammersmith Hospital Trust has a three month notice period with a possible impact on the level of income.	High	Medium	Potential loss of income.	Contract to be reviewed in 2011/12
003	Condition – Wormwood Scrubs car park	Wormwood Scrubs car park is in need of resurfacing. A review of the car park is planned for 2012.	High	Low	Significant expenditure.	The risk should be manageable. In the year of resurfacing works funds will be managed accordingly.
004	Insurance claims against Trust	Liability of trust in case of personal injury claims.	Low	Low	Possible liability of Trust in case of insurance claim.	Wormwood Scrubs would be covered by the Council's insurance.
005	Safety of Artillery Wall	Cost of demolition, collapse could possibly lead to damage or liability of Trust.	Low	High	Cost of demolition or insurance claims.	The condition of the wall is being monitored.



AUDIT AND PENSIONS COMMITTEE

CONTRIBUTORS

DCS

ST MARY'S PRIMARY SCHOOL AUDIT

The report updates the committee on the latest position with regard to the Audit at St. Mary's School and developments in Financial Management responsibility for Local Authorities.

WARDS

All

RECOMMENDATION:

1. **To Note the report and the introduction of the Schools Financial Value Standard**
2. **To note that St. Mary's will be subject to a further audit in 2012/13**

1. St. Mary's - Original Audit

- 1.1. As part of the 2010/11 Internal Audit Plan, aimed at giving assurance on compulsory financial standards for maintained schools, the Financial Management Standard in Schools, an internal audit of St. Mary's Catholic Primary School was undertaken in November 2010.
- 1.2. The audit was unable to offer any assurance as to the effectiveness of the school's controls. The Audit opinion reflected the position that controls in the school's processes were generally weak leaving the processes/systems open to significant error or abuse. Significant non-compliance with basic control processes left the processes/systems open to error or abuse.
- 1.3. There were 32 recommendations as a result of the Audit report, including 7 priority one.
- 1.4. Additional work undertaken by the school identified irregularities in the accounting of non-Local Authority funds. A member of staff was subsequently dismissed and may face prosecution.
- 1.5. Officers have reflected on the circumstances in which the school was operating during the time preceding the audit, where known changes in senior leadership created an uncertain environment that contributed to an environment in which the breakdown of internal controls was able to continue. Whilst there were some concerns over certain aspects of the schools business there was nothing out of place with regard to the Local Authority funds that indicated impropriety.
- 1.6. Nevertheless the Council believes that there are amendments to the Schools Audit Plan that can focus audit activity on periods of change in schools where the breakdown in controls is more likely and act on early reservations with regard to school activity. As such, the following changes have been incorporated into the Schools Audit Plan:
 - Where there is a change of Headteacher an additional financial management audit will be commissioned;
 - Consideration as to how the auditing of non-Local Authority voluntary funds can be included in the scope of school audits;
 - In planning the quarterly audit plan, Children's Services will identify specific schools where additional assurance is required;
 - Follow-up audits will be used to confirm the implementation of all audit recommendations.
- 1.7. As a result of the changes in the audit plan, an additional audit was undertaken at Holy Cross following the change in Headteacher, which, with the agreement of the Chair of Governors, was extended to include voluntary funds, and whilst conversations have been undertaken, no

additional schools audits have been commissioned in relation to any identified concerns.

2. St. Mary's - Follow-up Audit

- 2.1. In accordance with Council procedures, Deloitte's undertook a follow-up audit in October 2011. Of the recommendations identified in the original November 2010 audit all bar one of the recommendations have been implemented and that the final outstanding recommendation will be implemented by January 2012

3. Schools Management Support Service

- 3.1.1 In 2010/11 School Management Support Service was audited and substantial assurance was provided. We are currently looking at the potential to require this service, and any future replacement, to formally report to Governors and the Local Authority where they feel that there may be financial control weaknesses and/or mismanagement. This could then be supported with a requirement for Governors to report any such notification to the council.
- 3.1.2 The service were instrumental in working with the School once the issues around the Voluntary Funds was identified. As these funds are not currently part of the Delegated Schools Funding this existing service offer does not cover Voluntary Funds as they (and the allocation of these) are the specific responsibility of the Schools Governing Body

4. Hammersmith & Fulham - Financial Management Standard in Schools (FMSiS)

- 4.1. The situation with regard to St. Mary's is unique in Hammersmith & Fulham. It is the only school that failed to achieve FMSiS. Of the 17 school audits undertaken in 2010/11, 15 schools achieved substantial assurance and one institution achieved full assurance.
- 4.2. Since the introduction of FMSiS, all bar 4 schools (including St. Mary's) received substantial assurance with regard to the operation of the financial controls in their schools. The other schools have had follow-up audits and confirmed the implementation of the recommendations.

