



Audit and Procurement Committee

Time and Date

3.00 pm on Monday, 18th June 2018

Place

Diamond Room 2 - Council House

Public Business

1. **Apologies**
2. **Declarations of Interest**
3. **Minutes of Previous Meeting** (Pages 3 - 10)
To agree the minutes of the meeting held on 26th March 2018
4. **Outstanding Issues** (Pages 11 - 16)
Report of the Deputy Chief Executive (Place)
5. **Work Programme 2018/19** (Pages 17 - 18)
Report of the Deputy Chief Executive (Place)
6. **Internal Audit Annual Report 2017/2018** (Pages 19 - 36)
Report of the Deputy Chief Executive (Place)
7. **Annual Governance Statement 2017/2018** (Pages 37 - 54)
Report of the Deputy Chief Executive (Place)
8. **Internal Audit Plan 2018/2019** (Pages 55 - 62)
Report of the Deputy Chief Executive (Place)
9. **Fraud and Corruption Strategy** (Pages 63 - 72)
Report of the Deputy Chief Executive (Place)
10. **Revenue and Capital Out-turn 2017/2018** (Pages 73 - 104)
Report of the Deputy Chief Executive (Place)

11. **Unaudited 2017/18 Statement of Accounts** (Pages 105 - 112)
Report of the Deputy Chief Executive (Place)
12. **Any other items of public business which the Chair decides to take as a matter of urgency because of the special circumstances involved.**

Private business

Nil

Martin Yardley, Deputy Chief Executive (Place), Council House, Coventry

Friday, 8 June 2018

Note: The person to contact about the agenda and documents for this meeting is Lara Knight / Michelle Salmon, Governance Services, Tel: 024 7683 3237 / 3065, Email: lara.knight@coventry.gov.uk / michelle.salmon@coventry.gov.uk

Membership: Councillors P Akhtar, S Bains (Deputy Chair), R Brown (Chair), T Sawdon, R Singh, H Sweet and K Taylor

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

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language please contact us.

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Coventry City Council
Minutes of the Meeting of the Audit and Procurement Committee held at 3.00 pm
on Monday, 26 March 2018

Present:

Members: Councillor S Bains (Chair)
 Councillor R Brown
 Councillor L Harvard (Deputy Chair)
 Councillor R Singh
 Councillor H Sweet
 Councillor K Taylor

Employees (by Directorate):

People A Mayes

Place P Jennings, M Salmon, K Tyler, A West

Others in Attendance: Mark Stocks (External Auditor)

Apologies: Councillor T Sawdon

Public Business

88. Declarations of Interest

There were no disclosable pecuniary interests.

89. Minutes of Previous Meeting

The minutes of the meeting held on 19th February 2018 were agreed and signed as a true record.

90. 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 97 below 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.

91. Outstanding Issues

The Audit and Procurement Committee considered a report of the Deputy Chief Executive (Place) that identified issues on which a further report / information had been requested or was outstanding so that Members were aware of them and could manage their progress.

Appendix 1 to the report provided details of an issue where a report back had been requested to a future meeting, along with the anticipated date for further consideration of the matter. Appendix 2 provided details of items where additional information had been requested outside of formal meetings, along with the date when this had been completed.

RESOLVED that the Audit and Procurement Committee notes the outstanding issues report and agrees that those issues that are complete can be discharged from the report.

92. **Work Programme 2017/18**

The Audit and Procurement Committee considered a report of the Deputy Chief Executive (Place) that set out the Work Programme of scheduled issues for consideration by the Committee for the year 2017/2018.

The Committee were advised that it was proposed to reschedule consideration of the Internal Audit Plan to the first meeting of the next Municipal Year.

RESOLVED that the Audit and Procurement Committee notes the work undertaken as scheduled on their Work Programme for 2017/2018 and agrees to the re-scheduling of the Internal Audit Plan Report to the first meeting of the Municipal Year 2018/2019.

93. **External Audit Plan**

The Audit and procurement Committee considered a report of the External Auditors, Grant Thornton, detailing the Audit Plan for year ending 31st March 2018.

The External Auditors were responsible for forming and expressing an opinion on the: financial statements (including the Annual Governance Statement) that had been prepared by management with the oversight of those charged with governance (the Audit & Procurement committee); and Value for Money arrangements in place at the Council for securing economy, efficiency and effectiveness in its use of resources.

The audit of the financial statements did not relieve management or the Audit and Procurement Committee of their responsibilities. It was the responsibility of the Council to ensure that proper arrangements were in place for the conduct of its business, and that public money was safeguarded and properly accounted for. The External Auditors considered how the Council was fulfilling these responsibilities and their approach was based on a thorough understanding of the Council's business and was risk based.

As required by the Code and International Standards on Auditing (ISAs) (UK), the Audit Plan set out the scope and timing of the audit to be carried out by the External Auditors in relation to Coventry City Council for the year ending 31st March 2018 and included:

- Significant Risks :Valuation of Property, Plant and Equipment; Valuation of Pension Fund Net Liability; Management Override of Controls
- Materiality

- Value for Money Arrangements
- Audit Logistics
- Independence
- Audit Report

A document headed 'Informing the Audit Risk Assessment for Coventry City Council' was appended to the report, the purpose of which was to contribute towards the effective two-way communication between the Authority's external auditors and the Authority's Audit and Procurement Committee, as 'those charged with governance'. The report covered some important areas of the auditor risk assessment where they were required to make inquiries of the Audit and Procurement Committee under auditing standards.

Under International Standards on Auditing (UK and Ireland) (ISA(UK&I)) auditors had specific responsibilities to communicate with the Audit and Procurement Committee. ISA(UK&I) emphasised the importance of two-way communication between the auditor and the Committee and also specified matters that should be communicated. This two-way communication assisted both in understanding matters relating to the audit and developing a constructive working relationship. It also enabled the auditor to obtain information relevant to the audit from the Committee and supported it in fulfilling its responsibilities in relation to the financial reporting process.

As part of the risk assessment procedures the External Auditor was required to obtain an understanding of management processes and the Audit and Procurement Committee's oversight of the following areas:

- Fraud
- Laws and Regulations
- Going Concern
- Accounting Estimates
- Related Parties

The report included a series of questions on each of these areas and the response received from the Authority's management. The Audit and Procurement Committee were asked to consider whether the responses were consistent with its understanding and whether there were any further comments it wished to make.

In relation to the fees, the Committee noted that the total audit fees for the Council Audit and Grant Certification would be no less than £173,460.

The Committee expressed their concern about the difficulties of financial planning given the many variables and unknowns that the City Council may face. The External Auditor clarified the process for financial planning which involved them working closely with the City Council's Director of Finance and Corporate Services to gain a thorough understanding of the Council's business and to make a judgement after careful consideration of known factors, proposed savings programmes, revenue streams, levels of reserves, past behaviours and service performance.

The Committee referred to the National Audit Office Report on Financial Sustainability. The Council's Finance Manager – Corporate Finance would provide Members with a link to a summary of the report, should Members wish to investigate this further.

RESOLVED that the Audit and Procurement Committee notes the Audit Plan for year ending 31st March 2017.

94. **Internal Audit Recommendation Tracking Report**

The Audit and Procurement Committee considered a report of the Deputy Chief Executive (Place) that provided an update on progress made in implementing internal audit recommendations since the last update in April 2017.

The Public Sector Internal Audit Standards required that the Chief Audit Executive must establish a follow up process to monitor and ensure that management actions had been effectively implemented or that senior management had accepted the risk of not taking action.

As reflected within its terms of reference, the Audit and Procurement Committee was required to receive reports on Internal Audit's follow up process and this report provided an update on progress in respect of the agreed management actions which had been followed up during the period April 2017 to February 2018.

Given the number of audits that the Internal Audit Service completed every year, it was critical that it had a robust procedure in place for ensuring that it obtained appropriate assurance that audit recommendations had been implemented, but did so in a way that allowed the Service to respond to new risks facing the Council.

Currently, there were three key considerations that determined the follow up procedure adopted:

- 1) Whether the area audited was of such significance that it was subject to an annual review.

Annual Audits were generally included in the Audit Plan on an annual basis because of the nature of the systems, and the fact they were corporate wide and had been identified as key in delivering the Council's objectives (e.g. financial systems, corporate risks).

- 2) The level of assurance provided in the audit report.

Any audit that received 'no' or 'limited' assurance was subject to a follow up review to assess improvements based on a timing agreed between Internal Audit and relevant management. In either of these circumstances, a formal follow up review would take place which involved Internal Audit assessing progress through audit testing to ensure that agreed actions had been implemented and were working effectively.

- 3) A self-assessment process for those reviews where neither of the points above applied, but a follow up review was necessary.

For all other audits, a process existed which was based on a self-assessment by relevant managers. This involved Internal Audit asking managers for an update on the action taken to implement audit recommendations. The response provided by managers was not subject to any independent validation by Internal Audit.

Overall, it was believed that the procedure achieved the right balance between ensuring action was taken in response to risks identified by Internal Audit and allowing the Service to focus on identification of new risks. This was particularly important given the reductions in the size of the audit team over the last few years.

The report and appendices set out the results from the latest follow up exercise indicating that of the 141 actions followed up, 72% had been implemented based on both the formal and self-assessment follow up method. When analysed by follow up method, the results were that formal follow up method had a 57% implementation rate and self-assessment follow up method had a 98% implementation rate.

After the follow up had been completed, the results were collated within Internal Audit. If progress was not consistent with expectations, audit management would determine the next course of action based on the reasons for the lack of progress. The report identified the courses of action available and the appendices to the report highlighted the proposed actions for audits where recommendations remained outstanding.

The Committee expressed concern regarding the issues identified in annual internal audits carried out in schools that resulted in High/Medium Risk Actions being required year on year. Members requested that officers gain a better understanding of these issues and investigate whether a resolution could be found to eliminate this repetition, they also requested that details of high risk actions be included in the next Tracking Report.

RESOLVED that the Audit and Procurement Committee notes the progress made in implementing audit recommendations and confirms its satisfaction with the proposed action by the Acting Chief Internal Auditor for audits where actions remain outstanding.

95. **Code of Corporate Governance**

The Audit and procurement Committee considered a report of the Deputy Chief Executive (Place) that summarised the outcome of the review work carried out during the last year which would inform the Annual Governance Statement which would be presented to the Audit and Procurement Committee in June 2018 as part of its consideration of the statement of accounts for 2017/18.

The Council approved a new Code of Corporate Governance in April 2017. The Code and associated guidance provided a framework to help ensure that the Council's governance arrangements were up to date and reflected best practice.

Audit and Procurement Committee reviewed a draft of the revised Code prior to its adoption and particularly considered the process for reviewing progress.

Coventry City Council had a range of measures in place to ensure that governance in the organisation was managed effectively and worked hard to ensure that these arrangements were robust and met best practice. This was achieved through policies, plans, procedures such as the Constitution (including codes of conduct for Members and employees), the Council Plan, the Medium Term Financial Strategy and policies on whistle blowing, tackling fraud and corruption and managing risk.

In adopting the new Code, the Council introduced an annual review process to assess the Council's arrangements against examples of systems, processes, documentation and other evidence set out in the national framework. Local authorities were required to conduct a review at least once every financial year of the effectiveness of their systems of internal control and to report on the review with its Statement of Accounts. The Audit and Procurement Committee was responsible for approving the Annual Governance Statement alongside the Statement of Accounts. The Code of Corporate Governance and its annual review would inform this process.

Strategic leads for areas including HR, Audit, Procurement, Finance, Governance and Legal Services had reviewed and updated progress since the Code was introduced and progress made on strengthening the Council's governance arrangements and meeting the standards set out in the Code during the last year included the introduction of: a revised Whistleblowing Policy; a new Member Officer Protocol; a revised Risk Management Policy, Strategy and Framework; a new annual report from Ethics Committee to Council; and a comprehensive Leadership Management Framework. The report set out a number of actions identified as part of the review that would help to strengthen the Council's corporate governance arrangements over the coming year.

The Committee discussed Members, officers and external service providers understanding and demonstrating the ethical values of the Council and commitment to the rule of the law. They also sort clarification of Member/Officer Protocol and noted that the Council at its meeting on 5th December 2017 (their minute 66/17 referred) had approved and adopted a Member/Officer Protocol, which was now included in the Council's Constitution, the purpose of which was to set out for both members and officers what was expected of them in their respective roles and what they could expect from each other.

RESOLVED that the Audit and Procurement Committee notes the outcomes of the review of corporate governance.

96. **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.

97. **Procurement and Commissioning Progress Report**

The Audit and Procurement Committee considered a report of the Deputy Chief Executive (People), that provided an update on the procurement and commissioning undertaken by the Council since the last report submitted to the meeting on 19th February 2018 (Minute 86/17 refers). Details of the latest positions in relation to individual matters were set out in the Appendix to the report.

Members expressed their concerns relating to cyber security. Acknowledging that cyber-attacks were continually evolving, they requested that information be forwarded onto them detailing the arrangements that had been put in place for the Local Authority in relation to possible future cyber-attack issues.

RESOLVED that the Audit and Procurement Committee:-

- 1) **Notes the current position in relation to the Commissioning and Procurement Services.**
- 2) **Agrees that there are no recommendations to be made to either the Cabinet Member for Strategic Finance and Resources, Cabinet or Council on any of the matters reported.**

98. **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.

As this was the last meeting of the Audit and Procurement Committee for the Municipal Year 2017/2018, the Chair, Councillor S Bains, thanked Members for their work on the Committee for the year and Members also thanked Councillor Bains for his work as the Chair.

(Meeting closed at 5.00 pm)

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Audit and Procurement Committee

18th June 2018

Name of Cabinet Member:

Cabinet Member for Strategic Finance and Resources – Councillor J Mutton

Director approving submission of the report:

Deputy Chief Executive (Place)

Ward(s) affected:

N/A

Title:

Outstanding Issues

Is this a key decision?

No

Executive summary:

This report is to identify those issues on which further reports / information has been requested or are outstanding so that Members are aware of them and can monitor their progress.

Recommendations:

The Committee is recommended to:-

1. Consider the list of outstanding items as set out in the Appendices, and to ask the Deputy Chief Executive concerned to explain the current position on those items which should have been discharged.
2. Agree that those items identified as completed within the Appendices be confirmed as discharged and removed from the outstanding issues list.

List of Appendices included:

Appendix 1 - Further Report Requested to Future Meeting
Appendix 2 - Additional Information Requested Outside of Meeting

Other useful background papers:

None

Has it or will it be considered by scrutiny?

N/A

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:
Outstanding Issues**

1. Context (or background)

- 1.1 In May 2004, the City Council adopted an Outstanding Minutes system, linked to the Forward Plan, to ensure that follow-up reports can be monitored and reported to Members.
- 1.2 At their meeting on 25th January 2017, the Audit and Procurement Committee requested that, in addition to further reports being incorporated into the Committee's Work Programme, that a report be submitted to each meeting detailing those additional reports requested to a future meeting along with details of additional information requested outside of the formal meeting.
- 1.3 Appendix 1 to the report outlines items where a report back has been requested to a future Committee meeting, along with the anticipated date for further consideration of the issue.
- 1.4 In addition, Appendix 2 sets out items where additional information was requested outside of the formal meeting along with the date when this was completed.
- 1.5 Where a request has been made to delay the consideration of the report back, the proposed revised date is identified, along with the reason for the request.

2. Options considered and recommended proposal

- 2.1 N/A

3. Results of consultation undertaken

- 3.1 N/A

4. Timetable for implementing this decision

- 4.1 N/A

5. Comments from the Director Finance and Corporate Resources

- 5.1 Financial implications

N/A

- 5.2 Legal implications

N/A

6. Other implications

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

N/A

- 6.2 How is risk being managed?**

This report will be considered and monitored at each meeting of the Cabinet

6.3 What is the impact on the organisation?

N/A

6.4 Equalities / EIA

N/A

6.5 Implications for (or impact on) the environment

N/A

6.6 Implications for partner organisations?

N/A

Report author(s):

Name and job title:

Lara Knight
Governance Services Co-ordinator

Directorate:

Place

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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:				
Names of approvers: (officers and Members)				

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

Appendix 1

Further Report Requested to Future Meeting

	Subject	Minute Reference and Date Originally Considered	Date For Further Consideration	Responsible Officer	Proposed Amendment To Date For Consideration	Reason For Request To Delay Submission Of Report
*1.	Information Governance Annual Report 2016/17 Report on the General Data Protection Regulations	23/17 24 th July 2017 (see note 3 in Appendix 2) 66/17 (Outstanding Issues) 22 nd January 2018	First meeting of 2018/19 Municipal Year -18 th June 2018	Sharon Lock	July 2018	To be included in the Information Annual Governance Report 2017/2018 scheduled on the Work Programme for July 2018
2.	Information Commissioner's Office – Data Protection Audit November 2017 Report to provide an update on Progress	82/17 19 th February 2018	October 2018	Adrian West		

* identifies items where a report is on the agenda for your meeting.

16 Additional Information Requested Outside of Meeting

	Subject	Minute Reference and Date Originally Considered	Information Requested / Action Required	Responsible Officer	Date Completed
1.	Half Yearly Fraud Update 2017 – 2018	Minute 69/17 22 nd January 2018	A press release be prepared highlighting the work undertaken, particularly data matching through NFI, to identify attempts to commit fraud.	Karen Tyler / Nigel Hart	
2.	Certification Work for Coventry City Council for Year Ended 31 st March 2017	Minute 79/17 19 th February 2018	The Committee requested information on how sampling for the certification work is undertaken.	Joan Barnett (External Auditor)	

Audit and Procurement Committee

Work Programme 2018-2019

18th June 2018

Revenue and Capital Out-turn 2017-2018
Draft Statement of Accounts 2017-2018
Fraud and Corruption Strategy
Annual Governance Statement 2017-2018
Internal Audit Annual Report 2017-2018
Internal Audit Plan 2018-2019
Procurement Progress Report (Private)

16th July 2018

Audit Findings Report 2017-2018 (Grant Thornton)
Statement of Accounts 2017-2018
Audit Committee Annual Report 2017-2018
Information Governance Annual Report 2017/2018
Procurement Progress Report (Private)

10th September 2018

Statement of Accounts 2017-2018
Quarter One Revenue and Corporate Capital Monitoring Report 2018-2019
Fraud Annual Report 2017-2018
Procurement Progress Report (Private)

12th November 2018

Annual Audit Letter 2017-2018 (Grant Thornton)
Half Year Internal Audit Progress Report 2018-2019
Payment Audit
Treasury Management Update
Procurement Progress Report (Private)

21st January 2019

Quarter Two Revenue and Corporate Capital Monitoring Report 2018-2019
Corporate Risk Register Update
Half Yearly Fraud Update 2018-2019
Ombudsman Complaints Annual Report 2017-2018
Whistleblowing Policy Annual Report 2017-2018
Procurement Progress Report (Private)

25th February 2019

Grant Certification Report (Grant Thornton)
Quarter Three Revenue and Corporate Capital Monitoring Report 2018-2019
Quarter Three Internal Audit Progress Report 2018-2019
Information Management Strategy Update including result of follow up audit by ICO
RIPA (Regulation of Investigatory Powers Act) Annual Report 2018-2019
Procurement Progress Report (Private)

25th March 2019

Annual Audit Plan (Grant Thornton)
Internal Audit Recommendation Tracking Report
Internal Audit Plan 2019-2020
Code of Corporate Governance (Adrian West)
Procurement Progress Report (Private)



Coventry City Council

Public report

Report to

Audit and Procurement Committee

18th June 2018

Name of Cabinet Member:

Cabinet Member for Strategic Finance and Resources – Councillor J Mutton

Director approving submission of the report:

Deputy Chief Executive (Place)

Ward(s) affected:

City Wide

Title:

Internal Audit Annual Report 2017-2018

Is this a key decision?

No

Executive summary:

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

- To summarise the Council's Internal Audit activity for the period April 2017 to March 2018 against the agreed Audit Plan for 2017-18 and the Public Sector Internal Audit Standards.
- To provide the Audit and Procurement Committee with the Acting Chief Internal Auditor's opinion on the overall adequacy and effectiveness of Coventry City Council's internal control environment for the financial year 2017-18 (as documented in section 2.3 of this report).

Recommendations:

Audit and Procurement Committee is recommended to note and consider:

1. The performance of Internal Audit against the Audit Plan for 2017-18.
2. The results of the Quality Assurance and Improvement Programme and the Acting Chief Internal Auditor's statement on conformance with the Public Sector Internal Audit Standards.
3. The summary findings of key audit reviews (attached at appendix two) that have not already been reported to Audit and Procurement Committee during municipal year 2017-18 and which are relevant to the opinion on the overall adequacy and effectiveness of Coventry City Council's internal control environment.

