

# **BROMSGROVE DISTRICT COUNCIL**

**Cabinet 18<sup>th</sup> October 2023**

## **Financial Recovery Plan**

Relevant Portfolio Holder	Councillor Charlie Hotham, Finance and Enabling Portfolio Holder
Portfolio Holder Consulted	Yes
Relevant Head of Service	Michelle Howell
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Wards Affected	N/A
Ward Councillor(s) consulted	N/A
Relevant Strategic Purpose(s)	All
Non-Key Decision	
If you have any questions about this report, please contact the report author in advance of the meeting.	

### **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. This follows on from a report presented on the 14<sup>th</sup> September 2022 and also the discussions over the S24 Statutory Recommendations that took place in Audit, Standards & Governance Committee, Cabinet and Council in November and December 2022.

### **2. RECOMMENDATIONS**

**Cabinet are asked to Resolve that:**

- Progress made on the financial recovery be noted including:
  - Delivery of the Statutory Accounts
  - Delivery of Statutory Financial Returns
  - Improvements in the Control Environment
- The work still under way to move back to a best practice operation and the associated timetable for completion of this work, as contained in this Report, 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

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smooth and has led to a deterioration of the Councils financial position. This has included:

- Non completion of the 2020/21, and 2021/22 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 A finance recovery programme was put in place from April 2022 to start to rectify the situation. This was reported through to Cabinet in September 2022.
- 3.3 These issues build on comments from the External Auditors relating to 2019/20 accounts, which were only approved in the fall of 2021 and the subsequent issuing of the S24 Recommendation on the 31<sup>st</sup> October 2022 due to non-delivery of the 2020/21 Statement of Accounts. Comments on the 2019/20 accounts highlighted issues on working papers were highlighted as a significant issue.
- 3.4 Audit, Standards and Governance Committee, Cabinet and then Council debated the S24 Recommendation and the Draft 2020/21 External Audit Report in November and December 2022. The outcome of Council was that:
- the Section 24 Statutory Recommendation be accepted, and that Council review the recommendation, endorse the actions included in the management responses which form the rectification process required as per legislation and
  - the Council, through the Leader, commission a Corporate Peer Review by the Local Government Association (LGA) to look into Corporate Governance linked to the Section 24 Notice report and the draft External Audit Report for 2020/21. The review would then be reported back to the Chief Executive and the Leader of the Council, who in turn would discuss the outcomes with other Group Leaders
  - the Audit, Standards and Governance Committee carry out a root and branch investigation on how the Council arrived at the Section 24 Notice.
- 3.5 And in terms of the 5 Key Recommendations and 13 Performance recommendations in the draft External Audit Report for 2020/21 that
- the 5 Key Recommendations and 13 Improvement Recommendations within this report be agreed.
  - Council agree that the Management Actions contained within this report will rectify these issues
- 3.6 The Council continue to move forward with the rectification processes and in particular:
- A Peer Challenge did take place in early March, which was a joint review with Redditch, and another report on this agenda sets out actions plans, including a “finance action plan”, to meet the Peer Challenge’s recommendations.

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- A Task Group of Audit, Standards and Governance Committee did meet to carry out the root and branch review on how the Council arrived at the Section 24 recommendations. This Task Group met in February and presented its findings to Audit, Standard and Governance Committee on the 9<sup>th</sup> March.
- That Audit, Standards and Governance Committee as a standing agenda item review progress against the Audit recommendations, and national and local deadlines.

### **Rectification Process**

- 3.7 The Reports presented to Council in December set out the Management Action Plans in place to rectify the issues set out in the S24 Recommendations and the draft 2020/21 External Audit Report. These are also set out in the Peer Review report Appendix G. This report now concentrated on movement since those formal responses.
- 3.8 Movement since the last finance recovery report on the 12<sup>th</sup> July 2023 has included:
- A draft Outturn Report for 2022/23 has been presented to Cabinet.
  - The draft 2022/23 Revenue Outturn Estimates have been presented to DLUHC.
  - The draft 2022/23 Capital Outturn Estimates have been presented to DLUHC.
  - A Quarter 1 Finance and Performance Report 2023/24 has been presented to Cabinet.
  - Joint work has continued with External Audit on providing evidence of control balances at the time of the transfer from eFin to TechOne on the 8<sup>th</sup> February 2021. External Audit have validation routines for the in year 2020/21 financial year and are in the process of reviewing this data. However, the Council are still to provide the Period 0 data. As part of this process, the Council has extended the eFin contract for three years to comply with legislation and allow the period 0 data to be extracted.
  - The 2021/22 Housing Benefits Audit has been signed off.
  - Financial Awareness Training with Managers.
  - Budget Management Training for Managers (including use of TechOne).
  - Monthly Accounts Payable Training.
  - We have engaged a Head of Management Accountancy on the 20<sup>th</sup> September and 2 temporary Technical Accountants will start by the end of September.
  - The Council upgrade TechOne to the latest version in July 2023.
  - The Financial Compliance Report, setting out movement in the financial recovery plan, has been reviewed by Audit, Standards and Governance Committee in July and September 2023.
- 3.9 In terms of closure work, the following actions have taken place/been agreed with our External Auditors:
- Closure 2020/21
    - Agreement of Treatment of Take on Balances – This was expected to be completed by July, but joint work is still being undertaken by the Council and External Auditors to validate these balances.
    - Provision of Draft 2020/21 Accounts to Audit (to begin Audit) July 23. This is dependent on the External Auditors confirmation that they have approved both Council's take-on balances work. The auditors are having issues in how they