5. Schools' Financial Management - Role of Local Authorities

- 5.1. The Secretary of State for Education has statutory powers to intervene in matters of school performance and quality. There are no corresponding powers relating to schools' financial management. Maintained schools fall within general local authority arrangements for financial assurance. Responsibility for financial management and achieving cost reductions lies with maintained schools themselves, with local authorities responsible for exercising effective oversight.

- 5.2. The Department for Education has, however, implemented a framework governing the financial relationship between local authorities and their schools. This includes guidance on the contents of the scheme for financing schools that each local authority is required to have in place. Each local authority also has more detailed financial regulations and procedures for schools' financial management. Local authorities can decide the content of these regulations and procedures, although these must be consistent with the Department's framework.
- 5.3. The Schools Financial Value Standard (SFVS) replaces the Financial Management Standard in Schools (FMSiS) and has been designed in conjunction with schools to assist them in managing their finances and to give assurance that they have secure financial management in place. (Appendix 1)

6. Chief Finance Officer (CFO) statement

- 6.1. Local authority Chief Finance Officers are now required to submit an annual assurance statement to the Department confirming the deployment of the Dedicated Schools Grant in support of schools. From 2011-12, this statement will include specific confirmation that the local authority has a system of audit of schools that gives adequate assurance over their standards of financial management and the regularity and propriety of their spending. It will include details of the numbers of schools that have carried out the assessment of the new Schools Financial Value Standard and confirmation that these assessments will be taken into account in planning the local authority's programme of audit for schools.
- 6.2. CFOs will be expected to say each year how many SFVS reports they have received from schools before 31 March. Local authorities (LAs) will also be expected to give a general assurance that they have a system of audit in place which gives them adequate assurance over their schools' standards of financial management and the regularity and propriety of their spending.
- 6.3. Of Hammersmith & Fulham schools, only St. Mary's are required to complete the Schools Financial Value Standard by March 2012. This will be tested by audit in 2012/13.

7. Regulating foundation and VA schools as charities

- 7.1. On 1 August 2011, the Secretary of State for Education became the principal regulator for foundation and voluntary schools, academies and sixth form colleges, as they are exempt charities. From April 2009, charities which were previously exempt became excepted charities, that is, directly responsible to the Charity Commission and subject to its accounting and reporting requirements, unless a 'principal regulator' could be identified and appointed.
- 7.2. Now that the Secretary of State for Education has been appointed the principal regulator for foundation and voluntary schools, this will enable

the Local Authority to give consideration as to the manner in which it wishes to audit Foundation and Voluntary-Aided schools.

**LOCAL GOVERNMENT ACT 2000-
LIST OF BACKGROUND PAPERS**

No.	Description of Background Papers	Name/Ext. of Holder of File/Copy	Department/ Location
1.	Report	Dave McNamara Ext 3404	Children's services, Cambridge House

Appendix 1: SCHOOLS FINANCIAL VALUE STANDARD (SFVS)

What is the SFVS?

Schools manage many billions of pounds of public money each year. Effective financial management ensures this money is spent wisely and properly, and allows schools to optimise their resources to provide high-quality teaching and learning and so raise standards and attainment for all their pupils. The SFVS replaces the Financial Management Standard in Schools (FMSiS) and has been designed in conjunction with schools to assist them in managing their finances and to give assurance that they have secure financial management in place.

Who is the SFVS for?

The standard is a requirement for local authority maintained schools. Other schools are welcome to use any of the material associated with the standard, if they would find it useful. **Governing bodies** have formal responsibility for the financial management of their schools, and so the standard is primarily aimed at governors.

What do schools need to do?

