

BROMSGROVE DISTRICT COUNCIL

Cabinet 17th January 2024

Financial Recovery Plan

Relevant Portfolio Holder	Councillor Charlie Hotham, Finance and Enabling Portfolio Holder
Portfolio Holder Consulted	Yes
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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 14th 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 and 2023.

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

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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:

- 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 31st 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 The Interim 2021/22 and 2022/23 Auditors Annual Report was received and reviewed by the Audit, Standards and Governance Committee on the 27th November and Council on the 6th December. The report still contains the S24 Recommendation relating to the non-delivery of the 2020/21 Statement of Accounts, but is now extended to the two subsequent years where are also now due. The Recommendation from Audit Standards and Governance Committee to Council is 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,
 - Audit, Standards and Governance Committee members are updated on key deliverables, where deemed applicable by the Chair, the Cabinet Member for Finance and Enabling and the 151 Officer between Committee meetings and that appropriate governance arrangements are put in place to resolve the Councils position.
- 3.5 Reflecting the differences between the 2020/21 Interim report and the 2021/22 & 2022/23 Interim Report:
- The Section 24 Recommendation around the delivery of the 2020/21 accounts is still in place and has been extended to the subsequent accounting periods now outstanding.
 - Of the 5 Key Recommendations in the 2020/21 report, only one serious weakness remains in relation to opening balances linked to the budget which will be resolved with the delivery of the Accounts, the remainder of those significant weaknesses have been resolved or linked to Improvement Recommendations (of which there are 10 in the report).

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- There is one new Key Recommendation linked to Organisational Capability and Capacity. The Council is mitigating this in the main through the rollout of the Workforce Strategy.
 - Of the 13 2020/21 Improvement Recommendations, 9 have been fully or partially addressed and 4 are yet to be addressed. Again, ongoing improvements are linked to the 10 new Improvement Recommendations set out in the External Auditors report.
- 3.6 The External Auditors have noted the significant progress the Council has made in all areas apart from the delivery of the Accounts. As such the existing S24 Statutory Recommendation remains outstanding in relation to the 2020/21 Accounts and they have concluded that it is appropriate for them to use their powers to make written recommendations under section 24 of the Act, with the key reason being the non-delivery of the 2020/21 and subsequent Statutory Accounts.
- 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. The follow up Peer Review sessions are taking place in December.
 - The root and branch review on how the Council arrived at the Section 24 recommendations carried out by the Task Group of Audit, Standards and Governance Committee in February and the recommendations were approved..
 - That Audit, Standards and Governance Committee continues as a standing agenda item to 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 18th October 2023 has included:
- Updated 2022/23 Revenue Outturn Estimates have been presented to DLUHC.
 - Updated 2022/23 Capital Outturn Estimates have been presented to DLUHC.
 - A Quarter 2 Finance and Performance Report 2023/24 was presented to Cabinet. This also included an update on Assets/RAAC.
 - 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 8th February 2021. Period 0 data has been provided on the 13th November and the auditors reviewed this and returned 92 coding issues on the 23rd November which are being worked through by the Council. The exiting eFin system is being upgraded to ensure full reporting is available going forward.
 - The Half Yearly Treasury Management Report was presented to Cabinet on the 22nd November.

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- The 2021/22 Housing Benefits Audit has been signed off.
- The Q2 financial monitoring was undertaken on TechOne, not on spreadsheets, which is a huge move forward in terms of systems use and increasing the financial awareness of budget managers and their administration staff.
- Monthly Accounts Payable Training continues.
- We are interviewing for Head of Finance and Customer Services vacant position on the 8th December. We have 6 candidates on the initial longlist which have engaged a Head of Management Accountancy on the 20th September and 2 temporary Technical Accountants will start by the end of September.
- The Financial Compliance Report, setting out movement in the financial recovery plan, has been reviewed by Audit, Standards and Governance Committee in July, September and November 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. The Period 0 balances have been supplied by the Council's previous financial systems providers Advanced to the External Auditors on the 13th November.
 - Provision of Draft 2020/21 Accounts to Audit. This is dependent on the External Auditors confirmation that they have approved both Council's take-on balances work. To date only limited high level testing has taken place although significant work has been undertaken.
 - Sign Off of 20/21 Accounts – to be confirmed with the External Auditors
- Closure 2021/22
 - Updated Outturn position – still to be provided (cash receipting backlog to be cleared by 31 December 2023)
 - Draft Accounts ready for Auditors (without any 2020/21 Audit Adjustments) estimated February 2024.
 - Audit of Accounts February to April 2024
 - Sign off of the Accounts – to be confirmed with External Auditors.
- Closure 2022/23
 - Budget Manager Closure Training took place in late March with 83 staff attended closure training.
 - Draft Provisional Outturn Report – Cabinet Report delivered in October 2023.
 - 2022/23 draft Revenue Outturn and Capital Outturn Reports 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.

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. We are using temporary resource to cover a number of positions.

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- 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 As reported in the July and September Reports, 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 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 30th December 2023.
 - 2020/21 and 2021/22 by the 31st March 2024.
 - 2022/23 by the 30th 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 were expected to be agreed in September 2023 but to date no further advice has been given.
- 3.13 There is an article in the 1st November 2023 Municipal Journal from Lee Rowley MP which sets out that the speeding up of the overall Local Government Audit Process must take place and the present backlog rectified. The view of Ministers is that Auditors should be focussed on more recent activities. However, confirmation on these revised timescales and how audit requirements will be changed is yet to be received
- 3.14 We have upgraded the TechOne system, moving from the present version which is 20b to 23a over the weekend in July 2023. This upgrade has given access to more functionality. This means the Council is now on the latest version of TechOne although because Redditch and Bromsgrove are still the only Council's on Cash Receipting, when

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the weekly updates come in they have do additional checks to ensure the functionality is working as expected.

