

## CABINET

**MONDAY 2 FEBRUARY 2015**  
**10.00 AM**

**Bourges/Viersen Room - Town Hall**

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## AGENDA

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*Any agenda item highlighted in bold and marked with an \* is a 'key decision' involving the Council making expenditure or savings of over £500,000 or having a significant effect on two or more wards in Peterborough. These items have been advertised previously on the Council's Forward Plan (except where the issue is urgent in accordance with Section 15 of the Council's Access to Information rules).*

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## MINUTES OF CABINET MEETING HELD 19 JANUARY 2015

### PRESENT

**Cabinet Members:** Councillor Holdich, Councillor Elsey, Councillor Fitzgerald, Councillor Hiller, Councillor North, Councillor Seaton and Councillor Serluca.

**Cabinet Advisers:** Councillor Casey and Councillor Lamb.

#### 1. APOLOGIES FOR ABSENCE

Apologies were received from Councillor Cereste.

Councillor Holdich chaired the meeting in Councillor Cereste's absence.

#### 2. DECLARATIONS OF INTEREST

There were no declarations of interest.

#### 3. MINUTES OF THE CABINET MEETING HELD ON 15 DECEMBER 2014

The minutes of the meeting held on 15 December 2014 were agreed as a true and accurate record.

### STRATEGIC DECISIONS

It was agreed to take item 5, Erection of Barriers at Northminster Multi-Story Car Park, as the next item of business.

#### 4. ERECTION OF BARRIERS AT NORTHMINSTER MULTI-STOREY CAR PARK

Cabinet received a report from the Cabinet Member for Resources, the purpose of which was for it to consider a Regulation 28 report submitted by the Coroner and to agree any appropriate action to be taken.

On 30 July 2014, the Coroner issued a Regulation 28 report in respect of a suicide by jumping from one of the Queensgate car parks. Under the Coroners' Regulations 2013, a coroner has both the power and a duty to raise concerns where the coroner considers that actions could be taken to prevent future deaths.

A Regulation 28 report was addressed to the organisations the coroner believed could take action to prevent further deaths and such organisations had a duty to respond to the Regulation 28 report giving details of action taken or proposed to be taken, with a timetable for action. Alternatively, the organisation(s) were to explain why no action would be taken.

Councillor Seaton introduced the report and highlighted the main issues contained within. The Council's Assistant Director for Education, Resources and Corporate Property added further points of clarification.

Cabinet considered the report and **RESOLVED:**

1. To note the content of the Senior Coroner's report dated 30<sup>th</sup> July 2014 titled "Regulation 28: Report to Prevent Future Deaths" received by the Council;
2. To consider how the findings of the Senior Coroner's Regulation 28 : Report to Prevent Future Deaths relate to the Council owned Multi Storey Car Park known as Northminster Car Park, Peterborough (Northminster MSCP).
3. To note that the Council is aware that Peterborough has a higher suicide rate than the England average and is committed to taking action to address this through the Cambridgeshire and Peterborough Suicide Prevention Strategy and the Stop Suicide Pledge.
4. To note that the Cambridgeshire and Peterborough Suicide Prevention Strategy Three Year Action Plan includes a recommendation to reduce the risk of suicide from multi-storey car parks through a multi-faceted approach including suicide awareness training for car park staff, signage to direct people to sources of support and promotion of the use of barriers to restrict access to jumping points.
5. To consider the budget implications of undertaking the works set out in feasibility study to install infill panels and fencing on the upper car park deck, the budget implications and the proposed review processes to determine future decision making.
6. To confirm that the Head of Corporate Property and Children's Resources, in consultation with the Director of Public Health and Cabinet Member Resources, will determine whether the works to install preventative measures on the Northminster MSCP are carried out in whole or part together with the decision making process and timetable associated with these options, subject to sufficient budget allocation.
7. To approve an addition to the capital programme to include an unbudgeted provisional sum of £250,000 in the event that the Assistant Director – Education, Resources and Corporate Property in consultation with the Cabinet Member for Resources concludes that the intervention works are required and barriers and fencing are erected as set out in this report.

## **REASONS FOR THE DECISION**

The Council was not required by the Senior Coroner to carry out suicide prevention works to the Northminster MSCP. However the Council took the issues set out in the Coroner's report very seriously and was considering a range of options including the erection of fencing and infillpanels within the Northminster Car Park having regard to the operational life of the car park, redevelopment proposals and associated budget implications.

## **ALTERNATIVE OPTIONS CONSIDERED**

To do nothing. This was the least cost option but did not address the points made in the Senior Coroner's Recommendation.

To monitor what impact the works at Queensgate Car Parks had on the numbers of suicides and suicide threat incidents at Northminster MSCP. For reasons set out within the report to Cabinet, this was the approach the Council was taking, although making budgetary provision in the event that the ongoing review determined that the investment was to be made into the car park.

To undertake interventions requiring significantly less investment such as additional signage and increased monitoring one site despite the evidence base for the effectiveness of these being weaker than for barriers. The situation would be reviewed

once proposals for the medium to longer term future of the car park had been developed. The Council had already undertaken to implement these interventions.

## 5. NEW DELIVERY MODEL FOR PETERBOROUGH LIBRARY SERVICE

Cabinet received a report from the Cabinet Member for City Centre Management, Culture and Tourism.

The purpose of the report was to allow Cabinet to consider the consultation responses received from the first consultation process, and subsequent approval for the next steps on libraries including a second, eight week public consultation on possible, affordable delivery approaches, to libraries which would meet the Council's statutory obligations.

Councillor Serluca introduced the item and highlighted the main issues contained within. The Council's Culture and Leisure Partnership Manager added further points of clarification.

Cabinet debated the report and key points raised and responses to questions included:

- Further work was still being undertaken in respect of Community Centres, and there was as yet, no recommendations in relation to the future of the 33 Council Community Centres;
- The Mobile Library and Books at Home Service were not part of the consultation and would continue as previously;
- The timetables for the libraries would be confirmed after the consultation;
- In relation to disabled users, all libraries were situated on single floors, bar Bretton, which had a lift;
- The new Open+ technology was fully accessible by disabled users;
- Training on the Open+ system would be provided for new users and the general public had been witnessed using the service at a recent trip to Leeds;
- The group sessions for young people at the libraries were not due to cease, more group activities within the libraries were being encouraged;
- There were links with the Council's Digital Strategy and there was 24 hour access to downloadable books direct from the library websites. City Fibre would be located within all the libraries allowing for super-fast broadband connections;
- A version of the model was already functioning at Hampton Library and there had been no issues encountered during the un-staffed hours. The monitoring in place and the ownership of the community would enable a successful system;
- All neighbourhood police would start using the libraries and there would be volunteers;
- There was no intention to make the libraries fully automated in the future; and
- There had been 375 libraries closed throughout the country over the past two years.

Cabinet considered the report and **RESOLVED**:

1. To consider the responses received to the first consultation as set out in the report; and
2. To approve the basis for the second public consultation on the future delivery model of library services in Peterborough.

### REASONS FOR THE DECISION

The reasons for the report were for Cabinet to approve the proposed new approach to delivering Peterborough's library services in the future and approval to conduct a second consultation.

