

Auditor's Annual Report on the South Gloucestershire Council

2020/21

June 2022



Contents



We are required under s 20(1)(c) of the Local Audit and Accountability Act 2014 to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the National Audit Office (NAO) in 2020 requires us to report to you our commentary relating to proper arrangements.

We report if significant matters have come to our attention. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.



Section	Page
Executive Summary	3
Key recommendations	5
Commentary on the Council's arrangements to secure economy, efficiency and effectiveness in its use of resources	6
Financial sustainability	7
Governance	12
Improving economy, efficiency and effectiveness	15
COVID-19 arrangements	18
Appendices	
A – The responsibilities of the Council	
B – An explanatory note on recommendations	

The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Council or all weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

Executive summary



Value for money arrangements and key recommendations

Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to consider whether the Authority has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. The auditor is no longer required to give a binary qualified / unqualified VFM conclusion. Instead, auditors report in more detail on the Authority's overall arrangements, as well as key recommendations on any significant weaknesses in arrangements identified during the audit.

Auditors are required to report their commentary on the Authority's arrangements under specified criteria. As part of our work, we considered whether there were any risks of significant weakness in the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources. We identified risks in respect of:

- Financial sustainability
- Governance
- Improving economy, efficiency and effectiveness
- COVID-19

Criteria	Risk assessment	Conclusion
Financial sustainability	No risks of significant weaknesses identified	No significant weaknesses in arrangements identified, but improvement recommendations made.
Governance	No risks of significant weaknesses identified	No significant weaknesses in arrangements identified, but improvement recommendations made.
Improving economy, efficiency and effectiveness	No risks of significant weakness identified	One significant weakness in arrangements identified in regard to priority action identified by OFSTED on children's services. A key recommendation has been made for this matter.
COVID-19 arrangements	No risk of significant weakness identified	No risk of significant risk identified.



Financial sustainability

South Gloucestershire Council has historically performed well, with a record of stable financial and budgetary management in the previous year. Despite the challenging environment in which it operated during 2020/21 the Council has maintained a good financial position. The Council has put forward a series of proposals which forecast a balanced budget for the next two years, 2021/22 and 2022/23. In addition, as at 31 March 2021, it held £255.8m usable reserves.

Management of schools finances is a challenge for the Council. Dedicated School Grant at the end of 2020/21 was in cumulative deficit of £23.9m (due to Special Needs and Disabilities SEND block). The Council is at an advanced stage in their discussions with the Department for Education to eliminate the deficit.

Overall, the Council in a strong financial position, having planned its budgets for future years well in advance will enable sensible phasing of proposals to minimise the impact of the financial climate on services to residents. Our work has not identified any significant weaknesses in arrangements to secure financial stability at the Council.

Further details can be seen on pages 7-11 of this report.



Governance

Our work this year has focussed on developing a detailed understanding of the governance arrangements in place at the Council and the changes instigated as a response to the pandemic.

Our work on both business-as-usual governance and adapted structures for COVID-19 has not identified any significant weaknesses in arrangements or improvement recommendations in relation to governance.

Further details can be seen on pages 12-14 of this report.



Improving economy, efficiency and effectiveness

The Council has demonstrated an understanding of its role in securing economy, efficiency and effectiveness in its use of resources.

Our work identified one significant weaknesses in arrangements economy, efficiency and effectiveness with regard to the Council's response to OFSTED's findings on children's services in the council. We have raise a key recommendation on this matter. We also identified improvement recommendations in relation to delivering economy efficiency and effectiveness.

Further details can be seen on pages 15-17 of this report.



COVID-19 arrangements

The impact of COVID-19 has presented new risks to the Council and has cut across all service areas.

Our review has not identified any significant weaknesses in the Council's VFM arrangements for responding to the Covid-19 pandemic.

Further details can be seen on pages 18-19 of this report.

Executive summary



Opinion on the financial statements

The audit of the Council's financial statements was completed in January 2022 and we have issued an unqualified audit opinion following the Audit & Accounts Committee meeting on 18 January.

The accounts and associated working papers presented for audit were of a good standard.



Key Recommendation



The NAO Code of Audit Practice requires that where auditors identify significant weaknesses as part of their arrangements to secure value for money they should make recommendations setting out the actions that should be taken by the Council We have defined this recommendation as 'key recommendation'.

Recommendation	<p>The Council should prioritise implementation of OFSTED recommendations on children's services contained in the improvement notice dated 2 March 2022. The improvement notice references the improvement plan communicated to the council in December 2021 and detailed at the link https://files.ofsted.gov.uk/v1/file/50173992.</p> <p>The council should ensure:</p> <ul style="list-style-type: none">I. a requirement for the council to put in place clear evidence of progression towards implementation,II. as well as working with the adviser appointed by the Secretary of State to work with the Council and Department, andIII. Introduction of appropriate Information Management Systems (including providing staff training on its use) that enables cases to be recorded consistently and accessed real time by the appropriate responsible officers.
Why/impact	<p>The process of implementing and monitoring the improvement requirement requires a significant amount of management's time. The reputation of the council could be impacted and council may fail to achieve its corporate objectives as (prospective) residents do rely on OFSTED ratings in making decisions about where to live. Outcomes for children and families may be impacted by continuous cycle of poor performance.</p>
Auditor judgement	<p>OFSTED issued the council has an improvement notification in March 2022 after a focused visit that judged there to be two areas for priority action.</p>
Summary findings	<p>The council is falling behind in implementing recommendations made by OFSTED on children services in the council. Some of the recommendations were first made in 2019. Following a focused visit to the children's services in December 2021, OFSTED identified recommendations that were yet to be implemented and made a judgement that Children's services have areas for priority action. We acknowledge that the council strides towards addressing the issues identified but this issue is being raised as a matter of significant weakness for the following reasons:</p> <ul style="list-style-type: none">▪ Some of the issues were first raised in 2019 and do not appear on the council's Strategic Risk Register SRR,▪ The council had improvement plan in place six months before OFSTED's focused visit but OFSTED still issued an improvement notice to the council implying the plan may have been deemed inadequate by OFSTED, and▪ Implications of non-compliance could be severe to the council's reputation and outcomes for local children and families
Management comment	<p>Agreed, this is in progress.</p>

The range of recommendations that external auditors can make is explained in Appendix B.

