

BROMSGROVE DISTRICT COUNCIL

Cabinet 14th September 2022

Financial Recovery Plan

Relevant Portfolio Holder	Councillor Geoff Denaro Portfolio Holder for Finance and Governance
Portfolio Holder Consulted	Yes
Relevant Head of Service	Peter Carpenter
Wards Affected	All Wards
Non-Key Decision	

1. SUMMARY

The purpose of this report is to set out the processes the Council has been following to rectify a deterioration in its financial position and processes due to the impact of the implementation of a new financial system in February 2021 during the C-19 pandemic period.

2. RECOMMENDATIONS

Cabinet are asked to Resolve that:

- Progress made on the following 8 key tasks for financial recovery be noted:
 - Financial Strategies
 - Revenue and Capital Monitoring
 - Closure
 - Returns
 - Projects
 - Systems
 - Documentation and Training
 - Resources
- The work still required to move back to a best practice operation and the associated timetable for completion of this work, as detailed in Appendix A, be noted.

3. KEY ISSUES

Financial Position

- 3.1 The Council implemented a new financial system in February 2021. The existing financial system was at the end of its useful life and would not deliver process improvements required to move the Council forward. This implementation has not been smooth and has led to a deterioration of the Councils financial position. This has included:

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- Non completion of the 2020/21 Accounts.
- Non delivery of monitoring information during the 2021/22 financial year.
- Non delivery of Government financial returns.
- Incomplete take-up of the new system by both Finance and Service Users.
- Loss of key financial staff.

3.2 These issues build on comments from the External Auditors relating to 2019/20 accounts, which were only approved in the fall of 2021 and where issues on working papers were highlighted as a significant issue. External Audit have not been able to start the Audit of the 2020/21 Accounts due to these issues and this has been reported to Audit Committee in July 2022.

3.3 Internal Audit reflect in their Annual Internal Audit Report for 2021/22 reported to Audit Committee in July 2022 that the implementation of a new financial system is a significant risk for the Council and that Audits of Accounts Payable and Monitoring have No assurance and that due to the problems in the implementation of the financial system that they were not able to undertake the Audit of the General Ledger.

Rectification Process

3.4 The Council has lost significant financial expertise with the exiting of staff leaving the department below a critical mass. External resource has been needed to rectify the solution in the short term. Part of this process has been to set out a rectification process which sets out the key issues to be resolved and a critical path for that resolution. This plan was bought to Corporate Management Team (CMT) at the start of March 2022.

3.5 The plan has a master timetable which sets out the key tasks to be completed. This master timetable is attached as Appendix A (as at the 22nd July). The timetable is subdivided into a number of sections. There are tasks to be completed in each of these sections:

- Financial Strategies
- Revenue and Capital Monitoring
- Closure
- Returns
- Projects
- Systems
- Documentation and Training
- Resources

3.6 As with any plan, there is a critical path to delivery. With this plan, the critical path centres on the rectification of issues being encountered with the cash receipting system. With this resolved the Council will be able to close the 2020/21 accounts and cease the manual work rounds that are presently required. Items on the plan only turn to green when they have been rectified and there is proof that they are working.

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- 3.7 Progress on this plan has been reported to CMT on a two-weekly basis since March. With a reconfiguration of CMT from August, the Plan will now be reviewed monthly at the CMT meeting which addresses monitoring and compliance. Although there has not been formal reporting to Cabinet, reports on various aspects of the Recovery have gone to Cabinet and the Audit Committee. This report brings all aspects together.

Progress on the Plan

- 3.8 We will take the assessment on progress on the plan in critical order. The two most critical items are the rectification of staffing issues and resolution of the financial systems issues relating to Cash Receipting.

Resources - Staffing issues

- 3.9 The Council, just prior to and during the systems implementation process from late 2020 through to March 2022, have lost all its Corporate Finance team and a few of its Management Accountancy team. This also coincided with the C-19 Pandemic where most Council staff were working from home. It went through a recruitment process which only resulted in 2 staff being appointed in the fall of 2021, one of whom left in April 2022. However, a recruitment process run in March and April 2022 has been much more successful and will have led, by August, to finance staffing being back at an appropriate level. There are still some key establishment positions being covered by temporary staff, which include the Chief Accountant and the HRA Accountant. These, and other vacancies, will be reassessed following the completion of the rectification process.