4. The opinion of the Acting Chief Internal Auditor on the overall adequacy and effectiveness of Coventry City Council's internal control environment.

List of Appendices included:

Appendix One - Audits completed in 2017-18

Appendix Two - Summary findings from key audit reports

Background papers:

None

Other useful documents:

Half Year Internal Audit Progress Report 2017-18

<http://internaldemocraticservices.coventry.gov.uk/ieListDocuments.aspx?CId=553&MId=11491&Ver=4>

Internal Audit Plan 2017-18 – Quarter Three Progress Report

<http://internaldemocraticservices.coventry.gov.uk/ieListDocuments.aspx?CId=553&MId=11493&Ver=4>

Has it or will it be considered by scrutiny?

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

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

No

Will this report go to Council?

No

Report title:

Internal Audit Annual Report 2017-18

1. Context (or background)

1.1 The Audit and Procurement Committee approved the Council's Internal Audit Plan for 2017-18 at its meeting on the 26th June 2017. During the last financial year, the Committee has received progress reports summarising completed audit activity in November 2017 and February 2018.

1.2 This report details the performance of the Internal Audit Service against the Plan for 2017-18, which is presented in order for the Audit and Procurement Committee to discharge its responsibility, as reflected in its term of reference - *“To consider the Head of Internal Audit's Annual Report and Opinion, and a summary of internal audit activities (actual and proposed) and the level of assurance given within the Annual Governance Statement incorporated in the Annual Accounts”*.

1.3 The report is split into the following sections:

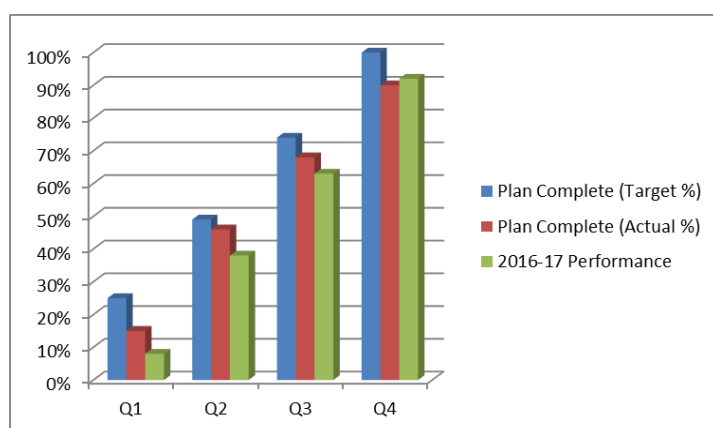
- Assessment of the performance of the Internal Audit Service against its key targets.
- The results of the Quality Assurance and Improvement Programme and the Acting Chief Internal Auditor's statement on conformance with the Public Sector Internal Audit Standards.
- A summary of the audit activity in 2017-18, and highlighting issues that have not been reported to the Audit and Procurement Committee previously, and are relevant to the overall opinion provided in section 2.3.
- The Acting Chief Internal Auditor's opinion on the overall adequacy and effectiveness of Coventry City Council's internal control environment.

2. Options considered and recommended proposal

2.1 Performance of the Internal Audit Service

2.1.1 The key target for the Internal Audit and Risk Service is to complete 90% of its agreed work plan by the 31st March 2018. The chart below shows that the Service met this target.

Chart One: Performance of Internal Audit 2017-18



2.1.2 In addition to the delivery of the Plan, the Service has a number of other key performance indicators (KPIs) which underpin its delivery. These KPIs are aimed at ensuring that the audit process is completed on a timely basis. The table below details the performance of Internal Audit for 2017-18, compared with performance in 2016-17.

Table One: KPIs for the Internal Audit Service

Performance Measure	Target	Performance 2017-18	Performance 2016-17
Planned Days Delivered	100%	93%	95%
Productive Time of Team (% of work time spent on audit work)	90%	91%	89%
Draft Report to Deadline (Draft issued in line with date agreed)	80%	82%	70%
Final Report to Deadline (Final issued within 4 weeks of draft)	80%	100%	97%
Audits Delivered within Budget Days	80%	75%	72%

Whilst improvements in performance are still required around audits delivered within budget days, this does need to be seen in the context of the size of the audit plan in that out of 65 audits completed, 16 over-ran in terms of budget days. Actions to continue to improve performance form part of the Quality Assurance and Improvement Programme (see 2.2.2 below).

2.2 Quality Assurance Improvement Programme

2.2.1 The Public Sector Internal Audit Standards require that the Internal Audit Service develops and maintains a quality assurance programme that covers all aspects of the internal audit activity. In 2017-18, the Programme included the following:

- An annual self-assessment of the Internal Audit Service against the Public Sector Internal Audit Standards. This was undertaken by the Acting Chief Internal Auditor.
- On-going supervision and review of audit work
- Monitoring of key performance indicators
- Results of staff performance appraisals
- Team reflection session to identify mechanisms to aid improvement

2.2.2 As a result of the Programme, a number of improvement actions have been identified, which are summarised in table two below. Progress against these actions will be included in future reports to the Audit and Procurement Committee

Table Two: Internal Audit Improvement Actions

Public Sector Internal Audit Standards	Specific Standard	Improvement Action
Code of Ethics	Competency	Introduction of a Continuing Professional Development programme for unqualified staff
Attribute standards	Purpose, authority and responsibility	Review and update of the Internal Audit Charter
Attribute standards	Proficiency and due professional care	Developing knowledge of available technology based audit and data analysis techniques to perform audit work
Attribute standards	Quality Assurance and Improvement Programme	Undertaking a full external assessment against the Standards (the specific timing of this will be dependent on implementation of the re-structure for Internal Audit)
Attribute standards	Quality Assurance and Improvement Programme	Introduction of a formal mechanism for capturing customer feedback
Performance standards	Managing the Internal Audit activity	Review and update of the Internal Audit Manual
Performance standards	Managing the Internal Audit activity	Increased focus on planning and time management to deliver audits in budget days

2.2.3 In considering the results of the quality assurance and improvement programme, it has been concluded that the Internal Audit Service partially conforms with the Public Sector Internal Audit Standards and it is recognised that there are improvement opportunities to achieve full conformance. Where improvements have been identified, it is not considered that this impacts on the overall scope or operation of the internal audit activity.

2.3 Audit Activity 2017-18

2.3.1 Appendix One details the audit reviews that have been carried out in the financial year 2017-18 along with the level of assurance provided. Table three below provides definitions to support the level of assurance applied to audit reviews carried out by the Service.

Table Three: Definitions of Assurance Levels

Assurance Opinion	What does this mean?
Significant	There is an appropriate level of control for managing all the significant inherent risks within the system. Testing shows that the controls are being applied consistently and system objectives are being achieved efficiently, effectively and economically.
Moderate	There are generally appropriate levels of control for managing the majority of the significant inherent risks within the system. Some control failings have been identified from the systems evaluation and testing that need to be corrected. The control failings do not put at risk achievement of the

Assurance Opinion	What does this mean?
	system's objectives.
Limited	There are weaknesses in the level of control for managing the significant inherent risks within the system. A number of control failings have been identified from the systems evaluation and testing. These failings show that the system is clearly at risk of not being able to meet its objectives and significant improvements are required to improve the adequacy and effectiveness of control.
No	There are major, fundamental weaknesses in the level of control for managing the significant inherent risks within the system. The weaknesses identified from the systems evaluation and testing are such that the system is open to substantial and significant error or abuse and is not capable of meeting its objectives.

2.3.2 **Other** – A summary of the findings of key audits that have not already been reported to the Committee during municipal year 2017-18 are included at Appendix Two. In all cases, the relevant managers have agreed to address the issues raised in line with the timescale stated. These reviews will be followed up in due course and the outcome reported to the Audit and Procurement Committee.

2.3.3 **Follow up of Disclosures made in the Internal Audit Annual Report 2016-17** – In the previous annual report, the Acting Chief Internal Auditor identified a number of areas where she believed significant control improvements were required. An update on each of these areas is provided below:

- **Delivery of the Workforce Strategy** - A workforce reform programme has been established which is looking at a number of areas to improve employment governance and make policies and practices fairer, more transparent and consistently applied. The programme is looking at areas including car parking, the Constitution and Facilities Time Agreement, disciplinary, grievance and collective disputes, excess travel, a pay and reward framework and the flexitime scheme. The ongoing work in relation to the delivery of the workforce strategy has been considered in the preparation of the Annual Governance Statement for 2017-18.
- **Adult Social Care** – A Better Care Fund plan was agreed by the City Council and the Coventry and Rugby Clinical Commissioning Group in July 17 and the subsequent S75 agreement has been approved which sets out the terms on which the partners collaborate and establishes a framework for commissioning arrangements, including pooled funds and aligned budgets. Spending activity and the use of resources are monitored and managed through monthly review meetings. The ongoing work in relation to the long term sustainability of adult social care has been considered in the preparation of the Annual Governance Statement for 2017-18.

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

2.4.1 The Public Sector Internal Audit Standards (PSIAS) highlights that a key responsibility of Internal Audit is to provide an objective evaluation of, and assurance on, the effectiveness of the organisation's risk management, control and governance arrangements. It requires

that the annual internal audit opinion provided by the Acting Chief Internal Auditor is a key element of the framework of assurance that informs the Annual Governance Statement.

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

- An opinion on the overall adequacy and effectiveness of Coventry City Council's internal control environment.
- Disclosure of any qualifications to that opinion, together with the reason for the qualification.
- Present a summary of the audit work undertaken to formulate the opinion, including reliance placed on the work of other assurance bodies.
- Draw to the attention of the Audit and Procurement Committee any issues particularly relevant to the preparation of the Annual Governance Statement.

2.4.3 **Audit Opinion / Disclosures** – In the Acting Chief Internal Auditor's view, sufficient assurance work has been carried out to allow her to form a reasonable conclusion on the adequacy and effectiveness of Coventry City Council's internal control environment. It is the Acting Chief Internal Auditor's opinion that that **moderate assurance** can be provided that there is generally a sound system of internal control in place designed to meet the Council's objectives. This means that there is generally an appropriate level of control for managing the majority of the significant inherent risks to the Council's objectives to a reasonable level.

In giving this opinion, assurance can never be absolute as the system of internal control is designed to manage risk to a reasonable level. It cannot eliminate all risk and can therefore only provide reasonable and not absolute assurance of effectiveness.

Through Internal Audit work, actions are agreed to improve the control environment and assist the Council in achieving its objectives. A defined process exists within the Service to gain assurance that all actions agreed have been implemented on a timely basis.

2.4.4 **Audit work undertaken** – Appendix One details the audit reviews that have been carried out in the financial year 2017-18 along with the level of assurance provided. In considering the outcome of audit activity for 2017-18, we have initially looked at the number of 'limited' or 'no' assurance audits (as these require immediate improvements) and compared the results with the previous two years.

Table Four: Comparison of Audit Assurance Levels

Financial Year	Number of Audits	Number of Audits With 'limited' or 'no' Assurance	Percentage of Audits with 'limited' or 'no' Assurance
2017-18	65	7	11%
2016-17	58	6	10%
2015-16	55	3	5%

Table four above indicates that the number of audits that require immediate improvements remains at a low level in comparison to the overall number of audits carried out, albeit there has been a small increase in these reviews over the last three years. This does not necessarily mean that the overall system of internal control has significantly changed and other factors that have been considered in the assessment of the control environment include:

- The impact that the weaknesses identified have on the overall Council control environment - When considering the seven reviews, they fall into one of the following categories:
 - Reviews that are focused on working practices in specific departments / functions.
 - Reviews where issues have a corporate impact either in terms of finance, reputation and / or service delivery.
- Whether there is any specific change in audit focus / approach that may have impacted on the number of 'limited' or 'no' assurance audits – there are three aspects to this, namely:
 - A number of fact finding reviews have been undertaken as in some circumstances this approach is viewed as a more efficient way of responding to concerns raised. In comparison to a traditional audit review, the scope is limited to a specific concern rather than considering all key activities undertaken by a service area / department. As such, an assurance level is not provided given the limited scope of such reviews.
 - In 2017-18, the audit plan included a number of reviews arising from specific requests from management to provide assurance as concerns already existed that improvements were required to manage risks effectively.
 - In 2017-18, a number of follow up reviews were undertaken to assess the progress made in implementing audit recommendations since the last review. In two cases, the limited assurance level given reflects the lack of progress made at the time of the review.

2.4.5 Issues relevant to the preparation of the Annual Governance Statement – In undertaking the assessment of the Council's internal control environment, the Acting Chief Internal Auditor has identified a number of areas that, in her opinion, need to be considered when the Council produces its Annual Governance Statement for 2017-18.

From a general point of view, whilst any audit where 'limited' or 'no' assurance was provided requires attention, an assessment is also made as to whether the review has a corporate impact and consequently needs to be considered in the producing the Annual Governance Statement, or whether the review is limited to specific working practices in service areas which do not have a wider bearing on the Council's control environment.

In terms of key issues identified, the following are highlighted:

- 1. The Council's readiness for the implementation of the General Data Protection Regulations (GDPR)** – This reflects the findings of the review of the Council's preparations for GDPR which is summarised at Appendix Two. With the agreement of management, this area of work has been reflected within the Annual Governance Statement in the disclosure relating to implementation of the Information Management Strategy.

2. Homelessness – This issue is not specifically linked to a particular audit but reflects the acknowledged risk around the increasing costs of temporary accommodation and the need to effectively manage the Council's response to homelessness. Consequently, this activity has also been included within the Internal Audit Plan for 2018-19.

3. Delivery of the IT Strategy - This reflects the results of the IT Audit Needs Assessment which underpins the programme of planned ICT audit reviews. The ICT Strategy is planned to be reviewed and updated in 2018-19 and will be key to ensuring that there are robust arrangements in place in relation to infrastructure, cyber security and digital skills development.

3. Results of consultation undertaken

3.1 None

4. Timetable for implementing this decision

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

5. Comments from the Director of Finance and Corporate Resources

5.1 Financial Implications

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

5.2 Legal implications

The City Council is required by the Accounts and Audit Regulations 2015 to approve, and subsequently publish, the Annual Governance Statement alongside the Statement of Accounts. The opinion of the Acting Chief Internal Auditor on the adequacy of the Council's internal control environment as included in the Annual Report is a key source in the preparation of the Annual Governance Statement. Reporting on progress in regards to the delivery of the Annual Audit Plan ensures that the Council meets its statutory obligations in respect of maintaining an internal audit function and represents good governance.

6. Other implications

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

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

6.2 How is risk being managed?

In terms of risk management, there are two focuses:

- Internal Audit perspective - The main risks facing the Service are that the planned programme of audits is not completed, and that the quality of audit reviews fails to meet customer expectations. Both these risks are managed through defined processes (i.e. planning and quality assurance) within the Service, with the outcomes included in reports to the Audit and Procurement Committee. Delays in the delivery of individual audits could occur at the request of the customer, which could impact on the delivery of the plan. This risk is managed through on-going communication with customers to agree timing and identify issues at an early stage to allow for remedial action to be taken.
- Wider Council perspective - The key risk is that actions agreed in audit reports to improve the control environment and assist the Council in achieving its objectives are not implemented. To mitigate this risk, a defined process exists within the Service to gain assurance that all actions agreed have been implemented on a timely basis. Such assurance is reflected in reports to the Audit and Procurement Committee. Where progress has not been made, further action is agreed and overseen by the Audit and Procurement Committee to ensure action is taken.

6.3 What is the impact on the organisation?

None

6.4 Equalities / EIA

None

6.5 Implications for (or impact on) the environment

No impact

6.6 Implications for partner organisations?

None

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Name and job title:

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Place

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Contributor/approver name	Title	Directorate or organisation	Date doc sent out	Date response received or approved
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Michelle Salmon	Governance Services Officer	Place	24/5/18	25/5/18
Paul Jennings	Finance Manager Corporate Finance	Place	24/5/18	30/5/18
Names of approvers: (Officers and Members)				
Barry Hastie	Director of Finance and Corporate Resources	Place	24/5/18	1/6/18
Adrian West	Member and Elections Team Manager	Place	24/5/18	27/5/18

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Appendix One – Internal Audit Reviews Completed in 2017-18

Audit Area	Audit Title	Assurance
2016-17 B/Fwd	Payment Audit	n/a Proactive
	Remote Working*	Moderate
Corporate Risk	Constitution and Facilities Agreement	n/a fact finding
	Data Protection Children’s Services	Moderate
	One Friargate Business Disruption Resilience*	Significant
	Promoting Independent Living – tenants finances	n/a fact finding
	Foster carer experience*	Moderate
	Cyber Security*	Moderate
	Database system administration	Moderate
Council / Audit Priorities	Public Health Commissioning and Contract Management	Significant
	Officer Gifts and Hospitality	Moderate
	Declarations of Interest	n/a Proactive
	Organised Crime checklist*	Moderate
	Passenger Transport*	Limited
	Review of fraud and corruption strategy	n/a fact finding
	GDPR readiness*	Limited
Financial Systems	Accounts Payable	Significant
	Accounts Receivable	Significant
	Payroll	Significant
	Council Tax	Significant
	Business Rates	Moderate
	CareDirector (income and expenditure)	Moderate
	Raising Invoices Locally	Significant
Regularity	Annual Governance Statement	n/a Annual Review
	NHS Information Governance Toolkit	n/a verification
	Declaration of Interest	n/a Annual Review
	S256 Health Grants	n/a verification
	Troubled Families Programme Claim 1	n/a verification
	Hillfields Nursery School*	Limited
	Troubled Families Programme Claim 2	n/a verification
	Edgewick Primary School	Limited
	Sherbourne Fields Collaborative Grant	n/a verification
	Disabled Facilities Grant	n/a verification
	Teachers’ Pension Scheme Grant	n/a verification
	Post 16 Schools Funding	n/a verification
	Bus Subsidy Grant	n/a verification
	Highway Maintenance Block Funding Grant	n/a verification
	Integrated Transport Block Funding Grant	n/a verification
	Highways Maintenance Challenge Fund Grant	n/a verification
	Highways Maintenance Challenge Fund Grant (Swansell Viaduct)	n/a verification
	Pothole Action Fund Grant	n/a verification
	Leigh Church of England Primary School	Moderate
	Whitmore Park Primary School	Moderate
	Ernsford Grange Primary School	Moderate
	Henley Green Primary School	Moderate
	Coventry North Regeneration / North Coventry Holdings	Significant

Audit Area	Audit Title	Assurance
	Due Diligence – Connecting Communities	n/a fact finding
	Due Diligence – Community Based Preventative Support Grant	n/a fact finding
	Risk Management	Moderate
	Troubled Families Programme Claim 3	n/a verification
Directorate issues	Direct Payments – set up of new process	N/a advice
	Housing Benefit Overpayments*	Limited
	LCS / ContrOOC*	Moderate
	Payment audit follow up	n/a fact finding
	Provider Services Units Cash Handling	n/a fact finding
	Route 21 Purchasing Cards	n/a fact finding
	New Payroll Processes	n/a advice
	Building Facilities Management	Moderate
	Civil Engineering Support Framework Contract	Significant
Follow Up	Energy Bills*	Limited
	Potters Green Primary School	Significant
	Card Refunds	Moderate
	Management of Plant and Equipment*	Limited
	Data Protection	Moderate
	ICT Reviews	n/a (follow up of seven previous reviews)

(*) Audit findings reported to Audit and Procurement Committee during municipal year 2017-18

Appendix Two – Summary Findings from Key Audit Reports

Audit Review / Actions Due / Responsible Officer(s)	Key Findings
<p>Foster Carer Experience</p> <p>October 2018</p> <p>Strategic Lead Looked After Children</p>	<p>Overall Objective: To ensure that the Council meets / exceeds the relevant National Minimum Standards for Fostering Services to ensure that foster carers within Coventry have a positive experience of fostering.</p> <p>Opinion: Moderate Assurance Summary / Actions Identified:</p> <p>Areas of good practice identified included:</p> <ul style="list-style-type: none"> • There are good arrangements in place to ensure training requirements and support arrangements are fully explained to foster carers. • Children’s wishes and feeling are taken into account in meetings between foster carers and social workers. • Timely payments are made to foster carers through weekly payment runs. <p>The review highlighted a wealth of good practice across the Fostering Service and in our view, the Council is, in all significant respects, meeting the Standards we have considered and in some cases, clearly exceeding them. We also found evidence of how this work contributes towards a positive experience of fostering and good outcomes for children. We recognise that managing and supporting foster carers is a complex role and one which is continuously evolving. Rather, the level of assurance provided reflects the fact that the review has identified further opportunities to continue to enhance the Council's arrangements in specific areas of support which, in our opinion, will have a clear impact in the strive towards achieving excellence.</p> <p>Areas for improvement identified include:</p> <ul style="list-style-type: none"> • Considering how barriers to accessing training can be removed. • Considering alternative approaches to the provision of respite to meet the needs of foster carers. • In-conjunction with foster carers, considering how further support could be provided to foster carers own children. • Formalising the current buddy system to ensure al new foster carers are allocated an experienced foster carer to provide peer support for an appropriate period. • Ensuring that foster carers are fully involved in staying put conversations to enable them to fully support the young person, in accordance with Council's policy. • Raising awareness with social workers around the additional payments foster carers are entitled to receive.

