Auditor's Annual Report on Bournemouth, Christchurch and Poole Council

2020/21

28 September 2022

Contents

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.

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. We are required to 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 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. Our conclusions are summarised in the table below:

Criteria	Risk assessment	Finding
Financial Sustainability	Risk identified due to the uncertainties inherent in the Council's plans to finance its transformation programme.	Significant weakness in arrangements identified and 3 key recommendations made. One improvement recommendation also made.
Governance	No risks of significant weakness identified	No significant weakness in arrangements identified, but 4 improvement recommendations made
Improving economy, efficiency and effectiveness	Risk identified due to Ofsted focused inspection.	Significant weakness in arrangements identified and a key recommendation made. Five improvement recommendations also made.

(green)	No significant weaknesses in arrangements identified.
(amber)	No significant weaknesses in arrangements identified, but improvement recommendations made.
(red)	Significant weakness in arrangements identified and key recommendation made.

Financial sustainability

In our initial planning for 2020/21 we indicated that the focus of our review in the area of financial sustainability would be on the Council's arrangements for setting the Medium Term Financial Strategy. This reflected the difficulties facing the Council in transforming services to meet the changing and increasing needs and expectations of the public set against a background of austerity and rising costs.

We have concluded that despite underspending against its revenue budget in both 2020/21 and 2021/22, the Council's ability to set a balanced revenue budget in 2023/24 and beyond is looking increasingly fragile. The Council's current arrangements for ensuring financial sustainability are not good enough.

The Council's current financial plans are predicated on a high risk alternative funding strategy to deliver transformational efficiencies and avoid significant cuts to services. There is currently an absence of alternative strategies to balance the books into the medium term should this high risk strategy not be deliverable.

The estimated costs of the Council's transformation programme have increased significantly from an estimated £29.5m in November 2019 to £67.9m in February 2022. The funding for this transformation has until recently been based on the assumption that the Council will be able to use capital receipts to fund the revenue costs through the use of the 'Capital Flexibilities' initiative. This included significant capital receipts generated through a innovative but high risk 'beach hut' commercialisation proposal that pushed the boundaries of the legislation. The Council has know for some time that this approach was under review and in early August 2022 this potential funding mechanism was effectively prohibited by Government. An alternative source of funding in the form of a Capitalisation Direction is now being pursued by the Council. In early September 2022 the Department for Levelling Up, Housing and Communities (DLUHC) offered an 'in-principle' support of up to £20m for 2022/23. No decision has been taken on further funding beyond 2022/23. There are no guarantees that the full capitalisation request will be successful.

Both the initial and revised proposal would attract strict conditions (which have weighed heavily on other councils in a similar predicament) and are normally reliant on asset disposals that the Council may struggle to realise.

We have, for some time, been discussing these evolving proposals with the Council and DLUHC and remain concerned that these options whilst innovative are inherently risky and far from guaranteed to deliver the required funding. The timetable for the transformation programme has already slipped and if the current full funding proposal for transformation totalling £75m is not forthcoming the Council will have no alternative other than to deliver significant savings as well as cuts to services to remain financially viable.

At the time of drafting this report no alternative to the Capitalisation Direction, such as significant asset disposals, cost cutting proposals and savings programmes supported by detailed business cases or additional income generation exists. This is, in our view, a major weakness. The granting of the full Capitalisation Direction request may result in the Council needing to accelerate the disposals of its asset base and may not result in the best value for money outcome.

Executive summary

Value for money arrangements and key recommendations (continued)

Financial sustainability continued

The Council, in both 2020/21 and 2021/22, has utilised earmarked reserves to fund ongoing revenue expenditure but has also benefited from central Government Covid-19 support which has enabled it to maintain both general fund balances and earmarked reserves. Such additional funding will not continue and there is limited monies available to support local government funding into the medium term. That said, we also recognise that the Council has a history of reporting significant in-year budget pressures only to report year end surpluses.

Whilst the use of earmarked reserves to support previous budgets is not unreasonable given the reserves held by predecessor councils, their use indefinitely is not financially viable.

The 2022/23 budget is also predicated on the use of earmarked reserves but the large underspend in 2021/22, driven in the main by Covid-19 fundings, provides some contingency for final pressures in the current year.

We are most concerned about the financial year 2023/24 and beyond. Continued use of reserves is not an option and the need for the Council to sustain increased investment in the Council's Children's services, given the inadequate rating, will place the Council's finances under increased strain.

We recognise that bold moves are required and transformation capable of fundamental service redesign is necessary to ensure the Council can deliver to the changing and increasing needs of its residents. Our concern is that the inherently risky plans to fund the transformation programme, the delay in its implementation and the use of reserves to support current in year spending increases the risk of the Council facing future revenue overspends with limited capacity to source additional monies.

This is set against the backdrop of a Council with a increasing deficit (£20.3m at 31 March 2022) on its ringfence Dedicated Schools Grant reserve that is currently not offset against general fund balances only as a result of a national statutory override. This combined with the cost of living crisis further increasing Council costs, demand for Council services and pressure on its limited reserves.

On this basis we have concluded that the Council does not have arrangements in place for ensuring financial sustainability into the medium term.

We have issued the following key recommendations:

The Council:

- Should urgently identify other options to balance the books into the medium term should the current Capitalisation Direction proposal not be realised in part or full. Specifically scenario planning assessing what changes to service provision (both savings and income growth) would be necessary to enable the Council to balance the budget.
- Should also consider what additional assets could be disposed to fund transformation. Even if the current proposal of a Capitalisation Direction come to fruition, capital receipts will invariably form part of the associated strict conditions. If this Direction is not awarded in full then even more capital receipts to fund transformation will be required.
- Should provide more information on the increasing costs of the transformation programme alongside the associated savings, the proposed time lines for implementation and ongoing reporting of delivery against these milestones to ensure further slippage is minimised and savings and the associated improvements in service provision realised. The Council should also ensure that periodical clear reporting is provided on the benefits realisation of the transformation programme against original expectations.

In addition we have raised 2 further improvement recommendations:

- Budget monitoring reports to members should provide clear details of progress in delivering in year savings schemes.
- Budget monitoring should provide a clear reporting on the proposed and actual use of reserves in any given year so that the underlying financial challenge facing the Council is clearer

Our detailed findings are set out in more detail on pages 12 to 20.

Governance

Overall, we found no evidence of significant weaknesses in the Council's governance arrangements for ensuring that it made informed decisions and properly managed its risks.

We have identified four improvement recommendations, as follows:

The Council could:

- Ensure that its risk management arrangements are capable of identifying, capturing and monitoring innovative but often 'high risk' schemes such as the 'beach hut' proposal thus ensuring members are fully sighted on the underlying assumptions, risks and rewards to allow course correction if such schemes are not delivering the intended benefits at the planned time.
- Improve its risk management arrangements by ensuring that risks reported in the corporate risk register are aligned to corporate objectives.
- Revise the register of interests to distinguish interests where there is a controlling interest This would better inform the Council's consideration of what constitutes a related party for financial reporting purposes.
- Revisit its financial reporting capacity ,as in our view there is currently an over reliance on a small number of officers in the statutory financial reporting process resulting in delays and errors arising.

Our detailed findings are set out in more detail on pages 23 to 25.

Executive summary

Value for money arrangements and key recommendations (continued)

Improving economy, efficiency and effectiveness

In our initial planning we highlighted that a focused Ofsted inspection undertaken in November 2020 identified significant failings in the Council's Children's Services.

The Council has taken some action to address these failings including the established an Improvement Board. However, a further inspection by Ofsted in December 2021 raised more concerns about arrangements in this area and resulted in an overall inadequate rating for the service. A monitoring visit in June 2022 focusing on the 'front door' service was more positive but highlighted continuing concerns that will take time to address.

On this basis, we consider that during 2020/21 these significant failings which identified 'serious and widespread weaknesses in the quality of children's services in Bournemouth, Christchurch and Poole' remained.

We have therefore concluded that the Council does not have arrangements in place for improving economy, efficiency and effectiveness in the use of its resources during 2020/21.

We have issued the following key recommendation:

- The Council should continue to address the weaknesses identified by Ofsted to ensure all children have access to quality services which meet their needs in a timely manner.

In addition to the above, we have made 5 improvement recommendations in respect of:

- Timely reporting of council performance to Cabinet
- Producing and implementing a data quality policy
- Strengthening partnership governance arrangements
- Producing and implementing a procurement strategy; and
- Reviewing the contract waivers authorisation process.

Our detailed findings are set out in more detail on pages 30 to 33.

Opinion on the financial statements

We have not yet completed our audit of the Council's financial statements. The issues preventing completion of the audit relate for the most part to delays in receiving required confirmations from the auditor of Dorset Pension Fund and a national issue affecting all local authorities with material infrastructure balances.

Further details are provided on page 39.

