

INTERNAL AUDIT PROGRESS REPORT

Oxford City Council

January 2021

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SUMMARY OF 2020/21 WORK

Internal Audit

This report is intended to inform the Audit Committee of progress made against the 2020/21 internal audit plan. It summarises the work we have done, together with our assessment of the systems reviewed and the recommendations we have raised. Our work complies with Public Sector Internal Audit Standards. As part of our audit approach, we have agreed terms of reference for each piece of work with the risk owner, identifying the headline and sub-risks, which have been covered as part of the assignment. This approach is designed to enable us to give assurance on the risk management and internal control processes in place to mitigate the risks identified.

Internal Audit Methodology

Our methodology is based on four assurance levels in respect of our overall conclusion as to the design and operational effectiveness of controls within the system reviewed. The assurance levels are set out in Appendix 1 of this report, and are based on us giving either "substantial", "moderate", "limited" or "no". The four assurance levels are designed to ensure that the opinion given does not gravitate to a "satisfactory" or middle band grading. Under any system we are required to make a judgement when making our overall assessment.

2020/21 Internal Audit Plan

We are pleased to present the following reports to this Audit Committee meeting:

- Treasury Management
- Key Financial Controls- Data Analytics
- Accounts Receivable
- Follow up Report

We are due to commence the following audits in January/February 2021 and anticipate to present these at the next audit committee:

- Channel Shift
- Car Parking
- Corporate Performance
- Companies Oversight
- Planning Services.

REVIEW OF 2020/21 WORK

Audit Area	Audit Days	Executive Lead	Planning	Fieldwork	Reporting	Opinion	
						Design	Effectiveness
Audit 1: Car Parking	10	Nigel Kennedy	✓	22 Feb 21			
Audit 2: Channel Shift	15	Helen Bishop and Nadeem Murtuja	✓	11 Jan 21			
Audit 3: Companies Oversight	15	Nigel Kennedy	✓	4 Jan 21			
*Audit 4: Housing Rents	13	Nigel Kennedy	✓	11 Jan 21			
Audit 5: Community Strategy	15	Ian Brooke	✓	TBC			
*Audit 5: Environment	15	Jo Colwell	✓	1 March 21			
Audit 6: Accounts Receivable	15	Nigel Kennedy	✓	19 Oct 20	✓	Substantial	Moderate
Audit 7: Payroll and Overtime	15	Helen Bishop	✓	21 Sept 20	✓	Substantial	Substantial
Audit 8: Key Financial Controls - Data Analytics	15	Nigel Kennedy	✓	10 Jul 20	✓	Moderate	Moderate
Audit 9: Income Collection and Cashiers	15	Nigel Kennedy	✓	8 Mar 21			
Audit 10: Treasury Management	12	Nigel Kennedy	✓	2 Nov 20	✓	Substantial	Substantial
Audit 11: Planning Services	15	Adrian Arnold	✓	5 Oct 20	✓	Moderate (Draft)	Substantial (Draft)
Audit 12: Corporate Performance	15	Helen Bishop	✓	7 Dec 20			
Audit 13: *Enforcement Restructure	12	Nigel Kennedy	✓	TBC			

EXECUTIVE SUMMARY - TREASURY MANAGEMENT

EXECUTIVE SUMMARY

LEVEL OF ASSURANCE: (SEE APPENDIX I FOR DEFINITIONS)

Design	Substantial	There is a sound system of internal control designed to achieve system objectives.
Effectiveness	Substantial	The controls that are in place are being consistently applied.

SUMMARY OF RECOMMENDATIONS: (SEE APPENDIX I)

High	0
Medium	0
Low	1

TOTAL NUMBER OF RECOMMENDATIONS:

CRR/BAF REFERENCE:

- 1.Enable An Inclusive Economy
- 2.Deliver More Affordable Housing
- 3.Support Thriving Communities
- 4.Pursue A Zero Carbon Oxford

BACKGROUND:

Good treasury management is a key element of the effective management of working capital, ensuring that the organisation has cash available to meets its obligations while ensuring any surplus cash is managed within the Council's appetite for risk and return.

Legislation requires local authorities to have regard for statutory practices in relation to treasury management, including CIPFA's Treasury Management in the Public Services Code of Practice, which provides guidance on recommended treasury management practices.

The Council held investments of £86.97 million as at 31 March 2020. Net interest earned during the financial year 2019/20, including from loans to companies was £2.78 million against a target of £2.22 million, which primarily relates to investment balances being higher than anticipated during the year.

The Treasury Manager confirmed that the planned borrowing for the year has been postponed due to the Covid-19 pandemic. Therefore, we have not tested borrowings in this review.

In July 2020, the Council participated in the Public Works Loan Board (PWLB) Consultation. The aim of this consultation was to develop a proportionate and equitable way to prevent local authorities from using PWLB loans to buy commercial assets primarily for yield, without

impeding their ability to pursue service delivery, housing, and regeneration under the prudential regime as they do now. Following this consultation, the government is publishing revised lending terms for the PWLB and guidance to support LAs to determine if a proposed project is an appropriate use of PWLB loans. These new terms will apply to all loans arranged from 26 November 2020.

Treasury is noted as one of only two high risks identified by the Council.

