Coventry City Council

Agenda

Audit and Procurement Committee

Time and Date
2.30 pm on Monday, 22nd June, 2015

Place
Diamond Rooms 1 and 2 - Council House

Public Business

1. **Apologies**

2. **Declarations of Interest**

3. **Minutes of Previous Meeting** (Pages 3 - 4)

   a. Minutes of the 18th May 2015.

   b. Matters arising.

4. **Work Programme 2015/16**

5. **Revenue and Capital Outturn 2014/15** (Pages 5 - 26)

   Report of the Executive Director of Resources.

6. **Unaudited 2014/15 Statement of Accounts** (Pages 27 - 34)

   Report of the Executive Director of Resources.

7. **Annual Governance Statement 2014-15** (Pages 35 - 46)

   Report of the Executive Director of Resources

8. **Internal Audit Annual Report 2014-15** (Pages 47 - 60)

   Report of the Executive Director of Resources.

9. **Any other items of public business which the Chair decides to take as a matter of urgency because of the special circumstances involved.**

Private Business
Nil

Chris West, Executive Director, Resources, Council House Coventry

Friday, 12 June 2015

Note: The person to contact about the agenda and documents for this meeting is Lara Knight Tel: 024 7683 3237   Email: lara.knight@coventry.gov.uk

Membership: Councillors S Bains (Deputy Chair), J Blundell, L Harvard, T Sawdon, T Skipper (Chair) and D Welsh

By invitation Councillors

Please note: a hearing loop is available in the committee rooms

If you require a British Sign Language interpreter for this meeting OR it you would like this information in another format or language please contact us.

Lara Knight
Telephone: (024) 7683 3237
e-mail: lara.knight@coventry.gov.uk

Coventry City Council
Minutes of the Meeting of the Audit and Procurement Committee held at 4.00 pm on Monday, 18 May 2015

Present:

Committee Members:	Councillor D Galliers (Chair) Councillor S Bains Councillor L Harvard Councillor T Sawdon Councillor D Welsh
Other Members in Attendance:	Councillor J Clifford Councillor P Townshend
Employees (by Directorate):	M Reeves, Chief Executive C West, Executive Director, Resources S Lal, Resources Directorate H Peacocke, Resources Directorate
Apologies:	None

Public Business

67. **Declarations of Interest**

None

68. **Minutes of Previous Meeting**

The minutes of the meeting held on 23 March were approved by the meeting and signed by the Chair as a true record.

69. **Post of Executive Director, Director of Children's Services, Director of Adults Services People Directorate - salary approval.**

The Committee considered a report from the Executive Director, Resources, which sought approval for salaries in excess of £100,000 per annum for the above posts.

In response to a query from the meeting, the Chief Executive explained that the Executive Director post was essential given the scale of the services provided by the Directorate, the technical and professional skills needed to deliver Children's' and Adult Services and the leadership challenges facing these Services.

The Committee heard that the senior management restructure in the People Directorate was expected to achieve savings in excess of £500,000 per annum.

The Committee noted that the salaries for the posts had been evaluated using the Hay system which examined the levels of responsibility and the scale of the jobs.

The proposed salaries were not in the top quartile for such roles and the market supplements might be required to attract the best candidates as these were very challenging roles with serious statutory responsibilities. It was further noted that the appointments would be political appointments, made by Appointment Panels.

Resolved that the Audit and Procurement Committee agrees

i) A salary range of up to £110,266 plus a possible market related supplement for the two posts of Director within the People Directorate; Director of Children's Services and Director of Adults Services
(Unanimous)

ii) A salary range of up to £124,295 plus a possible market supplement for the post of Executive Director People Directorate
(4 voted for with 1 abstention)

iii) That the next meeting of the Committee receives a report on the procurement arrangements for posts at Hay Grade and above.

(Meeting closed at 4.40 pm)

Signed: ________________ Date: _______________
Chair

Coventry City Council

Public report
Cabinet

Cabinet	17th June 2015
Audit and Procurement Committee	22nd June 2015
Council	23rd June 2015
Finance and Corporate Services Scrutiny Board (1)	1st July 2015

Name of Cabinet Member:
Strategic Finance and Resources – Councillor D Gannon

Director Approving Submission of the report:
Executive Director of Resources

Ward(s) affected: All

Title:
Revenue and Capital Outturn 2014/15

Is this a key decision?
Yes - The Council's final outturn position for the year relates to financial matters in excess of £1.0m in one financial year.

Executive Summary:

This report outlines the final revenue and capital outturn position for 2014/15 and reviews treasury management activity and 2014/15 Prudential Indicators reported under the Prudential Code for Capital Finance.

The overall financial position includes the following headline items:

- Revenue overspending of £2.2m which will be balanced to nil after a planned contribution from the General Fund Balance.
- £10.3m of costs due to early retirement and voluntary redundancy. This follows and is consistent with approval of the programme of staffing reductions agreed by Cabinet in August 2014.
- Headline variations including an over-spend of £6.4m within the People Directorate and an under-spend of £5.7m within the Asset Management Revenue Account.
- Capital Programme expenditure of £101m and capital spending of £22m rescheduled into 2015/16.
- Overall reserve balances increasing from £81m to £84.5m

Recommendations:

Cabinet is requested to:

1. Approve the final revenue outturn position of a £2.2m overspend, balanced to nil by a £2.2m contribution from the General Fund Balance.
2. Recommend to Council that it approves £3m in-year funding of redundancy and retirement costs

3. Approve the final capital expenditure and resourcing position, incorporating expenditure of £101m against a final budget of £124m, borrowing to fund the programme of £0.3m and £22m expenditure rescheduled into 2015/16.

4. Approve the outturn Prudential Indicators position in section 2.4.4 and Appendix 3.

Audit and Procurement Committee is recommended to:

1. Consider the contents of the report and determine whether there are any issues which it wants to refer to the Cabinet Member for Strategic Finance and Resources.

Council is requested to:

1. Approve £3m in-year funding of redundancy and retirement costs.

List of Appendices included:

Appendix 1 Detailed breakdown of Directorate Revenue Variations
Appendix 2 Capital Programme Changes and Analysis of Rescheduling
Appendix 3 Prudential Indicators

Other useful background papers:

None

Has it been or will it be considered by Scrutiny?

Yes – Finance and Corporate Services Scrutiny Board (1) 1st July 2015

Has it been or will it be considered by any other Council Committee, Advisory Panel or other body?

Yes - Audit and Procurement Committee 22nd June 2015

Will this report go to Council?

Yes – 23rd June 2015

1. Context (or background)

1.1 This report sets out the Council's revenue and capital outturn position in 2014/15 and performance against its Prudential Indicators for the year. The City Council set a revenue budget for the year of £259m and a Capital Programme of £142m.

1.2 The reported figures show the Council's financial position in relation to management accounts used to monitor performance through the year. The Audit and Procurement Committee will consider separately the Council's Statement of Accounts that shows the financial position in a statutorily prescribed format including technical accounting adjustments that do not reflect how the Council's day to day finances are managed.

2. Options considered and recommended proposal

2.1 Revenue Outturn

2.1.1 Table 1 below summarises the outturn position - an overspend of £2.2m prior to a planned contribution from the General Fund Balance which then brings the overall position to a nil variation.

Table 1 Summary Outturn Position

Directorate	Net Budget £m	Outturn £m	Variance £m	Variance %
Chief Executives	2.0	2.0	0.0	0.0%
Public Health	0.1	0.1	0.0	0.0%
Place	33.5	33.0	(0.5)	(1.4%)
People	155.0	161.4	6.4	4.1%
Resources	13.7	11.5	(2.2)	16.0%
	204.3	208.0	3.7	1.8%
Contingency & Central Budgets	54.2	52.7	(1.5)	2.7%
Resourcing of Net Budget	(258.5)	(258.5)	0.0	0%
Bottom Line Variance	**0.0**	**2.2**	**2.2**	**0.9%**
General Fund Balance Contribution	**0.0**	**(2.2)**	**(2.2)**	
Final Outturn	**0.0**	**0.0**	**0.0**	

2.1.2 A projected underspend of £0.6m was reported at quarter 3. The underlying movements between quarter 3 and outturn are as follows:

- People Directorate - £2.9m over-spend
- Place Directorate - £0.4m under-spend
- Resources - £1.2m under-spend
- Contingency and Central - £1.5m over-spend

This results in an overall underlying adverse movement of £2.8 in the final quarter and an overall overspend of £2.2m.

It is important to note that the Contingency and Central Budgets position incorporates additional contributions of £5.2m to fund redundancy and early retirement costs that were not in the original budget but have been the result of subsequent decisions made by Cabinet during the year when considering budgetary control reports. Further detail is set out in section 2.1.4 below.

2.1.3 **Directorate Positions**

Place
Place Directorate is reporting a net £0.5m surplus. This has been delivered by a combination of one-off and on-going savings and higher income generation including over achievements in Planning Fee Income, Highways Trading Income and use of specific grant resources, plus a variety of smaller one off underspends due to vacant posts.

These have off-set a number of pressures. In particular, the projected cost of waste disposal is significantly in excess of available budget (£0.8m), the main cause being an increase in the level of disposal tonnages. This shortfall has been addressed within the 2015/16 Budget. Other adverse variations exist which relate to achievement of income targets for Monitoring & Response Services, project management, Building Cleaning and Corporate Catering. Initiatives are on-going to address these pressures which currently represent an underlying deficit position of £0.5m going forward.

People
The People Directorate is reporting a net overspend of £6.4M. The two most significant pressures across the People Directorate, continue to be Adult Social Care and Looked After Children (LAC) placement and package costs (overspend of £5.7M in the 2014/15 financial year). The pressure in LAC placements is due to continued levels of high activity, and an increase in the average costs of a placement. The pressure in Adult Social Care is also driven by continued levels of high activity within Older People's services, and increasing numbers of adults with learning disabilities.

A further £2.3M of pressure is as a result of costs linked to the OFSTED Action plan, largely additional social work staffing to lower caseloads as per OFSTED recommendations.

Resources
Resources is showing an under-spend of £2.2m. This is largely a result of non-recurrent underspends relating to Community Support Grant of £0.7m, Agency Rebate £0.9m, ICT, Major Projects and Transformation £0.7m and the Talent & Skills Team £0.9m. These offset against some non-recurrent overspends including professional fees relating to the judicial review, and one-off refund of land charge income to customers due to changes in legislation. Where there are significant underspends these are either addressed as part of the medium term financial strategy from 2015/16, or as part of a service restructure. There are no underlying areas of pressure or underspend that are not being addressed; however, there are a number of volatile areas that impact upon the Resources Directorate position largely within Revenues and Benefits, such as Housing Benefit Subsidy, Community Support grant, and level of court fees income.

Contingency and Central

Central budgets reflect key under-spends of £5.7m within the Asset Management Revenue Account and £5.9m across inflation contingencies and pensions budgets. These are enabling contributions to reserves and in-year redundancy and retirement costs which overall are excess of £10m. These are detailed in Appendix 1 and the new proposals for funding redundancy and retirement costs in this report are set out at 2.1.4 below.

Previous monitoring reports have reflected the rescheduling of capital spend and early repayment of debt that has reduced the Council's planned borrowing needs and consequent debt costs. These circumstances have continued, combining to deliver a final underspend of £5.7m within the Asset Management Revenue Account (AMRA), an increase of £0.3m in the final quarter.

Underspends for pay, price and energy contingencies and pensions totalling £5.9m represent an increase of £2.6m in the final quarter. Tighter central control is now being applied to salary budgets enabling the Executive Director of Resources to capture salary savings where vacancies occur and where employees leave through early retirement or redundancy ahead of schedule. In addition, calls on energy and other inflation contingencies have continued to be relatively subdued.

Underlying on-going underspends amounting to £10m within the AMRA and contingencies have already been factored into the 2015/16 Budget.

The overall £2.2m whole-authority over-spend is generated by £2.2m of planned funding of ER/VR costs as part of the overall strategy set out in the August 2014 report on staffing reductions. This is neutralised by an equivalent contribution from the General Fund Balance.

2.1.4 Members will be aware that the Council has been subject to very large cuts in government resources in recent years. This has required wide-ranging measures to reduce the Council's cost base with the most important element of this being large-scale reductions in the Council's employee numbers. Cabinet approved a new round of staff reductions in August 2014 which it is anticipated will bring the total level of post reductions between 2010 and 2017 to around 2,000 (the current level stands at c1,300). Delivery of on-going savings in this manner continues to have significant one-off financial consequences for the Council in the form of redundancy and pension strain costs and costs of £10.3m relating to over 400 individuals have been accounted for in 2014/15. Due to the high-level of staff departures and associated costs within 2014/15, this report recommends additional £3m in-year funding of these costs in 2014/15 which has been factored into the figures as reported. This results in an overall funding package as follows:

- Existing revenue budgets £2.6m
- Further contribution from 2014/15 revenue position £3m
- ER/VR reserves £4.7m – these were established as part of the August 2014 report

Despite the very significant level of costs incurred, the proposed £3m funding of ER/VR from the 2014/15 revenue position allows the ER/VR reserve to grow to £5.1m at the end of the financial year. Taken together with 2015/16 revenue budgets of £2.5m this provides for £7.6m to fund ER/VR in 2015/16. However, if the 2014/15 cost profile is repeated this will leave insufficient funding in the new financial year and therefore it will be necessary to ensure that further resources are earmarked at an early stage in the financial monitoring cycle to allow the required level of staffing reductions to continue.

2.1.5 The Council has incurred no further Equal Pay claims in 2014/15 and it is now likely that no further claims will be received, meaning that the Council's costs, all incurred in the years prior to 2014/15, will be capped at £7m. As a result, the remaining modest residual level of provision to pay for future claims of £0.5m will be written out of the council's accounts. Due to the capitalised nature of the provision – which spreads the cost over a number of years – its part reversal now does not affect the Council's 2014/15 outturn position reported here.

2.2 Reserves

2.2.1 The total reserve balance at the end of 2014/15 is £84.5m, compared with £81m at the end of 2013/14. The total reserve movement in 2014/15 is summarised in the table below.

