



Audit and Procurement Committee

Time and Date

3.00 pm on Monday, 26th September, 2016

Place

Committee Rooms - Council House

Public Business

1. **Apologies**
2. **Declarations of Interest**
3. **Minutes of Previous Meeting** (Pages 3 - 12)
To agree the minutes of the meeting held on 25th July 2016
4. **Exclusion of Press and Public**
To consider whether to exclude the press and public for the item(s) of business for the reasons shown in the report.
5. **Work Programme 2016/17** (Pages 13 - 14)
Report of the Executive Director of Resources
6. **Annual Audit Letter 2015/16** (Pages 15 - 32)
Report of the External Auditors, Grant Thornton
7. **2016/17 First Quarter Financial Monitoring Report (to June 2016)** (Pages 33 - 52)
Report of the Executive Director of Resources
8. **Fraud Annual Report 2015/16** (Pages 53 - 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

10. **Procurement and Commissioning Progress Report** (Pages 61 - 68)

Report of the Executive Director of Resources

(Listing Officer: M Burn, tel: 024 7683 3757)

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

Chris West, Executive Director, Resources, Council House Coventry

Friday, 16 September 2016

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 (Chair), R Brown, J Clifford (Deputy Chair), J Lepoidevin, T Sawdon and H Sweet

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

If you require a British Sign Language interpreter for this meeting
OR if 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 3.00 pm
on Monday, 25 July 2016

Present:

Members: Councillor S Bains (Chair)
Councillor R Brown
Councillor J Clifford
Councillor J Lepoidevin
Councillor T Sawdon

Other Members Present: Councillor J Mutton (Cabinet Member for Strategic Finance
and Resources)
Councillor T Skipper (Chair of the Audit and Procurement
Committee for 2015/16)

Employees (by Directorate):

Resources P Baggott, M Burn, B Hastie, P Jennings, L Knight, H Lynch,
J Sansom, K Tyler

Other Representatives J Gregory, Grant Thornton
S Turner, Grant Thornton

Apologies: Councillor H Sweet

Public Business

7. Declarations of Interest

There were no declarations of disclosable pecuniary interests.

8. Minutes of Previous Meeting

The minutes of the meeting held on 13th June 2016, were agreed and signed as a true record.

There were no matters arising.

9. Exclusion of Press and Public

RESOLVED to exclude the press and public under Section 100(A)(4) of the Local Government Act 1972 relating to the private report in Minute 18 headed "Procurement and Commissioning Progress Report" on the grounds that the report involves the likely disclosure of information defined in Paragraph 3 of Schedule 12A of the Act, as it contains information relating to the financial and business affairs of a particular person (including the authority holding that information) and that, in all circumstances of the case, the public interest in maintaining the exemption outweighs the public interest in disclosing the information.

10. **Work Programme 2016/17**

The Committee considered a report of the Executive Director of Resources, which set out the work programme for the Committee for the coming year.

The Committee noted an update by the Acting Chief Internal Auditor, indicating that there was no longer a statutory requirement to submit a report on the Review of the Effectiveness of the System of Internal Audit to the Audit and Procurement Committee and it was therefore proposed that this item be removed from the work programme.

The Chair, Councillor Bains referred to the significant number of items on the work programme and indicated that it was appropriate to hold two additional meetings over the course of the municipal year to allow for better management of the programme.

RESOLVED that:

1. **The Audit and Procurement Committee approve the work programme subject to the deletion of the Review of the Effectiveness of the System of Internal Audit.**
2. **In light of the significant number of items included on the work programme, consideration be given to holding two additional meetings of Committee during the course of the current year.**

11. **Audit and Procurement Committee Annual Report 2015/16**

The Committee considered the Audit and Procurement Committee's Annual Report, which was to be submitted to the City Council at their meeting on 6th September 2016. The report provided an overview of the Committee's activity during 2015/16.

During the previous municipal year, the Committee met on six occasions. The report detailed all the routine reports considered during this time which were based around the clearly defined expectations of the services and functions that report to the Committee such as internal and external audit and financial functions.

The Committee also considered ad-hoc reports which focused on either a specific concern or developments that impacted directly on the Committee. These included the 2014-15 Annual Freedom of Information/Data Protection Act Report; Regulation of Investigatory Powers Act 2000 Annual Report; Ombudsman Complaint Annual Report and the Corporate Risk Register.

In 2016/17, the Committee's initial focus would be ensuring that action was taken in response to disclosures made in the Annual Governance Statement; ensuring that any issues raised by the external auditors in the audit of the Council accounts were addressed on a timely basis, and ensuring that Members of the Committee were appropriately supported through training and development.

RESOLVED that the Audit and Procurement Committee recommends that the Council considers the Annual Report 2015/16.

(NOTE: Councillor T Skipper, Chair of the Audit and Procurement Committee in 2015/16, attended the meeting for the consideration of this item.)

12. Information Management Strategy Update

The Committee considered a report of the Executive Director of Resources, which set out the findings of the audit and maturity assessment, the actions identified and progress against the actions in respect of the Information Management Strategy.

The Committee noted that the report was also to be considered by the Cabinet Member for Policy and Leadership at his meeting scheduled for 28th July 2016.

The report indicated that the Council's Information Management Strategy was approved by the Cabinet in March 2016. Information Management was becoming increasingly critical to the way the public sector did business as services became integrated and sought to gain better outcomes with fewer resources and digitalised the way services were delivered. It was acknowledged that information was one of the authority's greatest assets and its usage was a major responsibility. There was an expectation by the citizens of Coventry and the Council's customers that the authority could be trusted to manage and protect information provided. The Information Management Strategy would ensure that the Council exploited information as a strategic asset, used recognised best practice, legislation and technology to minimise requests for information and to maximise the opportunities of information intelligence to share future services and evaluate the effectiveness of existing ones.

To assist with the development and delivery of the Strategy, it was felt helpful to understand the state of information governance across the Council so that improvement actions could be identified. In October 2015, the Information Commissioner (ICO) conducted a data protection audit of Children's Social Care and Revenues and Benefits. The audit considered governance arrangements, training and awareness of data sharing arrangements. The ICO met with the Senior Information Risk Owner, Acting Monitoring Officer, Caldicott Guardian, Assistant Director for ICT, Transformation and Customer Service, as well as managers and officers within the two service areas.

The Audit concluded that the Council had "very limited assurance that processes and procedures are in place and deliver data protection compliance". It was important to note that the audit provided only a snap shot of assurance levels at the time of the audit. It took limited account of the Council's strategic aims and direction of travel, which were in place and in the process of being implemented. The audit did identify the key policies in place, the development of a toolkit / handbook for employees and the communications campaign as areas of good practice. A copy of the ICO Audit's executive summary was appended to the report.

The Council considered the ICO's recommendations and included these within the action plan, which was also appended to the report submitted. Out of 77 actions, 8 had been completed, 50 were in progress and 19 were still to be commenced. The majority of these were dependent on the completion of other actions.

The Committee noted that the ICO will conduct a follow up audit towards the end of 2016/early 2017 to assess progress against the recommendations. The Council was well on track to have implemented the majority if not all of the actions in advance of this audit. By implementing these actions, the Council would significantly increase its assurance rating.

Since the scope of the ICO Audit was relatively limited and in order to refine the entire approach to how the Council managed and used information effectively, the Council proactively engaged Information Management Specialists, In-Form Consult (IFC) to conduct a maturity assessment of information management arrangements across the Council.

IFC assessed the Council's maturity level as low-medium. Across the areas considered, maturity was either at a formative (level 2) or developing stage (level 3) with level 1 being the lowest and 5 being the highest. IFC considered the maturity assessment to be a cause for optimism and not unlike similar local government organisations and no area scored a lowest level of 1. This demonstrated that the Council already had a good basis to work from and gave confidence it would be able to progress quickly in transformation of its approach to information.

IFC used the maturity assessment to create a roadmap/action plan identifying key work streams and activities required to implement the Council's vision for information management. There was some overlap between the activities' identified by IFC and the ICO audit. A copy of the road map was attached at Appendix 3 to the report.

The Members discussed the concerns that had been raised by ICO audit and the IFC assessment and requested that a further report on progress with the actions be submitted to their next meeting.

RESOLVED that the Audit and Procurement Committee:-

- 1. Note the outcome of the ICO Audit and In-form Consult Maturity Assessment.**
- 2. Note the progress to date on the ICO Audit and Maturity Assessment Action Plans.**
- 3. Request that Officers bring a further report to the Committee on the outcome of the follow up audit by the Information Commissioner.**
- 4. Decided not to make any other recommendations to the Cabinet Member.**

5. **Request a further report on progress with the two action plans arising from the Information Commissioner audit and the In-Form Consult assessment, to be submitted to the next meeting on 26th September, 2016.**

13. **Internal Audit Annual Report 2015/16**

The Committee considered a report of the Executive Director of Resources, which summarised the Council's Internal Audit activity for the period April 2015 to March 2015 against the agreed Audit Plan for 2015-16 and provided the Acting 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 2015-16.

The Audit and Procurement Committee approved the Council's Internal Audit Plan for 2015-16 at its meeting on the 26th October 2015. The report submitted detailed the performance of the Internal Audit and Risk Service against the Plan for 2015-16, which was presented in order for the Audit and Procurement Committee to discharge its responsibility, as reflected in its term of reference.

The key target for the Internal Audit and Risk Service was to complete 90% of its agreed work plan by the 31st March 2016. The Committee acknowledged that this performance was against a revised plan that was agreed by them in February 2016. The revisions stemmed from unplanned absences within the Internal Audit Service from December 2015 and the decision to manage the impact of this in the short term through amending the 2015-16 audit plan to take account of planned audits being postponed / delayed and where days allocated in the plan were not reflective of need. In addition the report set out performance against the service's key performance indicators.

Appendix one of the report submitted detailed the audit reviews that had been carried out in the financial year 2015-16 along with the level of assurance provided. A summary of the findings of key audits that had not already been reported to the Committee during municipal year 2015 were included at Appendix two. In all cases, the relevant managers had agreed to address the issues raised in line with the timescales stated. These reviews would be followed up in due course and the outcome reported to the Audit and Procurement Committee. In addition, the report provided an update on those disclosures made by the Internal Audit Annual Report 2014/15 where it was believed that significant control improvements were required.

The Committee noted that the Public Sector Internal Audit Standards highlighted that a key responsibility of Internal Audit was to provide an objective evaluation of, and assurance on, the effectiveness of the organisations risk management, control and governance arrangements. It required that the annual internal audit opinion provided by the Acting Chief Internal Auditor should form part of the Annual Governance Statement as a key element of the framework of assurance.

The report indicated that, in producing the opinion, it was appropriate that the Council's approach to internal control was explicitly set out. This had evolved over the last few years and was now based upon a more fluid, but risk based approach, which had moved from central oversight and placed emphasis on management

ensuring that activity within services and directorates they were responsible for, complied with Council policies and procedures.

In adopting this approach, it was acknowledged that a greater inherent risk existed in terms of the control environment. This risk had continued to increase in recent times due to the fact that the financial challenges faced over the last few years had resulted in significant management delayering across the Council. As a result, there was less management resource available to provide oversight of activity in directorates. For these reasons, the level of assurance that the Acting Chief Internal Auditor could provide were somewhat restricted.

In considering all the factors highlighted within the report, it was the Acting Chief Internal Auditor's view that the Council's internal control environment had not significantly changed over the last year. As a result, the Acting Chief Internal Auditor had concluded that moderate assurance could be provided that there was generally a sound system of internal control designed to meet the Council's objectives.