## **ALTERNATIVE OPTIONS CONSIDERED**

The Council had explored, but for the time discounted two other options for the delivery of library services in Peterborough that would achieve a similar level of saving:

1. The option of putting all of the available staffing resource into Central Library to create an enhanced 7 day city centre offer, supplemented by the library mobile service;
2. Central, Bretton, Orton, Werrington and Dogsthorpe libraries remain open with reduced staff hours, but would be available for further hours with no staff. Hampton to remain as a purely self-service library; and
3. Eye, Dogsthorpe, Stanground, Thorney and Woodston libraries to close. However if community groups came forward any of these could remain open by being run by volunteers at no additional cost to the Council.

## **6. LOCAL COUNCIL TAX SUPPORT SCHEME**

Cabinet received a report following the consultation on proposals for Council Tax Support for 2015/16 launched by a Cabinet Member Decision Notice on 2 December 2014 which had included a discussion at the Joint Budget Scrutiny on 3 December 2014.

The purpose of the report was for Cabinet to make a recommendation to Full Council on the Council Tax Support Scheme to be implemented in Peterborough from April 2015.

Councillor Seaton introduced the report and highlighted the main issues contained within.

Cabinet debated the report and key points raised and responses to questions included:

- There would be approximately 11,000 households throughout Peterborough affected by the proposals;
- It had been extremely difficult to obtain Council Tax feedback in recent years, 4,000 letters had been sent out and feedback was relied upon from partner,s such as the Citizen's Advice Bureau;
- The Police and Fire Services would also face a shortfall if a scheme was not introduced; and
- The scheme was not ideal, but was required. No increase was advocated at the current time, with the scheme being kept under close review going forward.

Cabinet considered the report and **RESOLVED:**

1. To note the feedback received to date on the consultation on proposed changes to the council tax support scheme, including the updates tabled at the meeting; and
2. To recommend that Council agree the Local Council Tax Support Scheme for Peterborough, including the level of reduction in benefit for working age claimants, for which Cabinet recommended that the reduction be kept at 30%.

## **REASONS FOR THE DECISION**

The Constitution required the Cabinet to approve the draft Council Tax Support scheme for consultation.

## ALTERNATIVE OPTIONS CONSIDERED

### 1. No change and keep council tax support at a 30% reduction

For Peterborough this would result in an additional pressure of around £1m and savings to be made from elsewhere in its budget. This could also affect the services provided by our Fire and Police Authorities as over 17% of the council tax that is collected is distributed to these preceptors.

If the Council were to absorb the deficit, it would then have to find savings elsewhere in the budget due to the limited amount of resources available to run all Council services. Given the reductions in grant the Council was facing, further reductions of £1m would have a significant impact.

The Council had released its first phase of budget proposals for 2015/16. Respondents to the CTSS consultation would be encouraged to review the budget proposals to determine whether they would prefer changes to CTSS, or additional savings to be found elsewhere in the Council budget.

### 2. Design a local scheme to deliver £1m savings – a 50% reduction

To reduce all CTB equally - as the Government had made clear that pensioners must be protected, the whole of this shortfall would need to be met by working age claimants. As a result, to meet the £1m funding shortfall, the reduction would need to increase from 30% to around 50%.

### 3. Somewhere in between

As with the option of 'no change', absorbing any deficit from a shortfall in funding would impact on the services that the Council currently delivered, but would mean a lesser impact on benefit recipients. Options to be considered could include further reducing council tax support:

- From 30% to 35% to save £0.25m (and £0.75m being found elsewhere in the council's budget)
- From 30% to 40% to save £0.50m (and £0.5m being found elsewhere in the council's budget)

The Council had previously considered other changes, for example, introducing a maximum or minimum level of support. These had been rejected as they made the scheme more complex and generated little saving. As such the straightforward overall reduction was maintained for any changes.

## 7. COUNCIL TAX AND NNDR

Cabinet received a report which formed part of the preparation for setting the council's budget. It needed to be considered so that figures for the tax base, the Collection Fund and the amount of business rates to be collected could be used in setting the Council Tax and business rate income and could be notified to other affected authorities.

Councillor Seaton introduced the report and highlighted the main issues contained within. The Council's Executive Director Resources added further points of clarification around the issue.

Following a brief debate it was agreed by Cabinet that a letter be written to Government with regards to addressing outstanding business rates appeals.

Cabinet considered the report and **RESOLVED**:

1. To propose the calculation of the Council Tax Base for 2015/16 set at a level of 52,748.5 Band D equivalent properties based on a council tax support scheme of 40%, delegating authority of final confirmation of the Band D equivalent properties

to Executive Director Resources following approval of the council tax support scheme by Council on 28 January;

2. To note the estimated position on the Collection Fund in respect of Council Tax as at 31 March 2015 being:

Council Tax £0

3. To note the estimated position on the Collection Fund in respect of Business Rates as at 31 March 2015 being a deficit position from increasing the appeals provision for the power station:

Business Rates £3.106m deficit

4. To delegate to the Executive Director Resources authority for approving and returning the final NNDR1 return to the Secretary of State by 31 January 2015 to include any further revision to the business rates position 2014/15 and Business Rate income 2015/16.

### **REASONS FOR THE DECISION**

The Council Tax Base could be set at a higher or lower level. However, this could have the effect of either inflating unnecessarily the amount of Council Tax to be set or setting the tax at a level insufficient to meet the Council's budget requirements. A similar position could arise if the surplus or deficit were set at a higher or lower level.

The calculation and return of the information included in the NNDR1 was a statutory requirement which could be formally delegated to an officer. As with council tax if the amount of business rates estimated to be collected was increased or reduced or the surplus or deficit was set at a higher or lower level then the amount of income available to the council would change with the consequent effect on service provision or council tax levels.

### **ALTERNATIVE OPTIONS CONSIDERED**

The report to Cabinet covered calculations that were all prescribed by regulations with the effect that no other options needed to be considered. Furthermore, alternative tax base calculations had been prepared dependent on the option Council approved on the Council Tax Support Scheme for 2015/16.

## **8. BUDGET 2015/16 AND MEDIUM TERM FINANCIAL STRATEGY (MTFS) 2024/25**

Cabinet received a report as part of the Council's formal budget process set out within the constitution and legislative requirements to set a balanced budget for 2015/16 and medium term financial strategy to 2024/25.

The purpose of the report was for Cabinet to commence the second and formal process to set a balanced budget for 2015/16 and medium term financial strategy to 2024/25 in line with the provisional local government finance settlement for 2015/16.

Following Council approval of phase one budget proposals at the meeting of 17 December 2014, the report set out phase two budget proposals for consultation to enable Cabinet at its meeting on 23 February to make recommendations to be made to the meeting of Council on 4 March 2015.

Councillor Seaton introduced the report and highlighted the main issues contained within.

Cabinet debated the report and key points raised and responses to questions included:

- The proposals which had been deferred from phase one to phase two, including were subject to ongoing discussions;
- It was disappointing that comments had been made by some Members in relation to a couple of small typos contained within such an extensive and well put together report;
- There had been no increase in council tax as this would mean the Council would lose a substantial government grant awarded to council's that froze council tax, the amount lost against any additional charges would only mean a small increase in the Council's budget;
- Keeping council tax low was a positive thing for household finances; and
- If Council Tax was increased, this would have an incremental affect upon Council Tax Support.