Commentary on the Authority's arrangements to secure economy, efficiency and effectiveness in its use of resources

All local authorities are responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness from their resources. This includes taking properly informed decisions and managing key operational and financial risks so that they can deliver their objectives and safeguard public money.

Local Authorities report on their arrangements, and the effectiveness of these arrangements as part of their annual governance statement.

Under the Local Audit and Accountability Act 2014, we are required to be satisfied whether the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

The National Audit Office's Auditor Guidance Note (AGN) 3, requires us to assess arrangements under three areas:



Financial Sustainability

Arrangements for ensuring the Authority can continue to deliver services. This includes planning resources to ensure adequate finances and maintain sustainable levels of spending over the medium term (3-5 years).



Governance

Arrangements for ensuring that the Authority makes appropriate decisions in the right way. This includes arrangements for budget setting and management, risk management, and ensuring the Authority makes decisions based on appropriate information.



Improving economy, efficiency and effectiveness

Arrangements for improving the way the Authority delivers its services. This includes arrangements for understanding costs and delivering efficiencies and improving outcomes for service users.



Our commentary on each of these three areas, as well as the impact of Covid-19, is set out on pages 7 to 22.



Financial sustainability



We considered how the Council:

- identifies all the significant financial pressures it is facing and builds these into its plans
- plans to bridge its funding gaps and identify achievable savings
- plans its finances to support the sustainable delivery of services in accordance with strategic and statutory priorities
- ensures its financial plan is consistent with other plans such as workforce, capital, investment and other operational planning
- identifies and manages risk to financial resilience, such as unplanned changes in demand and assumptions underlying its plans.

2020/21 and ongoing financial pressures

South Gloucestershire Council has historically performed well, with a record of stable financial and budgetary management in the previous year. Despite the challenging environment in which it operated during 2020/21, total expenditure as reported in the outturn position to Cabinet in June 2021 was to deliver net service expenditure of £721.0m (£629.0m in 2019/20), reflecting a £16.0m underspend on the net cost of services compared to agreed budget. Covid-19 restrictions which had been in place since 23rd March 2020 continued during the year and the Council implemented a range of measures to support local business, partners and residents including:

- Operating food hubs, acquiring and supplying personal protective equipment PPE, and funding additional staffing at Adults and Children's Social Care
- 10% goodwill grant payment to grant payment to Adult Social providers to ensure the sector could cope with client demands,
- Business rates relieve to qualifying local businesses and council tax relief to qualifying residents

The council received additional grant funding totalling £165.0m to defray these measures.

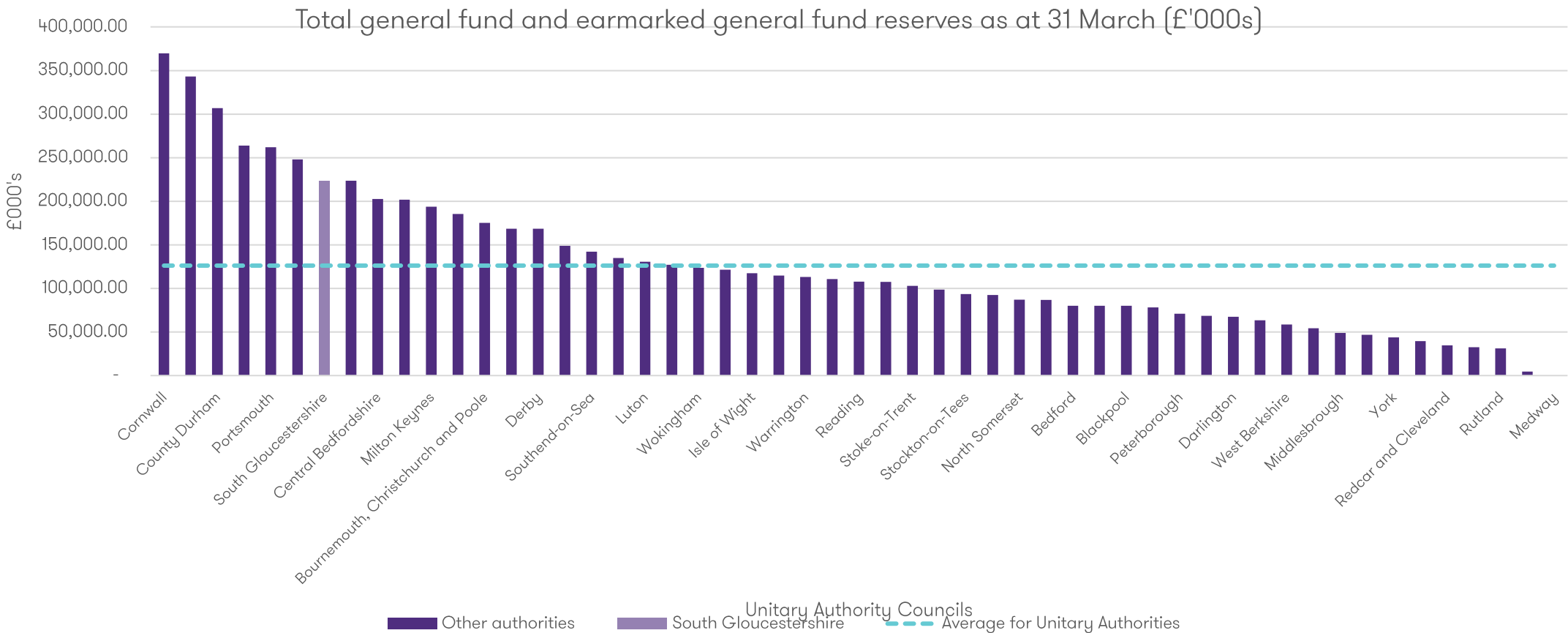
At the end of 2020/21 the Dedicated Schools Grant (DSG) deficit stood at £23.9m. This is due to pressures in the High Needs budget. Whilst DSG deficit positions can be carried forward against the grant for future years, the Council is required to have a multi-year deficit recovery plan in place. This does present a potential future risk in terms of financial stability. The council is in the process of developing a recovery plan and the plan would need to be agreed with the Department for Education DfE. The council in April 2022 agreed a safety valve agreement with DfE to eliminate the deficit over 6 years. The agreement reached will see the DfE inject additional £25.0m funding to the council over 6 years starting with an initial £10.5m in 2021/22, followed by £3.0m each year in 2022/23 to 2025/26 and a final £2.5m in 2026/27. In return, the council will implement the agreed DSG management plan set out in the agreement aimed at improving the management of SEN and eliminate the DSG deficit by 2024/25 and in each subsequent year afterwards. This risk has not been raised specifically in the council's Strategic Risk Register and an improvement recommendation is included in this report in relation to this risk.

