



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