Cabinet considered the report and **RESOLVED**:

1. To commence formal budget consultation that set a balanced budget for 2015/16 and the medium term financial strategy to 2024/5 in line with the announcement of the local government provisional settlement for 2015/16 that:
  - a. is set in the context of the council priorities;
  - b. takes note of the budget monitoring position for 2014/15;
  - c. presents the draft revenue budget for 2015/16 and proposed cash limits for 2016/17 to 2024/25 (including the investment and saving proposals);
  - d. presents the draft capital programme for 2015/16 and proposed cash limits to 2024/25 and associated capital strategy, treasury strategy and asset management plan;
  - e. proposes a council tax freeze in 2015/16 with indicative increases for planning purposes of two per cent for 2016/17 to 2024/25;
  - f. education funding is spent at the level of funding resources available to both schools and the council in 2015/16 and future estimates to 2024/25;
  - g. the budget for 2015/16 is supported adequately with reserves, provisions and robust budget estimates set in the context of the risks outlined in the report; and
  - h. presents the draft fees and charges for 2015/16.
2. To seek feedback from Scrutiny and views from all residents, partner organisations, businesses and other interested parties on the budget and budget proposals outlined in the budget consultation document for phase two;
3. To have regard for the continuing uncertainty of national public finances that would not become known until the next parliament commenced, making it unrealistic to forecast with accuracy future government grants beyond the further grant reductions; and
4. To note that government grants would not be confirmed until the final settlement was released in February 2015.

## **REASONS FOR THE DECISION**

The Council must set a lawful and balanced budget.

The Council was required to set a Council Tax for 2015/16 within statutory prescribed timescales and in accordance with the local referendum requirements contained within the Localism Act 2011.

Before setting the level of Council Tax, the Council must have agreed a balanced budget.

## **ALTERNATIVE OPTIONS CONSIDERED**

Alternative budget proposals had been considered and rejected by Cabinet and had also been shared with the budget working group over the budget setting period. Cabinet rejected these budget proposals on the basis that the proposals would be detrimental to public service delivery or impact on delivery of the council priorities following feedback from the budget conversation undertaken over the past few months.

Cabinet considered alternative council tax levels and for the reasons set out within the Cabinet report, recommend that the offer by government to freeze council tax represented the best value for the residents of Peterborough.

## **9. CREATION OF A PETERBOROUGH DOMESTIC ENERGY SUPPLY TARIFF**

Cabinet received a report to further the Council's strategic aim of becoming an environment capital.

The purpose of the report was to seek approval to enter into a strategic partnership agreement with OVO for the development of an energy partnership in Peterborough and as part of the first project under that strategic partnership, to enter into a tariff agreement with OVO for the provision of domestic energy supply tariffs in Peterborough.

Councillor North introduced the report and highlighted the main issues contained within. The Council's Executive Director Resources added further points of clarification around the issue and advised of the benefits that the tariff would bring to the city.

Cabinet considered the report and **RESOLVED**:

1. That Council entered into a strategic partnership agreement for the development of an energy partnership in Peterborough with OVO Energy Limited ("OVO"); and
2. That Council entered into a tariff agreement for the provision of domestic energy and supply tariffs in Peterborough with OVO.

## **REASONS FOR THE DECISION**

To enable the Council to offer what was anticipated to be the UK's lowest-priced energy tariff for dual fuel and prepayment metering to be implemented in Peterborough area; as well as introducing a highly competitive single-fuel offering.

The opportunity to enter into a partnership with OVO as an established regulated energy company within the market reduced the cost and regulatory burden to the Council in fulfilling its strategic objectives.

The strategic partnership agreement would allow the Council and OVO to explore and develop other energy supply opportunities which could assist the Council in reducing fuel poverty in the Peterborough area and contribute to the Council's wider strategic goal of becoming the UK's Environment Capital.

#### **ALTERNATIVE OPTIONS CONSIDERED**

The Council could determine not to pursue the Peterborough Tariff and simply continued with the existing schemes. However, it would then lose the opportunity to make a significant impact on local fuel poverty through a direct reduction in residents' fuel bills.

The Council could pursue a local tariff by becoming a utility and creating its own tariff. This had been ruled out on the basis of the significant additional regulatory and other administrative set up and running costs which would be incurred.

#### **10. STRATEGIC PARTNERSHIP BETWEEN PETERBOROUGH CITY COUNCIL AND AVIC INTERNATIONAL CORPORATION (UK) LTD**

Cabinet received a report from the Executive Director, Resources.

The purpose of the report was to seek approval to enter into a memorandum of understanding (MoU) regarding a strategic partnership arrangement (SPA) between Peterborough City Council and AVIC International Corporation (UK) Limited (AVIC).

Councillor Eley introduced the report and highlighted the main issues contained within. The Council's Executive Director Resources added further points of clarification around the issue, advising of the benefits that the partnership would bring and further advising that each project coming forward would be subject to individual scrutiny.

Cabinet considered the report and **RESOLVED:**

To approve Council entering into a memorandum of understanding regarding a strategic partnership arrangement with AVIC International Corporation (UK) Limited.

#### **REASONS FOR THE DECISION**

To enable a memorandum of understanding regarding a strategic partnership arrangement to be entered into.

#### **ALTERNATIVE OPTIONS CONSIDERED**

To continue pursuing existing priorities without having an international partner in place. This would mean that the Council would not benefit from the expertise, experience and supply chain benefits of an international partner.

To pursue the additional projects anticipated by the strategic partnership separately. The Council would then incur additional expense in treating each project individually and in procuring individual solutions.

#### **MONITORING ITEMS**

#### **11. OUTCOME OF PETITIONS**

Cabinet received a report following the presentation of petitions at the Council meeting of 17 December 2014.

The purpose of the report was to update Cabinet on the progress made in relation to these petitions, these being:

- i) Petition relating to Bushfield Bowls Club; and
- ii) Petition relating to Bretton Library.

Cabinet considered the report and **RESOLVED**:

To note the actions taken in respect of petitions presented to Council.

### **REASONS FOR THE DECISION**

As the petitions presented in the report had been dealt with by Cabinet Members or officers, it was appropriate that the action taken was reported to Cabinet, prior to it being included within the Executive's report to full Council.

The proposals in respect of bowling greens had been deferred for phase 2 of the Budget consultation. Phase 2 of the budget also covered the proposals for the library service. The petitions received would be considered alongside the Council's analysis of all further consultation responses received in respect of phase 2 budget proposals.

### **ALTERNATIVE OPTIONS CONSIDERED**

There were no alternative options considered.

Chairman  
10.00am - 11.10am

<b>CABINET</b>	AGENDA ITEM No. 4
<b>2 FEBRUARY 2015</b>	PUBLIC REPORT

Cabinet Member(s) responsible:	Councillor Peter Hiller - Cabinet Member for Planning and Housing Services	
Contact Officer(s):	Simon Machen - Director of Growth and Regeneration	Tel. 01733 453475

## **A1139 Fletton Parkway junction 17 A1(M) to junction 2 road widening scheme, contamination and drainage issues**

R E C O M M E N D A T I O N S	
<b>FROM :</b> Councillor Peter Hiller	<b>Deadline date :</b> <i>Enter relevant date of Council meeting if item is to be referred to full Council</i>
<p>For Cabinet to:</p> <p>1. Approve Balfour Beatty to undertake the additional works necessary to complete the A1139 junction 17 A1(M) – junction 2 widening scheme and</p> <p>2. Authorise the virement of £4.502m to the project budget from the various budgets detailed within this report.</p>	

### **1. ORIGIN OF REPORT**

1.1 This report is submitted to Cabinet from the Cabinet Member for Planning and Housing Services.

### **2. PURPOSE AND REASON FOR REPORT**

- 2.1 The purpose of this report is to seek approval for the completion of the A1139 Fletton Parkway junction 17(A1M) to junction 2 road widening scheme, to seek approval for virements to cover the increased cost of the scheme and to provide background information explaining the reasons why the cost of delivering the scheme has increased from the original target cost.
- 2.2 This report is for Cabinet to consider under its Terms of Reference No. 3.2.1 'To take collective responsibility for the delivery of all strategic Executive functions within the Council's Major Policy and Budget Framework and lead the Council's overall improvement programmes to deliver excellent services'.