GOOD PRACTICE:

Throughout the audit a number of good practice points were identified. These points demonstrate the commitment to strong internal controls and have helped inform the final internal audit opinions:

- The Council have a Treasury Management Strategy in place that was approved by the Cabinet on 12 February 2020. The Strategy is reviewed and approved annually, ensuring that relevant economic factors are considered in the management of investments
- There are Appendices to the Strategy which clearly set out the minimum credit criteria, the maximum amount of investment and maximum maturity periods allowed for the specified and non-specified investments
- For a sample of seven investments and three Money Market Funds that were processed between 1 November 2019 and 31 October 2020, the monetary and the maturity limits met the criteria set out in the Council's Treasury Management Strategy.
- There were adequate segregation of duties in completing, checking and approving the investments for all the sampled cases
- The Council prepare mid-year and year-end Treasury Management Reports that are presented to the Cabinet, outlining the Council's activity and performance for the previous six months/ one year. The Treasury Manager Annual Report 2019/20 was presented to the Cabinet on 9 September 2020 and the Treasury Management Mid-Year Report 2019/20 was presented on 19 December 2019
- Monthly reports are prepared for internal monitoring purposes which include details of all specified and non-specified investments, variance analysis of forecast vs actual cash flow for the month and an analysis of investments by counter-party, type, duration and maturity profile
- Cash flow forecasting and monitoring is undertaken on a daily basis and covers a wide range of factors to ensure an accurate position is reported at all times. Some of the factors included are Local Government Pension (LGPS) contributions, Business rates, Salaries, Income collection, Car park income, Commercial rents and Value Added Tax.

KEY FINDINGS:

Finding	Summary of Recommendations	Owner	Due date
<p>We reviewed bank reconciliations for the General Fund Account and group of companies for July, August and September 2020. We noted that eight reconciliations were not completed within two weeks from the end of the month (Finding 1 - Low).</p>	<p>The reconciliations should be prepared and authorised within two weeks from the end of the month, in line with good practice. Half-yearly spot checks should be undertaken and recorded to ensure compliance.</p> <p>Management Response:</p> <p><i>There were specific reasons for the delayed completions, some were due to technical issues and some were because of a conscious prioritisation of workloads by management. In addition to the actual reconciliations, we maintain an overall monitoring sheet which I attach.</i></p> <p><i>Throughout July and August, Financial Accounting Team resources were prioritised to assist external auditors (Mazars & EY) in their respective audits of 2019/20 Financial Statements for the Council's wholly owned companies and the Council. This was to ensure statutory reporting deadlines for the publication of audited Financial Statements could be met. In addition to this, the Council officer responsible for preparing bank reconciliations for the General Fund, Drawing Account, and Housing Benefit Account was unable to access <u>Barclays.net</u> (the banking web platform) for several weeks in September due to IT problems. Consequently the August bank recs for Council accounts could not be prepared until later in September.</i></p> <p><i>The reconciliations monitor is maintained by the Senior Financial Accountant, which notes the reasons for delay affecting company bank recs for July and Council bank recs for August in a comment against each one.</i></p>	<p>Andrew Friar, Senior Financial Accountant</p>	<p>1st Jan 21</p>

CONCLUSION:

The Council has an adequate Treasury Management Strategy in place, the monetary and the maturity limits for the sampled investments were undertaken in line with the requirements set out in the Strategy. There are robust controls around monitoring of the Council's Treasury Management activities and performance reported to the Cabinet via mid-year and year-end reports and cash flow forecasting is undertaken on a daily basis. We noted minor issues around timeliness of the reconciliations undertaken.

Therefore, we have concluded on a substantial opinion for both the control design and operational effectiveness.

EXECUTIVE SUMMARY - KEY FINANCIAL CONTROLS - DATA ANALYTICS

SUMMARY OF RECOMMENDATIONS: (SEE APPENDIX I FOR DEFINITIONS)

High	0
Medium	2
Low	0

TOTAL NUMBER OF RECOMMENDATIONS: 2

BACKGROUND:

The Council uses Agresso as its main financial management system, which holds transactions and standing data for accounts payable and accounts receivable, which the finance department are responsible for. The finance team can run scripts on Agresso in order to extract necessary datasets. There have been no upgrades or changes to the Agresso system for the last three years. The purchasing scheme of delegation is continuously updated each year as staff change roles. We take note of varying authorisation limits year-to-year where we run test relevant to accounts payable transaction approvals. The Council has not defined credit limits for its creditors, so we have extracted aged debtors analysis and agreed with management which debtors require further review. The Council's ICT team own and manage file transfer protocol (FTP) sites which we have used for transferring sensitive payroll information. HR are responsible for payroll and payroll transactional data is stored on the Midland iTrent system. The Midland iTrent system has had no upgrades or changes in the last three years. The Council has not defined thresholds for overtime, so we extracted overtime payments which account for a significant proportion (percentage agreed with audit owners during fieldwork) of total employee pay. The Council does not process significant number and/or value of expenses payments.

