Grant Thornton

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

2021/22 and 2022/23

31 August 2023

Contents

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to satisfy ourselves that the Unitary Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the National Audit Office (NAO) 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 Unitary Authorities arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed for the purpose of completing our work under the NAO Code and related guidance. Our audit is not designed to test all arrangements in respect of value for money. However, where, as part of our testing, we identify significant weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose all irregularities, or to include all possible improvements in arrangements that a more extensive special examination might identify. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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 Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Auditors are required to report their commentary on the Council's arrangements under specified criteria and 2021/22 and 2022/23 are the second and third year respectively that we have reported our findings in this way. As part of our work, we considered whether there were any risks of significant weakness in the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources.

This report reflects our findings and judgements as at August 2023, but remain open to revision whilst our 2021/22 and 2022/23 financial statements audits conclude. Our conclusions are summarised in the table below.

Criteria	Risk assessment	2021/22 Auditor Judgment		2022/23 Auditor Judgment	
Financial sustainability	Risks identified relate in the main due to uncertainties in relation to the Councils Medium Term Financial Plans and associated transformation programme and delivery of savings.		2 Significant weaknesses in arrangements identified (SW1) and (SW2), 2 key recommendations and 4 improvement recommendations made.		2 Significant weaknesses in arrangements identified (SW1) and (SW2), 2 key recommendations and 4 improvement recommendations made.
Governance	Significant risks identified in Governance in relation to leadership, partnerships and the Transformation programme		No significant weaknesses in arrangements identified, 7 improvement recommendations made		1 Significant weaknesses in arrangements identified (SW3) , 1 key recommendation and 7 improvement recommendations made
Improving economy, efficiency and effectiveness	Risk identified because of the inadequate rating issued by Ofsted in respect of children in care		2 Significant weaknesses in arrangements identified (SW4) and (SW5), 2 key recommendations and 2 improvement recommendations made		2 Significant weaknesses in arrangements identified (SW4) and (SW5), 2 key recommendations and 2 improvement recommendations made

No significant weaknesses in arrangements identified or improvement recommendation made.

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

Significant weaknesses in arrangements identified and key recommendations made.

Given the number of significant weaknesses reported across both years and the seriousness of the challenges facing the Council, we would expect to see significant improvements in arrangements going forward and do not rule out the need for a statutory recommendation in the future should arrangements not improve.

Executive summary

Financial sustainability

In our 2020/21 VFM report we concluded that the Council's arrangements for ensuring financial sustainability were not good enough. On this basis we concluded that the Council did not have arrangements in place for ensuring financial sustainability into the medium term.

Our 2021/22 and 2022/23 review of the arrangements in place to ensure financial sustainability into the medium term continues to raise serious concerns about the continued financial viability of the Council.

Despite delivering revenue surpluses in both 2021/22 and 2022/23 the Council has continued, in our view, to adopt a high-risk alternative funding strategy to deliver transformational efficiencies, minimise council tax increases and avoid significant cuts to services that is not achieving the desire outcomes. This high-risk approach, reliant on the use of reserves to support the budgets, has resulted in the further depletion of revenue reserves as expected efficiencies from the transformation programme are not realised in accordance with the original timetable and are pushed back into later years.

For both 2021/22 and 2022/23 we have reported 2 significant weaknesses (SW1 and SW2) in the Council's financial sustainability arrangements.

Firstly, in relation to the Council demonstrating a clear understanding and control of its medium-term financial gap. Our concerns centre on the Councils ability to set a credible and balanced Medium Term Financial Strategy that properly reflects the spending power at its disposal (SW1). Concernn over the capacity of the Council to deliver services to the current level is driven by its ability to transform its service in the context of reduced reserves and balances, undelivered transformation and operational savings, increasing unit costs and service demand. Although it is difficult to gauge the true extend of transformational savings and efficiencies to date, it is clear that the transformation programme is not progressing at sufficient pace but is increasing rapidly in costs.

Secondly, we have reported a significant weakness (SW2) in respect of the Council's medium-term plans for its General Fund Balances and Earmarked reserves. Despite an increase in General Fund Reserves in 2022/23 the level of earmarked reserves continues to fall. The Council must continue to review the sustainability of Reserves and Balances and ensure the Medium- term Financial Strategy demonstrates a realistic plan to avoid further use of and ideally replenish reserves and balances to a healthier level.

On this basis we have concluded that for both 2021/22 and 2022/23 the Council does not have arrangements in place for ensuring financial sustainability into the medium term. We have also detailed 4 improvement recommendations for both years subject to review.