3. **TIMESCALE** (If this is not a Major Policy item, answer **NO** and delete second line of boxes).

Is this a Major Policy Item/Statutory Plan?	<b>NO</b>
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## 4. BACKGROUND INFORMATION

### The strategic importance of the scheme

- 4.1 Whilst Peterborough's parkways have served the city well there are now significant capacity issues on the network given the levels of recent and planned growth. Over the last 6 years some £22.5m has been invested in upgrading the A1139 through Peterborough. However, further improvements were required between J17 of the A1(M) and J2 of the A1139, as well as improvements to those junctions themselves, to unlock planned and consented growth. The road also serves growth in districts to the east of Peterborough. The section between junctions 17 and 2 is a pinch point and is congested during peak hours.
- 4.2 Great Haddon is a key strategic urban extension located adjacent to the A1139 and the A1(M). This site when developed will deliver:
- 5,300 new houses
  - 324,500 sqm employment space
  - 11,500 sqm retail space and community facilities (leisure, schools and health)
  - Around 9,050 new jobs

Without the work on the A1139 the Highways Agency would not have supported the planning application for the site. Without this support it would not have proceeded

- 4.3 The employment and residential elements of Great Haddon include development thresholds beyond which no further development can take place without full implementation of the A1139 road widening scheme. This was loaded in favour of the employment site with the trigger on the housing element set low, to the extent that the development consortium were unlikely to bring the site forward until there was certainty about both funding and timing. Critically, the Great Haddon development takes all of the existing capacity on the A1139. In practice this means that other strategic growth sites in the city cannot come forward until the road widening scheme is implemented.
- 4.4 Even without the widening scheme, this section of the heavily trafficked A1139 required major structural maintenance work within the next 3 to 4 years. Costs for this were estimated at £9m and would have potentially involved having to close each side of the carriageway in turn to implement the works, causing significant traffic disruption. Attempts were made to secure funding from the government for this maintenance in 2010/11 with the submission of a major maintenance major scheme business case, but the bid was unsuccessful. To be clear, if the council had simply waited and incurred this structural maintenance work then this would not in itself have met the Highways Agency's requirements outlined above.
- 4.5 The strategic importance of the scheme has been recognised by both the government and the Greater Cambridgeshire Greater Peterborough Local Enterprise Partnership (LEP). The council has secured significant funding towards the cost of the scheme including a £4.5m Local Pinch Point grant from the Department for Transport (DfT), a £1.5m grant from the Growing Places Fund through the LEP, and £3m of Growing Places Fund loan through the LEP (to be repaid in instalments from 2018 from future community infrastructure levy income). In addition, £3.8m of S106 funding has been secured from the Great Haddon development. Of the current scheme budget of £13.5m. Over 80% (nearly £11m) is externally funded, (although the council is in practice forward funding an element of this.)

### The contract and previous council approvals

- 4.6 A Cabinet Member Decision Notice (CMDN) to appoint Birse Civils Limited/ Balfour Beatty as the construction contractor for the scheme was approved in December 2013. This CMDN gave authorisation to award a contract for construction up to a target cost value of £11m.

- 4.7 In January 2014 Birse submitted an indicative target cost of £13.915m for the scheme, but this included an additional potential risk figure of over £1m attached in the form of a client risk register, to cover technical unknowns. This indicative submission was in excess of the £11m referred to above. Following a detailed assessment of pricing the scope of the scheme was reduced to ensure affordability.
- 4.8 A second CMDN was raised for the approval of Birse as the construction contractor for a target cost of just under £12m, reflecting the assessment of pricing referred to above. The second CMDN came into effect on 12 February 2014 and Birse were subsequently awarded a contract through the Midlands Highway Alliance's (MHA) Medium Schemes Framework 1 Contract under NEC3 Option 3. Contractor mobilisation occurred in the middle of February 2014.
- 4.9 The use of a target cost contract is common in the construction industry. It provides a genuine estimate of all recoverable costs, materials, labour, profit etc as well as identifying a value for risk items that are to some extent unknown at the point of agreeing the target cost. There can be unforeseen items that occur during the construction of a scheme that change the scope of the original works. These items are referred to as 'compensation events' and are discussed, costed and if agreed change the value of the project target cost. The use of a target cost contract facilitates a 'pain gain' mechanism and encourages both parties to actively manage the contract due to the potential benefits and risks of delivering a project below or over the agreed target cost. The pain or gain is shared between both contractor and client and is calculated comparing the actual costs with the most recently revised and agreed target cost.
- 4.10 The alternative is a fixed price contract but this option is significantly more complex to negotiate and all risks are priced into the cost by the contractor. This approach has a number of shortcomings:
- For major infrastructure schemes this can increase cost by some 30%, with any abnormal costs still borne by the client.
  - The procurement process itself adds time and cost to the process.
  - The council would have been at risk of losing external funding for the project.

### **Cost increase**

- 4.11 This is one of the largest and most complex road schemes that the council has ever undertaken, and it forms a critical part of the infrastructure necessary to grow the city. Without this widening scheme the city's growth potential would be significantly curtailed given the impact on the A1M junction and the capacity restrictions of the A1139. Since the scheme commenced a number of significant issues have occurred which have resulted in the submission of legitimate early warning notices (EWN) and compensation events (CE) by the contractor. This has resulted in an estimated increase in cost of £4.502m above the project budget. The significant issues include:
- The discovery of extensive amounts of contaminated soil throughout the scheme.
  - The very poor condition of existing drainage which has resulted in the need for extensive repair work.
  - The need for major road surface crack repairs throughout the scheme.
  - Replacement of sub-standard road construction at the tie-in point at the east end of the scheme between junctions 2 and 3, to facilitate integration with central reserve works.
- 4.12 The cost of the scheme has escalated from the original estimate at the target cost stage. The majority of the cost listed in the compensation events described below were already inherent either in the ground or existing infrastructure, but not obvious, predictable or accessible. The council has endeavoured to mitigate costs wherever possible, but has been hampered by tight working conditions, minimum road space constraints, the programme critical path and the need to ensure the free flow of traffic. The extra expenditure above the

target cost is necessary in order to complete the scheme to an acceptable and safe standard and provide an asset that will last for at least the next 20 years.