- The standard consists of 23 questions which governing bodies should formally discuss annually with the head teacher and senior staff.
- The questions which form the standard are in sections A to D. Each question requires an answer of Yes, In Part, or No.
 - If the answer is Yes, the comments column can be used to indicate the main evidence on which the governing body based its answer.
 - If the answer is No or In Part, the column should contain a very brief summary of the position and proposed remedial action.
- In Section E, governors should summarise remedial actions and the timetable for reporting back. Governors should ensure that each action has a specified deadline and an agreed owner.
- The governing body may delegate the consideration of the questions to a finance or other relevant committee, but a detailed report should be provided to the full governing body and the chair of governors must sign the completed form.
- The school must send a copy of the signed standard to their local authority's finance department.

There is no prescription of the level of evidence that the governing body should require. The important thing is that governors are confident about their responses.

What is the role of local authorities (LAs)?

Unlike FMSiS, the SFVS will not be externally assessed. LAs should use schools' SFVS returns to inform their programme of financial assessment and audit. LA and other auditors will have access to the standard, and when they conduct an audit can check whether the self-assessment is in line with their own judgement. Auditors should make the governing body and the LA aware of any major discrepancies in judgements.

Timetable – key dates

- Maintained schools which had not attained FMSiS by the end of March 2010 must complete and submit the SFVS to their local authority by 31 March 2012; and conduct an annual review thereafter.
- For all other maintained schools, the first run through is required by 31 March 2013; and an annual review thereafter.

The DfE website includes support notes for each question, which governing bodies can use if they wish. The notes provide clarification of the questions, examples of good practice and information on further support to assist schools in addressing specific issues.

Appendix 1: SCHOOLS FINANCIAL VALUE STANDARD (SFVS)

School name:

LA and school DfE numbers:

LIST OF QUESTIONS

**ANSWER
(Yes/In
Part/No)**

**COMMENTS, EVIDENCE
AND PROPOSED ACTIONS**


**ACCESS TO
SUPPORT
NOTES**

A: The Governing Body and School Staff

1. In the view of the governing body itself and of senior staff, does the governing body have adequate financial skills among its members to fulfil its role of challenge and support in the field of budget management and value for money?


Q1 Support Note

2. Does the governing body have a finance committee (or equivalent) with clear terms of reference and a knowledgeable and experienced chair?


Q2 Support Note


3. Is there a clear definition of the relative responsibilities of the governing body and the school staff in the financial field?


Q3 Support Note


4. Does the governing body receive clear and concise monitoring reports of the school's budget position at least three times a year?


Q4 Support Note


5. Are business interests of governing body members and staff properly registered and taken into account so as to avoid conflicts of interest?


Q5 Support Note

6. Does the school have access to an adequate level of financial expertise, including when specialist finance staff are absent, eg on sick leave?










Q6 Support Note

7. Does the school review its staffing structure regularly?










Q7 Support Note

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Appendix 1: SCHOOLS FINANCIAL VALUE STANDARD (SFVS)

B: Setting the Budget			
8. Is there a clear and demonstrable link between the school's budgeting and its plan for raising standards and attainment?			 Q8 Support Note
9. Does the school make a forward projection of budget, including both revenue and capital funds, for at least three years, using the best available information?			 Q9 Support Note
10. Does the school set a well-informed and balanced budget each year (with an agreed and timed plan for eliminating any deficit)?			 Q10 Support Note
11. Is end year outturn in line with budget projections, or if not, is the governing body alerted to significant variations in a timely manner, and do they result from explicitly planned changes or from genuinely unforeseeable circumstances?			 Q11 Support Note
C: Value for Money			
12. Does the school benchmark its income and expenditure annually against that of similar schools and investigate further where any category appears to be out of line?			 Q12 Support Note
13. Does the school have procedures for purchasing goods and services that both meet legal requirements and secure value for money?			 Q13 Support Note
14. Are balances at a reasonable level and does the school have a clear plan for using the money it plans to hold in balances at the end of each year?			 Q14 Support Note
15. Does the school maintain its premises and other assets to an adequate standard to avoid future urgent need for replacement?			 Q15 Support Note

Appendix 1: SCHOOLS FINANCIAL VALUE STANDARD (SFVS)