Key recommendation – Financial Sustainability

Recommendation 1	The Council should urgently identify other options to balance the books into the medium term should the current Capital Direction proposal not be realised in part or full. Specifically scenario planning assessing what changes to service provision (both savings and income growth) would be necessary to enable the Council to balance the budget.
Why/impact	There is a risk to the future financial sustainability of the Council as the original option for funding the transformation programme has been prevented by Government. The preferred option is now a Capitalisation Direction which has not yet been approved. Even if secured the amounts made available may not cover the full cost of transformation and will invariably be reliant on the generation in part of capital receipts from asset disposals. The Council will need to urgently consider alternative proposals to ensure that if this current option does not full fund transformation, that it is able to realise sufficient savings to deliver a balanced budget in 2023/24 and stability in the medium term.
Auditor judgement	The Council's future financial sustainability plans are based on delivering savings and efficiencies through its ambitious transformation agenda rather than through increases to council tax and cuts to services. The Council inherited multiple complex ways of working and a significant amount of duplication in its activities at the time of the merger, giving opportunities for efficiencies to be delivered through service redesign. The Council engaged an external consultancy firm to advise on the transformation programme throughout its stages of planning and delivery and reporting to members has been thorough. The transformation programme was originally anticipated to require an investment of between £20 and £29 million, this had risen to £38 million by July 2020 with a further increase to £67.9 million in February 2022. In order to finance this programme, the Council initially planned to utilise existing transformation and financial resilience reserves accrued through its prudent financial management supplemented by utilising borrowings to fund the capital element of transformation spend and the flexible use of capital receipts to support the revenue costs of transformation. The Council has known for some time that this approach was under review and in early August 2022 this potential funding mechanism was effectively prohibited by Government. An alternative source of funding in the form of a Capitalisation Direction totalling £75m is now being pursued by the Council of which £20m for 2022/23 was approved in principle in early September 2022. No decision has been taken on the further funding beyond 2022/23. In the absence of an approval for the full funding, we are concerned that this will not be sufficient to fund transformation in its entirety. At the time of drafting this report no alternative to the Capitalisation Direction, such as cost cutting proposals and savings programme supported by detailed business cases exists. This is, in our view, a major weakness. The granting of a Capitalisation Direction may result in the Council needing to accelerate the disposals of its asset base and may not result in the best value for money outcome.
Management comment	An in-principal decision has been received supporting a £20 million Capital Direction for the transformation programme in 2022/23. This will enable the current year budget to be balanced. A condition of the Direction will be that the council must have a robust plan in place by the end of September 2022 to balance the 2023/24 budget. Weekly meetings are taking place between Corporate Management Board and Cabinet to identify measures to balance the budget for 2023/24. The MTFP for future years will then be in a balanced position based on current assumptions. An update report was provided for 28 September Cabinet showing the budget gap for 2023/24 had reduced from £36.4 million as reported at the 7 September meeting to the latest position of £16.4 million. A further report will be presented to Cabinet in October detailing the measures to be taken to close the remaining gap. DLUHC have acknowledged that the October Cabinet report will present the formal end of September position.

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

Key recommendation – Financial Sustainability

Recommendation 2	The Council should also consider what additional assets could be disposed to fund transformation. Even if the current proposal of a Capitalisation Direction comes to fruition, capital receipts will invariably form part of the associated strict conditions. If this Direction is not awarded in full then even more capital receipts to fund transformation will be required.
Why/impact	The Capitalisation Direction may not be approved or may only provide for part of the required transformation funding required. It's approval may, as often is the case, be predicated on significant asset disposals resulting in the Council needing to accelerate its disposals programme. The rejection of the capitalisation request will necessitate even greater levels of capital receipts. This may not result in the best value for money outcome.
Auditor judgement	On the 15 July 2022 the Council applied for a Capitalisation Direction totalling £75 million over the next three years. If approved in full, this could allow the Council to borrow money to finance the revenue costs of its transformation programme including an additional £24 million to meet the unbudgeted costs of transformation of adults and children's social care. Such directions are generally considered to be contrary to prudent financial management and simply postpones to need to deal with the underlying issues. Capitalisation directions are normally subject to conditions, common ones being a high level of intervention and the requirement to deliver additional capital receipts. Such conditions have weighed heavily on other authorities in a similar position. The Council can only make an application for a Capitalisation Direction to DLUC if it considers itself to be facing exceptional financial difficulties, so is generally granted to councils in extremis.
Management comment	A review of potential assets available for sale is underway to fund future year transformation costs should no further Capital Directions be forthcoming from government. This was reinforced in the recommendation of the Finance Update report to the 7 September 2022 Cabinet which reads as follows "Agrees to bring forward a capital receipts schedule for additional, non-strategic, asset sales that could be used as an alternative method of financing the Council's Transformation Investment Programme via the Flexible Use of Capital Receipts (FUCR)".

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

Key recommendation – Financial Sustainability

Recommendation 3	The Council should provide more information on the increasing costs of the transformation programme alongside the associated savings, the proposed time lines for implementation and ongoing reporting of delivery against these milestones to ensure further slippage is minimised and savings and the associated improvements in service provision realised. The Council should also ensure that periodical clear reporting is provided on the benefits realisation of the transformation programme against original expectations.
Why/impact	The transformation programme is fundamental to the future financial viability of the Council. Although the Council has detailed financial information supporting the programme, its delivery to date and how it has changed and grown over time, the information publicly available is limited. Periodical clear reporting of the costs and associated efficiencies and savings of the transformation programme now needs to be placed in the public domain. This should include information on actual delivery of the savings and efficiencies against the original programme and comment on slippage and variations. This would provide the opportunity for greater challenge as well as aiding transparency.
Auditor judgement	The Council reports on both the costs and savings expected and delivered through transformation in its budget reports, quarterly budget monitoring and in its outturn report. However there is a lack of detail and clarity in a number of areas, particularly in the area of savings against plan. Savings delivered explicitly through the transformation programme are not clearly distinguished from other directorate savings..
Management comment	A Cabinet decision taken from the 7 September Financial Update Report was for the Corporate Director for Transformation and the Leader to bring forward a paper outlining the timeline for the increase in costs for the transformation programme and provide an update on the delivery of the budgeted savings for 2022/23 and future years. A separate presentation/report is also being considered to an Audit & Governance Committee on the 20 October 2022.

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

Key recommendation – Economy, efficiency and Effectiveness

Recommendation 4	The Council should continue to address the weaknesses identified by Ofsted to ensure all children have access to quality services which meet their needs in a timely manner.
Why/impact	In November 2020 the findings of a focussed Ofsted inspection of the Council's children's services identified significant failings. This is indicative of weaknesses in how the Council delivers this service. A further inspection in December 2021, identified that although some progress had been made There remain too many areas where progress has been neither sufficiently swift nor decisive.
Auditor Judgement	Following the results of the focused Ofsted inspection the Council established an Improvement Board. The Improvement Board aims to meet every six weeks and receives progress reports on an agreed action plan. The action plan developed immediately after the inspection took a short term approach to focus on immediate action whilst a longer term strategy providing a 2 to 3 year plan was developed from 2021-2024. This has been updated following the later inspection held in December 2021. Progress updates have been provided to elected members these include: • Children's Services Overview and Scrutiny Committee; and • Cabinet. These reports provided an update on progress by the Interim Director of Children's Services and the DfE Improvement Advisor. Whilst the Council is confident that solid progress has been made, in our view the focused Ofsted inspection and its follow up review confirms that arrangements were inadequate during 2020/21 and that there were serious and widespread weaknesses in the quality of children's services in the Council.
Management Comment	Children's services continue with its improvement journey through a new Director of Children's Services and Department for Education Advisor holding Children's senior leadership team, Council, Members and partners to account through a renewed Improvement Board. There continues to be a number of challenges to the improvement work some of which are external to the service and wider than the council. Children's services are sitting in a national fragile landscape post-pandemic; increasing levels of demand; cost of living rising; a crisis in social worker recruitment and the inevitability of having to employ agency staff at increasing market rates, due to demand out stripping supply. The Council's financial insecurity presents further risk to the improvement work as the necessity for investment for improvement and transformation may not be forthcoming. The Improvement Board going forward will be receiving financial reports which will include both Council and Children's positions. The Children's Services Overview and Scrutiny Committee are being kept updated with progress.

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

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 12 to 38 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.

Budget 2020/21

The Council and its legacy authorities have historically performed well, with a record of strong financial and budgetary management.

The Council set a balanced budget for 2020/21 at Full Council in February 2020, predicated on the delivery of £9.4m of savings. Shortly after the start of the 2020/21 financial year Covid-19 hit and posed a significant challenge to the Council, including to its financial sustainability, as it did to all in the local government sector. The Council reacted quickly to the crisis, with the establishment of a Corporate Incident Management Team with monthly reporting to Cabinet on the impact of the pandemic including the effect on finance and service delivery.

The onset of the pandemic made financial forecasting challenging as new periods of national lockdown were announced and additional tranches of government funding support were confirmed during the course of the year. To support planning, different scenarios reflecting the impact of lockdown and other restrictions were profiled over three time frames. The Council demonstrated a good understanding of the impact of this evolving situation and took swift action to support its financial position, including a range of measures to reduce expenditure not being incurred in support of the pandemic. This included temporary adjustments to services, continuing the vacancy freeze and delaying projects. The Council is heavily dependant on its income from tourism as is the wider economy of the conurbation and assessing the impact on income and costs was the focus of the finance team throughout the year.

In budget monitoring reporting to Cabinet in June 2020, the Council reported that it had received £22 million of emergency funding from central government to cover projected in year additional costs and lost income of £52.3 million with a resulting funding gap of £30.3 million. As the financial year progressed and both costs and support became more certain, the net position reported to members each quarter gradually improved.

