

Auditor's Annual Report on West Berkshire Council

2020/21

September 2023



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We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to satisfy ourselves that the Council 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) 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 Council's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.



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The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed for the purpose of completing our work under the NAO Code and related guidance. Our audit is not designed to test all arrangements in respect of value for money. However, where, as part of our testing, we identify significant weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose all irregularities, or to include all possible improvements in arrangements that a more extensive special examination might identify. 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.

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Executive summary



Value for money arrangements

Our Value for Money assessment for 2020/21 was delayed. In consideration of this delay, we have agreed with the Council to provide a combined commentary on the Council's Value for Money arrangements for 2021/22 and 2022/23. This work has already commenced, and we intend to provide the Council with a combined Auditor's Annual Report for 2021/22 and 2022/23 by the end of 2023 to support timely reporting. Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to consider whether the Council 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 Council'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 Council's arrangements under specified criteria. As part of our work, we considered whether there were any risks of significant weakness in the Council'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.

Criteria	Risk assessment	Conclusion
Financial sustainability	No risks of significant weaknesses identified	No significant weaknesses in arrangements identified, but two improvement recommendations made.
Governance	No risks of significant weaknesses identified	No significant weaknesses in arrangements identified, but three improvement recommendations made.
Improving economy, efficiency and effectiveness	No risks of significant weaknesses identified	No significant weaknesses in arrangements identified and no improvement recommendations made.

	No significant or improvement weaknesses in arrangements identified.
	No significant weaknesses in arrangements identified, but improvement recommendations made.
	Significant weaknesses in arrangements identified and improvement recommendations made.



Financial sustainability

West Berkshire Council (the Council) was successful in 2020/21 in identifying and managing financial pressure; identifying and delivering savings plans; and maintaining financial resilience. In 2020/21, the Council stood at the start of a high value, three-year Capital Programme for which a significant element of external borrowing was planned. Slippage did occur during the year. Over the life of the programme, careful time profiling will be important for managing borrowing costs effectively. As the Council turns to budgeting for future years, wider trends, for example in the workforce and the Children's Services market, will be important to consider. Our work has not identified any significant weaknesses in arrangements but has identified two improvement recommendations. Further details can be seen on pages 10 - 11.

The Council is currently managing a challenging financial position as detailed within the 2023/24 Revenue Financial Performance Quarter One Report considered by the Scrutiny Commission on 14 September 2023. This report outlined a forecast overspend of £6.3m for 2023/24 and detailed new Council measures, including the introduction of spending controls and the formation of a financial review panel to closely assess ongoing Council spending. The Council's current financial challenges presents risk to the financial sustainability of the Council. We consider the Council needs to place a significant focus on the development of wider plans, during 2023, to manage the financial challenges it faces. This is an area of that will be followed up on in more detail within our 2021/22 and 2022/23 Auditors Annual Report.



Governance

The Council has demonstrated that effective governance arrangements are in place to manage the delivery of key statutory services alongside the monitoring and management of risks. There is an acceptance that a review of governance arrangements are needed to ensure these are more focussed and continue to deliver in future years. Management are currently reviewing the arrangements and will look to have updated processes in place in 2023. Our work has not identified any significant weaknesses in arrangements but has identified three improvement recommendations. Further details can be seen on pages 14 - 16.



Improving economy, efficiency and effectiveness

In 2020/21, the Council had effective performance monitoring arrangements in place. Existing arrangements for managing (and monitoring and evaluating) contracts performance were being standardised. The Council had effective arrangements for working with a range of partners, including residents, and arrangements around procurement were also being strengthened. We will consider progress with standardising and developing contract management and procurement arrangements as part of our value for money work for 2021/22 and 2022/23. Our work has not identified any significant weaknesses in arrangements and no improvement recommendations have been made.

Opinion on the financial statements

National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion:

- the Council's financial statements give a true and fair view of the financial position of the Council and the Council's income and expenditure for the year; and
- have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting and prepared in accordance with the Local Audit and Accountability Act 2014.

We are also required to report whether other information published together with the audited financial statements, including the Annual Governance Statement (AGS) and Narrative Report, is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

Our accounts audit work was undertaken remotely, and we have reported our findings to date in the audit findings report to the July 2023 Governance and Ethics Committee.

Our audit work has identified five material errors and identified a further three adjustments to the financial statements. We recommended a number of adjustments to improve the presentation of the financial statements.

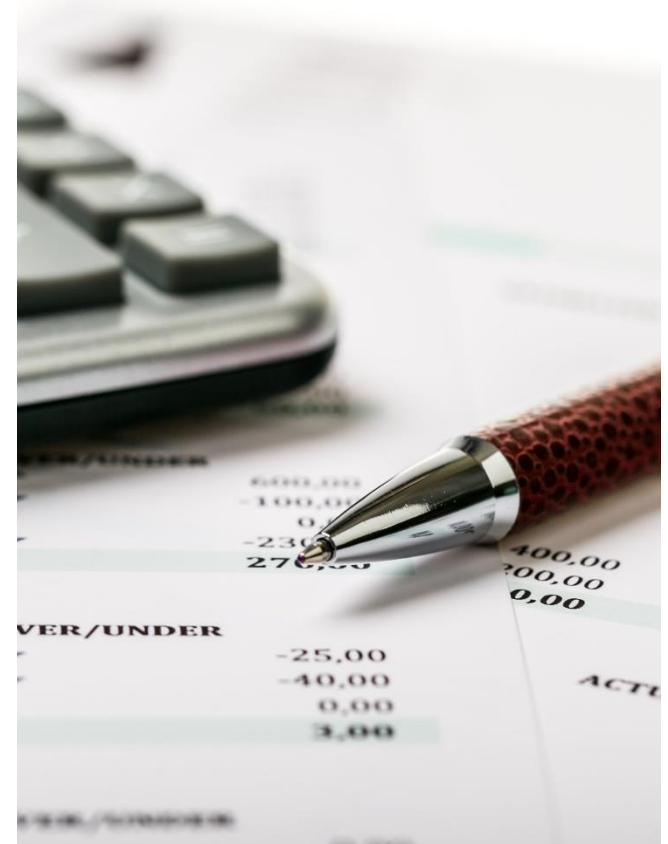
We raised a high-level recommendation in relation to the Council incorrectly recognising grant income from Covid-19 support schemes through incorrect application of the agent and principal standard. We also identified a further nine medium risks and four low risk recommendations which have been agreed with management and will be followed up as part of the 2021/22 audit.

