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Audit and Procurement Committee

23 September 2013

**Name of Cabinet Member:**

Cabinet Member (Strategic Finance and Resources) – Councillor Gannon

**Director Approving Submission of the report:**

Director of Finance and Legal Services

**Ward(s) affected: All**

**Title:**

Progress on Matters Raised by the 2011/12 Annual Audit Letter

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**Is this a key decision?**

No

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**Executive Summary:**

This report identifies the progress made and current position with regard to the 4 issues raised in the 2011/12 Annual Audit Letter reported to the then Audit Committee on 31<sup>st</sup> October 2012 (minute 34/12 refers) and considered further by the Committee on 10<sup>th</sup> April 2013.

**Recommendations:**

Audit and Procurement Committee is recommended to:

- (1) Agree that the progress made and current position represent an appropriate response to the issues raised, and
- (2) Identify any further action that the Committee requires be undertaken by officers.

**List of Appendices included:** None

**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?**

No

**Will this report go to Council?** No

## **Progress on Matters Raised by the 2011/12 Annual Audit Letter**

### **1. Context (or background)**

- 1.1 This report identifies the progress made and current position with regard to the four issues raised in the 2011/12 Annual Audit Letter reported to the then Audit Committee on 31<sup>st</sup> October 2012 (minute 34/12 refers) and considered further by the Committee on 10<sup>th</sup> April 2013.
- 1.2 In summary, the four issues were as follows:

#### **Medium Term Financial Position**

Challenges were identified in relation to the Council balancing its budget in the context of budget gaps forecasted, savings already achieved and further savings identified within the Council's Transformation Programme. In particular the original report stressed that the Council will need to continue to ensure that it is maintaining realistic savings plans and monitor their implementation.

#### **Proposals for Business Rate Retention**

A risk to the Council's financial position was highlighted resulting from the proposals for local Business Rates Retention. The original report noted the mitigating factors including specific budget provision in the Council's medium term financial plans, work streams within the abs programme to identify how best to promote business rates growth and the planned business rates pool with all authorities within Warwickshire.

#### **Council Tax Benefit Reform**

A risk was identified in relation to plans to localise council tax benefit (support) including a 10% cut in funding for benefit and new operational and IT system challenges of maintaining a local scheme.

#### **Replacement of the Financial Information System**

Risks highlighted around the Council's new financial information system planned for December 2013 which will replace the general ledger, accounts payable and accounts receivable. In particular the Council was advised to assess if there are any lessons to be learned from other Councils that have recently implemented a new financial information system and to ensure that Internal Audit should play a key role in ensuring that controls are adequately designed and operating effectively.

### **2. Options considered and recommended proposal**

- 2.1 Audit and Procurement Committee is recommended to agree that the progress made and current position reflected in sections 2.3 to 2.6 below represent an appropriate response to the issues raised.
- 2.2 An additional (or alternative) recommendation is for Committee to identify any further action that the Committee requires be undertaken by officers.

#### **Medium Term Financial Position**

- 2.3 The Council approved its 2013/14 revenue budget on 26<sup>th</sup> February 2013 including new savings from Abs reviews amounting to £44m over the next three years. The report was quite clear in recognising the achievement of these savings as being fundamental in ensuring that the Council maintains a balanced budget and in identifying that their achievement represented a massive challenge. The Council now has a significant track

record in achieving savings through the Abs process based on an established programme management approach, constructive partnership working with PWC in support of this and increasing member involvement in reviews.

- 2.4 The achievement of abc savings is considered by senior officers as part of a separate reporting mechanism through the Transformation Programme Board. In addition, members are informed through an annual monitoring report. This has been considered most recently by Cabinet on 18<sup>th</sup> June and the Finance and Corporate Services Scrutiny Board on 29<sup>th</sup> July. In addition, periodic all-member seminars are held to consider progress on the programme. Any anticipated failure to achieve savings is identified as part of the quarterly budgetary control reporting mechanism.
- 2.5 In terms of past performance the most recent report to Scrutiny reported the achievement of £18.9m of abc savings in 2012/13 compared to a target of £19.2m. However, it is important to be aware that as further new areas of savings are identified there continues to be a risk that some of these may prove difficult to achieve. Where this happens it is important that this is reflected in setting subsequent budgets and there have been several instances (Money Matters, CLYP FSR) where such adjustments have been made in recent years. The ultimate test of whether robust budgets have been set lies in the achievement of balanced or near-balanced outturn positions each year. The 2012/13 outturn position reflected an underspend of £3.5m and continues a regular recent trend of similar such underspends.

### **Proposals For Business Rate Retention**

- 2.6 As indicated in the original Audit Letter, the Council's budget for 2013/14 contains some budget provision to allow for the potential risk in the volatility of Business Rate income. This includes a prudent allowance for bad debt, an amount set aside for successful back-dated appeals and specific provision against the risk that the overall (underlying) level of Business Rates could go down. In addition to the underlying budget risks faced in this area, the Council has set itself a challenging savings target of £2m (in 2014/15) rising to £3m from 2015/16 onwards for which a fundamental service review has been established entitled Strategic Regeneration and Business Rate Growth.
- 2.7 The review, which is seeking to protect and grow the City Council's Business Rate revenue, has three major work-streams. One of these is considering the existing Business Rates service including the efficiency of collection, whether the rating list is accurate and reviewing the Council's relief policies. As part of this strand, two new Business Rates inspectors have been employed to, amongst other things, to ensure that all properties are included on the rating list, to identify whether ratings appear to be up to date through identification of whether properties are empty and what the current property use is. Also, work has begun to review the Council's Discretionary Relief Policy. Any change to the policy will be brought to members for formal approval in due course.
- 2.8 The second strand includes examination and comparison of a range of financial interventions that the Council could deploy to encourage business and business rate growth. These interventions might include loans and/or grants to businesses, help to provide suitable business premises and infra-structure works to help enable specific business developments. This strand involves development of a Coventry Investment Fund, utilising part of the City Deal monies approved as part of 2013/14 Budget Setting, and providing investment through a potential combination of grants and loans to support Businesses across Coventry. A formal report is anticipated will be brought before members in the Autumn.