Total central government support received during 2020/21 was substantial with £29 million received from the Covid pressures grant, £12 million to replace a proportion of lost fees and charges income and a further £34 million in specific service grants.

In the quarter 3, as the government funding for Covid-19 became clearer, the budget monitoring report to Cabinet reported a projected balanced position for 2020/21. Further improvements in the funding position continued in quarter 4 and the Council was able to transfer £13 million of funding to reserves to support the medium term financial plan in addition to a £5.1 million surplus being reported for the financial year, a total of £18.1 million under budget. This significant surplus reflected, in part, generous levels of central government support in the form of grant funding that continued into 2021/22 and the service reductions necessitated by the pandemic.

Delivery of the £9.4m of budgeted savings was significantly impacted by Covid-19. That said, it is not clear from in year and the 2020/21 outturn report what actually was delivered, if any. As with other councils we suspect that the 2020/21 surplus has in the main been delivered through generous government support but recommend that both in year and year end outturn reports are clearer on delivery of savings against budget and we have made an improvement recommendation to this effect. This becomes more critical given the greater reliance on the delivery of savings via the transformation programme going forward.

Financial sustainability

Reserves and Balances at 31 March 2021

The Council started 2020/21 with unearmarked general fund balances of £10.7 million, these rose to £15.4 million at 31 March 2021. This was due to the schools budget deficit being transferred to a separate negative reserve following a change in the legislation via a statutory override. These general fund balances represented 5.4% of net revenue spend and was below the mid-point when compared with all other upper tier authorities. The Council is planning to increase these balances to the mid point over the next five years requiring an increase of circa £3.5 million. General Fund balances provide a cushion against unexpected and unplanned pressures that may arise and this is likely to become increasingly important as financial pressures increase.

The Council's earmarked reserves rose from £76 million at the start of the year to £159 million at 31 March 2021, although a significant element, £60 million, related to Covid specific funding including £40 million to cushion the impact of the loss of income from business rates. As a result. the Council was able to increase its financial resilience reserves available to support its financial position in subsequent years by £40 million. Transition and transformation reserves also increased by £13 million. This was due in part to grant funding and a review of the funding of capital from revenue and aligning inherited policies across the new Council.

At the end of 2020/21 the Dedicated Schools Grant (DSG) deficit was £7.9m an increase of £3 million over the year. This deficit would normally be offset against the general fund balance, however a temporary override applies allowing this to be held as a negative reserve.

These reserves were deemed adequate but provide limited capacity to be used to subsidise future pressures.

Budget 2021/22

The 2021/22 budget was set based on the funding announced in the local government finance settlement. The budget was approved by the Full Council in February 2021 following extensive internal and external consultation. The Council publishes on line budget books to allow for greater transparency and scrutiny of spending at a service line level. There is a high level of detail within the budget papers, reflecting both the national and local position and outlook and reflecting on the uncertainty inherent within the process. There is an adequate level of detail setting out the assumptions underpinning the budget. The budget also sets out the Council's capital strategy and its funding mechanisms. Separate budgets are produced for the Council's two neighbourhood housing revenue accounts.

In its outturn report, the Council is reporting a£6.8 million underspend against its 2021/22 budget. This reflects some significant over and underspends within individual directorates with underspends most notable in the areas of place operations and adult services and an overspend in childrens services. Such variations are understandable given continued uncertainty during the year of Covid-19 funding. As a result of this continued government support, the Council did not have to use the planned reserves to meet budgeted expenditure as anticipated throughout the year. However, the overall underspend should not mask demand pressures and reduce the focus on addressing those areas of overspend.

The 2021/22 budget was predicated on the delivery of £20.6 million of service and transformation savings. Of this, £7.5 million was to be achieved through the transformation programme a reduction on the initial expectation of £15 million when the transformation programme was originally established. As referred previously in respect of 2020/21, it is not clear from the Council's reports how much of the service line savings were actually delivered as monitoring and reporting takes place at a directorate level with savings built into the base budget. Transformation savings delivery is monitored internally but limited detail is provided in publicly available financial reports. 2021/22 represented the first year of significant slippage against the original transformation programme.

The Council has been prudent in its use of resources and Covid-19 support grants, which have been set aside to support the ongoing impact of the pandemic.

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Financial sustainability

Reserves and Balances at 31 March 2022

The Council's general fund balance at 31 March 2022 remained consistent with the prior year at £15.4 million with the Council not utilising the in year surplus to increase these to the target mid-point when compared with all other upper tier authorities. The Council's earmarked reserves fell by £38 million from £159 million to £121 million at 31 March 2022, with Covid-19 specific reserves reducing from £60 million to £18 million in line with expectations.

At the end of 2021/22 the Dedicated Schools Grant (DSG) deficit is £20.3m an increase of £12.4 million over the year.

Overall we found no evidence of significant weaknesses in the Council's budget setting arrangements for 2021/22. It should also be noted that as a new Council, we recognise that setting a budget in these first years has been challenging due to the lack of complete historic data and trend information for the Council as a single entity. The slippage on the delivery of the transformation programme in 2021/22 was inevitably due in part to the continuation of Covid-19 challenges but does increase the pressure on the Council to generate the anticipated service reforms and associated savings as quicky as possible given the current funding gaps into the medium term.

Schools Deficit

At set out above the Dedicated Schools Grant (DSG) deficit is large and increasing, totalling £20.3 million at the 31 March 2022 and exceeded for the first time the Council's general fund balance of £15.4m at this date. The Council's MTFP states that this shortfall will rise to be in excess of £200 million by 31 March 2027. The deficit is due to pressures in the High Needs Block and is a trend we can see across the sector. This budget is monitored by the High Needs Block Deficit Recovery Board and considered through the School's Forum.

Whilst the deficit is currently ring fenced, the statutory override is temporary and there is uncertainty as to whether this will be extended beyond the end of 2022/23. The indication is that although there may be additional funding this will be to cover current increasing demand and will not help towards the historical deficit.

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, including benchmarking against peers to understand the underlying causes. The Council is proactively managing this financial pressure, has a High Needs Block recovery plan and included within the 2021/22 budget £10 million of capital expenditure to support the provision of schools places in this area to reduce the reliance on more expensive private provision.

The Council's management information in respect of DSG is good, and there is targeted monitoring and oversight of this area. However, the current trajectory of the deficit is upwards and continued efforts are required to seek to manage this financial pressure given the wider financial challenges facing the Council.

Financial sustainability

Transformation

The Council has outlined in the MTFP that savings and efficiencies need to be identified to enable the Council to be financially sustainable into the medium term. A key reason for the creation of the enlarged unitary authority, in addition to delivering better and more joined up services, is to enable efficiencies to be made by operating at scale. Transforming the way the Council does business is key to the long term ambitions of the Council and the Council is now in the third year of this transformation journey.

The Council is reporting that since its creation in 2019/20, £47.9m of service based savings have been achieved.

The MTFP published to support the 2021/22 budget identified target savings from the transformation programme of £7.5 million to be delivered. This was £7.5 million less than the savings originally planned for 2021/22 in the Organisation Design – Acceleration of Transformation Savings report presented to Cabinet in December 2020. Of this reduced level of savings the Council actually delivered £4 million a shortfall of £3.5 million. Savings anticipated from transformation are currently identified as £8.7 million in 2022/23, £10 million in 2023/24 and £25.2 million in 2024/25.

In July 2022 the Council reported that of the £8.7 million target for 2022/23, £2.1 million had been delivered, a further £2.6 million of savings had been itemised with £4 million yet to be determined.

The level of savings to be realised from the transformation programme has reduced due to slippage in implementation. However, the underspends from both 2020/21 and 2021/22, driven in the main by government Covid-19 funding provide a temporary solution to balancing the books for the current year. By definition the use of these earmarked transformation and financial resilience reserves is only a temporary solution and the importance of delivering the full level of anticipated financial savings from transformation becomes critical from 2023/24 onwards.

Cost pressures continue to increase, with higher inflation, salary cost increases and the cost of living crisis creating an inevitable increase in demand for services. This combined with the need for further investment in childrens services following OFSTED's inadequate rating only increases the fragility of the Council's MTFP.

The costs of the transformation programme have risen since the initial proposals in November 2019 of an estimated £29.5 million. In July 2020 the Council agreed to the extension of the project to a £38m programme referencing the accelerated leap forward in different ways of working because of the Covid-19 public health emergency and the need to accelerate the pace at which savings and efficiencies are generated. As part of the 2021/22 Budget report and efficiency statement the programme was extended to £45m to recognise additional potential redundancy costs. The budget report in February 2022 proposed that is that the investment programme was extended to £67.9m to cover:

- The inclusion of the costs of employees working on the programme who are therefore not available to support day to day or statutory improvement duties.

- Investment in the data and insight capability.

- Increase in the programme contingency.

Of this £4.7 million was to be funded by capital, leaving £63.2 million of revenue funding to be financed, at this stage, by the flexible use of capital receipts.

The transformation programme is fundamental to the future financial viability of the Council. Although the programme is generating savings, realisation is behind schedule with the timing of savings delivery being reprofiled frequently. Budget setting reports contain an appendix setting out savings areas in detail, however there has not been further clear reporting of progress on these savings targets through regular budget monitoring reports.