RESOLVED that the Audit and Procurement Committee note:

- 1. The performance of Internal Audit against the Audit Plan for 2015-16.**
- 2. The summary findings of key audit reviews, attached at appendix two to the report submitted, that have not already been reported to Audit and Procurement Committee during municipal year 2015-16 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 Acting Chief Internal Auditor on the overall adequacy and effectiveness of Coventry City Council's internal control environment.**

14. Audit Findings Report 2015/16

The Committee considered a report of the External Auditor, Grant Thornton, on the Audit Findings for the City Council for the year ending 31st March, 2016. John Gregory and Simon Turner, of Grant Thornton, attended the meeting to present their report.

The report highlighted the key issues affecting the results of Coventry City Council and the preparation of the group and financial statements for the year ending 31st March 2016. It was also used to report their audit findings to management and those charged with governance in accordance with the requirements of International Standards on Auditing (UK and Ireland) 260, and the Local Audit and Accountability Act 2014.

Under the National Audit Office Code of Audit Practice, the External Auditors were required to report whether, in their opinion, the Council's financial statements gave a true and fair view of the financial position of the Council and its income and expenditure for the year and whether they had been properly prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting. They were also required to carry out sufficient work to satisfy themselves on whether the

Council had made proper arrangements to secure economy, efficiency and effectiveness in its use of resources (“the value for money (VFM) conclusion”).

The Committee were advised that the audit was substantially complete, although procedures were being finalised in respect of the review of the final version of the financial statements; obtaining and reviewing the management letter of representation; updating post balance sheet events review, to the date of signing the opinion; final consideration of evidence in relation to improvements in children’s services; and the whole of Government Accounts.

It was anticipated that an unqualified opinion would be provided in respect of the financial statements. Reference was made to the fact that the audit had progressed smoothly, with audit queries being responded to in a prompt and constructive manner. Draft accounts were of a good standard with an overall high level of compliance with disclosure requirements. Identified errors and omissions, which did not impact on the Council’s overall financial position, had subsequently been corrected

The report highlighted that with the exception of their work in respect of children's services, the Value for Money work was complete and had not raised any issues which would lead the External Auditors to conclude that the Council had not put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2016. Discussions with officers about the improvements being made in respect of children's services had continued and John Gregory reported at the meeting that having referred to Ministerial letters regarding progress with the Improvement Plan sufficient progress had been made.

Attention was drawn to testing on the Council's general IT controls, which had identified three significant deficiencies, these being:-

- Inappropriate segregation of duties among IT staff
- Ineffective design of leaver disablement process
- Security administration rights granted to those performing financial reporting processes or controls

Actions in response to these issues, along with a number of other recommendations were set out in an action plan attached as an appendix to the report and these had already been agreed by the Executive Director of Resources.

RESOLVED that the Audit and Procurement Committee note the audit findings, as presented by the Council’s External Auditors.

15. **Audited 2015/16 Statement of Accounts**

Further to Minute 4/16, the Committee considered a report of the Executive Director of Resources, which sought approval of the audited 2015/16 Statement of Accounts and Annual Governance Statement, on behalf of the Council.

The Committee noted that the Council had delegated authority for approval of the Statement of Accounts, including the Annual Governance Statement, to the Audit and Procurement Committee.

The report was considered alongside the External Auditor's Audit Findings report (Minute 14 above refers) which detailed the key changes to the draft Statement of Accounts considered by the Committee in June. The changes had been agreed between Grant Thornton and the Executive Director of Resources.

An addendum to the report had also been submitted, detailing three minor amendments to the Statement of Accounts previously circulated.

RESOLVED that the Audit and Procurement Committee approve the 2015/16 Statement of Accounts and the Annual Governance Statement.

(NOTE: Councillor J Mutton, Cabinet Member for Strategic Finance and Resources, attended the meeting for the consideration of this item.)

16. **Revenue and Capital Outturn 2015/16**

The Committee considered a report of the Executive Director of Resources, which outlined the final revenue and capital outturn position for 2015/16 and reviewed treasury management activity and 2015/16 Prudential Indicators reported under the Prudential Code for Capital Finance.

The Committee noted that the report had also been considered by Cabinet at their meeting on 5th July 2016 and Council on 12th July 2016.

The overall financial position included a revenue overspending of £1.3m which was to be balanced to nil by a contribution from the General Fund Balance. Headline variations included an overspend of £5.4m within the People Directorate and an underspend of £5.6m within the Asset Management Revenue Account. There was a Capital Programme expenditure of £014m and a capital spending of £10.9m rescheduled into 2016/17. Revenue reserve balances were reduced from £84m to £83m. After taking into account capital grants received and capital receipts generated ahead of the need to spend, overall reserve balances had increased by £10m to £95m.

The need for the Council to manage very large cuts in government resources in recent years had 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. A resourcing package for Council staffing reductions was approved by the Cabinet in November 2015 and nearly 300 individuals had agreed to leave the Council as a result of redundancy and early retirement decisions during 2015/16. The Council had incurred costs of £5.8m, compared to £10.3m during 2014/15. A budget of £2.4m existed to part fund these costs and, at their meeting on 12th July 2016, the Council had approved that the remaining £3.4m be funded from within the overall revenue bottom line. This would ensure that the £12.5m reserve balance established as part of the November report would be available to support future redundancy and early retirement programmes.

The report further indicated the Council had recognised that it needed to deliver the new city centre water-park, swimming pool and leisure centre as soon as possible. The facility would be a visible symbol of growth and regeneration and

was part of the City Centre transformation vision, along with Friargate. It would support the City Centre South development and demonstrate physical change in the city centre, use redundant sites in the city centre and have a positive impact on the people of Coventry in terms of better sport provision.

In order to achieve this, it had been necessary to accelerate vacant possession of Christchurch House and Spire House and relocate the relevant staff into other accommodation on a temporary basis, ahead of the completion date for Friargate. It made sense to vacate Christchurch House and Spire House earlier in order to guarantee a date for the sports facility and to avoid the potential of any additional costs due to either construction inflation, on-going running costs at Fairfax Street Sport Centre, or as a result of any delays at Friargate. The Committee noted that the delivery of Friargate was largely in the hands of Friargate LLP and not the Council, so this was the best way to safeguard the delivery of the new Sport Centre. The project was advanced enough to give confidence that if the Christchurch House and Spire House site could be available earlier, the sports facility would be open in early November 2018, rather than the original date of August 2019. Total costs of £1.3m would arise from ICT and building works and leased building costs to accommodate relocated staff, with savings from vacating Christchurch House and Spire House and the Fairfax Street site funding the relocation costs and producing an overall saving of £0.1m. Approximately £0.1m of the total costs had been incurred in 2015/16 with the majority of the remainder likely to be incurred during 2016/17.

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

Appendix 3 of the report submitted set out the Ratio of Financing costs to Net Revenue Stream which highlighted the revenue impact of the capital programme. This showed the revenue costs of financing the Council's capital programme as a proportion of its income from government grant and council tax. The actual was 13.91% as against a 14.83% as forecast in the Treasury Management Strategy and reflected a lower level of borrowing than anticipated to fund the Capital Programme and higher levels of investment balances.

RESOLVED that, having considered the contents of the report, the Audit and Procurement Committee determine that there were no specific issues which it wants to refer to the Cabinet Member for Strategic Finance and Resources.

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

There were no other items of public business.

Private Business

18. Procurement and Commissioning Progress Report

The Committee considered a report of the Executive Director of Resources which provided an update on the procurement and commissioning undertaken by the Council since the last report, submitted to the meeting on 11th April 2016. Details of the latest positions in relation to individual matters were set out in an appendix attached to the report.

An update was provided on an amendment to several of the financial figures contained in the appendix.

RESOLVED that the Audit and Procurement Committee:

- 1. Note the current position in relation to the Commissioning and Procurement Services.**
 - 2. Do not intend to make recommendations to either the Cabinet Member for Strategic Finance and Resources, Cabinet or Council on any of the matters reported.**
 - 3. Do not require any changes to the format of the report at this time.**
- 19. Any other items of private business which the Chair decides to take as a matter of urgency because of the special circumstances involved.**

There were no other items of private business.

(Meeting closed at 4.45 pm)

Audit and Procurement Committee

Work Programme 2016-17

13th June 2016

Revenue and Capital Out-turn 2015-16
Draft Statement of Accounts 2015-16
Annual Governance Statement 2015-16

25th July 2016

Internal Audit Annual Report 2015-16
Audit Findings Report 2015-16 (Grant Thornton)
Statement of Accounts 2015-16
Revenue and Capital Outturn 2015/16
Review of the Effectiveness of the System of Internal Audit
Audit Committee Annual Report 2015-16
Information Management Strategy Update
Procurement Progress Report (Private)

26th September 2016

Quarter One Revenue and Corporate Capital Monitoring Report 2016-17
Annual Audit Letter 2015-16 (Grant Thornton)
Fraud Annual Report 2015-16
Procurement Progress Report (Private)

24th October 2016

Internal Audit Plan 2016-17
Half Year Internal Audit Progress Report 2016-17
Treasury Management Update
Information Management Strategy Update
Procurement Progress Report (Private)

19th December 2016

Quarter Two Revenue and Corporate Capital Monitoring Report 2016-17
Treasury Management Update
Half Yearly Fraud Update 2016-17
FOI / DPA Annual Report 2015-16
Ombudsman Complaints Annual Report 2015-16
Corporate Risk Register Update
Procurement Progress Report (Private)

20th February 2017

Grant Certification Report (Grant Thornton)
Annual Audit Plan (Grant Thornton)
Quarter Three Revenue and Corporate Capital Monitoring Report 2016-17
Quarter Three Internal Audit Progress Report 2016-17
RIPA (Regulation of Investigatory Powers Act) Annual Report 2015-16
Contract Management Review
Procurement Progress Report (Private)

3rd April 2017

Internal Audit Recommendation Tracking Report
Internal Audit Plan 2017-18
Procurement Progress Report (Private)

Dates to be confirmed

The Annual Audit Letter for Coventry City Council

Year ended 31 March 2016

September 2016

John Gregory
Director

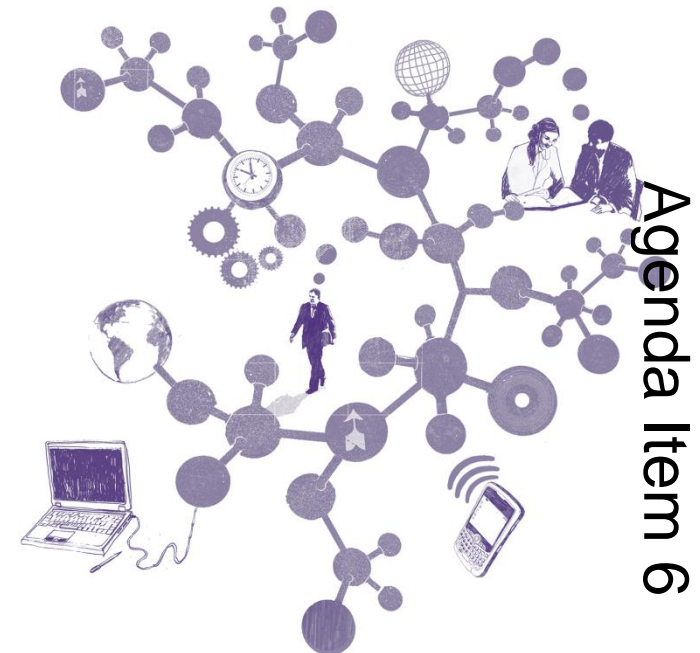
T 0121 232 5333
E john.gregory@uk.gt.com

Simon Turner
Manager

T 0121 232 5273
E simon.a.turner@uk.gt.com

Paul Harvey
In-Charge Auditor

T 0121 232 5329
E paul.m.harvey@uk.gt.com



Agenda Item 6

Contents

Page 15

Section

Page

- | | |
|-------------------------------|----|
| 1. Executive summary | 3 |
| 2. Audit of the accounts | 4 |
| 3. Value for Money conclusion | 7 |
| 4. Working with the Council | 11 |

Appendices

- A Reports issued and fees
- B Action plan

Executive summary

Purpose of this letter

Our Annual Audit Letter (Letter) summarises the key findings arising from the work that we have carried out at Coventry City Council (the Council) for the year ended 31 March 2016.