Audit Review / Actions Due / Responsible Officer(s)	Key Findings
<p>Passenger Transport</p> <p>June 2018</p> <p>Integrated Transport Manager / Director of Streetscene & Regulatory Services / Director of Education & Skills in-conjunction with Adult Social Care, Procurement and Special Educational Needs</p>	<p>Overall Objective: To ensure that the Council has robust systems in place to manage passenger transport services, which is supported by effective processes between service areas to make the best use of resources and provide appropriate financial controls.</p> <p>Opinion: Limited Assurance Summary / Actions Identified:</p> <p>The review identified the following areas of good practice:</p> <ul style="list-style-type: none"> • All clients receive a mobility assessment to ensure appropriate transport and relevant support can be provided to fully meet their needs. • Transport routes are subject to ongoing review, with officers allocates to centres to optimise capacity. <p>From an operational perspective, appropriate arrangements are in place to provide transport to clients on a day to day basis, which is achieved despite the challenges arising in delivering a front facing service. However, the assurance level reflects our view that there is a lack of coherent joined-up working between the service areas involved in passenger transport, both in terms of the overall governance / oversight of this activity and the robustness of the processes to provide financial control. Whilst the review has highlighted that significant improvements are required to the control environment, in our opinion these will only be achieved if this service is viewed as a single system rather than disparate parts of the Council.</p> <p>Areas for improvement identified include:</p> <ul style="list-style-type: none"> • Introducing a requirement that all transport requests received by the Travel Bureau must be supported by the approved panel document. • Putting in place effective contract management arrangements to ensure that the framework contract is robustly applied and the use of day rates minimised. • Enforcing controls to ensure that invoices are only paid when they are accurately matched to the Trapeze System/ day rates spreadsheet. • Ensuring that the day rates spreadsheet provides a complete and accurate record of journeys where a day rate has been agreed and includes information on the original contract costs of the journey. • Developing appropriate governance arrangements to ensure the service is effectively managed from a strategic perspective, at a corporate level.

<p>Cyber Security</p> <p>August 2018</p> <p>IT Security Team Lead</p>	<p>Overall Objective: To review whether adequate Cyber Security settings have been implemented to provide adequate protection to the Council network domain. The review was based on the Government's guidelines for cyber security as detailed in the Cyber Essentials Scheme.</p> <p>Opinion: Moderate Assurance Summary / Actions Identified:</p> <p>Cyber security processes and controls are intended to provide a minimum baseline of security in protecting the business against cyber threats such as malware or an external attack compromising the Council's data, systems or services. The audit included a review of firewalls and internet gateways, secure configurations, access control and administrator privileges, malware protection and patch management.</p> <p>Areas for improvement identified include:</p> <ul style="list-style-type: none"> • Ensuring that a network security policy is documented and that this reflects the Council's current network security controls and defines the Council's requirements for network security. • Ensuring that generic administrator accounts are disabled and replaced with individually named administrator accounts. • Creating a formal Patch Policy detailing the Council's approach to and requirements for ICT patching. • Resolving / mitigating remaining issues from the IT Health Check as soon as possible in order to obtain PSN certification. • Ensuring that the out of support servers and machines are decommissioned and / or replaced and services migrated as soon as practical. <p>Alongside this work, the Council has recently purchased a specific cyber threat defence software solution which is designed to detect and respond to internal and external cyber security risks in real time as they emerge.</p>
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Coventry City Council

Public report

Report to

Audit and Procurement Committee

18th June 2018

Name of Cabinet Member:

Cabinet Member for Strategic Finance and Resources – Councillor J Mutton

Director approving submission of the report:

Deputy Chief Executive (Place)

Ward(s) affected:

City Wide

Title:

Annual Governance Statement 2017-2018

Is this a key decision?

No

Executive summary:

The purpose of this report is to seek approval for the Annual Governance Statement, which forms part of the Statement of Accounts for 2017-18.

Recommendations:

Audit and Procurement Committee is recommended to consider and approve the Annual Governance Statement (attached at Appendix One), which accompanies the 2017-18 Statement of Accounts.

List of Appendices included:

Appendix One – Annual Governance Statement 2017-18

Background papers:

None

Other useful documents:

Annual Governance Statement 2016-17

<http://internaldemocraticservices.coventry.gov.uk/ieListDocuments.aspx?CId=553&MId=11488&Ver=4>

Has it or will it be considered by scrutiny?

No

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

No

Will this report go to Council?

No

Report title:

Annual Governance Statement 2017-18

1. Context (or background)

- 1.1 Coventry City Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively. In discharging this responsibility, the City Council is responsible for putting in place proper arrangements for the governance of its affairs and facilitating the effective exercise of its functions, including arrangements for the management of risk.
- 1.2 To demonstrate such arrangements, the City Council has adopted a Code of Corporate Governance, which is consistent with the principles reflected in the CIPFA / SOLACE framework and guidance 'Delivering Good Governance in Local Government' (2016).
- 1.3 The Annual Governance Statement ('AGS') explains how Coventry City Council has complied with the Code and in doing so, reflects the requirements of the Accounts and Audit Regulations 2015, which requires all relevant bodies to prepare an Annual Governance Statement. The AGS also details key governance / control issues identified through the assessment that the Council faces in the coming year.

2. Options considered and recommended proposal

- 2.1 The Annual Governance Statement is informed by a review of the Council's governance environment, which is based on a number of sources including:
 - An annual assessment of the adequacy of internal controls / governance arrangements by each Deputy Chief Executive.
 - The outputs from the Internal Audit Service, reflected in an annual report that identifies those issues, which in the opinion of the Acting Chief Internal Auditor, should be considered when producing the Annual Governance Statement.
 - Reports from external bodies during the year, including those from the Council's external auditors and other inspection agencies.
 - The Council's Corporate Risk Register.
 - An annual review against the principles and best practice set out in the Code of Corporate Governance.
- 2.2 Section 5 of the Annual Governance Statement, attached at Appendix One, highlights those areas that the Council considers require internal control / governance improvements. This assessment is co-ordinated by the Acting Chief Internal Auditor, but also incorporates the views and opinions of senior officers. The key disclosures come from the following processes:
 - A review of progress against disclosures highlighted in the Annual Governance Statement 2016-17.
 - New disclosures identified as part of the assessment process outlined in section 2.1.

The outcomes from these processes are expanded upon below.

2.3 **Update on disclosures made in the Annual Governance Statement 2016-17** - A review of the ten disclosures highlighted in the Annual Governance Statement 2016-17 has found that the disclosures fall into two categories, namely:

2.3.1 Closed from the 2016-17 Statement – One disclosure has been closed as it is no longer viewed as a significant governance / control issue facing the Council. Specifically, during 2016-17, the Council reviewed and updated its Code of Corporate Governance following the publication of new national guidance. An annual review process was introduced in 2017-18 to assess the Council's arrangements against the principles and best practice set out in the Code and national framework. This identified a number of actions which were reported to the Audit and Procurement Committee and Senior Management Board. These actions will be implemented during 2018-19. As the Code has been updated and the annual review cycle linked to this is now embedded, this is no longer viewed as a significant governance issue.

2.3.2 Carry forward to the 2017-18 Statement - A number of governance / control issues remain in the Annual Governance Statement. These are detailed in Appendix One, along with the actions the Council plans to take in 2018-19 in relation to these issues. In summary, the disclosures that have been carried forward to the 2017-18 Annual Governance Statement are as follows:

- Sustainable improvement in Children's Services.
- Ensuring delivery of the Council's vision and corporate objectives, in line with the Medium Term Financial Strategy.
- The delivery of the Kickstart programme – the Council's plan for making savings, supporting city centre regeneration including business rates growth and rationalising its' office estate.
- Raising educational standards.
- Implementation of the Information Management Strategy. This issue also now incorporates the implementation of the General Data Protection Regulations.
- Long term sustainability of adult social care in the context of financial and demand issues.
- Delivery of the Workforce Strategy.
- Establishing a Counter Fraud Framework.
- Risk Management Strategy.

2.4 **New Disclosures** – Three new disclosures have been identified for the Annual Governance Statement 2017-18. These issues were identified as part of the review undertaken to support the production of the Annual Governance Statement and are detailed below:

- Governance Steering Board – As part of continuously improving our governance arrangements, in 2018-19 the Council will look to establish a governance steering board to support the ongoing review of the effectiveness of our governance arrangements.

- Delivery of the ICT Strategy – Ensuring that there are robust ICT arrangements in relation to infrastructure, cyber security plans and digital skills development. In 2018-19 this will include revising the ICT Strategy to reflect up to date arrangements for these key activities and the financial requirements linked to the delivery of this.
- Management of increasing demand in relation to homelessness and the associated costs of housing families in temporary accommodation – The Homelessness Reduction Act 2017 came into force in April 2018. In 2018-19 the Council will review its Housing and Homelessness Strategy and establish a new Housing Prevention Service to work alongside the Housing Options Team. We are also securing more cost effective and better quality temporary accommodation to continue to meet the demands of this service.

3. Results of consultation undertaken

3.1 None

4. Timetable for implementing this decision

4.1 There is no implementation timetable associated with this report.

5. Comments from the Director of Finance and Corporate Resources

5.1 Financial Implications

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

5.2 Legal implications

The City Council is required by the Accounts and Audit Regulations 2015 to approve, and subsequently publish, the Annual Governance Statement alongside the Statement of Accounts.

6. Other implications

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

The governance framework comprises the systems and processes (i.e the internal control environment), and culture and values, by which the authority is directed and controlled, and its activities through which it accounts to, engages with and leads the community. It enables the authority to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost effective services.

6.2 How is risk being managed?

The key risk that exists is that planned actions are not implemented. This risk is managed through the Council's governance framework which includes arrangements to provide oversight of planned actions through reporting to senior management and designated committees / boards. Defined processes also exist to gain assurance that agreed actions arising from the work of Internal Audit, External Audit or another external agency have been implemented on a timely basis.

6.3 What is the impact on the organisation?

None

6.4 Equalities / EIA

None

6.5 Implications for (or impact on) the environment

No impact

6.6 Implications for partner organisations?

None

Report author(s):

Karen Tyler

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Place

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Paul Jennings	Finance Manager Corporate Finance	Place	24/5/18	30/5/18
Names of approvers: (Officers and Members)				
Barry Hastie	Director of Finance and Corporate Resources	Place	24/5/18	1/6/18
Adrian West	Member and Elections Team Manager	Place	24/5/18	27/5/18

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Appendix One – Annual Governance Statement 2017-18

1. Scope of responsibility

- 1.1 Coventry City Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively. Coventry City Council also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.
- 1.2 In discharging this overall responsibility, Coventry City Council is responsible for putting in place proper arrangements for the governance of its affairs and facilitating the effective exercise of its functions, which includes arrangements for the management of risk.
- 1.3 Coventry City Council has an approved Code of Corporate Governance, which is consistent with the principles reflected in the CIPFA / SOLACE framework and guidance *Delivering Good Governance in Local Government (2016)*. A copy of the Code is available on our website at:
http://www.coventry.gov.uk/downloads/file/3639/code_of_corporate_governance_2017
or can be obtained from Democratic Services.
- 1.4 The Annual Governance Statement explains how Coventry City Council has complied with the Code and also meets the requirements of Regulation 6(1) (b) of The Accounts and Audit Regulations 2015 which requires all relevant bodies to prepare an Annual Governance Statement.

2. The purpose of the governance framework

- 2.1 The governance framework comprises the systems and processes, culture and values by which the Authority is directed and controlled and its activities through which it accounts to, engages with and leads the community. It enables the authority to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate services and value for money.
- 2.2 The system of internal control is a significant part of the framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can, therefore, only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an on-going process designed to identify and prioritise the risks to the achievement of Coventry City Council policies, aims and objectives, to evaluate the likelihood and potential impact of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.
- 2.3 The governance framework has been in place at Coventry City Council for the year ended 31st March 2018 and up to the date of approval of the Statement of Accounts.

3. The governance framework

The key principles, approach and review processes that comprise the authority's governance arrangements are set out in the City Council's Code of Corporate Governance. Key elements include the following:

- 3.1 There is a governance / internal control environment that supports the Council in establishing, implementing and monitoring its policies and objectives. The Council's overarching objectives are contained in published policy documents including the Council Plan. These high level plans are supported by a range of thematic policies, strategies and delivery plans, service plans, and detailed work programmes.
- 3.2 Coventry's Council Plan was adopted in January 2014 and last updated in August 2016. The plan, called "*Coventry: A Top Ten City*", sets out the Council's long term vision and priorities for the city for the next ten years. To deliver the vision and priorities, the Council Plan affirms the Council's commitment to do this by maximising the use of its assets and reducing its operating costs, and through active communities and empowered citizens. The Council Plan is part of the Council's performance management framework designed to help the Council deliver its services and use its resources effectively in a planned and systematic way. A copy of the plan is available on our website at: http://www.coventry.gov.uk/info/10/performance/2089/council_plan
- 3.3 Throughout this process, clear channels of communication exist with all sections of the community and other stakeholders, to ensure the Council considers local needs and communicates both expected and actual outcomes for citizens and service users. This is evidenced through the Council's formal decision-making and performance management processes.
- 3.4 In October 2015, Coventry City Council agreed to join the proposed West Midlands Combined Authority, which is a model of governance for local authorities to act together to drive economic prosperity for the area. A Combined Authority is a statutory body in its own right supported by a devolution agreement with the Government and a constitution which sets out the terms of their funding and powers.
- 3.5 In December 2017, it was announced that Coventry had been named the UK City of Culture for 2021. The aim of this programme is to encourage the use of culture and creativity as a catalyst for change, to promote the development of new partnerships and to encourage ambition, innovation and inspiration in cultural and creative activity. This activity will make significant contributions to the delivery of the Council Plan and corporate priorities. Coventry City of Culture Trust has been set up to organise and deliver this activity and has been formally incorporated and received charitable status. Financial responsibility for the Trust's activities lie with the Chair and Trustees, with an independent Audit Committee providing scrutiny and oversight. As a guarantor on the financial obligations of the Trust, Coventry City Council is a principal partner in supporting the work of the Trust and ensuring that there is good governance around City of Culture delivery.
- 3.6 The control environment to ensure delivery of the Council's objectives is laid down in the Council's Constitution and performance management framework. The Constitution sets out how the Council operates, including:
- Roles and responsibilities of both Councillors and officers, including the Head of Paid Services, Monitoring Officer and Chief Financial Officer.
 - How decisions are made and the procedures in place to ensure that these are efficient, transparent and accountable to local citizens. The Constitution includes the Council's senior management structure and a scheme of delegation which sets out the principles for decision making and responsibility for functions. The Council facilitates policy and decision making via a Cabinet structure with Cabinet Member portfolios. There are scrutiny boards covering all portfolios and an overarching

Scrutiny Co-ordination Committee. The Member decision making, advisory and scrutiny bodies are shown at <http://www.coventry.gov.uk/howthecouncilworks>

- 3.7 Coventry City Council has developed a comprehensive set of policies and procedures, including those relating to the standards expected of Members and officers. These are subject to regular review to ensure the Council continues to enhance and strengthen its internal control environment. Systems exist to ensure compliance with policies and procedures, including statute and regulations. Internal Audit, through its annual risk based plan assesses compliance with key procedures and policies.
- 3.8 The Council has an Equality, Diversity and Inclusion Commitment which is available on our website at: [EDI Commitment | Equality and Diversity | Coventry City Council](#). This sets out the Council's commitment to meeting all areas of the public sector equality duty and to ensure equality of opportunity, both as a provider and commissioner of services and as a large employer. The commitment is implemented through setting equality objectives linked to the Council Plan. [Equality Objectives | Equality and Diversity | Coventry City Council](#). Progress is monitored and reported to the Cabinet Member (Policing & Equalities). The latest progress report can be found here: [Progress Report | Equality and Diversity | Coventry City Council](#). In addition, the Council carries out Equality and Consultation Analysis on all key decisions taken by Cabinet or Cabinet Members.
- 3.9 The Council's Risk Management Strategy defines processes for identifying, assessing, managing and monitoring financial and operational risks. The Strategy recognises the need for risk registers at directorate and corporate level which are updated and reviewed regularly. The Council is looking for continuous improvement throughout the Council in the management of risks, and this is being monitored through the Strategic Management Board.
- 3.10 The Council, through its Whistleblowing and Complaints Procedures, has documented processes in place to deal with concerns raised by both employees and members of the public. These policies have been widely communicated and are subject to regular review to ensure they are working effectively. In addition, the Council's Fraud and Corruption Strategy reinforces the Council's commitment to creating an anti-fraud culture, whilst having effective arrangements in place in responding to allegations of fraud and corruption.
- 3.11 An Audit and Procurement Committee provides independent assurance to the Council on various issues, including risk management and control and the effectiveness of the arrangements the Council has for these matters. The Committee's terms of reference were developed in conjunction with CIPFA guidance, and the Committee carries out a periodic self-assessment to measure its effectiveness, based on recommended CIPFA practice.
- 3.12 For the financial year 2017-18, the Director of Finance and Corporate Services was the nominated Section 151 Officer, with the delegated responsibility for ensuring there are arrangements in place for proper administration of financial affairs. In assessing this role against the requirements stated in the CIPFA Statement on the Role of the Chief Financial Officer in Local Government (2010), the Authority meets the five principles laid out in the CIPFA statement, namely:
- The Chief Financial Officer (CFO) in a local authority is a key member of the Leadership Team, helping it to develop and implement strategy and to resource and deliver the authority's strategic objectives sustainably and in the public interest.

- The CFO in a local authority must be actively involved in, and able to bring influence to bear on, all material business decisions to ensure immediate and longer term implications, opportunities and risks are fully considered, and alignment with the authority's overall financial strategy.
- The CFO in a local authority must lead the promotion and delivery by the whole authority of good financial management so that public money is safeguarded at all times and used appropriately, economically, efficiently, and effectively.
- The CFO in a local authority must lead and direct a finance function that is resourced to be fit for purpose.
- The CFO in a local authority must be professionally qualified and suitably experienced.

The S151 Officer is a key member of the Corporate Leadership Team and formally retains a direct reporting line to the Chief Executive when required. The S151 Officer routinely attends and advises the Strategic Management Board of the Council (Chief Executive and both Deputy Chief Executives). The assessment concluded that these arrangements provide an appropriate framework under which the CIPFA principles are able to be delivered. In addition, during 2017-18, the senior management structure within the Council has been subject to review by the Leader of the Council and the Chief Executive.

3.13 The Annual Governance Statement also includes a review of the effectiveness of the system of internal control within group activities, where the Council is in a relationship with another entity to undertake significant activities. The following describes the group activities for the year ended 31st March 2018:

- Coventry and Solihull Waste Disposal Company is owned jointly by Coventry City and Solihull Metropolitan Borough Councils. A formal agreement sets out the operating arrangements between Coventry and Solihull. The Company is subject to the Industrial Emissions Directive and the conditions of the Environmental Permitting Regulations issued by the Environment Agency. Furthermore, the Company monitors its activities through an accredited Environmental Management System ISO 14001. The Company has appointed Ernst & Young LLP as its external auditors. The last published Annual Report and Financial Statements, for the year ended 31st March 2017, did not highlight any significant concerns.
- North Coventry Holdings (NCH) Limited is a wholly owned subsidiary of the Council. Two of the Directors of the Company are senior officers of Coventry City Council. All transactions are processed using the Council's financial systems and such activities are subject to an annual audit by the Council's Internal Audit Service. The Company has LDP Luckmans as its external auditors. There was an unqualified audit opinion for the last published Annual Report and Accounts, for the year ended 31st March 2017. The company's main purpose is to hold shares in Coventry North Regeneration Limited, although from 2017/18 it is engaged in providing business development services to the City Council.
- Coventry North Regeneration (CNR) Limited is a wholly owned subsidiary of NCH Limited. The main activity of the Company was the construction of the Ricoh Arena. Two of the Directors of the Company are also senior officers of Coventry City Council. All transactions are processed using the Council's financial systems and

such activities are subject to an annual audit by the Council's Internal Audit Service. The Company has LDP Luckmans as its external auditors. There was an unqualified audit opinion for the last published Annual Report and Accounts, for the year ended 31st March 2017.