Financial sustainability

Although the Council has detailed financial information supporting the programme, its delivery to date and how it has changed and grown over time reported in public agenda papers is limited. Periodical clear reporting of the costs and associated efficiencies and savings of the transformation programme now needs to be placed in the public domain. This should include information on actual delivery of the savings and efficiencies against the original programme and comment on slippage and variations. This would provide the opportunity for greater challenge as well as aiding transparency. This was identified as an improvement point for the Council in the LGA peer review undertaken at the end of 2021 and reflected in the 2022/23 budget report published in February 2022.

We consider the lack of transparency in the external reporting of savings to be a significant weakness, particularly as savings from transformation and the cost of the programme are vital to the Council's financial sustainability. We have made a key recommendation on page 9. We note that the June 2022 MTFP update report does provide a more transparent reporting of the savings delivered and the quantum of slippage but note that more is now required.

Capital flexibilities

The Council's transformation programme is central to the Council's plans to transform how it does business to deliver efficiencies and avoid significant cuts to its services. The bringing together of three legacy authorities has resulted in multiple complex systems and perceived duplications within the inherited practices. In order to achieve its vision the Council initially planned to finance the capital costs of transformation through borrowing to fund capital investment, the use of reserves built up through prudent financial management in the past and by taking advantage of the ability to use capital receipts to meet the revenue costs of transformation (Capital Flexibilities Initiative). This Capital Flexibilities Initiative is permitted by a statutory direction published by DLUCH. This allows the Council to use capital receipts to fund the revenue costs of transformation schemes which expect to reduce future demand and to generate revenue savings in the longer term. However, the increasing scope and costs of the transformation programme resulted in the Council looking at alternative sources of capital receipts to fund the full revenue costs of the expanded transformation programme.

The Council's latest transformation programme funding model includes £18m of asset sales to support this programme of which £5.9m had already realised. However, given the size of the transformation programme and associated revised costs of £67.9m the Council needed further receipts to fund the programme. These additional capital receipts, since late 2021 has taken the form of a innovative but high risk 'beach hut' commercialisation proposal that pushed the boundaries of the legislation. Specifically, disposing of these assets to a Council owned company generating a capital receipt.

As the external auditors to the Council we were approached by the Council to comment on both the extent to which different costs could be capitalised under the imitative as well as to comment on the 'beach hut' proposal. We held a series of meetings with the S151 Officer to discuss both these areas and challenged as to whether a number of areas of proposed spend met the definition of transformation. The S151 Officer reflected on this in the later versions of the transformation programme. We also commented that, based on a high level review, that the 'beach hut' proposal did appear to meet the requirements of the 'Capital Flexibilities' initiative but that this would be subject to further work on our part once implemented.

The Council have know for some time that this 'beach hut' approach was under review. Once the proposals became public, we as the auditors were contacted by DLUHC as was the Council.

Financial sustainability

Our meetings with DLUHC confirmed that although the Council's proposal may well be compliant with guidance it was not, in their view, in accordance with the spirit of the legislation. The ambiguity around what constitutes a qualifying asset disposal generating a capital receipt had allowed the Council to treat the 'beach hut' commercialisation as a asset disposal whilst still retaining some indirect control of the asset. DLUHC indicated they were considering revising the guidance to specifically exclude this option and on the 1 August 2022 wrote to all council leaders informing them of the revision to the Direction to remove this option. This presented the Council with a significant gap in the funding of the transformation programme and impacts on the future financial sustainability of the Council.

This is explicitly recognised and highlighted by the Section 151 officer in discussions with Cabinet in June 2022 and updated in July and September 2022, with commentary including his view that this strategy represents a risk to the financial sustainability of the Council. It is critical that the Council now urgently considers alternative options for meeting this funding shortfall as well as other means of generating savings and increasing revenues should the current transformation plans not be deliverable to the current timescale. It should also be remembered that although a attractive mechanism for funding transformation, the use of capital receipts in this way does mean these receipts are no longer available to support further capital investment in the future, or in the case of the beach huts would have reduced ongoing revenue income streams.

Capitalisation Direction

It became clear during the budget setting process for 2022/23 that reserves would be committed elsewhere and that other mechanisms would need to be sought to generate the necessary funding using capital receipts to fund the revenue costs through the use of the 'Capital Flexibilities' initiative. Despite the Council knowing for some time that the 'beach hut' commercialisation approach was under review no alterative plan was developed leaving the Council no option but to seek an alternative source of help directly from Government. An alternative source of funding in the form of a Capitalisation Direction is now being pursued by the Council.

On the 15 July 2022 the Council applied for a Capitalisation Direction totalling £75 million over the next three years. If approved in full, this could allow the Council to borrow money to finance the revenue costs of its transformation programme including an additional £24 million to meet the unbudgeted costs of transformation of adults and childrens social care.

Such directions are generally considered to be contrary to prudent financial management and simply postpones to need to deal with the underlying issues. Capitalisation directions are normally subject to conditions, common ones being a high level of intervention and the requirement to deliver additional capital receipts. Such conditions have weighed heavily on other authorities in a similar position. The Council can only make an application for a Capitalisation Direction to DLUHC if it considers itself to be facing exceptional financial difficulties, so is generally granted to councils in extremis.

On the 2 September 2022 DLUHC wrote to the Council offering 'in-principle' support of up to £20m for 2022/23. This offer is subject to conditions including a full plan addressing the budget gap for 2023/24 and beyond and the requirement for the Council to undergo a external assurance review of its finances and governance arrangements.

No decision has been taken on further funding beyond 2022/23. There are no guarantees that the full capitalisation request will be successful or that an early decision will be made by the Department and that the timeframe permitted would align with the timeframe of the transformation agenda. It's approval may, as often is the case, be predicated on significant asset disposals resulting in the Council needing to accelerate its disposals programme and this may not result in the best value for money outcome.

In his recent (June 2022) report to Cabinet, the Section 151 officer is recommending that the Council take immediate action to support rebasing the 2022/23 budget and to set a balanced budget for 2023/24 including a halt to any new contractual commitments and bringing forward savings proposals. At the time of drafting this report detail proposals supported by business cases have not yet been formed and finalised. There is however, evidence that the Council has engaged widely, taken expert advice and kept members informed of its plans.

It is our view, that this represents a significant weakness in the Council's arrangements and we have raised a key recommendation on page 7.

Financial sustainability

Medium term financial planning (2022/23 onwards)

The Medium Term Financial Plan (MTFP) is updated quarterly as part of the Council's budget monitoring process, this frequency allows the Council to challenge and update its assumptions based on up to date data. In October 2021, the MTFP process was refreshed to extend its horizon from three to five years.

The impact of Covid -19 on data also creates uncertainty over what represents business as usual, which is currently compounded by the impact of the war in the Ukraine and the current high inflationary environment.

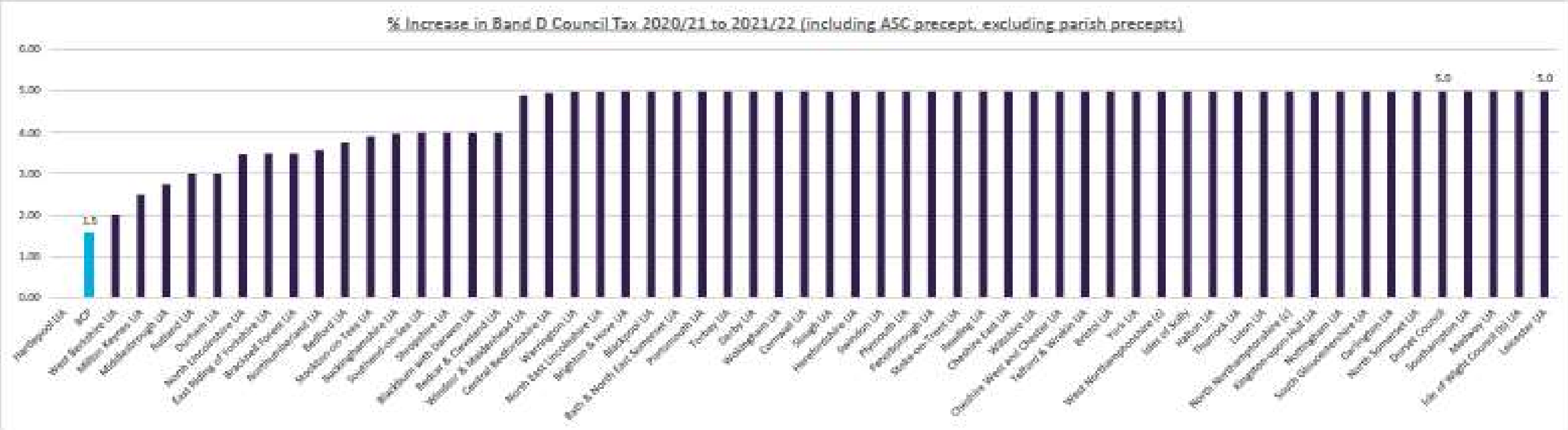
The MTFP published to support the 2022/23 budget is based on the Council's corporate priorities as set out in its Big Plan. It reiterates the Council's shift away from a service-based savings approach and towards delivering savings on a council wide level, as part of the Council's transformation programme. This makes transformation vital to the Council's long term financial plans and the changes to its budget, funding and savings delivery timetable impact on the Council's ability to plan effectively.