3.15 Once the External Auditors sign off the data take on balances the draft 2020/21 Accounts will be submitted. The Council has not submitted them yet as if the External Auditors have issues with the data take on balances and the draft accounts had been submitted then this could lead to qualified accounts. Work is under way on the 2021/22 Accounts although they cannot be finalised until the audit of the 2020/21 Accounts is complete. The key driver is the clearance of the cash receipting suspense accounts which is expected to be delivered by end of December.

3.16 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 11th March in preceding financial year – **delivered Feb 2023**
 - Council Tax Base – Yearly – **2023/24 delivered in January 2023**
 - Council Tax Resolution – **Yearly 2023/4 delivered in February 2023**
 - Council Tax Billing – Yearly (2 weeks before 1st DD is due to be taken) – **Bills distributed in March 2023**
- **Closure**
 - Draft Accounts delivered to Audit by 31st June in order for 22/23 RO forms to be delivered.
 - 2020/21 Audit **dependent on previous years and Cash Receipting Backlogs being completed (see closure section)**
- Government Returns
 - VAT – Monthly
 - **Still to be delivered for 20/21 – dependent on closure of accounts**
 - Revenue Outturn Reports – July
 - **Still to be delivered for 20/21 – dependent on closure of accounts**
 - **22/23 RO has been delivered and the Council are responding to queries on the return.**
 - Capital Outturn Reports – July
 - **Delivered for 2020/21 and 2021/22 on Friday 30th June**
 - **22/23 CO has been delivered.**
 - Quarterly Revenue Outturn Estimates
 - **Quarters 1-3 delivered (have warnings from previous year as not delivered)**
 - **Quarters 1 and 2 for 23/4 have been delivered.**
 - Quarterly Capital Outturn Estimates
 - **Quarters 1-3 delivered (have warnings from previous year as not delivered) Q4 delivered.**
 - **Quarters 1 and 2 for 23/4 have been delivered.**
 - Quarterly Borrowing Return

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- **22/23 Quarterly Returns delivered - Q4 delivered on 11th April 2023**
 - **Quarters 1 and 2 for 23/4 have been delivered.**
- Quarterly Council Tax and Business Rates Returns
 - **22/23 Quarterly Returns delivered - Q4 due 5th May 2023**
 - **Q1 23/4 delivered on 11th August,**
- 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 5th May 2022 and 2023/24 delivered on 14th April 2023**
- Capital Estimates Return – **to be delivered by 24th March 2023**
 - **23/24 delivered by 24th March 2023**
- Public Works Loans Board Certainty Rate – April
 - **2022/3 delivered on 28th 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 to be submitted to DLUHC by 18th May 2023.**
- Housing Benefit Subsidy Return – Yearly
 - **Sent 29th April 2022**
 - **2022/23 subsidy return delivered**
- DHP Claim – Yearly
 - **Sent 29th April 2022**
 - **22/23 return sent in May 23**
- 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**
- **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**

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In addition to this list there are other ad-hoc returns required (which was especially the case during C-19). At this point, it is also important to include key Council deliverables (financially and risk based)

- Financial Monitoring – **delivered quarterly to Cabinet – due to Summer Holidays Q1 23/4 went to Cabinet in October, Q2 will go to Cabinet in November.**
- 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 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 Reports 2020/21 through to 2022/23. 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:

- Closure Training took place in March with 83 attending.
- Mandatory Budget Manager Training (including the use of TechOne) took place in September 2023 – upskilling budget managers with the tools to input their forecasts directly onto TechOne.
- Mandatory Financial Awareness Training for managers took place in August and September.
- Number on Payments Purchase Order Training (Monthly) by Service Area.

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3.18 Errors:

- Non delivery of GPC Card Data (monthly basis) – still to be started.
- Mis-coding on TechOne per month – by Service Area - will begin once the cash receipting suspense has been cleared.

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 procurement for approval as contracts are not in place are 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 1st April 2024. The Q1 and upcoming Q2 Finance and Performance Monitoring Reports now set out:
 - All contracts requiring renewal over the next year that are over the present £50k threshold and these are placed on the forward plan.
 - All contracts that are being procured by Redditch over this period that relate to Bromsgrove Services.

3.20

Work is ongoing on the clearance of the Cash Receipting suspense accounts. These figures are updated every 2 weeks. The position as at the 31st October is summarised in the table below. As reported to this committee, the Council are working to have cleared the backlog by the end of this calendar year. Present progress indicates that there will be small, non-material balances still to clear at the 31st December but the overall position will mean that the 21/22 and 22/23 accounts closure processes can be run. Volume of items in suspense:

Row Lables	Number of Items under £1,000	Value	Number of Items over £1000	Value	Reconciled Items	Reconciled Value	Overall Total	Overall Amount
20/21 Items	5,347	-150,807.64	107	-494,640.00	24,954	11,693,050.58	30,408	11,047,602.94
21/22 Items	27,207	214,783.54	261	4,723,679.65	6,814	-46,132,548.83	34,282	-41,194,085.64
22/23 Items	6,520	-82,541.29	550	140,124,905.14	18,693	-43,885,713.17	25,763	96,156,650.68
23/24 Items	10,501	86,782.18	594	-55,864,203.73	6,032	78,325,213.32	17,127	22,547,791.77
Totals	49,575	68,216.79	1,512	88,489,741.06	56,493	1.90	107,580	88,557,959.75

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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. APPENDENCES

None

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