

# AUDIT AND GOVERNANCE COMMITTEE



Report subject	<b>Annual Governance Statement 2022/23 – Action Plan and update</b>
Meeting date	11 January 2024
Status	Public Report
Executive summary	<p>This report provides an update against the Annual Governance Statement (AGS) Action Plan which identified actions to be taken to address the significant governance issues identified in the 2022/23 AGS.</p> <p>Progress against the agreed action plan is as follows:</p> <p><b>BCP Council Assurance Review</b> – robust arrangements to monitor and deliver the action plan are in place.</p> <p><b>Dedicated School Grant (DSG)</b> - The Council is part of the Department for Education's Safety Valve programme focused on supporting those authorities with the highest deficits on the High Needs Block of their DSG.</p> <p><b>BCP FuturePlaces Ltd</b> - the Council took the decision to close BCP FuturePlaces Limited in September 2023. Lessons learnt concerning the arrangements for managing BCP FuturePlaces form part of a wider review of Council wholly or partly-owned entities. The specific governance issues in relation to BCP FuturePlaces and the actions identified have been superseded.</p> <p><b>Delay in the completion of the 2021/22 External Audit</b> - The 2021/22 external audit of the statement of accounts is not yet finalised. The draft Audit Findings report was taken to Audit &amp; Governance Committee in November 2023; the main area of work not concluded was in respect of the Pension Fund due to a delay in receiving a response from the auditor of the Dorset Pension Fund. It is hoped this will be completed in early 2024. The audit of the 2022/23 financial statements is also delayed.</p> <p>The value for money work for 2021/22 and 2022/23 has been completed.</p> <p><b>Mandatory Training</b> – the actions identified have been rolled out and completion rates had increased to 62% as of November 2023.</p>

	<p>The update against the issues from the Financial Management Code self-assessment concluded that BCP Council was compliant with the Code. Two issues, 1 and 3 at table 2 below, are now addressed and the implementation of the new finance system will facilitate the full implementation of two further issues, 4 and 5 at table 2. Full implementation of the remaining recommendation, 2 at table 2, is partially contingent on the delivery of the Corporate Landlord Model and is progressing.</p> <p>The AGS is required to cover the year ending 31<sup>st</sup> March 2023 but also "...to the date of the publication of the Statement of Accounts". Up to the point of formal publication, which is after the External Auditor has reported the audit opinion, the Council must ask itself if any retrospective significant governance issues have been identified likely to have existed in 2022/23.</p> <p>Whilst a number of significant governance related reviews have taken place since the original AGS was agreed, no significant new governance issue were identified in these reviews. It is concluded therefore that all significant governance issues were either pre-identified or featured in the BCP Council Assurance Review already included in the AGS.</p>
<b>Recommendations</b>	<p><b>It is RECOMMENDED that Audit &amp; Governance Committee note:</b></p> <p><b>a) the progress made to address the significant governance issues on the BCP Council AGS Action Plan 2022/23</b></p> <p><b>b) the position in respect of compliance with the Financial Management Code.</b></p>
Reason for recommendations	Audit & Governance Committee has the responsibility for considering the arrangements for Corporate Governance including reviewing and approving the AGS.
Portfolio Holder(s):	Councillor Mike Cox, Finance
Corporate Director	Ian O'Donnell, Corporate Director Resources
Report Authors	<p>Nigel Stannard - Head of Audit &amp; Management Assurance  📞 01202 128784  ✉️ nigel.stannard@bcpcouncil.gov.uk</p> <p>Ruth Hodges – Audit Manager (Deputy Chief Internal Auditor)</p>
Wards	Council-wide
Classification	For Update