Table 2 Summary of Reserve Movements in 2014/15

	1st April 2014 £000	(Increase)/ Decrease £000	31st March 2015 £000
General Fund Balance	(7,328)	2,168	(5,160)
Private Finance Initiatives	(10,333)	(728)	(11,061)
Potential Loss of Business Rates Income	(6,400)	(700)	(7,100)
Early Retirement and Voluntary Redundancy	(2,800)	(2,309)	(5,109)
Achievement of Future Savings	(2,800)	(624)	(3,424)
Children's Social Care	(4,000)	1,000	(3,000)
Leisure Development	(3,181)	1,722	(1,459)

Public Health	(2,527)	1,125	(1,402)
Health and Social Care Schemes	(1,785)	368	(1,417)
Vehicle Purchase Programme	(1,290)	(257)	(1,547)
Troubled Families	(1,088)	378	(710)
Schools (specific to individual schools)	(18,499)	449	(18,050)
Schools (related to expenditure retained centrally)	(3,645)	(2,826)	(6,471)
Insurance Fund	(3,348)	436	(2,912)
Management of Capital	(1,869)	(143)	(2,012)
Other Corporate	(1,988)	(382)	(2,369)
Other Directorate	(4,878)	(1,555)	(6,434)
Other Directorate funded by Grant	(2,480)	(1,997)	(4,478)
Capital Grant Unapplied Account	(756)	372	(384)
Total Usable Reserves	(80,995)	(3,503)	(84,499)

*Overall opening balances are £2.4m lower than reported at 2013/14 outturn position following an adjustment resulting from compilation of the statutory 2013/14 Statement of Accounts.

2.2.2 In overall terms the level of reserve balances has increased by £3.5m. This includes an increase of £2.3m to fund future ER/VR costs and £2.8m in relation to centrally retained schools expenditure.

2.3 Capital Outturn

2.3.1 The capital outturn position for 2014/15 is shown in summary form below and in greater detail in Appendix 2:

Table 3: Capital Outturn Summary

Final Budget £m	Final Spend £m	Net Rescheduling Now Reported £m	Under-spends £m	Total Variance £m
123.9	101.1	21.8	1.0	22.8

The period 8 monitoring report to Cabinet on 10th February 2015 approved a revised capital budget of £124.2m for 2014/15. Since then there has been a net programme reduction of £0.355m giving a final budget for the year of £123.9m. Since February, a total of £21.8m net rescheduled spending has arisen on directorate capital programmes. A scheme by scheme analysis is included in Appendix 2 and this is summarised in the table below.

Table 4: Summary of Rescheduling and Accelerated Spend

Project	(Rescheduling)/ Accelerated Spend £m	Explanations
Accelerated Spend	3.4	• Growing Places Fund (£1m) - additional loans and grants awarded and applied sooner than originally forecast across all projects. • Friargate Bridgedeck (£1.4m) - Additional costs on design; issues around piling and drainage works. • Whitley Junction (£1m) – Unexpected need to raise the level of the carriageway, including extra piling and Traffic management requirements.

Transportation & Public Realm	(5.6)	• Nuckle (£1m) - Re-engineering issues in connection to designs; piling; earthworks and tamping works and Arena signal relocation. • Far Gosford Street (£1m) – Grant fund to be applied across remainder of restoration programme. • Public Realm (£1.8m) – slippage of Gosford Street/Coventry University scheme not on site till March 2015 • South West Coventry Junction Improvement (£1.8m) - Delays in construction works around Warwick University campus area.
Vehicle & Plant Replacement	(1.30)	Vehicles not replaced due to reductions in service requirements or identification of alternatives.
Schools	(11.90)	Efficiencies in Project Procurement; late starts in construction on 3 schools sites, in addition to the poor take up of the Early Years Grant
ICT	(2.30)	Re-organisation of the ICT Team and the reprioritisation of workload towards the development of Unified Comms has delayed other ICT Projects going forward.
Other	(4.10)	Slow take up of Grants covering Disabled Facilities Grant and Business Grants
TOTAL	(21.80)	

2.3.2 The 2014/15 Programme is one of the largest in the Council's recent history and has incorporated expenditure on the following key programmes and schemes:

- Highways and Public Realm. The City Council has made significant investment in specific Public Realm schemes including the Council House Square and Gosford Gate including joint working with Coventry University. These schemes have improved accessibility to the City Centre and Pedestrianized links and have improved the attractiveness of the City Centre and its future aspirations for business growth.
- Friargate Bridgedeck – The Bridgedeck and surrounding works are now nearing completion with the Bridgedeck itself being officially opened at the end of May 2015.
- Schools – the primary expansion programme is now nearing completion, with a levelling of the demand for places and leaving only the construction of Edgewick to complete the programme. This will leave a full focus on the completion of outstanding schemes and the development of smaller condition related schemes to reflect the significant reduction in funding available from 2015/16 to 2017/18 with a nil Basic Need allocation and a move towards the immediate priority around the creation of a second SEN primary broad spectrum school and longer term priorities in additional secondary places.
- Regeneration – The regeneration of Far Gosford Street has continued to develop the sites at FARGO Village and the links with Gosford Gate utilising external and Coventry Investment Fund funding, 2014/15 has also seen the completion of the replacement of the AT7 Sports Centre, and the early stages of the regeneration at Cathedral Lanes.

2.3.3 The funding in respect of this capital expenditure of £101.1m is summarised below:

Table 5: Capital Funding

	£m
Prudential Borrowing	0.3
Grants and Other Contributions	
- Growth Deal 1	0.0
- Sub-regional & Government funding for the NUCKLE rail project and Highways	4.9
- European Regional Development Fund	10.9
- Education Funding Agency	18.3

- Regional Growth Fund	20.6
- All Other Grants/Contributions	26.0
Revenue Contributions	6.8
Capital Receipts	13.3
Total Resourcing	**101.1**

2.4 Treasury Management Activity

2.4.1 Economic Activity and Interest Rates - Annual economic growth has increased recently and stood at 3% at the end of 2014. This, in addition to resurgent house prices, improved consumer confidence & healthy retail sales added to the positive outlook for the UK economy. In contrast, the Eurozone has struggled to show sustainable growth. In the light of this the European Central Bank reduced interest rates to 0.05% and have undertaken quantitative easing, expanding the ECB balance sheet by €1.1 trillion in an attempt to steer the Eurozone away from deflation & improve its economies. Of other indicators, CPI inflation fell from 1.6% (March 2014) to -0.1% (Feb 2015). The Bank of England has explained that this negative turn is temporary and will rebound around the end of 2015. In addition, the unemployment rate fell to 5.7% at the start of 2015.

The UK base rate has remained at 0.5% since 2009. There are suggestions that this rate will rise in 0.25% increments from mid to late 2016. Linked to this, market investment and borrowing rates for up to 12 month periods stood at less than 1% through the year.

Longer term rates, at which local authorities borrow from the Public Works Loans Board (PWLB), were:-

Table 6: PWLB Interest Rates

PWLB Loan Duration (standard rates)	Minimum in 2014/15	Maximum in 2014/15	Average in 2014/15
5 year	1.91%	3.07%	2.56%
20 year	2.94%	4.42%	3.85%
50 year	3.02%	4.48%	3.92%

Given the above rates it has continued to be cheaper for local authorities to use short rather than long term funds for financing.

2.4.2 Long Term Funding - At outturn, the Capital Financing Requirement (CFR), which indicates the authority's underlying need to borrow for capital purposes, has reduced by £7.3m:-

Table 7: 2014/15 Capital Financing Requirement (CFR)

	£m
Capital Financing Requirement at 1st April 2014	407.7
Borrowing to finance 2014/15 Capital Programme	0.3
PFI & Finance Leases liabilities	8.8
Provision to Repay Debt (Minimum Revenue Provision)	(14.1)
Provision to Repay Debt (Capital Receipts Set Aside)	(1.0)
Repayment of Transferred Debt	(0.8)
Reduction of Provision and other restatements	(0.5)
Capital Financing Requirement at 1st April 2015	**400.4**

The CFR includes a reduction of £0.5m in respect of the remaining Equal Pay provision which was capitalised in 2008/09, but is now no longer required.

No new long term borrowing was taken out during 2014/15, but £5.5m PWLB loans were repaid on maturity. However, some borrowing will be required in the future to support current capital expenditure plans and the need for any such borrowing will be kept under review in 2015/16. Within 2014/15, the movements in long-term borrowing and other liabilities were:-

Table 8: Long Term Liabilities (debt outstanding)

Source of Borrowing	Balance at 31st March 2014 £m	Repaid in Year £m	Raised in Year £m	Balance at 31st March 2015 £m
PWLB	226.8	(5.5)	0	221.3
Money Market	59.0	0	0	59.0
Stock Issue	12.0	0	0	12.0
sub total ~ long term borrowing	**297.8**	**(5.5)**	**0**	**292.3**
Other Local Authority Debt	18.3	(0.9)	0	17.4
PFI & Finance Leasing Liabilities	63.9	(1.8)	8.6	70.7
Other	0.6	(0.1)	0	0.5
Total	**380.6**	**(8.3)**	**8.6**	**380.9**

This long term borrowing is repayable over the following periods:-

Table 9: Long Term Borrowing Maturity Profile (excluding PFI & transferred debt)

Period	Long Term Borrowing £m	Short Term Borrowing £m
Under 12 Months	69.9	5.5
1 – 2 years	0	0
2 – 5 years	20.0	0
5 – 10 years	9.7	0
Over 10 years	192.7	0
Total	**292.3**	**5.5**

In line with CIPFA Treasury Management Code requirements, Lenders Option, Borrowers Option Loans (LOBOs) with banks are included in the maturity profile based on the earliest date on which the lender can require repayment. The Council has £58m of such loans, £30m of which the lender can effectively require to be paid at 6 monthly or annual intervals, and £28m at 5 yearly intervals

2.4.3 Short Term In House Borrowing and Investments - The Treasury Management Team acts on a daily basis to manage the City Council's day to day cash-flow, by borrowing or investing for short periods. By holding short term investments, such as money in call accounts, authorities help ensure that they have an adequate source of liquid funds.

During the year minimal short term borrowing was taken out in order to meet day to day cashflow requirements. At 31st March £5m of temporary borrowing was outstanding with this being repaid on 8th April 2015. The average short term borrowing rate in 2014/15 was 0.4699%.

The bulk of the Council's cashflow requirements were met from its own cash and short term investment balances. During the year the council held significant short term investments, as set out in Table 10. The average short term investment rate in 2014/15 was 0.5335%.

Table 10: In House Investments at 31st March 2015

	At 30th June 2014 £m	At 30th Sept 2014 £m	At 31st Dec 2014 £m	At 31st Mar 2015 £m
Banks and Building Societies	59.8	47.8	51.0	54.0
Local Authorities	29.0	13.0	18.0	22.3
Money Market Funds	7.2	24.3	6.8	3.2
Corporate Bonds	0.0	0.0	0	7.2
Total	**96.0**	**85.1**	**75.8**	**86.7**

In addition to the above in house investments, a mix of Collective Investment Schemes or "pooled funds" is used, where investment is in the form of sterling fund units and not specific individual investments with financial institutions or organisations. These funds are generally AAA rated, are highly liquid, as cash can be withdrawn within two to four days, and short average duration of the intrinsic investments. The intrinsic Sterling investments include Certificates of Deposits, Commercial Paper, Corporate Bonds, Floating Rate Notes and Call Account Deposits. However, they are designed to be held for longer durations allowing any short term fluctuations in return due to volatility to be smoothed out.

Table 11: External, Pooled Investments as at 31st March 2015

	Date Invested	Cost £m	Value £m	Annualised Return %
CCLA	Nov 2013	3.0	3.24	5.45%
Payden Sterling Reserve	Feb 2012	7.5	7.78	1.20%
Federated Prime Rate Cash Plus	Mar 2013	5.0	5.06	0.60%
Ignis Sterling Short Duration Fund	Mar 2015	7.8	7.80	0.83%
Total		**23.3**	**23.88**	**1.76%**

In placing investments the authority manages credit risk within the parameters set out in the investment strategy, approved as part of the budget setting report. Central to this is the assessment of credit quality based on a number of factors including credit ratings, credit default swaps (insurance cost) and sovereign support mechanisms. Limits are set to manage exposure to individual institutions or groups. Whilst the fears of systemic banking failures may have receded, the development of "bail-in" make it almost certain that unsecured and corporate investors would suffer losses in the event of a bank default. Credit risk remains an issue for local authorities.

2.4.4 Prudential and Treasury Indicators - The Local Government Act 2003 and associated CIPFA Prudential and Treasury Management Codes set the framework for the local government capital finance system. Authorities are able to borrow whatever sums they see fit to support their capital programmes, subject to them being able to afford the revenue costs. The framework requires that authorities set and monitor against a number of prudential and treasury indicators relating to capital, treasury management and revenue issues. These indicators are designed to ensure that borrowing entered into for capital purposes was affordable, sustainable and prudent. The purpose of the indicators is to support decision making and financial management, rather than illustrate comparative performance.

Revenue Related Prudential Indicators

Within Appendix 3 the Ratio of Financing costs to Net Revenue Stream (Ref 1) highlights the revenue impact of the capital programme. This shows that the revenue costs of financing our capital expenditure as a proportion of our income from government grant and Council Tax. The actual is 13.25%, as against a 14.24% as forecast in the Treasury Management Strategy. This reflects a lower level of borrowing than anticipated to fund the Capital Programme and higher levels of investment balances.

Capital and Treasury Management Related Prudential Indicators
These indicators, set out in Appendix 3, include:

- **Authorised Limit for External Debt** (Ref 5) ~ This represents the level of gross borrowing which could be afforded in the short term, but is not sustainable. It is the forecast maximum borrowing need, with some headroom for unexpected movements and potential debt restructuring. This is a statutory limit. Borrowing plus PFI and finance lease liabilities at £386.0m was within the limit of £515.4m.

- **Operational Boundary for External Debt** (Ref 6) ~ This indicator is based on the probable level of gross borrowing during the course of the year; it is not a limit and actual borrowing could vary around this boundary for short times during the year. It should act as an indicator to ensure the authorised limit is not breached. Borrowing plus PFI and finance lease liabilities at £386.0m was within the boundary of £475.4m.

- **Gross Debt v "Year 3" Capital Financing Requirement** (Ref 2) ~ The Council needs to be certain that net external borrowing does not, except in the short term, exceed the total of the Capital Financing Requirement (CFR) in the current year plus the estimates of any additional capital financing requirement for the next two financial years. The CFR is defined as the Council's underlying need to borrow, after taking into account other resources available to fund the Capital Programme. This indicator is designed to ensure that over the medium term, net borrowing will only be for a capital purpose. Gross debt is within the “year 3” or 2016/17 CFR limit of £483.7m.

- **Debt Maturity Structure, Interest Rate Exposure and Investments Longer than 364 Days** (Ref 8 - 10) ~ The purpose of these prudential indicators is to contain the activity of the treasury function within certain limits, thereby reducing the risk or likelihood of an adverse movement in interest rates or borrowing decisions impacting negatively on the Councils overall financial position. Treasury Management activity was within these limits. The Debt Maturity PI (Ref 9) indicates that there is a potential 25.3% of total debt that needs to be refinanced in 2015/16, compared to the PI limit of 30% in the 2014/15 Treasury Management Strategy. The potential refinancing need includes LOBO loans for which the lender effectively has a call option, which if exercised would require the Council to repay the loan. If these loans were required to be repaid, the City Council would look to refinance these at lower borrowing costs or through the use of investment balances in the first instance.