- In December 2017, the City Council acquired 100% of the ordinary share capital of Coombe Abbey Park Limited (CAPL). As part of the acquisition, the Council secured external independent advice from a number of sources to support the financial and legal due diligence assessment, as well as the valuation of the shares being purchased. The due diligence work highlighted some areas of financial control weaknesses, which it was felt that the Council would need to address following acquisition. In particular, need to strengthen the finance function through increased capacity was recognised as important. In the light of the external due diligence, since the Council acquired CAPL, a programme of changes has been initiated, including the restructuring of the Board, as well as recruitment of a new senior Operations Manager and finance staff. The programme of change continues.

4. Review of effectiveness

4.1 Processes are in place to assess key elements of the governance framework throughout the year, for example, through the work of Internal Audit and the Council's Audit and Procurement Committee. A review of the effectiveness of the governance framework is also undertaken annually as part of the production of the Annual Governance Statement. This is informed by the work of senior managers within the authority, who have responsibility for the development and maintenance of the governance environment, the Acting Chief Internal Auditor's opinion on the overall adequacy and effectiveness of Coventry City Council's internal control environment, and also by comments made by the external auditors and other review agencies and inspectorates.

4.2 Arrangements to assess the effectiveness of the governance framework include:

- Regular and detailed monitoring of the Council's performance, by both Strategic Management Board and Members against targets and objectives set out in the Council's Plan.
- On-going reviews of the Council's Constitution, overseen by the Constitution Advisory Panel and subject to approval by Full Council. These reviews include areas such as standing orders, financial procedures and the scheme of delegation.
- Regular reviews of the Council's strategies and procedures to ensure they continue to reflect the needs of the Council.
- An annual review against the principles and best practice set out in the Code of Corporate Governance and which is used to identify improvements to strengthen the Council's governance arrangements.

4.3 The review of effectiveness has also been informed by:

- Reports from the external auditors and other inspection agencies.
- An annual assessment of the adequacy of internal controls / governance arrangements by each Director.
- The Council's Corporate Risk Register.

- The work of the Internal Audit Service during 2017-18. The Service works to a risk based audit plan, which is approved annually by the Council's Audit and Procurement Committee. An annual report is also produced and presented to the Committee. The report identifies those issues, which in the opinion of the Acting Chief Internal Auditor, should be considered when producing the Annual Governance Statement.
- 4.4 We have been advised on the implications of the result of the review of the effectiveness of the governance framework by the Audit and Procurement Committee, and can provide reasonable assurance that the arrangements continue to be regarded as fit for purpose in accordance with the governance framework and that a plan to address weaknesses and ensure continuous improvement of the system is in place.

5. Significant governance issues

- 5.1 Table one below provides an update on the governance issues that were raised in the 2016-17 Annual Governance Statement.

Table one

No	Governance issues identified in 2016-17	2017-18 update
1	Sustainable improvement in Children's Services	The improvement board has continued to meet to challenge and hold the Council to account for the effective improvement and delivery of Children's Services. A comprehensive transformation programme is underway that will yield longer term and sustainable improvement to Children's Services. This has included the development of a stronger early help offer that expects partners to contribute to, a strengthening of the Multi-Agency Safeguarding Hub and a restructure that better supports the Child's experience and journey through the system. Other improvements have included a better placement mix for looked after children and this is supporting more effective and sustainable budget management. Demand pressures remain that make this extremely challenging.
2	Ensuring delivery of the Council's vision and corporate objectives, in line with the Medium Term Financial Strategy	The Council has set a budget that is balanced over the next two years despite shortfalls in the delivery of savings from a number of transformation projects. The position has been underpinned by continued strength of the council tax-base, additional dividends from the Council's shareholdings and further review and management of the Council's contingency budgets and cash-flows.
3	The delivery of the Kickstart programme – the Council's plan for making savings, supporting city centre regeneration including business rate growth and rationalising its' office estate	The works for the new Democratic Centre were delivered in October 2016 with project sign off in October 2017. One Friargate opened for staff in October 2017. Our customers continue to be welcomed in the Customer Services Centre. The opening of One Friargate has enabled the embedding of a much more agile way of working through digital technology and increased flexible working arrangements; touch down space has also been provided for staff in the Council House. The Kickstart revenue savings have been achieved as per the target set-out in the Medium Term Financial Strategy. In

		<p>addition, the Customer Journey programme delivered the Customer Service Centre in November 2015 and the Medium Term Financial Strategy savings in 2015-16 linked to this.</p> <p>Significant progress was made in 2017/18 with major city centre developments which will drive future business rates. A Joint Venture agreement is being prepared between the Council and the Friargate developers which will push forward the development of the city's new commercial quarter. In parallel, the City Centre South retail development, as well as major works on the upper precinct and Cathedral Lanes will all generate improved rates income when they are completed.</p>
4	Raising educational standards	<p>An evaluation of the Coventry School Improvement Strategy at the end of the academic year 2016-17 by the Primary and Secondary Partnerships resulted in a part re-organisation of the Primary Networks and Secondary Collaboratives into larger groupings to increase capacity to drive improvement through school-to-school support.</p> <p>Currently (March 2018) 74% of pupils attend a good or outstanding secondary school compared to 83% nationally. The Secondary and Primary School Improvement Boards continue to oversee the effectiveness of the Secondary Collaboratives and the Primary Networks and provide support, challenge and evaluation for the Local Authority in relation to school improvement.</p> <p>The Education and Children's Services Scrutiny Board (2) has oversight of the Education programme of work. In addition, the Education Standards Board provides a half termly political interface with the Director of Education and Skills and Local Authority officers to scrutinise support in schools and the effectiveness of challenge delivered by the Coventry School Improvement Strategy.</p>
5	Implementation of the Information Management Strategy	<p>The Council has continued to implement the Information Management Strategy which was approved in 2016. Progress continues to be overseen by the Information Management Strategy Group and progress is reported to senior management and the Audit and Procurement Committee. A second data protection audit was carried out by the Information Commissioner's Office in November 2017 which has led to a further action plan. The organisation has also been undertaking a series of actions in readiness for the implementation of the General Data Protection Regulations in May 2018.</p>
6	Long term sustainability of adult social care in the context of financial and demand issues	<p>A Better Care Fund plan was agreed by the City Council and the Coventry and Rugby Clinical Commissioning Group in July 2017 with the subsequent S75 agreement now also approved. The Council savings figures required from this work have been delivered.</p> <p>Savings within Adult Social Care have been delivered for 2018-19 totalling £1m through service review and commissioning work. Spend activity and use of resources are monitored and managed through monthly review meetings.</p>
7	Delivery of the Workforce Strategy	<p>In 2017-18 we have further strengthened the Council's commitment to developing the workforce, through the Council's</p>

		<p>organisational development offer. In addition, programme governance in relation to Workforce Reform has been strengthened, with a project board chaired by the Director of Customer Services and Transformation with representation from across the council and dedicated communications & finance support from the Council's S151 officer.</p> <p>The programme is further supported via regular engagement with Corporate Leadership Team, and direct oversight by Senior Management Board and elected members.</p>
8	Code of Corporate Governance	An annual review was undertaken against the principles and best practice set out in the Code and national framework. This identified a number of actions to strengthen governance arrangements and these were reported to the Audit and Procurement Committee and Senior Management Board to help inform the preparation of this year's Annual Governance Statement. These actions will be implemented during 2018-19 and this review cycle is now embedded. Consequently, this has not been carried forward as a significant governance issue for 2018-19.
9	Establishing a Counter Fraud Framework	A new Fraud and Corruption Strategy has been drafted which includes a counter fraud framework. The framework underpins implementation of the strategy and the governance arrangements linked to this.
10	Risk Management Strategy	The Risk Management Policy and Strategy have been formally adopted and activity is underway to embed risk management practice in the organisation. The process of identifying and reporting upon Corporate Risks is established.

5.2 The Council is seeking to continuously enhance its management arrangements to improve service delivery, efficiency and value for money, whilst achieving its objectives. The review of effectiveness has informed identification of the following key challenges for 2018-19 (table two), along with the actions planned to address these matters to further enhance our governance arrangements.

Table two

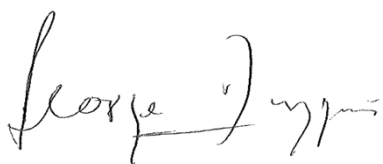
Ref	Governance issue	Planned actions 2018-19	Responsible officer	Timescale
1	Sustainable improvement in Children's Services	Continuing to build on the recent progress in Children's Services identified by Ofsted during the focused visit of Children's Services in January 2018, continue to focus on securing long term sustainable improvement in Children's Services. For the immediate future this will continue to be overseen by an Improvement Board and Independent Chair. The Children's transformation programme will continue. A Peer review is planned during this financial year.	Director of Children's Services	On-going

Ref	Governance issue	Planned actions 2018-19	Responsible officer	Timescale
2	Ensuring delivery of the Council's vision and corporate objectives, in line with the Medium Term Financial Strategy	Work continues to implement transformation savings and manage areas of budgetary pressure such as looked after children and homelessness. In addition the Council is looking to examine how best it can take a more commercial approach in both existing and new areas of service. Delivery of the budget is monitored on a regular basis by the Council's Cabinet and its Audit and Procurement Committee. Members will receive regular briefings on new areas of policy development and these will be formally reported to Cabinet Members, Cabinet and Council as appropriate.	Director of Finance and Corporate Services	On-going
3	The delivery of the Kickstart programme – the Council's plan for making savings, supporting city centre regeneration including business rate growth and rationalising its office estate	<p>The Kickstart team will ensure defects resolution and project sign-off for One Friargate is achieved within the 12-month period.</p> <p>The key elements of the Kickstart Programme continue to form part of the council's ongoing commitment to property rationalisation and optimisation, as well as better use of technology to drive organisational and service benefits.</p> <p>City Centre regeneration will continue in 2018/19 including the expected completion of the Friargate Joint Venture agreement and the opening of Phase 2 of the Cathedral Lanes redevelopment. Coventry's announcement as the 2021 City of Culture is likely to lead to acceleration of city centre redevelopment and therefore business rates increases as the city prepares for its 2021 programme.</p>	Director of Project Management and Property Services / Director of Customer Services and Transformation / Director of City Centre and Major Projects	On-going
4	Raising educational standards	Further work to develop and embed the Network and Collaborative evaluation process is required to ensure that the Coventry School Improvement strategy continues to offer appropriate challenge and support and enables development of capacity to support school-to-school improvement and access to available funding.	Director of Education and Skills	On-going

Ref	Governance issue	Planned actions 2018-19	Responsible officer	Timescale
5	Implementation of the Information Management Strategy	Implementation of the action plan arising from the Information Commissioner's Office data protection audit in November 2017. Completion of the General Data Protection Regulations action plan. Implementation of the Information Management Training Strategy.	Members and Elections Team Manager	On-going
6	Long term sustainability of adult social care in the context of financial and demand issues	A series of improvement projects are in place including operational excellence, technology enabled care and improving the effectiveness of promoting independence approaches. The Better Care Plan agreed in 2017-18 also agreed a number of projects linked to prevention from which impact will be assessed in 2018-19. The tight control and monitoring of activity and spend will continue.	Director of Adults Services	On-going
7	Delivery of the Workforce Strategy	Continue to ensure robust governance arrangements are in place and programme changes agreed and monitored. There is a significant programme of activity planned for 2018-19 across many aspects of developing our workforce and ensuring our policies and practices are fit for purpose and for the future.	Head of HR and Organisational Development	On-going
8	Establishing a Counter Fraud Framework	The updated Fraud and Corruption Strategy and Counter Fraud Framework will be presented to the Audit and Procurement Committee for formal approval. Once approved, the framework will be used to identify priorities and develop an action plan of counter fraud work for 2018-19.	Acting Chief Internal Auditor	September 2018
9	Risk Management Strategy	Further activity is required to embed risk management practice throughout the organisation. In 2018-19 this will include the development of comprehensive Service and Directorate risk registers.	Insurance and Risk Manager	On-going

Ref	Governance issue	Planned actions 2018-19	Responsible officer	Timescale
10	Governance Steering Board	As part of continuously improving our governance arrangements, in 2018-19 the Council will look to establish a governance steering board to support the ongoing review of the effectiveness of our arrangements.	Members and Elections Team Manager	September 2018
11	Delivery of the ICT Strategy	Ensuring that there are robust ICT arrangements in relation to infrastructure, cyber security plans and digital skills development. In 2018-19 this will include revising the ICT Strategy to reflect up to date arrangements for these key activities and the financial requirements linked to the delivery of this.	Head of ICT and Digital	On-going
12	Management of increasing demand in relation to homelessness and the associated costs of housing families in temporary accommodation	The Homelessness Reduction Act 2017 came into force in April 2018. In 2018-19 the Council will review its Housing and Homelessness Strategy and establish a new Housing Prevention Service to work alongside the Housing Options Team. We are also securing more cost effective and better quality temporary accommodation to continue to meet the demands of this service.	Director of Streetscene and Regulatory Services / Director of Customer Services and Transformation	On-going

5.3 We are satisfied that these steps will address the need for improvements that were identified in our review and we will monitor their implementation and operation, as part of our next annual review.



Cllr George Duggins
Leader of Coventry City Council



Martin Reeves
Chief Executive of Coventry City Council



Coventry City Council

Public report

Report to

Audit and Procurement Committee

18th June 2018

Name of Cabinet Member:

Cabinet Member for Strategic Finance and Resources – Councillor J Mutton

Director approving submission of the report:

Deputy Chief Executive (Place)

Ward(s) affected:

City Wide

Title:

Internal Audit Plan 2018-2019

Is this a key decision?

No

Executive summary:

The purpose of this report is to share the draft Internal Audit Plan for 2018-19 with the Audit and Procurement Committee to allow the Committee to express its views on the extent and nature of the planned coverage.

Recommendations:

Audit and Procurement Committee is recommended to consider the draft Internal Audit Plan for 2018-19 (Appendix One) and provide any comments on the content and scope of the proposed Plan.

List of Appendices included:

Appendix 1 Draft Internal Audit Plan 2018-19

Background papers:

None

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:

Draft Internal Audit Plan 2018-19

1. Context (or background)

1.1 The Audit and Procurement Committee, within its terms of reference, is required to:

'Consider the Head of Internal Audit's Annual Report and Opinion, and a summary of internal audit activities (actual and proposed) and the level of assurance given within the Annual Governance Statement incorporated in the Annual Accounts'.

1.2 In terms of proposed audit activities, the draft Internal Audit Plan attached at Appendix One documents the outcome of the audit planning process for 2018-19. This report provides the mechanism for allowing the Audit and Procurement Committee to discharge its responsibility as highlighted above, but also enables the Committee, as a key stakeholder of the Internal Audit Service, to comment on the content and scope of the proposed Internal Audit Plan.

2. Options considered and recommended proposal

2.1 **Background** – Internal Audit is an essential part of the Council's corporate governance arrangements. In considering the Public Sector Internal Standards (PSIAS) which became applicable to local authorities in April 2013 (and updated March 2017), Internal Audit is defined as:

"An independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes".

The priorities of internal audit activity are determined through the development of an annual risk- based Internal Audit Plan. This report documents the planning process and identifies the outcome of this process, namely the draft Internal Audit Plan for 2018-19.

In developing the Audit Plan, we aim to achieve the following objectives:

- To provide a cost effective, targeted and value added service to our customers. This requires the Service to achieve a balance between delivering standard audit reviews and responding to new / emerging risks faced by the Council, both at the operational and corporate level.
- To provide a quality Internal Audit Service in line with the Public Sector Internal Audit Standards, to assist the Council in achieving its aims and objectives.
- To provide the Service with a degree of flexibility to allow it to be able to respond to the changing needs of stakeholders during the year and provide relevant assurance.
- Ensuring that the level and skills of audit resources available is appropriate to meet the audit needs of the Council.
- To allow the Acting Chief Internal Auditor to provide the Council with an annual opinion on the effectiveness of the organisation's risk management, control and governance arrangements.

2.2 **Draft Audit Plan 2018-19** – The results of the initial assessment of priorities are shown in Appendix One. Key points to note include:

- The draft plan is based on an allocation of priorities against the current level of audit resources available. The resource requirements have been assessed, taking into account the requirement to produce an annual audit opinion and the Council's overall assurance framework. For 2018-19, the resources available are 550 days for audit and corporate fraud work, which is consistent with the resources available in 2017-18. In focusing these resources to meet the needs of the Council, the following approach has been taken:
 - A documented risk assessment has been undertaken, which considers the Council's corporate risk register and key priorities as identified from consultation with senior management. This has also been informed by an assurance mapping exercise which was undertaken in 2016-17 to identify other sources of assurance that the Council places reliance on. Where appropriate, the assessed risk level has been included in appendix one. Where the risk has been assessed as medium rather than high, this generally reflects the findings of previous audit reviews in the respective area.
 - A risk based approach to the audit of schools based on links with School Finance / issues raised by schools, rather than a fixed programme of audit work.
 - A flexible and responsive approach to issues highlighted by Senior Officers with on-dialogue to ensure resources are directed in accordance with their priorities.
 - A more flexible response to corporate fraud investigations, offering expert advice and support rather than undertaking the Investigating Officer role.

As a result, it is believed that the draft Audit Plan for 2018-19 is sufficient for the work required to report on governance, the management of risks and controls in the year and to prepare our annual opinion and report.

- **Corporate Risks** – The focus of audit coverage in 2018-19 in regards to the corporate risk register is aligned to those areas where it is clear Internal Audit can make a contribution to the management of these risks, including emerging issues linked to these activities. This includes reviews of compliance with safeguarding working together standards, ICT strategy and compliance with GDPR.
- **Council / Audit Priorities** – This incorporates audit work linked to specific Council priorities around governance which have a corporate impact such as mandatory training and arrangements to respond to the risk of bribery and corruption, alongside key corporate priorities such as homelessness reduction and proposed changes to the processing of invoices.
- **Corporate Governance** – The work related to corporate governance is also in Regularity because it includes mandatory audit requirements such as the co-ordination of the Annual Governance Statement and Declarations of Interest exercise.
- **Contingency / Directorate risks** – This audit area includes those issues highlighted through dialogue with senior officers which, whilst they may not have a corporate impact, could affect the achievement of operational objectives.

3. Results of consultation undertaken

- 3.1 There is an on-going process of consultation with Senior Officers across the Council to inform development of the Audit Plan and areas of specific focus throughout the year.

4. Timetable for implementing this decision

- 4.1 The Internal Audit Plan is an annual plan and is based on a completion date of the 31st March 2019. Progress is monitored by the Audit and Procurement Committee. In addition to the planned quarterly progress reports, the Internal Audit Service is required to produce an annual report. This report is due in June / July 2019 and will include the opinion of the Acting Chief Internal Auditor on the adequacy of the Council's control environment, highlighting issues relevant to the preparation of the Annual Governance Statement.

5. Comments from the Director of Finance and Corporate Resources

5.1 Financial Implications

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

5.2 Legal implications

The effective planning of audit activity across the organisation ensures that the Council meets its statutory obligations in respect of maintaining an internal audit function and represents good governance.

6. Other implications

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

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

6.2 How is risk being managed?

In terms of risk management, there are two focuses:

- Internal Audit perspective - The main risks facing the Service are that the planned programme of audits is not completed, and that the quality of audit reviews fails to meet customer expectations. Both these risks are managed through defined processes (i.e. planning and quality assurance) within the Service, with the outcomes included in reports to the Audit and Procurement Committee. Delays in the delivery of individual audits could occur at the request of the customer, which could impact on the delivery of the plan. The risk is managed through on-going communication with customers to agree timing and identify issues at an early stage to allow for remedial action to be taken.