Investments in property, plant, equipment in 2020/21 totalled £62.9m against an approved budget of £121.0m. Major capital expenditure included £12.0m in highway maintenance & improvements, £11.0 m in contribution to Metrobus regional transport initiatives and £8.0m in school buildings. The capital underspend was mainly due to slippage on highways maintenance and improvements. The council has out together an ambitious capital plan of £655.0m for the next 5 years to 2025/26 (average of £130.0m investment per annum). Significant projects included in this plan are the Cribbs Patchway Metrobus at £57.2m, Kingswood High Street acquisition and redevelopment at £17.3m, Yates Park and Ride terminal at £3.9m and other local transport capital schemes at £65.5m. Funding sources for the council's capital projects includes grants from the Central Government including the new city deal sourced through WECA, S106 contributions from developers, revenue reserves and borrowings.

Cash and cash equivalent balances decreased from £30.4m at the start of the period to £12.5m due to delays in receipt of the additional funding for covid-19 grants. The Council has a strong reserves position compared to other similar councils with £255.8m in usable (2019/20; £132.5m usable). The following slide presents analytics on how the council's reserves compares to peers.

Financial sustainability

General Fund and Earmarked (i.e. usable reserves) less schools



Data were inputted manually onto spreadsheet and some data were yet to be audited as at the time of the data collection. Data source: unaudited local auditor accounts.

Financial sustainability

Savings plans

The Council monitors the delivery of planned savings, and mitigating actions where required, on a quarterly basis. These are reported to the Senior Leadership Team (SLT) and to Cabinet. The Council has continued to make savings since the 2010 Spending Review. Savings of £7.3m had been included within the 2020/21 budget. However, as a result of COVID-19, not all of these savings were achieved, as set out in the adjacent table.

Future years' budgets are currently balanced for the next two financial years i.e. 2021/22 and 2022/23 followed by a forecast deficits in 2023/24 and 2024/25 and the council has already introduced a Resource Allocation Project to address this. Significant work has been undertaken by the Council to identify savings opportunities to balance the books, and the medium term financial planning undertaken demonstrates a prudent approach, with a recognition that future funding levels remain uncertain.

Status of savings following 2021 review

	£000	%	Comment
Target saving	7,264	100%	Overall savings target of the Council for 2020/21.
Savings achieved permanently	4,230	58%	Savings achieved recurrently (not through temporary measures such as holding on to vacancies).
Savings achieved temporarily	1,732	24%	Savings that are non-recurring in nature achieved through short term schemes such as staff vacancies.
Not achieved	1,302	18%	Not achieved due to the impact of COVID-19 and timing delay and is expected to be achieved in 2021/22.

Managing risks to financial resilience

The Council has incorporated resilience into its planning and regularly reviews the MFTS. This is done through scenario planning and by building resilience into contracts with service providers through basing 30% of the contract value on RPI (inflation based) and 70% of the contract value is subject to labour/wage driven increment. The council also uses external consultancy to review implications of annual settlements of budget and impact on budgetary assumptions and takes necessary actions towards achieving balanced budgets annually.

In the current financial year, identified budget challenges are being managed by planned savings and some short term pressures by a carry forward of COVID funding held in reserve from 2020/21.

Generally, we find the Council to be well managed and there is a high level of understanding of its budgetary position, budgetary pressures and any savings required. There is an established process by which the budget is reviewed regularly, and issues are reported on a timely basis to those charged with governance.

Financial Planning

The Council Strategy clearly sets out corporate strategic priorities, which are referenced within the Council's financial planning. The Council Strategy – 'Looking to the Future' sets the Council's vision, its ambitions for the county and its priorities for addressing the challenges and opportunities it faces and was updated following the public consultation exercise and approved by the County Council in February 2021.

The capital programme also supports the Council's corporate priorities. Its budget is mainly focused on highways maintenance and improvements, improvements to school buildings, developing regional transport links by bus and flood management and ecology projects. The Council's actual capital spend per the property, plant and equipment note in the published annual accounts and reports is £62.9m (in 2020/21, an outturn of 52% against budget.) There was slippage in capital spending due to slippage on highways maintenance and improvement schemes, lower possession costs on the Metrobus regional transport initiative. We are satisfied there is a clear linkage between the capital programme and council's Medium Term Financial Strategy.

Service spending including discretionary spend is subject to close scrutiny when spending and savings plans are being considered. The Resource Allocation Project has focussed on ensuring that members have an appropriate understanding of service expenditure and can make appropriate resource allocation decisions.

Financial sustainability

Medium term financial planning

Usually the Medium-Term Financial Strategy (MTFS) is updated annually as part of the draft budget. Additionally, a fundamental review of the MTFS was undertaken by the Council in 2020 for the period 2020/21 to 2022/23. As part of this review, sensitivity analysis and scenario modelling was undertaken on all aspects of the MTFS, including income assumptions, expenditure assumptions and savings assumptions. A further review of these assumptions was undertaken early in 2021 to identify the future impact of COVID-19. The Council now has a series of proposals which forecast a balanced budget for the next two years for both 2021/22 and 2022/23 with a forecast deficit of £15.6m in 2023/24 and deficit of £16.3m in 2024/25. The council put in place a Resource Allocation Project to re-prioritise resources and create a sustainable financial position from 2023/24 onwards with the help of a firm of specialists contracted to provide a framework within which to methodically prioritise and link resources to council priorities whilst shifting away from annual incremental budgeting. Following the completion of this project in October 2021, the council submitted an updated draft revenue budget & MTFP put forward to Cabinet in Feb 2022 which shows that the budget deficit identified in MTFP submitted in Feb 2021 has now reduced from £31,967k (2023/24: £15,636k and 2024/25: £16,331k) to £14,193k (2022/23: £1,040k, 2023/24: £8,117k and 2024/25: £5,036k) and the residual deficit will be eliminated through reserves to achieve a balanced budget.