## **Background**

1. The 2022/23 draft Annual Governance Statement for BCP Council was agreed following the public inspection period by Audit and Governance Committee in July 2023. Due to the delay in publishing the audited statement of accounts, the AGS has not yet been finalised.
2. The draft AGS concluded that BCP Council “has effective and fit-for-purpose governance arrangements in place in accordance with the governance framework”. However, the following five significant governance issues were identified:
  1. BCP Council Assurance Review
  2. Dedicated School Grant (DSG)
  3. BCP FuturePlaces Ltd
  4. Delay in the completion of the 2021/22 External Audit
  5. Mandatory Training
3. An Action Plan to address the issues identified was approved and it was agreed that a progress report be presented to this (January 2024) Audit and Governance Committee. No internal action plan was produced for item 4 as the delay in the completion of the external audit is a national issue outside the direct influence of the Council.
4. The delay in finalising the statement of accounts has resulted in an extended period where the Council should consider, in line with best practice, whether the AGS needs to be updated with any new significant governance issues. This is explained in more detail at paragraph 7.
5. Work will shortly commence to prepare the 2023/24 AGS, including the completion of assurance statements by directors. These will be used to assess the adequacy of the governance framework. The draft will be available for public inspection in line with the statutory time frame.

## **Update against the 2022/23 AGS Action Plan**

6. Table 1 shows the update against the actions.

**Table 1 - showing Update against Annual Governance Statement 2022/23 Action Plan:**

1	<p><b>BCP Council Assurance Review</b> – the review (see Annex 1) identified a range of governance areas where improvements could be made. Recommendations were made in the following areas:</p> <ul style="list-style-type: none"> <li>• Council meetings and decision making</li> <li>• Cabinet and leadership</li> <li>• Councillor behaviour</li> <li>• Further issues to address: <ul style="list-style-type: none"> <li>• BCP FuturePlaces Ltd</li> <li>• Subsidiary Companies</li> <li>• Finance</li> <li>• DSG</li> </ul> </li> </ul>			
	<b>Action Points</b>	<b>Responsible Officer</b>	<b>Target Date</b>	<b>Update – December 2023</b>
	CMB to oversee implementation of recommendations raised in the BCP Council Assurance Review.	Chief Executive (CMB)	September 2023	<p>The recommendations from the Chief Executive's assurance review, along with those made in the DLUHC external assurance review and Best Value Notice issued in August 2023 (see 8 below), are being tracked via an Assurance Review Action Plan. This is reviewed monthly at CMB, with a written update provided to DLUHC, covering progress on outstanding issues. Formal quarterly meetings taken place with DLUHC representatives, the Chief Executive, Chief Finance Officer and a Policy Officer. In addition, a progress update will be taken to Cabinet alongside corporate performance reports, and Overview and Scrutiny Board received a progress update at the November meeting.</p> <p>The update as at November 2023 reports that 55% of actions have been completed, with 31% progressing well. No actions had not been progressed.</p>
2	<p><b>Dedicated School Grant (DSG)</b> - The overall level of council reserves is of concern because of growing deficit on the Dedicated Schools Grant (DSG) budget is taken into consideration. At 31 March 2023 the Council is predicted to have a DSG deficit of £37m which is particularly impacted by the expenditure on the High Needs block and support for Education, Health, and Care Plans (EHCPs) for young people.</p> <p>The budget for 2023/24 assumes this deficit will grow to £64m by 31 March 2024 at which point the Council will have overall negative reserves. The presence of a statutory instrument allows the Council to ignore this deficit until the 2026/27 financial year at which point the deficit is currently forecast to have increased to around £160m without corrective action. Whilst the long-term impacts are potentially significant, the short-term effects are also impacting on the Council's budgets because of the cost to the Council of managing the cashflow of the payments, at an estimated annual revenue cost of around £2.5m for 2023/24 and growing in future years.</p>			