This Letter is intended to provide a commentary on the results of our work to the Council and its external stakeholders, and to highlight issues that we wish to draw to the attention of the public. In preparing this letter, we have followed the National Audit Office (NAO)'s Code of Audit Practice (the Code) and Auditor Guidance Note (AGN) 07 – 'Auditor Reporting'.

We reported the detailed findings from our audit work to the Council's Audit and Procurement Committee as those charged with governance in our Audit Findings Report on 25 July 2016.

Our responsibilities

We have carried out our audit in accordance with the NAO's Code of Audit Practice, which reflects the requirements of the Local Audit and Accountability Act 2014 (the Act). Our key responsibilities are to:

- give an opinion on the Council's financial statements (section two)
- assess the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources (the value for money conclusion) (section three).

In our audit of the Council's financial statements, we comply with International Standards on Auditing (UK and Ireland) (ISAs) and other guidance issued by the NAO.

Our work

Financial statements opinion

We gave an unqualified opinion on the Council's financial statements on 28 July 2016, well in advance of the national deadline of 30 September 2016.

Value for money conclusion

We were satisfied that the Council put in place proper arrangements to ensure economy, efficiency and effectiveness in its use of resources during the year ended 31 March 2016. We reflected this in our audit opinion on 28 July 2016.

Whole of Government Accounts (WGA)

We are required to carry out specified procedures (on behalf of the NAO) on the WGA consolidation pack under WGA group audit instructions. This work is underway and we intend to complete it well in advance of the 21 October deadline for the consolidation pack to be submitted.

Certificate

We are currently unable to certify that we have completed the audit of the accounts of Coventry City Council as we have not yet completed the work required under the Code on the Council's Whole of Government Accounts consolidation pack.

Certification of grants

We also carry out work to certify the Council's Housing Benefit subsidy claim on behalf of the Department for Work and Pensions. Our work on this claim is not yet complete and will be finalised by 30 November 2016. We will report the results of this work to the Audit and Procurement Committee in our Annual Certification Letter.

We would like to record our appreciation for the assistance and co-operation provided to us during our audit by the Council's staff.

Grant Thornton UK LLP
September 2016

Audit of the accounts

Page 18

Our audit approach

Materiality

In our audit of the Council's accounts, we use the concept of materiality to determine the nature, timing and extent of our work, and in evaluating the results of our work. We define materiality as the size of the misstatement in the financial statements that would lead a reasonably knowledgeable person to change or influence their economic decisions.

We determined materiality for our audit of the Council's accounts to be £13,550,000, which is 1.75% of the Council's gross revenue expenditure. We used this benchmark, as in our view, users of the Council accounts are most interested in how it has spent the income it has raised from taxation and grants during the year.

We also set a lower level of specific materiality for certain areas such as disclosures of officers' remuneration and salary bandings in notes to the statements, disclosure of auditors' remuneration in notes to the statements and related party transactions.

We set a lower threshold of £677,000, below which we would not report errors to the Audit and Procurement Committee in our Audit Findings Report.

The scope of our audit

Our audit involves obtaining enough evidence about the amounts and disclosures in the financial statements to give reasonable assurance that they are free from material misstatement, whether caused by fraud or error.

This includes assessing whether:

- the Council's accounting policies are appropriate, have been consistently applied and adequately disclosed;
- significant accounting estimates made by management are reasonable; and
- the overall presentation of the financial statements gives a true and fair view.

We also read the narrative report and annual governance statement to check they are consistent with our understanding of the Council and with the accounts on which we give our opinion.

We carry out our audit in line with ISAs (UK and Ireland) and the NAO Code of Audit Practice. We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our audit approach was based on a thorough understanding of the Council's business and is risk based.

We identified key risks and set out overleaf the work we performed in response to these risks and the results of this work.

Audit of the accounts

These are the risks which had the greatest impact on our overall strategy and where we focused more of our work.

Risks identified in our audit plan	How we responded to the risk
<p>Valuation of property, plant and equipment The Council revalues its assets on a rolling basis over a five year period . The Code requires that the Council ensures that the carrying value at the balance sheet date is not materially different from the current value. This represents a significant estimate by management in the financial statements.</p>	<p>As part of our audit work we have:</p> <ul style="list-style-type: none"> • reviewed entity controls • reviewed management's processes and assumptions for the calculation of the estimate • reviewed the competence, expertise and objectivity of management experts used • reviewed the instructions issued to valuation experts and the scope of their work • discussed with the valuer the basis on which the valuation is carried out and challenged key assumptions • reviewed and challenged the information used by the valuer to ensure that it is robust and consistent with our understanding • tested revaluations made during the year to ensure they are input correctly into the Council's asset register • evaluated the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value. <p>We did not identify any issues to report.</p>
<p>Valuation of pension fund net liability The Council's pension fund asset and liability as reflected in its balance sheet represent significant estimates in the financial statements.</p>	<p>As part of our audit work we have:</p> <ul style="list-style-type: none"> • identified the controls put in place by management to ensure that the pension fund liability is not materially misstated. We have also assessed whether these controls were implemented as expected and whether they are sufficient to mitigate the risk of material misstatement • reviewed the competence, expertise and objectivity of the actuary who carried out your pension fund valuation. We also gained an understanding of the basis on which the valuation is carried out • reviewed the reasonableness of the actuarial assumptions made • reviewed the consistency of the pension fund asset and liability and disclosures in notes to the financial statements with the actuarial report from your actuary. <p>We did not identify any issues to report.</p>

Audit of the accounts

Page 20

Audit opinion

We gave an unqualified opinion on the Council's accounts on 28 July 2016, well in advance of the 30 September 2016 national deadline. This leaves the Council very well placed to cope with the bringing forward of the statutory deadline to 31 July from 2017/18 onwards.

The Council made the accounts available for audit in line with the agreed timetable, and provided a good set of working papers to support them. The finance team responded promptly and efficiently to our queries during the course of the audit.

Issues arising from the audit of the accounts

We reported the key issues from our audit of the accounts of the Council to the Council's Audit and Procurement Committee on 25 July 2016.

In addition to the key audit risks reported above, we identified some control issues in relation to the Council's key financial IT systems and also an issue in respect of the valuation of the Council's long term investment in Birmingham Airport Holdings Limited which needs to be addressed in 2016/17. The key recommendations arising from our financial statements audit are detailed in Appendix B.

Annual Governance Statement and Narrative Report

We are also required to review the Council's Annual Governance Statement and Narrative Report, including the Overview of the Council's Performance in 2015/16. It published them on its website with the draft accounts in line with the national deadlines.

Both documents were prepared in line with the relevant guidance and were consistent with the supporting evidence provided by the Council and with our knowledge of the Council.

Whole of Government Accounts (WGA)

We are required to carry out specified procedures (on behalf of the NAO) on the WGA consolidation pack under WGA group audit instructions. This work is underway and we intend to complete it well in advance of the 21 October deadline for the consolidation pack to be submitted.

Other statutory duties

We also have additional powers and duties under the Act, including powers to issue a public interest report, make written recommendations, apply to the Court for a declaration that an item of account is contrary to law, and to give electors the opportunity to raise questions about the Council's accounts and to raise objections received in relation to the accounts. We have not identified any issues that have required us to apply our statutory powers and duties under the Act.

Value for Money conclusion

Background

We carried out our review in accordance with the NAO Code of Audit Practice (the Code), following the guidance issued by the NAO in November 2015 which specified the criterion for auditors to evaluate:

In all significant respects, the audited body takes properly informed decisions and deploys resources to achieve planned and sustainable outcomes for taxpayers and local people.

Key findings

Our first step in carrying out our work was to perform a risk assessment and identify the key risks where we concentrated our work.

The key risks we identified and the work we performed are set out in the table overleaf.

As part of our Audit Findings report agreed with the Council in July 2016, we agreed recommendations to address our findings. These are detailed in Appendix B.

Overall VfM conclusion

We are satisfied that in all significant respects the Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2016.

Risk identified	Work carried out	Findings and conclusions
<p>Medium term financial planning The Council faces an uphill task to balance its finances over the medium term. The gap between income and spending plans is estimated at £10m for 2017/18, rising to £36m for 2019/20.</p>	<p>We assessed whether the Council is:</p> <ul style="list-style-type: none"> • producing and using appropriate and reliable financial information to support informed decision making and performance management • producing reliable and timely financial reporting that supports the delivery of strategic priorities • planning its finances effectively to support the sustainable delivery of strategic priorities and maintain statutory functions. 	<p>We found that the Council has:</p> <ul style="list-style-type: none"> • an agreed, balanced financial plan for 2016/17, though its latest forecasts indicate that it is struggling to deliver planned cost savings, especially within the People Directorate • identified and taken account of funding cuts in its medium term financial plans • taken into account the financial impact of demographic trends and other social pressures in its medium term financial plans • has arrangements in place to identify cost savings in 2017/18 and beyond, though detailed plans are needed in order to achieve a balanced position over the medium term • produced monitoring reports for members on a timely basis. <p>The Council's financial position at the end of 2015/16 continued to be sound. If the Council is to maintain this position over the medium term then it needs to:</p> <ul style="list-style-type: none"> • deliver planned savings programmes and draw up detailed plans for how future savings will be generated • continue to keep tight control over its finances • keep the medium term financial plan up-to-date and ensure that it covers a range of potential scenarios. <p>On that basis we concluded that the Council is:</p> <ul style="list-style-type: none"> • planning finances effectively to support its strategic functions • making informed decisions.

Value for Money

Risk identified	Work carried out	Findings and conclusions
<p>Ofsted inspection of children's services An Ofsted inspection of children's services in March 2014 judged the services provided by the Council to be inadequate. The Council have been working hard to address the issues raised but further improvements are still required and a re-inspection by Ofsted is also awaited.</p>	<p>We have:</p> <ul style="list-style-type: none"> • updated our understanding of the Council's arrangements for responding to the issues raised by the Ofsted inspection and consider their adequacy • considered whether the Council has arrangements in place to work effectively with third parties to improve services. 	<p>Because of the severity of Ofsted's findings, we issued a qualified value for money conclusion in 2013/14. The Council were able to demonstrate in 2014/15 that it had put adequate arrangements in place to address the issues highlighted by Ofsted and we therefore removed the qualification. We have revisited this issue in 2015/16 and have found that the Council:</p> <ul style="list-style-type: none"> • has continued to work with the Children's Services Improvement Board which focuses specifically on the work being undertaken within Children's Service to improve service provision • has strong political and corporate commitment to addressing the issues • is continuing to make significant additional financial resources available to Children's Services • has achieved greater stability in the population of children that they are looking after • is moving on from managing demand to improving the quality of practice, supported by a more robust approach to audit and continuous improvement • is implementing a workforce strategy which has seen the recruitment of a significant number of new social workers. <p>Officers from the Department of Education (DfE) performed a review of children's services in February 2016. The resulting Ministerial letter commented that there have been improvements since the last Ofsted inspection and reflected positively on the newly appointed Director of Children's Services and the steps he has taken to improve auditing and quality assurance. However, the letter did express concerns about the consistency of progress across the entire service and the pace of improvement.</p> <p>Overall we concluded that the risk was sufficiently mitigated and that the Council has proper arrangements for responding to the issues raised by the Ofsted inspection and for working effectively with third parties to improve services.</p>