- 2.9 The final strand involves consideration of the Council's existing regeneration service and the degree to which it is aligned with and effective in the objective of growing the city's Business Rates. As part of this third strand, the Council's Business Investment Team is focussing on supporting businesses to invest and grow and take on new premises and on providing access to finance to support growth in business rates.
- 2.10 Overall, new monitoring protocols are being established for Business Rate income to ensure that it can be monitored rigorously through the year incorporating both the collection rate and fluctuations in the underlying level of Business Rates. This is a challenging area to monitor accurately due to the potential for large retrospective changes to Business Rates as a result of appeals. Notwithstanding, monitoring in the early part of the financial year indicates no significant movement in the underlying level of Business Rates – i.e. no discernible major upturn in new Business Rates but no significant major decreases either.
- 2.11 The Council's involvement in the Coventry and Warwickshire Business Rate Pool should give a further opportunity to protect the Council's overall revenue from Business Rates. The financial modelling for the Pool has indicated that the Council, alongside those in Warwickshire, is likely to benefit financially from its involvement in the Pool and this has been confirmed by informal monitoring returns in the early part of the year.

#### **Council Tax Benefit Reform**

- 2.12 The key risks in this area were originally linked to the implementation of a new scheme for Council Tax Benefit, the need for new ICT arrangements to accommodate this and the financial risks associated with it. In the event, the Council approved a local scheme that mirrors the national scheme in a way that has substantially mitigated these risks. This has meant that the Council has been able to implement a more straightforward system solution from our ICT supplier (one which will be common across a number of other authorities) and has avoided the threat of cutting benefit payments at a local level (and collecting very small amounts of Council Tax from a large number of tax-payers unaccustomed to having to pay this).
- 2.13 The Welfare Reform Project Board has met on a regular basis for a period of over a year and has overseen the policy, system and operational issues that have arisen in this area. Arrangements for administering the local Council Tax Reduction scheme have been in place since 1<sup>st</sup> April and the Reduction Scheme has been reflected within the annual bills sent out in March. As well as continuing to maintain the new scheme (which is now business as usual) the focus now turns to monitoring the cost of the Reduction Scheme. The risk of Council Tax Reduction Scheme costs (the equivalent of Council Tax Benefit) will fall to the Council from now on for which the Government will provide finite and un-hypothecated funding. This is a specific item monitored within the Council's regular financial monitoring mechanisms and the early part of the year has seen this figure remain relatively constant.

#### **Replacement of Financial Information System**

- 2.14 The Council's Project partner, Unit 4, have wide experience of implementing the Agresso financial information system to local government customers and have been able to share this knowledge in helping the Council to benefit from the successes and avoid some of the pitfalls that other local authorities have experienced in previous implementations. This has been further tested and reinforced by way of either discussions with or site visits to other Councils such as Warwickshire County Council, Dudley MBC and Bristol City Council. As the project has progressed the project team has sought opportunities to learn lessons from other local authority users of Agresso although it can be difficult to find a close match of

users who mirror precisely Coventry's mix of services, proposed system functionality and intended transformation of financial administration processes.

- 2.15 Internal Audit has been heavily involved in the project with the Audit and Risk Manager as a member of the Steering Group, providing advice on controls in addition to undertaking an assurance assessment of key aspects of the project (e.g. risk and project management). The Audit and Risk Manager has also been involved in discussions with the Council's external auditors and one of their colleagues who is responsible for the audit of an authority that has implemented Agresso to share their learning from that implementation.

### **3. Results of consultation undertaken**

- 3.1 On-going communication and consultation has been undertaken at key stages with senior managers and budget holders across the Council in relation to the new financial information system.

### **4. Timetable for implementing this decision**

- 4.1 The risks outlined and the mitigating actions all apply to the 2013/14 financial year.

### **5. Comments from Director of Finance and Legal Services**

- 5.1 Financial implications  
The report covers matters that are wholly related to financial issues.
- 5.2 Legal implications  
There are no specific legal implications in relation to the report.

### **6. Other implications**

None

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

This report covers matters referred to within the Council Plan under the banner of Improving how we work as a Council and specifically using resources effectively.

#### **6.2 How is risk being managed?**

##### **6.3**

The substance of this report covers how the Council is dealing with a range of high level risks within the Council. The governance structures surrounding Business Rates and Financial Information System replacement are subject to specific risk register approaches. The Medium Term Financial Position is one of the risks included within the Corporate Risk Register.

#### **6.4 What is the impact on the organisation?**

Failure to deal adequately with the risks outlined could have significant risks, in particular financial risks for the Council.

## 6.5 Equalities / EIA

The Council's fundamental service reviews have their equality impacts assessed before they are implemented.

## 6.5 Implications for (or impact on) the environment

None

## 6.6 Implications for partner organisations?

The Council is participating in a Business Rate Pool with Warwickshire County Council and all the district councils within Warwickshire.

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