16. Does the school consider collaboration with others, eg on sharing staff or joint purchasing, where that would improve value for money?			 Q16 Support Note
17. Can the school give examples of where it has improved the use of resources during the past year?			 Q17 Support Note
D: Protecting Public Money			
18. Is the governing body sure that there are no outstanding matters from audit reports or from previous consideration of weaknesses by the governing body?			 Q18 Support Note
19. Are there adequate arrangements in place to guard against fraud and theft by staff, contractors and suppliers (please note any instance of fraud or theft detected in the last 12 months)?			 Q19 Support Note
20. Are all staff aware of the school's whistleblowing policy and to whom they should report concerns?			 Q20 Support Note
21. Does the school have an accounting system that is adequate and properly run and delivers accurate reports, including the annual Consistent Financial Reporting return?			 Q21 Support Note
22. Does the school have adequate arrangements for audit of voluntary funds?			 Q22 Support Note
23. Does the school have an appropriate business continuity or disaster recovery plan, including an up-to-date asset register and adequate insurance?			 Q23 Support Note

OUTCOME OF SELF-ASSESSMENT

E: Summary of agreed remedial action and timetable for reporting back:

[signed]
Date:

Chair of Governors



AUDIT AND PENSIONS COMMITTEE

CONTRIBUTORS

D.EnvSD

WARDS
All

**PARKING: PAY AND DISPLAY -
DEPARTMENTAL RESPONSE**

This report is in response to a request for further information on the subject made by the Committee at its meeting on the 22nd September 2011.

RECOMMENDATION:

1. **To Note the report**

1. INTRODUCTION AND BACKGROUND

- 1.1 The Council currently engages RBKC to provide the service of the collection; counting and banking of monies taken by pay and display machines. The contract commenced on 1st September 2003, The contract was extended in 2009 and expires on 31st August 2014.
- 1.2 Prior to RBKC's involvement this work was originally added to the Council's cash in transit contract with Brinks before a new contract was agreed with Guardforce in 1998. Whilst the service provided by Brinks had not been satisfactory, the service provided by Guardforce was originally exemplary. However, a year into the contract Guardforce was purchased by its main competitor, Securicor, from this point the service seemingly deteriorated alarmingly. The contractual requirements regarding collection frequencies were missed by huge margins, coinboxes were damaged through neglect, keys were lost and money was allegedly stolen from the Council's machines by an employee of the company. The contract ended in disarray with a final financial settlement only being reached with litigation in the background.
- 1.3 By this time, the growth in the number of pay and display machines and value of the monies collected meant that this component was dominating the cash in transit contract. It was also felt to be likely to be preventing some companies who did not want to provide the pay and display cash collection service from tendering for the other cash in transit work. The Finance Department therefore decided to separate the remaining cash in transit work and re-tender it.
- 1.4 With the already very small market having already contracted, it was anticipated that, had the pay and display element been re-tendered, Securicor would have been the only bidder. RBKC had been the critical friend during the Council's best value review of parking services and had a similar number of pay and display machines. Their in-house service had recently itself been the subject of a best value review where the very limited private sector was considered. The recently re-organised in-house service was felt to offer better value for money and was therefore retained.
- 1.5 RBKC appeared to have the capacity and superior organisation to provide the service required by the Council and we therefore embarked on lengthy negotiations to seek agreement for them to provide this service for Hammersmith and Fulham. The contract drafting process between the two legal services sections took a year to conclude but resulted in a contract that has worked well for both Councils with RBKC receiving an award for this service.
- 1.6 The contract was entered into by virtue of Section 1(1) of the Local Authorities (Goods and Services) Act 1970 which permits "the provision by [a local] authority to [another public body] of any administrative, professional or technical services". RBKC relied on this power to provide the services to the Council. The Council, in turn, had the power to enter into the arrangement under Section 1 of the Local Government (Contracts) Act 1997, which gives it a general power to enter into contracts for services it provides in connection with its statutory functions.