The Council has run 2 sets of Recruitments in November 2021 and April 2022. Most Establishment roles are now filled (Agency where relevant):

- Strategic Director – P Carpenter – 1 year contract in order for the Council to recruit properly (33 years local Government Experience) and to ensure continuity in delivering the finance recovery plan and developing the new finance team.
- Head of Finance and Customer Services – Michelle Howell – LG Experience with Wolverhampton.
- Financial Services Manager - LG Experience with Wolverhampton.
- Technical Accountant – LG Experience with Worcestershire CC.
- Control Accountant – Experience in Prison Service and Banking.
- Reconciliation Assistants – New to Local Government.
- Management Accountant – LG Experience with Coventry.
- Management Accountant – New to Local Government.
- Accounts Assistant – Internal appointment.
- Chief Accountant – Agency 6-month contract, 15 yrs LG experience.
- Still Vacant Head of Management Accounts, Reconciliation Assistant, Management Accountant – pending 23/4 budget.
- AP/AR – 1.5 new staff in AP and 2 AR staff, both internal from Cashiers and Reconciliation teams.
- Other Temp staff presently in position:

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- Management /Control Accountant – being handed over to new establishment staff by end of September
- Systems Accountant – to deal with Cash Receipting issues then will start to do handovers
- HRA Accountant – 3 days a week – specialist agency resource

Council now has range of staff and skills to deliver its financial remit.

- 3.10 Staffing issues have been discussed at Audit Committee, the latest being the July 2022 committee and in particular the Internal Audit reports. This being a joint service, there was a significant conversation over these issues at the Audit Committee at Redditch in April 2022. As this meeting our External Auditors also commented on the issues they were having in recruitment. It was also noted that this was a wider issue across most Worcestershire Councils.

Systems Issues

- 3.11 There had been issues with the implementation of the Tech1 system on 8th February 2021. A significant reason for these issues has been the fact that the Council has been the first adopter of Cash Receipting fully on Tech1. This is the most complicated part of the system and this along with opening balances are the two critical tasks that are holding up the production of the 2020/21 accounts.
- The Council has been in weekly conversations with Tech1 over cash receipting issues. The issues mean that if reconciliations are undertaken that significant numbers of transactions move into suspense and initiate a number of other transactions.
 - Because of this, reconciliations have not been completed as they cause more issues.
 - We are working with Tech1 on a solution to cash receipting and have meetings with them throughout the summer to resolve various aspects. A number of these meetings have been early in the morning or in the evening as the Council is talking to staff in Australia and New Zealand to rectify issues. Sessions were held on the 21st and 22nd to move to resolve the final issues and this is now being tested to move this into the live system. This is a significant issue and without resolution the Council cannot move forward and close its 20/21 accounts, but it is a core part of the recovery plan.
 - There was not full logging/reconciliation of standing and transient data takeover balances moving from the existing financial systems to Tech1 on and around the 8th February 2021.
 - The Council are now having to “back- engineer” these control amounts from the copy of the original system that was made.
 - Without resolution the Council cannot move forward and close its 20/21 accounts, but it is a core part of the recovery plan.
 - Part of the resolution also links to staff and the fact that almost all the staff who implemented the Tech1 system at the Council have left. Therefore, the filling of

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vacancies and training starting in September as per the recovery plan are crucial in moving the Council forward.

- 3.12 **The systems issues have been highlighted at the Audit Committee in July 2022 and are key to the delivery of the overall rectification process.**

Financial Strategies

- 3.13 There was the requirement to ensure that the delivery of financial strategies was timetabled and delivered into both the business and the public environment. Significant movement has taken place in this area with
- The 2021/22 closure timetable for managers being circulated to Council senior and budget managers in March 2022 to ensure the “nuts and bolts” closure work could be undertaken in a timely manner. It is recognised that the 2020/21 accounts are not closed, but without this work being undertaken at the correct time even more difficulties would have been encountered.
 - Treasury Management Strategies, including Capital, MRP and Investment Strategies were presented to Cabinet in May 2022.
 - Risk Management has been identified in Audit Reports (and reported to Audit Committee in July 22 in the 21/22 Internal Audit Report) as being no assurance. An updated Risk Management Officer Board has been set up and two cycles of Risk Reports have been presented to CMT. The first Cycle of these Risk Reports have been presented to both Cabinet and Audit Committee in July 2022.

