

NOTTINGHAM CITY COUNCIL

AUDIT COMMITTEE

MINUTES of the meeting held at LH 2.17 - Loxley House, Station Street, Nottingham, NG2 3NG on 28 April 2017 from 11:01am – 12:12pm

Membership

Present

Councillor Sarah Piper (Chair)
Councillor Leslie Ayoola
Councillor Anne Peach
Councillor Andrew Rule (minute 58 onwards)

Absent

Councillor John Hartshorne
Councillor Dave Liversidge
Councillor Toby Neal
Councillor Malcolm Wood
Councillor Steve Young

Colleagues, partners and others in attendance:

Theresa Channell	- Head of Strategic Finance & Deputy Section 151 Officer
John Maddison	- Team Leader – Subsidy & Information
Kate Morris	- Governance Officer
Jane O'Leary	- Insurance and Risk Manager
Shail Shah	- Head of Audit and Risk
John Slater	- Group Auditor
Thomas Tandy	- Audit Manager – KPMG

55 APOLOGIES FOR ABSENCE

Councillor Malcolm Wood - Personal
Councillor Steve Young - Personal

Ian Roper, Commercial Finance Team Leader for Contract Management

56 DECLARATIONS OF INTERESTS

None.

57 MINUTES

The minutes of the meeting held on 24 February 2017 were confirmed as a correct record and signed by the Chair.

58 CORPORATE RISKS FOR FURTHER SCRUTINY

Theresa Channell, Head of Strategic Finance, gave a presentation on Corporate Risks for further scrutiny that focused on funding. She highlighted the following points:

- (a) Changes in funding of services from national taxation to local taxation and reliance on funding from Council and Business Tax is a risk that is classed as red, or severe, if it occurred as it would impact on the Council's ability to provide services in an effective way adversely affecting the citizens of Nottingham;
- (b) in 2018/19 there will be a budget gap of £12million rising to £18million in 2019/20. The Council has committed to delivering £24million savings in 2017/18 and has made over £204million in savings since 2010;
- (c) savings have been made through partnership work with organisations such as the NHS to jointly deliver services to citizens. This kind of partnership work has allowed the Council to continue to provide services to citizens as outlined in the Council Plan and is key to reducing funding gaps;
- (d) 43% of Council funds are spent on Children and Adult services and these services are more likely to feel the impact of reduction in funding;
- (e) to deliver further saving the Council aims to continue its success in commercialisation opportunities alongside reducing demand for services by focusing on early intervention;
- (f) the Council will also work on modernising and redesigning the services and identifying and addressing inefficiencies to offer the same outcomes but through a different model;
- (g) the budget strategy aims to deliver savings but also to protect frontline services and minimise the impact of changes on vulnerable citizens;
- (h) there has been a significant reduction in funding from central government through the Revenue Support Grant (RSG) since 2011/12. As a result of this Council tax has been increased which goes towards covering the shortfall;
- (i) Council tax income can be influenced by the number of new homes being built and what band they then fall within, however there is very little movement of this figure in Nottingham due to the high number of lower band properties;
- (j) alongside RSG there is an additional top up payment made to the Council when funding does not match needs. This top up has been fixed through a 4 year settlement with Central Government up to 2019/20;
- (k) changes to Business rates mean that 100% retention is expected in 2019/20;
- (l) beyond 2019/20 it is uncertain how funding will look;
- (m) projected income from Council Tax in 2017/18 is £100.947million, increases are capped at 1.99% + 3% adult social care precept in 2017/18. Any increase beyond this figure would require a local referendum;
- (n) the assumed collection rate of Council Tax is 96.4% and there are systems in place to collect outstanding Council Tax and recover debts;

- (o) Nottingham City has a relatively low tax base, 63,368 Band D equivalents, due to high numbers of student exemptions (10,947 in October 2016), 91.9% of the 135,201 dwellings fall into the lower bands;
- (p) Business Rates income is projected to be £67.987million in 2017/18 which is 49% of the total. The rate of Business rates is set centrally by government and cannot be influenced at a local level;
- (q) there is still a degree of volatility around the outstanding appeals that currently amount to £19million;
- (r) 100% retention is expected in 2019/20 and will be accompanied by a new formula to measure service demand and need. The scheme will be cost neutral nationally and some form of redistribution is expected. Appeals will be centralised and outside the Local Authority's control. There may be some scope for limited local control of ratings multiplier;
- (s) there is suggestion that local pooling schemes could be allowed, there is a piece of work currently being undertaken to look at what this would mean for Nottingham City;
- (t) a technical consultation is due to be completed on 3 May 2017, the results of which will be brought to a future meeting;
- (u) the Medium Term Financial Strategy aims to increase income, control costs and deliver targeted saving, the budget strategy in 2017/18 looks to manage demand/cost pressures, increase income, and reorganise the way services are delivered as priority;
- (v) the general fund has been increased from £9million in 2016/17 to £11million in 2017/18 in response to this risk. The Chief Finance officer has stated that the budget is robust and that resources are adequate.