3. Results of consultation undertaken

None

4. Timetable for implementing this decision

There is no implementation timetable as this is a financial monitoring report

5. Comments from Executive Director for Resources

5.1 Financial implications
The final revenue outturn picture for 2014/15 is an over-spend of £2.2 balanced to nil by a contribution from the General Fund Balance.

Large overspends have occurred within individual service areas, most notably adults and children's social care. Although very significant additional funding has been approved for children's social care within the 2015/16 Budget Setting process this will remain a key area of budgetary focus to ensure that spending stays within the new financial envelope. Also, the Council has been able to manage adult social care costs in recent years at the same time as delivering savings through the ABCS (A Bolder Community Services) Programme. However, the final 2014/15 over-spends within this area are an indication that budgetary control needs to remain a key focus into the new financial year.

The Asset Management Revenue Account has delivered a significant saving compared to previous estimates. This saving is the result of unplanned later than anticipated capital spending profiles plus intentional efforts to minimise the level of Council borrowing through the application of capital receipts and revenue contributions (over several years). The underlying and on-going flexibility in this area of the Council's budget has been approved as a £4m saving in the 2015/16 budget rising in subsequent years. The measures that have helped to generate this saving will continue to be taken to help strengthen the financial position of the Council as a whole and will continue to be a very important feature of the Council's medium term financial planning. Further slippage of the 2014/15 Capital Programme will have a further beneficial impact in the new year and is likely that this will be one of the areas examined to release resources for ER/VR contributions per 2.1.4.

The pressure to manage the large reductions in government funding and absorb the financial impact of current societal pressures continues to cause financial pressure in some parts of the Council's budget. However, strong overall control continues to be applied allowing the Council to take advantage of tactical opportunities to protect its budget such as: central control of salaries, use of capital receipts to repay debt, management of reserve balances for corporate use, strict programme management of savings targets, implementation of staff reduction programmes and continued attraction of significant external funding. These actions and have helped to contribute to continued achievement of underspends demonstrates the continued strength of its budget management processes and approach.

The application of grant funding and capital receipts has been maximised within the Capital Programme resulting in a significantly reduced level of prudential borrowing compared to that forecast at Quarter 3 (£0.3m compared to £25.3m). Prudential Borrowing approvals not utilised for the 2014/15 programme will be applied in future years as capital spending is incurred.

5.2 Legal implications
There are no specific legal implications in relation to this report.

6. Other implications

6.1 How will this contribute to achievement of the Council's key objectives / corporate priorities (corporate plan/scorecard) / organisational blueprint / Local Area Agreement (or Coventry Sustainable Community Strategy)?

The Council monitors the quality and level of service provided to the citizens of Coventry and the key objectives of the Council Plan. As far as possible we will try to deliver better value for money in the services that we provide in the context of managing with fewer resources.

6.2 How is risk being managed?

The need to deliver a stable and balanced financial position in the short and medium term is a key corporate risk for the local authority and is reflected in the corporate risk register. Budgetary control and monitoring processes are paramount to managing this risk and this report is a key part of the process.

6.3 What is the impact on the organisation?

The revenue and capital outturn position reported here demonstrates that the Council continues to undertake sound overall financial management. This will continue to be very important in the light of the massive challenges being faced with regard to the level of funding available to local government over the next few years.

6.4 Equalities / EIA

No specific impact

6.5 Implications for (or impact on) the environment

None

6.6 Implications for partner organisations?

None

Report author(s):

Name and job title:
Paul Jennings
Finance Manager Corporate Finance
Directorate:
Resources

Tel and email contact:
02476 83 3753
Paul.jennings@coventry.gov.uk

Enquiries should be directed to the above person.

Contributor/approver name	Title	Directorate or organisation	Date doc sent out	Date response received or approved
Contributors:				
Michelle Salmon	Governance Services Officer	Resources	27/5/15	29/5/15
Michael Rennie	Lead Accountant	Resources	27/5/15	1/6/15
Helen Williamson	Lead Accountant	Resources	27/5/15	1/6/15
Paul Hammond	Accountant	Resources	27/5/15	27/5/15
Rachael Sugars	Finance Manager	Resources	27/5/15	27/5/15
Ewan Dewar	Finance Manager	Resources	27/5/15	27/5/15
Phil Helm	Finance Manager	Resources	27/5/15	1/6/15
Names of approvers for submission: (officers and Members)				
Barry Hastie	Assistant Director of Financial Management	Resources	27/5/15	2/6/16
Carol Bradford	Legal Services	Resources	27/5/15	2/6/16
Chris West	Executive Director	Resources	27/5/15	29/5/15
Councillor D Gannon	Cabinet Member for Strategic Finance and Resources	-	2/6/15	2/6/15

This report is published on the council's website:www.coventry.gov.uk/councilmeetings

Appendix 1 Revenue Variations

REPORTING AREA	EXPLANATION	£m
PUBLIC HEALTH DIRECTORATE		
Overspends:		
Strategic Support	Monies allocated to health, protection and infectious diseases, without the corresponding budget virement. Offsets to underspend on Public Health Staffing & Overheads.	0.2
Commissioning 8a	Overspend as a result of different categorisation of Public Health domestic violence expenditure. Offsets to underspend on Public Health Staffing & Overheads	0.1
Other Variations less than 100k		0.3
Underspends:		
Public Health Staffing & Overheads	This underspend partly offsets to the re-categorisation and re-allocation of monies for domestic violence and health, protection and infectious diseases. It also offsets to overspends in other areas of public health and represents allocation of monies to public health priorities (Children 5-19, Obesity, infant mortality, and nutrition initiatives) without a corresponding budget virement.	-0.6
	Forecast Overspend/(Underspend)	**0.0**

REPORTING AREA	EXPLANATION	£m
PEOPLE DIRECTORATE		
Overspends:		
LAC Services	The main source of overspend is within the areas of children's placements pressure £1.9M, permanency allowances £1M, and additional staffing of £0.3M. The placements pressure is a result of continuing high numbers of LAC, and placement mix with too high a proportion of LAC in external fostering and residential provision. Changes in policy, and high activity within adoption and special guardianship orders has resulted in unit cost and activity increase. Staffing overspends are a result of vacancies being covered by agency staff.	3.4
Child Protection	This overspend is due to high levels of activity within Children's Social Care, resulting in additional staffing and significant use of agency staff particularly across social work and legal teams. There are also additional costs as a result of the implementation of the Multi-agency Safeguarding Hub and Child Sexual Exploitation team. There is also an activity overspend in discretionary payments to prevent children from becoming looked after. This position is following an agreed contribution from reserves of £5M to provide further support following the OFSTED inspection.	2.7
Mental Health & Learning Disabilities	Overspend due to increasing numbers of packages of care for young people with a Learning Disability requiring support.	2.4
Older People & Physical Impairment	Overspend due to sustained demand on services for Older People being supported to live at home.	1.2
ASC Provider Services	The majority of the overspend is due to salary related pressures across internally provided services, particularly across Housing with Care services.	0.5
Strategy & Commissioning (CLYP)	Impact of higer than anticipated activity and contractual difficulties has resulted in £776k overspend on Supported Accommodation for 16-24 year olds. This is offset by savings on other Chldren's contracts of £230k.	0.5
Catering	The loss of a number of schools to other contractors has resulted in the service being unable to achieve the income target that has been set. The impact of Universal infant free School Meals has mitigated against this loss, but is not sufficient due to a significant drop in schools accessing the service.	0.4
Safeguarding	This is largely a result of a overspend within Children's Safeguarding due to high levels of activity and difficulties in recruiting to some permanent posts, and high levels of agency staff.	0.3
Inclusion & Participation	Overspend on SEN Transport of £520k is a result of increased activity and cost. This is offset by SEN Support Service staff vacancies and additional income.	0.2
Children's Strategic Management	Agency costs for AD of Childrens Social Care, Targeted and Early Intervention Services	0.1
Head of Group - Strategy, Commissioning & Transformation	This overspend relates to project delivery costs to deliver the A Bolder Community Services savings targets	0.1

REPORTING AREA	EXPLANATION	£m
PEOPLE DIRECTORATE (Continued)		
Underspends:		
Social Care Targeted Early Intervention Strategic Management	This is the financial strategy deployed to balance the directorate's bottom line including Education Services Grant income, contributions from reserves, and utilisation of non-ring-fenced grant funding for existing expenditure. The variance against this relates to additional contributions from reserves, and additional savings identified throughout the year.	(2.3)
Early Years, Parenting & Childcare	Public Health have supported £0.8m of activity freeing up core budget. Further savings have been achieved through holding vacancies, pending finalisation of the service reviews for Nurseries and Children's Centres.	(1.4)
Strategic Commissioning (Adults)	This underspend is the effect of staffing efficiencies and a number of contractual changes and efficiencies.	(1.1)
Business Performance (Safeguarding Performance Quality)	£184K of this underspend relates to the school redundancy costs and pension strain budget. Further underspend is as a result of delays in recruiting to vacancies.	(0.3)
Learning & Achievement	Improvement Advisers Budget moved to consultancy resulted in significant savings by deploying external consultants more effectively. Continued reduction in primary schools causing concern also resulted in savings to school support budgets.	(0.2)
Integrated Youth Support Service	This underspend is made up of staffing vacancies in Youth Services and a restructure in the Youth Offending Service.	(0.1)
	Forecast Overspend/(Underspend)	**6.4**

REPORTING AREA	EXPLANATION	£m
PLACE DIRECTORATE		
Overspends:		
Waste & Fleet Services	The improvement in the economy has resulted in additional waste disposal costs. These have been partly offset by an increase in income and reduced expenditure on Fleet related activities.	0.5
Traffic & Transportation	Overspend primarily due to a shortfall in income within the Monitoring and Response service and a write-off of legacy costs relating to section 278 and 38 agreements.	0.5
Commercial Property	This pressure was as a result of void rate liabilities together with a number of other smaller spend pressures	0.3
Streetpride & Greenspace	Income & cost pressures in parks together with the need to maintain service continuity in the Streetpride team.	0.3
Technical Services	Shortfall of income in Project Delivery caused by difficulties in recruitment and retention of staff with correct skills to secure higer value contracts. Partly offset by over achievement of income within Occupier support due to work for schools	0.1
Corporate & Commercial Catering	Trading Deficit caused by fewer events than required, together with a 4 year backdated HMRC payment due to a VAT rule change	0.1
Underspends:		
Directorate & Support	Management actions to offset future directorate and corporate pressures	(1.0)
Public Safety	One off Public Health grant windfall resulted in this variation	(0.3)
Development Management & Planning Policy	Generally the economy has picked up over the year resulting in an increase in planning applications and a resulting surplus in planning fee income.	(0.3)
Building Sustainable Communities	This is primarily due to overachievement of income in relation to the establishment of a new emissions trading scheme and from an increase in fees to schools for the provision of Display Energy Certificates.	(0.2)
Highways	An over-recovery due to accelerated works funded from external income (Whitefriars) and a small trading surplus for the Highways DLO.	(0.2)
PAM Management & Support	2 senior manager posts held vacant pending a review of the service	(0.1)
Development Services	3 posts held vacant pending a review of the service	(0.1)
Other Variations less than 100k		(0.1)
	Forecast Overspend/(Underspend)	**(0.5)**

REPORTING AREA	EXPLANATION	£m
RESOURCES DIRECTORATE		
Overspends:		
Resources Mgt Team & Overheads	Professional Fees relating to the judicial review plus directorate savings target which offsets against underspends in other parts of the directorate.	1.2
Legal Services	One-off refund of land charge income to customers, due to changes in legislation accounts for £470K of the overspend. In addition, overspend on agency and professional fees due to volume of work required on specific complex cases. Legal Services Review expected to address these issues for 2015/16 onwards.	0.6
HR support	Underachievement of Turnover Target for all HR areas	0.3
ICT Strategy & Architecture	Procurement savings targets of £82K not being delivered due to delays and other difficulties, plus some underachievement of Turnover Target.	0.1
Underspends:		
Talent & Skills Team	Vacancies plus underspend on external training partly due to a period of transition both in People's Directorate and Workforce Development and better management of external training spend.	(0.9)
HR Recruitment	Increase in Agency Rebate due to increased use of Agency staff in People Directorate.	(0.9)
Benefits	Community Support Grant underspend £740k plus underspend on salaries. Housing Benefit Subsidy overspend of £275K	(0.6)
ICT Mgt	Staff vacancies on ICT Management Team - Management Restructure and Zero Based Budgeting exercise completed for new financial year to align budgets to new shape ICT services.	(0.3)
Revenues	Overachievement of Court Fees Income, partially offset by overspends on salaries and running costs	(0.3)
Financial Mgt	Underspend on salaries as a result of restructure, and overachievement of income target - Nuckle and schools.	(0.2)
Business Services	Stationery underspend reflecting further centralisation and lock down in spend plus one-off salary underspends	(0.2)
Transformation Programme Office	Salary underspend and underspend on Transformation Advisors. Restructure completed for new financial year	(0.2)
ICT Change	Vacancies were held due to major re-organisation. Zero based budgeting exercise for new financial year to align budgets to new shape ICT services.	(0.1)
Customer Services Centre	Underspend due to vacancies. Restructure is underway.	(0.1)
Audit & Risk Mgmt	Vacancies held during year pending service move to Department of Works & Pensions.	(0.1)
Major Projects	One off income and salary underspend - restructure completed for new financial year.	(0.1)
Other Variations less than 100k		(0.4)
	Forecast Overspend/(Underspend)	**(2.2)**

Appendix 2 Capital Programme Change and Analysis of Rescheduling

Capital Programme: Analysis of Outturn Changes

SCHEME	APPROVED CHANGES £m	(RESCHEDULING) / ACCELERATED SPEND £m	(UNDERSPEND) / OVERSPEND £m	EXPLANATION
PEOPLE DIRECTORATE				
DFG		(0.2)		Demand for DFG's has slowed down over the last year or so and generally our clients required smaller works, reducing the need to pay for largers scales schems like extensions. Alternative options are reviewed for larger Schemes referrals,which can delay approvals and payments. This has led to a more efficient service, turning around referrals within 3-4 weeks of receiving them so there is no waiting list employed.
SUB TOTAL - People	**0.0**	**(0.2)**	**0.0**	