Value for Money

Risk identified	Work carried out	Findings and conclusions
<p>Kickstart The Council's 'Kickstart' programme aims to deliver savings, make the Council more efficient and customer focused and support regeneration across the city.</p>	<p>We assessed whether the Council is:</p> <ul style="list-style-type: none"> • using appropriate performance information to monitor the delivery of the project • managing risks in respect of the project effectively • managing and utilising assets effectively • working with third parties effectively. 	<p>We found that the Council is:</p> <ul style="list-style-type: none"> • using appropriate information to monitor the delivery of the project • managing risk in respect of the project effectively • managing and utilising assets effectively • working with third parties effectively • preparing detailed plans for how the estimated £5m of annual savings from Kickstart will be delivered. <p>On that basis we concluded that the Council is:</p> <ul style="list-style-type: none"> • deploying resources effectively • making informed decisions • working effectively with third parties.
<p>Health & Social Care Integration The Council is seeking to deliver wide ranging changes and greater integration to ensure the financial sustainability of adult health and social care services. The Council is working with the NHS to deliver a complex and high profile project.</p>	<p>We assessed whether the Council has adequate arrangements in place to work with the NHS to deliver strategic priorities, particularly in respect of delayed discharges.</p>	<p>We found that the Council:</p> <ul style="list-style-type: none"> • recognises that there needs to be greater integration of health and social care services and that this will be achieved through effective cross-sector working • is working with a range of local NHS bodies to develop a strong strategic vision and direction of travel, which includes being involved in the drafting of a Sustainability and Transformation Plan for health services in Coventry and Warwickshire • is able to demonstrate strong partnership working in respect of public health services • did not meet most of the targets set in the 2015/16 Better Care Fund plan, including those in respect of delayed discharges. However, the Council has shown that these delays were attributable to local NHS bodies rather than to the Council • has demonstrated its commitment to working with partners to further integrate health and social care services. <p>On that basis we concluded that the risk was sufficiently mitigated and the Council has proper arrangements for working effectively with third parties to improve services.</p>

Working with the Council

Our work with you in 2015/16

We are really pleased to have worked with you over the past year. We have established a positive and constructive relationship. Together we have achieved:

An efficient audit – we delivered the accounts audit over two months in advance of the national deadline and in line with the timescale we agreed with you. Our audit team are knowledgeable and experienced in your financial accounts and systems. Our relationship with your team provides you with a financial statements audit that continues to finish ahead of schedule releasing your finance team for other important work.

Improved financial processes – we worked with you to ensure that you had an appropriate accounting treatment in respect of the Better Care Fund, discussing in detail how Better Care Fund transactions should be disclosed in the financial statements.

Grant certification – we have responded to your requests and performed certification work in respect of the annual Teachers Pensions return and the local transport plan major project grant for the Nuckle scheme.

Thought leadership – we have shared with you our following publications:

- 'Better Together: Building a successful joint venture company'
- 'Growing Healthy Communities: The Health and Wellbeing Index'
- 'Making Devolution Work'
- 'Reforging Local Government'
- 'Innovation in public financial management in an increasingly complex and uncertain global environment'
- 'Knowing the Ropes: Audit committee effectiveness review 2015'

Providing training – we provided your teams with training on developments in financial accounts and accounting for the Better Care Fund. The courses were attended by Council finance staff.

Supporting development – we attended Audit and Procurement Committee meetings during the year, offering our views on items under discussion.

Providing information – We provided you with access to CFO insights, our online analysis tool providing you with access to insight on the financial performance, socio-economy context and service outcomes of councils across the country. The Council has purchased a licence to provide on-going access to this tool.

Working with you in 2016/17 Highways Network Asset

The Code of Practice on Local Authority Accounting (the Code) requires authorities to account for Highways Network Asset (HNA) at depreciated replacement cost (DRC) from 1 April 2016. The Code sets out the key principles but also requires compliance with the requirements of the recently published Code of Practice on the Highways Network Asset (the HNA Code), which defines the assets or components that will comprise the HNA. This includes roads, footways, structures such as bridges, street lighting, street furniture and associated land. These assets should always have been recognised within Infrastructure Assets.

The Code includes transitional arrangements for the change in asset classification and the basis of measurement from depreciated historic cost (DHC) to DRC under which these assets will be separated from other infrastructure assets, which will continue to be measured at DHC.

This is expected to have a significant impact on the Council's 2016/17 accounts, both in values and levels of disclosure, and may require considerable work to establish the opening inventory and condition of the HNA as at 1 April 2016.

Under the current basis of accounting values will only have been recorded against individual assets or components acquired after the inception of capital accounting for infrastructure assets by local authorities. Authorities may therefore have to develop new accounting records to support the change in classification and valuation of the HNA.

The nature of these changes means that finance officers will need to work closely with colleagues in the highways department and potentially also to engage other specialists to support this work.

Some of the calculations are likely to be complex and will involve the use of external models, a combination of national and locally generated rates and a number of significant estimates and assumptions.

We have issued two Client Briefings which we have shared with finance officers. We will issue further briefings during the coming year to update the Council on key developments and emerging issues.

This significant accounting development is likely to be a significant risk for our 2016/17 audit, so we have already had some preliminary discussions with the Council to assess the progress it is making in this respect.

We will continue to liaise closely with the senior finance team during 2016/17 on this important accounting development, with timely feedback on any emerging issues.

The audit risks associated with this new development and the work we plan to carry out to address them will be reflected in our 2016/17 audit plan.

Appendix A: Reports issued and fees

We confirm below our final fees charged for the audit and provision of audit related services.

Fees

	Planned £	Actual fees £	2014/15 fees £
Statutory audit of Council	173,460	173,460	231,280
Housing Benefit Grant Certification	13,523	13,523	20,930
Total fees (excluding VAT)	186,983	186,983	252,210

Fees for other services

Service	Fees £
Audit related services:	
• Certification of teachers pension return for 2015/16	4,200
• Certification of local transport plan major project grant (Nuckle)	4,200
Non-audit services	0

Reports issued

Report	Date issued
Audit Plan	15 February 2016
Audit Findings Report	25 July 2016
Annual Audit Letter	7 September 2016

Appendix B: Action plan

Priority

High - Significant effect on control system

Medium - Effect on control system

Low - Best practice

Rec No.	Recommendation	Priority	Management response	Implementation date & responsibility
1.	Management should consider whether it needs to commission a new valuation for its long term investment in Birmingham Airport Holdings Limited for 2016/17.	Medium	We will consider the need to commission a new valuation for the airport in conjunction with the other West Midlands councils	March 2017 Finance Manager (Corporate Finance)
2.	In accordance with generally accepted segregation of IT duties principles, members of the program maintenance group for the Agresso application should not be granted greater than read-only access to production environments. In order to effectively restrict the range of capabilities of users with development access, we recommend that such users have their access removed from the production environment, job scheduling functionality, and direct data-level edit functionality. Alternatively (if management chooses to accept the risks associated with this access), management should implement a formal / documented monitoring process designed to review the actions performed by these individuals in the Agresso production environments. This monitoring can be achieved through after-the-fact reports listing the actions (e.g., transactions posted, queries executed, records updated) performed within production or through use of fire-fighter / fire-call user accounts.	High	This point will be challenging to address with current staffing levels and budgetary constraints. Initial analysis indicates that we do not have the numbers of staff to be able to segregate duties in the way described. The segregation between the Money Matters team and ICT works well so there will be further exploration as to whether duties could be split out further there – but it is expected that a risk assessment will have to be undertaken and signed off. This work will be complete in October 2016.	October 2016 Head of ICT Strategy Systems & Development

Appendix B: Action plan

Rec No.	Recommendation	Priority	Management response	Implementation date & responsibility
3.	<p>Management should make the following improvements to the process for managing leavers:</p> <ul style="list-style-type: none"> • HR should send daily reports of leaver activity to the IT Service Desk. • Service desk tickets should be logged for leavers to enable an audit trail to be maintained of when the termination was requested, when the account was actually disabled and by whom. • All non-payroll employees should be assigned an expiration date on their Windows AD accounts. • All documentation relating to leavers should be clearly identifiable and retained for a period of at least one year. 	High	<p>A weekly report of leavers is currently automatically generated using data from our Payroll system, this is passed to the service desk to action to schedule AD accounts for deletion.</p> <p>However, management accept that there is more that could be done here and proposes the following immediate actions:-</p> <ul style="list-style-type: none"> • Leavers will be processed by the service desk on a daily (rather than weekly) basis. All leave requests will be logged via the SCSM Service Desk call reporting system. • Staff will be reminded not to action a user creation, change or deletion request without ensuring that a related SCSM ticket exists. • Although all currently non-payroll AD accounts created since 20 May 2015 have an expiry date all requests for new AD accounts for non-payroll employees will be changed to ensure that an expiry date of 1 month is automatically added by default and not changeable by the user requesting the account. • All current non-payroll AD accounts will be audited and all without an expiry date will have one added. • All non-payroll accounts with expiry dates will have these dates reviewed and altered if they are not expiring within the next six months. • Work is already well under way on this actions with developments already made to link user accounts closer to the HR system and processes. 	<p>31st October</p> <p>Head of ICT Infrastructure & Operation</p>

Appendix B: Action plan

Page 30

Rec No.	Recommendation	Priority	Management response	Implementation date & responsibility
4.	<p>The responsibility of administering security within Agresso should be transferred to IT system administrators who do not perform financial reporting processes or controls. All security administration rights within Agresso granted to personnel performing financial reporting processes and controls should be revoked.</p> <p>Alternatively, management should implement a formal / documented monitoring process designed to detect misuse of administrative functionality by personnel responsible for performing financial reporting processes or controls.</p>	High	<p>Management accept the findings.</p> <p>Some of the people who are responsible for supporting the development of the system and for providing cover in periods of absence are core finance users and it is not practical to remove all of the access from these people.</p> <p>However, we will look to set up a super-user role which does not have access to set up roles and user accounts nor to delete audit logs/disable logging.</p> <p>We will also look to develop a monitoring process to ensure the system is not being misused.</p>	<p>31st October 2016</p> <p>Finance Manager, Corporate Finance</p>
5.	<p>If the Council is to maintain a sound financial position over the medium term then it needs to:</p> <ul style="list-style-type: none"> • deliver planned savings programmes and draw up detailed plans for how future savings will be generated • continue to keep tight control over its finances • keep the medium term financial plan up-to-date and ensure that it covers a range of potential scenarios. 	High	<p>The Council will continue to keep tight strategic control of its financial position and maintain a medium term plan that incorporates a range of financial scenarios. We are in the early stages of drawing up detailed savings plans for 2017/18 and beyond to ensure that the Council continues to deliver balanced budgets despite the challenging financial position.</p>	<p>On-going</p> <p>Executive Director of Resources</p>



© 2016 Grant Thornton UK LLP. All rights served.

'Grant Thornton' refers to the brand under which the Grant Thornton member firms provide assurance, tax and advisory services to their clients and/or refers to one or more member firms, as the context requires.

Grant Thornton UK LLP is a member firm of Grant Thornton International LTD (GTIL). GTIL and the member firms are not a worldwide partnership. GTIL and each member firm is a separate legal entity. Services are delivered by the member firms. GTIL does not provide services to clients. GTIL, and its member firms are not agents of, and do not obligate, one another and are not liable for one another's acts or omissions.

grantthornton.co.uk

This page is intentionally left blank



Public report Cabinet Report

Cabinet
Audit and Procurement Committee

2nd August 2016
26th September 2016

Name of Cabinet Member:

Cabinet Member for Strategic Finance & Resources – Councillor J Mutton

Director approving submission of the report:

Executive Director of Resources

Ward(s) affected:

City Wide

Title:

2016/17 First Quarter Financial Monitoring Report (to June 2016)

Is this a key decision?