Medium term financial planning is also significantly impacted by the current inflationary environment and its effect on the cost of living. This is inevitably leading to significant increases in the Council's expenditure in particular in respect of utilities and pay as well as the consequential increase in demand for or its services. The underspends delivered in 2020/21 and 2021/22 provide some resilience, but this will not be sufficient to meet demand.

We are satisfied that the Council demonstrates an understanding of the pressures that it faces and is regularly revising and reporting its plans as they evolve, keeping members appraised. As with the Council's budget, the MTFP includes a detailed narrative on assumptions, risks and mitigations. The Council also publishes benchmarking information within its budget and MTFP report.

The Council has during the last year undergone a change in political leadership in late 2020, which has resulted in a drive towards more innovative and less risk averse approach to future funding and managing transformation and delivering a lower council tax for residents. The Council has been in the process of harmonising council tax across the three legacy authority areas, with full harmonisation taking effect from 2022/23. The Council has also decided not to raise council tax by the same percentage as the majority of other local authorities. This has resulted in the Council needing to rely to a greater extent than others on alternative sources of income to fund expenditure. The graph overleaf presented to members demonstrates this.

Financial sustainability



Support and Advice

The Council has a good track record of obtaining external advice and peer support, where appropriate and helpful, recognising that it would not have sufficient skills and expertise within its own staffing resources. This was evident in the approach to the creation of the new local authority and with the engagement of external consultants to support the transformation programme. The Council has also engaged in a peer review of its business by the Local Government Association. This review has commended the Council on the management of the creation of the new authority and the impact of funding reductions and its response to the pandemic. However a further update to the review undertaken in July 2022 has highlighted the Council's deteriorating financial position and its risky proposals in respect of capital flexibilities.

The review also highlights the risks associated with the schools high needs deficit on the Council's reserves and the need to carefully assess the risks created by the Council's regeneration and transformation ambitions and its consideration of innovative approaches to manage the Council's position.

Debt

The Council and its legacy authorities had maintained a lower level of debt than average, towards the lower end of the third quartile when compared to upper tier authorities. As part of the 2021/22 budget, the Council revisited its financial strategy and has planned to increase its level of debt in order to refinance capital schemes to release resources to support the general fund revenue budget. The approach being to borrow to finance schemes over the life of the asset with examples being the ICT investment plan, the capital element of the transformation programme, and the Poole Bay beach master plan. This approach enables the Council to match the cost of investment in capital infrastructure over a similar time frame to the benefits gained from it.

In the latest Treasury Management Report discussed at the Audit and Governance Committee in July 2022, the Council has committed to utilising all of £855 million debt threshold. Borrowing at 31 March 2022 sat at £487 million. This additional borrowing will be used to fund a number of schemes including the Futures Fund, Carters Quay, Green Futures Fund, Special Educational Needs (SEND) Capital, the multi-year investments in the Council New Build and Housing Acquisition Strategy, and the capitalisation of neighbourhood highway maintenance up to and including 2025/26. The Council is proposing to increase its debt threshold to £1.334bn which will represent 387% of net relevant expenditure.

Financial sustainability

The Section 151 officer in supporting the increase to the debt threshold has reinforced that further debt would only be supported where the project is self funding and must prove to be affordable, prudent, and sustainable or would significantly reduce the annual operating expenditure of the Council or generate significant inward investment via government funding. Borrowing that which would require the general fund budget of the council to finance the revenue implications would not be supported.

Conclusion

The Council has delivered its budgeted position in 2020/21 and 21/22 with underspends carried forward to support its position into the future. We do, however, have significant concerns over the risks to delivering the budget for 2022/23 and to a greater extent setting a balanced budget in 2023/24 and beyond. The MTFP was predicated on a high risk strategy to deliver transformational efficiencies and avoid significant cuts to services via a funding mechanism which has now been prohibited. Transformation savings remain behind schedule and the inherent risk to the Council's current proposed funding mechanism of a capitalisation direction and the lack of alternative proposals, in our view, represents a significant weakness in arrangements to deliver financial sustainability over both the short and medium term.

We have raised four key recommendations on page 7, 8, 9 and 10.

A further improvement recommendations on pages 21.

Improvement recommendation

Financial Sustainability

Recommendation 5	The Council should ensure that both in year and year end outturn reports are clearer on delivery of savings against original budget. This becomes more critical given the greater reliance on the delivery of savings via the transformation programme going forward.
Why/impact	It is not clear from in year and outturn financial reporting what savings have been delivered against budget. This makes if difficult for decision makers to fully understand the performance of the Council is generating savings whilst not compromising service delivery.
Summary findings	Our review of your in year and year end outturn report identified that reporting on savings delivered what high level and did not provide sufficient detail for recipients to fully understand savings delivery. We recognise that savings plans were overtaken by events in both 2020/21 and into 2021/22 but this area of reporting will become more critical as the transformation programme advances.
Management comment	The transformation savings are included at summary level in the budget monitoring reports in-year and at outturn. Further detail will be provided in future reports.

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

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 and meet statutory reporting requirements
- 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

As set out in the Council's Financial regulations, the Audit and Governance Committee are specifically responsible for ensuring appropriate and effective risk management processes. The Council adopted, as an interim measure the legacy Bournemouth Council Risk Management Framework, with the scoring matrix adjusted to reflect the increased remit of the new authority. A new risk management framework for the Council is currently being finalised.

The Corporate Risk Register is updated quarterly. It is informative, and includes details of each of the 11 risks included at 31 March 2021, together with mitigations and further actions. The number of risks at 31 March 2022 had increased to 14.

This corporate register is informed by service level risk registers. Risks identified at the service level are also being reviewed by the Corporate Management Board. The Council has a risk management team which reviews and reports on corporate risks as well as engaging with services to develop the current risk management arrangements at the service level. The Council is also developing an IT application to collate all service risk registers to improve monitoring and reporting of service level risks.

The Cabinet consider risks as part of their decision making role on corporate policies, including the annual budget setting processes, major policy decisions and major projects. The Audit and Governance Committee also reviews these corporate risks through quarterly monitoring reports.

The Council's understanding of and planning for risks appears sound, and does not demonstrate a risk of a serious weakness. We note however, that the risks reported in the corporate risk register do not align to the Council' corporate objectives to provide a coherent link between the Council's objectives and the risks to delivery. We have made an improvement recommendation on page 26.

The Council's current corporate risk register includes a risk in respect of failure to maintain a safe and balance budget for the delivery of services. This risk includes reference to DLUHC changing legislation to prevent the 'beach hut' commercialisation which forms the basis of the funding for transformation. We recognise, given the increasing financial pressures faced by councils that it is necessary for many to move away from the traditional risk adverse approach and adopt a risk aware proportionate approach to decision making. This will often necessitate the taking of greater risks but in a controlled and informed manner. However, when such risks are taken it is critical that they are monitored closely and that alternatives are actively considered along side the preferred option should there be a risk of non-delivery. Although this risk (CR9) references mitigation in the form of a better outturn for 2021/22 it does not provide any alternatives should the current proposal not come to fruition.

We also note that the register includes a 'failure to deliver the transformation programme' (CR13) that is generally positive about delivery to date, whilst our reflection is that there has been significant slippage and a significant risk of further slippage if funding for the transformation costs is not forthcoming.

Given our observations regarding financial sustainability earlier in our report we have also made an improvement recommendation on page 25, regarding the importance of identifying the risks of innovative schemes such as the 'beach hut' proposal thus ensuring members are fully sighted on the underlying assumptions, risks and rewards to allow course correction if such schemes are not delivering the intended benefits at the planned time.

Governance

There is a good audit and investigations function operating at the Council and we are satisfied with the standard of work being carried out by Internal Audit. It has demonstrated itself to be a dynamic service capable of reacting and responding to changing circumstances. 72 audits were completed during the year, this represented 87% of the planned activity with a all recommendations accepted and 81% of high priority recommendations implemented.

The internal audit function is required to commission an external review periodically. Such a review was commenced at the end of 2021 with limited improvement areas identified.

Internal Audit undertake counter fraud work at the Council. The Council reports its counter fraud and investigatory activities, together with whistleblowing referrals in an annual report to the Audit and Governance Committee.

The payment of COVID grants to businesses, together with the urgency with which these grants were required to be paid, presented a new risk during 2020/21. During 2020/21 Internal Audit carried out a significant amount of assurance work on Covid 19 grants as required by government guidance. This involved both pre and post grant verification work as well as investigation work where warranted. We are satisfied the Council put in place procedures to review these payments.

Overall we found no evidence of significant weaknesses in the Council's arrangements to manage risk and operate effective internal controls. We have raised an improvement recommendation that the risks reported in corporate risk register should be aligned to the Council's Objectives to enable a fuller understanding of how risk affects the delivery of the Council's plans.

Budget Setting Process

The budget-setting process is multi-layered and thorough, with several stages and informed by the Council's Financial Strategy. Portfolio holders provide a presentation of the budget to Cabinet and officers in November with further presentations taking place during December. The Overview and Scrutiny Board review the budget with a presentation being deliver to representatives of commerce and industry, prior to the budget being approved by Cabinet and full Council in February.

There is also a quarterly review of budget to outturn position by Cabinet.