Capital Programme: Analysis of Outturn Changes

SCHEME	APPROVED CHANGES £m	(RESCHEDULING) / ACCELERATED SPEND £m	(UNDERSPEND) / OVERSPEND £m	EXPLANATION
PLACE DIRECTORATE				
Property Repairs	(0.6)	(0.4)		Delay in works has occurred in Commercial and Opertational property repairs. Commercial properperties delays are in tendering and contract lead times. Operational properties are due to City Centre First review work being done at the moment. Any works remaining to be done will be completed by July 2015.
Nuckle		(1.0)		We are currently 4 weeks behind from the original planned opening, mainly due rework of designs to address quality of temporary works, piling, earthworks and crane pads; Slew restrictor issues, has led to a late start of these works. Tamping programme has also been extended, due to methodology requirements from Network Rail; and the relocation of Signal (CN6550) at the Arena was delayed by two months, from February to April.
Canley Regeneration (Prior Deram Park)		(0.2)		The contractor was due back on site at the beginning of March 2015 and as such we anticipated further project spend before year end as detailed at the end of quarter 3. However, due to the continued water logging of the ground at Prior Deram the contractor will not return to site until mid April 2015.
Far Gosford Street		(1.6)		These are various grant funded schemes, This money will be retained for the grant periods to ensure successful delivery of the FGS grant funded restoration programme.
Growing Places Fund		1.0		The overspend is across all of the GPF Projects and is a result of either additional loans awarded and defrayed sooner than originally forecast, additional claims for grant received eariler than expected and there were 2 claims for large amounts that were received and defrayed earlier than expected
International Transport Museum Project		(0.4)		The slippage is for grant claims which have been submitted to ERDF, as ERDF claims are calendar year from Jan - Dec, the slippage is grant claims to be submitted awaiting approval
RGF3 Business Grants		(0.2)		RGF3 SME Grants – Beneficiary businesses have been slower to claim than initially forecast – no concern project has til November 2015 to spend all cash but currently forecast to spend all by end June 2015
RGF3 Friargate Bridgedeck		1.4		Expenditure has accelerated which reflects Costain's programme activities, which vary from the original forecast as the programme detail has developed, inclduing additional costs on design; issues around piling and drainage works. The project is also picking up the costs for design and installation of Heatline across the bridge deck, and utilities diversions for the Warwick Road station access scheme.
RGF3 Whitley Junction		1.0		Additional spend has been incurred to address the need to raise the level of the carriageway as a result of asbestos being discovered, and works associated with extra piling for the bridge deck. Additional testing, processing and treating o f material excavated from other city council construction sites have generated expenditure which had not been anticipated, which has also impacted on the type of material used to construct the slip roads following amendments to designs which has incurred additional costs. Furthermore additional temporary traffic management requirements such as additional temporary traffic signals have had to be provided following severe disruption to the road network being encountered and with the Whitley scheme being so close in proximity to the Highways Agency Toll Bar End it has been necessary to deploy additional temporary traffic management measures to ensure congestion is effectively managed and traffic is kept moving especially during peak time.
RGF3 M40 Junction 12		0.4		The M40 J12 is a project run by Warwickshire County Council. The project has a number of funding sources, due to the strict RGF timescales WCC decided to use more RGF in the early stages of the project than originally forecast to esnure that their total RGF budget of £3.3m is spent by June 2015
RGF4		(0.9)		RGF4 Business Grants - Beneficiary businesses have been slower to claim than initially forecast – no concern project has til March 2016 to spend all cash but currently forecast to spend all by end December 2015
Kickstart - Friargate Building		0.9		Finalisation of the commercial deal between Coventry City Council and Friargate LLP. Previous forecasts were based on estimates whereas now the commercial deal has been agreed the spend profile has changed accordingly.
RGF2 Wave 2 Growth Hubs		(0.3)		RGF4 Lancaster SME Grants – Beneficiary businesses have been slower to claim than initially forecast – no concern project has til June 2015 to spend all cash and is currently forecast to spend all by end June 2015
AT7 Centre			(0.2)	The £225,076 forecast underspend has resulted as a consequence of careful monitoring of the contract against the original target budget. Throughout the process a ' best value ' approach was adopted by the Client Team and a number of potential variations presented opportunity to challenge certain design concepts resulting in significant savings being realised. An example being a £40k saving being achieved through a redesign of the perimeter access route.
Integrated Transport Programme		(0.3)		Rescheduling has arisen on a couple of schemes which have commenced later than anticipated in Mid-March.
Coventry Station Masterplan		(0.3)		The underspend is largely attributed to the fact WSP GRIP3 activity has had to be split, with only the footbridge & canopy designs progressing in 2014/15, as planned. GRIP3 design for the second entrance building, MSCP and bus interchange had to be placed on hold, and remains on hold pending resolution of land issues. Anticipated commencement is July 2015, for completion by Dec.
Public Realm		(1.8)		Expenditure is less than originally forecast due to the Gosford Street/Coventry University scheme slipping to start on site in March 2015, originally enabling works were proposed to start autumn 2014 and be undertaken by the DLO, but instead the full package of works have been awarded to one main contractor.

Capital Programme: Analysis of Outturn Changes

SCHEME	APPROVED CHANGES £m	(RESCHEDULING) / ACCELERATED SPEND £m	(UNDERSPEND) / OVERSPEND £m	EXPLANATION
PLACE DIRECTORATE Continued				
South West Coventry Jnct Imp Programme		(1.8)		Re-scheduling is due to the programme of construction works suffering delays in design information being provided by the University of Warwick and also the discovering of unknown stats within the UoW campus area. The overall programme that was estimated to be complete by March 2015 is now estimated to be completed by summer 2015.
Highways Investment		(0.6)		Mainly due to the delay in delivery of a handful of Plane and Patch schemes and two large resurfacing schemes.
Highways S106 - Banner Lane		(0.1)		Banner Lane works have been delayed while the Watermans Atkins staff had to be redirected to work on priority public realm and European bid projects in order to meet the European funding conditions. This has led to Banner Lanes works starting on site later than orginally anticipated at Quarter 3 projections, we are now anticipating to be on site by end of July 2015
Super Connectivity	(0.6)			This is a technical adjustment to reflect a change in the accounting treatment removing accruals and dealing only with the capital grant on a cash basis. Grants are approved in pirnciple subject to certain conditions being met, therefore there is no guarantee payment will be made, the change in programme reflects this, the removal of accrual previously included in Q3 forecast
A4600 Congestion Relief Scheme (LPPF)		(0.6)		The scheme has suffered from a number of statutory utility issues that have resulted in the project requiring significant redesign and development of the existing proposals. This has resulted in a change to the spend profile of the scheme.
Lentons Lane Cemetery		(0.1)		The difficulties have been with the Highways Department approving the new entrance works from Shilton Lane under S278 and S38. The scope of work has increased within the Shilton Lane highway resulting in a full road closure. Increased road specification with greater depth of construction has resulted in a water main diversion by Severn Trent Water being necessary. These works are having to be completed on a piece-meal basis and should all be finally completed by end of May/early June 2015
Vehicle & Plant Replacement		(1.3)	(0.7)	A number of vehicles have either not been replaced, due to alternatives becoming available from other areas, or from reductions in service requirements (e.g. Neighbourhood Wardens, a number of Tractors, previously contract hired vehicles, and various schools who have self financed).
Basic Need - Primary Schools Expansion Programme		(4.7)		Increasing in Pupil Places programme for 2014 Phase 1 has rescdedule £1.7m of funding in the main due to efficiencies being made project procurement and delivery in the context of new national guidance on space standards in schools. £0.72m will be required in 2015/16 to complete the phase 1 programme, giving the opportunity to invest £1m for phase 2. Late starts for both Castlewood and Spongate school due to delays in agreeing an acceptable scheme with the school/Moathouse and local listing of at Spongate Moat Building. Both Schools are now on site with completion in 2015 A further £2m has been set aside for the new broad spectrun school and condition works
Basic Need - TBNP		(2.3)		Edgewick Primary School (reschedule £1m) due to late start and discovery of well on site which delayed progress while foundation works were redesigned, the other 4 schools (£1.3m) will be completed by the end of summer
Condition		(4.4)		The Priority Schools Building Programme is procured and delivered by the Education Funding Agency. The EFA has incurred delays in delivering schemes due to site anomalies. This and delays in providing information to the Council are the signicifant factors in the rescheduling. Works are now expected to be completed in July 2015; Emergency Condition Fund and Early Years has had little or no demand this year. Edgewick £1.8m has joint funding with the Basic Basic Need Targetted for explanation, this is the condition side of the build
Early Years		(0.5)		Slow take up of funding, large projects coming through in 15/16 once clarification of meeting the criteria of the grant
Pathways to Care (Support to Foster Carers)		(0.1)		This is an on-going budget to reflect the Council's statutory responsibilities. It seeks to support adults live independent lifestyles, through home improvements, specialist equipment etc. Again it is very much demand led and therefore difficult to predict in any one year.
Capital Disposals	0.5			Capital Costs for disposal of Land and Property for sale
Miscellaneous	0.1	(0.1)	(0.1)	Net Changes.
SUB TOTAL - Place Directorate	**(0.6)**	**(19.3)**	**(1.0)**	

Page 24

Capital Programme: Analysis of Outturn Changes

SCHEME	APPROVED CHANGES £m	(RESCHEDULING) / ACCELERATED SPEND £m	(UNDERSPEND) / OVERSPEND £m	EXPLANATION
RESOURCES DIRECTORATE				
Strategic ICT Projects		(0.2)		Throughout these organisational changes the ICT programme has had to be re-profiled to work on the authority's priority projects such as Unified Comms and Network Modernisation. The ICT Strategy and Roadmap has also been reviewed and is currently in the final stages of development. This has resulted in previously planned spend not happening in FY 2014/15 and budgets being profiled to FY 2015/16.
Kickstart - ICT Systems	0.2			This is new money to resource the new HR module
Kickstart - Customer Journey		(0.6)		This budget primarily relates to the ICT requirements and spend for the Customer Journey programme but also covers other programmes of work such as Electronic Document and Records Management (EDRMS). The main budget re-scheduled to next year relates to Customer Journey. As reported at quarter three - during this financial year we have procured a Customer Portal product and developed in more detail the phasing of appointment booking, integration components, mapping and payment solutions as a result. The project spend profile for the ICT requirements could only be finalised following the procurement of the Customer Portal product and has resulted in re-profiling of capital spend. Since quarter three there has been further profiling and building of the project which has resulted the budget being re-profiled to next year.
Kickstart - ICT Infrastructure		(1.0)		The ICT Infrastructure Operations capital programme is underspent in 2014/15 by £467091. This is due to 2 main reasons:- 1. The network Modernisation work order was delayed in awarding contract. Originally the contract should have been awarded in August 2014 but this was delayed until late October 2014. This has meant that the roll out programme has had to be moved into the 2015/16 financial year. 2. Much of the effort available in ICT Infrastructure and Operations has been involved in the Unified Comms project which has meant that effort has not been available to progress work in other capital areas. This work will now be moved to 2015/16
ICT Infrastructure Operations		(0.5)		This is a very complex project which has met with a number of significant challenges to implement on the Council's infrastructure. These technical challenges have delayed the roll out of the system by 2 months. The financial impact of this is that stage payments to the supplier have been rescheduled into 2015/16
SUB TOTAL - Resources Directorate	**0.2**	**(2.3)**	**0.0**	
TOTAL RESCHEDULING	**(0.4)**	**(21.8)**	**(1.0)**	

Summary Prudential Indicators

		Per Treasury Management Strategy 14/15 £000's	Actual 14/15 £000's
1	**Ratio of financing costs to net revenue stream:**		
	(a) General Fund financing costs	36,805	34,252
	(b) General Fund net revenue stream	258,505	258,505
	General Fund Percentage	14.24%	13.25%
2	**Gross Debt & Forecast Capital Financing Requirement**		
	Gross debt including PFI liabilities	417,827	385,952
	Capital Financing Requirement (forecast end of 16/17)	479,383	483,721
	Gross Debt to Net Debt:		
	Gross debt including PFI liabilities	417,827	385,952
	less investments	-46,854	-112,517
	less transferred debt reimbursed by others	-17,411	-17,410
	Net Debt	353,562	256,025
3	**Capital Expenditure (Note this excludes leasing)**		
	General Fund	149,061	101,108
4	**Capital Financing Requirement (CFR)**		
	Capital Financing Requirement	479,383	400,370
	Capital Financing Requirement excluding transferred debt	461,972	382,960
5	**Authorised limit for external debt**		
	Authorised limit for borrowing	441,514	441,514
	+ authorised limit for other long term liabilities	73,902	73,902
	= authorised limit for debt	515,416	515,416
6	**Operational boundary for external debt**		
	Operational boundary for borrowing	401,514	401,514
	+ Operational boundary for other long term liabilities	73,902	73,902
	= Operational boundary for external debt	475,416	475,416
7	**Actual external debt**		
	actual borrowing at 31 March 2015		297,822
	+ PFI & Finance Leasing liabilities at 31 March 2015		70,720
	+ transferred debt liabilities at 31 March 2015		17,410
	= actual gross external debt at 31 March 2015		385,952
8	**Interest rate exposures**		
	Upper Limit for Fixed Rate Exposures	441,514	241,956
	Variable Rate		
	Upper Limit for Variable Rate Exposures	88,303	-56,651
9	**Maturity structure of borrowing - limits**	**upper limit**	**actual**
	under 12 months	30%	25.3%
	12 months to within 24 months	20%	0.0%
	24 months to within 5 years	30%	6.7%
	5 years to within 10 years	30%	3.3%
	10 years & above	100%	64.7%
10	**Investments longer than 364 days: upper limit**	10,000	0

Coventry City Council

Public report

Audit & Procurement Committee 22 June 2015

Name of Cabinet Member:
Strategic Finance and Resources (Councillor Gannon)

Director Approving Submission of the report:
Executive Director of Resources

Ward(s) affected:
All

Title:
Unaudited 2014/15 Statement of Accounts

Is this a key decision?
No

Executive Summary:
The purpose of this report is to give Audit and Procurement Committee the opportunity to review the 2014/15 Statement of Accounts and raise any points that need to be addressed prior to their formal approval in August 2015. The Accounts and Audit Regulations 2011 allow local authorities the discretion to use an Audit Committee or equivalent as the sole body for approval of these Statements and this path was adopted at Coventry in 2011.

Recommendations:
Audit and Procurement Committee is recommended to review and comment on as appropriate, the 2014/15 Statement of Accounts.

List of Appendices included:
The Statement of Accounts is appended in its entirety.

Other useful background papers: Final Accounts Working papers – 3rd Floor Christchurch House

Has it been or will it be considered by Scrutiny?: The Audit and Procurement Committee will consider the Statement.