- 1.7 The market has not changed significantly during the lifetime of the original contract. Some Councils have taken the high risk approach of awarding contracts to other very small service providers. Given the value of the cash being handled, Officers do not consider this to be an option for this Council. Others have sought to combine in the way that Hammersmith and Fulham and RBKC have done.
- 1.8 It should be stressed that, at the outset of the RBKC contract, the problem of thefts of entire coinboxes by criminals drilling into machines did not exist. As a consequence of having achieved a supportive and fast response from our local Police, combined with a high level of awareness and flexibility from both our pay and display maintenance contractor and RBKC's cash collection team, Hammersmith and Fulham has suffered proportionately much less than many neighbouring boroughs from these thefts. These thefts have, though, focussed attention on the balance between frequency of collection and risk of loss from thefts.
- 1.9 In the 2009 contract renewal, and in response to Hammersmith and Fulham's desire for service efficiencies to reduce the cost of a renewed contract. RBKC produced a proposal which achieved a saving of approximately £95K/year from the previous cost of £530K/year..

2. AUDIT REPORT

- 2.1 Deloitte undertook an audit in February 2011 and due to identified issues on controls in relation to a number of areas issued a Limited Assurance Audit Report.

Area Summary	Area of Scope	Adequacy of Controls	Effectiveness of Controls	Recommendations Raised		
				Priority 1	Priority 2	Priority 3
	Council and Service Objectives			1	0	0
	Partnership with Royal Borough of Kensington and Chelsea			0	1	0
	Meter Setting			0	0	0
	Meter Emptying			0	1	0
	Income and Banking			1	0	0
	System Reconciliations			2	0	0
	Public Notices and Enforcement*			0	0	0
	Management Information			0	1	0
	Risk Management and Business Continuity Management			0	1	0

- 2.2 The following 4 Priority 1 recommendations were made.

Priority 1 Recommendations	<p>We have raised four priority 1 recommendations as a result of this internal audit. These are as follows:</p> <ul style="list-style-type: none"> • Procedures in relation to parking pay & display services should be established; • The level of foreign coins received should be monitored; • Reconciliations between income collected by RBKC and CedAr Financials should be undertaken on a monthly basis and be subject to independent review; and • All variances identified between the income collected by RBKC and the income recorded as per the 'Metric' reports should be investigated.
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2.3 The Council accepted all of the recommendations and agreed appropriate responses. The majority of the recommendations related to the ability to evidence that the activity had taken place, as opposed to concerns that there were no controls.

2.4 However, concern was expressed over the interpretation of the rationale relating to investigation of variances, as set out below:

6. Investigation of Variances

(Priority 1)

Recommendation	Rationale
<p>All variances identified between the income collected by RBKC and the income recorded as per the 'Metric' reports should be investigated.</p> <p>Responsibility for investigating shortages and surpluses over £25 should be clearly defined and records of investigations conducted should be retained.</p> <p>Consideration should also be given to defining a threshold above which variances are reported to management.</p>	<p>A 'Metric Report' is generated for each Pay & Display machine showing the amount of income received. Investigating variances between the RBKC income reports and Metric Reports will help to ensure any discrepancies in income collected are promptly investigated and resolved.</p> <p>From a sample of ten collection dates selected, variances between the income collected by RBKC and the income recorded as per the 'Metric' reports were identified on all ten days. On one of these days (20th November 2009) a variance of £31,514.35 was identified which was assumed to be a meter reading error. No explanation could be provided as to why these variances had occurred.</p> <p>We were also informed that, where discrepancies are identified, these are reported to the engineers responsible for maintaining the machines and a log book is maintained as a record of these variances. The total shortages recorded in the log book since July 2007 were £700,651.39 and surpluses totalled £9,801.95. Discounting incorrect meter readings of £274,262.40 during this period gave total shortages of £426,388.99.</p> <p>No evidence was provided to demonstrate that these variances had been sufficiently investigated and we were also unable to clarify who is ultimately responsible for investigating these variances and taking any corrective action required.</p> <p>Where variances between the income collected by RBKC and the income recorded on Metric Reports are not investigated, there is an increased risk that fraud or misappropriation of</p>