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

6.3 What is the impact on the organisation?

None

6.4 Equalities / EIA

None

6.5 Implications for (or impact on) the environment

No impact

6.6 Implications for partner organisations?

None

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Directorate:

Place

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Contributor/approver name	Title	Directorate or organisation	Date doc sent out	Date response received or approved
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Paul Jennings	Finance Manager Corporate Finance	Place	24/5/18	30/5/18
Names of approvers: (Officers and Members)				
Barry Hastie	Director of Finance and Corporate Resources	Place	24/5/18	1/6/18
Adrian West	Member and Elections Team Manager	Place	24/5/18	27/5/18

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

Appendix One – Internal Audit Plan 2018-19

KEY DRIVER	RISK LEVEL	AUDIT AREA	PLANNED DAYS
Corporate Risk			
	High	ICT (Infrastructure and Change)*	30
	High	Finance	20
	High	Adult Social Care	15
	High	Safeguarding	15
	High	Information Governance	15
	High	Workforce Strategy	15
Council / Audit Priorities			
	High	Corporate governance	25
	High	Homelessness	15
	Medium	Procurement	27
Financial Systems			
	High	Care Director	20
	High	Business Rates	12
	Medium	Accounts Payable	10
	Medium	Accounts Receivable	10
	Medium	Council Tax	11
	Medium	Payroll	10
	Medium	Housing Benefits	12
Regularity			
		Grants	70
		Corporate Governance (mandatory)	20
		Risk Management	10
		Schools	30
		Other	15
Other			
		Contingency / Directorate Risks	45
		Fraud	40
		Follow up	45
		2017-18 B/Fwd	13
		Total Days Available	550

**Audits partly undertaken by third party*



Coventry City Council

Public report

Report to

Audit and Procurement Committee
Cabinet Member for Policy and Leadership

18th June 2018
26th July 2018

Name of Cabinet Member:

Cabinet Member for Strategic Finance and Resources – Councillor J Mutton

Director approving submission of the report:

Deputy Chief Executive (Place)

Ward(s) affected:

City Wide

Title:

Fraud and Corruption Strategy

Is this a key decision?

No

Executive summary:

The Fraud and Corruption Strategy explains the Council's strategic response to tackling fraud and corruption and sets out the Counter Fraud Framework, which comprises the various elements the Council uses to fight fraud and implement the Fraud and Corruption Strategy.

The purpose of the report is for the Audit and Procurement Committee to consider the Fraud and Corruption Strategy, as set out in Appendix One and to recommend to the Cabinet Member (Policy and Leadership) that the Strategy be approved.

Recommendations:

Audit and Procurement Committee is recommended to consider the revised Fraud and Corruption Strategy (attached at Appendix One) and to recommend to the Cabinet Member (Policy and Leadership) that the Strategy be approved.

The Cabinet Member (Policy and Leadership) is recommended to:

1. Consider the comments of the Audit Committee.
2. Approve the Fraud and Corruption Strategy (attached at Appendix One).

List of Appendices included:

Appendix One – Fraud and Corruption Strategy 2018

Background papers:

None

Other useful documents:

Fraud and Corruption Strategy 2012

<http://internaldemocraticservices.coventry.gov.uk/ieListDocuments.aspx?CId=208&MID=9515>

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?

Yes – Cabinet Member for Policy and Leadership 26th July 2018

Will this report go to Council?

No

Report title:

Fraud and Corruption Strategy

1. Context (or background)

- 1.1 Local authorities face a significant fraud challenge with annual losses to local government estimated at £2.1 billion a year. Fraud and corruption is a drain on the public purse and takes resources away from the delivery of front line services. In addition to the scale of losses, there are further challenges arising from changes in the wider public sector landscape including budget reductions and government policy changes, which means that local authorities need to keep their arrangements for responding to the risk of fraud under review and up to date to ensure they are continuing to act effectively.
- 1.2 The risk of fraud is acknowledged by central government through publication of “Fighting Fraud Locally” which is a counter fraud and corruption strategy for local government. This emphasises the need for local authorities to “ensure they are active in looking for and identifying fraud and embedding a counter fraud culture at the heart of their organisation”.
- 1.3 In light of this new national counter fraud landscape, the Council’s Fraud and Corruption Strategy has been reviewed and updated to ensure our arrangements provide a rigorous framework to respond to these challenges. Given the Audit and Procurement Committee’s responsibility, as reflected in its terms of reference “to monitor Council policies on whistleblowing and the anti-fraud and corruption strategy”, this report allows the Audit and Procurement Committee to comment on the content and scope of the revised Strategy, prior to it being considered for approval by the Cabinet Member (Policy and Leadership).

2. Options considered and recommended proposal

- 2.1 The proposed Fraud and Corruption Strategy is attached at Appendix One. The Strategy was last updated in 2012. The process of reviewing the Strategy has included the following actions / considerations:
 - Since 2012, updated guidance on this area has been published, including central government’s “Fighting Fraud Locally” strategy and the CIPFA Code of Practice on Managing the Risk of Fraud and Corruption, both of which have been considered in developing the new Strategy.
 - A review of a sample of other local authorities fraud and corruption strategies.
 - Consideration of work undertaken by the Cabinet Office to develop their own counter fraud framework.
 - Views and opinions of senior officers, including the Council’s Monitoring Officer and S151 Officer.
- 2.2 The proposed Fraud and Corruption Strategy is attached at Appendix One. The Strategy is aligned to the national guidance through the following key principles:
 - Acknowledging and understanding fraud risks
 - Preventing and detecting more fraud
 - Being stronger in punishing fraud / recovering losses

2.3 In practice, these principles translate into various organisational components, including roles and responsibilities, investigation processes and procedures and specific work-streams to prevent and detect fraud. In order for the Council to have a clear structure for these arrangements, a Counter Fraud Framework has been developed and forms part of the updated Fraud and Corruption Strategy. The purpose of the Framework is to:

- Provide a meaningful and transparent structure which shows how activities across the Council fit together to provide resilient counter fraud arrangements.
- Support the process of identifying priorities to ensure the Fraud and Corruption Strategy is delivered and the Council's arrangements are fit for purpose.

2.4 It is intended that the Framework will be used to develop an annual action plan of work to support the continuous improvement of the Council's counter fraud arrangements to ensure their ongoing effectiveness, including building on the Council's capacity and capability to respond to the risk of fraud. The annual action plan will be presented to the Audit and Procurement Committee as part of its role to monitor the Fraud and Corruption Strategy.

3. Results of consultation undertaken

3.1 None

4. Timetable for implementing this decision

4.1 Subject to approval, the implementation of this revised Strategy will commence immediately.

5. Comments from the Director of Finance and Corporate Resources

5.1 Financial Implications

Fraud has a detrimental financial impact on the Council. The Council's practice in respect of fraud (and error) is, wherever possible, to recover all monies.

5.2 Legal implications

The Fraud and Corruption Strategy forms part of the Council's overall governance framework. All fraud work is conducted in accordance with relevant legislation, including the Data Protection Act / General Data Protection Regulations. For matters involving Council employees, the Council's disciplinary procedure is also followed. The most serious matters may be referred to the police or the Council's Legal Services Team for prosecution.

6. Other implications

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

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 key risk is that the Council does not have adequate arrangements in place to respond to the threat of fraud, including processes and procedures to prevent, detect and

investigate fraud. This risk is managed through implementation of the Fraud and Corruption Strategy which includes a Counter Fraud Framework to provide a clear structure of the various elements which together, comprise the Council's overall response to the risk of fraud. The Internal Audit Service leads on this work and oversight of this is provided by the Audit and Procurement Committee who receive reports linked to this twice a year.

6.3 What is the impact on the organisation?

None

6.4 Equalities / EIA

None

6.5 Implications for (or impact on) the environment

No impact

6.6 Implications for partner organisations?

None

Report author(s):

Karen Tyler

Name and job title:

Acting Chief Internal Auditor

Directorate:

Place

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Enquiries should be directed to the above person.

Contributor/approver name	Title	Directorate or organisation	Date doc sent out	Date response received or approved
Contributors:				
Michelle Salmon	Governance Services Officer	Place	24/5/18	25/5/18
Paul Jennings	Finance Manager Corporate Finance	Place	24/5/18	30/5/18
Names of approvers: (Officers and Members)				
Barry Hastie	Director of Finance and Corporate Resources	Place	24/5/18	1/6/18
Adrian West	Member and Elections Team Manager	Place	24/5/18	27/5/18

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



Fraud and Corruption Strategy 2018

Introduction

1. Coventry City Council is committed to the prevention, detection and investigation of fraud and corruption. The cost to local government from fraud is significant and means that resources are taken away from delivering services to local people.
2. The risk of fraud is recognised by central government through publication of the local government counter fraud and corruption strategy “Fighting Fraud and Corruption Locally” which emphasises that “councils must ensure they are active in looking for and identifying fraud and embedding a counter fraud culture at the heart of their organisation.”
3. Coventry City Council’s fraud and corruption strategy reflects the core principles of Fighting Fraud Locally but also reflects the context of those specific fraud risks which are relevant to our Council. The strategy forms part of the Council’s overall governance framework.

Definitions

4. There are numerous offences under which acts of fraud and corruption may be prosecuted, including the Fraud Act 2006, the Prevention of Corruption Act 1906 and the Bribery Act 2010. However, in simple terms fraud and corruption can be described as:

“Any intentional false representation , including failure to declare information or abuse of position that is carried out to make gain, cause loss or expose another to the risk of loss”

The Council’s strategic response to fighting fraud - Core principles

5. The Council’s strategic response to fighting fraud is based on the following core principles, which are expanded on below:

ACKNOWLEDGE	PREVENT	PURSUE
Acknowledging and understanding fraud risks	Preventing and detecting more fraud	Being stronger in punishing fraud / recovering losses

-
6. Acknowledge – In order to respond appropriately, the Council needs to understand the fraud risks that it faces and in a fast changing local authority landscape this should include considering emerging risks.
 7. Prevent – The Council will always seek to prevent fraud from occurring through its internal control framework and anti-fraud culture. Mechanisms are also in place to help detect fraud, such as the National Fraud Initiative and undertaking investigations in response to allegations of fraud.
 8. Pursue – All cases of fraud involving employees are considered through the Council’s disciplinary procedure. Where fraud is committed by members of the public, the recovery of losses is prioritised as the most cost effective response although in all cases of fraud the most serious matters may also be referred to the police or the Council’s Legal Services Team for prosecution.
 9. The Council’s Internal Audit Service are responsible for leading on the implementation of the strategy, but will work with colleagues across the Council in delivering this.

Monitoring

10. Monitoring of the Fraud and Corruption Strategy will be undertaken by the Council’s Audit and Procurement Committee. Monitoring reports are received by the Committee twice a year, along with other ad-hoc reports as required.

Counter fraud framework

11. The counter fraud framework sets out the structure of the various elements the Council uses to fight fraud and implement the fraud and corruption strategy. It also reflects the six themes highlighted in Fighting Fraud Locally, which are:
 - Culture – Creating a culture in which beating fraud and corruption is part of daily business.
 - Capability – Ensuring that the range of counter fraud measures deployed is appropriate to the range of fraud risks.
 - Capacity – Deploying the right level of resources to deal with the level of fraud risk.
 - Competence – having the right skills and standards.
 - Communication – raising awareness, deterring fraudsters, sharing information, celebrating successes.
 - Collaboration – working together across internal and external boundaries: with colleagues, with other local authorities, and with other agencies; sharing resources, skills and learning, good practice and innovation, and information.

12. The purpose of the framework is to:

- Ensure that the Council has a clear structure in place to respond to the risk of fraud, which can be easily understood by stakeholders and shows how activities across the organisation fit together to provide resilient counter fraud arrangements.
- Support the process of identifying priorities which will be used to develop an annual action plan of work to ensure that the strategy is fully delivered and the Council's arrangements are fit for purpose.

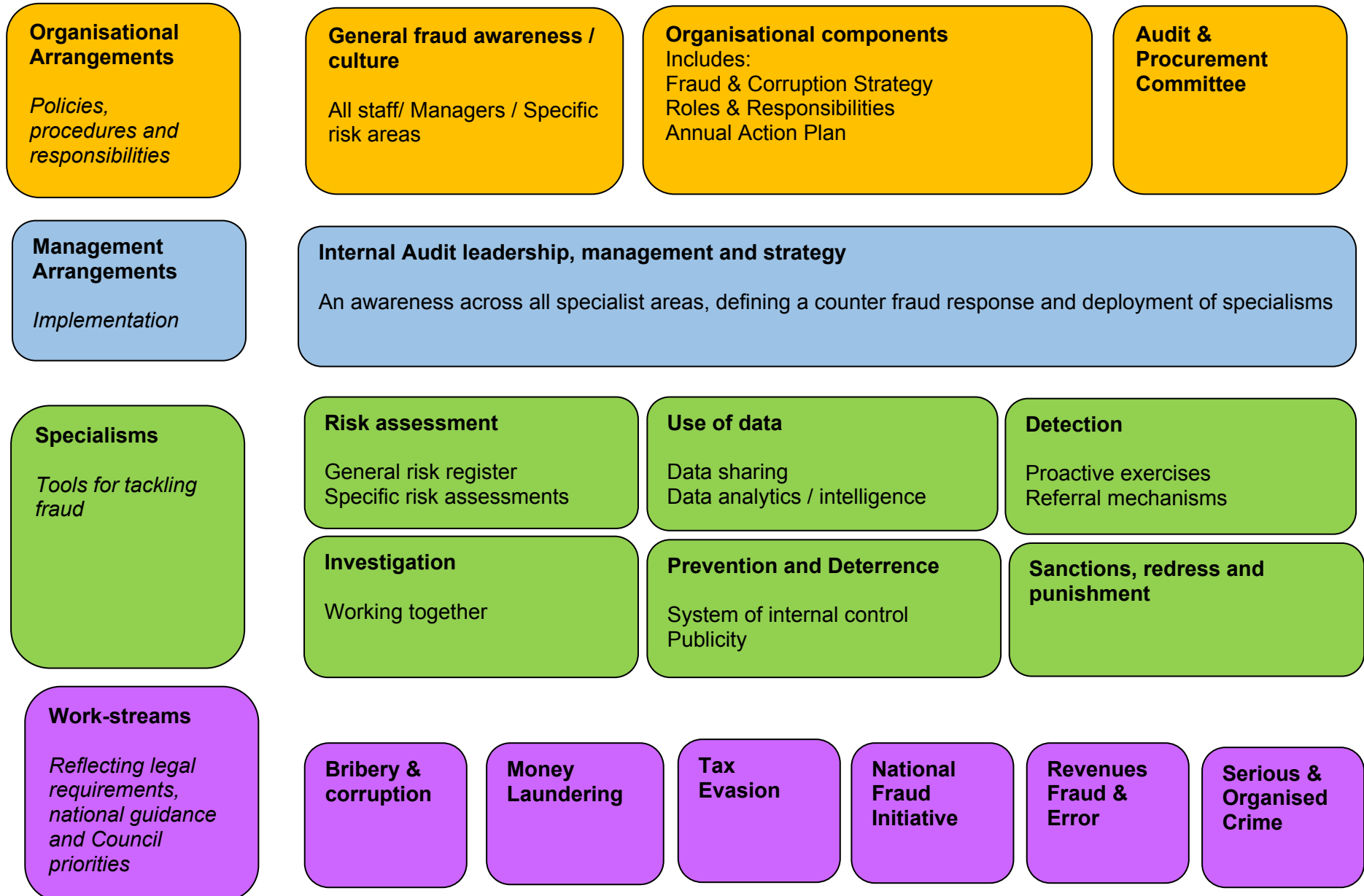
13. The framework is represented below and is comprised of the following elements:

- Organisational Arrangements – consisting of fraud awareness / culture and the basic organisation wide components that the Council should have in place. This incorporates the range of policies, procedures and guidance that underpin counter fraud activity and the roles and responsibilities of employees and members.
- Management Arrangements – this reflects the responsibility of Internal Audit management to implement the strategy. This includes the production of a fraud response plan which documents the specific procedures and processes used in the deployment of the specialisms.
- Specialisms – specialist areas which reflect the core principles and which are used by Internal Audit to help the Council to fight fraud. These include the assessment of fraud risks, investigation procedures and the effective use of data in counter fraud activity.
- Work-streams – these are themes which reflect specific legal requirements, national guidance and the Council's own priorities. Areas across the Council contribute to the delivery of these work-streams.

14. The Counter fraud framework will be published on the Council's Intranet. This will contain links to relevant policies and procedures, including the fraud response plan, which will outline how employees can raise concerns around fraud and how the Council will respond. Appropriate information will also be published on the Council's website to enable members of the public to report concerns.

15. Further information on the local government counter fraud and corruption strategy "Fighting Fraud and Corruption Locally" can be found at www.gov.uk.

COVENTRY CITY COUNCIL COUNTER FRAUD FRAMEWORK





Cabinet
Audit and Procurement Committee
Council

12th June 2018
18th June 2018
10th July 2018

Name of Cabinet Member:

Strategic Finance and Resources – Councillor J Mutton

Director Approving Submission of the report:

Deputy Chief Executive (Place)

Ward(s) affected: All

Title:

Revenue and Capital Outturn 2017/2018

Is this a key decision?

Yes - The report deals with financial matters in excess of £1.0m including specific new recommendations to allocate resources within the outturn position.

Executive Summary:

This report outlines the final revenue and capital outturn position for 2017/18 and reviews treasury management activity and 2017/18 Prudential Indicators reported under the Prudential Code for Capital Finance.

The overall financial position includes the following headline items:

- Revenue underspending of £1.6m which is required to be contributed to the Council's General Fund reserve.
- Within this position, contributions to reserves that require approval; £3.25m for future UK City of Culture costs and £2.1m to strengthen the Council's Business Rates' reserve.
- Headline overspends of £2.7m within Children's Services and £4.2m relating to Housing Benefit payments; part of wider budgetary pressures relating to housing and homelessness issues.
- An underspend of £6.6m within Corporate budgets relating to variations in inflation contingency, pension, treasury management and Business Rates related budgets.
- Capital Programme expenditure of £107m which is £17m less than envisaged at the start of the year.
- An increase in the level of Council revenue reserves from £51m to £67m.

The underlying revenue position has improved significantly since Quarter 3 when an overspend of £1.8 was forecast. In particular this relates to improvements within Children's Services, Adult Social Care, Customer Services and Transformation and Contingency and Central budgets which are set out in the report. This has enabled the Council to bring forward the fulfilment of several policy commitments and/or transactions recommended by the Council's Director of Finance and

Corporate Services – the Council’s Section 151 officer - to strengthen the Council’s balance sheet position. These are reflected in the recommendations below and explained in section 5.1.

Recommendations:

Cabinet is recommended to approve:

1. The final revenue outturn underspend of £1.6m (section 2.1 and Appendix 1) which will be added to the Council’s General Fund reserve.
2. The final capital expenditure and resourcing position (section 2.3 and Appendix 2), incorporating expenditure of £106.5m against a final budget of £121m; £14.7m expenditure rescheduled into 2018/19 and a net underspend £0.7m.
3. The outturn Prudential Indicators position in section 2.4.4 and Appendix 3.

Cabinet is requested to recommend to the Council:

4. Approval of reserve contributions of £3.25m to meet UK City of Culture commitments and £2.1m to add to the Council’s Business Rates reserve.

Audit and Procurement Committee is recommended to:

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

Council is recommended to:

1. Approve reserve contributions of £3.25m to meet UK City of Culture commitments and £2.1m to add to the Council’s Business Rates reserve.

List of Appendices included:

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

Other useful background papers:

None

Has it been or will it be considered by Scrutiny?

No

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

Yes - Audit and Procurement Committee 18th June 2018

Will this report go to Council?

Yes – 10th July 2018

Report title: Revenue and Capital Outturn 2017/18

1. Context (or background)

- 1.1 This report sets out the Council's revenue and capital outturn position in 2017/18 and performance against its Prudential Indicators for the year. The City Council set a revenue budget for the year of £232.5m and a Capital Programme of £123m.
- 1.2 The reported figures show the Council's financial position in relation to management accounts used to monitor performance through the year. The Audit and Procurement Committee will consider separately the Council's statutory Statement of Accounts.

2. Options considered and recommended proposal

2.1 Revenue Outturn

- 2.1.1 Table 1 below summarises the outturn position, an underspend of £1.6m. Local Government accounting rules require this underspend to be contributed to the Council's General Fund Balance.