Has it been or will it be considered by any other Council Committee, Advisory Panel or other body?: No

Will this report go to Council?: No

Report title:
Unaudited 2014/15 Statement of Accounts

1. Context (or background)

This report presents the 2014/15 Statement of Accounts (SoA). The Council is required by law to produce this document and it is prescribed heavily by regulation. It is presented in draft format within this report to give the Audit and Procurement Committee the opportunity to review and comment on it. It is also subject to audit currently by the Council's external auditors, Grant Thornton. It will be brought back to Audit and Procurement Committee for formal approval in August 2015 reflecting any changes recommended by Grant Thornton and agreed by the Executive Director of Resources. This process reflects changes to reporting requirements made by the Accounts and Audit Regulations 2011 which allow local authorities the discretion to use an Audit Committee or equivalent as the sole body for approval of these Statements.

2. Options considered and recommended proposal

2.1 Given the highly technical, heavily prescribed and retrospective nature of the Statement of Accounts there are no options to consider. The Audit and Procurement Committee is recommended to review the draft statements, make any comments as appropriate prior to final approval in September and take note of any issues that could affect the Committee's governance role going forward. The paragraphs below explain the key aspects of the Statement.

2.2 In approving the recommendation, it is important that the Audit and Procurement Committee should, as a minimum, seek explanations and gain assurance that sufficient explanation is provided for the differences between the City Council's management accounts and statutory Statement of Accounts.

2.3 In terms of the financial aspects of the Statement of Accounts, the Committee should be aware that the Council's accounts are presented in line with International Financial Reporting Standards (IFRS), introduced for local government in 2010/11. The Council is required to include the following financial statements within the Statement of Accounts document as follows (references relate to the appended Statement):

- Comprehensive Income and Expenditure Account (SoA section 2.2) - This shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation. Authorities raise taxation to cover expenditure but this is different to the accounting cost which reflects notional changes in the value of the Council's assets and liabilities.
- Movement in Reserves Statement (SoA section 2.3) - This shows reserve movements analysed into two broad categories. Usable Reserves are those that can be applied to fund expenditure or reduce local taxation and Unusable Reserves include those that hold unrealised gains and losses (for example the Revaluation Reserve), where amounts would only become available to provide services if the assets are sold; and reserves that hold timing differences between the Council's accounting basis and funding basis
- Balance Sheet (SoA section 2.4) - This shows the value of the assets and liabilities recognised by the authority. The net assets of the authority (assets less liabilities) are matched by the reserves held by the authority.
- Cash Flow Statement (SoA section 2.5) – This shows the changes in cash and cash equivalents of the authority during the reporting period. The statement shows how the authority generates and uses cash and cash equivalents by classifying cash flows as operating, investing and financing activities. The amount of net cash flows arising

from operating activities show the extent to which the operations of the authority are funded by way of taxation and grant income or from the recipients of services provided by the authority.

- The Collection Fund (SoA section 2.6) - This account shows how much Council Tax and National Non-Domestic Rates (business rates) are collected within the City. It shows how much has been transferred to the Income and Expenditure Account to pay for Council Services and how much has been paid to the Police and Fire Authorities. The difference between these two amounts is then a surplus or a deficit which is carried forward in the following financial year. For 2014/15 there is surplus carried forward of £2.8m for Council Tax and a deficit carried forward of £3.3m for Business Rates. Provision has been made to absorb the Business Rates deficit.
- Group Accounts (section 4) ~ These statements consolidate the City Council's accounts with those companies considered to be part of our group. For 2014/15 those companies are North Coventry Holdings Ltd, Coventry North Regeneration, and Coventry and Solihull Waste Disposal Company. In October 2014 the Council sold its interest in Arena Coventry Ltd and therefore ACL's transactions have been included in the Group Accounts up to the end of September 2014 and will form no further part in the Group Accounts in the future.

2.4 The Statement of Accounts must ensure that any surplus or deficit that arises within the financial year is equal to the change in the net value of the authority's assets and liabilities and the change in the value of its equity. For 2014/15 the Council is reporting a £113 million deficit within its Comprehensive Income and Expenditure Statement. This deficit is matched by a decrease in the value of the Balance Sheet and the same decrease reflected in the level of (useable plus unusable) reserves in the Movement in Reserves Statement.

2.5 The CIES deficit referred to above does not reflect the genuine position of the Council's General Fund, for which a £2.2m overspend has been reported in the Revenue and Capital Outturn Report on the Audit and Procurement Committee agenda today. The headline differences between the Income and Expenditure Account and the General Fund is explained below. These are also incorporated, along with a range of smaller changes, in the table that follows:

- The key reason for the deficit relates to the Council's pensions deficit position worsening by £120 million, as a result largely of the decrease in the discount rate from 4.4% to 3.2%. This rate is used by the actuary to discount the expected cost of future pensions to current values. The lower the rate used the higher the calculated cost of liabilities.
- There are a number of asset related adjustments: Revaluation of assets is undertaken on a five yearly rolling programme. Revaluations in 2014/15 have led to a £65m reduction in asset values. This can be explained largely by the 2014/15 process incorporating school valuations as one group during the year, such that the trend of declining values for other asset groups in recent years is now reflected in the schools grouping. In addition, under IFRS the value of assets has to be split into several individual components necessitating assessments of the value of each component part of each asset. This work has continued in 2014/15 and as a consequence £37m of asset value has been derecognised and removed from the balance sheet.
- Notwithstanding the asset based explanations above, the large Capital Programme undertaken by the Council in 2014/15 has led to additions to the Programme of £82m. In total, the overall value of the Council's asset base has remained relatively constant in the year.

2.6 These circumstances within the Statement have not affected the Council's cash flows of income and expenditure in 2014/15. Instead they are either events that will never result in a reduced level of income or increased need to spend or at worst will only do so many years in the future. For this reason they do not form part of the management accounts which reflect a more current (and statutorily based) view of the need to spend and to finance this spend through grants, taxation and charges. The differences between the Statement of Account and management accounts are shown in the table below.

	£000	£000
Deficit Shown in Comprehensive Income & Expenditure Account (CIES)		**112,954**
Less changes that made the CIES worse than the management accounts Asset related adjustments including the rate that our assets go down in value over their lifetime due to wear and tear (depreciation) and any charges reflecting extra-ordinary one-off reductions in the value of our assets (impairment, revaluation and de-recognition).	(74,524)	
Items such as external schemes (e.g. Nuckle) that the Council funds from capital resources not revenue which do not result in the creation of new asset value for the Council.	(25,269)	
The difference between a calculated whole-life cost of pensions and the pension contributions paid by the Council in the year. The pensions' deficit position has gone up this year due in large part to a change in the discount rate from 4.4% to 3.2%.	(120,180)	
Sub-Total – changes that made the CIES worse than the management accounts		**(219,973)**
Add changes that made the CIES better than the management accounts Capital grants and other capital funding that is reflected in the CIES but not in the management accounts.	80,498	
A charge for the amount that we need to put aside to repay debt in the future, peculiar to local authorities, referred to as the minimum revenue provision. This is reflected in the management accounts but not the CIES	14,117	
An increase in the overall value of reserves which is reflected in the CIES but not in the management accounts	6,145	

Capital expenditure charged against the management accounts, sometimes known as revenue contribution to capital outlay. All Other Items	6,917 1,510	
Sub-Total – changes that made the CIES better than the management accounts		**109,187**
Surplus Shown in Outturn Report		**2,168**

2.7 There is one further material items that has affected the Council's accounts. As a result of a change in accounting policy the assets for voluntary controlled and foundation schools have been brought onto the Council's balance sheet. This has increased the opening balance sheet value by £43m.

3. Results of consultation undertaken

3.1 Given the nature of the report no consultation has been undertaken.

4. Timetable for implementing this decision

4.1 Forthcoming regulations are expected to shorten the timescale for completing local authority accounts from financial year 2017/18 onwards. These will require the draft accounts to be prepared by 31st May (currently 30th June) and the final audited Statement to be approved by 31st July (currently 30th September). As a result the Council is taking measures to bring forward its accounting timetable. It is anticipated that this year's statement will be signed off by Audit Committee on 3rd August 2015 once it has been audited by Grant Thornton. Any material changes to it will be reported to Audit and Procurement Committee at that time.

5. Comments from Executive Director of Resources

5.1 Financial implications
The Statement is a heavily prescribed, highly technical and very detailed document and it is no exaggeration to say that even experienced finance professionals find it difficult to understand some of the more complex areas of the Statement. For this reason, a report of this nature can only summarise the key aspects of the Statement and its implications for the Council. In reality, the 2014/15 Revenue and Capital Outturn Report which contains the end of year position of the Council's management accounts is a more representative summary of the Council's in-year financial performance.

The Statement of Accounts provides a retrospective record of the Council's financial position on an accounting basis and it does not in itself have any specific financial implications for the Council. However, there are two material areas of analysis contained within the Statement that require further explanation – the pensions liability and the threat of future negative equity.

Long-term trends have witnessed a significant worsening of the Council's Pension liabilities over time. In general, this means that the contributions and other income flows into the pension fund are not sufficient to meet the calculated cost of future outflows (the payment of pension benefits) from the fund. Action has been taken to reform local government pensions on a national level with the introduction of a revised Local Government Pension Scheme from 1st April 2014. In addition, employer contributions have been increased across all West Midlands authorities to pay for the past service cost of pensions and in Coventry's case these were built into the 2014/15 Budget. Whether or not these measures will redress the overall pension deficit over the medium to long term, other factors are always likely to cause year on year volatility which makes it difficult to assess any long-term trends in the early years. Nevertheless, the significantly worsened position of the Council's pension deficit described above, albeit that this is the result largely of factors outside of the Council's control, represents a continued worrying trend. The next triennial review of the Council's pension position is due for 31st March 2016 and will influence the revised employer pension contributions that will be payable from 2017/18. Based on the current position, the Council will once again come under pressure to increase its budgeted pension contributions.

In recent years, the Audit and Procurement Committee has been briefed on the possibility that the value of the Council's Balance Sheet (or its net worth) will become a negative figure in the future, indicating that the Council, based on the way the accounts are required to be presented by regulations, will be judged to have a position of negative equity (it will owe more than it owns). In the main this trend is based on the risk that the pension deficit described above increases, that more schools will become Academies and no longer be part of the Council's asset base and that further impairments to the value of other Council assets could occur. Based on the current balance sheets of councils around the country it is anticipated that a number of others will face the same issue, not least due to the fact that the causes in Coventry are all part of national trends.

It is important to understand that it is untenable for a position of negative equity to be maintained over the long-term. Given that the Council's pension deficit represents the over-riding reason for the threat of negative equity it is has become essential that this position is addressed by the local government community and its pensions authorities. There has already been an increased focus on the issue in terms of national regulations and the local actions of the West Midlands Pension Fund at a local level. However, the Council has made an assessment that it maintains a robust position of going concern based on the long-term funding streams available to local government and the facility for it to take a long-term view on managing its pensions' deficit.

It is also worth making the point that changes to accounting regulations will, from 2016/17, increase massively the value of highways assets included within the local authority accounts. For Coventry, the strong likelihood is that we know already that this will add multiple millions of pounds to the Council's balance sheet. Whilst this will (from 2016/17) remove the threat of negative equity, it in no way diminishes the need to resolve the pensions issues described above.

5.2 Legal implications

The Council is required by legislation to complete a draft Statement signed by the Chief Financial Officer by 30th June and to approve and publish audited accounts by 30th September in line with the Accounts and Audit Regulations 2011. The Audit and Procurement Committee approves the accounts on behalf of the Council.

6. Other implications

6.1 How will this contribute to achievement of the Council's key objectives / corporate priorities (corporate plan/scorecard) / organisational blueprint / Local Area Agreement (or Coventry Sustainable Community Strategy)?

The Statement of Accounts contributes to the Council's key objectives as one of the measures by which to judge whether the Council is using its resources effectively and that its performance is well managed.

6.2 How is risk being managed?
There is a detailed timetable for compiling the Statement of Accounts.

6.3 What is the impact on the organisation?
No specific impact.

6.4 Equalities / EIA
No specific implications.

6.5 Implications for (or impact on) the environment
None.

6.6 Implications for partner organisations?
None.

Report author(s):

Name and job title: Paul Jennings, Finance Manager (Corporate Finance)

Directorate: Finance and Legal Services

Tel and email contact: 02476833753 paul.jennings@coventry.gov.uk

Enquiries should be directed to the above person.

Contributor/approver name	**Title**	**Directorate or organisation**	**Date doc sent out**	**Date response received or approved**
Contributors:				
Michelle Rose	Governance Services Officer	Resources	11/6/15	11/6/15
Names of approvers for submission: (officers and members)				

This report is published on the council's website:
www.coventry.gov.uk/meetings

Coventry City Council

Public report

Report to

Audit and Procurement Committee 22nd June 2015

Name of Cabinet Member:
Cabinet Member for Strategic Finance & Resources – Councillor Damian Gannon

Director approving submission of the report:
Executive Director of Resources

Ward(s) affected:
City Wide

Title:
Annual Governance Statement 2014-15

Is this a key decision?
No

Executive summary:

The purpose of this report is to seek approval for the Annual Governance Statement, which forms part of the Statement of Accounts for 2014-15.

Recommendation:

Audit and Procurement Committee is recommended to consider and approve the Annual Governance Statement (attached at Appendix One), which accompanies the 2014-15 Statement of Accounts.

List of Appendices included:

Appendix One – Annual Governance Statement 2014-15

Other useful background papers:

Annual Governance Statement 2013-14
http://internaldemocraticservices.coventry.gov.uk/ieListDocuments.aspx?CId=553&MId=10218&Ver=4

Has it or will it be considered by scrutiny?

No

Has it, or will it be considered by any other council committee, advisory panel or other body?

No

Will this report go to Council?

No

Report title:
Annual Governance Statement 2014-15

1. Context (or background)

1.1 Coventry City Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively. In discharging this responsibility, the City Council is responsible for putting in place proper arrangements for the governance of its affairs, facilitating the effective exercise of its functions, including arrangements for the management of risk.

1.2 To demonstrate such arrangements, the City Council has approved and adopted a Code of Corporate Governance, which is consistent with the principles of effective governance as reflected in the CIPFA / SOLACE Framework 'Delivering Good Governance in Local Government'.

1.3 The Annual Governance Statement ('AGS') explains how Coventry City Council has complied with the Code and in doing so, reflects the requirements of the Accounts and Audit (England) Regulations 2011, which requires all relevant bodies to prepare an Annual Governance Statement. The AGS also details key governance / control issues identified through the assessment that the Council faces in the coming year.

2. Options considered and recommended proposal

2.1 The Annual Governance Statement is informed by a review of the Council's governance environment, which is based on a number of sources including:

- An annual assessment of the adequacy of internal controls / governance arrangements by each Director.
- The outputs from the Internal Audit Service, reflected in an annual report that identifies those issues, which in the opinion of the Internal Audit and Risk Manager, should be considered when producing the Annual Governance Statement.
- A review of the effectiveness of the Council's system of Internal Audit.
- Reports from external bodies during the year, including those from the Council's external auditors and Ofsted.