We identified significant issues in the following areas:

- Recognition of grant income on the agent v principal basis which led to a material adjustment
- Valuation of property, plant and equipment assets including reconciliation to the FAR
- Double counting of school expenditure
- A change in policy for cash and cash equivalents that had been incorrectly applied

The work undertaken led to prior period adjustments in relation to S106 payments, lease disclosures, employee benefit expenditure and short-term cash and cash equivalents.

We will issue an opinion on the Council's 2020/21 financial statements upon completion of the work. This will be in September 2023



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

All Councils 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. The Council's responsibilities are set out in Appendix A.

Councils 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) 03, requires us to assess arrangements under three areas:



Financial sustainability

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



Improving economy, efficiency and effectiveness

Arrangements for improving the way the Council 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 6 to 19. Further detail on how we approached our work is included in Appendix B.

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.

Identifying and planning for financial pressure

In 2020/21, the Council budgeted for:

- total funding of £130.6m (including Council Tax receipts of £93m, Business Rates receipts of £23m, and ring fenced Adult Social Care funding of £6.4m); and
- total base budget costs of £130.2m (after allowing for and in-year savings and efficiencies of £3.2m).

The budget for 2020/21 was underpinned by modelling of expected cost pressures in demand led services (Adult Social Care, Children and Family Services and Education). Shortly after the budget was approved in March 2020, the first UK cases of Covid-19 were reported.

The Council's year end revenue outturn for 2020/21 was a General Fund underspend of £4.6m.

£3.6m of the underspend was attributed by the Council to the impact of Covid-19. The remaining £1m was driven by business-as-usual underspends within directorates. Behind the recorded net underspend, there were significant General Fund overspends (against the approved budget) as a result of the pandemic. These were off-set by £12.3m of emergency Covid-19 grant payments received by the Council during the year.

During 2020/21, the Council also received £62.4m of small business grants for disbursement. The value of small business grants received exceeded the value of grants claimed for the area and the Council's year end cash balances increased significantly as a result – from £22m at 31 March 2020 to £33m at 31 March 2021.

Reserves

The 2020/21 budget report considered by full Council on 3 March 2020 stated the Council's earmarked general fund reserves were £13.38m as of 1 April 2020 a reduction of £6.3m from the prior year.

This reduction in reserves resulted from investment in the Council's strategic priorities, a collection fund deficit, and a shortfall in commercial property income. The Council's commercial property holding are covered in more detail later in this section.

The Council's earmarked reserves included specific reserves, of £3.9m as of 1 April 2020, which were intended to support the Council's transformation and savings programmes. These earmarked reserves where available for the Council to:

- invest in transformational strategies.
- help support future restructuring costs associated with savings plans.
- and to support the re-profiling of savings within the Council medium terms financial strategy, if required.

These reserves represent a reasonable way to assist the Council's in its transformational and savings activities whilst providing a level of risk mitigation.

The 2020/21 budget report included a recommendation from the Executive Director for Resources and Section 151 Officer, that the Council should maintain a minimum level of unallocated general fund reserves, derived from a risk-based calculation, of £6.5m, which equated to 5% of the annual budget requirement for 2020/21.

The 2020/21 budget report stated that actual unallocated general fund reserves were £7.97m as of 1 April 2020, 6% of the 2021/22 annual budget requirement, and above recommend minimum levels set by the Council.

The Council's adoption of a minimum level of unallocated general fund reserves, represents an adequate risk mitigation strategy. For 2020/21 the Council set a minimum level of our unallocated general fund reserves which equated to 5% of the net revenue budget for 2020/21.

Financial sustainability (continued)

Reserves (Cont'd)

We consider that the Council should seek to maintain a minimum level of unallocated general fund reserves that at least equates to 5% of net revenue budget and we will review this as part of our value for money work for 2021/22 and 2022/23.

Identifying achievable savings plans

During 2020/21 the Council was successful at identifying achievable savings plans independently of Covid-19 related underspends.

On 10 June 2021, the Executive considered the 2020/21 Revenue Financial Performance Provisional Outturn Report which included a detailed analysis of the Council's performance in achieving previously agreed savings plans for 2020/21 and was supported by Red, Amber and Green (RAG) gradings which aided ease of assessment.

The report identified that £3m (95%) of planned savings were achieved in 2020/21 and for the savings that were not realised during 2020/21, £0.2m (5%), the Council was able to provide detailed explanations and alternative next steps for 2021/22.

The 2020/21 Revenue Financial Performance Provisional Outturn Report did reference growing demand in respect Children and Family Services (CFS) with the report explaining there has been a 35% increase in child protection plans between January and March 2021.

Rising demand within CFS did impact planned savings of £3.7m identified in the 2021/22 budget. On 7 June 2022 the Executive considered the 2021/22 Revenue Financial Performance Provisional Outturn Report identified that £2.7m (73%) of planned savings were achieved in 2021/22 with £1m (27%) of savings not yet realised. Included in the savings slippage were increased costs associated with rising demand for CFS care placements and safeguarding and additional children services legal fees.

The Council can demonstrate that it has delivered the majority of identified savings during 2020/21 and 2021/22. However, rising demand particularly within CFS has impacted savings performance during 2021/22. Demand within CFS is referenced in more detail later in this section.