		income will remain unidentified and will continue to result in financial loss to the Council.	
Management Response			
Actions now in place			
All variances greater than £25 are fully investigated and reported to Parking by Finance. All records of investigation and follow up are detailed on a shared file so that actions can be recorded and reviewed.			
Discrepancies between Metric reports and Cash coin count			
Readings are sometimes received either side of the collection day for a particular route, resulting in a surplus on the day that can be explained by a corresponding shortage. The discrepancy of £31,514.35 reported on 20 th November is partly explained by readings for routes 52 and 69 being received on 19 th November (totalling £25,879.10), with an additional £1,877.30 of collections on these routes from machines that were not communicating. The rest of the difference would be due to other machines that were not communicating. The log book used to extract the figures shown here overstates the shortage amount and understates the surplus. In the 3 years from April 2007 – March 2010, there was an overall surplus of £1.7m.			
Mitigating Actions			
A new log book system is now in use, which will match the total overall discrepancy to avoid confusion over the discrepancy amount. Daily discrepancies and investigations are included as an agenda item at the monthly meeting with RBKC, and any current investigations are discussed.			
Policies and Procedures document			
Responsibilities are outlined in a policies and procedures document produced in February 2007, which is being updated to reflect changes in procedures. A shared folder between Environment Finance and Parking Services is in use to log investigation progress.			
Responsibility	AD Finance and Resources / Head of Parking	Deadline	Implemented (See Mitigating actions)

- 2.5 Whilst the machines are generally reliable in terms of daily use, intermittent problems with data transmission means that the totals reported are not completely reliable. The previous reconciliation process was based on a spot reconciliation i.e. did the total reported equate to the cash collected on that specific day. Where there had been delayed data transmission this could mean significant over or under-reporting of income in relation to the cash collected.
- 2.6 The new reconciliation process is continuous and thus smoothes out over and under-reporting as it records the data reading and cash over a period of time. This has improved the reconciliation process and helps identify problems with specific machines.
- 2.7 The other major operational activity identified during the audit was the reporting of foreign coins. Whilst the Council is susceptible to cheaper foreign coins (usually produced by the Royal Mint) it is not a significant issue relative to the remedy of cashless parking. Nevertheless the recommendation of reporting the level of foreign coins has been implemented and on one occasion the department undertook an exercise to verify the extent of foreign coin usage.
- 2.8 The exercise was based on a European Football game at one of the borough's clubs but the results did not suggest that this was a contributing factor.

3. FOLLOW-UP AUDIT

- 3.1 A follow-up audit was undertaken in November 2011. Seven of the eight recommendations were found to be fully implemented. One recommendation

relating to management reporting, in particular the difficulty with quantifying the impact of foreign coins on lost income. The finding of the report is set out below.

Recommendations

1. Management Reporting

Priority	Recommendation	Follow up findings	Further Action Required
2	<p>Information in relation to income received from RBKC should be reported to management on a monthly basis. This information should include:</p> <ul style="list-style-type: none"> Trend analysis, both borough wide and by locality; The level of variances between machine readings and income received; and <p>The amount of foreign coins / weighted disks collected from pay and display machines.</p>	<p><u>Partly Implemented</u></p> <p>Monthly reports had been sent to the Head of Parking Services, including trend analysis (comparison against previous months and the previous year); level of variances and a breakdown of discrepancies. Examples were provided. However, discussions established that this process is currently on hold due to issues with the accuracy of reporting rejected and foreign coins.</p>	<p>Monthly reporting to management should continue while a solution to reporting the level of rejected and foreign coins is found.</p> <p>RBKC currently provide the Council with a daily coin-type count, which includes detail of foreign coins collected. These details may be used as totals for management review.</p>
Management Response			Responsible Officer
Agreed.			Finance Team
			Deadline
			31/12/2011

- 3.2 Whilst the methodology is not fool-proof, officers work with RBKC to translate foreign coins with the sterling coins that they are most likely to replicate. This information is being captured and used to provide an estimate of the lost income. Should it indicate high levels of consistent activity then appropriate action involving surveillance will be considered.
- 3.3 All other recommendations have been successfully implemented.

LOCAL GOVERNMENT ACT 2000- LIST OF BACKGROUND PAPERS

No.	Description of Background Papers	Name/Ext. of Holder of File/Copy	Department/ Location
1.	Report	Dave McNamara Ext 3404	Environment services, HTHX
2.	CiT Contract	Dave Taylor Ext 3251	Environment services, Bagley's Lane
3.	File	Amit Mehta	Environment services, HTHX