2.2 Section 5 of the Annual Governance Statement, attached at Appendix One, highlights those areas that the Council considers require internal control / governance improvements. This assessment is co-ordinated by the Internal Audit and Risk Manager, but also incorporates the views and opinions of senior officers. The key disclosures come from the following processes:

- A review of progress against disclosures highlighted in the Annual Governance Statement 2013-14.
- New disclosures identified as part of the assessment process outlined in section 2.1.

These processes are expanded upon overleaf.

2.3 **Update on disclosures made in the Annual Governance Statement 2013-14** - A review of the seven disclosures highlighted in the Annual Governance Statement 2013-14 has found that the disclosures fall into two categories, namely:

2.3.1 Carry forward to the 2014-15 Statement - A number of governance / control issues remain in the Annual Governance Statement. These are detailed below:

- Implementation of the Improvement Plan in response to the outcome of the Ofsted inspection of Children's Services - The improvement plan has been monitored through the meetings of the Improvement Board and regular performance reports since March 2014. A new refreshed improvement plan was put in place in April 2015 to recognise progress made and this identifies our improvement actions for the coming 12 months.

- Ensuring the delivery of the Council's vision and corporate objectives, in line with the Medium Term Financial Strategy – The final phase of budgeted abc savings are planned for 2015/16 alongside new savings linked to overarching strategies under the headings of Kickstart and Customer Journey, City Centre First, Workforce Strategy and Doing Things Differently. The Council has set a balanced budget for 2015/16 and projects smaller than previous budget gaps for 2016/17 and 2017/18 if all projected savings are achieved. However, the key strategies are in the early phases of implementation and it is too early to assess their success.

- The delivery of the Kickstart programme - the Council's plan for making savings, supporting city centre regeneration, office rationalisation and the delivery of a new purpose built office supported by a radically transformed approach to the way the Council works - Works are progressing on time and to plan. The overall projected savings target remains at £500k per annum from operation of the new council building. This is a continuing inclusive engagement strategy within the organisation which includes the recent successful recruitment of 100+ 'Change Agents' from all levels of the organisation to deliver consistent change at a team level. In terms of progress on individual elements of the programme, these are detailed below:

  - P1 Development – executed commercial agreement with Friargate LLP; secured 2nd tenant; continuing agreed plans to market wider development.
  - P2 Bridgedeck **–** Works completed on time in May 2015.
  - P3 Accommodation and Facilities Management **–** Friargate / Council House / Broadgate House – all design works progressing as planned; works at Broadgate House and Friargate have commenced and due for completion August 2015 and December 2016 respectively.
  - P4 ICT& Business Improvement **–** progressing to project plan.
  - P5 HR & Culture Change **–** progressing to project plan.
  - P6 Decommissioning – Vacated Elm Bank ahead of project plan; sold CC1 – CC4; agreed release of Christchurch and Spire House and all other disposals progressing to project plan.
  - P7 Customer Journey **–** progressing to project plan.

- To continue to implement the Education Improvement Strategy in order to raise standards across all schools in Coventry - There has been significant improvement in the outcomes for children in the Early Years Foundation Stage, Key Stage 1 and Key Stage 2. Attainment was the highest in the city's history at all levels and progress measures at the end of Key Stage 2 are in line with those nationally at the expected and more than expected levels. Currently, 79% of Coventry's primary school pupils attend a good or outstanding school. The picture is more variable in secondary schools. The percentage attaining 5A*-C at GCSE dipped again in 2014 and is below the national average. Gaps remain too wide for different groups of pupils such as the disadvantaged and more able. The proportion of students attending a good or outstanding secondary school has declined to 52.5%. Despite this, the percentage of outstanding secondary schools in the city is above that of statistical neighbours and nationally.

- Ensuring that robust processes and procedures exist to minimise the risk of fraud and error in relation to the award of council tax discounts and exemptions - The Audit and Procurement Committee received an update on this issue in February 2015 where it was highlighted that in addition to existing processes within Council Tax, an on-going programme of proactive reviews will be undertaken by the Fraud and Error Team. No assessment on the impact of the new arrangements has been undertaken as the reviews have only recently commenced and the Council's approach in this area is still being developed.

2.3.2 <u>Closed from the 2013-14 Statement</u> – Two disclosures have been closed as they are no longer viewed as significant governance / control issues facing the Council. These are outlined below:

- Ensuring that any potential impacts that the transfer of the Benefit Fraud Team to the Department of Work and Pensions (DWP) in March 2015 has on fraud arrangements in the Council are identified and managed - The impact was partly offset by the fact that responsibility in legislation for investigating benefit fraud has moved from local authorities to the DWP. However, in light of the Council's on-going responsibility for Council Tax, a team of two was set up in March 2015 to respond to the risk of fraud and error in this area (e.g. Council Tax support, exemptions and discounts).

- Gaining assurance that all functionality available through the new Agresso financial system is both utilised and embedded in practice - This disclosure was based primarily on the findings of the 2013-14 review of Accounts Receivable but also acknowledged that the Agresso System had been in use for a relatively short period of time and that some system functionality had not been fully implemented. Three reviews of the Agresso System have taken place during 2014-15, namely:

  - IT Application Review – Moderate Assurance.
  - Accounts Payable – Significant Assurance.
  - Accounts Receivable – Moderate Assurance. Whilst the review has identified that further improvements are still required, action has been taken to address the key concerns highlighted in the 2013-14 audit.

2.4 **New Disclosures** – Two new disclosures have been identified for the Annual Governance Statement 2014-15. These are detailed below:

- To address the concerns over the robustness of the payment process in respect of adult social care, which are administered through the CareDirector System – This is in response to findings of a recent Internal Audit review, which are included in the Internal Audit Annual Report 2014-15.

- To undertake a review of the Council's Code of Corporate Governance - This issue was identified as part of the review undertaken to support the production of the Annual Governance Statement.

3. Results of consultation undertaken

3.1 None

4. Timetable for implementing this decision

4.1 There is no implementation timetable associated with this report.

5. Comments from the Executive Director Resources

5.1 Financial Implications

There are no specific financial implications associated with this report. Internal control / governance have clear and direct effects on finance within the Council. Since these vary widely, it is not useful to attempt to summarise them here, beyond noting that all systems and controls are designed to help improve value for money obtained, the probity and propriety of financial administration, and / or the management of operational risks.

5.2 Legal implications

The City Council is required by the Accounts and Audit Regulations 2011 to approve, and subsequently publish, the Annual Governance Statement within the Statement of Accounts.

6. Other implications

6.1 How will this contribute to achievement of the council's key objectives / corporate priorities (corporate plan/scorecard) / organisational blueprint / LAA (or Coventry SCS)?

The governance framework comprises the systems and processes (i.e. the internal control environment), and culture and values, by which the authority is directed and controlled, and its activities through which it accounts to, engages with and leads the community. It enables the authority to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost effective services. As such, without the continued focus and / or improvements to the systems of internal control / governance required for the eight areas identified, there is a likely increased risk that the Council may fail to deliver key objectives and corporate priorities.

6.2 How is risk being managed?

The key risk that exists is that planned action is not implemented. In terms of actions planned, they fall into two categories:

- Linked to an audit / external review – Irrespective of whether the review was completed by Internal Audit, External Audit or another external agency, a defined process exists to gain assurance that all actions agreed have been implemented on a timely basis. Such assurance is generally reflected in reports to a designated committee or board. When appropriate, it is the relevant committee / board's responsibility to ensure that where progress has not been made, prompt action is taken to address this fact.

- Agreed priority – In such cases, the areas are of such importance that they have been considered and managed through the Council's governance framework.

6.3 What is the impact on the organisation?

None

6.4 Equalities / EIA

None

6.5 Implications for (or impact on) the environment

No impact

6.6 Implications for partner organisations?

None

Report author(s):
Stephen Mangan

Name and job title:
Internal Audit and Risk Manager

Directorate:
Finance & Legal Services

Tel and email contact

024 7683 3747 – stephen.mangan@coventry.gov.uk
Enquiries should be directed to the above person.

Contributor/approver name	Title	Directorate or organisation	Date doc sent out	Date response received or approved
Contributors:				
Lara Knight	Governance Services Team Leader	Resources	05/06/2015	05/06/2015
Neelesh Sutaria	Human Resources Business Partner	Resources	05/06/2015	05/06/2015
Names of approvers: (officers and members)				
Finance: Paul Jennings	Finance Manager Corporate Finance	Resources	05/06/2015	05/06/2015
Legal: Carol Bradford	Solicitor	Resources	05/06/2015	12/06/2015

This report is published on the council's website:
www.coventry.gov.uk/meetings

1. Scope of responsibility

1.1 Coventry City Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively. Coventry City Council also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

1.2 In discharging this overall responsibility, Coventry City Council is responsible for putting in place proper arrangements for the governance of its affairs and facilitating the effective exercise of its functions, which includes arrangements for the management of risk.

1.3 Coventry City Council has approved and adopted a Code of Corporate Governance, which is consistent with the principles reflected in the CIPFA / SOLACE Framework Delivering Good Governance in Local Government. A copy of the Code is available on our website at http://www.coventry.gov.uk/downloads/download/1181/code_of_corporate_governance or can be obtained from Democratic Services.

1.4 The Annual Governance Statement explains how Coventry City Council has complied with the Code and also meets the requirements of the Accounts and Audit (England) Regulations 2011, regulation 4(3), which requires all relevant bodies to prepare an Annual Governance Statement.

2. The purpose of the governance framework

2.1 The governance framework comprises the systems and processes, culture and values by which the authority is directed and controlled and its activities through which it accounts to, engages with and leads the community. It enables the authority to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate services and value for money.

2.2 The system of internal control is a significant part of the framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can, therefore, only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an on-going process designed to identify and prioritise the risks to the achievement of Coventry City Council policies, aims and objectives, to evaluate the likelihood and potential impact of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.

2.3 The governance framework has been in place at Coventry City Council for the year ended 31st March 2015 and up to the date of approval of the Statement of Accounts.

3. The governance framework

The key elements of the systems and processes that comprise the authority's governance arrangements are documented in the City Council's Code of Corporate Governance and include the following:

3.1 There is a governance / internal control environment that supports the Council in establishing, implementing and monitoring its policies and objectives. The Council's overarching objectives are contained in published policy documents including the Council

Plan. These high level plans are supported by a range of thematic policies, strategies and delivery plans, service plans, and detailed work programmes.

3.2 Coventry's Council Plan "*Coventry open for business*" was adopted in January 2014 and sets out the Council's long term vision and priorities for the city for the next ten years. To deliver the vision and priorities, the Council Plan affirms the Council's commitment to do this by maximising the use of its assets and reducing its operating costs, and through active citizens and strong and involved communities. The Council Plan is part of the Council's performance management framework designed to help the Council deliver its services and use its resources effectively in a planned and systematic way.

3.3 Throughout this process, clear channels of communication exist with all sections of the community and other stakeholders, to ensure the Council considers local needs and communicates both expected and actual outcomes for citizens and service users. This is evidenced through the Council's formal decision-making and performance management processes.

3.4 The control environment to ensure delivery of the Council's objectives is laid down in the Council's Constitution and performance management framework. The Constitution sets out how the Council operates, including:

- Roles and responsibilities of both Councillors and officers, including the Head of Paid Services, Monitoring Officer and Chief Financial Officer.

- How decisions are made and the procedures in place to ensure that these are efficient, transparent and accountable to local citizens. The Council facilitates policy and decision-making via a Cabinet structure with Cabinet Member portfolios. There are scrutiny boards covering all portfolios and an overarching Scrutiny Co-ordination Committee.

3.5 Coventry City Council has developed a comprehensive set of policies and procedures, including those relating to the standards expected of Members and officers. These are subject to regular review to ensure the Council continues to enhance and strengthen its internal control environment. Systems exist to ensure compliance with policies and procedures, including statute and regulations. Internal Audit, who complete an annual risk based plan that assesses compliance with key procedures and policies, supports this.

3.6 The Council's Risk Management Strategy was revised in 2012 and includes processes for identifying, assessing, managing and monitoring financial and operational risks. Risk registers at directorate and corporate level are updated and reviewed regularly by senior managers and Members. The Council is looking for continuous improvement throughout the Council in the management of risks, and this is being monitored through the Strategic Management Board.

3.7 The Council, through its Whistleblowing and Complaints Procedures, has documented processes in place to deal with concerns raised by both employees and members of the public. These policies have been widely communicated and are subject to regular review to ensure they are working effectively. In addition, the Council's Fraud and Corruption Strategy was revised in 2012 and reinforces the Council's commitment to creating an anti-fraud culture, whilst having effective arrangements in place in responding to allegations of fraud and corruption.

3.8 An Audit and Procurement Committee provides independent assurance to the Council on various issues, including risk management and control and the effectiveness of the arrangements the Council has for these matters. The Committee's terms of reference were developed in conjunction with CIPFA guidance, and the Committee carries out an annual self-assessment to measure its effectiveness, based on recommended CIPFA practice.

3.9 For the financial year 2014-15, the Executive Director, Resources, was the nominated Section 151 Officer, with the delegated responsibility for ensuring there are arrangements in place for proper administration of financial affairs. In assessing this role against the requirements stated in the CIPFA Statement on the Role of the Chief Financial Officer in Local Government (2010), the authority meets the five principles laid out in the CIPFA Statement, namely:

- The Chief Financial Officer (CFO) in a local authority is a key member of the Leadership Team, helping it to develop and implement strategy and to resource and deliver the authority's strategic objectives sustainably and in the public interest.

- The CFO in a local authority must be actively involved in, and able to bring influence to bear on, all material business decisions to ensure immediate and longer term implications, opportunities and risks are fully considered, and alignment with the authority's overall financial strategy.

- The CFO in a local authority must lead the promotion and delivery by the whole authority of good financial management so that public money is safeguarded at all times and used appropriately, economically, efficiently, and effectively.

- The CFO in a local authority must lead and direct a finance function that is resourced to be fit for purpose.

- The CFO in a local authority must be professionally qualified and suitably experienced.

3.10 The Annual Governance Statement also includes a review of the effectiveness of the system of internal control within group activities, where the Council is in a relationship with another entity to undertake significant activities. The following describes the group activities for the year ended 31st March 2015:

- Coventry and Solihull Waste Disposal Company is owned jointly by Coventry City and Solihull Metropolitan Borough Councils. A formal agreement sets out the operating arrangements between Coventry and Solihull. The Company is subject to the Waste Incineration Directive and the conditions of its Integrated Pollution Prevention and Control License issued by the Environment Agency. Furthermore, the Company monitors its activities through an accredited Environmental Management System. The Company has appointed Ernst & Young LLP as its external auditors. The last published Annual Report and Financial Statements, for the year ended 31st March 2014, did not highlight any significant concerns. In the year CSWDC redeemed £3.6m of preference shares held by Coventry City and Solihull Metropolitan Borough Councils.