### **Contaminated soil**

- 4.13 The standard UK industry procedure was undertaken to ascertain the soil conditions and risk of contaminated materials in the early stages of the project. There was nothing to indicate the level of contamination later discovered. Shortly after starting work in the central reserve (phase 1) further investigations were carried out and soil tests revealed that widespread fluoride contamination was present throughout the central reserve. Widespread contamination of this nature is virtually unheard of in the road construction industry and could not have been predicted.
- 4.14 The scheme then moved on from the central carriageway to verge works (phase 2) in November 2014. Initial soil testing indicated that the majority of the material in the verge was inert, but approaching the upper threshold limit for acceptance in that category. On reviewing the data the landfill operator asked for more extensive testing which revealed significant levels of contamination including sulphate, total dissolved solids and total organic carbon, all of which exceeded the threshold for inert at the majority of the sites tested.
- 4.15 Anecdotal evidence now suggests that contaminated material was imported when the road was originally constructed and may have been related to the brick manufacturing industry, when environmental considerations relating to soil and material use were far less strict. An option to try and retain the contaminated material on the wider site was ruled out due to the potential environmental damage that could have been caused, the additional costs incurred through a delay in the overall programme, and the severe traffic delays that would have resulted. The disposal costs were negotiated at £45 per cubic metre for contaminated soil as opposed to £10 per cubic metre for inert material, giving an increased cost to the scheme budget of approximately £35 per cubic metre.
- 4.16 The total additional cost from contaminated soil disposal is £1.38m. Council officers have met with DfT representatives and have submitted a bid for additional funding to cover the majority of the cost of contaminated soil disposal. The Cabinet Member for Planning and Housing Services has also written to Shailesh Vara MP asking for his support for the bid.

### **Design changes**

- 4.17 It has been necessary to undertake a review of certain design elements of the project. The required design changes subsequently lead to changes in the construction requirements of the scheme including:
- Additional central reserve drainage to allow the retained carriageway and the proposed widened carriageway formation layers to drain independently of each other, thus preventing a potential weak spot forming due to water gathering at the interface.
  - A temporary surface in the new widened area is required to maintain two lanes of traffic whilst verge works are being carried out. The temporary surface will subsequently be planed out after verge works, prior to full width resurfacing.
  - These extra works introduced a delay of 32 days to the programme critical path as the drainage had to be installed before pavement construction materials could be laid.
- 4.18 These changes have resulted in an additional cost of £736,000.

### **Condition of the existing drainage system, verges and safety barriers**

- 4.19 The existing road drainage system was in a far worse condition than anticipated and has required extensive repair work throughout the scheme. There have also been a number of issues in the highway verges relating to existing or planned drainage infrastructure and kerbing which has resulted in an additional cost of £928,000. Issues have included:

- Many existing gullies and drainage chambers were in a poor structural condition and have had to be reconstructed.
- Existing safety barriers at junction 1 have had to be replaced and concrete footings for many verge safety barriers have failed structural 'push' tests necessitating their replacement.
- The length of the construction programme has increased due to the extent of extra verge and safety barrier works.

### **Crack repairs**

- 4.20 Peterborough's parkway asset is dated and the need for structural maintenance is increasing. Significant cracks in the carriageway were discovered and a reinforcing material was added to give certainty regarding programme length, cost and future structural integrity. The additional cost involved in these repairs is £380,000.

### **Environmental issues**

- 4.21 Extra work has been required to secure agreement for the works from Natural England. The site is next to a Site of Special Scientific Interest (SSSI) with a significant Great Crested Newt population. Extensive negotiation was required to agree mitigation measures and successfully gain a newt licence. Additional costs of £59,000 have been incurred on issues including environmental specialist fees and a financial contribution to Froglife, to implement mitigation measures for habitat improvement.

### **Extent of works at junctions 2 to 3**

- 4.22 When tying in the end of scheme alignment works to the existing infrastructure, it was discovered that the hard strip adjacent to the central carriageway was originally built with flexible material that does not meet today's standards. This could only be seen once the excavation beneath the surface had been undertaken. Problems were also experienced with removing the safety barrier foundations in the hardened central reserve, which were substantial and protruding into the hard strip construction. To maintain the structural integrity of the road and to provide solid infrastructure to integrate the central reserve works, it was necessary to carry out full depth reconstruction of the hard strip and replace the hardened central reserve prior to installing a modern road restraint system. It was also necessary to install a length of narrow filter drainage in support of replacement infrastructure. Apart from the safety barrier, none of this work was included in the original cost and it has added an extra 11 days to the critical path programme and an additional cost of £469,000.

### **Central reserve and other extra works**

- 4.23 There were a number of issues that arose that were either outside or more than the target cost allowance adding £550,000 to the scheme cost including:
- Carriageway maintenance and pothole repair to the lanes that remained open to traffic
  - Required changes to the quantity and type of material used in the central reservation area
  - Additional reconstruction work required due to unforeseen condition of infrastructure.
  - A significant increase in utility diversion costs for Virgin media services.

£142k of these costs relate to organisations other than Birse/Balfours

### **Overall budget position**

- 4.24 The total budget allocated to deliver the scheme is £13.498m. This includes:
- The £12m construction contract cost (Birse).

- £1.498m for initial design/estimating work undertaken by Atkins, subsequent detailed scheme design and supervision by URS, utility diversion, speed cameras, and council staff fees.

The effect of the issues set out above and the subsequent impact on the overall programme (additional days, changes to traffic management, materials etc) has produced a revised total predicted cost of the scheme of £18m, representing an increase in the total cost of £4.502m. This breaks down as follows by organisation:

- £4.360m for Birse/Balfours for construction works
- £0.142m for organisations relating to costs outlined in para 4.23 above

### **Proposed funding solution**

4.25 It is proposed that the additional cost of the scheme is funded as follows:

- £2.1m of capital corporate funding originally allocated to phase 1 of the Bourges Boulevard public realm improvement scheme is transferred to the Fletton Parkway scheme. The council has successfully bid for an additional £2.1m of funding towards phase 1 of the Bourges Boulevard scheme. The funding was originally allocated by the Shadow Local Transport Board. This funding has now been passed to the LEP and the LEP has endorsed the preallocations.
- £1.072m of capital corporate growth funding for 2014/2015 which has been held back as a contingency is transferred to the Fletton Parkway scheme. None of this funding has been allocated to named schemes.
- £1.33m of corporate public realm capital funding for 2014/2015 which has been held back as a contingency is transferred to the scheme. None of this funding has been allocated to named schemes.

4.26 As the additional funding is being vired from existing budgets, the council will not need to borrow more overall than previously outlined in the Medium Term Financial Strategy (MTFS).

4.27 As set out above, the council has also bid to the DfT for additional grant funding of £1.334m to cover the abnormal contaminated soil costs on site. DfT holds a central contingency for grant funded schemes and considers funding submissions towards the end of each financial year. If the bid is successful the need for funding from the second and third budgets identified above would be significantly reduced.

## **5. CONSULTATION**

5.1 The scheme was included in the Peterborough Long Term Transport Strategy (2011-2026) and Local Transport Plan 3 (2011-2016) documents. Extensive consultation was carried out before publication to obtain the views of interested parties, including stakeholders and members of the public. The specific scheme has been widely consulted on within the council and is included in the MTFS, has an approved business case and environmental screening approval. Consultation with external stakeholders includes the Highways Agency, LEP, DfT, and utility service providers. On 7 November 2013 a public engagement event was held in Orton Library and a further event was held in Serpentine Green shopping centre on 12 November 2013.

## **6. ANTICIPATED OUTCOMES**

6.1 That Cabinet approves the increase in expenditure necessary to complete the scheme and the transfer of associated budgets.