GOOD PRACTICE:

No exceptions were noted in the following areas:

Payroll

- Only three leavers have been processed for the dates reviewed. All were for future dates in August and September, hence no overpayments were noted.
- All transactions were assigned a valid Personal Reference: People field reference.
- We ran an exclusion match (matching employee reference but excluding same surname) which returned no results.
- 16 employee records matched on National Insurance number (NINO) but further review confirmed all were valid double entries due to different reporting units.
- Duplicate entries with matching addresses were confirmed to have shared surnames and were in the same family with a shared address.
- Invalid NINO format scripts were run based on format, length and characters in the prefix and suffix and no exceptions were identified.
- No null (empty) entries were identified in the following fields: NINO, name, address, employee reference, date of birth, and tax code.
- We ran an age script and confirmed the youngest member of staff was 17 years old as

at August 2020.

Accounts Receivable

- Aged debtor analysis is run and reviewed by management regularly.
- We ran a match on names with different addresses which returned no results.
- We ran a match on names and addresses and identified no matches.

Accounts Payable

- We did not identify any transactions with round sum values.
- We identified two transaction which were paid on the weekend but this is allowed at the Council.
- We did not identify any suppliers with duplicate customer references.

KEY FINDINGS:

Area	No. of tests planned	No. of tests with no exceptions	No. of tests with exceptions	Data not available / sufficient
Payroll	19	14	4	1
Accounts Payable	12	3	6	3
Accounts Receivables	4	3	0	1
Total	35	20	10	5

DATA ANALYTICS RESULT		
Finding	Management Response	Responsible Individual and Implementation Date
Finding 1 - Payroll (Medium)		
Ref 1.1 - We ran a duplicate key matching: reference, surname and forename, element type, value, and period. We identified two transactions which appeared to be duplicates. Value of single transactions were £3,350.39.	<i>We confirmed that the employee identified within the transaction was not paid twice. When the system extracts a report it reports against the individual rather than their position hence identifying the duplicate transaction. - This exception was investigated and deemed reasonable</i>	Simon Edington - Operations Manager (Payroll & HR Support)

<p>Ref 1.2 - we ran a duplicate match on sort code and account number (78 same surname but different forename -- shared bank accounts). 28 employees had same forenames (duplicate accounts) or different names (potential errors).</p>	<p><i>We reviewed each exception and noted that the report extracted the employee's payroll reference number and also their elections group reference number. We can confirm that the employees identified with this exception were on two different payrolls.</i></p> <p><i>We also noted that there were two employees with the same bank account and sort code number who banked with Coventry Building society. All Coventry building society accounts have the same sort code and account number and payments are recognised via the individual's name. - The exceptions were all investigated and deemed reasonable.</i></p>	<p>Simon Edington - Operations Manager (Payroll & HR Support)</p>
<p>Ref 1.3 - total of 24 employees had duplicate surnames and forenames but different personal references.</p>	<p><i>There should be a payroll reference number and a post number in two different columns however, it is not identifying them as being two separate entities instead it has extracted both the tax element and the position element. The exceptions were all investigated and deemed reasonable.</i></p>	<p>Simon Edington - Operations Manager (Payroll & HR Support)</p>
<p>Ref 1.4 - a total of 13 employees matched on same whole address details with different surnames.</p>	<p><i>We can confirm that all employees identified were family members who shared the same address. The exceptions were all investigated and deemed reasonable.</i></p>	<p>Simon Edington - Operations Manager (Payroll & HR Support)</p>
<p>Finding 2 - Accounts Payable (Medium)</p>		
<p>Ref 2.1 - we ran a duplicate match based on creditor reference, invoice number and value of payment which returned a total of eight transactions with a potential duplicate value of £13,073.</p>	<p><i>All transactions were investigated we can confirm that these were reversals, credits/refunds and therefore no duplicate transactions. The exceptions were all investigated and deemed reasonable.</i></p>	<p>Anna Winship - Management Accounting Manager</p>

<p>Ref 2.2 - we matched the creditor references for all transactions to the creditor references in the list of suppliers and identified four which did not match.</p>	<p><i>These will be investigated further to understand why they were created in the system.</i></p>	<p>Anna Winship - Management Accounting Manager <i>Implementation Date: February 2021</i></p>
<p>Ref 2.4 - we ran a duplicate match for supplier bank details and identified a total of 149 suppliers with duplicate bank details to at least one other entry.</p>	<p><i>We reviewed the list of suppliers and noted there were variations as follows:</i></p> <ul style="list-style-type: none"> • <i>All related organisations</i> • <i>Same organisation with changed name</i> • <i>Same organisation with extra space in name</i> <p><i>However, all organisations were genuine. We will undergo a cleansing process and closedown accounts no longer in use however there was no fraudulent activity suspected.</i></p>	<p>Anna Winship - Management Accounting Manager <i>Implementation Date: February 2021</i></p>
<p>Ref 2.5 - we ran a match on supplier name and address but with different bank account numbers and identified ten suppliers which could require review.</p>	<p><i>These are all landlords and it is common practice to have more than one bank account</i></p>	<p>Anna Winship - Management Accounting Manager</p>
<p>Ref 2.7 - we joined and matched supplier bank details with employee bank details and identified ten entries (employees and suppliers) which matched.</p>	<p><i>We reviewed details and noted two were Councillor payments and two were for landlord payments. Other reasons included: advances in payroll, payment prior to being on payroll (contractor before employee, or expenses paid outside of payroll.</i></p> <p><i>In addition, six suppliers have not been used since 2015 - 2018.</i></p> <p><i>All transactions were not deemed as fraudulent.</i></p>	<p>Anna Winship - Management Accounting Manager</p>
<p>Ref 2.6 - we ran a match for supplier name and address and identified a total of 16 duplicate suppliers.</p>	<p><i>These suppliers were identified as part of ref 2.4 and 2.5 and will be addressed as above.</i></p>	<p>Anna Winship - Management Accounting Manager See above</p>

We were not able to perform data interrogation schedules on the following areas as the data was not available in some areas:

Overtime

- Overtime datasets were not provided by management. There was confirmation that the proportion of overtime is insignificant for Council staff.