This will place the Council in a strong financial position, as planning the budgets for future years well in advance will enable sensible phasing of proposals to minimise the impact on services to residents.

As such, we are satisfied the Council identifies and manages risks to financial resilience and challenges the assumptions underlying its plans.

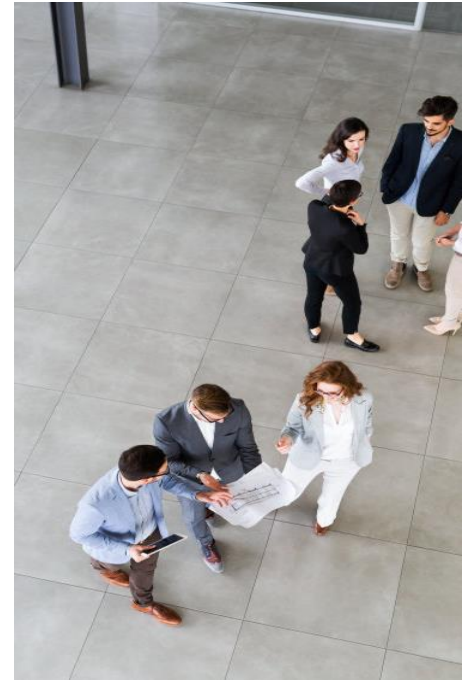
Pooled NNDR

The Council is part of a business rates (NNDR) pooling arrangement within the West of England Combined Authority (WECA). Performance is monitored through a 'Pooling Board' made up of all relevant Section 151 Officers and Unitary Authority technical officers and updates are reported to the WECA Overview and Scrutiny Committee. The annual report on pool performance for 2020/21 reflected challenges in the year due to the Covid pandemic, but with an improving outlook. Performance against the West of England Business Rates City Deal pooling is monitored through a 'Pooling Board' made up of all relevant Section 151 Officers and Unitary Authority technical officers with annual updates reported to the WECA Overview and Scrutiny Committee. The overall performance of the West of England business pooling remained positive with sufficient growth forecast above baseline, to meet tier 1 and tier 2 commitments.

The additional resources available due to the pooling of NNDR are held in a pooled investment fund. As a member of the West of England Combined Authority, South Gloucestershire has access to capital and revenue funding for specified projects through the Pooled Investment Fund. The Council has continued to draw on the fund in 2020/21, 2021/22 and 2022/23 to finance specified projects [schemes to date are listed in the 2022/23 Budget paper - attached]. The Council bids for funding from the pool, through an established bidding process, that requires them to prepare a business case, which is submitted to the Combined Authority to approve as a collective. The business case includes an assessment of the value for money offered by the scheme, its relevance to regional strategy, and assessment of risk, including delivery risk. The portfolio of investment schemes funded by the pool is assessed annually by the Combined Authority via the annual investment report [Investment reports for 2021/22 and 2022/23 attached]. The performance of schemes are reviewed as part of this process and adjustments made as required. The financial risk of non-delivery is shared between the bidding Council and the members of the Combined Authority. Specific risk assessments are carried out as part of initial feasibility studies for projects in development and business cases are required to set out the way that risks will be managed on a risk register. All projects underway maintain a specific risk register as part of the project management and monitoring arrangements. Financial risks are managed collectively by the Combined Authority, including consideration of cost increases, as set out in the Combined Authority Investment Strategy

Conclusion

Overall, we are satisfied the Council has appropriate arrangements in place to ensure it manages risks to its financial sustainability. We have not identified any risks of significant weaknesses. We have identified two opportunities for improvement. These are set out overleaf.



Improvement recommendation



Financial Sustainability

Recommendation	The council should put in place arrangements to monitor the implementation of agreements with DfE (when formalised) around achieving in-year breakeven by 2022/23 and eliminating historic deficits by 2027/28.
Why/impact	There is a reputational risk, if the terms of the agreement reached are not complied with. Additionally, if the deficit is not brought down and eliminated, it would further increase pressure on the Council's financial position.
Auditor judgement	Once formalised with DfE, the recovery plan should be monitored through the council's risk management framework including the Strategic Risk Register until the council achieves in-year balance and the historic deficit is eliminated.
Summary findings	The council has benchmarked Dedicated School Grant DSG underspend against other councils in the region. Results show that the council's deficit is towards the larger end of the range of deficits. The council (in March 2022) is now in the process of agreeing a plan with the Department for Education. Part of the terms of the agreement is for the council to achieve an in-year breakeven in 2022/23 and for the cumulative deficit to be eliminated by 2027/28.
Management comment	Agreed, the agreement with DfE has been made and arrangements are in place to monitor implementation.



The range of recommendations that external auditors can make is explained in Appendix B.

Governance



We considered how the Council:

- monitors and assesses risk and gains assurance over the effective operation of internal controls, including arrangements to prevent and detect fraud
- approaches and carries out its annual budget setting process
- ensures effectiveness processes and systems are in place to ensure budgetary control
- ensures it makes properly informed decisions, supported by appropriate evidence and allowing for challenge and transparency
- monitors and ensures appropriate standards.

Monitoring and assessing risk

The Council has an appropriate risk management framework. Its constitution references a Risk Management Policy, and the 2020/21 Annual Governance Statement and the Internal Audit Services Annual Assurance Report 2020/21 describes some of the approach to risk management. The Council's risk management framework includes an annual risk assessment process. This is done through the Strategic Risk Register (SRR) which is an integral part of the council's framework of risk management, reviewed by the Strategic Leadership Team and presented to the Cabinet annually. Each department maintains a risk register which includes risks, controls, risk owner and date to review progress of the mitigation controls.