6.2 The scheme construction will be completed without further cost increases and become fully operational by mid May 2015.

## **7. REASONS FOR RECOMMENDATIONS**

- 7.1 The cost of building the scheme has increased from the original estimate at the target cost stage. The majority of the additional costs listed above were already inherent either in the ground or in existing infrastructure, but not obvious, predictable or accessible.
- 7.2 The council has endeavoured to mitigate costs wherever possible, but has been hampered by tight working conditions, minimum road space constraints, the need to ensure free flowing traffic, and the programme critical path. The extra expenditure above the target cost is necessary in order to complete the scheme to an acceptable standard and provide an asset that will serve the city for at least the next 20 years. Importantly, the scheme has attracted significant external funding in recognition of its strategic importance. Furthermore, the council would have faced an estimated cost of £9m to carry out major structural repairs to this section of Fletton Parkway within the next 3 to 4 years if the widening scheme had not progressed (a cost significantly in excess of the council's contribution to the widening scheme).
- 7.3 The implications of not approving the extra expenditure to complete the scheme are outlined in section 8 below.

## **8. ALTERNATIVE OPTIONS CONSIDERED**

- 8.1 Further scope reduction was considered at the target cost stage, such as not upgrading street lighting, but was discounted as it would have left a future maintenance liability and a burden on revenue budgets. Moreover the lighting was programmed for replacement in the near future and co-ordinating the works with the widening scheme reduced cost and mitigated further disruption on the strategic road network. As outturn costs increased consideration was also given to not upgrading the existing verge drainage. However, it was recognised that the poor condition of the drainage was a large contributory factor in the previous deterioration of the road structure and that drainage upgrade was necessary to guarantee the future structural integrity of the road.
- 8.2 Solutions to mitigate contaminated soil disposal costs were fully explored. Areas within the scheme were examined to see if soil could be sympathetically integrated into existing landscaped areas. The only realistic area for relocating large quantities of soil was the landscaped areas within the roundabout at junction 1. A proposal was investigated and priced but was discounted given risks to the overall programme, limited cost savings, environmental constraints and the potential traffic impacts on the strategic road network and A1(M) through the need for severe traffic management.
- 8.3 The option of not completing the scheme had to be discounted given the need to maintain a safe highway.
- 8.4 Consideration was given as to whether the council should run a separate procurement exercise as a result of the increase in project costs. This was discounted because its contract with Balfour Beatty is made on the terms of an NEC3 Option C Target Contract with Activity Schedule. This form of contract provides for Balfour Beatty to give to the council an 'early warning' of any matter that could increase its prices. Following an 'early warning' and where it is assessed by the project manager that a 'compensation event' has occurred, the council is notified of the 'compensation event'. Balfour Beatty is entitled to receive payment for the 'compensation event', once agreed by the council.
- 8.5 Also, the council would have incurred significant additional cost to run the procurement exercise including but not exclusively, procurement and contract costs and delays and demobilisation of Balfour Beatty, mobilisation of the new contractor and associated delays. This would also have prolonged the works and the impact on motorists in the area.

## **9. IMPLICATIONS**

### **Financial implications**

- 9.1 Due to the various issues discussed above, valid compensation events have been submitted by the contractor. These have resulted in increases in soil disposal costs, material costs and programme delays. The scheme outturn cost is now estimated to be £4.502m higher. Extra funding of £1.344m is being sought from DfT to mitigate the contaminated soil disposal costs. Other internal funding sources have been identified to address the budget shortfall (see paragraph 4.23 above). The scheme cannot progress to completion without the necessary increase in budget. Approval is sought to vire the relevant sums to the scheme budget.
- 9.2 As a matter of course any amendment to a contract awarding CMDN is referred to Internal Audit for review. The review in this case is underway and the position will be reported to Audit Committee as part of the regular reporting of Internal Audit work.

### **Legal implications**

- 9.3 The council as the highway authority has a legal responsibility under the Highways Act 1980 to provide a road that is safe and fit for purpose. The legal implications are contained in the body of the report and there are no adverse legal implications.

## **10. BACKGROUND DOCUMENTS**

Used to prepare this report, in accordance with the Local Government (Access to Information) Act 1985)

December 2013 Cabinet Member Decision Notice to appoint Birse Civils Limited as the construction contractor for a target cost scheme of £11m:

<http://democracy.peterborough.gov.uk/ieDecisionDetails.aspx?ID=867>

February 2014 Cabinet Member Decision Notice to appoint Birse Civils Limited as the construction contractor for a target cost of just under £12m:

<http://democracy.peterborough.gov.uk/ieDecisionDetails.aspx?ID=898>.

<b>CABINET</b>	AGENDA ITEM No. 5
<b>2 FEBRUARY 2015</b>	PUBLIC REPORT

Cabinet Member(s) responsible:	Councillor Seaton, Cabinet Member for Resources	
Contact Officer(s):	John Harrison, Executive Director - Resources Steven Pilsworth, Head of Strategic Finance	☎ 452 398 ☎ 384564

## ANNUAL AUDIT LETTER 2013/14

<b>RECOMMENDATIONS</b>	
<b>FROM</b> : John Harrison, Executive Director - Resources	<b>Deadline date</b> : N/A
Cabinet are asked that, subject to any comments Cabinet may wish to make, the Annual Audit Letter for the financial year 2013/14 is approved.	

### 1. ORIGIN OF REPORT

- 1.1 This report is submitted to Cabinet following a referral from the Council's External Auditor (PriceWaterhouseCoopers).
- 1.2 The report is for Cabinet to consider under its Terms of Reference No. 3.2.11: *To scrutinise auditor's reports and letters, to consider reports from the Council's external auditor and internal auditor, where appropriate, and determine appropriate responses.*
- 1.3 The report will also be presented to the Council's Audit Committee in accordance with its Terms of Reference No. 2.2.1.5: *To consider the external auditors annual letter, relevant reports, and the report to those charged with governance.*

### 2. PURPOSE AND REASON FOR REPORT

- 2.1 The purpose of this report is to consider and respond to the Annual Audit Letter for 2013/14, prepared jointly by our external auditors PriceWaterhouseCoopers (PwC).

### 3. TIMESCALE

Is this a Major Policy Item / Statutory Plan?	<b>NO</b>	If Yes, date for relevant Cabinet Meeting	N/A
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### 4. ANNUAL AUDIT LETTER

- 4.1 The External Auditor produces an Annual Audit Letter reviewing the Council's arrangements and progress in relation to the Audit of the Accounts. During the year, PwC have undertaken various reviews on behalf of the authority, the Annual Audit Letter collates and summarises those reports, the bulk of which was reported to Audit Committee in the ISA 260 on the 22<sup>nd</sup> September 2014.
- 4.2 The letter is attached as **Appendix A** for the financial year 2013/14 and representatives from PwC will be in attendance to present the key findings and comment generally on the Council's performance.
- 4.3 Members can ask questions and make comment to the External Auditor on its contents and conclusions. The External Auditor may take on board responses received prior to its formal

publication. However, the External Auditor is under a statutory duty to produce and arrange for the publication of the Annual Audit Letter as soon as reasonably practical. A number of work programmes are being deployed that directly address comments made in the Audit Letter.