Revenue and Capital Monitoring

- 3.14 There was no revenue or capital monitoring for the majority of the 2021/22 financial year due to the staffing and systems issues. However:
- A Period 11 Monitoring 2021/22 was undertaken, and this was reported to Cabinet in May 2022.
 - A Period 1 Monitoring 2022/23 was reported to Cabinet in July 2022. Although there were no financial updates in this report it set out the process to be followed this year for monitoring (on system), the process being taken to rectify the Council’s budgetary position, and a number of financial indicators including collection rates for both Council Tax and Business Rates.
 - A Quarter 1 2022/23 combined Financial and Performance Monitoring will be presented to Cabinet on 14 September 2022.
 - The 2021/22 Outturn Report should have gone to Cabinet in July. This will not be possible until the issues with Cash Receipting have been resolved.

Closure

- 3.15 As set out in the above sections, we are not yet able to move into the formal “technical” closure processes for the 2020/21 processes due to the issues linked to Cash

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Receipting. We are assuming that the 2020/21 closure process, as significant work has been done to date, will take up to 3 and a half months to complete. This timetable will start after 1 month of steady running of the Cash Receipting solution.

- 3.16 As part of the 2020/21 Closure process, the Council will liaise with its Internal and External Auditors on how it is manually correcting transactions prior to the “fix”. This is key to ensuring a full rectification and closure of the 2020/21 accounts.
- 3.17 As has been set out in 3.13 above, the guidance for 2021/22 closure has been circulated to budget managers. This is crucial to ensure issues with 2021/22 closure are minimised. “Technical” closure of the 2021/22 accounts will start as soon as the 2020/21 accounts have been closed and is expected to take 3 months.

Returns

- 3.18 The Council are required to report on a number of financial measures to the Government via a series of Returns. Due to the systems-based issues a number of these were not possible. Until the system-based issues are rectified Revenue and Capital Outturn Reports (CO/RO) cannot be completed and the Council are in communications with DLUHC on the issues causing the non-completion of these returns. However, the following returns have been made:
- Revenue Estimates 2021/22 and 2022/23 (RA).
 - PWLB Certainty Rate 2022/23 – sets out borrowing requirements.
 - Council Tax Requirement (CTR1) 2022-23.
 - Quarterly return of Council Tax and NNDR (Q4 2021/22 and Q1 2022/23).
 - C-19 Grant Assurance Returns for 2021/22.
 - Housing Benefit Subsidy Return 2021/22.
 - DHP Government Contribution Final Claim for 2021-22.
 - Test and Trace Payments 2021/22.
 - NNDR3 Return for Business Rates.

Projects

- 3.19 Throughout this time period, the finance team continue to cover on a number of important projects.

Documentation and Training

- 3.20 It is clear from the limited rollout of new financial systems processes in both the finance team and the wider Council that a significant retraining process will need to be undertaken. This had been timetabled initially for April/May but this has now been revised to September/October as we need resolution of the financial systems issues to properly take this forward. As part of this process there will be:
- Updated/simplified financial regulations
 - Updated/simplified Step by Step guides

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The aim of the training is to ensure all can use the system properly and more easily leading to higher levels of compliance.

4. Legal Implications

4.1 No Legal implications have been identified.

5. Strategic Purpose Implications

Relevant Strategic Purpose

5.1 The Strategic purposes are included in the Council's corporate plan and guides the Council's approach to budget making ensuring we focus on the issues and what are most important for the district and our communities. Our Financial monitoring and strategies are integrated within all of our Strategic Purposes.

Climate Change Implications

5.2 The green thread runs through the Council plan. Every report has potential financial implications and these in term can have implications on climate change. These will be addressed and reviewed through individual reports when relevant by climate change officers will ensure the correct procedures have been followed to ensure any impacts on climate change are fully understood.

6. Other Implications

Customer / Equalities and Diversity Implications

6.1 None as a direct result of this report.

Operational Implications

6.2 Managers meet with finance officers to consider the current financial position and to ensure actions are in place to mitigate any overspends.

7. RISK MANAGEMENT

7.1 The financial monitoring is included in the corporate risk register for the authority

5. APPENDENCES

Appendix A – High Level Plan

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