<u>2021/22</u>

As at the 31 August 2023 our work on the Council's 2021/22 financial statements are in progress. We anticipate concluding our work by the end of November 2023 at the latest.

<u>2022/23</u>

We will review the timing of our 2022/23 post-statements audit once the work on the 2021/22 financial statements is complete.

Executive summary

Governance

For 2021/22 we found no evidence of significant weaknesses in the Council's governance arrangements for ensuring decision making is based on complete and accurate information and risks are managed appropriately. However, although not explicitly identified from our work for 2021/22, we were aware of concerns regarding the decision making process in place at the Council, specifically overtly administration lead decision making that may not always have had sufficient regard to advice from statutory officers.

These concerns came to our full attention in 2022/23 as part of the 2023/24 revenue budget setting round. Concerns were raised by statutory officers in respect of possible late amendments to the indicative 2023/24 budget culminating in us needing to intervene an issue a formal letter to the Chief Executive and S151 Officer to ensure that decision making by the administration had proper regard to governance best practice.

Although this was not a formal use of our auditor statutory powers, we were sufficiently concerned over the possibility of late amendments without appropriate due diligence to take the unusual step of issuing this formal letter. On this basis we have concluded that there were, for 2022/23, significant weakness in the council's governance arrangements In addition, we identified 7 improvement recommendations covering both years.

Improving economy, efficiency and effectiveness

As with our findings in 2020/21, we are also reporting a significant weakness in relation to Council's capacity to improve economy, efficiency and effectiveness in respect of children's services. In December 2021, the Inspectorate Local Authorities Services for children (ILACs) inspection concluded BCP Childrens Services were "inadequate". A statutory Direction was issued by the Department of Education (DfE). This inadequate rating remains in place for both years subject to review.

We have also identified a significant weakness in relation to the decision making on specific initiatives including the transformation programme, BCP FuturePlaces and other projects as well as capital projects, particularly pertaining to the process of scrutinising business cases. Further details are provided on pages 38-41.

We also made 2 improvement recommendations in relation to Case management of complaints and the Council Wide People Strategy covering both 2021/22 and 2022/23. Further details are provided on pages 38-41.

Executive summary

Assurance Review (March 2023) & Best Value Notice (August 2023)

Whilst this report raises significant concerns about Value for Money at BCP we recognise that the leadership team are fully sighted on the challenges at hand. The Chief Executive in his 'BCP Council Assurance Review' of March 2023 was very open about the failings around governance, decision making and the financial management. More recently the Council has received a Best Value Notice from DLUHC highlighting many of the issues we report in this and previous VFM reports.

Our ongoing discussions with senior officers and more recently with the new administration indicate a recognition that the Council now must fundamentally revisit its previous decisions and ensure that it changes the way it makes decisions going forward to ensure these concerns are addressed. For the Council to become innovative and forward-looking council, it must demonstrate it can:

A) transform its services in a sustainable and realistic way,

B) accommodate the needs of its stakeholders particularly in relation to Childrens Social Care

C) improve decision ,making to ensure it appropriately considers the relative risks and rewards having regard to both current service provision but also its ability to provide continued services into the medium and long term.

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New administration

We recognise, that since the May 2023 elections and following a change in administration, there have been some early indications of a change in the approach to decision making at the Council with a clear view that the Council can no longer continue on its current path and that a more prudent, cautious approach to governance and decision making is needed.

From a financial management perspective, we take assurances from the recent actions to mitigate some of the immediate financial challenges facing the Council, including confirmation that the Capitalisation Direction is no longer a consideration and provision being made for potential costs associated with the future role of BCP FuturePlaces. Importantly, the July 2023 MTFP update report to Cabinet provided a fundamentally rebased MTFP that now provides a better representation of the scale of the challenges facing the Council into the medium term along with a proposed financial strategy to bring the Council back onto a more sustainable footing. Whilst a good first step, the challenges of actioning the changes required should not be underestimated.

We ae also encouraged by the recent decision by the new administration to review the transformation programme and BCP FuturePlaces and what is deliverable at what cost as well as a more detailed review of current service provision to identify further savings aimed at addressing the underlying deficit that has been masked to date through use of reserves and additional funding from Central Government during the Covid-19 pandemic.

