

FACT review November 2018

Briefing Note to:

Councillor Clark, Chairman of Corporate Governance Committee

Report Prepared by:

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Introduction

At the July 2018 Corporate Governance Committee, the Chairman asked some questions under the Audit Results Report (ISA260) agenda item – CGC/13, surrounding assurances that need to be provided regarding the payments we (FDC) make to FACT following on from the CCC review undertaken by PKF LittleJohn. It was agreed that a briefing be provided to Councillor Clark when the analysis of the report has been completed. An extract of the minutes is provided below for information.

- *Councillor Clark asked, in terms of value for money, given what is occurring at the County Council with the FACT payments can the Council be sure that the amount of money it gives to FACT is spent correctly. Neil advised that the audit includes testing income received and checking that grant conditions are met and he has no concerns with this council. Councillor Clark asked could we be satisfied then that the £50,000 we give to FACT is used correctly. Neil advised that from EY's point of view they could be satisfied that the revenue and expenditure was recognised appropriately in the Council's accounts as expenditure. It was a matter for the County Council's auditors to form a view on whether County Council's money is used appropriately. At this point, Councillor Butcher declared an interest as he is a FACT board member and advised the £50,000 grant pays for free bus fares. Councillor Booth stated this payment was capped a few years ago but wanted to be sure that, given this amount is near the materiality threshold, there have been no other payments to FACT that this committee needs to be aware of. Carol Pilson addressed Councillor Clark's concerns and confirmed that the matter with FACT had been followed closely because of the Council's interactions with FACT. A member of FACT with a bus pass could use their bus pass for free on these routes, the fare being paid 50% by us and 50% by the County Council. She stated we are currently reviewing the PKF report which is going to the audit committee at County Council next week, from which we will see if there are any implications for FDC. A briefing can be provided to Councillor Clark once that analysis has been completed. Councillor Booth reiterated that we need reassurance that we have not had any figures misrepresented so that we are paying out money that we should not be paying. Carol Pilson stated we can take some assurance that FACT also go through their own external audit processes; they submit quarterly facts and figures and we have a service manager who assesses this information to see whether there are any issues to raise or notable discrepancies. Councillor Booth asked if EY are happy that our procedures are robust enough to pick up any discrepancies and Neil confirmed that he had no concerns.*

The scope of the review conducted looked into:

1. The history of the user subsidy and concessionary travel scheme
2. The budget setting process for concessionary travel scheme
3. The process for payments of user subsidy provided for concessionary travel.
4. The robustness of the SLA
5. State Aid – thinking.

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Findings:

1. There have been a number of changes over the years with regard to national and local schemes. The current scheme we operate is based on our local scheme that was approved in 2013 by Council.
We use our own wellbeing powers to offer free travel to users of dial a ride schemes (who use a concessionary bus pass issued by CCC) within the district. FDC pay a 50% subsidy (or in some cases a 100% subsidy) and CCC pay the remaining 50% on journeys taken. At present the only provider of dial a ride operating in our district is FACT.
2. The budget setting process for concessionary fares has remained constant over the last 5 years. In April 2013 the budget was capped at £50,000. This was agreed by members as part of the budget setting process. In 2015/16 the council conducted a Comprehensive Spending Review in which Community Transport (including concessionary fares) was considered. It was decided that as part of the CSR processes that no changes to the budget be made. Usage of the dial a ride scheme supported by the council has always been oversubscribed and claims for payment fares foregone are always more than the budget available.
Each year as part of the budget setting process, the £50,000 for concessionary travel is included within the budget. This budget is discussed with service managers, Corporate Directors and Portfolio holders. *(This should be called a Concessionary Travel Support Scheme as the statutory concessionary travel authority is the Cambridgeshire County Council, whereas FDC operates a discretionary local support scheme to eligible concessionary bus pass holders).*
3. From looking at previous reviews, interviews with staff and my own testing and observations the current process with regard to purchase order processing, approvals and payment processing, satisfies the Councils financial regulations. Payments are made based on information provided by FACT with each claim checked for reasonableness. It would not be proportionate or cost effective for the Transport Manager to check every single journey, by every single member each month. The SLA states and this has been confirmed to me, that if the Council wishes to inspect any records we are able to do so with no prior notice being given. On the basis of my testing I am satisfied with the internal controls applied to approve/check the payment of invoices to FACT based on the information available and knowledge of the Transport Manager.
4. The SLA document has evolved over the years from an initial joint SLA with CCC and FACT to our own individual SLA with FACT following on from the changes in national legislation regarding concessionary fares.
There are a number of areas that require changing as a result of the PKF LittleJohn report to CCC and my findings identified in the above points.
5. After some discussions about State Aid, there is probable cause to indicate that State Aid does not apply in this scenario. As an organisation we are not supporting FACT, we are supporting the individual users of the service – regardless of who the provider is. We are reimbursing FACT for a fare foregone. The Concessionary Travel Policy and SLA need to reflect this terminology which could prevent any State Aid challenges being applied. There could be an issue regarding the membership fee that users have to pay to use FACT services.

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Recommendations made to and agreed with Corporate Management Team:

- Finding 2** That the policy for support towards concessionary travel should be reviewed at least every three years to consider if the scheme is still achieving the desired outcomes in relation to our council objectives, the level of funding is still correct and that the scheme is fit for purpose and providing value for money. It would be appropriate for this review to commence at the next Comprehensive Spending Review (tba)
- Finding 3** That the invoice authorisation processes could be strengthened by having an independent validation / verification audit every year to review the invoicing process of FACT. This should be undertaken by the council's internal audit team.
- Finding 4** That, as a minimum, FACT provide us with an annual declaration, signed by the Manager and Chair of the Board of FACT, stating that 'dial a ride services to which FDC support users on eligible journeys, has been provided by FACT on a not for profit basis'. This should be accompanied by accounts clearly demonstrating this. This should be outlined within the SLA document and a further discussion with CCC should be held to ensure consistency across both Councils.
- In addition to the audit and inspection processes already outlined in the SLA, the annual independent internal audit verification process be included within the SLA document
- The SLA is reviewed by the Corporate Director - Business and Infrastructure and the Legal Services Manager prior to being put in place for 2019/20.
- Finding 5** FDC liaise with CCC, following on from the opinion they have received from Counsel Advice, to clarify the official legal position with regard to state aid.

Dated: 20/11/2018