The SRR weights the risks. The weighting is based on a 2 by 2 matrix of impact of the risk and the likelihood of occurrence. The RAG rating scores each risk based on impact and likelihood into Low, Medium and High Risk. The SRR also sets out the triggers for each risk and consequence for each risk. The mitigating actions/opportunities already in place, further actions required to be taken by a designated responsible officers and a target date to review the risk by both Strategic Leadership Team and Cabinet are included in the SRR. The Internal Audit function leads on the Council's risk reporting by sifting through risks identified at Directorate Management Teams and ensuring that risks deemed to be significant to the Council's monitoring environment are reported through to Cabinet on the Strategic Risk Register for effective monitoring.

Our review highlighted that the SRR did not include risks relating to priority actions for children services (identified by OFSTED in 2019), deficits relating to the Dedicated Schools Grant DSG (on-going) and risk associated with slow pace of implementing internal audit recommendations across the council. Therefore, whilst risk management framework is in place at the Council, there are currently gaps in the process which have led to key risks not being escalated appropriately to the SRR where they can be adequately scrutinised by the executive leadership team and members. We have raised an improvement recommendation on this matter.

Internal audit

The internal audit function covers Internal Audit Services and Health and Safety. The internal audit team has 8 established roles including the head, the Audit Manager. The Health and Safety team also reports to the Audit Manager. The Audit Manager and two of the Assistant Audit Managers are Chartered Accountants. The second Assistant Manager and one of the Senior Audit Officers are members of the Institute of Internal Auditors while the remaining 3 (in post) members of the team are working towards qualifications whilst 1 post is vacant. We are satisfied that the internal audit team are suitably qualified.

Internal audit services for public sector bodies are monitored by the Public Sector Internal Audit Standards PSIAS. PSIAS are required to conduct assessment of public sector body's internal audit services at least once in every five years and rate the service as 'conformance', 'partial conformance' or 'non-conformance' to the requirements of the PSIAS standards. The PSIAS final report on the last external assessment at the council was dated the 17th November 2017 and concluded that "South Gloucestershire Council's Internal Audit Service conforms to the requirements of the PSIAS". The 2020-21 Internal Audit plan was presented to the Audit and Accounts Committee on 28th July 2020 and includes 650 days of planned audit services (including 50 days contingency) revised from an intended 900 days. The Annual Assurance report was presented to the Audit and Accounts Committee on 27th July 2021 with an overall internal audit opinion of 'reasonable assurance'. There was no indication of the number actual internal audit days completed, however, the report showed that 36 of the 55 reports included in the plan was 'for completion in 2020/21'.

There is a good suite of policies in place, covering anti-fraud and corruption, and the Council has an established anti-fraud culture which includes 'whistle-blowing policy' and participation in the data matching exercise managed under the National Fraud Initiatives coordinated nationally by the Cabinet Office.

Our assessment identified that Internal Audit coverage across council services is good. However, our assessment noted that the council was behind in implementing internal audit recommendations and internal audit was also behind in following up on recommendations. During the year under review, the council had failed to implement fifteen (15) high priority and thirteen (13) medium priority internal audit recommendations. In addition, Internal Audit paused following up on thirty-nine (39) high priority and thirty (30) medium priority audit recommendations. The purpose of follow up is to ensure that management has implemented recommendations and non-implementation of internal audit recommendation could lead to risks of non-achievement of council's corporate objectives. An improvement recommendation is included in this report in relation to this matter.

Governance

Budgetary Setting Process

The budget-setting process is multi-layered, involves the Finance staff and responsible officers for the budget area. The draft budget is then presented to Cabinet for review in December, with additional papers presented to Cabinet to approve the budget in February. There is also a quarterly review of budget to outturn position by Cabinet.

The budget and MTFS are considered concurrently. There is not a separate, standalone MTFS, but the longer-term projections and any risks to the medium term are incorporated into the reports accompanying the budgetary information considered by Cabinet quarterly.

This high level of scrutiny together with the Council's track record of achieving its planned savings and balancing its budget confirm the strength and validity of the budget setting processes in place.

Budgetary control

There are good systems in place for oversight of the budget. The Finance Department engages at least monthly with budget holders. As well as quarterly budget monitor reports to cabinet, budget holders are supported by a team of Finance Managers who provide financial experience with budget reporting.

The Budgetary control systems and processes at South Gloucestershire are operating effectively. Oversight is multi-layered and structured and involves the appropriate level and combination of employees and members. There is an annual timetable which includes various budgetary monitoring and control activities and involves service departments, finance department and review at the Cabinet Meetings. There is also clarity around statutory responsibility and process in place align well with statutory reporting requirements.

Leadership and committee effectiveness/decision making

Appropriate leadership is in place. The Council operates a Leader and Cabinet form of executive arrangements. There is a scrutiny commission which monitors in year performance and budgets. The council's Scrutiny Commission conducts in-depth reviews of issues through informal focused task groups, calls-in decisions and monitors in-year performance and budget. There was no call-in decisions in 2020/21 and our review of the status report of the Standing Groups (and Task & Finish Groups) plan dated 27 April 2022 shows the report included appropriate mix of items including Waste PFI contract ending in 2025 and the issue relating to OFSTED inspection. The Audit and Accounts Committee is responsible for council's arrangements for approving the Annual Accounts and compliance with statutory guidance. The committee operates effectively.

The work of the Council's committees is governed by the Constitution which is regularly reviewed and updated and is openly available on the Council's website. The Annual Governance Statement needs to be read alongside the Council's Constitution, which sets out how the Council operates, how decisions are made and the policies which are followed to ensure that these are efficient, transparent and accountable to local people.

Management Information Systems

The Council's use of management information systems is not uniform across different services and corporate reporting is compiled from a range of information sources. Reports for committee meetings are disseminated electronically and published on the council's website and can be downloaded by the public. The council's website is a good source of information and interaction with the residents and stakeholders and contains a good array of information about the council. Members pictures, names and committee membership are available on the council's website. Finance IT systems was deemed antiquated and in need of upgrading. Likewise, Children's Services have identified a need to improve on MIS in order to improve effectiveness in decision making process. We have identified some opportunities to strengthen these.