Table 1 Summary Outturn Position

Service Area	Net Budget £m	Outturn Position £m	Variation £m	Variation %
People Directorate				
Public Health	1.6	1.4	(0.2)	(13%)
Directorate Management	1.5	1.4	(0.1)	(7%)
Education & Inclusion	12.5	12.2	(0.3)	(2%)
Children & Young People	70.3	73.0	2.7	4%
Adult Social Care	81.9	80.7	(1.2)	(1%)
Customer Services & Transformation	2.9	3.6	0.7	24%
Total People Directorate	170.7	172.3	1.6	1%
Place Directorate				
Directorate Management	3.7	3.8	0.1	3%
City Centre & Major Projects	7.2	7.4	0.2	3%
Transportation & Highways	4.2	4.6	0.4	10%
Streetscene and Regulatory	27.3	28.3	1.0	4%
Project Management & Property	(7.7)	(8.4)	(0.7)	(9%)
Finance & Corporate Services*	7.0	9.4	2.4	34%
Total Place Directorate	41.7	45.1	3.4	8%
Contingency & Central Budgets**	20.1	13.5	(6.6)	(33%)
Total**	232.5	230.9	(1.6)	(1%)

*An overspend of £4.2m within Finance and Corporate Services relates to non-reclaimable Housing Benefit Subsidy for

temporary and supported accommodation **Net position after £5.4m of contributions to reserves recommended as part of the outturn position.

2.1.2 A projected over-spend of £1.8m was reported at quarter 3. The main underlying movements between quarter 3 and outturn are as follows:

- Children and Young People - £2.0m favourable
- Adult Social Care - £0.9m favourable
- Customer Services & Transformation - £0.9m favourable
- Streetscene & Regulatory - £0.6m adverse

This results in an overall favourable swing of £3.4m in the final quarter resulting in the overall underspend of £1.6m. Prior to the recommended reserve contributions a further favourable swing of £4.9m occurred within Contingency and Central budgets with the overall reasons for this being explained at 2.1.3 below.

Further detail is set out below.

2.1.3 Directorate Positions

Contingency and Central (£6.6m Underspend)

Inflation Contingencies have underspent by £3.6m, in part relating to lower than expected costs of pensions auto-enrolment. This is not unlikely to reoccur in 2018/19 on the basis that a saving of £2.3m has been built into Budget Setting and the additional cost of a 2% pay award has been absorbed. There is an underspend on pensions of £1.8m due largely to the £90m early payment of employer superannuation costs which has generated a discount for the Council from the West Midlands Pension Fund. Uncertainty around the impact of this mechanism has resulted in most of this underspend crystallising in the last quarter. The Council has received £2.1m more than budgeted for Business Rates compensation grants whilst the Asset Management Revenue Account has underspent by £1.7m including a £0.8m late swing in treasury investment value most of which has been recognised only upon disinvestment towards the end of the year. The Coventry and Warwickshire Business Rates Pool has generated a £1.1m surplus in excess of budget whilst the Council's contribution to the WMCA Devo Deal has been £0.6m less than budgeted, with the scale of these variations only being confirmed in the final quarter. The reserve contributions recommended will be made from this area, resulting in the overall underspend of £6.6m.

People (£1.6m Overspend)

The People Directorate has continued to face significant financial challenges throughout the 2017/18 financial year. Whilst the overall position is a £1.6m overspend after a number of one off benefits, an underspend of £5.1m on centralised salaries masks a significant overspend of £6.6m on other areas. £2.7m of this relates to undelivered savings targets which have not been possible to deliver in year. In addition to the undelivered savings targets there are significant budgetary control pressures, particularly within Childrens Services. We have seen a significant increase in the Looked After Children population in 2017/18 - average LAC numbers in 2016/17 were 587, whereas the average numbers in 2017/18 were 644, which is creating additional financial pressure across LAC placements and supported accommodation provision for care leavers. Childrens Leadership Team have been working to reduce cost and as a result have managed to reduce numbers in residential provision, this has reduced the residential forecast by £0.4m since quarter 2. Further work in relation to placement mix across LAC and young people leaving care forms part of the ongoing Children's Transformation programme.

Place (£3.4m Overspend)

The directorate's deficit position of £3.4m is as a result of a number of underlying and compensating issues, however the vast majority of the pressure relates to the net £3.3m cost impact of increased homelessness on the Housing Benefit Subsidy account due both an increase in homeless people, together with the insufficiency of the government subsidy to cover the full cost of placing them in emergency accommodation.

2.1.4 The Council has continued to reduce employee numbers. In 2017/18 around 300 individuals have left the Council on the basis of early retirement or redundancy. These decisions are the result either of the Early Retirement/Voluntary Redundancy (ER/VR) programme started towards the end of 2016 or of other transformation or structural changes within services which have helped to deliver the savings programmes required within the Council's budget. The resulting redundancy and pension strain costs to the Council amount to £3m which has been funded from a budget of £2.5m established for this purpose and a further £0.5m funded within the overall bottom line.

2.2 Reserves

2.2.1 The Council's revenue reserve balance at the end of 2017/18 is £67.1m, compared with £51.3m at the end of 2016/17. In addition, balances generated from capital receipts and capital grants to fund future capital projects have increased from £30.2m to £31.2m and reserve balances belonging to or earmarked to support schools which have increased from £22.6m to £24.3m. The total reserve movement in 2017/18 is summarised in the table below.

2.2.2 The reserve balances include £10.7m set aside as part of the Council's three long-term Private Finance Initiative models, £8.3m set aside to fund costs arising from early retirement and redundancy decisions, £5.1m set aside for the Council's contribution to the UK City of Culture and cultural event costs, £4.8m to support the Adult Social Care Better Care Fund model and £5.1m in relation to the Kickstart project. The £6.3m Management of Capital reserve includes revenue reserves to fund future capital projects and has increased by £0.8m in the year.

2.2.3 The Cabinet Member for Strategic Finance and Resources will consider an analysis of these balances and potential future spending commitments shortly and will bring recommendations forward as part of Budget Setting proposals or specific reports to Cabinet later in the year. It is also envisaged that Scrutiny Board 1 will undertake a detailed review of reserve balances this year in line with recent practice.

Table 2 Summary of Reserve Movements in 2017/18

	Balance at 31st March 2017	(Increase)/ Decrease	Balance at 31st March 2018
	£000	£000	£000
<u>Council Revenue Reserves</u>			
General Fund Balance	(3,134)	(1,568)	(4,702)
Private Finance Initiatives	(11,308)	527	(10,781)
Potential Loss of Business Rates Income	(1,970)	(1,444)	(3,414)
Early Retirement and Voluntary Redundancy	(8,261)	0	(8,261)
Birmingham Airport Dividend	(4,400)	0	(4,400)
City of Culture	0	(5,050)	(5,050)

Kickstart Project	(2,986)	(2,082)	(5,068)
Adult Social Care	(18)	(4,780)	(4,797)
Leisure Development	(894)	(705)	(1,599)
Public Health	(740)	134	(606)
Troubled Families	(686)	200	(486)
Insurance Fund	(1,786)	191	(1,595)
Management of Capital	(5,566)	(766)	(6,332)
Other Corporate	(973)	375	(598)
Other Directorate	(5,839)	(1,355)	(7,194)
Other Directorate funded by Grant	(2,785)	592	(2,194)
Total Council Revenue Reserves	(51,346)	(15,731)	(67,077)
<u>Council Capital Reserves</u>			
Useable Capital Receipts Reserve	(20,489)	(3,489)	(23,978)
Capital Grant Unapplied Account	(9,737)	2,558	(7,179)
Total Council Capital Reserves	(30,226)	(931)	(31,157)
<u>School Reserves</u>			
Schools (specific to individual schools)	(18,126)	(1,464)	(19,590)
Schools (for centrally retained expenditure)	(4,493)	(249)	(4,742)
Total School Reserves	(22,619)	(1,713)	(24,332)
Total Overall Reserves	(104,191)	(18,375)	(122,566)

2.3 Capital Outturn

2.3.1 The capital outturn position for 2017/18 is shown in summary below and in greater detail in Appendix 2:

Table 3: Capital Outturn Summary

Final Budget £m	Final Spend £m	Net Rescheduling Now Reported £m	Over- spends £m	Total Variance £m
120.9	106.5	(14.7)	0.7	(15.4)

The quarter 3 monitoring report to Cabinet on 13th February 2018 approved a revised capital budget of £120.9m for 2017/18. Since then there has been a net programme increase of c£1m giving a final budget for the year of £122.9m. Since February, a total of £14.7m net rescheduled spending has arisen on directorate capital programmes. A scheme by scheme analysis is included in Appendix 2 and this is summarised in the table below.

Table 4: Summary of Rescheduling

Project	(Rescheduling) /Accelerated Spend £m	Explanations
People Capital Programme (Schools and ICT)	(2.1)	General slippage £1.3m within the schools programme, based on lack of demand for school adaptations and internal staff changes. In addition £0.4m for DFG's/pathways to care take up of grant this year, £0.4m for ICT investment
Highways, Transport and Public Realm Programme	(3.0)	£0.7m WMCA UKC programme and £0.5m of S106 works which are reliant on 3 rd party match funding and some issues in tender prices. £0.9m involves works at Manor Farm (WHG Schemes) and subcontractor issues, £0.4m for Nationwide demolition has now been re-contracted for works to progress.
City Centre South and Friargate	(2.5)	Within the CCS programme progress has been made to acquire properties within the city centre this year, however it is difficult to predict as it is outside the Council control and therefore the rescheduling reflects the fact that there were not as many acquisition opportunities as originally anticipated. Friargate has seen some savings generated by maximising our internal resources rather than procuring external advisors.
Growth Grant Programme	0.8	General advancement of projects including project at Rugby Construction and Techno park and Getting Nuneaton Moving.
Whitley South Infrastructure	(4.6)	The spend profile on a project of this scale and nature is estimated at an early stage based on an industry standard S curve approach. Due to the delayed start and less activity on site during the months of February and March due to inclement weather we have incurred a slippage of £4.6m.
Kickstart Office	(1.2)	The underspend in 2017/18 has arisen due to lower than expected decommissioning costs in relation to the existing buildings and a slight delay in the completion of the Heatline contract for Friargate which has meant the first milestone payment is pushed back into 2018/19
Sports, Leisure and Parks	(2.0)	£1.6m of slippage on the Destination Leisure Facility as the slides and reroofing works have been re-sequenced to 2018/19, in addition a slight delay in the construction works for the 50m Pool at Alan Higgs
Others	(0.1)	Net movement
TOTAL	14.7	

Table 5: Over and Underspends in the Capital Programme

Project	Over/ (Under)spend	Explanations
Vehicle Plant Replacement	(0.7)	The service has undergone a review from 2018/19 of its requirements for vehicles acquisition over the next 5 years. This process has identified a reduction in our Prudential Borrowing requirement in 2017/18
Total	(0.7)	

2.3.2 The 2017/18 and future the Programme continue to maintain a significant investment in the City’s Capital investment incorporating expenditure on the following key programmes and schemes:

- Highways and Public Realm. The City Council has continued to make significant investment in specific Public Realm schemes, a further £7.75m of Local Growth Deal funding has been secured and schemes are being designed currently to commence delivery in 2018-19. In addition works continue on the resurfacing of roads, and upgrading of Swanswell Viaduct nears completion.
- Connecting Coventry is a strategic transport programme of £620m investment in transport infrastructure in Coventry over the next 10 years. In 2017/18 £5.9m of spend has been incurred within the Programme including the A46 link road, Very Light Rail and Coventry Station Master Plan, currently funded from the Local Growth Deal. The primary source of funding going forward will be a mixture of WMCA – Devolution Deal, along with Local Growth Deal, DfT, Highways England and private investment.
- City Centre South (CCS) is a major regeneration project covering the southern part of Coventry city centre, which will transform the area by redeveloping approximately half (6.7 hectares) of the city centre retail core. WMCA funding is just under £100m, and the Council is investing in the form of properties and land worth £28m which are being transferred into a Special Purpose Vehicle for the development formed with a private developer. Acquisitions of Hertford Street/market Way and Coventry Point have now been secured.
- Education capital grant funding is made up of two elements, Basic Need and Condition/ Maintenance. The programme this year has slipped due to some in-house capacity issues, but the City Council still has sufficient school places, in mainstream schools, secured by the primary school expansion programme in 2008-14. The replacement of Tiverton Primary School at Whitley, which is under construction, will start to address the shortage of places in special education provision in the City, due for completion in 2018/19.
- City Centre Destination Leisure Facility (CCDLF) - In September 2014, Coventry City Council approved the addition of £36.7m to its capital programme for 2014/15 onwards, for the development of the CCDLF on the existing Christchurch House and Spire House site. The CCDLF is currently on Programme and scheduled to be fully opened in spring 2019. The next stage of the sports strategy to build the 50m Swimming Pool at the Alan Higgs Centre and bowling facilities are underway for 2018/19

- On the 22nd December 2017 the City Council acquired 100% of the ordinary share capital of Coombe Abbey Park Limited (CAPL), the principal activity of which is the running of the Coombe Abbey Hotel. The purchase of £9m represent a capital cost to the Council.
- Whitley South Infrastructure – In July 2016 the Council approved the site at Whitley South to be used to develop the expansion plants of JLR by developing the public infrastructure to accommodate proposed Research & Development campus, accommodate a number of small medium enterprises together with a hotel and car show room.

2.3.3 The funding in respect of this capital expenditure of £106.5m is summarised in Table 6 below. The Programme has been resourced c56% from capital grants and where possible the use of these grants has been maximised to defer the Councils requirement for prudential borrowing in year. In 2017/18 £15m Growth funding has been applied which need to be back-filled by capital reserves, capital receipts and prudential borrowing over the next few years.

Table 6: Capital Funding

	Funding the Programme £m	Available Resources £m	Resources Carried Forward £m
Prudential Borrowing	31.0	31.0	0
Grants and Other Contributions	59.8	66.7	6.9
Revenue Contributions	2.7	2.7	0
Capital Receipts	12.2	36.1	23.9
Capital of Management Reserve	0.7	7.0	6.3
Total Resourcing	106.5	143.5	37.1

2.4 Treasury Management Activity

2.4.1 Contrary to expectations following the EU referendum in June 2016, the UK economy strengthened by 1.8% in the calendar year 2017, the same level as 2016. However, inflation rose to as high as 3.1% in November 2017 before falling back to 2.7% in February 2018 meaning that real earnings fell as earnings growth dropped below inflation. This meant that the Bank of England increased the Bank Rate by 0.25% to 0.5% in November 2017, the first rate increase in ten years.

Current forecasts indicate that the Bank Rate will continue to increase gradually, perhaps seeing another 0.25% increase in 2018 with increases continuing potentially meaning a Bank Rate of 1.25% by September 2019.

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

Table 7: PWLB Interest Rates

PWLB Loan Duration (standard rates)	Minimum in 2017/18	Maximum in 2017/18	Average in 2017/18
5 year	1.34%	2.21%	1.70%
20 year	2.66%	3.10%	2.84%
50 year	2.45%	2.84%	2.61%

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

2.4.2 Long Term Funding - At outturn, the Capital Financing Requirement (CFR), which indicates the authority's underlying need to borrow for capital purposes, has increased by £19.7m:-

Table 8: 2017/18 Capital Financing Requirement (CFR)

	£m
Capital Financing Requirement at 1 st April 2018	380.8
Borrowing required to finance 2017/18 Capital Programme	31.1
PFI & Finance Leases liabilities	0.3
Donated Assets	(0.3)
Provision to Repay Debt (Minimum Revenue Provision)	(10.2)
Provision to Repay Debt (Capital Receipts Set Aside)	0.0
Repayment of Transferred Debt	(1.0)
Reduction of Provision and other restatements	(0.1)
Capital Financing Requirement at 1 st April 2018	400.5

No new long term borrowing was actually taken out during 2017/18, however, some borrowing will be required in the future to support current capital expenditure plans and the need for any such borrowing will be kept under review in 2018/19. Within 2017/18, the movements in long-term borrowing and other liabilities were:-

Table 9: Long Term Liabilities (debt outstanding)

Source of Borrowing	Balance at 31st March 2017 £m	Repaid in Year £m	Raised in Year £m	Balance at 31st March 2018 £m
PWLB	209.4	(5.5)	0	203.9
Money Market	59.0	(21.0)	0	38.0
Stock Issue	12.0	0	0	12.0
Other	0.5	(0.1)	0	0.4

sub total ~ long term borrowing	280.9	(26.6)	0	254.3
Other Local Authority Debt	15.4	(1.1)	0	14.3
PFI & Finance Leasing Liabilities	73.9	(2.4)	0.2	71.7
Total	370.2	(30.1)	0.2	340.3

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

Table 10: Long Term Borrowing Maturity Profile (excluding PFI & transferred debt)

Period	Long Term Borrowing £m
Under 12 Months	17.7
1 – 2 years	6.2
2 – 5 years	33.5
5 – 10 years	16.2
Over 10 years	180.7
Total	254.3

In line with CIPFA Treasury Management Code requirements, Lenders Option, Borrowers Option Loans (LOBOs) with banks are included in the maturity profile based on the earliest date on which the lender can require repayment. The Council has £38m of such loans, £10m of which the lender can effectively require to be paid at annual intervals, and £28m at 5 yearly intervals

2.4.3 Short Term In House Borrowing and Investments - The Treasury Management Team acts on a daily basis to manage the City Council's day to day cash-flow, by borrowing or investing for short periods. By holding short term investments, such as money in call accounts, authorities help ensure that they have an adequate source of liquid funds. A total of £45m of short term borrowing was taken out during the year, with £30m still outstanding at 31st March 2018. This borrowing was all taken out with other Local Authorities & public sector bodies and was required to manage short term cash flow shortages towards the end of the financial year. During the year the Council held significant short term investments, as set out in Table 11. The average short term investment rate in 2017/18 was 0.56%.

Table 11: In House Investments at 31st March 2018

	At 30th June 2017 £m	At 30th Sept 2017 £m	At 31st Dec 2017 £m	At 31st Mar 2018 £m
Banks and Building Societies	23.4	24.4	14.4	4.4
Local Authorities	0.0	0.0	0.0	0.0
Money Market Funds	26.9	9.9	6.7	2.5
Corporate Bonds	10.4	11.4	5.4	5.4
Registered Providers	8.0	8.0	8.0	8.0
Total	68.7	53.7	34.5	20.3

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

Table 12: External, Pooled Investments as at 31st March 2018

	Date Invested	Cost £m	Value £m	Annualised Return %
CCLA	Nov 2013	10.0	10.54	4.86%
Payden Sterling Reserve	Feb 2012	7.5	7.95	1.02%
Royal London Enhanced Cash Plus Fund	Sep 2016	4.8	4.86	0.72%
Deutsche Ultra Short Fund	Jan 2017	1.0	1.01	0.49%
Royal London Cash Plus Fund	Sep 2016	3.0	3.03	0.47%
Total		26.3	27.39	2.22%

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

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

Revenue Related Prudential Indicators

Within Appendix 3 the Ratio of Financing costs to Net Revenue Stream (Ref 1) highlights the revenue impact of the capital programme. This shows that the revenue costs of financing our capital expenditure as a proportion of our income from government grant and Council Tax. The actual is 12.38%, as against 13.55% as forecast in the Treasury Management Strategy. This reflects a lower level of borrowing than anticipated to fund the Capital Programme and higher levels of investment balances.

Capital and Treasury Management Related Prudential Indicators

These indicators, set out in Appendix 3, include:

- **Authorised Limit for External Debt** (Ref 5) ~ This represents the level of gross borrowing which could be afforded in the short term, but is not sustainable. It is the forecast maximum borrowing need, with some headroom for unexpected movements and potential debt restructuring. This is a statutory limit. Borrowing plus PFI and finance lease liabilities at £360.9m was within the limit of £470.4m.
- **Operational Boundary for External Debt** (Ref 6) ~ This indicator is based on the probable level of gross borrowing during the course of the year; it is not a limit and actual borrowing could vary around this boundary for short times during the year. It should act as an indicator to ensure the authorised limit is not breached. Borrowing plus PFI and finance lease liabilities at £360.9m was within the boundary of £430.4m.
- **Gross Debt v "Year 3" Capital Financing Requirement** (Ref 2) ~ The Council needs to be certain that net external borrowing does not, except in the short term, exceed the total of the Capital Financing Requirement (CFR) in the current year plus the estimates of any additional capital financing requirement for the next two financial years. The CFR is defined as the Council's underlying need to borrow, after taking into account other resources available to fund the Capital Programme. This indicator is designed to ensure that over the medium term, net borrowing will only be for a capital purpose. Gross debt is within the "year 3" or 2019/20 CFR limit of £511.9m.
- **Debt Maturity Structure, Interest Rate Exposure and Investments Longer than 364 Days** (Ref 8 - 10) ~ The purpose of these prudential indicators is to contain the activity of the treasury function within certain limits, thereby reducing the risk or likelihood of an adverse movement in interest rates or borrowing decisions impacting negatively on the Councils overall financial position. Treasury Management activity was within these limits. The Debt Maturity PI (Ref 9) indicates that there is a potential 21.6% of total debt that needs to be refinanced in 2018/19, compared to the PI limit of 40% in the 2018/19 Treasury Management Strategy. The potential refinancing need includes LOBO loans for which the lender effectively has a call option, which if exercised would require the Council to repay the loan. If these loans were required to be repaid, the City Council would look to refinance these at lower borrowing costs or through the use of investment balances in the first instance.