- North Coventry Holdings (NCH) Limited is a wholly owned subsidiary of the Council. The Directors of the Company are also senior officers of Coventry City Council. The Company has LDP Luckmans as its external auditors. There was an unqualified audit opinion for the last published Annual Report and Accounts, for the year ended 31st March 2014. The Company's purpose is to hold shares in two companies, Coventry North Regeneration Limited and Arena Coventry Limited. On the 8th October 2014, London Wasps Holdings Limited (LWHL) acquired the 50% shareholding held by NCH in Arena Coventry Limited.

- Coventry North Regeneration (CNR) Limited is a wholly owned subsidiary of NCH Limited. The main activity of the Company was the construction of the Ricoh Arena.

The Directors of the Company are also senior officers of Coventry City Council. All transactions are processed using the Council's financial systems and such activities are subject to an annual audit by the Council's Internal Audit Service. The Company has LDP Luckmans as its external auditors. There was an unqualified audit opinion for the last published Annual Report and Accounts, for the year ended 31st March 2014.

- Arena Coventry Limited (ACL) was originally set up as a joint venture between NCH Limited and Football Investors Limited (a company owned by the Alan Edward Higgs Charity). The Company is engaged in the management of the Ricoh Arena. On the 8th October 2014, London Wasps Holdings Limited (LWHL) acquired the 50% shareholding held by NCH in ACL. On 14th November 2014 LWHL completed their acquisition of 100% shareholding in ACL by acquiring a 50% shareholding from the Alan Edwards Higgs Charity. The Company has Dains LLP as its external auditors. There was an unqualified audit opinion for the last published Annual Report and Accounts, for the year ended 31st May 2014.

4. Review of effectiveness

4.1 Coventry City Council has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework, including the system of internal control. This is informed by the work of senior managers within the authority, who have responsibility for the development and maintenance of the governance environment, the Internal Audit and Risk Manager's opinion on the overall adequacy and effectiveness of Coventry City Council's internal control environment, and also by comments made by the external auditors and other review agencies and inspectorates.

4.2 The Council has developed a comprehensive framework for overseeing its governance environment. This includes:

- Regular and detailed monitoring of the Council's performance, by both Strategic Management Board and Members, against targets and objectives set out in the Council’s Plan.

- Ongoing reviews of the Council's Constitution, overseen by the Constitution Advisory Panel and subject to approval by Full Council. These reviews include areas such as standing orders, financial procedures and the scheme of delegation.

- Regular reviews of Council's strategies and procedures to ensure they continue to reflect the needs of the Council.

4.3 The review of effectiveness has also been informed by:

- Reports from the external auditors and other inspection agencies.

- An annual assessment of the adequacy of internal controls / governance arrangements by each Director.

- The work of the Internal Audit Service during 2014-15. The Service works to a risk based audit plan, which is approved annually by the Council's Audit and Procurement Committee. An annual report is also produced and presented to the Committee. The report identifies those issues, which in the opinion of the Internal Audit and Risk Manager, should be considered when producing the Annual Governance Statement.

- A review of the effectiveness of the Council's system of Internal Audit.

4.4 We have been advised on the implications of the result of the review of the effectiveness of the governance framework by the Audit and Procurement Committee, and a plan to address weaknesses and ensure continuous improvement of the system is in place.

5. Significant governance issues

5.1 The Council is seeking to continuously enhance its management arrangements to improve service delivery, efficiency and value for money, whilst achieving its objectives. To support this, the following key challenges exist:

a) Achievement of improvement in children's services leading to a satisfactory Ofsted inspection outcome during 2015-16.

b) Ensuring delivery of the Council's vision and corporate objectives, in line with the Medium Term Financial Strategy. This is underpinned by the delivery of significant financial savings from new strategies set out in the 2015/16 Budget Report. Successful implementation of this next stage of transformation will be fundamental to enabling the Council to achieve its immediate financial targets, and establish a basis for addressing future reported budget gaps which rise to £16 million by 2017/18.

c) The delivery of the Kickstart programme - the Council's plan for making savings, supporting city centre regeneration and rationalising its office estate. This includes the delivery of a new Customer Service Centre, a Democratic Centre within the Council House and a new purpose built office at Friargate supported by a radically transformed approach to the way the Council works and engages with its customers. The Kickstart programme will create the environment for culture change within the Council, leading to a more agile, modern organisation which is able to deal more effectively with demand changes and service transformation.

d) To continue to implement the Education Improvement Strategy in order to raise standards across all schools in Coventry.

5.2 The review of internal control has also highlighted a number of areas for improvement. In each case, work is planned to address the issues identified and, where appropriate, audit reviews are planned to assess progress made. These are:

a) To ensure robust processes and procedures exist to minimise the risk of fraud and error in relation to the award of council tax discounts and exemptions.

b) To address the concerns over the robustness of the payment process in respect of adult social care, which are administered through the CareDirector System.

c) To undertake a review of the Council's Code of Corporate Governance.

5.3 We propose, over the coming year, to take steps to address the above matters to further enhance our governance arrangements. We are satisfied that these steps will address the need for improvements that were identified in our review and we will monitor their implementation and operation, as part of our next annual review.

Coventry City Council

Public report

Report to

Audit and Procurement Committee 22nd June 2015

Name of Cabinet Member:
Cabinet Member for Strategic Finance & Resources – Councillor Damian Gannon

Director approving submission of the report:
Executive Director of Resources

Ward(s) affected:
City Wide

Title:
Internal Audit Annual Report 2014-15

Is this a key decision?
No

Executive summary:

This report to the Audit and Procurement Committee has two purposes:

- To summarise the Council's Internal Audit activity for the period April 2014 to March 2015 against the agreed Audit Plan for 2014-15.

- To provide the Audit and Procurement Committee with the Internal Audit and Risk Manager's opinion on the overall adequacy and effectiveness of Coventry City Council's internal control environment for the financial year 2014-15 (as documented in section 2.3 of this report).

Recommendations:

Audit and Procurement Committee is recommended to note and consider:

1. The performance of Internal Audit against the Audit Plan for 2014-15.

2. The summary findings of key audit reviews (attached at appendix two) that have not already been reported to Audit and Procurement Committee during municipal year 2014-15 and

which are relevant to the opinion on the overall adequacy and effectiveness of Coventry City Council's internal control environment.

3. The opinion of the Internal Audit and Risk Manager on the overall adequacy and effectiveness of Coventry City Council's internal control environment.

List of Appendices included:

Appendix One - Internal Audit Reviews Completed in 2014-15

Appendix Two - Summary findings from key audit reports

Other useful background papers:

Half Year Internal Audit Progress Report 2014-15
http://internaldemocraticservices.coventry.gov.uk/ieListDocuments.aspx?CId=553&MId=10533&Ver=4

Internal Audit Plan 2014-15 – Quarter Three Progress Report
http://internaldemocraticservices.coventry.gov.uk/ieListDocuments.aspx?CId=553&MId=10224&Ver=4

Has it or will it be considered by scrutiny?

No other scrutiny consideration other than the Audit and Procurement Committee.

Has it, or will it be considered by any other council committee, advisory panel or other body?

No

Will this report go to Council?

No

Report title:
Internal Audit Annual Report 2014-15

1. Context (or background)

1.1 The Audit and Procurement Committee approved the Council's Internal Audit Plan for 2014-15 at its meeting on the 18th August 2014. During the last financial year, the Committee has received progress reports summarising completed audit activity in October 2014 and February 2015.

1.2 This report details the performance of the Internal Audit and Risk Service against the Plan for 2014-15, which is presented in order for the Audit and Procurement Committee to discharge its responsibility, as reflected in its term of reference - "*To consider the Head of Internal Audit's Annual Report and Opinion, and a summary of internal audit activities (actual and proposed) and the level of assurance given within the Annual Governance Statement incorporated in the Annual Accounts*".

1.3 The report is split into the following sections:

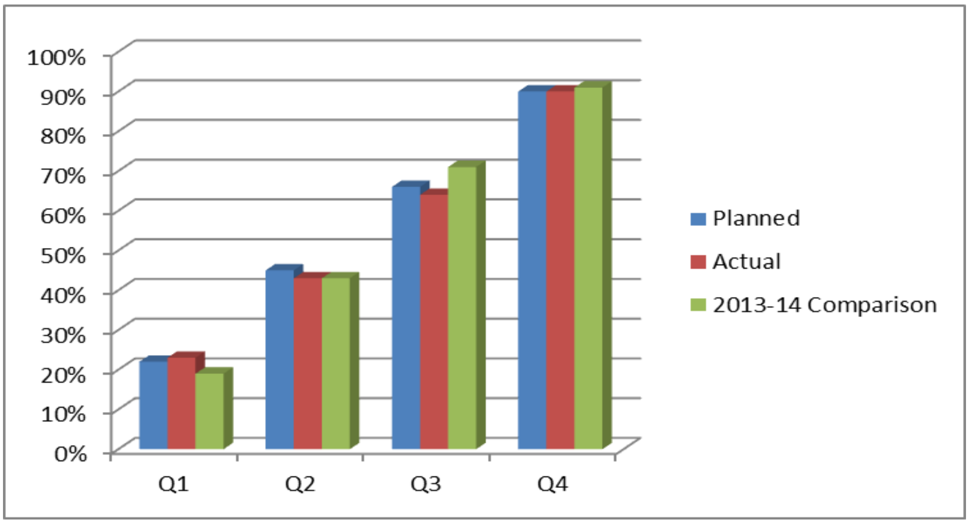
- Assessment of the performance of the Internal Audit Service against its key targets.
- A summary of the audit activity in 2014-15, and highlighting issues that have not been reported to the Audit and Procurement Committee previously, and are relevant to the overall opinion provided in section 2.3.
- The Internal Audit and Risk Manager's opinion on the overall adequacy and effectiveness of Coventry City Council's internal control environment.

2. Options considered and recommended proposal

2.1 <u>Performance of the Internal Audit Service</u>

2.1.1 The key target for the Internal Audit and Risk Service is to complete 90% of its agreed work plan by the 31st March 2015. The chart below shows that the Service met this target.

Chart One: Performance of Internal Audit 2014-15



2.1.2 It needs to be acknowledged that this performance is against a revised plan that was agreed by the Audit and Procurement Committee in February 2015. The revisions stemmed from two members of the Internal Audit and Risk Service leaving the Council in November / December 2014 and the decision to manage the impact of this in the short term through amending the 2014-15 audit plan to take account of planned audits being postponed / delayed and where days allocated in the plan were not reflective of need.

2.1.3 In addition to the delivery of the Plan, the Service has a number of other key performance indicators (KPIs) which underpin its delivery. These KPIs are aimed at ensuring that the audit process is completed on a timely basis. The table below details the performance of Internal Audit for 2014-15, compared with performance in 2013-14.

Table One: KPIs for the Internal Audit Service

Performance Measure	Target	Performance 2014-15	Performance 2013-14
Planned Days Delivered (Revised)	100%	100%	96%
Productive Time of Team (% of work time spent on audit work)	90%	89%	87.5%
Draft Report to Deadline (Draft issued in line with date agreed)	80%	79%	75%
Final Report to Deadline (Final issued within 4 weeks of draft)	80%	88%	92%
Audits Delivered within Budget Days	80%	74%	75%

Whilst in comparison with 2013-14, the overall performance across the range of indicators has generally improved, there are still variations in performance against the targets for the five KPIs highlighted above. This needs to be considered in the context of the greater expectations that the Service has set around completing audits on a timelier basis, with fewer audit days used.

2.2 **Audit Activity 2014-15**

2.2.1 Appendix One details the audit reviews that have been carried out in the financial year 2014-15 along with the level of assurance provided. Table two below provides definitions to support the level of assurance applied to audit reviews carried out by the Service.

Table Two: Definitions of Assurance Levels

Assurance Opinion	What does this mean?
Significant	There is an appropriate level of control for managing all the significant inherent risks within the system. Testing shows that the controls are being applied consistently and system objectives are being achieved efficiently, effectively and economically.
Moderate	There are generally appropriate levels of control for managing the majority of the significant inherent risks within the system. Some control failings have been identified from the systems evaluation and testing that need to be corrected. The control failings do not put at risk achievement of the system's objectives.
Limited	There are weaknesses in the level of control for managing the significant inherent risks within the system. A number of control failings have been identified from the systems evaluation and testing. These failings show that the system is clearly at risk of not being able to meet its objectives and significant improvements are required to improve the adequacy and effectiveness of control.
No	There are major, fundamental weaknesses in the level of control for managing the significant inherent risks within the system. The weaknesses identified from the systems evaluation and testing are such that the system is open to substantial and significant error or abuse and is not capable of meeting its objectives.

2.2.2 **Other** – A summary of the findings of key audits that have not already been reported to the Committee during municipal year 2014 are included at appendix two. In all cases, the relevant managers have agreed to address the issues raised in line with the timescale stated. These reviews will be followed up in due course and the outcome reported to the Audit and Procurement Committee.

2.2.3 **Follow up of Disclosures made in the Internal Audit Annual Report 2013-14** – In the previous annual report, the Internal Audit and Risk Manager identified a number of areas where he believed significant control improvements were required. An update on each of these areas is provided below:

- **Gaining assurance that all functionality available through the new Agresso financial system is both utilised and embedded in practice** – This disclosure was based primarily on the findings of the 2013-14 review of Accounts Receivable but also acknowledged that the Agresso System had been in use for a relatively short period of time and that some system functionality had not been fully implemented. Three reviews of the Agresso System have taken place during 2014-15, namely:

  - IT Application Review – Moderate Assurance

- ➢ Accounts Payable – Significant Assurance
- ➢ Accounts Receivable – Moderate Assurance. A summary of the key findings of this review are included at appendix two. Whilst the review has identified that further improvements are still required, action has been taken to address the key concerns highlighted in the 2013-14 audit.

- **Ensuring that any potential impacts that the transfer of the Benefit Fraud Team to the Department for Work and Pensions (DWP) in March 2015 has on fraud arrangements in the Council are identified and managed** – The impact was partly offset by the fact that responsibility in legislation for investigating benefit fraud has moved from local authorities to the DWP. However, in light of the Council's on-going responsibility for Council Tax, a team of two was set up in March 2015 primarily to respond to the risk of fraud and error in this area (e.g. Council Tax support, exemptions and discounts).