Accounts Payable

- Identities of requestors and approvers were not provided in the transactional data.
- Purchase order (PO) information and PO authorisation data was not provided in the transactional datasets.

Accounts receivable

- Credit terms for debtors were not provided within the datasets extracted.

CONCLUSIONS:

The data analytics undertaken has identified several exceptions in the key financial datasets provided. We have reviewed these with management and have confirmed they appear to be valid exceptions which will need rectifying (i.e. duplicate entries need to be removed from the system).

EXECUTIVE SUMMARY - ACCOUNTS RECIEVABLE

EXECUTIVE SUMMARY

LEVEL OF ASSURANCE: (SEE APPENDIX I FOR DEFINITIONS)

Design	Substantial	There is a sound system of internal control designed to achieve system objectives.
Effectiveness	Moderate	Evidence of non-compliance with some controls that may put some of the system objectives at risk.

SUMMARY OF RECOMMENDATIONS: (SEE APPENDIX I)

	0
Medium	1
Low	4

TOTAL NUMBER OF RECOMMENDATIONS: 5

CRR/BAF REFERENCE:

Enable an inclusive economy.

BACKGROUND:

Oxford City Council (the Council) has a central Incomes team, which is managed by a dedicated Income Team Leader, for those transactions which come through the Council's main financial system, Agresso.

This review considered those accounts receivable raised in Agresso which cover Council activities such as licensing, subscriptions, trade and garden waste and parks and leisure. Our scope did not cover Council Tax, Business Rates and Benefits.

The Council provide comprehensive income collection services for Oxford Direct Services (ODS) and Oxford Direct Services Trading Limited (ODSTL), with this relationship outlined in a dedicated SLA Income Collection in effect since 2018. We tested the Council's processes involving raising invoices, subsequent debt recovery and write-offs. Our sample-based testing included procedures relating to both the Council and ODS.

A review of Accounts Receivable was performed and reported in November 2018 which led to a moderate opinion for design and limited opinion for control effectiveness.

GOOD PRACTICE:

- The following areas of good practice were identified:
- The Council has a robust set of financial rules outlined within their Constitution, which highlights the processes of budget setting and budgetary control, ordering and paying for goods and services, and income collection. This was last updated in January 2020. In addition, there are supplementary policies, including a Corporate Debt Management Policy for all officers at the Council, and a specific Sundry Debtors Guide for the Income Team.
 - There is an automatic work flow to set up new users within Agresso which requires initial line manager approval.

- The Council has introduced a mandatory tick box within Agresso to confirm that service areas are completing appropriate due diligence checks. If this box is not ticked, the next stage of the work flow to set up a customer will not be completed.
- For a sample of 15 invoices raised between April and October 2020, split equally across the Council, ODS and ODSTL, there were appropriate segregation of duties between requesting and approving invoices.
- The Income Team Leader runs monthly reports to assess the performance of the team, in relation to payments received and debt recovery. Similar management information and KPIs are reported to ODS as per the SLA, on a monthly basis.
- For a sample of 15 debts written-off, split equally across the Council, ODS and ODSTL, the relevant forms were completed by the Income Officers, appropriate approval was gained by the S151 Officer or the ODS Head of Finance, and the debts were processed on Agresso as required.
- The SLA between the Council and ODS clearly outlines the responsibilities and liabilities of both parties. This includes a description of services, time lines for debt recovery arrangements and reportable KPIs.

KEY FINDINGS:

Finding	Summary of Recommendations	Owner	Due date
Finding 1 (Medium) - For three overdue ODS debts, reminder letters had not been sent in line with the agreed timescales	<p>a) Within the process, there should be a monthly review completed by the Incomes Team Leader to verify that each Income Officer is running the reminder letter reports as expected. . This will mitigate the lack of automation of letters, which is considered unfeasible as there still needs to be a sense check of the report to cross reference with customer case notes prior to sending reminder letters.</p> <p>b) The process notes for Income Officers should be updated to include the above manager check, and to increase clarity of the responsibility and expectations of each Income Officer.</p> <p>Management Response A. A monthly check has been implemented. It will be done in the first week of each month - looking at the previous months reminder runs by company and customer group. B. We are currently reviewing all of our procedure notes - the aim being to tailor them for distanced learning. The updated procedure note for reminders will include details of the team leader/senior officer monthly review.</p>	Neil Markham, Income Team Leader	Jan 21
Finding 2 (Low) - Review of the ODS Income & Collection and Write-Off policies showed that they have not been reviewed or updated since inception of ODS in 2018	<p>Both the Council and ODS should review the Income and Collection Policy and Write-off Policy on a regular basis, at least annually.</p> <p>Management Response A review schedule will be created. This will include a full review/update to commence in the new year along with an agreed annual review plan date.</p>	Neil Markham, Income Team Leader	Apr 21