Monitoring and ensuring appropriate standards

The annual governance statement is compliant with the CIPFA code. An appropriate level of care is taken to ensure the Council's policies and procedures comply with all relevant codes and legislative frameworks. The work of the Standards Sub-Committee has been reported to the Regulatory Committee. In July 2021 the Complaints for the 20/21 trend were reviewed. This showed that there were 7 complaints during the financial year. Only one of these related to a district councillor, the rest were for parish or town councillors.

The district councillor complaint related to a comment made by the Councillor at a Committee meeting which was reported in local press. Whilst the Councillor considered that the comment was taken out of context, the Councillor offered a full apology to residents and confirmed he had not intended to cause any offence. The outcome of the complaint was one of no breach.

Conclusion

Overall, we found no evidence of significant weaknesses in the Council's arrangements for ensuring that it makes informed decisions and properly manages its risks. We have identified some opportunities for improvement, set out overleaf.

Improvement recommendation

Governance

Recommendation	Internal audit recommendations should be implemented promptly.
Why/impact	Internal audit forms part of the council's risk management framework. Internal audit recommendations not followed up may impact on the ability of the council to achieve its corporate objectives
Auditor judgement	Internal audit recommendations should be implemented timely and internal audit appropriately resourced to ensure timely follow up on implementation of audit recommendations.
Summary findings	The council is behind in implementing internal audit recommendations and in following up on internal audit recommendations. Internal audit report reviewed at Audit and Accounts Committee on 24 th November 2020 shows that less than 30% of recommendations due were followed up and less than half of the recommendations followed up were implemented.
Management comment	Whilst this was the position in November 2020 due to prioritising COVID governance activities, performance has significantly improved since then as we have returned to BAU service delivery towards the end of the pandemic. Performance in implementing recommendations is much improved in 2021/22 with 85% of high priority recommendations implemented, 82% of critical recommendations implemented and 58% of recommendations due followed up.



The range of recommendations that external auditors can make is explained in Appendix B.

Improving economy, efficiency and effectiveness



We considered how the Council:

- uses financial and performance information to assess performance to identify areas for improvement
- evaluates the services it provides to assess performance and identify areas for improvement
- ensures it delivers its role within significant partnerships, engages with stakeholders, monitors performance against expectations and ensures action is taken where necessary to improve
- ensures that it commissions or procures services in accordance with relevant legislation, professional standards and internal policies, and assesses whether it is realising the expected benefits.

Performance review, monitoring and assessment

The Council Plan, is based on overarching goal of 'achieving the best for residents and their communities', and informs the council's corporate objectives. In 2020, the council developed twenty (20) 'Action Plan Commitments' to assess progress towards these objectives. Each action plan commitment has a set of performance indicators and is managed jointly by a member and a lead officer (or an external consultant, where appropriate). Progress against the 20 action plan commitments is monitored by the cabinet twice every year. The reports submitted to the Cabinet is informative and combines approximately 100 KPI's used to assess the Council's performance against targets and trends and plans to improve areas of underperformance(s). Some of the KPI's uses the results of external regulators such as OFSTED. Some of the KPIs are being developed. Overall, KPIs measured shows the council is meeting the target in half (Green RAG rated - 51%) of the KPIs against the Council Plan, making progress and improvements towards 22% of its metrics (i.e. Amber RAG rated - 22%) and yet to achieve around a quarter (Red RAG rated - 27%) of these KPIs.

The Council uses benchmarking to understand their performance in relation to other organisations, regional or national indicators. Benchmarked performance includes; proportion of older people who are still at home 91 days after discharge from hospital (council showing a favourable upward trend towards target of 89%) and interest rates on 12 month money market rates (council achieved 3.59% against 0.23% benchmark). Through this process, the Council identified its DSG overspend (annual and cumulative) was one of the highest in the region. This has enabled the Council seek pragmatic solution to tackling the issue mainly through an agreement with the Department for Education that will allow the Council to achieve an in-year balanced budget by 2022/23 (subject to DfE contribution of £25.0m over 3 years) and completely eliminate the cumulative deficit by 2027/28.

We have also completed our benchmarking using the GT CFOi platform, which makes use of the annual Revenue Outturn data. Costs show that the Council is on average spending in line with other authorities. However, this varies significantly between services. High areas of spend are education, adult social care, and the environment. Low areas of comparable spend are children's social care, cultural and related services, housing and public health services. We note that these figures relate to 2020/21 expenditure and the Council has subsequently altered its expenditure patterns. We will re-review these areas in our 2021/22 audit.

The Council set out its corporate priorities in a new 4 year integrated Corporate Strategy in October 2020, and reported progress in its annual report outcomes in October 2021. The Council Plan does not have any financial implications in itself, but it serves as the main framework document for driving the Council's strategic planning processes and provides a key reference document for reset, delivery and service plans that are in place to support the plan and these are updated annually to feed into the budget, MTFS and capital planning process.

Performance review - children's Services

The Council is falling behind in implementing recommendations made by OFSTED on children services in the Council. This issue was discussed with the Director of Children's Adult and Health CAH who provided further details about the programme of work being undertaken by the Council to improve its children's services. Some of the recommendations were first made by OFSTED in 2019. The Director of CAH put the reasons for delay in implementing OFSTED recommendations to be due to staff recruitment challenges and lack of appropriate IT systems for data monitoring. She confirmed that In October 2021, Cabinet agreed to bring forward additional budget to address the recruitment challenges with immediate effect and the Directorate established projects to address the key areas including IT systems and data monitoring; business case for residential care provision and recruitment and retention task force. These actions were in place at the Council prior to December 2021.

However, following a focused visit to the children's services in December 2021, OFSTED identified recommendations that were yet to be implemented and made a judgement that Children's services have areas for priority action.