Property Investment Strategy

In 2017 the Council adopted a Property Investment Strategy which set out a capital investment framework within which the Council could acquire commercial property for the sole purpose of generating new revenue income to support the financial sustainability of the Council.

The Commercial Property Investment Strategy proposed new capital expenditure of £100m, funded by Council borrowing, with potential acquisitions to be considered in or outside the borough.

The Property Investment Strategy references a Property Investment Board (PIB), that acts as the formal governance for the acquisition, disposal, and ongoing management of the investment portfolio.

The PIB membership includes Council officers and members who are supported by specialist external advice from the Council's property agents. Included within the PIB membership was the Head of Legal Services who was afforded with delegated authority, having received agreement from the PIB, to purchase investment property in accordance with the Property Investment Strategy up to a maximum of £15m per transaction.

Full Council considered an amendment to the Property Investment Strategy on 3 March 2020, which restricted any new commercial property investments to be within the district, in compliance with Chartered Institute of Public Finance and Accountancy (CIPFA) Prudential Property Investment guidance.

On 2 March 2021 full Council considered a further report on the Property Investment Strategy and this included a recommendation to halt any further commercial property acquisitions, under the strategy, following the Council's assessment of Public Works Loan Board (PWLB) guidance on loans secured primarily for yield.

The Property Investment Strategy report explained that between October 2017 and March 2019 the Council had acquired nine commercial properties, ranging between £2.9m to £9.1m in value, with a total portfolio value of £62.08m which provided a gross annual rental income of £3.07m (as at October 2020).

The report also stated that the PIB will continue to oversee the ongoing strategic management of the Council's commercial property portfolio, including disposals, and will receive regular reports from the Council's property agents in relation to the performance and management of risk relating to the Council's commercial property investments.

The Council's assessment of the viability of the Property Investment Strategy, provides evidence of the Council's willingness to review the appropriateness of previous Council decisions in the context of a changing legislative frameworks.

Financial sustainability (continued)

Property Investment Strategy (Cont'd)

However, the governance, oversight and appraisal of commercial property investments now held by the Council, could be enhanced further and this leads to an improvement recommendation. We recommend the Council conducts a review of its Property Investment Strategy to include an:

- assessment of the financial impact of the Property Investment Strategy, to include a review of performance against original assumptions, minimum revenue provision and resultant revenue impacts of increased borrowing levels.
- evaluation of the Property Investment Strategy's role in supporting the ongoing financial sustainability of the Council.
- assessment of the adequacy of current risk management, monitoring and oversight arrangements, to ensure risk and performance matters relating to the Council's commercial property investments, including disposals, is assessed adequately by those charged with governance, in addition to members appointed to the property investment board.

Supporting the sustainable delivery of services in accordance with strategic priorities

The Medium-Term Financial Strategy (MTFS) for 2020/21 to 2023/24 noted that from 2020/21 onwards, the Council would be moving its financial planning processes to become more focussed on outcomes through an Outcomes Based Budgeting (OBB) approach.

The revenue budget for 2020/21 accordingly detailed new revenue spending of £1.1m to directly invest in the Council's strategic priorities, including:

- maintaining a green district.
- supporting businesses.
- developing local infrastructure.
- ensuring vulnerable children and adults achieve better outcomes.
- supporting everyone achieve their full potential.
- maintaining sustainable services through innovation and partnership.

The Capital Programme for 2020/21 and for 2022/23 to 2023/24 has similarly been allocated across the Council's priorities.

The Capital Strategy for 2020/21 to 2022/23 shows that in 2020/21, the Council was at the start of a three-year capital investment programme totalling £111m, which was funded by a combination of grant funding, capital receipts, and borrowing, of which, £40m had been allocated to support the Council Priority "Supporting everyone achieve their full potential" and a further £45m had been allocated to the Council Priority "Developing local infrastructure, including housing".

However, outturn reporting for 2020/21 showed that, for Year 1 (2020-21), the capital programme was subject to fluctuation and slippage in part due to Covid-19. Planned capital spend in 2020/21 started at £42m; was re-profiled to £48m; and then reduced to £37m. A series of valid reasons for 2020/21 slippage were reported by the Council, including:

- Covid-19 delays to maintenance programmes.
- Time taken to procure required contractors.
- Time to achieve vacant possession of specific buildings.
- Delays in completing feasibility studies and commencing works due to wider construction industry factors.
- Difficulty accessing leisure centres during Covid-19.

We will review progress with the Capital programme as the Council recovered from the impacts of the pandemic as part of 2021/22 and 2022/23 Auditors Annual Report.

Consistency with other plans

The Council's Capital Strategy set out for 2020/21 to 2022/23 that 45% (£47m) of capital spend over the three years would be from debt financing and that capital financing costs in the revenue budget for each of the three years would need to increase.

The 2020/21 revenue budget accordingly reflected a £0.5m increase in capital financing costs taking the total expected borrowing costs for the year to £11.2m (9% of the total budget for the year) and this demonstrates alignment between the Council's capital and revenue planning during 2020/21.

We note that at the time of writing this report, future interest rate rises may be a risk. As the Council plans for 2024/25 and beyond, assumptions around financing costs should be carefully assessed. Forecasting and monitoring slippage is likely to become more critical as a result.

Financial sustainability (continued)

Consistency with other plans (Cont'd)

There are some areas where wider trends will need to be considered for budgeting in future years. At the time of writing our report, work was ongoing at the Council to update the Workforce Strategy for 2019-23 (last refreshed in 2021). The Strategy for 2019-23 focused on:

- internal workforce challenges.
- leadership.
- recruitment and retention.
- organisational development.
- employee wellbeing.

Work has started in good time to renew the strategy when it expires. With widespread labour market issues effecting the UK, the Council may need to consider themes around how the labour market is affecting external providers, and therefore the stability of the supply chain, as well as its direct workforce needs.