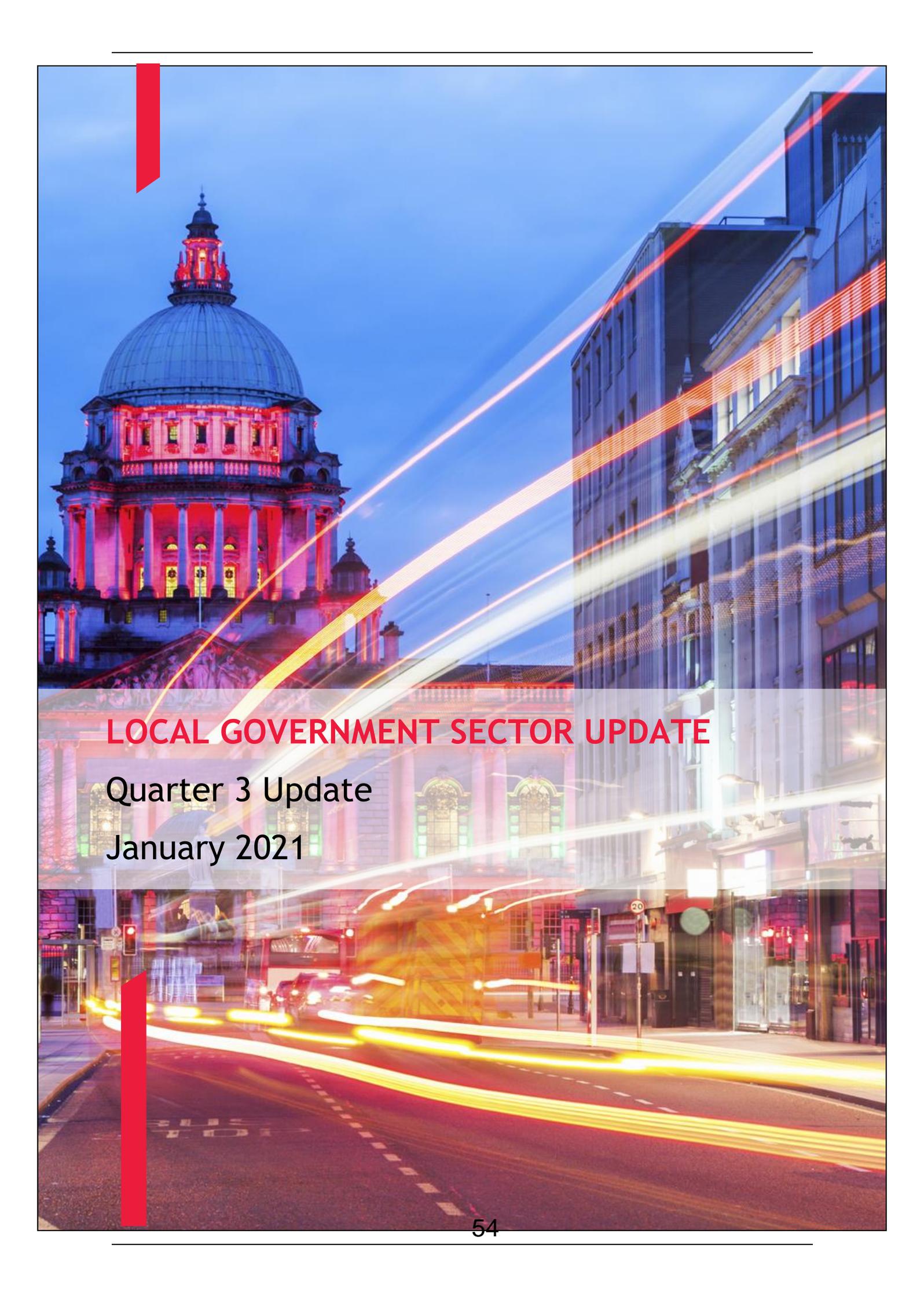
<p>Finding 3 (Low) - The monthly review of amendments to customer bank details is insufficient to identify if multiple or irregular changes have occurred within a short period of time</p>	<p>a) In the previous audit completed in 2018/19, a recommendation was raised relating to automatic notifications from Agresso for when customer details have been changed more than once in six months. At the time, Agresso did not have this functionality. The Council should reassess and explore if this is now viable.</p> <p>b) If this is not feasible, the Income Team Leader should undertake an additional quarterly check to ensure there have been no irregular patterns of changes.</p> <p>Management Response</p> <p>A. A new ICT request will be raised to explore the feasibility of automatic change notifications</p> <p>B. If Agresso still lacks this functionality an additional quarterly check will be designed and implemented for 21/22.</p>	<p>Neil Markham, Income Team Leader</p>	<p>Apr 21</p>
<p>Finding 4 (Low) - There is inconsistency with the level of due diligence being completed by Service Areas across the Council, and the Sundry Debtors Guide does not clearly outline exceptions to the process</p>	<p>a) The Sundry Debtors Guide should be updated to align with the levels of due diligence options within Agresso.</p> <p>b) The guide should also be updated to outline further examples of when due diligence is not appropriate.</p> <p>c) Within Agresso, the level of checks should be changed to the following: not applicable, none, light, moderate and enhanced. This will allow 'not applicable' to be used for cases identified in (b) above.</p> <p>d) The Incomes Team Leader should periodically run a report from Agresso that identifies where 'none' has been selected as an option. This will allow for analysis or spot checks to be completed of Service Areas that are consistently completing lower levels of due diligence than appropriate.</p> <p>e) Council-wide communications should be sent to all Service Areas as a reminder of the new process. This could also include discussions with Heads of Services to highlight the importance of due diligence, which is then fed back to their areas.</p> <p>Management Response</p> <p>A. The Sundry Debtors Guide will be updated to align with the levels of due diligence options within Agresso</p> <p>B. From feedback given by our auditor the guide will be expanded to include areas of the business where CDD is not appropriate</p> <p>C. Agresso to be updated as per recommendation</p> <p>D. Report to be designed as per recommendation</p> <p>E. Once the above recommendations have been implemented we plan to send a</p>	<p>Neil Markham, Income Team Leader</p>	<p>Mar 21</p>
	<p>council wide communication. A plan for service head discussions (Specifically the best approach for those) will also be</p>		