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need to test the transactional data due to their “normal” models not working on our data. Some transactional testing and data extraction has taken place in August but this has been limited due to issues with the prime documentation held by the Council.

- 2020/21 Audit – October to December 23 (estimated)
- Sign Off of 20/21 Accounts - January 2023
- Closure 2021/22
  - Updated Outturn position – August 2023
  - Draft Accounts to Auditors December 2023 (prior to external Auditors sign off of 20/21 Accounts)
  - Audit of Accounts January to April 2024.
  - Sign off of the Accounts – May/June 2024 (will need to be completed by 31<sup>st</sup> March 2024 if the new requirements are enacted).
- Closure 2022/23
  - Budget Manager Closure Training in March had 83 staff attending.
  - Provisional Outturn Report – Cabinet Report for 13<sup>th</sup> September 2023. This showed draft outturn and Reserves and Capital positions. This has enabled the 2022/23 Revenue Outturn and Capital Outturn Reports to be presented to DLUHC.
  - Draft 2022/23 Accounts to Audit – June 24 (following External Auditors sign off 21/22 Accounts)
  - Sign off of the Accounts – November 2024 (will need to be completed by 30<sup>th</sup> September 2024 if the new requirements are enacted)

3.10 A recovery programme action that is still causing concern is the replacing staff – due to Market shortages which are now more acute and driving up day rates. As per section 3.8 we are using temporary resource to cover a number of positions.

3.11 The July report set out reservations across the Sector from Councils, Auditors, the Financial Standards Authority (FSA), Public Sector Audit Appointments (PSAA) and DLUHC on the delays in the Audit of Statutory Council accounts. There are over 500 Audit Opinions still outstanding for English Councils for 2021/22 and earlier. Add to this the 424 Audits due to be completed by November 2023 for the 2022/23 financial year, and a severe impact can be seen on the sector. Both the PSAA and FSA have highlighted the following key issues to be resolved including:

- Having a Workforce Strategy that improves attractiveness and prestige in the local government and audit profession.
- Identification of changes required to promote high standards and financial reporting and audit in the public interest.
- Creating a roadmap securing sustainable reforms underpinned by an agreed vision and purpose of financial reporting and audit.

3.12 At the Local Government Conference in July and subsequently, DLUHC have stated that they are moving to rectify these backlogs by changing how audits are performed over the medium term. DLUHC are concerned that the most time should be spent on auditing

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more recent accounts, so scopes of audits will be reduced (still to be confirmed) however Auditors will still be expected to serve S114 and other Statutory Recommendations. The governments' view is that Audits will be given statutory deadlines for completion as follows:

- 2015/16 through to 2019/20 must be signed off by the 30<sup>th</sup> December 2023
- 2020/21 and 2021/22 by the 31<sup>st</sup> March 2024
- 2022/23 by the 30<sup>th</sup> September 2024

Looking at these proposed timescales there will be the requirement to speed up slightly the agreed timetable we have agreed with our External Auditor by circa 2 months to deliver to these new statutory timetables. These timescales are expected to be agreed in September 2023.

- 3.13 We have upgraded the TechOne system, moving from the present version which is 20b to 23a over the weekend of the 7<sup>th</sup> to 10<sup>th</sup> July. This upgrade has given access to more functionality and resolve a number of issues being experienced which have been resolved in later issues of TechOne. We have only been able to upgrade the system following the resolution of cash receipting issues and movement of this part of the solution to steady state running.
- 3.14 Progress on the following key financial and compliance indicators are reported monthly to CMT monthly and to both Audit Committees bi-monthly by the S151/Deputy 151 Officers. There is a requirement to report all finance deliverables as per the Recommendations of the Audit Task Group:
- **Budget**
    - Delivered by 11<sup>th</sup> March in preceding financial year – **delivered Feb 2023**
    - Council Tax Base – Yearly – **2023/24 delivered in January 2023**
    - Council Tax Resolution – **Yearly 2023/24 delivered in February 2023**
    - Council Tax Billing – Yearly (2 weeks before 1<sup>st</sup> DD is due to be taken) – **Bills distributed in March 2023**
  - **Closure**
    - Draft 2022/23 Accounts delivered by end of July in order for 22/23 RO forms to be delivered.
    - Draft 2020/21 Accounts to be delivered to Audit following validation of the data take on balances for which work is currently ongoing.
    - Audit Completed by December 2023 **but dependent on previous years being completed (see closure section)**
  - Government Returns
    - VAT – Monthly
      - **Still to be delivered for 20/21 – dependent on closure of accounts**
    - Revenue Outturn Reports –
      - **Still to be delivered for 20/21 and 2021/22 – dependent on closure of accounts**