An area where future budget planning will need to be mindful of wider factors is Children's Services. National pressure on places and the increasing complexity of needs has resulted in growing price pressure when commissioning through the private sector.

A May 2022 Ofsted Report on the Council's Children's Services commented that the Council did not have in place a Children and Family Services (CFS) sufficiency strategy. As already noted in this report, rising demand in CFS has negatively impacted the Council's savings programme for 2021/22.

A CFS sufficiency strategy would have supported financial planning within this service area during 2020/21. The Council has subsequently adopted, during 2023, a Sufficiency Statement for Children, Young People and Families 2023 – 2026. This statement set out how the Council will ensure future provision meets the needs of children requiring support by the Council and does reference significant increases, since 2020/21, specifically in relation to Council led child protection plan and the number of children placed within the Council's care. The statement outlines how the Council intends to respond to this increase in demand by developing new partnerships and growing in-house provision to meet the specific needs of individual children.

However, the statement does not describe in detail the resources needed to meet increasing demand, the impact, and intercorrelation, of the demand on the Council's MTFs, nor does it specifically reference how the Council will address affordability of demand and supply or how the Council will monitor effectiveness of the statement through governance. This leads to an improvement recommendation.

We recommend the Council reviews and updates the Sufficiency Statement for Children, Young People and Families 2023 – 2026 to:

- Include an assessment of the financial impact to the Council of increasing demand within CFS.
- Describe how the Council will ensure alignment between Sufficiency Statement for Children, Young People and Families 2023 – 2026 and the Council's MTFs.
- Include an action plan to outline how the Council will address affordability of demand and supply, with a specific focus on areas of CFS which have seen significant increases in demand.
- Describe the Council's governance arrangements to monitor the effectiveness of Sufficiency Statement for Children, Young People and Families 2023 – 2026.

Managing risks to financial resilience

As previously noted, the Council's Executive Director for Resources and Section 151 Officer assessed (in February 2020) that general fund reserves of at least £6.5m were required to be held during 2020/21 to maintain financial resilience. With the onset of the Covid-19 pandemic shortly afterwards and high cash receipts to fund small business grants, cash balances increased significantly during 2020/21 (from £22m to £33m) and the Council's reserves stood significantly higher than the minimum required amount by the year end, however this was a short-term increase following further distribution of small business grants during 2021/22. The Council has in the past carried out its own benchmarking and identified itself as a relatively low reserves carrier. For 2020/21 though, financial resilience was strong, looking both at reserves and at liquidity. How the Council manages risk to financial resilience, as the Council recovers from the impacts of the pandemic, will be assessed in more detail as part of 2021/22 and 2022/23 Auditors Annual Report.

Summary

The Council was successful in 2020/21 in identifying and managing financial pressure; identifying and delivering savings plans; and maintaining financial resilience.

In 2020/21, the Council stood at the start of a high value, three-year Capital Programme for which a significant element of external borrowing was planned. Slippage did occur during the year. Over the life of the programme, careful time profiling will be important for managing borrowing costs effectively.

As the Council turns to budgeting for future years, wider trends, for example in the workforce and the Children's Services market, will be important to consider.

In conclusion we have not identified any significant weaknesses in arrangements to ensure the Council manages risk to its financial sustainability however we have made two improvement recommendations set out on pages 10 and 11.

Improvement recommendations

Financial sustainability

- 1 Recommendation** We recommend the Council conducts a review of its Property Investment Strategy to include an:
- assessment of the financial impact of the Property Investment Strategy, to include a review of performance against original assumptions, minimum revenue provision and resultant revenue impacts of increased borrowing levels.
 - evaluation of the Property Investment Strategy role in supporting the ongoing financial sustainability of the Council.
 - assessment of the adequacy of current risk management, monitoring and oversight arrangements, to ensure risk and performance matters relating to the Council's commercial property investments, including disposals, is assessed adequately by those charged with governance, in addition to members appointed to the property investment board.



Why/impact During 2020/21 the Council made significant adjustments to its Property Investment Strategy. It is timely the Council reviews the impact of the Property Investment Strategy and satisfies itself that the ongoing governance, appraisal and oversight arrangements are adequate.

Auditor judgement The Council's assessment of the viability of the Property Investment Strategy, during 2020/21, provides evidence of the Council's willingness to review the appropriateness of previous Council decisions. However, the governance, oversight and appraisal of commercial property investments now held by the Council, could be enhanced further.

Summary findings The Council has acquired commercial property investments under the scope of the Council's Property Investment Strategy. The Council's property investment board acts as the formal governance for the acquisition, disposal, and ongoing management of the investment portfolio. This recommendation seeks to enhance exiting arrangements for governance, oversight and appraisal of the Council's commercial property investments.

Management comment The Council is currently undertaking a review of its Property Investment Strategy, and a new Strategy will be coming to the Executive meeting in Autumn 2023.

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

Improvement recommendations



Financial sustainability

- 2 Recommendation** We recommend the Council reviews and updates the Sufficiency Statement for Children, Young People and Families 2023 – 2026 to:
- Include an assessment of the financial impact to the Council of increasing demand within CFS.
 - Describe how's the Council will ensure alignment between Sufficiency Statement for Children, Young People and Families 2023 – 2026 and the Council's MTFS.
 - Include an action plan to outline how the Council will address affordability of demand and supply, with a specific focus on areas of CFS which have seen significant increases in demand.
 - Describe the Council's governance arrangements to monitor the effectiveness of Sufficiency Statement for Children, Young People and Families 2023 – 2026.



Why/impact

This will support the Council to plan and allocate resources effectively to ensure the needs of children within the Council's care, are met.