CONCLUSION:

Overall, the Council has financial systems in place that are designed effectively to ensure that income transactions are not processed without appropriate approval, and a segregation of duties is maintained where required. Procedures around debt write-offs, management reporting and changes to customer details are being consistently applied, and have improved significantly since our last audit.

However, there continues to be some exceptions with sending out timely reminder letters. Whilst there were also some minor issues relating to due diligence for new customers, this is a relatively new process within the Council and increased clarity and buy-in should address the issue over time.

We have therefore provided substantial assurance over control design and moderate assurance over operational effectiveness.

A nighttime photograph of the St. Paul City and County Administration Center, featuring its prominent dome and classical architecture. The building is illuminated with warm lights, and the scene is overlaid with vibrant, multi-colored light trails from passing vehicles, creating a sense of motion and urban energy. A semi-transparent white box is centered over the image, containing the title and date.

LOCAL GOVERNMENT SECTOR UPDATE

Quarter 3 Update

January 2021

SECTOR UPDATE

Our quarterly Local Government briefing summarises recent publications and emerging issues relevant to Local Authorities that may be of interest to your organisation. It is intended to provide a snapshot of current issues for senior managers, directors and members.

FINANCE

Minister to appoint experts to address ‘appalling’ management at council

Local government secretary Robert Jenrick is to appoint an expert panel to help address “appalling” financial management issues at Nottingham City Council, following a government rapid review.

In his response to the review, Jenrick agreed with the recommendations outlined in the report, to tackle financial management issues within the council. The review found that repeated warnings over long-term financial sustainability at the authority had been ignored for four years.

The council will need to produce a three-year recovery plan by January 2021, to restore its financial position as it faces a funding gap of between £53m and £64m by the end of 2023-2024. Jenrick said: “The rapid review into Nottingham City Council highlighted appalling financial and management issues within the council.

“Taxpayers and residents have been let down by years of disgraceful mismanagement and inept ventures, such as Robin Hood Energy, that have wasted tens of millions of pounds that should be being spent on public services.

“I will be appointing an independent expert panel to help urgently address this by producing and delivering a comprehensive recovery plan.” Nottingham City Council will also be legally limited on the amount of money it is allowed to borrow, as its debt in relation to its budget has risen to the highest of all comparable cities. The review said that financing costs for the debt are 16.7% of its net revenue.

<https://www.publicfinance.co.uk/2020/12/minister-appoint-experts-address-appalling-management-council>

Redmond proposal for oversight body rejected

The Ministry for Housing, Communities and Local Government has rejected the proposal of a new audit oversight body as outlined in the Redmond Review.

The review, published in September, called for a new body - the Office of Local Audit and Regulation - oversee local authority audit. However, in its response, published today, the department said it is not currently persuaded that a new arms-length body is required.

It added that unless there is an exceptional reason for a new body, the government will look to explore new options.

The response said: “The creation of a strong system leader for local audit, especially in the form of a new body, would entail significant structural reform.

“We first want to understand in more detail how a system leader could grip and resolve the weaknesses in the local audit system which the Redmond Review describes, and that any

consequences of its establishment, such as potential conflicts of interest within the organisation, are identified and can be mitigated.”

The government did, however, agree with the recommendations of a review of the current fee structures in local audit, to provide greater flexibility to meet audit firms' costs.

An additional £15m will be allocated to local authorities to help fund additional costs arising from the change in audit fees next year.

<https://www.publicfinance.co.uk/2020/12/redmond-proposal-oversight-body-rejected>

Croydon seeks permission to borrow its way out of budget crisis

London Borough of Croydon has requested permission from the government to use borrowing earmarked for capital projects on filling its revenue budget gap instead.

Earlier this month, the council issued its second section 114 notice stopping all but essential spending, saying it cannot balance its budget without government support.

The council has now submitted a request for a capitalisation direction allowing it to use £70m of capital resources on services in the current financial year and £80m in the next year.

Hamida Ali, leader of the council, said: “We are clear about the scale of our serious financial situation but we also know what improvements we need to make to put things right in the months and years to come.