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

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

Governance

Budgetary control

There are good systems in place for oversight of the budget. The Finance Department engages regularly with budget holders. Budget monitoring is reported quarterly to Cabinet. The quarterly budget monitoring reports detail variances by department (and service lines within departments) demonstrating a regular identification of in-year variances. Actions being taken or to be taken by departments in response to such variances are set out. Where requested, further more detailed reporting of service line variances and pressures were included within budget monitoring reports. Services consider previous and current year trends in estimating budget requirements over the remainder of the financial year with the most likely scenario taken forward in year-end financial projections.

The Council reports separately on its revenue budget and for those of the two neighbourhood housing revenue accounts. Capital budget monitoring is also reported quarterly.

Financial monitoring reports presented to Cabinet demonstrate that in year forecast variances are being picked up promptly and budget holders are held to account for delivering their budget or developing mitigating action. The Section 25 Statement is clear that support from councillors and officers is maintained to ensure a robust financial management culture continues to be implemented with constant vigilant financial management to ensure any variations from budget are actively managed.

We have not identified any significant weaknesses with regard to the Council's arrangements for budget monitoring.

The Council monitored and reported on trends during the 2020/21 financial year, referencing the impact of Covid-19 pressures on the Council's budgets.

The Council in both 2020/21 and 2021/22 exceeded its budgeted position indicating a level of prudence within its budget setting process.

Supporting statutory financial reporting requirements

The statutory financial reporting team is smaller than we would typically see in a unitary authority of the size of BCP Council. The production of the financial statements is further complicated by the bringing together the differing financial systems and policies of the legacy councils. Given these ongoing challenges, there is an over reliance on a small number of individuals particularly where matters are technically complex and conflicting demands on those individuals causes delays to the timely completion of the audit process.

The financial statements submitted to audit contained a number of material errors particularly in the areas of property valuations, where a lack of review and challenge of external experts engaged was evident, requiring significant additional work for both auditors and finance staff including further valuations being required.

There were also a number of errors in the accounts disclosures that should be identified and corrected prior to the draft financial statements being issued. We have raised an improvement recommendation on page 27.

Leadership and committee effectiveness and informed decision making

Appropriate leadership is in place. The Council operates a Leader and Cabinet form of executive arrangements. In addition, there are three scrutiny committees which hold the Cabinet to account.

The work of the Council's committees is governed by the constitution. This constitution is regularly reviewed and updated. The constitution is shared with all staff members on joining and is openly available on the Council's website.

The Annual Governance Statement 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.

Monitoring and ensuring appropriate standards

The Council has the expected policies and procedures in place to comply with all relevant codes and legislative frameworks. Central to this is the Council's constitution which has been refined and is subject to appropriate scrutiny as the new Council has embedded. The Council maintains registers of gifts and hospitality and of interests, with relevant policies in place We have identified that the register of interests could be refined to separately identify relationships where officers and members control the entity reported. This would also assist in appropriately reporting valid related parties within the financial statements. An improvement recommendation has been made on page 28.

The Council has demonstrated a commitment to improvement and transparency and has published its self assessment against the CIPFA Financial Management Code in its Annual Governance Statement.

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 four opportunities for improvement, set out on the following pages.

Improvement recommendation

Governance

Recommendation 6	The Council should ensure that its risk management arrangements are capable of identifying, capturing and monitoring innovative but often 'high risk' schemes such as the 'beach hut' proposal thus ensuring members are fully sighted on the underlying assumptions, risks and rewards to allow course correction if such schemes are not delivering the intended benefits at the planned time.
Why/impact	The Council's current corporate risk register includes a risk in respect of failure to maintain a safe and balance budget for the delivery of services. This risk includes reference to DLUHC changing legislation to prevent the 'beach hut' commercialisation which forms the basis of the funding for transformation. It does not however, provide a course of action should this not be deliverable.
Summary Findings	We recognise, given the increasing financial pressures faced by councils that it is necessary for many to move away from the traditional risk adverse approach to decision making and adopt a risk aware proportionate approach to decision making. This will often necessitate the taking of greater risks but in a controlled and informed manner. However, when such risks are taken it is critical that they are monitored closely and that alternatives are actively considered along side the preferred option should there be a risk of non-delivery. Although this risk (CR9) references mitigation in the form of a better outturn for 2021/22 it does not provide any alternatives should the current proposal not come to fruition.
Management comment	The risks associated with the securitisation of the beach hut income stream along with several other aspects of the council's financial strategy were clearly outlined in the 2022/23 budget report. This included the formal s25 Report of the Chief Financial Officer which suggested an alternative approach to setting the budget. This 2022/23 budget report set out that the budget as proposed would need to be redrawn if the model was not implemented for any reason including the absence of member endorsement. This work is now in train as part of the monthly finance update reports.

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

Improvement recommendation

Governance

Recommendation 7	The Council should consider aligning the risks reported in the risk register to the Council's Corporate Objectives.
Why/impact	This facilitates greater transparency regarding the impact of risks on the Council's key objectives.
Summary Findings	Although risks are appropriately reported and monitored, aligning risks to the Council's corporate objectives would allow users to more fully understand the impact of the risks reported against the delivery of its objectives.
Management comment	The risks in the corporate risk register will be aligned to the Council's Corporate Objectives. This will start from the next quarterly update to Audit & Governance Committee.

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

Improvement recommendation

Governance

Recommendation 8	The Council should consider the capacity of the finance team and its over reliance on a limited number of individuals. The Council should also implement a more thorough process of review of the financial statements to prevent material errors from arising, including where an external expert such as a property valuer is engaged.
Why/impact	The financial statements contained a number of errors, including a lack of review and challenge where an external expert has been engaged. This results in amendments being required to the draft financial statements. The lack of capacity also results in delays to the accounts and audit process where key finance staff have conflicting draws on their time.
Summary Findings	The statutory financial reporting team is smaller than we would typically see in a unitary authority of the size and complexity of BCP Council. The production of the financial statements is further complicated by the bringing together the differing financial systems and policies of the legacy councils. Given these ongoing challenges, there is an over reliance on a small number of individuals particularly where matters are technically complex and conflicting demands on those individuals causes delays to the timely completion of the audit process. The financial statements submitted to audit contained a number of material errors particularly in the areas of property valuations, where a lack of review and challenge of external experts engaged was evident, requiring significant additional work for both auditors and finance staff including further valuations being required. There were also a number of errors in the accounts disclosures that would be identified and corrected prior to the draft financial statements being issued.
Management comment	The move to the Microsoft Dynamics accounting system from 1 April 2023 should improve service resilience and efficiency and create capacity for staff to undertake a more thorough review of the financial statements, including property valuations.

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

Improvement recommendation

Governance

Recommendation 9	The Council should consider separating the Category 1 members interests between those where the member or officer controls the entity rather than where a standard employment relationship exists.
Why/impact	This would facilitate transparency to understand where members have a pecuniary interest and where a greater focus may be warranted. This would also facilitate the preparation and reporting of true related party relationships within the financial statements.
Summary Findings	Members interests are disclosed against a number of categories. Category 1 is Employment, Office, Trade, Profession or Vocation – Any employment, office, trade, profession or vocation carried on for profit or gain. It would be helpful to further separate this category to identify where the member or officer controls the entity rather than where a standard employment relationship exists.
Management comment	This will be considered and implemented through a recommended change to the BCP Council Constitution. It will be taken through the Constitutional Review Working Group as soon as possible with a view to amending the form for recording Councillors' Declarations of Interest.

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

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 management and areas for improvement

The Council was established on the 1 April 2019 and in November 2019 the Council adopted its corporate strategy and supporting delivery plans. This strategy was refreshed in February 2020. In September 2020 the Council agreed its corporate performance management framework as a basis for monitoring progress and ensuring accountability for delivery of the corporate strategy and its five delivery plans. In order to ensure consistency throughout the Council the delivery plans are supported by a range of service plans which are monitored by the individual services. Each of the delivery plans are monitored and assessed based on strategic objectives agreed in September 2020.

Performance against the strategic objectives was reported to Cabinet midyear and at the year end. These reports RAG rated each of the indicators and provided exception reports for under performance. The performance reports were interactive and enabled the reader to drill down and obtain further information should that be required. However, there are delays in the system and members did not receive these report until three to fours months after the period end.

The performance reports have enabled members to monitor performance but are hampered by the timeliness of these reports. We have made an improvement recommendation on page 33.

Children's Services

In November 2020 Ofsted undertook a focussed inspection of the Council's children's services. Although not providing a rating, this inspection identified significant failings and widespread weaknesses in the quality of children's services and concluded that the arrangements left vulnerable children at risk of harm.

The Council acknowledged that it needed to make significant improvements and established an Improvement Board. The Improvement Board met for the first time in December 2020 and continues to meet. The Improvement Board is chaired by the Department for Education (DfE) Improvement Advisor and is attended by the Chief Executive, three Councillors including the Leader of the Council, the Interim Director for Children's Services, Section 151 Officer, Regional Improvement and Support Lead – SW (this is a DfE attendee) and a representative of the Local Government Association.

The Improvement Board aims to meet every six weeks and receives progress reports on the agreed action plan. The action plan developed immediately after the inspection took a short term approach to focus on immediate actions whilst a longer term strategy providing a 2 to 3 year plan was developed for 2021-2024. An updated plan was issued in March 2022 following a further inspection report issued in February 2022.

Progress update reports have been provided to elected members by the Director of Children's Services and the DfE Improvement Advisor and include:

- Children's Services Overview and Scrutiny Committee
- Cabinet.