Auditor judgement

The Council did not have in place, during 2020/21, a current CFS sufficiency strategy which would have supported financial planning within this service area. The Council has subsequently adopted, during 2023, a Sufficiency Statement for Children, Young People and Families 2023 – 2026 however this could be enhanced further to support effective strategic planning within CFS.

Summary findings

The enhancement of the Sufficiency Statement for Children, Young People and Families 2023 – 2026 will support the Council to plan and allocate resources, within CFS, effectively.

Management comment

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 and gaining assurance over control

The Council has a risk management, control and assurance processes in place. The Council maintained a strategic corporate risk register throughout 2020/21. The corporate risk register was presented quarterly to the Corporate Board and six monthly to the Governance and Ethics Committee for monitoring, discussion and review.

The corporate risk register for quarter four 2020/21 was reviewed by the Governance and Ethics Committee on 26 July 2021. The corporate risk register report identified 11 risk areas graded to determine both the likelihood and the impact of the risk occurring using a 4 by 4 evaluation criteria.

Each risk was red, amber and green (RAG) graded, and the risk register included descriptions of risk triggers, potential consequences of the risk, existing controls, further actions required to mitigate the risk and direction of travel indicators were used within the reports to highlight risk movement. Potential financial consequences of the risk and a target date to manage the risk were also included.

The corporate risk register did not directly assign individual risks to a senior officer but stated that risk were actively managed by the Council's internal Corporate Board, additionally the corporate risk registers, presented to the Governance and Ethics Committee, are not published on the Council's website. The Council has explained that the corporate risk registers presented to the Governance and Ethics Committee, six monthly, are not published online due to the inclusion of sensitive information and the reports have been considered exempt for publication. These factors lead to an improvement recommendation. We recommend the Council enhances oversight and transparency of its risk management activities by:

- assigning responsibility for the management of individual risk to senior officers.
- considering if further information regarding the Council's risk management activities could be made available on the Council's website including details of specific risks the Council is managing.

The Council has an internal audit team of five staff, which provides both internal audit and counter fraud assurance. During 2020/21, a new post of Principal Auditor was created within the team to increase capacity and enrich skills. In addition to Internal Audit and Counter Fraud work, in 2020/21 the team also undertook a series of unplanned investigations. Although the Covid-19 pandemic affected working hours and time taken to recruit to post, the Internal Audit team exceeded their service performance target for the year (of 80% productive time). The Internal Audit opinion for 2020/21 concluded that there was "Reasonable Assurance that the governance, risk management and control framework remained robust during the year".

The Council has a suite of policies describing the approach to minimise fraud, bribery and corruption. These include Anti-Fraud and Corruption Policy, Whistleblowing Policy, Anti-Money Laundering Policy and Bribery Act Policy .

The Council's constitution, part 13 Codes and Protocols, includes a Members Code of Conduct and a separate Officers Code of Conduct these documents have not been fully updated since 2017 and this leads to an improvement recommendation. We recommend the Council reviews, updates, and agrees a Members Code of Conduct and a separate Officers Code of Conduct as these are key documents supporting the Council's approach and controls in the prevention and detection of fraud.

Budget Setting and Budgetary Control

As indicated in the Financial Sustainability section of this report, the Council had effective processes in place for budget setting and budgetary control. The Council prepares and approves the revenue budget on an annual basis through the Executive and the members. The presentation of the budget allows members to review, and where necessary, challenge the assumptions within it. Consideration of different scenarios is set out to the Executive within the medium-term financial strategy documents. For 2020/21, scenarios considered included changes around macro economics; Fair Funding Review; business rates reset; and Council Tax referendum.

Governance (Continued)

Budget Setting and Budgetary Control (Cont'd)

Revenue Financial Performance Reports (budget monitoring reports) and Capital Financial Performance Reports (capital outturn monitoring reports) are presented to the Council's Executive Committee on a quarterly basis. The revenue budget monitoring reports presented to the Executive included consideration of trends, explanations around variances and separate reporting on progress against savings plans. The Capital Financial Performance Reports (capital outturn) included slippage and analysis of contributing factors.

Financial Reporting

On 25 April 2022, the Governance Committee considered our Draft Audit Findings Report for 2020/21. The report detailed several adjusted misstatements relating to incorrect classification of assets, grant, loan and investment income and a duplication of some payroll elements however the report concluded that it was anticipated the final audit report will be unmodified for the year ending 31 March 2021. We understand from the Council that the capabilities of the current finance system could be improved to remove the need for some manual reporting which has resulted in some errors being reported and this has been compounded by training needs within the finance team, and this leads to an improvement recommendation. We recommend the Council strengthens its finance team processes by:

- the optimisation of the finance system to remove the need for manual reporting outside of the core finance system.
- assessing the training needs of the finance team officers.

Making properly Informed decisions

As part of our work, we reviewed a sample of papers presented to the Executive Committee during 2020/21, supporting decisions around:

- a new £1m Community Bond.
- the closure of a residential care home.
- closing a Community Solutions Fund.
- approving Community Infrastructure Levies use.
- restructuring for strategy and governance.

Papers presented to Committee were well structured and included detailed consideration of options, risks and impacts. The papers provided an appropriate platform for debate.

Monitoring and ensuring appropriate standards

On the 1 April 2020, the Council created a new Strategy and Governance department, merging human resources, legal services and strategic support teams.

This new department is responsible for monitoring and ensuring standards within the Council. At the time of our value for money work, a review of governance arrangements and protocols in the Constitution was underway. This followed a Local Government Association (LGA) Peer Review in 2019. Actions were also being followed up from a review of Audit Committee effectiveness following the LGA peer review recommendation that stated:

'look at how to strike a better balance in relation to the Council's very extensive governance arrangements – ensuring proportionality through looking at how people use their time'

We will review the outcomes from these streams of work in more detail as part of 2021/22 and 2022/23 Auditors Annual Report.