“We are asking MHCLG for a loan that will support our plans to live within our means while we continue vital services, particularly supporting and protecting vulnerable residents, keeping people safe and reducing inequality.”

A report to a meeting of the council this week said that the council would look to ‘front-load’ service reductions and efficiency savings to reduce the amount of borrowing required.

However, the council has also unveiled plans to slash its previously planned capital expenditure by £155m, which totals 45% of its originally planned investment in projects for the year.

<https://www.publicfinance.co.uk/2020/12/croydon-seeks-permission-borrow-its-way-out-budget-crisis>

LGPS exit cap relaxed on ‘compassionate grounds’

The exit payment cap for Local Government Pension Schemes in England can be relaxed for some employees on “compassionate grounds”, the government has said.

In a guidance document, the Ministry for Housing, Communities and Local Government said that LGPS members will not be liable if the restrictions will cause “genuine hardship”.

The payment cap limits redundancy payments and pension scheme strain costs by local authorities through early retirement to £95,000, with employees needing to either pay the strain cost or take a reduced pension.

The guidance said: “The discretionary relaxation process relates to circumstances where ministers agree that it is necessary or desirable to relax the restrictions imposed by the regulations, [including] compassionate grounds owing to genuine hardship - exceptional circumstances where an exit payment of £95,000 would lead to genuine hardship.”

<https://www.publicfinance.co.uk/2020/12/lgps-exit-cap-relaxed-compassionate-grounds>

Up to 5% of councils risk 'financial failure' under hard Brexit

As many as one in 20 local authorities in England risk financial failure as a result of a disruptive European Union Exit, according to a leaked government report.

The Reasonable Worst Case Scenario report, shared by Robert Peston on Twitter, said that the government would need to provide additional financial support to councils if they begin to fail.

Further sector-led support may also be needed for local authorities including non-statutory reviews of affected councils' approach, the report said.

The report also said that local resilience forums could also face funding pressures due to Covid-19 and continuing issues including cold winter weather and flooding, which limits their ability to prepare for the end of the transition period.

It added that these funding issues will particularly affect port areas and regions most affected by a no-deal scenario, and may require military aid support or specialist support.

The Treasury has also been warned of an increased likelihood of a systemic economic crisis, which would have major impacts on employment, international trade and commerce and market stability.

<https://www.publicfinance.co.uk/2020/12/5-councils-risk-financial-failure-under-hard-brexit>

Liverpool mayor arrested in bribery probe

Liverpool City Council mayor Joe Anderson is reported to be among five people arrested in connection with offences of bribery and witness intimidation.

On Saturday, Merseyside Police confirmed that the five had been released on bail pending further further investigation into building and development contracts in the city.

In a statement published by the Liverpool Echo, Anderson said he had co-operated fully with police and was interviewed for six hours before being released on bail.

Police have not confirmed Anderson was among those arrested but released a statement on Friday saying: "We can confirm that five people arrested in connection with offences of bribery and witness intimidation as part of an investigation on into building and development contracts in Liverpool have been released on condition bail, pending further inquiries."

Anderson became the first directly elected mayor of Liverpool in 2012, and won a second term in May 2016.

A letter from Catherine Frances, director general of local government and public services in the Ministry of Housing, Communities and Local Government, has asked Liverpool City Council to submit any plans to dispose of land to the department by 11 December.

<https://www.publicfinance.co.uk/2020/12/liverpool-mayor-arrested-bribery-probe>

IT

Crisis communications - cyber attack

What do you do when your online systems are unavailable, either through technical fault or cyber-attack? How do you respond to an emergency when your digital channels are down?

Our top tips for local government communicators

Create a crisis communications plan (and keep a hard copy)

A comprehensive crisis communications plan that is integrated into your organisation's wider emergency and civil contingency planning is essential for all organisations.

Effective crisis communication plans should include

- Details of who will form your crisis communications team (typically your chief executive, leader, head of communications, head of legal, head of HR, head of governance, head of IT etc) and their contact details
- a timeline of when the crisis communications team should meet during the first few hours, days or weeks of the crisis
- who will have responsibility for signing off key messages
- a list of the audiences you will need to reach during a crisis (including contact details)
- a list of stakeholders you will need to reach or work with during a crisis (including contact details)
- a list of which channels you will use to communicate your messages
- copies of any passwords needed to access corporate communication channels

<https://www.local.gov.uk/our-support/guidance-and-resources/comms-hub-communications-support/cyber-attack-crisis>

Environment

Climate-related incidents affecting eight in ten councils - LGA research

The LGA's latest research on the effects of climate change on local authorities shows that eight in ten councils have suffered climate-related incidents in the last five years - including over 23,000 properties in England being affected by flooding during this period

Eight in ten councils surveyed by the Local Government Association have been affected by a climate-related incident in the last five years - with just over 23,000 properties in England affected by flooding in the last five years

The LGA said councils have been working hard to develop policy and action to tackle climate change since the Government laid plans in June 2019 to reach net zero carbon emissions by 2050.

The Climate Change Survey 2020 assesses what actions councils have already taken to mitigate and/or adapt to climate change. It also asks what policy changes would enable them to do this more effectively in the future.

The survey found that nine out of 10 councils had since declared a climate emergency, around 80 per cent had set an official target for the authority to become carbon neutral

The most frequently identified barrier to tackling climate change was funding (96 per cent), followed by legislation or regulation (93 per cent) and lack of workforce capacity (88 per cent).