Improving economy, efficiency and effectiveness

Whilst the Council was confident that solid progress has been made, further work is required to bring the service up to the required standard. Based on the findings of this inspection it is our view that arrangements were inadequate during 2020/21 and that there were serious and widespread weaknesses in the quality of children's services at the Council. We have identified this as a significant weakness and raised a key recommendation on page 10.

A further inspection by OFSTED was held in December 2021, reporting in February 2022. The report states that 'There has been progress since then despite the challenges of the COVID-19 pandemic and the complexities of local government reorganisation. The creation of new specialist services and strengthened infrastructure are starting to make a positive difference, but it is too early to see an impact for a large number of children and their families. There remain too many areas where progress has been neither sufficiently swift nor decisive. The application of quality assurance processes does not give senior leaders a reliable or accurate picture of the quality of social work practice. The quality of this practice is too variable, with much being poor. Thresholds for intervention are not applied consistently, and the oversight of managers is too variable in quality. Multiple changes of social workers and managers in some teams also contribute greatly to the lack of focus and urgency for many children.

There are still serious and widespread weaknesses in the quality of children's services that leave vulnerable children at risk of harm. Specialist services aside, the core business of reducing the risks to children in need of help and protection is yet to have a consistent and effective impact.'

In July 2021 another inspection was undertaken. This inspection was a joint Ofsted and Care Quality Commission inspection and assessed the Council's effectiveness in implementing the new special educational needs and/or disabilities (SEND) reforms. This inspection identified a significant number of areas of weakness and required that the Council along with the clinical commissioning group (CCG) submit a Written Statement of Action to Ofsted by 7 December 2021.

Prior to this inspection the Council were aware that improvements were required and in December 2020 had identified a number of recommendations to try and prevent a Written Statement of Action being issued should an inspection take place. However, this objective was not achieved.

A monitoring visit in June 2022 focusing on the 'front door' service was more positive but highlighted continuing concerns. Progress included the appointment of a permanent Corporate Director of Children's Services but recognised that time will be needed for these changes to fully impact on service provision.

Learning from others

The Council recognises the benefit to be gained from comparing themselves to others and has used benchmarking to compare and monitor performance. In 2019/20 extensive benchmarking was undertaken as part of the budget setting process. Although the use of benchmarking in 2020/21 was not as extensive, benchmarking was undertaken as part of the 2021/22 budget and Medium Term Financial Plan approval process and included reserves, borrowing and debt comparatives. Benchmarking has also been used to support its Financial Strategy 2022/23. the Council has a strong track record of seeking external support and peer review, including a wide ranging LGA Peer review carried out in 2021.

Data Quality

We considered how the Council gained assurance over the accuracy of the information reported to elected members and identified that the Council does not have an agreed and consistent approach to ensuring the reliability and consistency of data quality. The Council does not have a data quality policy, although the Council has raised the importance of data quality within its performance management framework. The performance management framework identifies the importance that all information is 'founded on high quality, reliable and timely data'.

We consider a data quality policy would be beneficial for the Council. It would set out an agreed approach to ensuring the reliability and consistency of data quality across the Council. It could also set out who is responsible for ensuring the quality and accuracy of data used throughout the Council. We have made an improvement recommendation on page 33.

Significant partnerships

The Council has identified partnerships within its 2020/21 Annual Governance Statement (AGS) as a significant governance issue due to a lack of corporate oversight. The Council has begun to address this issue through the development of local registers. However, these registers illustrate that there is no clear definition, a standard format is not used and a number are more aligned to contractual arrangements rather than partnerships. As a result the type and nature of the partnership recorded differs significantly between the registers.

Within the corporate strategy and delivery plans we identified a number of areas where the Council recognises where partners contribute to the strategic objectives. This indicates that the Council is aware of the contribution made by these partners and monitors performance through the delivery plans.

The governance arrangements for each partnership are varied and differ from one partnership to the next. This information is not recorded on the partnership registers. Reporting to members also depends on the partnership, although we note that the financial regulations identify that the Audit and Governance Committee functions include reviews of the governance and assurance arrangements for significant partnerships. During 2020/21 Audit and Governance Committee's role in relation to partnerships has been limited to BHLive and the Council's housing companies.

As there have been no significant failings in any partnerships that have had an impact on the Council, that we are aware of, we do not consider there is a significant weakness in the Council's partnership arrangements. However, in our view arrangements could be improved. Governance arrangements could be strengthened by the Council defining its partnerships (significant and statutory partnerships) and determining the importance of these partnership including which align to the Council's corporate objectives. The Council should then confirm how these partnerships are to be monitored and assessed including the reporting arrangements to elected members. This information could be recorded on the partnership registers. Strengthening the governance arrangements should ensure the Council has corporate oversight of its significant partnerships. We have made an improvement recommendation on page 34.

Procurement and contract management

During 2020/21 the Council did not have an agreed procurement strategy, although it does have procurement and contract procures within the financial regulations and agreed guidance. As a result the Council is not compliant with its financial regulations which state that the Chief Finance Officer is responsible for ensuring an effective overarching procurement strategy is in place. The Council is aware of this and is looking to improve its commissioning and procurement function as part of its transformation agenda. The Council is in the process of establishing a centre of excellence and introduced a centralised approach.

We are not aware of any evidence that the Council has failed to operate a fair procurement process in 2020/21 for any of its significant contracts. Although the number of contracts where waiver procedures were not followed has increased in comparison to 2019/20. In 2020/21 five individual contracts all within Children's Services breached the Council's contract waiver procedures. For all of these contracts, the intention had been to have a waiver authorised, the waiver documentation had been completed but the authorisation process not undertaken. So on the basis of this although this is a failure of controls, we do not consider this to be significant enough to be a risk of significant weakness. The Council has since reviewed processes to understand why these breaches occurred.

The authorisation process for contract waivers includes the completion of a standard waiver request document. We understand that the Head of Internal Audit is part of the authorisation process for contract waivers. However, we are concerned that any involvement of the Head of Internal Audit undermines his independence and consider all aspects of the contract waiver process to be a management responsibility. We have made improvement recommendations for the points identified on page 35.

In line with the Council financial regulations the incidence of contract waivers and approvals were reviewed by the Audit and Governance Committee.

Transformation

The Local Government Reorganisation process and the establishment of BCP was intended to improve delivery, provide joined up services and achieve great efficiency and savings for the Council. The Council is now in its third phase of transformation - 'Design and build'. The approach was agreed by Cabinet in November 2019 and included the proposed operating model.

In June 2020 Cabinet agreed the procurement approach to identify a strategic partner and the governance arrangements to oversee the programme. The strategic partner was appointed in 2020. This was followed in December 2020 by the approval of the acceleration of transformation savings for 2021/22 of £15m. These savings were the total planned for 2021/22 and set out in the Council's MTFP. The impact of bringing forward these savings is that savings delivery is not aligned with organisational redesign. This misalignment significantly increased the risk of delivering and in order to deliver these savings the Council would need to reduce FTEs without the supporting change in service delivery. This risk was clearly communicated to members in the supporting committee papers.

This risk was recognised and the amount was reduced to £7.5m in the 2020/21 budget.

Comprehensive governance arrangements have been established to monitor and effectively utilise the strategic partner and ensure the benefits of the transformation programme are delivered as planned. The Transformation Programme consists of three elements and differing governance arrangements have been developed for each element:

- operational model
- estates; and
- pay and award.

Conclusion

We found that there is evidence of significant weaknesses in the Council's arrangements for ensuring that it makes informed decisions and properly manages its risks. This relates to the findings of OFSTED inspections of the Council's childrens services undertaken in December 2020 and followed up in December 2021. We have identified four further opportunities for improvement, set out on the following pages.

Improvement recommendations

Improving economy, efficiency and effectiveness

Recommendation 10	The Council should provide more timely corporate performance reports for Cabinet.
Why/impact	Performance reports which are issued some time after the period end will be out of date when they are received and will limit members ability to hold officers to account and take any necessary action.
Summary findings	Corporate performance reports are issued to Cabinet three to four months after the period end
Management comment	The Council will review the corporate performance reporting process to ensure it is of value to the organisation. This will include consideration of automation of the process with support from the Data & Insight team to produce more timely data.
Recommendation 11	The Council should agree a data quality policy.
Why/impact	A data quality policy would set out the Council's approach to continually improving the quality of data required to support good decision making. A data quality policy should include: • definition of data quality and why it is important • roles and responsibilities, including members, senior officers and individual employees • data quality objectives • monitoring arrangements • arrangements for data sharing.
Summary findings	The Council does not have a data quality policy.
Management comment	Data Quality Policy is recognised as a bedrock on which the BCP Data Centre of Excellence can be built and as such is a Stage 1 activity in Transformation Programme workstream. Anticipated completion date Q4 2022/23.