No

Executive summary:

The purpose of this report is to advise Cabinet of the forecast outturn position for revenue and capital expenditure and the Council's treasury management activity as at the end of June 2016. The headline revenue forecast for 2016/17 is an over spend of £6.4m. At the same point in 2015/16 there was a projected overspend of £1.0m.

The overall revenue position incorporates a headline overspend of £7.2m within the People Directorate, 50% of which reflects cross-cutting savings relating to the Kickstart and Workforce Strategy programmes that have not yet been achieved in Children's and Adults' Services.

This position will require corrective action to be taken by Strategic Management Board and senior managers across the Council. A set of proposed actions is recommended within the report.

Capital spending is projected to be £99.8m for the year, a net decrease of £23.4m on the directorate programme reported in the February Budget Setting report. This decrease in the Capital Programme includes £35.2m of expenditure that has been rescheduled into future years.

Recommendations:

Cabinet is recommended to:

1. Approve the forecast revenue overspend at Quarter 1.
2. Endorse the actions set out in section 5.1 to be taken by senior management to address the revenue budgetary control issue.

3. Approve the revised capital estimated outturn position for the year of £99.8m incorporating: £1.0m net increase in spending relating to approved/technical changes (Appendix 2) and £35.2m net rescheduling of expenditure into 2017/18 (Appendix 4).

Audit and Procurement Committee is recommended to:

1. Consider whether there are any comments they wish to be passed to Cabinet

List of Appendices included:

Appendix 1	Revenue Position: Detailed Directorate breakdown of forecast outturn position
Appendix 2	Capital Programme: Analysis of Budget/Technical Changes
Appendix 3	Capital Programme: Estimated Outturn 2016/17
Appendix 4	Capital Programme: Analysis of Rescheduling
Appendix 5	Capital Programme: Analysis of Over/Under Spending
Appendix 6	Prudential Indicators

Background Papers

None

Other useful documents:

Budgetary Control 2016/17 file, location BGH Floor 5

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?

Audit and Procurement Committee, 26 September 2016

Will this report go to Council?

No

Report Title: 2016/17 First Quarter Financial Monitoring Report (to June 2016)

1. Context (or Background)

- 1.1 Cabinet approved the City Council's revenue budget of £233.4m on the 23rd February 2016 and a Directorate Capital Programme of £123.2m. This is the first quarterly monitoring report for 2016/17 to the end of June 2016, the purpose of which is to advise Cabinet of the forecast outturn position for revenue and capital expenditure and to report on the Council's treasury management activity.
- 1.2 The current 2016/17 revenue forecast is an over-spend of £6.4m. The reported forecast at the same point in 2015/16 was an over-spend of £1.0m. Capital spend is projected to be £99.8m, a decrease of £23.4m on the base programme.

2. Options considered and recommended proposal

- 2.1 Revenue Forecast** - The Quarter 1 revenue budget monitoring exercise has identified an overall overspend of £6.4m. Table 1 below provides details of the forecast directorate variances.

Table 1 - Forecast Variations

Directorate	Revised Budget	Forecast Spend After Action/ Use of Reserves	Net Forecast Variation
	£m	£m	£m
Chief Executives	1.1	1.1	0.0
People	165.0	172.2	7.2
Place	32.9	33.8	0.9
Resources	11.2	10.8	(0.4)
	210.2	217.9	7.7
Contingency & Central Budgets	23.2	21.9	(1.3)
Total	233.4	239.8	6.4

The key reasons for the predicted directorate overspends are set out below. A set of specific actions to be taken by Strategic Management Board to address this position are set out in section 5.

2.2 Individual Directorate Comments for Revenue Forecasts

A summary of the forecast year-end variances is provided below. Further details are shown in Appendix 1.

People

The People Directorate continues to face significant financial challenges, and a large underspend on centralised salaries of £5.4m masks a significant overspend across other areas (£12.7m) including undelivered savings targets and budgetary control pressure. The net position of £7.2m overspend is largely made up of undelivered savings targets –

most significantly the crosscutting kickstart and headcount targets in Children's and Adults' Services (£3.6m). The service has saving and delivery plans in place to deliver these targets, but they cannot be achieved within the current timescale. The position has improved since our prior year forecast, largely as a result of an improved budgetary position in Children's Services. This is as a result of more robust management oversight leading to reduced activity in LAC Placements meaning expenditure is forecast to be £1.6m less than in 2015/16. Adult Social Care continues to see increasing demand with regards to young adults transitioning into the service as well as increasing levels of need across older adults.

Place

As at quarter 1, Place Directorate are forecasting a 2016/17 deficit of £0.9m, the vast majority of which is income related. Approximately £0.5m relates to the potential pressure on Bus Lane enforcement income due primarily to expected refunds. Other income pressures totalling a further £0.6m are being experienced in commercial waste (due to loss of contracts), building cleaning and occupier support (due to declining work for schools), the Monitoring & Response service (due to unachieved targets) and a forecast deficit on the corporate catering trading position. Additionally, there is an expectation of traveller incursion costs of £100k and a £150k pressure in the events budget.

These pressures are being offset primarily by an expected £0.3m underspend on the waste disposal budget due to lower tonnages of waste than expected, together with slightly lower gate fees

Resources

The Resources Directorate has an under spend against salary budgets and turnover target of £0.5m. Areas of financial pressure within the directorate are within Legal Services, where due to vacancies and activity pressure we are incurring spend on agency and barristers, and within Revenues & Benefits as a result of increased activity. We are also incurring additional one-off cost within Employment Services as a result of resourcing the HR Agresso Project.

Contingency & Central

As part of the Workforce Strategy budget savings first identified in 2015/16, there is a step-up in the target held within corporate budgets in 2016/17. The actions to deliver this have not yet been identified, leading to a net £0.7m overspend and this will be considered as part of wider budget balancing work through the year. The Asset Management Revenue Account is projecting a £0.8m underspend (much reduced from previous years) due mostly to reduced capital financing costs arising from lower than planned borrowing in 2015/16 whilst inflation contingencies are anticipated to underspend by £1.0m.

2.4 Capital Programme

The 2016/17 Budget Setting report (Cabinet 23rd February 2016) approved a total Directorate Capital programme for 2016/17 of £123.2m. Table 2 below updates the budget to take account of a £1m increase in the programme from approved/technical changes. £10.9m of expenditure has been brought forward from 2015/16 and £35.3m is now planned to be carried forward into future years. This gives a revised projected level of expenditure for 2016/17 of £99.8m. Appendix 3 provides an analysis by directorate of the movement since February.

The Resources Available section of Table 2 explains how the capital programme will be funded in 2016/17. It shows 79% of the capital programme is funded by external grant monies, whilst 14% is funded from borrowing. The Programme also includes funding from capital receipts of £5.5m.

Overall the capital programme and associated resourcing reflects a forecast balanced position in 2016/17.

Table 2 – Movement in the Capital Budget

CAPITAL BUDGET 2015-16 MOVEMENT	£m
February 2015 Approved Directorate Programme	123.2
Net rescheduling of expenditure from 2015/16 into 2016/17	10.9
Estimated Outturn Quarter 2	134.1
Approved / Technical Changes (see Appendix 2)	1.0
"Net" Rescheduling into future years (see Appendix 4)	(35.3)
Revised Estimated Outturn 2015-16	99.8
<hr/>	
RESOURCES AVAILABLE:	£m
Prudential Borrowing (Specific & Gap Funding)	13.6
Grants and Contributions	78.8
Capital Receipts	5.5
Revenue Contributions	1.5
Leasing	0.4
Total Resources Available	99.8

2.5 Treasury Management Activity in 2016/17

Interest Rates

The economic outlook for the UK has altered immeasurably following the vote to leave the EU. The long-term position of the UK economy will be largely dependent on the agreements the government is able to secure with the EU, particularly with regard to Single Market access. However, the uncertainty surrounding the government is having a significant impact on the short term outlook with the result being dampened investment intentions and tightened credit availability, prompting lower activity levels & potentially a rise in unemployment. The downward trend in growth we have seen recently is also likely to continue through the second half of 2016. All of this means that an interest rate cut to 0.25% is expected imminently with a strong chance of a drop to zero. Following any interest rate cut, no rebound is expected with rates staying lower through 2019 & beyond.

Long Term (Capital) Borrowing

The net long term borrowing requirement for the 2016/17 capital programme is £5.2m, taking into account borrowing set out in Section 2.4 above (total £13.6m), less amounts to be set aside to repay debt, including non PFI related Minimum Revenue Provision (£8.4m). No long term borrowing has been undertaken for several years, in part due to the level of investment balances available to the authority. Any future need to borrow will be kept under review in the light of a number of factors, including the anticipated level of capital spend, interest rate forecasts and the level of investment balances.

During 2016/17 interest rates for local authority borrowing from the Public Works Loans Board (PWLB) have varied within the following ranges:

PWLB Loan Duration (maturity loan)	Minimum 2016/17 to P3	Maximum 2016/17 to P3	As at the End of P3
5 year	1.41%	2.00%	1.79%
50 year	2.53%	3.28%	3.03%

The PWLB now allows qualifying authorities, including the City Council, to borrow at 0.2% below the standard rates set out above. This “certainty rate” initiative provides a small reduction in the cost of future borrowing. In addition the Council has previously received approval to take advantage of a “project rate” as part of the Coventry and Warwickshire Local Enterprise Partnership (LEP), enabling it to access PWLB borrowing up to the end of 2016/17, at 0.4% below the standard rate for £31m of borrowing required for delivery of the Friargate Project. Given current interest rates and the level of investment balances held by the Council, it is likely that the Council will not use the “project rate” facility.

Regular monitoring continues to ensure identification of any opportunities to reschedule debt by early repayment of more expensive existing loans with less expensive new replacement loans. However, the current premiums payable on early redemption currently outweigh any potential savings.

Short Term (Temporary) Borrowing and Investments

In managing the day to day cash-flow of the authority, short term borrowing or investments are undertaken with financial institutions and other public bodies. The City Council currently holds no short term borrowing.

Short term investments were made at an average interest rate of 0.89%. This rate of return reflects low risk investments for short to medium durations with UK banks, Money Market Funds, Certificates of Deposits, other Local Authorities, Registered Providers and companies in the form of corporate bonds.

Although the level of investments varies from day to day with movements in the Council’s cash-flow, investments held by the City Council identified as a snap-shot at each of the reporting stages were: -

	As at 30th June 2015	As at 31st March 2016	As at 30th June 2016
	£m	£m	£m
Banks and Building Societies	76.9	46.0	54.0
Money Market Funds	10.7	8.3	15.8
Local Authorities	0.0	3.0	0.0
Corporate Bonds	21.8	6.5	23.2
Registered Providers	0.0	0.0	5.0
Total	109.4	63.8	98.0

External Investments

In addition to the above investments, a mix of Collective Investment Schemes or “pooled funds” is used, where investment is in the form of sterling fund units and non-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. The Sterling investments include Certificates of Deposits, Commercial Paper, Corporate Bonds, Floating Rate Notes and Call Account Deposits. These pooled funds are designed to be held for longer durations, allowing any short term fluctuations in return to be smoothed out. In order to manage risk these investments are spread across a number of funds.

As at 30th June 2016 the pooled funds were valued at £28.8m, spread across the following funds: Payden & Rygel; Federated Prime Rate, CCLA and Standard Life Investments.

Prudential Indicators and the Prudential Code

Under the CIPFA Prudential Code for Capital Finance authorities are free to borrow, subject to them being able to afford the revenue costs. The framework requires that authorities set and monitor against a number of Prudential 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.