Use of auditor's powers*

We bring the following matters to your attention:

	2021/22	2022/23
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 issue	We did not issue
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	We did not issue
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 apply	We did not apply
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	We did not issue
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 issue	We did not issue

* As the opinion audits for both 2021/22 and 2022/23 remain in progress, the table above reflects our positions at August 2023 and is subject to final considerations following completion of the financial statement audits.

Other communications

We bring the following matters to your attention:

	2021/22	2022/23
Letter to Chief Executive and Section 151 Officer (further detail is provided on page 26-27)	n/a	Letter issued

Over the last 12 months we have maintained ongoing dialogue with both Chief Executive and Section 151 Officer, including regular meetings on the Council's response to our 2020/21 VFM report finalised in September 2022. As part of a meeting in early January 2023 the S151 Officer alerted us to a potential late amendment to the indicative draft 2023/24 budget.

Following further discussions with both the Chief Executive and S151 Officer we wrote to the Council on 10 February 2023 to raise concerns about the arrangements in place within the Council to set the 2023/24 budget to be approved at Full Council 21 February 2023. Although this was not a formal use of our auditor statutory powers, we were sufficiently concerned over the possibility of a late amendments to the then 2023/24 indicative revenue budget proposals worked up over the previous 6 months to warrant the issuing of this formal letter.

Specifically, when the Council formally published its proposed budget for 2023/24 on 1 February 2023 there was no reference to any alternative proposals. Our subsequent discussions with statutory officers, review of the media coverage and press releases, did however, raised continued concerns over the possibility that even at that late stage in the budget setting process, that an alternative proposal from the Leader might be forthcoming. The press release dated 27 January 2023 included the following quote from the then Leader.

'"I will therefore be spending the time between now and our Full Cabinet meeting continuing our long standing workstream to find credible ways, which meet all the respective government guidelines, to raise more income, use our assets and work differently to realise our aspiration of keeping council tax in people's pockets. Being successful in this endeavour would have the added impact of being able to continue to significantly increase our reserves, avoid some of the savings we've identified and invest in new priorities.'

This raised several significant governance and financial sustainability issues. Firstly, from a governance perspective, any last-minute changes would have provided limited opportunities for officers to fully digest the impact of the changes and advise decision makers as to whether the change is in the best interest of the Council.

Secondly, should any amendment have bee of an 'innovative but higher risk' proposal along the lines of others that have been attempted previously, then it would have been crucial, not least given the previous experiences, that proper due diligence was given to the risks and rewards and legality of such a decision. We therefore expressed our significant concern that any last-minute amendment would be introduced without appropriate advice and extra checks and balances to ensure it is in the best long-term interest of the Council.

Of particular concern, was that despite concerns being expressed to the then administration from both the Chief Executive and S151 Officer this course of action remained on the table until the Full Council meeting in February 2023.

Ultimately, no such significant high-risk alternatives were put forward and the 2023/24 budget went through Full Council broadly as proposed. This episode does, however, highlight some of the concerns around decision making and governance highlighted in the governance section of or report.

Key recommendations

In relation to significant weakness (SW1) Financial Sustainability

Recommendation 1

The Council must

A)Undertake an urgent review of the Transformation Programme. Our review found inherent weaknesses in the control and management of the programme, as well as the delivery of savings and management of costs
B)Ensure there is a robust methodology for monitoring and tracking operational and transformation savings and that reporting on actual performance against plan is more transparent
C)Ensure that the transformation programme is fully financed before there are further commitments to the programme are made.

Audit year

2021/22 and 2022/23

Why/impact

A)The cost of the transformation programme has increased from £37.6 in 2021/22m to £57.4m by 2023/24 (53% increase). There is a been lack of transparency as to the factors driving this, and the council has not detailed any mitigations or re-scoping of the programme to address increased costs. Further transformation programme savings for 2023/24 (£9m) and 2024/25 (£15m) have not been itemised and crystallised into delivery plans. It should further be noted that transformation savings are based on the KPMG report 2019. These figures should be revisited and re appraised given increased inflation, and supply chain pressures.

B) Further the 2024/25 Medium- term Financial Plan (MTFP) relies heavily on the delivering an already ambitious savings plan. If this is not achieved, the council will need to resort to reserves and balances. It is not clear from in year and outturn financial reporting which savings have been delivered against budget and the impact on service delivery. This makes it difficult for decision makers to fully understand the performance of the Council in generating savings and the impact on service delivery. We recognise that savings plans were overtaken by events in both 2021/22 and into 2022/23 but this area of reporting will become more critical as the transformation programme advances.