Summary

Overall, the Council can be seen to have appropriate governance arrangements in place to monitor and manage risk alongside making informed decisions. Executive functions are in place and there is a robust Internal Audit process which holds management to account and provides areas of improvement and best practice to management.

There is a recognition that the governance structures need to be reviewed to ensure that these are fit for purpose and that there is focussed review at the appropriate level to ensure that Council can efficiently expedite their statutory requirements. This was noted in the LGA peer review, and the Council have started the process of review with a view to streamlining the overall governance arrangements.

In conclusion we have not identified any significant weaknesses in arrangements however we have made three improvement recommendations set out on pages 14 – 16.

Improvement recommendations

Governance

3 Recommendation	<p>We recommend the Council enhances oversight and transparency of its risk management activities by:</p> <ul style="list-style-type: none"> • assigning responsibility for the management of individual risk to senior officers. • considering if further information regarding the Council's risk management activities could be made available on the Council's website including details of specific risks the Council is managing.
Why/impact	The Council's has an established risk management framework, and this recommendation seeks to enhance these arrangements further.
Auditor judgement	Oversight and transparency of the Council's risk management activities would be enhanced by each risk being assigned to a responsible senior officer and for more details, of the risks being managed by the Council, being available to the public.
Summary findings	The Council maintains a corporate risk register however responsibility for individual risks is not assigned to a nominated senior officer. Oversight to the Council's corporate risk register is provided by the Council's Governance and Ethics Committee however the actual corporate risk register is not published due to the inclusion of information the Council has deemed to be sensitive.
Management comment	The Council is undertaking a review of its Risk Management Strategy; this will come to the Executive and Governance committee in the new calendar year. Future risk management reports to the Governance and Ethics Committee will include part I and part II elements.



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

Improvement recommendations

Governance

4 Recommendation	We recommend the Council reviews, updates, and agrees a Members Code of Conduct and a separate Officers Code of Conduct.
Why/impact	The Council's Members Code of Conduct and Officers Code of Conduct are key documents describing the Council's expectations and controls in respect of retained member and officer conduct.
Auditor judgement	The Council's Members Code of Conduct and Officers Code of Conduct should be current and aligned to current risks, themes and organisational values.
Summary findings	The Council's constitution, part 13 Codes and Protocols, includes a Members Code of Conduct and a separate Officers Code of Conduct these documents have not been fully updated since 2017.
Management comment	The Council has undertaken a fundamental review of its Constitution in the past eighteen months. The final element of the review includes the Member's and Officer's codes of conduct, and this will be coming to the Governance and Ethics Committee and Full Council in the coming months to complete the review.



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

Improvement recommendations

Governance

5 Recommendation	We recommend the Council strengthen its finance team processes by: <ul style="list-style-type: none"> the optimisation of the finance system to remove the need for manual reporting outside of the core finance system. assessing the training needs of the finance team officers.
Why/impact	Optimisation of the finance system, and the provision of further training to finance team officers, would help support the financial functions and responsibilities of the Council.
Auditor judgement	The Council's finance system requires optimisation to reduce risk and support efficient processes. Additionally training to finance team officers would strengthen the Council's financial functions and reduce the risk of errors.
Summary findings	Our Draft Audit Findings Report for 2020/21 detailed several adjusted misstatements relating to incorrect classification of assets, grant, loan and investment income and a duplication of some payroll elements.
Management comment	The Council has undertaken a review and updated its financial system to reduce the amount of manual financial reporting required. Training needs are also reviewed, and the team has seen some new staff join since the 2020-21 audit completed.



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.

Using financial and performance information to identify areas for improvement

On a quarterly basis, the Council's Executive Committee receives Revenue and Capital Financial Performance Reports and Performance Reports that cover core business and Council improvement measures. The measures in the Performance Reports are aligned with the Priorities set out in the Council Strategy for 2019-23.

We reviewed the 2020/21 Quarter 4 Performance Report in detail. The report included links to the Council Strategy; RAG rating of outturn against target for seventeen Core Business Activities; and national benchmarking for core business measures. For context, the report also included "influencer measure dashboards" showing current and prior year comparison data for a range of socio-economic measures including:

- employment rates.
- empty business rated properties.
- house prices and planning applications.
- incident rates for crime and domestic abuse.
- volunteering hours.
- numbers of adults over 60 and children in care accessing sport and leisure facilities.

The Council's Performance Report for Quarter 4 of 2020/21 included a good balance of statistical metrics and narrative explanations.

We note that in the Quarter 4 report seven of seventeen Core Business Activities were RAG rated red and were not forecast to achieve the targets set by the Council.

The targets related to:

- Children in Care visits.
- Care Quality Commission (CQC) provider inspection grades.
- timeliness of adult financial assessments.
- road network repair.
- clean environment.
- Council Tax and Non-Domestic rates collection.

Exception reports were provided in the Executive Committee papers for all red RAG rated measures. Extensive national benchmarking was also provided within the Quarter 4 Performance Report – with red RAG ratings shown as applying to a reduced number of areas (Maintaining Roads; Council Tax collection; Non-Domestic rates collection) once the national position was considered.

For the CQC inspection grades, we note that the Council's target was for all provider services to be rated as Good or above for the "Safe" criteria, whereas in fact only 80% of provider services had achieved this grading.

For one of the sites ranked as Requires Improvement (Birchwood Nursing Home), the ranking dated back to 2018 and re-inspection had been delayed by Covid-19. For the other site (Walnut Close), the Council had already gone through a process of public consultation around options for closure and closure had been approved by the Executive Committee in November 2020. Areas for improvement had mainly focused on facilities needing to be upgraded against the potential that more cost-effective solutions could be found elsewhere.

Improving economy, efficiency and effectiveness (Continued)

Evaluating services to identify areas for improvement

Responsibility for contract management standards is a responsibility of the Council's commissioning team with contract management responsibility being held with the respective service. The LGA Peer Review in November 2019 noted that contract management arrangements were relatively immature, and the Council's own Internal Auditors made observations in February 2020 about the scope for introducing common contract management standards.