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

Improvement recommendations

Improving economy, efficiency and effectiveness

Recommendation 12	The Council should strengthen is partnership governance arrangements. This should include: • defining partnerships including significant and statutory partnerships • determining the importance, including those which directly contribute to the corporate objectives of the partnership • agree the monitoring and assessment arrangements, including the role of members for each partnership • agree a consistent template for the partnership register and consider expanding the content to include the information above.
Why/impact	The Council does not have a corporate oversight of its partnerships.
Summary findings	The Council has identified partnerships within its 2020/21 Annual Governance Statement (AGS) as a significant governance issue due to a lack of corporate oversight. The Council has begun to address this issue through the development of local registers. However, these registers illustrate that there is no clear definition, a standard format is not used and a number are more aligned to contractual arrangements rather than partnerships. As a result the type and nature of the partnership recorded on the register differs significantly between the registers. Within the corporate strategy and delivery plans we identified a number of areas where the Council recognises where partners contribute to the strategic objectives. The governance arrangements for each partnership are varied and differ from one partnership to the next. This information is not recorded on the partnership registers. Reporting to members also depends on the partnership, although we note that the financial regulations identify that the Audit and Governance Committee functions include review of the governance and assurance arrangements for significant partnerships.
Management comment	The Council's 2021/22 Annual Governance Statement contains an action plan to strengthen partnership governance, including partnership definition, partnership register and oversight. The points raised will be incorporated into this plan.

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

Improvement recommendations

Improving economy, efficiency and effectiveness

Recommendation 13	The Council should develop and adopt a procurement strategy.
Why/impact	An effective procurement strategy would align with the Council's corporate strategy and assist in the delivery of its objectives. It would provide a consistent and agreed plan of action that should be applied across the Council.
Summary findings	For the year under review 2020/21 the Council did not have an agreed procurement strategy, although it does have procurement and contract procures within the financial regulations and agreed guidance. The Council is not compliant with its financial regulations which state that the Chief Finance Officer is responsible for ensuring an effective overarching procurement strategy is in place.
Management comment	The Council is aware of the need to develop and deliver a Commissioning & Procurement Strategy as single Centre of Excellence (CoE) under the transformation programme that aligns and supports BCP Council strategies, the 'National Procurement Policy Statement' and future major changes to the 'UK's Public Contract Regulation (date TBC – 2023 earliest)' in order to: • Achieve community benefits (Social Value & Sustainability), • Show leadership (Council wide engagement) • Enable (Commissioning & Procurement having a key role in adding value in the Council's expenditure) • Behave commercially (Concessions – creating commercial opportunities) The target will be to develop, drafts and deliver a new Commissioning & Procurement Strategy and Financial Regulations 'Part G' updates, once the new finalised Commissioning & Procurement CoE structure is in place and making sure future procurement regulation requirements and Council strategies are centre to the new strategy. At present we follow national strategies/principles (including the LGA's National Procurement Strategy 2022) and continue to adhere to Public Contract Regulations 15 contract regulations.
Recommendation 14	The Head of Internal Audit should not be part of the authorisation process for contract waivers.
Why/impact	The involvement of the Head of Internal Audit in the authorisation undermines his independence. We consider all aspects of the contract waiver authorisation process to be a management responsibility.
Management comment	The role of Head of Audit & Management Assurance in the waiver process will be to confirm that the Financial Regulations governance process has been followed and appropriate authorisations received, not to authorise. Documentation, including the wavier form, will be revised to clarify the role. For the avoidance of doubt, the officer approving the waiver will be the Service Director.

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

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 impact of COVID-19 has cut across the Council, impacting both its income in the collection rates of housing rents, Council Tax and Business Rates, and expenditure which has seen additional pressures, most notably on adult social care. The Council also receives significant income from fees and charges through its seafront and tourism activities.

The Council's initial predictions in June 2020 identified potential budget pressures of £52.3 million as a result of Covid-19 for the 2020/21 financial year.

This overspend has been offset by emergency funding from the Ministry of Housing, Communities and Local Government (MHCLG) and corresponding COVID-19 related underspends in the General Fund.

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. The MTFS was reviewed and updated during the year, and detailed quarterly reporting against the budget to cabinet was maintained throughout the year,

£18 million of COVID-19 funding (combination of ring-fenced and non-ringfenced) received has been transferred to reserves to address any unbudgeted additional costs of COVID-19 in 2021/22 and a further £1.3 million in kept as a further covid recovery resource.

Despite this 'cushion', the Council expects these financial pressures to be ongoing. Whilst it set a balanced budget for 2021/22, and 2022/23 with savings and efficiencies built in, the Council will undoubtedly need to maintain its high level of monitoring and scrutiny over its finances in order to achieve this budget.

Governance

While the Council generally maintained a business-as-usual approach to its governance arrangements during the pandemic, some adjustments were required. As a result of the lockdown restrictions announced on the 16th March 2020, the Council adjusted some of its internal control processes to support effective governance throughout the pandemic. As soon as these were lawful, the Council started holding members' meetings online.

The Council was already set up to facilitate remote working which enabled business as usual to continue in many areas. The Council recognised that home working at scale constituted an enhanced security threat and multi factor authentication was adopted in response.

All office-based staff were provided with the necessary equipment to work from home, enabling a smooth transition to remote working where this was possible. Home-based working has continued throughout the pandemic and there has been a good level of continuity of service.

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.

Economy, efficiency and effectiveness

Th Council has maintained its quarterly reporting of performance against the targets in the Corporate Strategy throughout the year. The impact of Covid-19 on the Council's performance has been referenced within the report. There is evidence that the Council is considering the longer term impact on its services including the impact on childrens learning and mental health.

COVID-19 arrangements

During the pandemic, the Council worked with its partner organisations across Dorset to manage both the impact of Covid and the issues arising following the relaxation of Covid restrictions.

Conclusion

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

Opinion on the financial statements

Audit opinion on the financial statements

We have not yet given our opinion on the Council's 2020/21 financial statements.

Other opinion/key findings

Our work to date has not identified any significant unadjusted findings in relation to other information produced by the Council, including the Narrative Report or Annual Governance Statement.

Audit Findings Report

More detailed findings can be found in our Audit Findings Report, which will be reported to the Council's Audit and Governance Committee in due course.

Preparation of the accounts

The Council provided draft accounts in line with the national deadline and provided reasonable working papers to support most areas of review.

Issues arising from the accounts:

The key issues were:

- Property valuations- The Council engaged a new valuer for general fund assets. Our work identified a number of instances where incorrect information was provided to the valuer and there was a lack of management review and challenge of the valuations produced. We also experienced delays in receiving responses to our queries from the valuer.
- The creation of the Council from the three legacy authorities adds considerable complexity to the accounts preparation and audit process, however, there remains a lack of formal review and over reliance on certain finance officers to respond to queries.

Our work remains ongoing due to a national issue in respect of infrastructure. We are also awaiting the pension fund letter of assurance from the Dorset Pension Fund auditor.

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.

Opinion on the financial statements

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.

We will complete our work on the Whole of Government Accounts consolidation pack once the 2020/21 audit is complete. Limited procedures are required as the threshold for detailed procedures has been increased to entities with expenditure exceeding £2 billion.

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 - Risks of significant weaknesses - our procedures and findings

As part of our planning and assessment 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 that we needed to perform further procedures on. The risks we identified are detailed in the table below, along with the further procedures we performed, our findings and the final outcome of our work:

Risk of significant weakness	Procedures undertaken	Findings	Outcome
Improving economy, efficiency and effectiveness was identified as a significant weakness, a more detailed review was undertaken see page xx for further information	Childrens Services The findings of a focussed inspection of the Council's childrens services reported in November 2020 identified significant failings. This is indicative of weaknesses in how the Council delivers this service. We will consider the actions that the Council has taken to respond to these findings and review evidence to support any improvements reported.	Our findings are set out on page 23.	We found that there is evidence of significant weaknesses in the Council's arrangements for ensuring that it makes informed decisions and properly manages its risks. This relates to the findings of OFSTED inspections of the Council's childrens services undertaken in December 2020 and followed up in December 2021. The latter inspection found that although some progress had been made by the Council, there are still serious and widespread weaknesses in the quality of children's services that leave vulnerable children at risk of harm .

Appendix C - 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	
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	See page 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	See pages 21,25,26,27,28,33.34.35

Appendix D - Use of formal auditor's powers

We bring the following matters to your attention:

Statutory recommendations Under Schedule 7 of the Local Audit and Accountability Act 2014, auditors can make written recommendations to the audited body which need to be considered by the body and responded to publicly	We did not make any statutory recommendations.
Public interest report Under Schedule 7 of the Local Audit and Accountability Act 2014, auditors have the power to make a report if they consider a matter is sufficiently important to be brought to the attention of the audited body or the public as a matter of urgency, including matters which may already be known to the public, but where it is in the public interest for the auditor to publish their independent view.	We did not issue a public interest report.
Application to the Court Under Section 28 of the Local Audit and Accountability Act 2014, if auditors think that an item of account is contrary to law, they may apply to the court for a declaration to that effect.	We did not make an application to the court.
Advisory notice Under Section 29 of the Local Audit and Accountability Act 2014, auditors may issue an advisory notice if the auditor thinks that the authority or an officer of the authority: • is about to make or has made a decision which involves or would involve the authority incurring unlawful expenditure, • is about to take or has begun to take a course of action which, if followed to its conclusion, would be unlawful and likely to cause a loss or deficiency, or • is about to enter an item of account, the entry of which is unlawful.	We did not issue an advisory notice.
Judicial review Under Section 31 of the Local Audit and Accountability Act 2014, auditors may make an application for judicial review of a decision of an authority, or of a failure by an authority to act, which it is reasonable to believe would have an effect on the accounts of that body.	We did not apply for a judicial review.

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