<p>This is causing an effective cut of service provision to that degree.</p> <p>Although part of the DfE Delivering Better Value in SEND programme the Council is no clearer as to how this deficit will be funded. The Council should consider how best to manage the future risks and current costs associated with this significant issue.</p> <p><i>(Extract from BCP Council Assurance Review)</i></p>				
Action Points		Responsible Officer	Target Date	Update – December 2023
The Council should consider how best to manage the future risks and current costs associated with the issue of continued and growing DSG overspend. Councillors and officers need to consider the options for DSG provision and determine the most appropriate strategy, through liaison with the DfE.		Chief Executive and Director of Children's Services	September 2023	The Council has now been invited by the Department for Education to be part of their Safety Valve programme focused on supporting those authorities with the highest deficits on the High Needs Block of their Dedicated Schools Grant. A conversation has now commenced with a view to determining if an agreement can be reached.

3	<p><b>BCP FuturePlaces Ltd</b> - The governance of BCP FuturePlaces Ltd, the Council's URC (Urban Regeneration Company) has been a matter of significant local concern. The Leader and Deputy Leader were both appointed to the Board in the formative stages and have only recently been able to step back from the Board as a very strong team of the independent Chair and new non-executive directors have been appointed. New ongoing consultative arrangements with a cross-party group of councillors have been established. The Council has appointed the Chief Executive to be the Shareholder Representative on the board and other Council officers attend board meetings in an advisory capacity including the S151 officer, Monitoring Officer and Director of Infrastructure.</p> <p>The commissioning arrangements are established but scope creep is a danger, and some projects have become wider and less focussed than originally intended, increasing the financial risk to both the Council and BCP FuturePlaces Ltd. There is, as a result, reduced focus on the core projects which means they are taking longer to deliver than first envisaged.</p> <p><i>(Extract from BCP Council Assurance Review)</i></p> <p>Both the (former) Leader and Deputy Leader have now resigned from the Board and four independent non-executive directors have now been appointed.</p>			
	<b>Action Points</b>	<b>Responsible Officer</b>	<b>Target Date</b>	<b>Update – December 2023</b>
	Review the operation of the governance arrangements following the appointment of the non-executive directors to ensure governance and structure is effective and fit-for-purpose. <i>(action point based on CMB/Assurance Review)</i>	The Chair/non-executives Chief Executive / CMB	September 2023	As reported in the earlier agenda item reported to this Committee "Council Owned Companies Shareholder Governance Review", the Council took the decision to close BCP FuturePlaces Limited in September 2023 and bring its development and investment activities in-house by the end of March 2024. The report of the Corporate Director of Resources responds to lessons learnt concerning the Council's arrangements for managing BCP FuturePlaces, as well

	<p>The adopted funding regime for BCP FuturePlaces Ltd contains risk for both parties, which could be reduced by a mixed model of funding.</p> <p>The Council should consider working with BCP FuturePlaces Ltd to identify a new, mixed, funding regime for 2023/24 which would directly cover more of the costs as they are incurred to reduce future risk.</p> <p><i>(from Assurance Review)</i></p>	Chief Executive and Director of Finance	September 2023	<p>as recommendations from the independent governance review (see 8 below) and the self-assessment review of Council companies led by Internal Audit.</p> <p>Therefore, the specific governance issues in relation to BCP FuturePlaces and the actions identified have been superseded. However, the report above seeks to ensure that best practice shareholder governance arrangements operate across all Council wholly or partly-owned entities.</p> <p>The work brought in house has been reviewed and re-scoped to focus on priority projects.</p>
	<p>The Council and BCP FuturePlaces Ltd should work together to consider the scope of regeneration projects being pursued to bring the core projects more into focus and to programme non-core schemes further out to balance the projected workload and pipeline more evenly.</p> <p>The governance and workload review of BCP Future places to be carried out by the new Board will address this issue.</p> <p><i>(from Assurance Review)</i></p>	<p>The Chair/non-executives</p> <p>Chief Executive / CMB</p>	September 2023	