## **5. CONSULTATION**

- 5.1 During the year, PwC have undertaken various reviews on behalf of the authority, the Annual Audit Letter collates and summarises those reports, the bulk of which was reported to Audit Committee in the ISA 260 on the 22<sup>nd</sup> September 2014.

## **6. ANTICIPATED OUTCOMES**

- 6.1 Approval of the Annual Audit Letter 2013/14.

## **7. REASONS FOR RECOMMENDATIONS**

- 7.1 The Council is required to consider the statutory Annual Audit Letter and make appropriate arrangements in response to recommendations.

## **8. ALTERNATIVE OPTIONS CONSIDERED**

- 8.1 The External Auditor may take on board responses received prior to its formal publication, though he has a duty to produce and arrange for the publication of the Annual Audit Letter as soon as reasonably practical. No specific alternative options are submitted to Cabinet for consideration.

## **9. IMPLICATIONS**

- 9.1 Specific implications associated with each of the main aspects of the Annual Audit Letter are addressed as part of the individual work programmes.

## **10. BACKGROUND DOCUMENTS**

Used to prepare this report, in accordance with the Local Government (Access to Information) Act 1985)

Annual Audit Letter 2013/14.

Audit opinion for 2013/14 financial statements.

Report to those charged with Governance (ISA (UK&I) 260).

[www.pwc.co.uk](http://www.pwc.co.uk)

# *Peterborough City Council*

*Annual Audit Letter*

2013/14

23

Government and  
Public Sector

October 2014

**pwc**

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## **Code of Audit Practice and Statement of Responsibilities of Auditors and of Audited Bodies**

*In April 2010 the Audit Commission issued a revised version of the 'Statement of responsibilities of auditors and of audited bodies'. It is available from the Chief Executive of each audited body. The purpose of the statement is to assist auditors and audited bodies by explaining where the responsibilities of auditors begin and end and what is to be expected of the audited body in certain areas. Our reports and management letters are prepared in the context of this Statement. Reports and letters prepared by appointed auditors and addressed to members or officers are prepared for the sole use of the audited body and no responsibility is taken by auditors to any Member or officer in their individual capacity or to any third party.*

An audit is not designed to identify all matters that may be relevant to those charged with governance. Accordingly, the audit does not ordinarily identify all such matters.

# Introduction

## The purpose of this letter

This letter summarises the results of our 2013/14 audit work for members of the Authority.

We have already reported the detailed findings from our audit work to the Audit Committee in the following reports:

- Audit plan for 2013/14;
- Audit opinion for the 2013/14 financial statements, incorporating our conclusion on the proper arrangements to secure economy, efficiency and effectiveness in the Authority's use of resources;
- Report to those charged with Governance (ISA (UK&I) 260); and
- Annual Certification Report (to those charged with governance) for 2012/13.

The matters reported here are the most significant for the Authority.

## Scope of Work

The Authority is responsible for preparing and publishing its Statement of Accounts, accompanied by the Annual Governance Statement. It is also responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

We met our responsibilities as follows:

Audit Responsibility	Results
Perform an audit of the accounts in accordance with the Auditing Practice Board's International Standards on Auditing (ISAs (UK&I)).	We reported our findings to the Audit Committee on 22 September 2014 in our <i>Report to the Audit Committee of the Authority on the audit for the year ended 31 March 2014 (ISA (UK&amp;I) 260)</i> . On 24 September 2014, we issued an unqualified audit opinion.
Report to the National Audit Office on the accuracy of the consolidation pack the Authority is required to prepare for the Whole of Government Accounts.	On 24 September 2014, we reported to the National Audit Office that the consolidation return was consistent with the audited statutory accounts.
Form a conclusion on the arrangements the Authority has made for securing economy, efficiency and effectiveness in its use of resources.	On 24 September 2014, we issued an unqualified value for money conclusion.

<b>Audit Responsibility</b>	<b>Results</b>	<b>Audit Responsibility</b>	<b>Results</b>
<i>Consider the completeness of disclosures in the Authority's annual governance statement, identify any inconsistencies with the other information of which we are aware from our work and consider whether it complies with CIPFA / SOLACE guidance.</i>	There were no issues to report in this regard.	<i>Issue a certificate that we have completed the audit in accordance with the requirements of the Audit Commission Act 1998 and the Code of Practice issued by the Audit Commission.</i>	We issued our completion certificate on 24 September 2014.
<i>Consider whether, in the public interest, we should make a report on any matter coming to our notice in the course of the audit.</i>	There were no issues to report in this regard.		
<i>Determine whether any other action should be taken in relation to our responsibilities under the Audit Commission Act.</i>	There were no issues to report in this regard.		

# Audit Findings

## Accounts

We audited the Authority's accounts in line with approved Auditing Standards and issued an unqualified audit opinion on 24 September 2014.

We are pleased to report that the draft financial statements and supporting schedules for our audit continue to be produced to a good standard.

In accordance with Auditing Standards, the significant matters arising from our audit were reported within our Report to Those Charged with Governance (ISA (UK&I) 260). This report was presented to the Audit Committee on 22 September 2014. We wish to draw the following points, included in that report, to your attention in this letter:

Accounting for property plant and equipment:

1. Assets under construction; and
2. Review of assets in use.

## Accounting for property, plant and equipment

### 1. Assets under construction

In accordance with IAS 16, the Authority accounts for assets under construction (AUC) at historical cost. When the asset is brought into use, it is revalued at fair value and transferred into the appropriate class within property, plant and equipment (PP&E). It was identified that extensions to two schools included within the AUC balance as at 31 March 2013, were actually completed during 2012/13 and should have been transferred into land & buildings. Both schools, including their extensions, were revalued at 31 March 2013 by the Authority's external valuer. As such the extensions

were incorrectly included within AUC as well as land & buildings, resulting in an overstatement of the total PP&E balance at 31 March 2013 of £11.1m. Whilst the overall net book value of PP&E was £523.8m, this was over the overall materiality level we set and therefore a prior period adjustment was required to correct the 2012/13 balances. The Authority corrected the financial statements for these balances, reducing the PP&E balance as at 31 March 2013 by £11.1m, with a corresponding entry to unusable capital reserves.

### 2. Review of assets in use

At each year end, the Authority requires each service to confirm that all assets held by that service are still in use. As part of our audit procedures, we sought to place reliance on this control and we physically verified a sample of assets to confirm their existence. This year further emphasis was placed on the process by the Corporate finance team, as a result of the implementation of the Technology Forge fixed asset system, due to all the information now being held in one place. This resulted in a "cleansing" of the fixed asset register of assets which were no longer in use by the services. In turn this led to entries in the PP&E note within the financial statements to remove such assets which largely had net nil book values - disposals within the cost of vehicles, plant and equipment included in Note 18 to the accounts total £24.6m. However set against this is depreciation of £23.9m, therefore only £0.7m of net book value had been disposed of in the year.

Our testing identified some assets within Children's Services which had been stated as disposed of within the return made by the service to the Corporate team, however the assets were still in use. In addition, we identified some items which had

been capitalised by the Authority but were no longer the Authority's property, and should have been treated as revenue expenditure funded from capital under statute (REFCUS). These items were clearly trivial for adjustment.

*We include these issues within our Internal Controls section of this report on page 6, as although the amounts involved are clearly trivial for adjustment, we believe controls can be enhanced to further improve accounting for capital.*

### *Use of Resources*

We carried out sufficient, relevant work in line with the Audit Commission's guidance, so that we could conclude on whether the Authority had in place, for 2013/14, proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

In line with Audit Commission requirements, our conclusion was based on two criteria:

- the organisation has proper arrangements in place for securing financial resilience; and
- the organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.