C) In the context of the Council's overall financial position and its financial sustainability, it is imperative that the Council can generate sufficient capital receipts to finance the transformation programme over the 3-year period to 31 March 2025. The current MTFP 2023/24 assumes sufficient sale will be delivered in 2022/23 to avoid all but £1.916m of the capitalisation direction from DLUHC. This is the element which relates to improvement expenditure on children's services which would not qualify to be funded by the Flexible Use of Capital Receipts. However, there is still a key risk to the Council is in respect of any expenditure which it intends to incur before the actual capital receipts required to fund it are delivered. In 2023/24 the council intends to spend £28.39m of transformation expenditure. The MTFP for 2023/24 indicates that it will be challenging to deliver at least £4.3m of the £7.4m originally assumed 2022/23 asset sales, exposing the Council to the risk that reserves will be required to cover the shortfall.

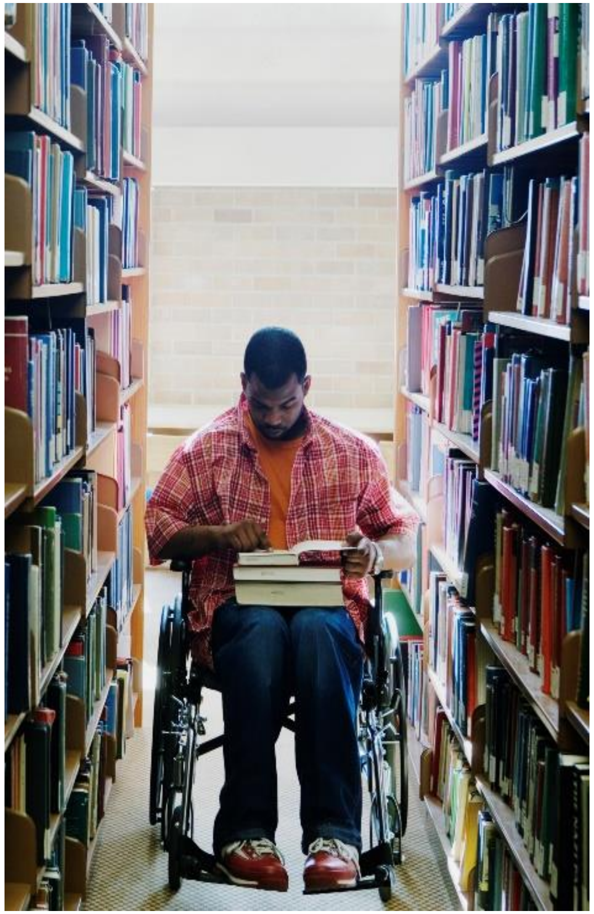
Management Comments

In response to the recommendations of the independent governance review the Council has already committed to review its Transformation Programme and to agree a realistic and deliverable programme. In support of this the July 2023 Cabinet report removed all assumptions around previous savings, transformation or otherwise, and to agree the principle that only evidenced based savings established based on robust delivery plans are to be included moving forward.

Previous budget reports transparently set out the annual movements in the budget for the transformation programme, and the 2022/23 financial outturn report to July 2023 Cabinet provided a specific separate appendix outlining financial performance against budget.

Key recommendations

In relation to significant weakness (SW2) Financial Sustainability



Recommendation 2

The Council must review the continued sustainability of Reserves and Balances and ensure the Medium- term Financial Plan (MTFP) demonstrates a realistic plan to replenish reserves and balance the budget gap in the medium term

Audit year

2021/22 and 2022/23

Why/impact

The council has an underlying deficit driven by the desire to not cut services and minimise council tax increases combined with a delay in transformation programme savings realisation. Despite delivering revenue surpluses in both 2021/22 and 2022/23 it has used £96m in reserves to support the last three years approved budgets (£30m 2021/22, £36m 2022/23 and £30m in 2023/24). We do not consider this a long-term solution to addressing the Councils medium term financial issues. The Council's current un-ringfenced general reserves balance as at 31 March 2023 were £17.9m. The Dedicated Schools Grant (DSG) deficit as at March 2023 was £37m which was currently greater than the Council's un-ringfenced general reserves balance. Further the 2024/25 MTFP relies heavily on the delivering an already ambitious transformation and savings programme. If this is not achieved, the council will need to resort to reserves and balances further depleting them.

Management Comments

The July 2023 MTFP Update report removed all assumptions of previous savings, transformation of otherwise from the MTFP, in addition in each and every year of its existence since 2019 it has thorough its dynamic financial management achieved a positive or better outcome compared to the budget set.