A new Commissioning and Procurement Strategy presented to the Executive Committee in April 2020 highlighted that, although detailed contract management would remain with Directorates, the Council's Commissioning team will take on the lead role for setting the standards for the Directorates to follow. For the monitoring and evaluation aspect of contract management, the SEND team was highlighted by the Council as an example of existing good practice for other teams to follow. The quality of monitoring and evaluation for other teams was shown to be less consistent. Progress with implementing the new arrangements will be considered in more detail as part of 2021/22 and 2022/23 Auditors Annual Report.

Partnership Working

The Council's Strategy for 2019-23 included as a priority its' intention to "Ensure sustainable services through innovation and partnerships". Commitments and actions listed within the strategy to achieve that priority included:

- Supporting the Health and Wellbeing Board.
- Developing a Community Engagement Framework with statutory partners and community and voluntary sector organisations.
- Positioning the Council as an "employer of choice".
- Approving a Corporate Landlord Strategy.
- Engaging with social media, residents, and digital options for communication.

The Council developed a series of new strategies in 2020/21 to move these commitments forward: the Health and Wellbeing Strategy 2021/30; the Community and Engagement Strategy 2020/23; refreshed Workforce Strategy 2021 (with work currently ongoing to re-issue a fully updated Workforce Strategy in 2023); the Tenancy Strategy March 2021; and the Digital Strategy 2020/23.

Our Value for Money testing for 2021/22 and 2022/23 will include consideration of how these strategies have been implemented during their first year.

For 2020/21, we note the issue of a new community bond at the start of the year as an example of innovation that, although low in value in 2020/21 (£1m), has the potential to be replicated elsewhere. The bond is designed to provides residents with an opportunity to fund green initiatives at rates that are lower for the Council than PWLB loans would be and higher for residents than could be earned elsewhere. The Council worked with a private sector partner to develop the bond, including work on risk, mitigations, legal due diligence and oversight mechanisms. A similar bond has successfully been copied by at least one other authority benefitting from the learning.

Procurement

The Strategic Commissioning and Procurement Strategy presented to the Executive Committee in April 2020 highlighted, in addition to changes around standardising contract management, a two-year plan to strengthen the Council's procurement functions.

Planned changes highlighted in the Strategy included: A common process for procurement in all directorates to be introduced; all procurements to use an e-portal (at the time, only some did); enhanced reporting to the Procurement Board and to the Corporate Board; and two new posts to be created. In 2020/21, the first new post was introduced and funded from the Council's transformation budget. The Council intends that both posts will be fully established within business-as-usual budgets.

The Strategy highlighted that the new approach would be fully embedded by 2022. We will review the implementation of the Strategic Commissioning and Procurement in more detail as part of 2021/22 and 2022/23 Auditors Annual Report.

Summary

In 2020/21, the Council had effective performance monitoring arrangements in place. Existing arrangements for managing (and monitoring and evaluating) contracts performance were in being standardised. The Council had effective arrangements for working with a range of partners, including residents, and arrangements around procurement were also being strengthened. For 2020/21, we are content that no significant weaknesses have been identified and no improvement recommendations have been made.

COVID-19 arrangements



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

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

Financial sustainability

As we have noted earlier in this report, the financial impacts of the Covid-19 pandemic on the Council during 2020/21 included £3.6m of Revenue Budget underspend as spending activities were delayed; significant elements of Capital Programme slippage as sites could not be accessed and works could not be carried out; and a year-end increase of £11m cash balances as small business grants were received at a higher rate than they were disbursed.

Within the Revenue budget, Covid-related underspends were mainly concentrated within the People directorate. Factors driving underspend included reduced take-up of adult respite care; and reduced home to school transport. Further underspends within the Places directorate were driven by a fall in tenant evictions and reduced spending on sport and leisure facilities repairs and maintenance. As noted earlier in this report, delays in accessing leisure centres was also one of the factors that led to slippage in the Capital Programme, as did slower rates of gaining vacant possession and securing contractors and completing feasibility studies during the pandemic.

In other areas, significant additional General Fund costs were incurred as a result of the pandemic as the Council took on new functions and lost some streams of commercial income.

Additional costs were off-set by £12.3m of emergency funds from central government. The Council has acknowledged that without this money, its reserves position at 31 March 2021 would not have been possible.

Governance

As the draft Annual Governance Statement for 2020/21 noted, the Covid-19 pandemic put a lot of pressure on the Council's governance structures. For much of the year the Council was operating through an emergency planning framework with meetings taking place weekly. In addition, the Council continued to operate its usual governance processes.

Processes were moved online, with Council meetings taking place virtually throughout 2020/21 alongside all Council business through its various governance boards and groups. This meant that the Council was still able to undertake its core functions as well as operate in response to the Covid pandemic. The Internal Audit team were able to exceed their 80% productive time target despite the impact that the pandemic had on hours worked.

We have noted elsewhere in this report that there have been delays to a review of Governance and the Constitution in 2020/21. The delays are in part due to Covid-19. We did not however identify any significant weaknesses in governance for 2020/21 resulting directly from the pandemic.

Improving economy, efficiency and effectiveness

Central Government data shows the Council paid out small business grants under eight different schemes during 2020/21 at a higher rate than most Councils in England. Since the start of the pandemic, some 9,347 different payments have been made by the Council. During 2020/21, the sums disbursed by the Council to local businesses were valued at £49m.