Improving economy, efficiency and effectiveness

Performance review Children's Services (continued)

We are raising this issue as a matter of significant weakness for the following reasons:

- Some of the issues were first raised in 2019 and do not appear on the Council's Strategic Risk Register SRR and previous attempts by the council to resolve these have not produced the outcomes required by the regulator,
- The Council had improvement plan in place six months before OFSTED's focused visit but OFSTED still issued an improvement notice to the council implying the plan may have been deemed inadequate by OFSTED, and
- Implications of non-compliance could be severe to the Council's reputation.

The Director of CAH confirmed the council has undertaken the following actions since the OFSTED inspection aimed at addressing the matters raised by OFSTED:

- Refined and refocused the Enhanced Performance Board, and commissioned an independent chair for it
- Produced a Priority Action plan which has been submitted to Ofsted, outlining how the council will address the two priority areas they identified in the Focused Visit
- Seen additional funds agreed through Council budget setting process to increase capacity and restructure the team, as well as provide additional range of services for children and families
- Reviewed and updated Improvement Plan for the whole of Children's Services
- Introduced new performance monitoring and oversight processes
- Engaged with two Sector Led Improvement Partners in formal processes to support improvement of services
- Commenced a programme of international recruitment to look in new markets
- Stood up a cross-party Scrutiny Task Force, with an independent advisor to support Members in their work
- Invited and hosted the DfE national advisor on Care Leavers to undertake a diagnostic of work in this area
- Been involved in the appointment of a DfE Improvement Adviser to provide support and challenge in our process of improvement and prioritised his work with us.

Partnership working

The Council Plan sets out the objectives of partnerships, expected outcomes and deliverables. There is a formalised and rigorous oversight of the work undertaken by the Council in partnership with other bodies and appropriate leadership in place to ensure good governance is embedded throughout the lifetime of each partnerships. Partnerships in place at the Council include arrangements with local health bodies, working with other Local Authorities across services such Children and Adult Services and partnerships with voluntary sector. Each plan has a lead provider (usually but not always the Council) and is overseen by its own Board. The work carried out with partners is reviewed and assessed within the Council's plan and budget is usually managed within the appropriate service.

Achievements with Health partners include providing support for the acute sector through tactical and strategic decision making and accessing national funding to enable quicker discharge from hospital, leveraging health partnership arrangement to recruit into and manage critical primary mental health post and developing monitoring information with health partners to measure impact / performance.

The performance indicators for partnership engagements is monitored in the same way as other services delivered by the Council and included in the KPI's monitored through the 20 action plan commitments twice every year.

Procurement

The Council has a detailed procurement strategy that covers the financial periods from 2020 to 2023 and incorporates the Council's Social Value and Ethical procurement strategy. There are detailed KPIs in the Council's procurement strategy including a metric to measure percentage of contracts over £75k that have included social value in the tender process against a target set at 100% . This KPI is monitored quarterly and was included on the list of KPI's monitored by the Cabinet as part of the 'progress against the 20 action plan commitments'. The Council achieved 62.5% and 67.7% in April 2021 and September 2021 respectively against a target of 100%. The council's approach to contract management also measures 'in year spending contained within approved budgets' using a metrics that measures spend as a percentage of budget to ensure expenditures remain within the budgeted envelope. The council has a Head of Procurement who doubles as Head of Procurement and operates through 3 Procurement hubs; Children Adult and Health CAH, Environment and Communities Services ECS and Corporate and Central Service CCS and each autonomous. The Head of Procurement's view is that the council is reasonably good at following procurement rules in place and would engage procurement on major contracts. Procurement statistics (spend analysis) reviewed is based on an analysis of procurement arrangement for spend over £5k for January 2021 to June 2021 which identified 9% or £342k as non-compliant. The report also highlights measures the council is taking to improve performance, including communications through the intranets. The KPI could be measured at organisation level and included in the VFM metrics measured as part of the Council Plan and we have made an improvement recommendation regarding this.

Conclusion

Overall, with the exception of the response to Ofsted findings, we are satisfied the Council has appropriate arrangements in place to ensure it manages risks to its oversight in ensuring economy, efficiency and effectiveness in its use of resources. We have made a key recommendation in regard to the Ofsted findings (page 5).

Improvement recommendation

Improving economy, efficiency and effectiveness

Recommendation	The Council is increasingly involved in relatively large procurement exercises including large capital programmes and should as a matter of good practice, develop KPI at Council Plan level to monitor consultation/involvement of the procurement team, and application of procurement policies- in all procurement activities across the council – for example, measurement of volumes and values of supplier invoices paid via the approved purchased order process and number of contract waivers issued during each reporting period.
Why/impact	Measuring of these KPIs at Council-wide level (not just directorate level) will strengthen the compliance with the approved procurement process at the Council and help drive economy, efficiency and effectiveness into the Council's procurement process.
Auditor judgement	Improvement Recommendation
Summary findings	KPI's measured at the Council Plan level does not currently include metrics to measure the involvement of Procurement team in the Council's procurement process. We note that this currently include spend made within budgeted expenditure, a budgetary monitoring KPI, but the Council will benefit from including a Procurement based KPI at this level.
Management comment	There are performance measures detailed in the Procurement Strategy and consideration with be given through the Strategic Procurement Group as to how best to take forward.



The range of recommendations that external auditors can make is explained in Appendix B.

COVID-19 arrangements



Since March 2020 COVID-19 has had a significant impact on the population as a whole and how local government services are delivered.

We have considered how the Council's arrangements have adapted to respond to the new risks they are facing.

Financial sustainability

The COVID-19 pandemic has presented new risks to the Council and has had a significant impact on residents and local businesses. There was a £16.0m underspend compared to budget for net cost of services attributable to the spending controls put in place to mitigate the impact of the pandemic on Council finances as well as staff being diverted to support the response. This led to delay in the Council's delivery of its Savings Programme.

The pandemic has also resulted in a number of overspends across departments due to a loss of income. These additional costs and income losses were offset by additional Government grant funding of £165.0m, with £18m of this specifically aimed at COVID-19 related activity. The Council distributed COVID-19 Business Support Grants and also utilised the Discretionary Business Support Grant scheme to help local community groups and charities that missed out under the Small Business Support Grant Scheme.

