

REPORT TITLE: DISTRICT HEATING- REQUEST FOR OFFICER ATTENDANCE

Meeting:	Corporate Governance & Audit Committee
Date:	27 September 2024
Cabinet Member (if applicable)	Councillor Tyler Hawkins
Key Decision Eligible for Call In	No No – Information report
Purpose of Report To advise the committee of progress against the recommendations made by internal audit in relation to the Councils District Heating service	
Recommendations <ul style="list-style-type: none"> • That the report be noted • The Committee consider if there are any matters they require any further information or assurance Reasons for Recommendations <ul style="list-style-type: none"> • The report is provided for monitoring 	
Resource Implications: <ul style="list-style-type: none"> • None from this report; addressing recommendations should improve governance or control 	
Date signed off by <u>Strategic Director</u> & name.	Not applicable
Is it also signed off by the Service Director for Finance?	Not applicable
Is it also signed off by the Service Director for Legal Governance and Commissioning?	Not applicable

Electoral wards affected: all

Ward councillors consulted: none

Public or private: public

Has GDPR been considered? yes

1. Executive Summary

At its meeting on 26th July 2024 the Committee considered the first Quarterly Report of Internal Audit 2024/25 (April to June 2024) and decided that they were not content with the matters identified in the audit report that related to District Heating. The Committee

requested that management from the service attend a future meeting and discuss progress.

2. Information required to take a decision

The extract from the Quarterly Report (1 24/25) is reproduced below.

002	<u>Opinion</u>	<u>Recommendations</u>		
	Homes & Neighbourhoods	Fun dm	Sign ifct	Meri ts Att
District Heating	<p><u>Limited Assurance</u></p> <p>A number of key controls are not working effectively. Many of these issues were identified in the previous review 2020, and despite having been agreed, have not been addressed, The intention of the schemes is to break-even but this is not happening. In the 2023/24 financial year, the expenditure was £787k against income of £191k, a loss of £596k. In 2022/23 the shortfall was approximately £1m.</p> <p>When gas prices increased significantly, the charges made to tenants did not.</p> <p>Accordingly, general tenants- with heating bills- are subsidising those tenants / leaseholders living in district heating schemes via the HRA. This problem was masked to some extent by the way income and expenditure were coded in SAP.</p> <p>District heating customers did not receive energy support payments when these were offered to other customers in 2022/23. The Council may be able to collect a rebate in the 2024-25 financial year, which may amount to £650k in total, which it may be appropriate for the HRA to look to retain. No evidence was available to suggest that the District Heating Team had taken steps to access these funds.</p> <p>Besides the financial position, a number of other issues were identified,</p> <ul style="list-style-type: none"> • the contract for management support expired in January 2023 and a new procurement process was not initiated until recently. The current provider has continued to provide services without a contract in place. • there is a lack of documented procedures. • vulnerability criteria for financial assistance have not been subject to regular review. • high credit balances have not been subject to regular review. • the boiler and meter infrastructure are at the end of its working life; and • Usage has often been based on estimates owing to a failure to take regular meter readings. <p>The problems appear to have been exacerbated, at least in part, due to the departure of key personnel.</p> <p>The agreed Action Plan provides for more straightforward issues to be completed by the end of July 2024. Procurement and charging actions will require more time into 2025 to resolve.</p>	3	10	1

Additional information is contained in Appendix 1

3. Implications for the Council

Implementing recommendations is important as demonstrating a sound set of control arrangements and good governance.

3.1 Working with People

Not directly applicable (other than effective Service provision meets the needs of clients).

3.2 Working with Partners

Not directly applicable.

3.3 Place Based Working

Not directly applicable.

3.4 Climate Change and Air Quality

Not directly applicable.

3.5 Improving outcomes for children

Not directly applicable.

3.6 Financial Implications

Not charging users for a specific service transfers the costs on to other HRA tenants (who have already met their energy costs with their chosen energy company)

3.7 Legal Implications

Not directly applicable.

3.8 Other (e.g. Risk, Integrated Impact Assessment or Human Resources)

Implementation of recommendations should improve overall control arrangements and promote good governance.

4. Consultation

With senior management in the service, who are responsible for implementation.

5. Engagement

Not applicable.

6. Options

Not applicable.

7. Next steps and timelines

For the Committee to discuss.

8. Contact officer

Martin Dearnley Head of Audit & Risk.
Naz Parkar Service Director

9. Background Papers and History of Decisions

Quarterly Report of Internal Audit 1; 2024/25

10. Appendices

Public – service response note – Appendix 1

11. Service Director responsible

The Head of Internal Audit is responsible for the Internal Audit function.
The following service directors provide oversight.

Samantha Lawton, Service Director for Legal Governances & Monitoring

Kevin Mulvaney, Service Director for Finance