The indicators, together with the relevant figures as at 30th June 2016 are included in Appendix 6. This highlights that the City Council's activities are within the amounts set as Performance Indicators for 2016/17. Specific points to note on the ratios are:

- The Ratio of Financing Costs to Net Revenue Stream (indicator 1) is 13.67% compared to 14.03% within the Treasury Management Strategy, in part due to lower levels of Prudential Borrowing resourced capital spend in 2016/17;
- The Upper Limit on Variable Interest Rate Exposures (indicator 10) sets a maximum amount of net borrowing (borrowing less investments) that can be at variable interest rates. At 30th June the value is -£61.7m (minus) compared to +£78.3m within the Treasury Management Strategy, reflecting the fact that the Council has more variable rate investments than variable rate borrowings at the current time.
- The Upper Limit on Fixed Interest Rate Exposures (indicator 10) sets a maximum amount of net borrowing (borrowing less investments) that can be at fixed interest rates. At 30th June the value is £209.0m compared to £391.3m within the Treasury Management Strategy, reflecting that a significant proportion of the Council's investment balance is at a fixed interest rate.

3. Results of consultation undertaken

None

4. Timetable for implementing this decision

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

5. Comments from Executive Director of Resources

5.1 Revenue

The Council continues to face a challenging financial position in 2016/17 in particular in relation to budget savings around the Workforce Strategy targets included in the Budget Report plus pressures across the People Directorate and in some income earning areas. In contrast to 2015/16 it is far less likely that these pressures will be able to be managed by large underspends within individual areas of the Budget. Therefore, for the remainder of the year the focus for the Council's senior managers will be to manage the budgetary position in those areas that are significantly over-spent as far as is possible within existing policy parameters. In addition, direction will be given for all budget areas to manage their expenditure as tightly as possible to help deliver a balanced position overall. The single most significant aspect of the budgetary over-spend is the non-delivery of existing savings targets. Medium-term plans are in place to meet these targets but this will not be achieved within the current financial year.

The following course of action is proposed in response to the forecast over-spend:

- Ensure that actions to deliver existing savings targets within the new People Directorate senior management team are implemented in as timely a way as possible.
- Otherwise ensure that appropriate cost control is being exercised across People Directorate budgets.
- Place Directorate to seek to identify compensating underspends, cost control and income maximisation to help move its overall bottom line towards a balanced position at year-end.
- Resources Directorate to identify opportunities for delivering underspends and cost control across its bottom line to compensate for likely over-spends elsewhere.
- All Directorates to re-energise efforts to apply vacancy control and ensure that recruitment is restricted to operationally essential posts only – analysis of the current position on vacancies will be available shortly.
- Officers to explore all options, including technical solutions that might be available to manage the year-end position.

If these measures do not prove sufficient, it will be necessary to identify resources to balance the overall position from reserves, possibly including the £4.4m Birmingham Airport dividend received in 2015/16. Given that plans are being developed as to how best to use these resources to support our future revenue and capital plans, using them within 2015/16 would be highly undesirable.

It remains likely that in order for the Council to achieve the savings already built into the Budget and meet projected Budget gaps going forward there may need to be a further programme of voluntary redundancies. Any plans to take this forward will be brought forward by the Executive Director of Resources in due course.

5.2 Capital

Significant rescheduling on schemes such as the Coventry Investment Fund, Station Masterplan and the Leisure facility have reduced anticipated spend for the 2015/16 Programme to c£100m, £35m less than planned. At the same time the Council has received additional grant and capital receipts that it will be able to use to fund capital expenditure on a cash-flow basis within 2016/17 and therefore reduce very significantly (by £62m) the amount of Prudential Borrowing that the Council is required to undertake in

the year. Most of the anticipated additional grant is made up of the £35m for the construction of infrastructure at Whitley South much of which can be used for cash-flow purposes this year ahead of the need to spend. In addition, initial projections indicate that £2.9m of capital receipts will be received above the targeted level.

The 2015/16 outturn position included capital resources of c£10m that has not yet been assigned to specific spending priorities. Proposals for use of our medium term capital resources will be included as part of forthcoming Budget Setting discussions.

5.3 Legal implications

None

6. Other implications

6.1 How will this contribute to achievement of the Council's Plan?

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 it will try to deliver better value for money and maintain services in line with its corporate priorities balanced against the need to manage 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?

In Quarter 1 there is a forecast overspend. The Council will continue to ensure that strict budget management continues to the year-end as described elsewhere within the report.

6.4 Equalities / EIA

No impact.

6.5 Implications for (or impact on) the environment

No impact

6.6 Implications for partner organisations?

No impact.

Report author(s):

Name and job title:

Charlotte Booth
Accountant- Resources Directorate

Directorate:

Resources

Tel and email contact:

Tel: 024 7683 3827

Email: charlotte.booth@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:				
Michael Rennie	Lead Accountant	Resources	21/7/16	21/7/16
Paul Hammond	Accountant	Resources	21/7/16	21/7/16
Helen Williamson	Lead Accountant	Resources	21/7/16	21/7/16
Michelle Salmon	Governance Services Officer	Resources	21/7/16	21/7/16
Paul Jennings	Finance Manager	Resources	21/7/16	21/7/16
Barry Hastie	Assistant Director Finance	Resources	21/7/16	22/7/16
Names of approvers: (officers and members)				
Chris West	Executive Director	Resources	21/7/16	21/7/16
Councillor J Mutton	Cabinet Member of Strategic Finance and Resources	-	21/7/16	21/7/16

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

Appendix 1 Revenue Position: Detailed Directorate Breakdown of Forecasted Outturn Position

Appendix 1 details directorates forecasted variances.

For 2016/17 quarter 1 reporting a new approach has been taken to try and maintain a focus on key budgetary variations. Budgets have been analysed between those that are controllable at a local level and those that are managed at a whole Council or Directorate level (termed “non-controllable” for the purposes of this report). These non-controllable budget areas relate to salary costs – the Council applies strict control over recruitment such that managers are not able to recruit to vacant posts without first going through rigorous processes. In this sense managers have to work within the existing establishment structure and salary budgets are not controlled at this local level. The non-controllable under-spend shown below is principally the effect of unfilled vacancies.

Directorate	Revised Budget	Forecast Spend After Action/ Use of Reserves	Non-Controllable Variance	Controllable Variance	Net Forecast Variation
	£m	£m			£m
Chief Executives	1.1	1.1	0.0	0.0	0.0
People	165.0	172.2	(5.4)	12.6	7.2
Place	32.9	33.8	(0.2)	1.1	0.9
Resources	11.2	10.8	(0.5)	0.1	(0.4)
	210.2	217.9	(6.1)	13.8	7.7
Contingency & Central Budgets	23.2	21.9	0.0	(1.3)	(1.3)
Total	233.4	239.8	(6.1)	12.5	6.4

Non Controllable Variances- Centralised salaries and overheads

Reporting Area	Explanation	£m
People	The people directorate continues to face significant financial challenges, and a large underspend on centralised salaries of £5.4M masks a significant overspend across other areas (£12.7M) including undelivered savings targets and budgetary control pressure. The net position of £7.2M overspend is largely made up of undelivered savings targets – most significantly the crosscutting kickstart and headcount targets in Children’s and Adult’s Services (£3.6M). The service has saving and delivery plans in place to deliver these targets, but they cannot be achieved within the current timescale. The position has improved since our prior year forecast, largely as a result of an improved budgetary position in Children’s Services. This is as a result of more robust management oversight leading to reduced activity in LAC Placements meaning expenditure is forecast to be £1.6M less than in 2015/16. Adult Social Care continues to see increasing demand with regards to young adults transitioning into the service as well as increasing levels of need across older adults.	-5.4
Place	The directorate 'uncontrollable' position shows a small surplus which reflects a net underspend of salaries against budget and turnover targets. It should be noted that this is caused by vacancies, some of which have required the need for agency cover to ensure service continuity. The net position is also offset by a c£0.2m overspend in relation to the TESS service which no longer has sufficient budget for the current level of service being provided	-0.2
Resources	The Resources Directorate overall is underspending against its salary budgets and turnover target by £0.5M. This is due to vacancies across HR and Workforce Services and Legal & Democratic Services.	-0.5
Total Non-Controllable Variances		-6.1

REPORTING AREA	EXPLANATION	£m
PEOPLE DIRECTORATE		
Overspends:		
Child Protection	Over spend is due to agency costs being incurred to fill staffing vacancies within the Neighbourhood service. This is partially offset by an underspend on salaries reported as part of the directorate salaries underspend. Net position on the cost centre is £0.2M overspend.	3.0
SCTEI Strategic Management	This is undelivered savings targets within Children's Services (headcount reduction and Kickstart). The service has saving and delivery plans in place to deliver these targets, but they cannot be achieved within the current timescale	2.1
All Age Disability and Mental Health Community Purchasing	Underlying budget pressure arising from increasing demand for social care support for eligible service users and increasing social care market costs. Management actions underway to ensure demand on social care is managed in the most cost effective way and reduce overall costs. Control mechanisms in place to ensure expenditure is robustly managed. Working age adults tend to receive services for longer period of time and pressure is cumulative as "turnover" is limited and new users continue to enter the system in need of support.	2.0
Older People Community Purchasing	Underlying budget pressure arising from increasing demand for social care support for eligible service users and increasing social care market costs. Management actions underway to ensure demand on social care is managed in the most cost effective way to reduce overall costs. Control mechanisms in place to ensure expenditure is robustly managed.	1.5
Strategy & Commissioning (CLYP)	Supported accommodation is forecasting an overspend which is due to unexpectedly high numbers of young people being placed in single flats (after a provider of 81 beds withdrew from the contract), the lack of emergency accommodation for young people 18 - 24 awaiting housing assessments (who therefore have to be placed in bed and breakfast - although this is reducing), and the increasing use of smaller units of accommodation instead of the Foyer (as this is felt to be more appropriate accommodation for vulnerable 16 - 17 year olds). The main element of the recovery plan is being undertaken through the strategic housing board. Work is underway to disaggregate legitimate children's service costs from housing provision funded to vulnerable young adults from this budget. This over provision of resource to meet need is contributing to the overspend. The Director of Children's Services has requested a meeting with the budget holder and finance colleagues to consider a recovery plan.'	1.0
Adult Social Care Director	This overspend is as result off all corporate budget savings allocations (£1.498m) being assigned against this budget. These savings targets are required to be delivered over the year across all of adult social care.	1.0
Internally Provided Services	The overspends on controllable costs (agency costs, other pay and overtime) have been offset by larger underspends on non-controllable salary costs due to a number of vacancies and planned efficiencies.	0.5
LAC Services	This is due to the following increased costs: £600k agency costs in the Family placement service and the LAC caseholding service, £128k unachieved short breaks budget savings for Broad Park House, and a £220k overspend in Special Guardianship costs relating to activity and additional legal costs for one case. This is offset by an underspend in placements of £725k where there are significant LAC reductions in external fostering and residential placements.	0.5
Inclusion & Participation	This overspend relates to transport costs. Travel and assistance policies are currently under review and will be subject to a formal consultation process regarding any future proposed changes.	0.4
Adult Education	£200,000 variance is an undelivered savings target. This was due to be delivered through resource switching eligible expenditure. We continue to work on identifying eligible expenditure within Workforce.	0.2
Safeguarding	Over spend is due to agency costs being incurred to fill staffing vacancies within the service. This is partially offset by an underspend on salaries reported as part of the directorate salaries underspend. Net position on the cost centre is £0.1M overspend.	0.2
Integrated Youth Support Service	This is as a result of the reduction in Youth Offending Service grants of £149k. There are measures in place to reduce costs and balance the budget, which are currently out to consultation.	0.1