3. Results of consultation undertaken

3.1 None

4. Timetable for implementing this decision

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

5. Comments from Director of Finance and Corporate Services

5.1 Financial implications

The final revenue outturn picture for 2017/18 is underspend of £1.6. This is calculated after taking account of recommended contributions to reserves; £3.25m. to fulfil a financial commitment that the Council has already made formally to support future UK City of Culture activity and; £2.1m into the Business Rates reserve to increase the Council's financial resilience ahead of the uncertainty that surrounds forthcoming changes to local Government

Finance. Accounting regulations demand that the final £1.6m underspend is contributed to the Council's General Fund Balance, topping this particular reserve up to £4.7m which represents 2% of net revenue budget in line with the Council's Medium Term Financial Strategy.

Large overspends have occurred within individual service areas, most notably children's social care and services relating to housing and homelessness.

Children's social care has been a persistent area of budget pressure in recent years caused by comparatively high and growing numbers of Looked After Children. The Council has provided additional budgetary provision in the 2018/19 Budget process and has plans in place to help manage the number of children in the Council's care and the type of care provided. Nevertheless, this will continue to be one of the key areas of budgetary focus in 2018/19.

Housing and homelessness has emerged as a budgetary issue more recently, both in Coventry and nationally. The number of individuals and families presenting with a housing need has outstripped the supply of traditional sources of accommodation leading to a need to use more expensive housing alternatives for which Government Housing Benefit subsidy covers only part of the cost to the Council. Again the Council has provided additional budgetary provision and is in the process of identifying appropriate and financially sustainable solutions to these issues.

A number of service areas reported budgetary underspends and/or reported a significantly improved position in the final quarter of the year. This delivered an overall underspend at year end and a significant positive swing from the reported Quarter 3 position. A large proportion of this improvement came from sources that were difficult to predict or impossible to rely upon when the Council last reported its financial position. In addition to unexpectedly high windfall Business Rates compensation grants, a number of these have come about as a result of background work to improve and support the Council's financial position including:

- Up front payment of 3 years of employer pension contributions sharing the benefits of enhanced rates of investment returns available to the West Midlands pension Fund.
- Returns from the Coventry and Warwickshire Business Rates Pool – keeping Business Rates growth income across the sub-region locally rather than this being returned to Government
- Early repayment of one of the Council's long-term debts at a financially advantageous rate.
- Redemption of one of the Council's long-term treasury investments with in-year crystallisation of the capital growth.
- Provision of a guarantee to the Coventry and Solihull Waste Disposal Company enabling the Company to release sustained dividend levels.

The Council continues to face reductions in government funding and a need to absorb the financial impact of demographic and societal pressures such as those outlined above. Management attention has continued to focus on appropriate approaches to manage these pressures, to deliver the existing financial savings programmes approved previously and to focus on new ways of balancing the Council's budget.

On balance, although some areas of the budget are overspent, the Council remains in a robust financial position due to a range of ongoing measures. The Council continues to give a high priority to financial management at a senior level and strong corporate control continues to be applied allowing the Council to take advantage of tactical opportunities to protect its budget such as: central control of salaries, management of reserve balances and

capital receipts for corporate use, implementation of staff reduction programmes and continued attraction of significant external funding. These actions have helped to contribute to continued achievement of underspends and demonstrates the continued strength of the Council's budget management approach.

Management of the Council's programme of savings targets has not achieved universal success across all service areas. Care will be needed to ensure that the scale and pace of savings targets remains realistic in the face of service demands, recognising also that all services need to contribute to the changes needed to deliver a balanced budget.

Significant application of grant funding has been undertaken within the Capital Programme although some previously approved prudential borrowing has been applied within 2017/18. The level of Prudential Borrowing applied is likely to increase over the next couple of years as the relevant capital spending is incurred and as other sources of funding are exhausted.

The increase in the Council's reserves reflects several different circumstances; the need to fund future spending commitments that the Council has already entered into (City of Culture); the need to support spending programmes that have a multi year dimension (Kickstart, Adult Social Care); and to provide protection against potential risks to the Council's overall financial health (General Fund Balance, Business Rates). Events elsewhere within local government including; the issuing of a Section 114 Notice at Northamptonshire; sector wide concerns at the diminution of reserve balances and; perceived threats from the future of the Local Government Finance model beyond 2019/20, have demonstrated the importance of maintaining a robust balance sheet position. The view of the Director of Finance and Corporate Services is that the Council needs to ensure that it maintains sufficient resources to protect against financial shocks and provide resources that can be utilised at appropriate times to invest in local infrastructure or income earning assets. This view extends to the assessment that current reserves represent an appropriate level of balances for an authority of the Council's size. These balances are all earmarked for approved uses or will otherwise be available for member decision in the forthcoming Budget Setting process.

5.2 Legal implications

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

6. Other implications

6.1 How will this contribute to achievement of the Council's 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 we will try to deliver better value for money in the services that we provide in the context of managing with fewer resources.

6.2 How is risk being managed?

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

6.3 What is the impact on the organisation?

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

6.4 Equalities / EIA

No specific impact.

6.5 Implications for (or impact on) the environment

None

6.6 Implications for partner organisations?

None

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Appendix 1 Revenue Variations

Appendix 1 details directorate forecast variances.

Budget variations have been analysed between those that are subject to a centralised forecast and those that are managed at service level (termed "Budget Holder Forecasts" for the purposes of this report). The Centralised 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 Centralised Forecast under-spend shown below is principally the effect of unfilled vacancies.

Directorate	Revised Budget	Forecast Spend After Action/ Use of Reserves	Centralised Forecast Variance	Budget Holder Forecast Variance	Net Forecast Variation
	£m	£m	£m	£m	£m
Public Health	1.6	1.4	(0.1)	(0.1)	(0.2)
People Directorate Management	1.5	1.4	0.0	(0.1)	(0.1)
Education and Skills	12.5	12.2	(0.3)	0.0	(0.3)
Children and Young People's Services	70.3	73.0	(4.2)	6.9	2.7
Adult Social Care	81.9	80.7	(0.6)	(0.6)	(1.2)
Customer Services & Transformation	2.9	3.6	0.1	0.6	0.7
Total People Directorate	170.7	172.3	(5.1)	6.7	1.6
Place Directorate Management	3.7	3.8	0.0	0.1	0.1
City Centre & Major Projects Development	7.2	7.5	0.1	0.2	0.3
Transportation & Highways	4.2	4.6	(0.4)	0.8	0.4
Streetscene & Regulatory Services	27.3	28.4	(0.3)	1.4	1.1
Project Management and Property Services	(7.6)	(8.4)	0.7	(1.5)	(0.8)
Finance & Corporate Services	6.9	9.4	(0.3)	2.8	2.5
Total Place Directorate	41.7	45.3	(0.2)	3.8	3.6
Total Contingency & Central Budgets	20.1	13.3	0.0	(6.8)	(6.8)
Total Spend	232.5	230.9	(5.3)	3.7	(1.6)

The figures in this table may be subject to small rounding differences to the main report and the rest of the appendix.

Reporting Area	Explanation	£m
People Directorate	The Directorates underspend against its salary budgets and turnover target is mainly due to high levels of vacancies in Childrens Social Care which accounts for £4.2m of the £5.1m underspend. This is partially offset by a non salary overspend as a result of agency staff in Childrens Social Care. With the implementation of the Childrens Services Redesign underway, it is expected that vacancy levels and agency costs will reduce in the new year.	(5.1)
Place Directorate	The Place Directorate has had a number of vacancies during the year, primarily in Transportation and Highways, and Streetscene & Regulatory services. The former is due to difficulties in recruitment, the latter whilst a service review takes place. In both cases these have been covered by agency staff resulting in no overall significant saving or pressure.	(0.2)
Total Non-Controllable Variances		(5.3)

Service Area	Reporting Area	Explanation	£M
Public Health	Other Variances Less than 100K		(0.1)
Public Health			(0.1)
People Directorate Management	Director	The majority of the underspend relates to a reduction in expected external support costs	(0.1)
People Directorate Management			(0.1)
Education and Skills	Advice and Health Information Services	Library Service overspend is linked to the purchase of self service machines, which is one-off expenditure agreed as required to support delivery of the Connecting Communities programme.	0.3
Education and Skills	Libraries	Coventry Music: The over spend was predicted in the first year of the new model of delivery which was a demand led service. The set up costs and administration plus slight decline in the first quarter of take up from schools led to this position however increased take up and broader service offer will lead to the service being able to break even moving forward. The grant funding position has been taken out of high risk and is now on track with the new leadership. Governor Support Services: Whilst this is a fully traded offer for schools, the over spend has been due to a lack of investment in terms of reviewing current offer against demand. Moving forward the new offer includes in conjunction with the teaching school alliance a range of bespoke and ongoing training packages, Governor Hub and a flexible package for multi academy trusts. The next 12 months may see a continued overspend moving to break even in year 2.	0.2

Education and Skills	Inclusion & Participation	The forecast overspend is a result of part year delivery of the transport review, against a full year saving. This was due to a requirement to implement the policy changes with effect from 1st September 2017 and was flagged as part of the cabinet report in relation to SEN transport. The full year impact of delivery, based on current activity, indicates that there is a continued financial pressure relating to increase in demand. Efficiency activity in procurement may offset this pressure going forward. The Transport Strategic Review group reporting to People Leadership Team, are actively monitoring the situation and stimulating action for cost reduction.	0.2
Education and Skills	Adult Education	To date it has not been possible to meet a financial target set as part of previous budget setting process to ensure we maximise ESFA grant funding against internal training programmes.	0.1
Education and Skills	School Enrichment Services	Underspend in respect of Migration grant income, which supports expenditure within other Council services.	(0.7)
Education and Skills	Other Variances Less than 100K		(0.1)
Education and Skills			0.0
Children and Young People's Services	LAC & Care Leavers	The majority of the overspend in this area is in relation to LAC and leaving care placement costs. There has been an in-year reduction in the forecast due to a decrease in the number of children in residential, as a result of planned management action including review of all residential placements / packages, improved sign-off process for residential placements, and increased focus within the Placements Team on identifying appropriate fostering placements. There was also a reduction in internal fostering placement costs during Q4, due to decreased activity. This is being addressed through the transformation programme. The Throughcare budget has overspent, as forecast, due to an increasing number of former LAC attending university. The overspend in Supported Accommodation was due to delays in over 18s moving on to their own tenancies. A dedicated post has recently been recruited to, to support move on activity and ensure we support future care leavers into their own tenancies in a timely manner. This work continues to be aligned with the wider Housing and Homelessness Strategy. Some of the budget holder variance across the service relates to agency staff being used to cover vacancies, this is offset by underspends on the centralised variance. Overall the spend has reduced from 2016/17 levels and work continues across the service to address outstanding areas of concern.	4.8
Children and Young People's Services	Help & Protection	The overspend largely relates to the costs of Agency staff covering posts across the service, and savings targets held on a budget holder code. This is more than offset by underspends across salary budgets. There was also a pressure as a result of grant fall out for the Family Drug and Alcohol Court. This has been built into core budget for 2018/19, with additional benefits realisation due to a SIB due to commence October 2018. The overall underspend also includes some one-off Public Health funding (£650k).	1.9

Children and Young People's Services	Commissioning, QA and Performance	The budget holder overspend is largely as a result of agency staff covering vacancies, and 4 additional time-limited posts, currently covered by agency, to respond to concerns raised by OFSTED in relation to volume and quality of the work in the Safeguarding Service. As part of the redesign we continue to recruit to permanent posts which will reduce the overspend in the next financial year. The overspend is more than offset by an underspend on centralised salaries. The variance between the Q3 forecast and outturn is due to additional vacancies, and the unavoidable time lag between appointing staff and their commencement date.	0.3
Children and Young People's Services	Children's Services Management Team	The service has delivered in year savings as a result of in-year service changes (e.g. Youth Offending Service review). These contribute towards the delivery of the Children's Services Transformation programme.	(0.1)
Children and Young People's Services	Other Variances Less than 100K		
Children and Young People's Services			6.9
Adult Social Care	Strategic Commissioning (Adults)	The overspends on other pay, overtime and variable allowances are offset by underspends on centralised salary costs due to a number of vacancies.	0.3
Adult Social Care	Adult Social Care Director	There has been a significant increase in DOLs demand leading to additional assessment costs (£142k). The All Age Disability Team has also seen increasing demand and a high turnover of staff leading to increased Agency costs (£193k). This is partially offset by the vacancy savings showing on the centralised forecast.	0.3
Adult Social Care	Internally Provided Services	Underspends achieved due to early delivery of Adult Social Care savings targets.	(0.3)
Adult Social Care	All Age Disability and Mental Health Operational	Pressures relating to under achievement of Supporting People income are offset by a number of underspends across other areas of contractual spend.	(0.4)
Adult Social Care	All Age Disability and Mental Health Community Purchasing	Changes in the overall position have been achieved as the consequence of a number of different interventions. Firstly there has been a sustained focus on reducing costs within the All Age Disability Service. This has been led through the panel review process and supported by improved commissioning arrangements. In addition monies have been reclaimed that had previously not been forecast. This includes an ordinary residence agreement and Direct Payment re-payments.	(0.5)
Adult Social Care			(0.6)
Customer Services & Transformation	HR and Workforce Development Management	The majority of the overspend (£103k) relates to a delay in the delivery of savings which will now be delivered in 2018/19.	0.3
Customer Services & Transformation	Customer and Business Services	The overspend reflects the increasing pressure relating to the homelessness service and the associated costs of bed & breakfast provision. It also includes the cost of utilising agency staff to cover demand; and an unmet element of the Business Services savings target	0.9
Customer Services & Transformation	ICT Operations	The bulk of the underspend is due to two main factors. Firstly a large, unexpected one off rebate on the business rates for the	(0.3)

		<p>fibre network. Secondly, staff costs of the PC refresh programme were capitalised which led to a revenue underspend.</p>	
Customer Services & Transformation	ICT Strategy, Systems & Development	<p>The majority of the underspend relates to the Systems Management budget - an extremely complex budget made up of approx. 300 system contracts. The price of some systems has reduced and other increases were not as high as expected. Also, some implementation projects are still ongoing and so some anticipated revenue costs will be delayed until 2018/19.</p>	(0.1)
Customer Services & Transformation	Transformation Programme Office	<p>This service holds a budget which is intended to be used across the Council to support transformation activity - either through additional temporary staffing resource or by funding external expertise. As such this area is difficult to forecast. During 2017/18 expected additional resource was not required for some transformation activity and alternative funding sources became available to support other activity. This has resulted in an underspend.</p>	(0.2)
Customer Services & Transformation			0.6
Total Non-Controllable Variances - People			6.7
Place Directorate	Place		
Service Area	Reporting Area	Explanation	£M
Place Directorate Management	Other Variances Less than 100K		0.1
Place Directorate Management			0.1
City Centre & Major Projects Development	Sports, Culture, Destination & Bus Relationships	<p>This deficit reflects £178k exit costs were incurred for restructures at Culture Coventry Trust, together with an ongoing trading deficit at St Mary's Guildhall and Godiva's café of £99k, for which there are a series of service improvements implemented to generate cost savings and improve income</p>	0.3
City Centre & Major Projects Development			0.3
Transportation & Highways	Highways	<p>The pressure in Highways was a result of £170k expenditure pressures within priority patching due to the conditions of roads and the severity of winter, increased spend of £150k on gritting during the severe winter, and reduced income of £110k from fewer footway crossings and losses on fixed price jobs</p>	0.6
Transportation & Highways	Traffic	<p>Traffic pressures are due to compensating factors. Within Network Management, vacancies in Urban Traffic Control resulted in agency staff expenditure, which together with irrecoverable costs relating to accident damage to highway assets has caused a c£0.2m pressure. This has however, been offset by a net overachieved combined income on parking and enforcement activity, primarily relating to bus gate infringements</p>	0.1
Transportation & Highways	Other Variances		0.1

	Less than 100K		
Transportation & Highways			0.8
Streetscene & Regulatory Services	Waste & Fleet Services	Some lost work, plus the delayed achievement of commercial waste growth income targets whilst the service undergoes a major review accounts for the vast majority of the deficit for waste and fleet. Overspends on transport & fleet costs, together with the cost of maintaining collection of domestic refuse during the Christmas period are compounding the deficit. However as a result of the move to alternate weekly collection, waste disposal costs are lower than budgeted, helping to reduce the net service overspend	1.0
Streetscene & Regulatory Services	Streetpride & Parks	Whilst the Streetpride service has been under review during the year, vacancies have been covered by a combination of agency staff and overtime. Pressures on Coombe Car Parking income has also occurred together with additional costs relating to the Tree contract. These pressures have however been partially offset by additional Bereavement Services fee income	0.3
Streetscene & Regulatory Services	Environmental Services	This variation is due to an under recovery in income for CCTV . There has been a significant improvement in the performance of this service over the past year and is working to continue progress in 18/19.	0.1
Streetscene & Regulatory Services			1.4
Project Management and Property Services	Development Services	Core funded surveyors costs being recovered from sales disposal proceeds.	(0.2)
Project Management and Property Services	PAM Management & Support	One-off saving relating to the reduction in dilapidation costs while exiting Lamb Street lease	(0.3)
Project Management and Property Services	Facilities & Property Services	DFG capital grant of £0.4m was applied against R&M core funded costs relating to Adult Social Care schemes in the final quarter. In addition, unplanned Occupier support works relating primarily to the Education capital programme were carried out generating an additional windfall income of £0.2m	(1.0)
Project Management and Property Services	Other Variances Less than 100K		
Project Management and Property Services			(1.5)
Finance & Corporate Services	Revenues and Benefits	The Housing Benefit Subsidy account has been under pressure. The largest cost (£3.3m) is due to the element of HB paid out for bed & breakfast accommodation for homeless people which cannot be reclaimed from DWP as benefit subsidy. There is also a pressure (£0.9m) due to the element of benefit paid out for mainly clients in supported accommodation which can only be partially reclaimed. These have been partially offset by a surplus recovery of benefit overpayments (£1.1m) and uncommitted new burdens grant (£0.4m).	2.7
Finance & Corporate Services	Financial Mgt	Accelerated achievement of MTFs savings targets, temporarily offsetting other pressures within the division	(0.3)

Finance & Corporate Services	Legal Services - Place & Regulatory	Service cost reduction targets that are temporarily being achieved from the holding of vacancies within the diviison	0.2
Finance & Corporate Services	Other Variances Less than 100K		0.2
Finance & Corporate Services			2.8
Total Non-Controllable Variances - Place			3.8
Contingency & Central Budgets	Contingency & Central Budgets	<p>Contingency and central budgets have experienced favourable variances in the year from inflation contingencies (£3.6m) in part relating to lower than expected costs of pensions auto-enrolment, the Asset Management Revenue Account (£1.7m) including an increased income recognised upon disinvestment from treasury investments and pensions (£1.8m) due largely to the £90m early payment of employer superannuation costs which has generated a discount for the Council from the West Midlands Pension Fund. Uncertainty around the impact of this mechanism has resulted in most of this underspend crystallising in the last quarter. A further underspend of £1.1m relates to the Council's windfall from the Coventry and Warwickshire Business Rates Pool. Given the overall Council bottom line, it is recommended that a contribution of £3.25m is made to fund a further tranche of the Council's contribution to UK City of Culture costs. The underspend shown here is after this contribution to reserves has occurred.</p> <p>This report includes a recommendation that higher than budgeted Business Rates compensation grants (£2.1m) be contributed to the Business Rates reserve to protect the Council from future fluctuations in the Council's resourcing position.</p>	(6.8)
Total Non-Controllable Variances - Contingency & Central Budgets			(6.8)