The MTFP assumes that unearmarked reserves will be maintained at the 5% minimum level with an annual contribution of £700k per annum to take account of the increasing cost base.

An accumulating deficit on the DSG is a concern consistently referenced in the budget reports and s25 statements of the s151 Officer. It should therefore be seen as positive that the Council have accepted an invitation to be part of the Department for Education Safety Valve Mechanism.

Key recommendations

In relation to significant weakness (SW3) Governance

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Recommendation 3	The Council must not enter into high-risk ambitious and challenging projects without the proper and full consideration of governance arrangements and ensure they are adhered to. Members must consider all advice from statutory officers and ensure they have the best technical, professional and legal support before considering any high-risk and challenging projects.
Audit year	2022/23
Why/impact	In February 2023 the Council formally published its proposed budget for 2023/24. This budget had been set in line with a more traditional approach to budget setting than previous years (i.e. the beach huts proposal when setting the 22/23 budget). This budget was based on, from our perspective, a more prudent and less risky approach to budget setting and medium-term financial planning, predicated on the use of the maximum increase in Council Tax permitted and a detailed (albeit challenging) savings plan. However, from conversations with the Section 151 Officer and Chief Executive we were made aware that the Administration was considering a late amendment to the indicative budget proposals, and it was a potentially high-risk amendment that would be brought forward. It appeared that this late amendment was being driven forwards by the then-Leader of the Council who made it clear in a press release in late January 2023 that they would be working on ways to increase income and use assets to generate additional income for the Council and reduce the burden on the Council Taxpayer through a reduced uplift in Council Tax for 2023/24.
Management Comments	As referenced this approach was driven by the then Leader who was looking to test the boundaries of Treasury Orthodoxy. The current administration's approach is a more prudent one based on traditional and conventional approaches to local government finance.

Key recommendations

In relation to significant weakness (SW4) Economy, effectiveness and Efficiency

Recommendation 4	The Council should continue to address the weaknesses identified by Ofsted, and the Department for Education (DfE) to ensure all children have access to quality services which meet their needs in a timely manner.
Audit year	2021/22 and 2022/23
Why/impact	The November 2020 findings of a focussed Ofsted inspection of the Council's children's services identified significant failings. A further inspection in December 2021, identified that although some progress had been made There remained too many areas where progress has been neither sufficiently swift nor decisive. Since then, there have been 3 monitoring visit one in June 2022 , a second between the 4 and 5 October 2022 which concluded too many children in the Council were not being kept safe and a third on 21 and 22 March which reported that quality assurance of social work practice continues to improve, however the direct impact on children's lives was yet to be fully realised. A new DfE Advisor and Sector Led Improvement partner (SLIP) was appointed by the DfE to create a strong framework and to guide the necessary improvements, whilst supporting the Council and Children's Services. The DfE intervention did not involve a formal commissioner role but did imply that structural governance of the service was an immediate issue. The DfE steer throughout has been if progress is not effective in the short term, structural intervention, such as a Children's Trust could not be ruled out. The DfE Advisor made it clear in his first report, that there were two critical areas following his assessment for improvement, these included: The state of the services themselves and corporate and political context in which the service operates. Although there has been some improvement in the service, there is still evidence of significant weaknesses in the Council's arrangements for ensuring that it makes informed decisions and properly manages risks in relation to its Children Services.
Management Comments	Improving Children's Services continues to be a priority for the Council as evidenced not just by the extra resources allocated in February 2023 but also the improvement and transformation resources that Cabinet in July 2023 agreed to recommend to Council. These resources have supported the latest feedback which has indicated a positive direction of travel and green shoots of recovery.

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Key recommendations

In relation to significant weakness (SW5) Economy, effectiveness and Efficiency

Recommendation 5

The Council must
A) Ensure it has a robust decision making processes in place for specific initiatives including the transformation programme, BCP FuturePlaces and other service delivery models as well capital projects and small investments. The council must
B) Ensure there is robust scrutiny and a sound business case for selling Council assets to the fund the transformation programme, This should include a fit for purpose mechanism for developing Business Case, financial appraisal models , and sufficient programme management support to ensure programme objectives are identified, project plan are developed, objectives are delivered, and risk /reward and issues are identified and mitigated/enhanced.
C) Establish a regular cycle of reviewing business plans in relation to all its high value and high-risk investments including its subsidiary companies such as BCP FuturePlaces.