REPORTING AREA	EXPLANATION	£m
PEOPLE DIRECTORATE (Continued)		
Underspends:		
Older People Operational	The overspends on controllable costs (agency costs, other pay and overtime) have been offset by underspends on non-controllable salary costs due to a number of vacancies pending a service restructure.	0.1
Learning & Achievement	The current forecast is showing an underspend in salaries which will be reallocated to maximise resources for delegation to schools. The cost centre will break even at year end.	0.1
Integrated Youth Support Service	This is as a result of the reduction in Youth Offending Service grants of £149k. There are measures in place to reduce costs and balance the budget, which are currently out to consultation.	0.1
Director	Over spend is due to agency costs being incurred to fill staffing vacancies within the service. This is partially offset by an underspend on salaries reported as part of the directorate salaries underspend. Net position on the cost centre is £0.1M overspend.	-0.2
Strategic Commissioning (Adults)	This underspend is the effect of expected efficiency savings across a number of contracts and is partially offset by a reduced income expectation from Supporting People.	-0.2
Advice and Health Information Services	Forecast underspend as a result of vacancies with this service area.	-0.1
Other Variations less than 100k		0.3
Forecast Overspend/(Underspend)		12.6

REPORTING AREA	EXPLANATION	£m
PLACE DIRECTORATE		
Overspends:		
Traffic & Transportation	This pressure relates primarily to the effect on receivable income of estimated Bus Lane PCN refunds, together with the impact of recent ICT server issues which have prevented the issue of some new PCNs. Additionally, the use of agency to cover various vacancies in the traffic & transportation teams is offsetting the 'uncontrollable' variance. These are however, partially offset by additional income expected from the highways permit scheme.	0.7
Building Works- Planning, Technical & Maintenance	Primarily a building cleaning trading deficit of £215k, plus a smaller £51k building work projects trading deficit in Occupier Support - both relate to declining work with schools	0.3
Cultural & Sport	£150k unfunded Godiva festival costs together with planned savings of £50k not yet achieved in relation to the Tourist information centre (TIC)	0.2
Corporate & Commercial Catering	This expected pressure is a result of a forecast £87k deficit on trading activity, together with an as yet undelivered £50k saving target for closing Godiva's café	0.1
Other Variations less than 100k		0.2
Underspends:		
Waste & Fleet Services	Trading with schools for property related maintenance (R&M) and small projects/internal work (OST) is the main reason for the expected surplus.	-0.3
School Strategic Planning	Managed reduction in expenditure for reactive property repairs following more investment in planned works.	-0.1
Forecast Overspend/(Underspend)		1.1

REPORTING AREA	EXPLANATION	£m
RESOURCES DIRECTORATE		
Overspends:		
Revenues and Benefits	Overspend due to use of Civica on Demand for council tax, benefits and overpayments and overtime for council tax processing. Use of Civica and overtime continues to be necessary as the service manages an increasing workload with no additional substantive resource. Also increased transaction costs for receiving payments by debit card and increase in court fees - likely to increase further this year due to the impact of council tax support. Court fees and bank charges are beyond the control of the service. This is offset by an underspend on salaries reported as part of the directorate salaries underspend.	0.2
Legal Services	Overspend relates to barrister and locum costs. This is mainly due to vacancies within the Advocacy Team and People Team. Steps are being taken to address the difficulties experienced in recruiting. In addition some barrister costs relate to on-going cases where it would be difficult to switch to internal officers. This is expected to reduce as the year progresses. This is offset by an underspend on salaries reported as part of the directorate salaries underspend. Net position on the cost centre is £0.1M underspend.	0.1
Employment Services	Overspend is one-off and relates to agency costs, overtime/additional hours and honoraria arising from the implementation of the Agresso HR project	0.1
Underspends:		
Talent & Skills Team	Spending requirements across Council wide training has been reduced by careful management. In the longer term this budget will be re-aligned within the Council's new Workforce Strategy which will support the Council's overall business objectives which will include Kickstart moving forward.	-0.2
Other Variations less than 100k		-0.1
Forecast Overspend/(Underspend)		0.1

Contingency & Central Budgets		
Overspends:		
Workforce Strategy	As part of the Workforce Strategy budget savings first identified in 2015/16, there is a step-up in the target held within corporate budgets in 2016/17. The actions to deliver this have not yet been identified and this will be considered as part of wider budget balancing work through the year.	0.7
Underspends:		
Asset Management Revenue Account	The AMRA position reflects reduced capital financing costs arising from lower than planned borrowing in 2015/16.	(0.8)
Inflation and Contingency Budgets	The underspends across inflation contingency budgets assumes no further significant contractual inflation allocations in the year.	(1.2)
Forecast Overspend/(Underspend)		(1.3)

Capital Programme: Analysis of Budget/Technical Changes

SCHEME	EXPLANATION	£m
PLACE DIRECTORATE		
Highways Investment	Addition to the programme as a result of additional funding received from Highways Maintenance Incentive Fund £0.2m and DfT Pot Hole Action Fund £0.2m.	0.4
Growth Deal	Technical adjustment to ensure programme is appropriately reflected per Growth Deal 5 year programme.	0.8
Nuckle	In Quarter one of the 2015/16 monitoring report, £799k was reported as an underspend towards NUCKLE 1.2 budget as agreed at Cabinet on 3rd March 2015. However, due to delays within phase 1.1 of the project and additional compensation events identified by the contractor a revised settlement up to £7.6m has been agreed, giving a net requirement of £730k required to be vired back into 1.1 in order to finalise the financial commitments on the project.	0.7
UK Autodrive and UK CITE	Successful bids have resulted in grant being awarded by InnovateUK for UK Autodrive £0.3m and UK CITE £0.5m, which is cash flowed over 3 financial years.	0.1
Superconnectivity	The budget figure of £170k had only taken account of the underspend from the previous financial year and had not taken account of the remaining grant claims that will be received this financial year. We are currently forecasting that in total this financial year there will be 532 claims totalling £554k. The last grant payments are currently forecasted to be made in October so we should receive all £554k back from DCMS this financial year, therefore, as with the original budget figures the capital expenditure and income will balance	0.4
Regional Growth Fund 4	The programme will come under initially budgeted at, as part of the grant conditions these funds will be returned to the Governing Body.	(0.1)
Coombe Country Park – Summer House and Car Park Equipment	Two capital projects are taking place at Coombe Country Park, the refurbishment of the Summer House at a cost of £60k, which will be marketed as a venue for events, primarily weddings. And the purchase of new car park equipment £166k. Both capital schemes will be funded through prudential borrowing and refunded through the income generated.	0.2
City Centre Destination Leisure Facility	Nominal amount to cover the transfer of Christchurch/Spire House to the City Centre Destination Leisure Facility scheme. No physical transaction will take place.	(1.5)
Miscellaneous	Net technical changes	(0.1)
SUB TOTAL - Place Directorate		0.9
TOTAL APPROVED / TECHNICAL CHANGES		0.9

Capital Programme: Estimated Outturn 2016/17

The table below presents the revised estimated outturn for 2016/17.

DIRECTORATE	FEB 201 DIRECTORATE PROGRAMME £M	APPROVED / TECHNICAL CHANGES £M	OVER / UNDER SPEND NOW REPORTED £M	RESCHEDULED EXPENDITURE NOW REPORTED £M	REVISED ESTIMATED OUTTURN 16- 17 £M
PEOPLE	3.9	0.0	0.0	(0.5)	3.4
PLACE	124.8	0.9	0.0	(34.7)	91.0
RESOURCES	5.4	0.0	0.0	0.0	5.4
TOTAL	134.1	0.9	0.0	(35.3)	99.8

*The "Feb 2015 Directorate Programme" figure presented in the above table reflects the capital programme as presented in the February Budget Setting report, revised to take into account the net impact of rescheduling expenditure between 2015/16 and 2016/17.

Capital Programme: Analysis Of Rescheduling

SCHEME	EXPLANATION	£m
PLACE DIRECTORATE		
Basic Need	Within the basic need programme we are reporting £3.2m of rescheduling relating to 3 major schemes including, Mount Nod Primary place provision delayed as the Primary School Place Provision Strategy has not been completed for which it relies on, and statutory proposal will be required. Secondary IPP £2m – capacity for secondary places are being absorbed through the free school provision at Seva, Eden and Finham Park 2 this year, pushing our requirement to September 2018 onwards and £0.2m The Link, which is subject to the ongoing SEN review for creation of additional places.	-3.3
Coventry Investment Fund incl Unallocated Pot, Cathedral Lanes and Finance Birmingham	The only project we have approved to spend this year is SITEL at £111,224. However, this may change as Councillors will be discussing CIF in the coming weeks. The developer of Cathedral lanes will not require the drawdown of funds this financial year, at the time of budget setting there will be confirmation whether these funds are required moving forward. The legal contracts for Finance Birmingham are yet to be signed.	-11.1
Coventry Station Masterplan & Nuckle 1.2	The programme has been re-based to reflect design changes such as the up scoped glazed footbridge, in order to create a high quality gateway to the city, as well as being architecturally sympathetic with the current listed station building. We have also been engaging with contractors to obtain more robust timescales for construction programmes and phasing. The revised cash flow therefore reflects a more realistic and robust programme.	-7.4
Growth Deal – Coton Arches	A revised programme has been received from the project sponsor, resulting spend being rescheduled into 2017-18.	-0.2
Growth Deal – A46 N-S Corridor (Stanks)	A revised programme has been received from the project sponsor, resulting spend being rescheduled into 2017-18.	-3.0
Growth Deal – Skills Capital	The project has been withdrawn by the sponsor, therefore funds have been slipped into next financial year and will be re-allocated.	-0.5
Growth Deal – Public Realm	Approval of £2m of growth deal unlocking sites funds to be used to deliver new public realm schemes, which will include Greyfriars Lane, Pepper Lane, and movement of Coventry Cross along with other public realm elements. £1m cash flowed to be spent in 2016-17.	1.0
Vehicle & Plant Replacement	The rescheduling is due to a review of financing periods for vehicles. This means that vehicles will be kept in service for longer, and financed for longer periods which will realise savings, and enable achievement of fleet savings targets.	-1.1
Growing Places Fund Infrastructure	The GD Infrastructure programme makes grants available to external bodies to run projects. Two of our largest projects in this strand have not started as soon as originally planned, so our forecasts have had to be updated to reflect a much slower rate of spend. We are still expecting that all the grant will be claimed, albeit it over a longer period.	-3.6
Play Areas	Following review of the cashflow, it is confirmed an element of expenditure will slip into next financial year.	-0.1

City Centre Destination Leisure Facility	Over the last few weeks the client team has had the opportunity to meet with the short listed Contractors (during second stage of the contractor procurement process) and ascertain their thoughts in relation to the project programme and budget . This has enabled the client team in conjunction with our Professional Project team to pull together a cash flow forecast that is more reflective of how actual spend will come through. In addition both the demolition and rides contracts have now been awarded which have established more certainty around the actual cash flow forecast. This has resulted in a slippage of spend from 2016/17 into early 2017/18 against the original forecast. Despite the slippage the project is still on budget and on programme and will be complete towards the end of 2018 as was planned.	-5.2
Miscellaneous	Net rescheduling	-0.2
SUB TOTAL - Place Directorate		(34.7)

PEOPLE DIRECTORATE		
Dol-Y-Moch	It has now been confirmed that the scheme will slip into next financial year as Dol-Y-Moch will then have the cashflow to ensure full delivery of proposed extension plans.	(0.6)
SUB TOTAL - People Directorate		(0.6)