The Council took a positive and proactive approach to the pandemic. A Recovery Strategy was published in June 2020 (and refreshed in July 2021) setting out a range of actions to seek the opportunities that arose during the pandemic as well as ensure the mitigation, wherever possible, of the impacts of the pandemic. Themes for recovery surrounded health, the local economy and education

In addition to its 'business-as-usual', the Council delivered a range of additional schemes for its residents and schools, including the 'Surviving to Thriving' scheme with Greenham Common Trust; the delivery of a Holiday Activities Fund; a Household Support Fund; the Bloom into Spring programme; and the Schools' Welcome Back Fund. At the same time, the Council developed the wide range of Strategies highlighted at Page 19 of this Report for taking forward actions and commitments already set out in the Council Strategy for 2019-23. Taken together, these different strands of work indicate that the Council's commitment to maintaining and improving economy, efficiency and effectiveness of its services for residents was not weakened by the pandemic.

Opinion on the financial statements



Audit opinion on the financial statements

Our work on the 2020/21 audit is ongoing. We will issue our opinion upon completion of this work.

Other opinion/key findings

Our work on the 2020/21 audit is ongoing. We will issue our opinion upon completion of this work.

Audit Findings Report

More detailed findings can be found in our Interim AFR, which was published and reported to the Council's Audit Committee on 23 April 2022. This position has been updated to reflect national issues such as infrastructure assets.

Whole of Government Accounts

To support the audit of the Whole of Government Accounts (WGA), we are required to review and report on the WGA return prepared by the Council. This work includes performing specified procedures under group audit instructions issued by the National Audit Office.

This will be undertaken alongside the completion of the statutory accounts audit.

Preparation of the accounts

The Council provided draft accounts in line with the national deadline and provided working papers to support it.

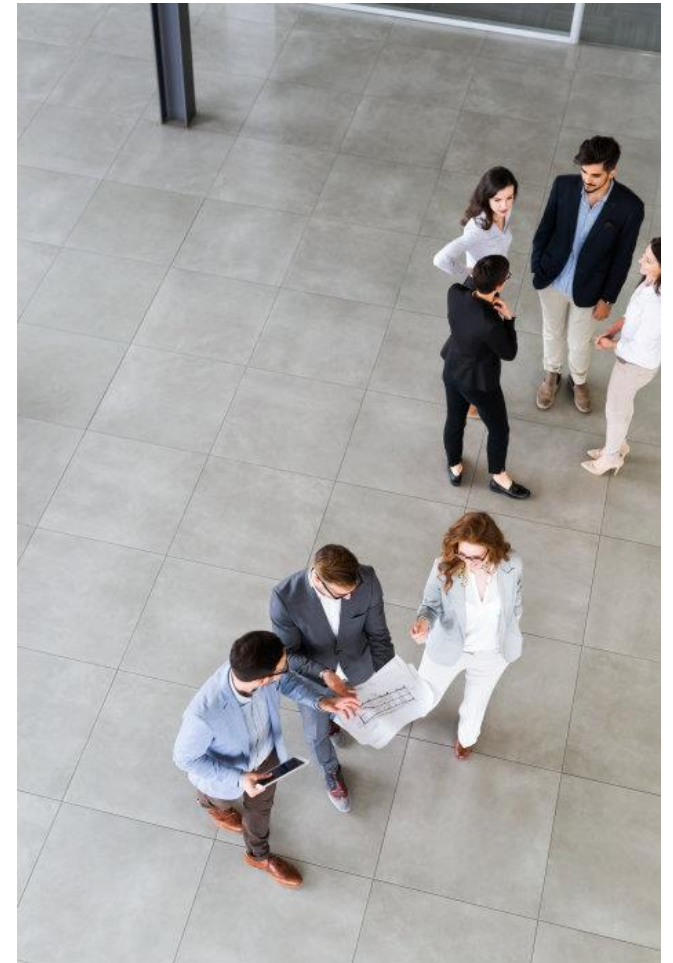
Issues arising from the accounts:

The key issues were:

- Prior period adjustments in relation to S106 payments, lease disclosures, double counting of school employee expenses and classification of short term investments & cash and cash equivalents
- We have made four material adjustments to the primary statements the largest of which is a reclassification of grant income that was incorrectly classified as principal when they were agent.
- Testing identified a number of inconsistencies between the fixed asset register and the accounts which identified a number of assets included in the balance sheet that the Council no longer owned

Grant Thornton provides an independent opinion on whether the accounts are:

- True and fair
- Prepared in accordance with relevant accounting standards
- Prepared in accordance with relevant UK legislation.



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.

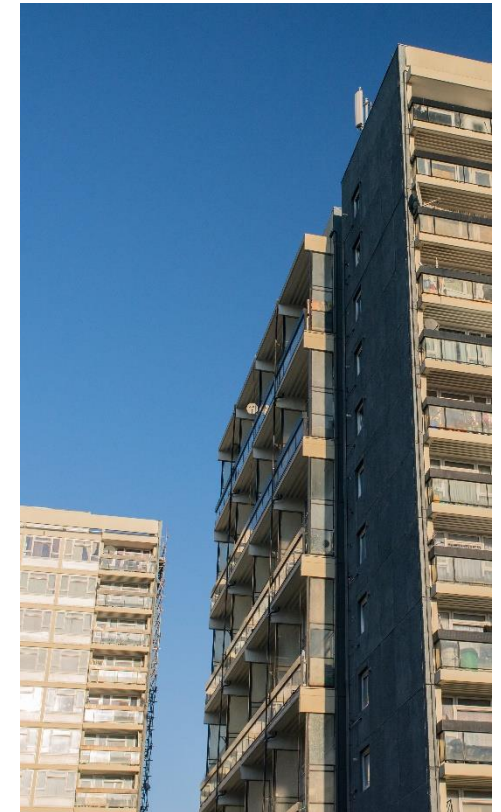
Financial statements are the main way in which local public bodies account for how they use their resources. Local public bodies are required to prepare and publish financial statements setting out their financial performance for the year. To do this, bodies need to maintain proper accounting records 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	N/A
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'.	No	N/A
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	10 – 11 14 – 16



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