Despite this buffer, the Council expects these financial pressures to be ongoing. It closely assesses the appropriateness of its COVID-19 related spend via monthly monitoring returns to the Ministry of Housing, Communities and Local Government (MHCLG). They then assess whether the Council have sufficient funds to tackle COVID-19.

The Council's IT infrastructure has supported the rapid change in the ways of working. Due to continued impact of covid-19 restrictions, the large proportion of the council's workforce worked from home during the financial year. Democratic engagements including committee meetings and cabinet meetings were also held virtual during the financial year and these were supported by the council's Information Technology infrastructure.

Governance

The Council has maintained a good oversight of its COVID-19 related costs and income losses. These were identified early on and subject to detailed monitoring and scrutiny to ensure they met Council Plan Priorities. The Council's Revenue Budget Monitor reports any additional costs and monitor the ongoing financial impacts.

One of the key issues raised in terms of additional costs was in relation to Children, Adults & Health (CAH), due to the continuing risk and uncertainty around the delivery of certain schemes caused by COVID-19. Individual scheme cost plans will now include a contingency sum and a COVID-19 risk sum to help monitor and mitigate this risk.

There are also risks around the potential loss of council tax and business rates income with the full impact of this remaining unclear. Whilst the Council has set a balanced budget for 2021/22, with savings and efficiencies built in, it understands the need to continue to monitor and scrutinise its finances in order to achieve this budget.

COVID-19 related spend is also considered as part of the Council's governance framework whereby it monitors the achievement of strategic objectives and whether services and value for money are being delivered. Some internal controls have also been adapted to provide assurance that COVID-19 funding is being used effectively. All of these factors throughout the financial year have been considered by the Council as it manages the medium-term impact of the pandemic on its financial plan.

COVID-19 arrangements

Improving economy, efficiency and effectiveness

The Council has been mindful of the impact on the pandemic on its most important resource, its staff. Actions have been put in place to support staff wellbeing and supporting staff remains a key priority for the Council. In aiming to maintain staff wellbeing, the Council has been able to maintain an efficient and effective delivery of its statutory services.

The Council has maintained its quarterly reporting of performance against the targets in the Council Plan throughout the year.

The Council has adapted to new ways of working and was quick to transition staff online at the start of the pandemic, ensuring that key meetings could still be delivered. In its MTFs, the Council are continuing to roll out agile working across the organisation and ensure that all staff are able to work flexibly.

In March 2020, the Chief Executive implemented an emergency governance structure so that operational decisions could be effectively managed and that key issues and risks could be escalated quickly to Chief Officers. The Council also responded quickly to adapt service delivery and meet Government requirements.

Partnership working is important to the Council and has developed during the course of the pandemic. This has led to many positive outcomes for the Council and has helped in its response to COVID-19.

Conclusion

Our review has not identified any significant weaknesses in the Council's VFM arrangements for responding to the Covid-19 pandemic.



Appendices

Appendix A - Responsibilities of the Council



Role of the Chief Financial Officer (or equivalent):

- Preparation of the statement of accounts
- Assessing the Council's ability to continue to operate as a going concern

Public bodies spending taxpayers' money are accountable for their stewardship of the resources entrusted to them. They should account properly for their use of resources and manage themselves well so that the public can be confident.

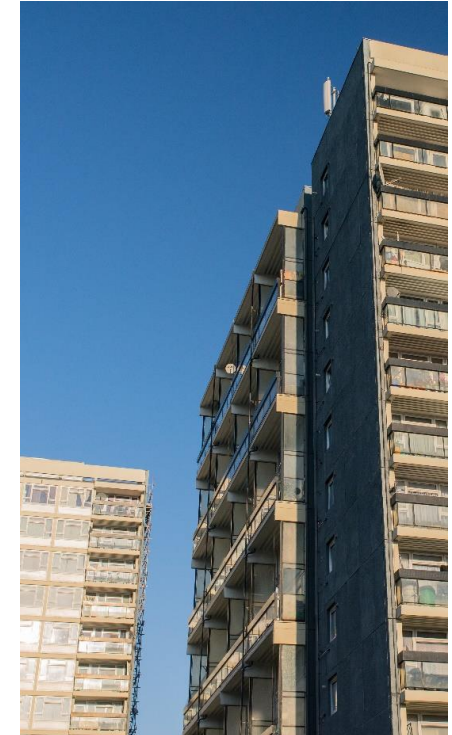
Financial statements are the main way in which local public bodies account for how they use their resources. Local public bodies are required to prepare and publish financial statements setting out their financial performance for the year. To do this, bodies need to maintain proper accounting records and ensure they have effective systems of internal control.

All local public bodies are responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness from their resources. This includes taking properly informed decisions and managing key operational and financial risks so that they can deliver their objectives and safeguard public money. Local public bodies report on their arrangements, and the effectiveness with which the arrangements are operating, as part of their annual governance statement.

The Chief Financial Officer (or equivalent) is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Chief Financial Officer (or equivalent) determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The Chief Financial Officer (or equivalent) or equivalent is required to prepare the financial statements in accordance with proper practices as set out in the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom. In preparing the financial statements, the Chief Financial Officer (or equivalent) is responsible for assessing the Council's ability to continue as a going concern and use the going concern basis of accounting unless there is an intention by government that the services provided by the Council will no longer be provided.

The Council is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.



Appendix B - An explanatory note on recommendations

A range of different recommendations can be raised by the Council’s auditors as follows:

Type of recommendation	Background	Raised within this report	Page reference
Statutory	Written recommendations to the Council under Section 24 (Schedule 7) of the Local Audit and Accountability Act 2014. A recommendation under schedule 7 requires the Council to discuss and respond publicly to the report.	No	NA
Key	The NAO Code of Audit Practice requires that where auditors identify significant weaknesses as part of their arrangements to secure value for money they should make recommendations setting out the actions that should be taken by the Council. We have defined these recommendations as ‘key recommendations’.	Yes	p. 5
Improvement	These recommendations, if implemented should improve the arrangements in place at the Council, but are not a result of identifying significant weaknesses in the Council’s arrangements.	Yes	FS Governance 3Es p. 11-12 p. 15-17 p. 20