- **Robust processes and procedures exist to minimise the risk of fraud and error in relation to the award of council tax discounts and exemptions** – The Audit and Procurement Committee received an update on this issue in February 2015 where it was highlighted that in addition to existing processes within Council Tax, an on-going programme of proactive reviews will be undertaken by the Fraud and Error Team mentioned above.

As a consequence, with the exception of the area of council tax discounts and exemptions, the other disclosures made in the Internal Audit Annual Report 2013-14 are no longer viewed as requiring significant control improvements.

2.3 **Annual Report - Opinion on the Overall Adequacy and Effectiveness of Coventry City Council's Internal Control Environment**

2.3.1 The Public Sector Internal Audit Standards (PSIAS) highlights that a key responsibility of Internal Audit is to provide an objective evaluation of, and assurance on, the effectiveness of the organisation's risk management, control and governance arrangements. It requires that the annual internal audit opinion provided by the Internal Audit and Risk Manager is a key element of the framework of assurance that informs the Annual Governance Statement.

2.3.2 Given the above, an Internal Audit Charter was approved in April 2013, requiring the Internal Audit Annual Report to include the following information:

- An opinion on the overall adequacy and effectiveness of Coventry City Council's internal control environment.

- Disclosure of any qualifications to that opinion, together with the reason for the qualification.

- Present a summary of the audit work undertaken to formulate the opinion, including reliance placed on the work of other assurance bodies.

- Draw to the attention of the Audit and Procurement Committee any issues particularly relevant to the preparation of the Annual Governance Statement.

2.3.3 **Audit Opinion / Disclosures** – In producing the opinion, it is appropriate that the Council's approach to internal control is explicitly set out. In the view of the Internal Audit and Risk Manager, this has evolved over the last few years and is now based upon a more fluid, but risk based approach, which has moved from central oversight and places emphasis on management ensuring that activity within services and directorates they are responsible for, comply with Council policies and procedures.

This approach has been supported by the Internal Audit and Risk Manager on the basis that:

- Control enforcement is only necessary where officers consistently fail to follow agreed procedures. The experience of the Internal Audit and Risk Manager is that whilst non-compliance occurs across the Council, this is at relatively minor levels.

- Even when systems attempt to enforce controls, users can still devise ways of bypassing the agreed procedure.

- The new approach to control was developed in conjunction with senior management, who considered and accepted the risks associated with this change on internal control within the Council.

In adopting this approach, it is acknowledged that a greater inherent risk exists in terms of the control environment. This risk has continued to increase in recent times due to the fact that the financial challenges faced over the last few years have resulted in significant management delayering across the Council. As a result, there is less management resource available to provide oversight of activity in directorates. For these reasons, the level of assurance that the Internal Audit and Risk Manager can provide is somewhat restricted.

In considering the outcome of audit activity for 2014-15, we have initially looked at the number of '*limited*' or '*no*' assurance audits (as these require immediate improvements) and compared the results with the previous two years.

Table Three: Comparison of Audit Assurance Levels

Financial Year	Number of Audits	Number of Audits With 'limited' or 'no' Assurance	Percentage of Audits with 'limited' or 'no' Assurance
2014-15	85	6	7%
2013-14	92	8	9%
2012-13	93	9	10%

Whilst table three above indicates a pattern where the number of audits that require immediate improvements are reducing, this does not necessarily mean that the Council's internal control environment has improved in the last year. Other factors we have considered include:

- <u>The impact that the weaknesses identified have on the overall Council control environment</u> - When considering the six reviews, they fall equally into the following categories:

  - Reviews that are focused on working practices in specific departments / functions.
  - Reviews where issues have a corporate impact either in terms of finance, reputation and / or service delivery.

- <u>Whether there is any specific change in audit focus / approach that may have impacted on the number of '*limited*' or '*no*' assurance audits</u> – During 2014-15, there has been an increase in the number of fact finding reviews undertaken by Internal Audit, as given the limitation in audit resources, this approach is viewed as a more efficient way of responding to concerns raised. In comparison to a traditional audit review, the scope is limited to a specific concern rather than considering all key activities undertaken by a service area / department. Whilst some of these reviews identify concerns that require immediate improvements, an assurance level is not provided given the limited scope of such reviews is limited.

In considering all the factors highlighted, it is the Internal Audit and Risk Manager's view that the Council's internal control environment has not significantly changed over the last year. As a result, the Internal Audit and Risk Manager has concluded that **moderate assurance** can be provided that there is generally a sound system of internal control designed to meet the Council's objectives.

2.3.4 **Issues relevant to the preparation of the Annual Governance Statement** – In undertaking the assessment of the Council's internal control environment, the Internal Audit and Risk Manager has identified a number of areas that, in his opinion, need to be considered when the Council produces its Annual Governance Statement for 2014-15.

From a general point of view, any audit where '*limited*' or '*no'* assurance was provided requires attention. In terms of key issues, the following are highlighted:

1. **To ensure robust processes and procedures exist to minimise the risk of fraud and error in relation to the award of council tax discounts and exemptions.** Whilst a programme of proactive reviews has been agreed to supplement existing processes, no assessment on the impact of the new arrangements has been undertaken as the reviews have only recently commenced and the Council's approach in this area is still being developed.

2. **To address the concerns over the robustness of the payment process in respect of adult social care, which are administered through the CareDirector System.** This issue reflects the findings of this audit which are summarised at appendix two.

3. **To undertake a review of the Council's Code of Corporate Governance.** This issue is not specifically linked to Internal Audit work but reflects an issue identified by the Service as part of its work co-ordinating the production of the Annual Governance Statement.

3. Results of consultation undertaken

3.1 None

4. Timetable for implementing this decision

4.1 There is no implementation timetable associated with this report, although the opinion of the Internal Audit and Risk Manager on the adequacy of the Council's internal control environment is a key source in the preparation of the Annual Governance Statement.

5. **Comments from the Executive Director Resources**

5.1 Financial Implications

There are no specific financial implications associated with this report. Internal audit work has clear and direct effects, through the recommendations made, to help improve value for money obtained, the probity and propriety of financial administration, and / or the management of operational risks.

5.2 Legal implications

There are no legal implications associated with this report.

6. **Other implications**

6.1 **How will this contribute to achievement of the council's key objectives / corporate priorities (corporate plan/scorecard) / organisational blueprint / LAA (or Coventry SCS)?**

Internal Auditing is defined in the Public Sector Internal Audit Standards as "an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes". As such the work of Internal Audit is directly linked to the Council's key objectives / priorities with specific focus agreed on an annual basis, and reflected in the annual Internal Audit Plan.

6.2 **How is risk being managed?**

In terms of risk management, there are two focuses:

- Internal Audit and Risk Service perspective - The main risks facing the Service are that the planned programme of audits is not completed, and that the quality of audit reviews fails to meet customer expectations. Both these risks are managed through defined processes (i.e. planning and quality assurance) within the Service, with the outcomes included in reports to the Audit and Procurement Committee.

- Wider Council perspective - The key risk is that actions agreed in audit reports to improve the control environment and assist the Council in achieving its objectives are not implemented. To mitigate this risk, a defined process exists within the Service to gain assurance that all actions agreed have been implemented on a timely basis. Such assurance is reflected in reports to the Audit and Procurement Committee. Where progress has not been made, further action is agreed and overseen by the Audit and Procurement Committee to ensure action is taken.

6.2 What is the impact on the organisation?

None

6.4 Equalities / EIA

None

6.5 Implications for (or impact on) the environment

No impact

6.6 Implications for partner organisations?

None

Report author(s):
Stephen Mangan

Name and job title:
Internal Audit and Risk Manager

Directorate:
Resources

Tel and email contact
024 7683 3747 – stephen.mangan@coventry.gov.uk
Enquiries should be directed to the above person.

Contributor/approver name	Title	Directorate or organisation	Date doc sent out	Date response received or approved
Contributors:				
Lara Knight	Governance Services Team Leader	Resources	05/06/2015	05/06/2015
Neelesh Sutaria	Human Resources Business Partner	Resources	05/06/2015	05/06/2015
Names of approvers: (officers and members)				
Finance: Paul Jennings	Finance Manager Corporate Finance	Resources	05/06/2015	05/06/2015
Legal: Carol Bradford	Solicitor	Resources	05/06/2015	12/06/2015

This report is published on the council's website:
www.coventry.gov.uk/meetings

Appendix One – Internal Audit Reviews Completed in 2014-15

Audit Area	Audit Title	Level of Assurance
Corporate Risk	Safeguarding Adults*	Moderate
	Safeguarding Training	N/A – Fact Finding
	Coventry Investment Fund	Moderate
	Agresso Post Implementation Review*	N/A – Lessons Learnt
Key / Audit Priorities	IT Security Review	Moderate
	IT CareDirector Application Review	Moderate
	IT Agresso Application Review*	Moderate
	Talentlink*	Moderate
	Pertemps Master Vendor*	Limited
	Procurement – Highways	N/A – Fact Finding
	Procurement - Property	N/A – Fact Finding
	Paper Rationalisation – General	N/A – Support and Advice
	Paper Rationalisation – Housing Options Service Review	N/A – Support and Advice
	Agresso – Accounts Receivable	Moderate
	Agresso – Accounts Payable	Significant
Finance Systems	Council Tax	Moderate
	Payroll	Significant
	Business Rates	Moderate
	CareDirector Income*	Moderate
	CareDirector Expenditure	Limited
	Protocol	Moderate
	Housing Benefit Overpayments	Moderate
	Cashiers Office	Significant
	CNR	Significant
	Duplicate Payment Exercise	N/A – Payment Error Review
	Direct Payments	N/A – Support and Advice
Regulatory	Adoption Reform Grant	Verification
	Highways Grant	Verification
	Section 256 Funding (NHS)	Verification
	Pension Scheme – Council	Verification
	Pension Scheme - Academies	Verification
	Cycle Coventry Grant	Verification
	Trouble Families Grant	Verification
	Super Connected Coventry Grant	Verification
	Living with Dementia Grant	Verification
	Schools Direct Grant	Verification
	NHS Information Governance Toolkit	Verification
	Declaration of Interest	N/A – Annual Exercise
	Annual Governance Statement*	N/A – Annual Review
	Annual Review of the System of Internal Audit*	N/A – Annual Review
	Business Continuity	N/A – Support and Advice
Schools	Allesley Hall Primary School	Moderate
	Cardinal Newman Secondary School	Moderate

Audit Area	Audit Title	Level of Assurance
	Charter Primary School	Moderate
	Clifford Bridge Primary School	Moderate
	Earlsdon Primary School	Moderate
	Ernesford Grange Primary School	Significant
	Henley Green Primary School	Moderate
	John Shelton Primary School	Moderate
	Moseley Primary School	Significant
	Our Lady of the Assumption Primary School	Moderate
	Park Hill Primary School	Significant
	Pearl Hyde Primary School	Significant
	Sherbourne Fields School	Significant
	St Annes Catholic Primary School	Moderate
	St Augustines Catholic Primary School	Moderate
	St Elizabeths Catholic Primary School	Moderate
	St John Vianney Catholic Primary School	Moderate
	St Marys and Benedicts Catholic Primary School	Moderate
	St Thomas More Catholic Primary School	Moderate
	Stivichall Primary School	Moderate
	Stoke Primary School	Moderate
	Stoke Park Secondary School	Moderate
	Templars Primary School	Moderate
	Whitmore Park Primary School	Moderate
	Woodfield Primary School	Moderate
Contingency	Bereavement Services	N/A – Fact Finding
	System Audit Trails	N/A – Fact Finding
	Information Security	N/A – Fact Finding
	Safeguarding Concern	N/A – Support and Advice
	Recovery of Legal Costs	N/A – Support and Advice
	Data Migration (Oracle to Agresso)	Verification
	Infrastructure Assets	Moderate
	School Appeals	Moderate
	Performing Arts Service	Limited
Follow up	Stoke Heath Primary School*	Limited
	Little Heath Primary School	Significant
	Network Security (IT)	Moderate
	System Back Up, Recovery and Data Centre*	Limited
	Section 17*	Limited
	Heritage Assets	Moderate
	Route 21 Care Leavers Payments	Moderate

(*) Audit findings reported to Audit and Procurement Committee during municipal year 2014-15

Audit Review / Actions Due / Responsible Officer(s)	Key Findings
CareDirector Expenditure **July 2015** **Head of Business Systems**	**Overall Objective:** To ensure that the Council has effective systems in place to administer payments made through CareDirector in respect of adult social care. **Opinion**: Limited Assurance **Summary / Actions Identified:** The review identified the following areas of good practice: • Development of a suite of reports through Sharepoint which gives real time access to management information in the CareDirector System and which supports effective financial decision making. • A restructure within the Financial Operations Team which clearly defines roles and responsibilities for key financial processes in respect of CareDirector. The level of assurance reflects the fact that whilst we have established that the system is effective in terms of ensuring that payments to social care providers and clients are accurately processed, when combined with manual working practices which we found to be ineffective, this does raise significant concerns over the robustness of the payment process. This is reflected in the fact that – (1) audit testing identified duplicate payments totalling approximately £29k as well as an overpayment of £7,727 and (2) a lack of urgency in pursuing debt related to payments made 'on account'. Areas for improvement identified include: • Restricting the use of CHAPs payments (suggestion of undertaking two weekly payment runs will provide an appropriate alternative arrangement to CHAPs) and take urgent action to recover monies owed to the Council highlighted in this review. • Development of robust arrangements to ensure that credit balances which occur when a service ends are appropriately dealt with on a timely basis. • The requirement for management oversight of variations / adjustments input to the System to ensure accuracy and which is focused on high value transactions.

Audit Review / Actions Due / Responsible Officer(s)	Key Findings
Agresso – Accounts Receivable **December 2015** **Head of Revenues and Benefits**	**Overall Objective:** To ensure that the Council has robust systems in place to ensure that all income due to the Council is collected on a timely basis. The scope of the review has not covered the following income areas - Council Tax, Business Rates and social care [CareDirector] as these are subject to separate reviews. **Opinion**: Moderate Assurance **Summary / Actions Identified:** The review identified the following areas of good practice: • The Agresso system automates key aspects of system control, making processes more streamlined, such as customer creation, raising invoices, and periodic payments. • System reports provide mechanisms for monitoring / review, including customers where they have defaulted on their payment arrangement. The level of assurance reflects the fact that despite the system being in operation for over a year – (1) a key basic requirement [aged debt report] has only been available since November 2014, and (2) the Corporate Income Team is still trying to understand the system's full capabilities. Areas for improvement identified include: • To undertake formal reconciliations of all data transfers through interfaces and retain the documented evidence of the reconciliation. • To focus management action on assessing the effectiveness of debt recovery arrangements in place within the Corporate Income Team. • To put in place arrangements to ensure that the Corporate Income Team have a better understanding of the capability of Agresso, including its reporting functionality.