TOTAL RESCHEDULING		(35.3)
---------------------------	--	---------------

Appendix 5

Prudential Indicators

Indicator	per Treasury Management Strategy	As at 30th June 2016
Ratio of Financing Costs to Net Revenue Stream (Indicator 1) , illustrating the affordability of costs such as interest charges to the overall City Council bottom line resource (the amount to be met from government grant and local taxpayers).	14.03%	13.67%
Gross Borrowing should not, except in the short term, exceed the estimated Capital Financing Requirement (CFR) at the end of 3 years (Indicator 3) , illustrating that, over the medium term, net borrowing (borrowing less investments) will only be for capital purposes. The CFR is defined as the Council's underlying need to borrow, after taking account of other resources available to fund the capital programme.	Year 3 estimate / limit of £496.7m	£381.9m Gross borrowing within the limit.
Authorised Limit for External Debt (Indicator 6) , representing the "outer" boundary of the local authority's borrowing. Borrowing at the level of the authorised limit might be affordable in the short term, but would not be in the longer term. It is the forecast maximum borrowing need with some headroom for unexpected movements. This is a statutory limit.	£477.3m	£381.9m is less than the authorised limit.
Operational Boundary for External Debt (Indicator 7) , representing an "early" warning system that the Authorised Limit is being approached. It is not in itself 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.	£437.3m	£381.9m is less than the operational boundary.
Upper Limit on Fixed Rate Interest Rate Exposures (Indicator 10) , highlighting interest rate exposure risk. The purpose of this indicator 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 Council's overall financial position.	£391.3m	£209.4m
Upper Limit on Variable Rate Interest Rate Exposures (Indicator 10) , as above highlighting interest rate exposure risk.	£78.3mm	-£61.7m
Maturity Structure Limits (Indicator 11) , highlighting the risk arising from the requirement to refinance debt as loans mature:		
< 12 months	0% to 40%	10%
12 months – 24 months	0% to 20%	3%
24 months – 5 years	0% to 30%	15%
5 years – 10 years	0% to 30%	11%
10 years +	40% to 100%	61%
Investments Longer than 364 Days (Indicator 12) , highlighting the risk that the authority faces from having investments tied up for this duration.	£30m	£5.4m

This page is intentionally left blank



Coventry City Council

Public report

Report to

Audit and Procurement Committee

26th September 2016

Name of Cabinet Member:

Cabinet Member for Strategic Finance & Resources – Councillor J Mutton

Director approving submission of the report:

Executive Director of Resources

Ward(s) affected:

City Wide

Title:

Annual Fraud Report 2015-16

Is this a key decision?

No

Executive summary:

The purpose of this report is to provide the Audit and Procurement Committee with a summary of the Council's anti-fraud activity for the financial year 2015-16.

Recommendation:

The Audit and Procurement Committee is recommended to note and consider the anti-fraud activity undertaken in the financial year 2015-16.

List of Appendices included:

None

Other useful documents:

Half Yearly Fraud Update 2015-16

<http://democraticservices.coventry.gov.uk/ieListDocuments.aspx?CId=553&MId=10800&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:

Annual Fraud Report 2015-16

1. Context (or background)

- 1.1 Fraud in the public sector has a national focus through the publication of "Fighting Fraud and Corruption Locally - The Local Government Counter Fraud and Corruption Strategy". Whilst the national strategy states that the level of fraud in the public sector is significant, the current trends in fraud activity includes areas which Coventry City Council does not have responsibility for, for example, social housing, and the levels of identified / reported fraud against the Council are at relatively low levels, in terms of both numbers and value.
- 1.2 This report documents the Council's response to fraud during 2015-16, and is presented to the Audit and Procurement Committee in order to discharge its responsibility, as reflected in its terms of reference *'to monitor Council policies on whistle blowing and the fraud and corruption strategy'*.

2. Options considered and recommended proposal

- 2.1 The Internal Audit Service is responsible for leading on the Council's response to the risk of fraud. The work of the team has focused on four main areas during 2015-16, namely:

- Council Tax
- National Fraud Initiative
- Referrals and investigations considered through the Council's Fraud and Corruption Strategy
- Proactive work

A summary of the key activity that has taken place during 2015-16 is detailed below.

- 2.2 Council Tax – Work undertaken in this area has focused on the following:

- Reviewing Council Tax Exemptions – This was the main area of work undertaken in 2015-16. This reflects our view that there is an inherent risk of fraud / error in this area as the Council is reliant on the customer to report any changes in circumstances which would affect their entitlement to an exemption. The work in 2015-16 has resulted in:
 - 105 exemptions have been removed from customers' accounts.
 - Revised bills have been issued amounting to approximately £120,000.
 - £102,000 of this money has been paid to the Council.

A rolling programme of reviews is now in place, which includes scope to extend the work to the area of discounts.

- Council Tax Referrals / proactive reviews – As a result of validating concerns received from Council Tax linked to single person discounts, and a targeted review of Council Tax Support claims in payment, a total of 10 discounts / claims have been cancelled, resulting in overpayments / revised bills being issued of £15,500.

2.3 National Fraud Initiative (NFI) – The NFI exercise is led by the Cabinet Office. The exercise takes place every two years and matches electronic data within and between public bodies, with the aim of detecting fraud and error. Our work in 2015-16 has focused on following up the matches which were released in February 2015 (approximately 13,500 matches). In addition to the outcomes previously reported to the Audit and Procurement Committee in August 2015, which in total identified £56,000 of overpayments, the work in 2015-16 focused on the matches received in relation to Council Tax. In the last update to Audit and Procurement Committee in December 2015, we reported that 82 single person discounts had been cancelled totaling approximately £30,250. Since then, a further 97 discounts totaling £14,350 have been cancelled.

Mechanisms are in place to ensure that recovery action is taken in relation to all overpayments identified from the NFI exercise. In 2016-17, work will focus on collating and submitting the data for the next exercise.

2.4 Referrals and Investigations – Table one below indicates the number of referrals by source in 2015-16, with figures for the previous three financial years.

Table One – Fraud Referrals Received between 2012-13 and 2015-16

Source	Referrals 2012-13	Referrals 2013-14	Referrals 2014-15	Referrals 2015-16
Whistle blower	14	12	12	5
Manager	14	13	13	14
External	-	4	1	2
Total	28	29	26	21

In considering this information, we need to be clear that there is no way of determining the number of referrals that the Council should receive on an annual basis and it is very difficult to anticipate or identify the reasons behind fluctuations in numbers. However, the number of referrals received in 2015-16 through the Council’s Whistleblowing Procedure is lower than previous years, which does potentially indicate the need to refresh employees’ awareness in relation to this process. This issue will be raised with colleagues from Human Resources and will be linked to the planned review / update of the Procedure in 2016-17.

2.4.1 Of the 21 referrals received in 2015-16, nine have led to full investigations. The reasons for referrals not resulting in a full investigation include (a) our initial assessment does not find any evidence to support the allegations, and (b) the nature of the event means it is impractical to pursue further.

2.4.2 In addition to the nine investigations highlighted in 2.4.1 above, a further two investigations were carried forward from 2014-15. The majority of the investigations carried out were linked to attendance concerns and the theft of money / assets or other activities linked to obtaining a financial benefit. Five of these investigations were still on-going at the end of 2015-16. In the other six cases, three officers resigned during the disciplinary process, in one case it was determined that a resetting of standards was the most appropriate action and in two cases, the allegation was found not to have been substantiated.

2.5 Proactive work – The Council’s response to fraud also considers an element of proactive work to ensure that all key fraud risks are considered. In the last update to Audit and Procurement Committee in December 2015 we reported the work undertaken to date, namely updating the Council’s fraud risk assessment and participation in a procurement pilot in-conjunction with the Home Office and West-Midlands police.

2.5.1 Since then, in-conjunction with a third party, we have undertaken a proactive review of payments made to Council suppliers to identify and recover (a) any duplicate payments which have been made and (b) any credit notes issued (or other credit transactions on suppliers' accounts) which the Council has not processed. This work has identified the following:

- Seven duplicate payments, amounting to £7200
- 102 credit items, amounting to £96,200. (A further transaction is currently being resolved, but will result in recovery of a further £55k)

The reasons behind these transactions are not always straightforward and reflect a variety of factors, some of which are outside of the Council's control. However, we have considered the internal control implications linked to this within the 2015-16 Internal Audit review of Accounts Payable.

2.6 Significant frauds - Within the International Auditing Standards, there are clear expectations around the level of oversight that the Audit and Procurement Committee should have in relation to the risk of fraud within the Council. This includes an expectation that appropriate detail is provided around significant fraud. We have applied the following principles when defining significant fraud:

- A financial impact in excess of £10,000.
- Frauds of under £10,000 can be included if the Acting Chief Internal Auditor considers this justified by the nature of the fraud.
- In terms of establishing when a fraud has occurred, this is normally defined as occurring when the disciplinary process has been concluded, although in cases not involving employees, this will be linked to other management action, such as criminal prosecution.

In the period April 2015 to March 2016, no significant frauds have been identified.

3. Results of consultation undertaken

3.1 None

4. Timetable for implementing this decision

4.1 There is no implementation timetable as this is a monitoring report.

5. Comments from the Executive Director Resources

5.1 Financial Implications

All fraud has a detrimental financial impact on the Council. In cases where fraud is identified, recovery action is taken to minimise the impact that such instances cause. This also includes action, where appropriate, to make improvements to the financial administration arrangements within the Council as a result of frauds identified.

5.2 Legal implications

The Council has a duty under S151 of the Local Government Act to make arrangements for the proper administration of their financial affairs. To effectively discharge this duty, these arrangements include Council policies and procedures which protect the public purse through managing the risk of fraud and error.

All cases are conducted in line with the Data Protection Act and are referred to the police when considering criminal proceedings.

5.3 Human Resources Implications

Allegations of fraud made against employees are dealt with through the Council's formal disciplinary procedure. The Internal Audit Service are fully involved in the collation of evidence and undertake, or contribute to, the disciplinary investigation supported by a Human Resources representative. Matters of fraud relating to employees can be referred to the police concurrent with, or consecutively to, a Council disciplinary investigation.

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 scope and content of this report is not directly linked to the achievement of key Council objectives, although it is acknowledged that fraud can have a detrimental financial impact on the Council.

6.2 How is risk being managed?

The risk of fraud is being managed in a number of ways including:

- Through the work of the Internal Audit Service, which is monitored by the Audit and Procurement Committee.
- Through agreed management action taken in response to individual fraud investigations.

6.3 What is the impact on the organisation?

None

6.4 Equalities / EIA

Section 149 of the Equality Act 2010 imposes a legal duty on the Council to have due regard to three specified matters in the exercise of their functions:

- Eliminate discrimination, harassment, victimisation and any other conduct that is prohibited by or under the Act;
- Advance equality of opportunity between persons who share a relevant protected characteristic and persons who do not share it; and
- Foster good relations between persons who share a relevant protected characteristic and persons who do not share it.

The "protected characteristics" covered by section 149 are race, gender, disability, age, sexual orientation, religion or belief, pregnancy and maternity and gender reassignment. The duty to have due regard to the need to eliminate discrimination also covers marriage and civil partnership.

The Council acting in its role as Prosecutor must be fair, independent and objective. Views about the ethnic or national origin, gender, disability, age, religion or belief, political views, sexual orientation, or gender identity of the suspect, victim or any witness must not influence the Council's decisions.

6.5 Implications for (or impact on) the environment

No impact

6.6 Implications for partner organisations?

None

Report author(s):

Name and job title:

Karen Tyler – Acting Chief Internal Auditor

Directorate:

Resources

Tel and email contact:

024 7683 4035 – Karen.tyler@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 Co-ordinator	Resources	7/9/16	8/9/16
Helen Joyce	Human Resources Interim	Resources	7/9/16	8/9/16
Names of approvers: (officers and members)				
Finance: Paul Jennings	Finance Manager Corporate Finance	Resources	7/9/16	8/9/16
Legal: Helen Lynch	Legal Services Manager (Place and Regulatory	Resources	7/9/16	12/9/16

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

This page is intentionally left blank

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

Document is Restricted

This page is intentionally left blank

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

Document is Restricted

This page is intentionally left blank