Appendix 2 Capital Programme Change and Analysis of Rescheduling

SCHEME	APPROVED CHANGES £m	(RESCHE DULING) / ACCELE RATED SPEND £m	(UNDERSPEND) / OVERSPEND £m	EXPLANATION
PEOPLE DIRECTORATE				
Condition		(0.3)		Condition was underspent as some projects were not completed within the financial year, shifting to 18/19 and others came in under budget.
Early Years 2013-14 - Resource Swithed		(0.1)		Underspent as some projects were not completed within the financial year, shifting to 18/19 and others came in under budget.
Suitability/Access		(0.1)		Suitability/Access budget was underspent as less pupils required school adaptations.
Broad Spectrum School		(0.8)		The Broad Spectrum School was underspent as the programme shifted meaning high value works were moved to next financial year.
Pathways to Care (Support to Foster Carers)		(0.1)		During 2017/18 the Panel considered 11 New Pathways To Care applications. Of this, 5 applications were approved resulting in grants & loans totalling £138k being allocated. In addition to this, £78k that was approved at panel within 2016/17 is yet to be drawn down for the building works, however the requirement for these funds was confirmed at Court during April 2018 and are expected to be utilised within the early part of this financial year. Therefore this amount has been rescheduled.
ICT Infrastructure Operations		(0.6)		At quarter three we undertook a significant amount of rescheduling into future years for the ICT capital programme. At that time we forecast an amount that would still be required this financial year (during Qtr 4). Whilst there was significant spend during Qtr 4 it was not to the level anticipated. Moving forward and, to enable more accurate / fine grained forecasting, we will be looking at reorganising the ICT capital programme. At
Kickstart - ICT Systems		(0.2)		

Strategy Systems Development		0.4		present it is made up of 6 schemes across two cost centres. We will look to reduce this to a maximum of two schemes and manage to a granular level through works orders. This should provide more accuracy for the forecasting during financial year 2018/19.
Disabled Facilities Grants		(0.3)		Work has progressed well in year to maximise the additional funds allocation by DCLG to the extent we have exceeded their expectations by £169,000, this will be absorbed within the overall DFG funds. However, additional rescheduling is now being reported against our general demand on DFG funding. This is partly due to the demand for works being smaller. Work will progress in the new year to encourage the use of the funds within wider Adult Social Care adaptations programme.
Miscellaneous		(0.1)		Net Movement
SUB TOTAL - People	0.0	(2.1)	0.0	
PLACE DIRECTORATE				
Highways Maintenance Grant	0.1			Changes in the scope of Montalt Road surfacing scheme resulted in an increased project value and duration, and the bulk of new cost (160k) is being delivered in the 2018/19 FY and hence rescheduling required.
Challenge Fund - Swanswell Viaduct	(0.4)			Engineering difficulties encountered with the site and unavailability of third party contractors, e.g. BT, combined with late start on site, due to WHG subcontractor issues, meant the CCC works did not get started in earnest until Q2.
Coombe Abbey	0.1			Additional costs for Legal/stamp duty etc. which was not part of the original budget set aside for the Acquisition of Shares

CSP - A46 Link Road Phase 2		(0.2)		Expenditure was less than anticipated as a decision was taken to retender the consultant services required to progress this project, including the Outline Business Case and design. This will now be tendered during Q1 18/19.
CSP - Binley & Walsgrave Junctions		(0.1)		No funding has been secured against this project to date by CCC, as it's being led by Highways England. A review is being undertaken regarding whether a funding contribution is required as the HE are fully funding the Binley Junction, and work is progressing to identify how Walsgrave should progress.
CSP - Tile Hill Station Car Park Expansion		(0.2)		TfWM have been leading on the development of this project and incurring all charges to date. Delivery and funding arrangements to be reviewed for 18/19.
Coventry North Package		(0.1)		Funding for this scheme was approved by WMCA in Q4, work is underway to commission a consultant to progress scheme development, therefore expenditure has slipped into 18/19.
City Centre South		(2.1)		It is difficult to predict the number of acquisition opportunities that will arise in any given financial year as they are outside of CCC's control. The opportunities that arose were taken. This slippage reflects the fact that there were not as many acquisition opportunities as
Friargate (WMCA)		(0.4)		More efficient use of internal resources, reducing the need to procure external advisors
Highways Investment		(0.1)		Changes in the scope of Montalt Road surfacing scheme resulted in an increased project value and duration, and the bulk of new cost (160k) is being delivered in the 2018/19 FY and hence rescheduling required.
Whitefriars Housing Estates - MANOR FARM		(0.9)		Engineering difficulties encountered with the site and unavailability of third party contractors, e.g. BT, combined with late start on site, due to WHG subcontractor issues, meant the CCC works did not get started in earnest until Q2.
Skipworth Road S106		(0.1)		The scheme commenced later in Q4 than initially anticipated, predominantly due to adverse weather conditions. The scheme will be complete in early 2018-19.

Transport Programme S106 Schemes		(0.4)		Reliant on third party involvement in providing either match funding or cost estimates for the works which were not forthcoming. We are still working with these third parties, for example Canals and River Trust, to bring the schemes forward in this financial year. Also the S106 schemes were dependant on the development to which the monies are associated with being completed such that the schemes could be delivered and unfortunately this did not happen.
GD19 - NSR - Nuckle 1.2		(0.3)		The majority of the rescheduling relates to work in the change in design for the track layout and additional timetabling , as well as a pause in works while NR agree the designs submitted for approval. Balfour Beatty have been instructed to carry out the Early Contractor Involvement work and are progressing with the task, this is not yet completed. All works resheduled will be finished within the first quarter of 18/19. The funding allocated to London Midland was not spent due to the change in Train Operating Company, to West Midlands Rail, we are however expecting that we will need to spend some monies with WMR in this financial year.
GD11 - Coton Arches		(0.1)		Project has faced delays in start of construction, resulting in reduced claim in year. Project expects to catch up in full in 18/19
GD18 (ULS04) - Unlocking Sites - A45-Leam Road		0.1		Scheme costs came in over original estimate due to requirement for some additional works to be undertaken following engagement with stakeholders.
GD18 (ULS09) - Getting West Nuneaton Moving: Bermuda Connection		0.5		Claim received included accelerated spend that at Qtr 3 was assumed to be spent in 2018-19 Qtr 1. Project has now completed grant spend.
GD33 - Rugby HE Construction & Techno Park		0.3		Contracting for this project was completed earlier expected enabling a late Q4 Claim.

Whitley South Infrastructure - ROXHILL	0.8	(4.6)		The anticipated project start was delayed due to detailed tender requirements. The spend profile on a project of this scale and nature is estimated at an early stage based on an industry standard s curve approach. Due to the delayed start and less activity on site during the months of February and March due to inclement weather we have incurred a slippage of £4.6m. The approved change £0.8m are additional funds for costs funded directly by the JLR but not part of the £35m grant award
Broadgate Nationwide		(0.4)		Demolition commenced in Q4, however works halted due to contractual issues and now a new contract is to be let to progress works. All works are due to be completed by end of Q2 2018-19
Vehicle & Plant Replacement		(0.2)	(0.7)	The underspend is due to the rebasing of the 5 year programme from 2018/19 which means that the budget for several of the vehicles which were originally in the programme is no longer needed. The £0.2m relates to several vehicles which were delayed but are due to be purchased in 2018/19
Kickstart Office		(1.2)		The underspend in 2017/18 has arisen due to lower than expected decommissioning costs in relation to the existing buildings and a slight delay in the completion of the Heatline contract for Friargate which has meant the first milestone payment is pushed back into 2018/19
Investment in Sporting Facilities		(0.1)		Underutilisation of funds earmarked for Repairs and Maintenance of the 'CSLC', funds will be maintained until the formal closure of Coventry Sports and Leisure Centre.
ESIF - Business Support		(0.4)		The spend is based on individual businesses carrying out their project expenditure, and then submitting claims. The forecasts provided are based on the best estimates of the Grantees' planned expenditure. The underspend is caused by Grantee's projects being delayed and therefore less claims were received. Low Carbon, the opposite is true, where the Grantees projects have been able to accelerate and claim earlier than forecast.
ESIF - Low Carbon		0.2		
ESIF - Innovation		(0.1)		

City Centre Destination Leisure Facility		(1.6)		The contractor has re-sequenced the installation of the slides and roofing works until after 31 st March 2018 and therefore those works will now commence in the new year. This has resulted in a significant slippage of spend from 2017/18 into 2018/19. The overall project is still on programme.
Alan Higgs Centre - 50m Swimming Pool		(0.2)		There has been a slight delay to the commencement of the construction stage, as such some of the professional fees have been pushed back into the 2 nd stage and into 2018/19.
Multi Storey Car Parks		0.1		The £100k over the predicted Q3 value is due to the additional works required for consultants and works to address planning conditions and the BT diversion works.
Coventry on the Move in Parks Project Phase 1		(0.1)		The underspend is due to the delay in completion of the works to Caludon Castle under the Pathways contract. The poor weather experienced throughout December to March has delayed the scheme by 4-5 months. As part of the signage contract 5% of the contract value is withheld until the 12 months defects are finalised.
National Manufacturing Battery Development		0.1		Legal and technical support for the initial setup costs for the scheme
Miscellaneous	(0.1)	(0.1)		Net Movement
SUB TOTAL - Place Directorate	0.5	(12.7)	(0.7)	
TOTAL CHANGES	0.5	(14.7)	(0.7)	

Appendix 3

Summary Prudential Indicators

	Per Treasury Management Strategy 17/18 £000's	Actual 17/18 £000's
1 Ratio of financing costs to net revenue stream:		
(a) General Fund financing costs	31,501	28,770
(b) General Fund net revenue stream	232,482	232,482
General Fund Percentage	13.55%	12.38%
2 Gross Debt & Forecast Capital Financing Requirement		
Gross debt including PFI liabilities	411,779	360,925
Capital Financing Requirement (forecast end of 19/20)	430,383	511,856
Gross Debt to Net Debt:		
Gross debt including PFI liabilities	411,479	360,925
less investments	-30,000	-61,281
less transferred debt reimbursed by others	-14,300	-14,300
Net Debt	367,479	285,343
3 Capital Expenditure (Note this excludes leasing)		
General Fund	122,989	94,333
4 Capital Financing Requirement (CFR)		
Capital Financing Requirement	430,383	400,518
Capital Financing Requirement excluding transferred debt	416,083	386,218
5 Authorised limit for external debt		
Authorised limit for borrowing	399,968	399,968
+ authorised limit for other long term liabilities	70,415	70,415
= authorised limit for debt	470,383	470,383
6 Operational boundary for external debt		
Operational boundary for borrowing	359,968	359,968
+ Operational boundary for other long term liabilities	70,415	70,415
= Operational boundary for external debt	430,383	430,383
7 Actual external debt		
actual borrowing at 31 March 2018		290,443
+ PFI & Finance Leasing liabilities at 31 March 2018		70,407
+ transferred debt liabilities at 31 March 2018		14,300
= actual gross external debt at 31 March 2018		375,150
8 Interest rate exposures		
Upper Limit for Fixed Rate Exposures	399,968	271,449

Variable Rate

Upper Limit for Variable Rate Exposures

79,994	-42,288
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9 Maturity structure of borrowing - limits

under 12 months
12 months to within 24 months
24 months to within 5 years
5 years to within 10 years
10 years & above

upper limit	actual
40%	21.6%
20%	2.1%
30%	8.4%
30%	5.6%
100%	62.2%

10 Investments longer than 364 days: upper limit

24,000	0
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Coventry City Council

Public report

Audit and Procurement Committee

18 June 2018

Name of Cabinet Member:

Cabinet Member for Strategic Finance and Resources - Councillor J Mutton

Director Approving Submission of the report:

Deputy Chief Executive (Place)

Ward(s) affected:

All

Title:

Unaudited 2017/18 Statement of Accounts

Is this a key decision?

No

Executive Summary:

The purpose of this report is to give Audit and Procurement Committee the opportunity to review the unaudited 2017/18 Statement of Accounts and raise any points that need to be addressed prior to approval of the audited Statement in July 2018. The Committee is the sole body for approval of this Statement in line with the Accounts and Audit Regulations 2011.

Recommendations:

Audit and Procurement Committee is recommended to review and comment on as appropriate, the unaudited 2017/18 Statement of Accounts.

List of Appendices included:

The Statement of Accounts is appended in its entirety

Background Papers

None

Other useful documents:

Final Accounts Working papers - Friargate 6th Floor

Has it been or will it be considered by Scrutiny?

The Audit and Procurement Committee will consider the Statement

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

No

Will this report go to Council?

No

Report title: Unaudited 2017/18 Statement of Accounts

1. Context (or background)

This report presents the unaudited 2017/18 Statement of Accounts (SoA). The Council is required by law to produce this document and it is prescribed heavily by regulation. This version is presented to Audit and Procurement Committee to provide an opportunity to review and comment on it. The Statement is also subject to audit currently by the Council's external auditors, Grant Thornton. It will be brought back to Audit and Procurement Committee for formal approval in July 2018 reflecting any changes recommended by Grant Thornton and agreed by the Director of Finance and Corporate Services. Grant Thornton will present their own Audit Findings Report alongside the audited Statement in July.

2. Options considered and recommended proposal

- 2.1 Given the highly technical, heavily prescribed and retrospective nature of the Statement of Accounts there are no options to consider. The Audit and Procurement Committee is recommended to review the draft statements and make any comments as appropriate prior to final approval. The paragraphs below explain the key aspects of the Statement.
- 2.2 In terms of the financial aspects of the SoA, the Committee should be aware that the Council's accounts are presented in line with International Financial Reporting Standards (IFRS). The Council is required to include financial statements that are explained in Section 2.1 of the appended draft (unaudited) Statement of Accounts document.
- 2.3 The Statement of Accounts must reflect local government accounting convention that any surplus or deficit that arises within the financial year is equal to the change in the net value of the authority's assets and liabilities and the change in the value of its equity. For 2017/18 the Council is reporting a £68.2m surplus within its Comprehensive Income and Expenditure Statement (CIES). This surplus is matched by an increase in the value of the Balance Sheet and the same increase is reflected in the level of (useable plus unusable) reserves in the Movement in Reserves Statement (MiRS).
- 2.4 The CIES surplus referred to above does not reflect the genuine position of the Council's General Fund, for which a £1.6m underspend has been reported in the Revenue and Capital Outturn Report which was considered by Cabinet on 12th June. The headline differences between the Income and Expenditure Account and the General Fund are traditionally explained within this report and the key explanations are detailed in the table that follows. The two areas that usually represent the biggest reasons (pensions and asset values) are explained in more detail in 2.5 and 2.6 due to their relative complexity.
- 2.5 In recent years, there have been very significant movements in the Council's pension liability which have fed through to large movements in the Council's CIES. In 2017/18 the Council's pension liability has reduced by £71m. The key reasons for this are:
 - A decrease in the discount rate from 2.7% to 2.55% (liability increase). The discount rate is the rate of interest used to discount post-employment benefits - the lower the rate, the higher the calculated cost of future pension liabilities.
 - A reduction in the assumed % inflation rate for annual pension increases (liability decrease).
 - An upfront payment of £93m made by the City Council to the Pension Fund in April 2017 which covers 3 years pension contributions (liability decrease). Two thirds (£62m) of this in effect represents a payment that would otherwise have been made in the next two years, the benefit of which will reduce over this time-period.

The upfront payment has received an accounting treatment, in line with initial advice from the Council's external auditors, whereby the (temporary) beneficial impact of the reduced liability has not been reflected in the CIES or the MiRS. Therefore, in 2017/18 Pensions do not represent a significant reason for the difference between the CIES and the Council's General Fund accounts.

- 2.6 There are a number of asset related adjustments. These include the net movement relating to depreciation, asset revaluations, asset disposals and de-recognition. Derecognition includes two broad categorisations: where the value of assets has to be split into several individual components necessitating assessments of the value of each component part of each asset; and the removal of recent academy school converters from the Council's balance sheet. The overall movement relating to these changes is relatively small in 2017/18 largely as a result of upwards revaluation balancing the other changes. Separately, grant funding for capital assets represents the biggest single change in the table below (£60m) representing the resourcing for part of the Capital Programme.
- 2.7 These circumstances within the Statement have not necessarily affected the Council's cash flows of income and expenditure in 2017/18. Instead they may be either events that will never result in an increased/reduced level of income or need to spend or, at worst, will only do so many years in the future. For this reason they do not form part of the management accounts which reflect a more current (and statutorily based) view of the need to spend and to finance this spend through grants, taxation and charges. The differences between the Statement of Account and management accounts are shown in the table below.

	£000	£000
Surplus Shown in Comprehensive Income & Expenditure Account (CIES)		(68,243)
<u>Less changes that made the CIES worse than the management accounts</u>		
Asset related adjustments including the rate that our assets go down in value over their lifetime due to wear and tear (depreciation) and any charges reflecting one-off changes in the value of our assets (impairment, revaluation and de-recognition).	(6,213)	
Items such as external schemes (e.g. Disabled Facilities Grants) that the Council funds from capital resources not revenue which do not result in the creation of new asset value for the Council.	(14,687)	
The one-off cost of repaying long-term debt (debt redemption premium).	(10,398)	
Sub-Total – changes that made the CIES worse than the management accounts		(31,298)
<u>Add changes that made the CIES better than the management accounts</u>		
Capital grants and other capital funding that is reflected in the CIES but not in the management accounts.	59,849	

The difference between a calculated whole-life cost of pensions and the pension contributions paid by the Council in the year. The pensions' deficit position has gone down this year.	8,791	
A charge for the amount that we need to put aside to repay debt in the future, peculiar to local authorities, referred to as the minimum revenue provision. This is reflected in the management accounts but not the CIES	10,241	
An increase in the overall value of general fund reserves which is reflected in the CIES but not in the management accounts	15,876	
All Other Items	3,216	
Sub-Total – changes that made the CIES better than the management accounts		97,973
Surplus Shown in Outturn Report		(1,568)

3. Results of consultation undertaken

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

4. Timetable for implementing this decision

4.1 The final part of changes to the regulations governing the timetable of the accounts closedown process take effect for these 2017/18 accounts. These have shortened the timescale for completing local authority accounts requiring the draft accounts to be prepared by 31st May (previously 30th June) and the final audited Statement to be approved by 31st July (previously 30th September). As a result the Council has taken measures to bring forward its accounting timetable. These draft accounts were issued on 18th May and it is anticipated will be signed off by Audit Committee on 16th July once they have been audited by Grant Thornton. Therefore the Council will be able to comply with the new tighter statutory timescales. Any material changes to the accounts following the audit will be reported to Audit and Procurement Committee at its July meeting.

5. Comments from Director of Finance and Corporate Resources

5.1 Financial implications

The Statement is a heavily prescribed, highly technical and very detailed document and it is no exaggeration to say that even experienced finance professionals find it difficult to understand some of the more complex areas of the Statement. For this reason, this report only summarises the key aspects of the Statement and its implications for the Council. In reality, the 2017/18 Revenue and Capital Outturn Report which contains the end of year position of the Council's management accounts is a more representative summary of the Council's in-year financial performance.

The Statement of Accounts provides a retrospective record of the Council's financial position on an accounting basis and it does not in itself have any specific financial implications for the Council. However, there is one material area of analysis contained within the Statement that requires further explanation – the Council's pension liability.

Long-term trends have witnessed a significant worsening of the Council's Pension liabilities over time. This reflects analysis indicating that contributions and other income flows into the pension fund have not been sufficient to meet the calculated cost of future outflows (the payment of pension benefits) from the fund. Over recent years, the Local Government Pension Scheme has been reformed at a national level whilst employer contributions have been increased across all West Midlands authorities to pay for the past service cost of pensions. In Coventry's case these have been built into the budgets since 2014/15. It is not clear whether or not these measures will redress the overall pension deficit over the medium to long term, since other factors are always likely to cause year on year volatility which makes it difficult to assess any long-term trends in the early years. Although to some degree the Council's £542m pension deficit is due to factors outside of the Council's control, it nevertheless represents a position that the Council needs to address over the long-term in line with actuarial advice. The Council is paying employer contributions that are anticipated to move towards a position of balance over the long-term. However, continued short-term volatility in this area is anticipated to continue to be a feature of local authority accounts generally.

5.2 Legal implications

The Council is required by legislation to complete a draft Statement signed by the Chief Financial Officer by 31st May and to approve and publish audited accounts by 31st July in line with the Accounts and Audit Regulations 2015. The Audit and Procurement Committee approves the accounts on behalf of the Council.

6. Other implications

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

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

6.2 How is risk being managed?

There is a detailed timetable for compiling the Statement of Accounts.

6.3 What is the impact on the organisation?

No specific impact.

6.4 Equalities / EIA

No specific implications.

6.5 Implications for (or impact on) the environment

None

6.6 Implications for partner organisations?

None

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Names of approvers for submission: (Officers and Members)				
Carol Bradford	Corporate Governance Lawyer, Legal Services	Place	29/5/18	30/5/18
Barry Hastie	Director of Finance and Corporate Resources	Place	29/5/18	6/6/18

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