Following questions and comments from the Committee the following further points were made:

- (w) there is very little scope for the Council to influence the banding of properties. The Valuation Office is responsible for giving a property a value and therefore the council tax banding. Concerns were raised that student properties were given low bandings despite artificially high rents which presented a false picture. There was also discussion around various anomalies within the housing market of properties being in bands much lower than were expected;
- (x) in an effort to fully understand the changes being made staff are attending workshops and briefing events, there is work taking place with other Core Cities and with other local authorities looking at pooling arrangements and what they would mean for individual Councils;
- (y) it is not likely that the student exemption from Council Tax will be reconsidered or reviewed in the foreseeable future;

- (z) the Capital Programme is very important as is continued investment in the City to encourage more businesses into the City;
- (aa) Charities get mandatory relief from business rates from Central Government and there is also a discretionary relief after 20% that can also be applied at a local level;

RESOLVED TO:

- (1) thanks Theresa Channell for her attendance and presentation to the Committee and to note its contents;**
- (2) ask Theresa Channell to contact the Valuation Office and feed back to Committee Members on the rules in place around valuation of new properties;**
- (3) Theresa Channell to brief Councillors on the level of debt and arrears to the Council through Council Tax and Business Rates;**
- (4) invite a suitable officer to attend a future meeting to update the Committee on the Accounts receivable, current position and outstanding debt;**
- (5) invite Theresa Channell back to a future meeting to update the Committee on the outcome of the technical consultation on Business Rates;**
- (6) invite a suitable officer to attend a future meeting to present to the Committee on economic regeneration and reliefs available to small and micro businesses.**

59 HOUSING BENEFIT SUBSIDY CLAIM QUALIFICATIONS 2015/16

John Maddison, Team Leader – Subsidy and Information presented the report of Ian Roper Commercial Finance Team leader for Contract Management on Housing Benefit Subsidy Claim Qualification 2015/16, highlighting the following;

- (a) the audit report from KPMG brought to the last meeting of the Audit Committee highlighted a high error rate, 19%, in the housing subsidy claims;
- (b) the errors themselves were generally small errors and have not cost the Council large amounts of money, most errors resulted in small overpayment which can be claimed back either through current benefits or through invoice;
- (c) in terms of qualification value, the figure has fallen from £1.215million in 2013/14 to £807,000 in 2015/16 and the financial; accuracy level this increased from 99.17% in 2013/14 to 99.4% in 2015/16 which are not inconsistent with the findings of audits of other large unitary authorities, as acknowledged by KPMG in their report;

- (d) an action plan has been drawn up to tackle the mistakes that are commonly being made which includes the following:
- Case studies and help sheets for all error types,
 - 1 hour weekly training sessions in team meetings to work through error examples and exercises with teams,
 - Desk-Aides for identified themes,
 - A business case is being prepared to provide additional resource for quality checking, to allow in year quality checks for known areas of risk, pre-submission of the Housing Benefit subsidy claim.

Following questions and comments from the Committee the following additional points were made:

- (e) the software installed over recent years enables automatic updates from both HM Revenue and Customs and from Department of Work and Pensions direct into the Council system which reduced error rate. With these direct links it means that 65-70% of all updates to details are made automatically within a couple of days of the changes being made;
- (f) Universal Credit takes people out of the subsidy claim and so caseload is dipping slightly. Further roll out of Universal credit will impact on caseload further, but at present as recipients are limited to new claimants who are single the impact is not much.

RESOLVED TO:

- (1) **note the key findings from the KPMG audit of Grants and Returns report specific to the Housing Benefit Subsidy Claim 2015/16 and the Councils response;**
- (2) **invite Ian Roper back to a future meeting to update the Committee on progress made in error reduction;**
- (3) **thank John Maddison for his attendance and for presenting the report on Housing Benefit Subsidy Claim Qualification;**

60 INTERNAL AUDIT REPORT SELECTED FOR EXAMINATION

Shail Shah, Head of Audit and Risk, presented a report on an Internal Audit Report selected for Examination. He informed the Committee that the Equality Impact Assessment (EIA) action plan had been updated and that a lot of work had been completed. There is still plenty of work left to do but most work has been started and is progressing in the right direction.

Following questions and comments from the Committee the following information was highlighted:

- (a) The issue of EIA keeps cropping up in various scrutiny meetings and it is good to see that it is becoming part of the culture of Nottingham City Council;

- (b) The Committee agreed that the service had responded proportionately but would like further reassurance that the work continues to move at a satisfactory pace and in the right direction;

RESOLVED TO:

- (1) Note the updated position with regards to the Internal Audit report on Equality Impact Assessments;**
- (2) Invite Imogeen Denton to a future meeting to update the Committee on further progress of work on the EIA Action Plan;**

61 INTERNAL AUDIT ANNUAL WORK PLAN 2017/2018

Shail Shah, Head of Audit and Risk, introduced a report on Internal Audit Annual Work Plan 2017/2018. He highlighted the following points:

- (a) The plan presented to the Committee is the summary plan. The detailed plan will return to the Committee every quarter for review.
- (b) Organisational independence of internal audit is satisfactory as is the scope and current resources;

RESOLVED to:

- (1) approve the Internal Audit Plan for 2017/2018;**
- (2) note the head of Internal Audit's opinion regarding the organisational independence of Internal Audit;**
- (3) note the Head of Internal Audit's opinion regarding whether there are inappropriate scope or resource limitations;**

62 AUDIT COMMITTEE TERMS OF REFERENCE AND ANNUAL WORK PROGRAMME

Shail Shah, Head of Audit and Risk, introduced a report on the Audit Committee Terms of Reference and Annual Work Programme. He highlighted the following points:

- (a) the terms of reference and the work plan do not differ significantly from last year. There has been the addition of Public Sector Internal Audit Standards (PSIAS) duties of the board which are detailed in Appendix 3 of the report
- (b) Internal Audit has recently been peer reviewed and feed-back has been positive. At present only the draft report is available but indications are that the second highest level has been achieved by Nottingham City Council;

- (c) Thanks were extended from Head of Audit and Risk and Group Auditor to the Committee for the work put in towards the peer review;

RESOLVED to:

- (1) note the role and functions of the Audit Committee including the additional elements prescribed by the PSIAS and the benefits arising from its existence;**
- (2) endorse the outline work programme as set out in Appendix 1 including the Assurance Plan and the terms of reference at Appendices 2 and 3;**