4	<p><b>Delay in the completion of the 2021/22 External Audit</b> – The Council considers that the delay to the completion of the external audit of the 2021/22 statement of accounts to be a governance weakness as this is a key source of assurance. The delay is principally caused by wider sector problems with both auditor capacity and the increase complexity of recent audit requirements.</p> <p>There is a plan in place with external audit to conduct both the 2021/22 and the 2022/23 audits during the same period, summer/autumn 2023. This plan has been, and will continue to be, agreed and reviewed by the Audit &amp; Governance Committee, consequently no AGS Action Points are necessary.</p>			
	<p><b>Update – December 2023</b></p>			
	<p>The 2021/22 external audit of the statement of accounts is not yet finalised. The draft Audit Findings report was taken to Audit &amp; Governance Committee in November 2023 at which time the audit of the financial statements was approximately 90% completed; the main area of work not concluded was in respect of the Pension Fund due to a delay in receiving a response from the auditor of the Dorset Pension Fund. It is hoped this will be completed in early 2024. The audit of the 2022/23 financial statements is also delayed and the timing of this will be reviewed following the completion of the 2021/22 process.</p> <p>The value for money work for 2021/22 and 2022/23 has been completed and reported to Audit &amp; Governance Committee in September 2023.</p>			

5	<b>Mandatory Training</b> - Less than 50% of officers have completed their mandatory training.			
	<b>Action Points</b>	<b>Responsible Officer</b>	<b>Target Date</b>	<b>Update – December 2023</b>
	<p>Managers to review the mandatory training dashboards in SkillGate to ensure full compliance.</p> <p>Managers to provide teams dedicated work time to complete any outstanding mandatory training.</p> <p>Managers whose teams have completed their mandatory training will show as compliant on SkillGate.</p> <p>Managers whose teams who have not completed their mandatory training will show as non-complaint on Skill-Gate.</p> <p>Regular reports on managers compliance will be shared with senior leadership team to ensure that BCP Council is compliant.</p>	Corporate Directors, Directors & SLN	December 2023	<p>Skillgate is now operational and, from August 2023, dashboards are available to show directors and managers their mandatory training compliance rates. All managers have been asked to carry out the action points in order to increase compliance rates. Regular reports are shared with senior leadership team.</p> <p>Internal Audit carried out an audit in November 2023 giving Mandatory Training a 'Reasonable' assurance opinion, with 1 medium and 1 low recommendation.</p> <p>Compliance rates are continuing to rise and are 62.32% as at November 2023.</p>

### **Consideration of additional potential significant governance issues**

7. The AGS conclusion is required to cover the year ending 31st March 2023 but also "...to the date of the audited publication of the Statement of Accounts." To this end the Council should consider amending the AGS, should the passing of time reveal any new significant governance issue and that issue likely existed in the relevant period covered by the AGS, in this case up to 31st March 2023.
8. Since the approval of the pre-audited AGS in July 2023, the Council has received the Department for Levelling Up, Housing & Communities' external assurance review and Best Value Notice (August 2023). The external auditor's Annual Report (2021/22 and 2022/23) was also received in August.
9. Whilst a range of governance issues were identified in the various reviews and reports, there are no additional 'significant governance issues' meeting the criteria for inclusion in the AGS. This was because they had:
  - already been included in the AGS (e.g. in the BCP Council Assurance Review led by the Chief Executive)
  - not been included because they did not meet the criteria of a 'significant governance issue'. Were governance weaknesses where improvements could be made (e.g. appointment of independent members to the Audit & Governance Committee - action has been taken in this case).
10. No comments were received in relation to the AGS as a result of the public inspection of accounts.
11. The Council has fully committed to address the issues raised as part of the DLUHC review and Best Value notice (see Table 1, item 1).