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- **22/23 estimated return delivered in August 2023 to DLUHC**
- Capital Outturn Reports
  - **Draft returns for 20/21 and 21/22 submitted 7<sup>th</sup> July 2023, however final version still to be delivered – dependent on closure of accounts**
  - **22/23 return delivered on 4<sup>th</sup> August 2023**
- Quarterly Revenue Outturn Estimates
  - **Quarters 1-3 22/23 delivered (have warnings from previous year as not delivered)**
  - **Quarter 1 23/24 delivered on 18<sup>th</sup> August 2023**
- Quarterly Capital Outturn Estimates
  - **Quarters 1-4 22/23 delivered (have warnings from previous year as not delivered)**
  - **Quarter 1 23/24 delivered on 21<sup>st</sup> July 2023**
- Quarterly Borrowing Return
  - **22/23 Quarterly Returns delivered**
  - **Quarter 1 23/24 delivered on 7<sup>th</sup> July 2023**
- Quarterly Council Tax and Business Rates Returns
  - **22/23 Quarterly Returns delivered**
  - **23/24 Quarter 1 delivered on 11<sup>th</sup> July 2023**
- Whole of Government Accounts Returns – August
  - **Still to be delivered for 20/21 – dependent on closure of accounts**
- RA – Revenue Budgets – April
  - **2022/23 Delivered on the 5<sup>th</sup> May 2022 and 2023/24 delivered on 14<sup>th</sup> April 2023**
- Capital Estimates Return - March
  - **23/24 delivered by 24<sup>th</sup> March 2023**
- Public Works Loans Board Certainty Rate – April
  - **2022/3 delivered on 28<sup>th</sup> April 2022**
- NNDR1 Return (Business Rates) – January
  - **Delivered December 2021 for 2022/23 and January 2023 for 2023/24 return**
- NNDR3 Return (Business Rates) – June and September
  - **Delivered in June 22 for 2022/23**
  - **Draft 22/23 NNDR3 provided to Worcestershire County Council for view of the pool. Final draft NNDR3 submitted to DLUHC on 18<sup>th</sup> May 2023**
- Housing Benefit Subsidy Return – Yearly
  - **21/22 - Sent 29<sup>th</sup> April 2022**
  - **22/23 subsidy return delivered on 28<sup>th</sup> April 2023**
- DHP Claim – Yearly
  - **21/22 - Sent 29<sup>th</sup> April 2022**
  - **22/23 – delivered on 2<sup>nd</sup> May 2023**
- CTB1 (Council Tax Base) – October
  - **Sent October 2022**
- CTR1 (Council Tax Requirement) – March
  - **22/23 sent 16 March 2022**
  - **23/24 sent 7 March 2023**

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- **Policies**
  - Treasury and Asset Management Strategies
    - Initial Strategies as part of the MTFP – **2023/4 Strategy Approved in March 2023**
    - Half Yearly Report
      - **Update provided in Q1 Revenue Return**
    - Yearly Outturn Report
      - **To be produced in September**
  - Council Tax Support Scheme – Yearly – **Approved in Jan 2023 after consultation**
  - Minimum Revenue Provision – yearly – **Approved as part of the 2023/4 to 2025/6 Medium Term Financial Plan**
  - 
  - Financial Monitoring – **delivered quarterly to Cabinet – due to Summer Holidays Q1 23/4 will go to Cabinet in September.**
  - Risk Management – **delivered quarterly to this Committee.**
  - Financial Controls (still in development)
    - Clearance of suspense accounts - **return to being up to date expected by end of this calendar year**
    - Bank Reconciliation - **linked to above point although a separate stream assessing/clearing 2023/4 items**
  - Over £500 spending.
    - **Updated to July 2023**

3.15 The key returns that have still not been delivered are the Revenue Outturn forms for 2020/21 and 2021/22 and the VAT returns. Linked to these are the Whole of Government Returns – for which over 100 Council are still to complete theirs for the 2020/21 financial year. We have now delivered the draft CO and RO forms for 2020/21 - 2022/23 however final CO and draft RO returns cannot be submitted until the accounts are audited. Although the Government now allow these returns to be completed based on estimates, the level of uncertainty due to the Cash Receipting means these cannot be completed until the External Auditors sign off the Councils take on balances and the Council provides the draft accounts to Audit for each Council.