To reach our conclusion, we carried out a programme of work that was based on our risk assessment.

We issued an unqualified conclusion on the ability of the organisation to secure proper arrangements to secure economy, efficiency and effectiveness in its use of resources. However, we would like to bring the following matters to your attention:

- The recurring funding gap identified each year of the MTFS as presented to Cabinet on 5 March 2014 was as follows:

- 2014/15: nil
- 2015/16: £17.6m
- 2016/17: £4.6m
- 2017/18: £1.4m
- 2018/19: £2.5m

- The total savings required over the first five years of the MTFS are therefore £26.1m.
- Since March 2014, other financial pressures have emerged. As a result the forecast deficit for 2015/16 increased to £22m. Officers are working with Cabinet and the cross party Budget Working Group to develop proposals to deliver a balanced budget.
- We considered and discussed the emerging savings options with officers, in order to understand the current plans to address the funding gap. We noted that the plans are at various stages of development.
- We considered the Council's historic record in delivering savings; the monitoring and reporting arrangements in the place and the governance structure in place.

In undertaking this work, we did not identify any matters, in relation to the arrangements in place at the Council to secure financial resilience that would cause us to modify our Use of Resources conclusion. Clearly, however, the ongoing achievement of savings, together with the impact of future financial settlements should remain a key focus for the Council.

### *Annual Governance Statement*

Local authorities are required to produce an Annual Governance Statement (AGS) that is consistent with guidance issued by CIPFA/SOLACE. The AGS accompanies the Statement of Accounts.

We reviewed the AGS to consider whether it complied with the CIPFA/SOLACE guidance and whether it might be misleading or inconsistent with other information known to us from our audit work. We found no areas of concern to report in this context.

### *Whole of Government Accounts*

We undertook our work on the Whole of Government Accounts consolidation pack as prescribed by the Audit Commission. The audited pack was submitted on 24 September 2014. We found no areas of concern to report in this context.

### *Certification of Claims and Returns*

We presented our most recent Annual Certification Report for 2012/13 to those charged with governance in February 2014. We certified three claims worth £184 million. In all three cases a qualification letter was required to set out the issues arising from the certification of the claim, however only one of these claims was amended (by £2,821). These details were also set out in our *Annual Certification Report for 2012/13*. We will issue the *Annual Certification Report for 2013/14* in February 2015.

### *Other matters*

In our capacity as appointed auditors, we are also required to consider matters raised with us by local electors. We have been required to undertake additional work to consider two matters brought to our attention in relation to:

1. the proposed plans for the development of ground mounted solar photovoltaic panels (solar farms) and wind turbines; and
2. the use of grant monies.

We received no formal objections during 2013/14.

# Other matters reported to those charged with governance

These are the matters we consider to be **most significant** for the Authority and have been raised with those charged with governance. Other, less significant recommendations have been brought to the attention of the Executive Director Resources.

As part of our audit work in 2014/15, we will follow up the recommendations we have made and report the status of these in future reports.

Recommendation	Management Response	Target Implementation Date
<p><b>Property, plant and equipment</b>  <b>a. Assets under construction</b></p> <p>The Authority needs to ensure more rigorous monitoring of progress of AUC. We recommend closer liaison between the Corporate team who manage the fixed asset register and the service teams who should be aware of the progress of AUC within their area. A review of all AUC should be performed at year end to confirm whether they have been completed.</p>	<p>The problems arose in 2012/13 and 2013/14 within Children's services. The control weaknesses were identified by management and an additional post was created to support links to support the corporate functions of Adults, Childrens, and Communities directorates and oversee the schools capital programme. A new experienced capital accountant was recruited to this position in August 2014.</p>	<p>From August 2014</p>
<p><b>b. Instructions to external valuers</b></p> <p>We recommend that the Authority's procedures regarding instructing the external valuers are reviewed and re-issued to the relevant members of staff. This will ensure that appropriate instructions are given to the external valuer by only the Corporate team. The list of valuations returned should be checked back to the instructions to ensure a complete list of valuations has been received.</p>	<p>With the establishment of the new role overseeing the Schools capital programme new procedures will be implemented to ensure that any valuation instructions are only issued to the Council's valuers by the service capital accountants or the Corporate Capital team.</p> <p>A new year end procedure will be established with the Corporate Capital team to verify that each valuation received and entered to the Asset Register is one that has been correctly requested.</p>	<p>From September 2014</p>

*An audit is not designed to identify all matters that may be relevant to those charged with governance. Accordingly, the audit does not ordinarily identify all such matters*

Recommendation	Management Response	Target Implementation Date
<p><b>c. Appropriate treatment of assets as REFCUS (revenue expenditure funded from capital under statute)</b></p> <p>The Authority should consider the nature of assets capitalised and ensure treatment as REFCUS as appropriate.</p>	<p>The implementation in 2012/13 of an Asset Register database, Technology Forge (TF) enables additional data to be held for each asset. Additional data will be requested from the service teams to ensure that the Corporate Capital team have sufficient data to evaluate each asset for capitalisation or treated as REFCUS.</p>	<p>From September 2014</p>
<p><b>Access to datafiles and super user access to applications</b></p> <p>Access to data files should be restricted to non-operational personnel ie. segregation of duties should be maintained between data base access and application access.</p>	<p>The FSS team currently have the ability to carry out system wide set up changes to the look, feel and configuration of the finance system including the tasks listed below:</p> <ul style="list-style-type: none"> <li>• User access</li> <li>• User access levels and limitations</li> <li>• Approval hierarchies</li> <li>• Transactional processing formats and fields</li> <li>• System security and controls</li> <li>• System tolerances</li> <li>• Configuration changes</li> </ul> <p>This access is restricted to a system administration and super-user level of access so that control can be provided over these changes. Any changes are only made when the required audit trail and necessary approval is received.</p>	<p>n/a</p>

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# *Final Fees*

## *Final Fees for 2013/14*

We reported our fee proposals in our audit plan.

We have undertaken additional work this year as a result of accounting issues identified during the course of our audit and targeted work on the use of resources. Our fees will therefore be in excess of the scale fee and we are currently in the process of agreeing the final amount with the Authority and the Audit Commission. We will report the final position in due course.

Our fee for certification of claims and returns is yet to be finalised for 2013/14 and will be reported to those charged with governance in February 2015 within the 2013/14 Annual Certification Report.



In the event that, pursuant to a request which Peterborough City Council has received under the Freedom of Information Act 2000, it is required to disclose any information contained in this report, it will notify PwC promptly and consult with PwC prior to disclosing such report. Peterborough City Council agrees to pay due regard to any representations which PwC may make in connection with such disclosure and Peterborough City Council shall apply any relevant exemptions which may exist under the Act to such report. If, following consultation with PwC, Peterborough City Council discloses this report or any part thereof, it shall ensure that any disclaimer which PwC has included or may subsequently wish to include in the information is reproduced in full in any copies disclosed.

This document has been prepared only for Peterborough City Council and solely for the purpose and on the terms agreed through our contract with the Audit Commission. We accept no liability (including for negligence) to anyone else in connection with this document, and it may not be provided to anyone else.

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