<https://www.local.gov.uk/climate-related-incidents-affecting-councils>

HOUSING

Council to wind up housing company

Merton Council plans to wind up its wholly owned housing company Merantun Development Ltd, after the company's business case was deemed "no longer viable".

The plan was outlined in a council report to be discussed at a special meeting on Monday, which said that the council had made progress on four sites, securing planning permission in July 2020. However, external factors including Covid-19 and the financial risks relating to the pandemic, mean the company is unable to meet the objectives in its business plan, the council said. The company is set close before construction on any homes began.

The report said: "A number of factors have impacted on the original business plan, such as increases in costs of construction, costs of borrowing, Covid-19 and Brexit impacts leading to a softening in the housing market.

Latest accounts show that the firm reported operating losses over the 2017-18 and 2018-19 period of £450,000.

<https://www.publicfinance.co.uk/2020/12/council-wind-housing-company>

Government reduces New Homes Bonus

The government is to reduce the New Homes Bonus to free up funding for local authority grants, it announced as part of the provisional local government finance settlement.

The New Homes Bonus was introduced to incentivise housebuilding by providing cash for areas that allow new homes to be built. It was due to close following publication of the fair funding review, scheduled for last April.

Following the delay of the review, the scheme was extended - although funding has been reduced from £907m to £622m for 2021-2022.

The government is proposing to redirect the remaining funds to help deliver the £150m social care grant, a £13m increase in the revenue savings grant, and the new £111m lower-tier services grant, as outlined in the financial settlement.

The lower-tier services grant would be available to councils to fund services such as homelessness, planning, recycling and refuse collection, and leisure services.

<https://www.publicfinance.co.uk/2020/12/government-reduces-new-homes-bonus>

Spelthorne commercial income set to rise despite Covid-19

Spelthorne Borough Council is budgeting for an increase in income from its commercial property portfolio during the current financial year, enabling it to underspend its budget by £1.5m.

The council has faced severe criticism from a number of quarters for its commercial investment strategy, which has seen it acquiring £1bn of offices and shopping centres in recent years.

However, the council is expecting to ride out a full year of Covid-19 with just over £53m of rental income, up from the £51m it received last year.

Latest monitoring data from the council shows that after £24.0m of loan repayments, £11.9m of minimum revenue provision, and a net contribution of £4.0m to a sinking fund, the authority will have £9.9m left to fund services.

This is higher than the £8.2m it expects to receive from council tax during the year.

The figures show that council is budgeting for a raid on the sinking fund reserves to the tune of £1.8m to support three of its properties, the lion's share (£1.4m) coming from the fund on its 12 Hammersmith Grove building in west London.

Overall, however, the council's contingency funds for all 12 of its commercial properties are anticipated to rise from £20.5m to £24.5m over the year.

<https://www.publicfinance.co.uk/2020/12/spelthorne-commercial-income-set-rise-despite-covid-19>

Local authority building acquisition halves

Local authorities' spending on buying property has fallen more than half following the outbreak of Covid-19, according to statistics from the Ministry of Housing, Communities and Local Government.

According to today's update on statistics on capital borrowing and expenditure, from April to September, councils spent £825m on buying land and existing buildings, compared with the £2bn spent in the category during the same period last year, according to the MHCLG.

Overall, council spending on fixed assets for the first half of this year was £6.5bn, around 20% less than the £8.1bn that was spent in the first half of 2019-2020.

David Heyes, finance manager and interim section 151 officer at Torridge District Council told PF: "Some councils may have not have made investments in capital projects as they are uncertain whether they can fund them in the future. The uncertainty on revenue streams I suspect would be the big reason."

<https://www.publicfinance.co.uk/news/2020/12/local-authority-building-acquisition-halves>

APPENDIX I - DEFINITION OF ASSURANCE

Level of Assurance	Design Opinion	Findings from review	Effectiveness Opinion	Findings from review
Substantial 	Appropriate procedures and controls in place to mitigate the key risks.	There is a sound system of internal control designed to achieve system objectives.	No, or only minor, exceptions found in testing of the procedures and controls.	The controls that are in place are being consistently applied.
Moderate 	In the main, there are appropriate procedures and controls in place to mitigate the key risks reviewed albeit with some that are not fully effective.	Generally a sound system of internal control designed to achieve system objectives with some exceptions.	A small number of exceptions found in testing of the procedures and controls.	Evidence of non compliance with some controls, that may put some of the system objectives at risk.
Limited 	A number of significant gaps identified in the procedures and controls in key areas. Where practical, efforts should be made to address in-year.	System of internal controls is weakened with system objectives at risk of not being achieved.	A number of reoccurring exceptions found in testing of the procedures and controls. Where practical, efforts should be made to address in-year.	Non-compliance with key procedures and controls places the system objectives at risk.
No 	For all risk areas there are significant gaps in the procedures and controls. Failure to address in-year affects the quality of the organisation's overall internal control framework.	Poor system of internal control.	Due to absence of effective controls and procedures, no reliance can be placed on their operation. Failure to address in-year affects the quality of the organisation's overall internal control framework.	Non compliance and/or compliance with inadequate controls.



FOR MORE INFORMATION:

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