3.16 There are a number of areas where compliance will be measured going forwards. Compliance to process and timetable is a key underlying theme of the Draft External Audit Report 2020/21. These items are being measured to improve how we work and change behaviours. This will lead to an improved financial health/knowledge across both Councils. Not all these measures can be put in place instantly but there should be the full suite by the middle of the summer (Debt indicators depend on the clearing of suspense and the updating of the bank reconciliations).

3.17 Training:

- Number on Closure Training March 23 – 83 attended.

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- Mandatory Budget Manager Training – this has started in August 2024 and ensures budget managers understand forecasting requirements and how to input forecasts on TechOne.
- Mandatory Financial Awareness Training – Three sessions have now taken place in August and September to give wider finance awareness training to managers.
- Payments Purchase Order Training (Monthly) by Service Area.

### 3.18 Errors:

- Non delivery of GPC Card Data (monthly basis) – will begin at the end of Quarter 1.
- Mis-codings on TechOne per month – by Service Area - will begin at the end of Quarter 1.

### 3.19 Process updates:

- Finance time to respond to queries:
  - Finance – to be measured.
  - Payments and Insurance – to be measured.
  - Income – to be measured.
- Procurement
  - The new 'No Compliance No Order' process has been live since April 2023.
  - Many departments are now proactively getting quotations for lower value works. A lot of the issues we have are now training issues that are being resolved.
  - The number of contracts in place is growing regularly and we are confident that this process is having a positive effect. We hope that eventually we get to the place where the number of orders coming to us is minimal.
  - A report went to Cabinet in July setting out new government procurement requirements that the Council are addressing, many of which come into force on the 1<sup>st</sup> April 2024. The Q1 Finance and Performance Monitoring Report Finance went to Cabinet on the 13<sup>th</sup> September sets out:
    - All contracts requiring renewal over the next year that are over the £50k threshold.
    - All contracts that Redditch raises on behalf of Bromsgrove.

### 3.20

#### **General Finance Indicators:**

- Council Tax collection rates – 2022/23 RBC 95.7%, 2022/23 BDC 97.8%, April 2023 so far RBC 8.9%, April 2023 so far BDC 8.7%
- Business rates collection rates - 2022/23 RBC 94.8%, 2022/23 BDC 94.6%, April 2023 so far RBC 6.8%, April 2023 so far BDC 6.6%
- Number of invoices paid within 30 days – update to be provided in next report
- Outstanding debt over 30 days (Accounts Receivable) – will get up to date figures at the end of September.
- Bank reconciliations – will get up to date figures at the end of September.



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- Volume of items in suspense:

SUSPENSE CLEARANCE KPI,s				
Date of Measurement	No of Unreconciled Amounts over £1000	Average Value of Unreconciled Amounts over £1000	Number of Reconciled Transactions	Total Transactions
20/08/2023	2,570	£104,611	33,134	99,963
09/09/2023	2,184	£16,771	34,322	101,450
15/09/2023	2,165	£14,685	34,728	101,849

3.21 Following the work undertaken, the following list are the actions that are now being delivered to rectify issues highlighted in the S24 Recommendation as well as key recommendations of the draft 2020/21 External Audit Report:

- The Accounting Policies Report goes to every Audit Committee.
- The key closure deliverables for each financial year are clearly set out. The owners of these deliverables are the S151 and Deputy S151 Officers.
- Closure and Audit of the 2020/21 Accounts delivers the S24 Recommendations. The owners of these deliverables are the S151 and Deputy S151 Officers.
- Progress on key financial and compliance indicators are reported monthly to CMT and to both Audit Committees bi-monthly by the S151/Deputy 151 Officers. There is a requirement to report all finance deliverables as per the Recommendations of the Audit Task Group.
- Delivery of Financial training detailed in this document will move staff to right level of skills.
- TechOne has been upgraded to the latest version 23A in July 2023.
- The Council will engage with Lanlaus for further TechOne system improvements and efficiencies.
- Quarterly combined financial and performance monitoring continues in 2023/4 with Q1 delivered in September.
- The 2024/5 MTFP process has started. As part of this process the approach to consultation will be rethought as per the draft 2020/21 Audit Report Recommendation.
- The MTFP will include Scenario analysis given short term Government guidance on central support.
- The Audit Task Group Recommendations have been integrated and endorsed by the Cabinet.
- Risk workshops are still to be run to assess Risk Appetite of Cabinet and Audit Committees.
- Following the Risk Workshops the Council will be able to implement Internal Audit Risk Review recommendations.
- The Audit Committee agenda order has been changed to deal with risk earlier as per the Recommendations of the Audit Task Group.

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## **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 borough 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

## **8. APPENDICES**

None

## **AUTHOR OF REPORT**

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