### **Update against compliance with the Financial Management Code**

12. As required by best practice, the 2022/23 AGS also considered progress towards compliance with the Financial Management Code (FM Code), which provides guidance for good and sustainable financial management. The updated self-assessment reported in July concluded that BCP Council was compliant with the FM Code, with a number of opportunities for further improvement remaining.
13. Table 2 shows that progress continues against the FM Code, with two issues now addressed (recommendation 1 and 3). The implementation of the new finance system will facilitate the full implementation of two further issues. Full implementation of the remaining recommendation (2) is contingent on the delivery of the Corporate Landlord Model.



**Table 2 - showing Update against Actions required to achieve full compliance with Financial Management Code:**

	Issue	Recommendation	Update – December 2023
1	The Children's Services capital strategy is under-developed with no new projects included in the 2021/22 programme and a residual programme of less than £1million in future years.	A Children's Services capital strategy and detailed plan to be prepared - aiming for Cabinet in July 2021 and going forward to be refreshed annually as part of the February budget report.	<b>Implemented (June 2022)</b>
2	An analysis of the overall capital requirements of the council's estate is not yet in place to inform a capital strategy or estate management arrangements. This is in progress supported by consultants.	The physical estate needed to support future service delivery and corporate objectives should be established alongside future estate management arrangements to determine an appropriate corporate landlord model for the council. Capital strategy to be informed by the review.	<b>In progress</b> - Progress towards the Corporate Landlord Model was part of the Asset Management Plan (light) agreed as part of the 2023/24 Budget. This included a series of specific actions designed to improve the Council's asset management arrangements and move towards the agreed virtual Corporate Landlord Model.
3	The Council involves a range of stakeholders in setting the annual budget, this includes specific consultation on service-based savings plans but not general consultation with residents.	Consideration of whether the budget process would be enhanced by any additional consultation processes.	<b>Implemented (June 2023)</b> – Update for December 2023 - The Council recently ran a consultation exercise which closed in December in support of the 2024/25 proposed budget.
4	The Council undertakes regular reporting of key elements of the balance sheet such as projected reserves and transformation costs in quarterly Cabinet reports. Collection fund, bad debt provision and collection rates are reviewed periodically.	Determine if further balance sheet and other items (e.g. procurements undertaken) should be monitored by CMB.	<b>In progress</b> – The financial reporting arrangements continue to evolve in support of the investment in the new Microsoft Dynamics F&O system. Quarterly budget monitoring includes updates on the achievement of savings, reserves, and progress on the Dedicated Schools Grant. As part of the financial strategy supporting the 2024/25 budget a fundamental review of the council tax and business rates collection funds has been undertaken.  Future consideration will be given to how the monthly monitoring of council tax and business rates collection rates can be included in the report.

5	<p>The detail of fixed assets for accounting purposes is maintained on spreadsheets with the inherent risk of data corruption or loss going undetected with little system reliance. There is no link with the subsidiary systems that provide other asset management information.</p>	<p>The main accounting systems, including for fixed asset recording, is an early work package for the strategic investment partner and will take time to implement.</p>	<p><b>In progress</b> - The new system implemented from 1 April 2023 includes a fixed asset accounting module and will be used for the 2023/24 accounts. The records held on spreadsheets as at 31 March 2023 have been migrated to the new system where they will be maintained going forward.</p>
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**Options Appraisal**

14. An options appraisal is not applicable for this report.

**Summary of financial implications**

15. There are no direct financial implications from this report.

**Summary of legal implications**

16. There are no direct legal implications from this report.

**Summary of human resources implications**

17. There are no direct human resources implications from this report.

**Summary of sustainability impact**

18. There are no direct sustainability impacts from this report.

**Summary of public health implications**

19. There are no direct public health implications from this report.

**Summary of equality implications**

20. There are no direct equality implications from this report.

**Summary of risk assessment**

21. There are no direct risk implications from the report. However, failure to improve the governance arrangements in the areas identified will mean those risks are not addressed.

**Background papers**

Annual Governance Statement 2022/23 (Audit & Governance Committee 27/7/23)

**Appendices**

There are no appendices to this report.