Audit year

2021/22 and 2022/23

Why/impact

There have been a numerous concerns in relation to the transformation programme in both the context of costs and delivery of savings. The management of the programme needs to be improved and tangible plans detailing key milestones, and key deliverables need to be circulated to members for scrutiny.

Although the current level of debt held by the Council is significant below the debt threshold it remains critical that any proposals to take on additional debt are robustly scrutinised to ensure they are affordable, prudent, and sustainable. Debt repayment is the first call on any resources generated by the Council, even before the provision of statutory services. Further debt should only be supported where the project is self-funding and is affordable, prudent, and sustainable or would significantly reduce the annual operating expenditure of the Council or generate significant inward investment via government funding.

Any disposal of assets must have a supporting business case and justification. The concern is that Value for money decisions are unlikely given pressure to fund the transformation programme. Whilst there is an immediate need to sell council assets to fund the transformation programme, the council must ensure Value for Money and sound decision making.

The Council does not have a clear business plan for BCP Future Places Ltd and its expectations of how the company would help deliver the Council's regeneration programme. Further there was evidence of scope creep in current projects, and a lack of Council led commissioning in relation the company.

Management Comments (continued on next page)

In response to the recommendations of the government's independent governance review the Council has committed to agree a business plan for BCP FuturePlaces Ltd setting out a clear portfolio of priority projects with a timescale for delivery.

Key recommendations

In relation to significant weakness (SW5) Economy, effectiveness and Efficiency

Management Comments continued

In addition, it should be noted.

- The Chief Executives internal governance review put in place an action to accelerate the governance review of BCP FuturePlaces Ltd and to review the funding model. This recommendation will be further supported by a governance review of all subsidiary companies.
- Council in September 2023, via a recommendation from a July 2023 Audit & Governance Committee, will be asked to agree an almost 50% reduction in the Council's debt threshold.
- All investment decisions are supported by robust business cases. Any asset disposal are first considered by an internal Corporate Property Group which consider the business case and alternatives before then being considered by a cross party asset disposal member working group.

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Securing economy, efficiency and effectiveness in the Unitary Authorities use of resources

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

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

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

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The National Audit Office's Auditor Guidance Note (AGN) 03, requires us to assess arrangements under three areas:

Financial Sustainability

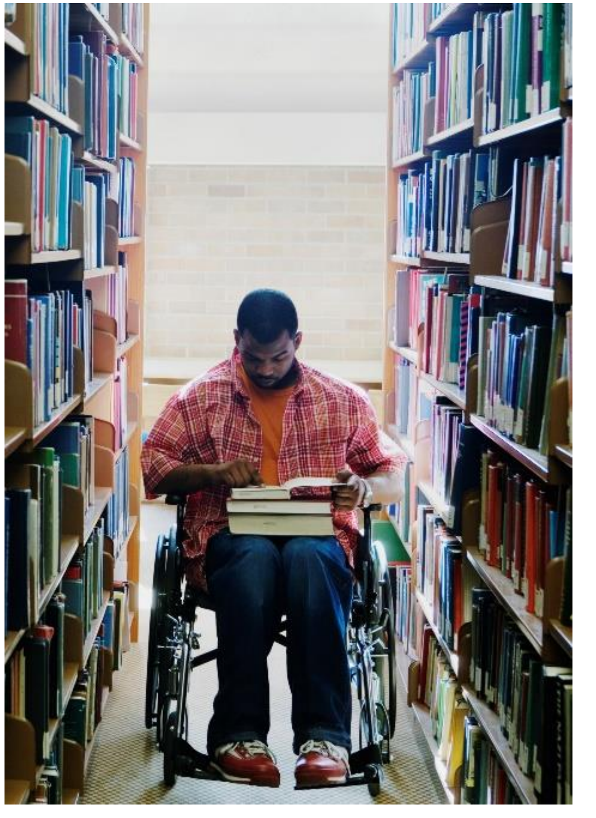
Arrangements for ensuring the Unitary Authority can continue to deliver services. This includes planning resources to ensure adequate finances and maintain sustainable levels of spending over the medium term (3-5 years).

Governance

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

Improving economy, efficiency and effectiveness

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



Our commentary on the Unitary Authorities arrangements in each of these three areas, is set out on pages 16 to 42.

Financial sustainability

We considered how the authority:

- identifies all the significant financial pressures that are relevant to its short and medium-term plans and builds them 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 which may include working with other local public bodies as part of a wider system
- identifies and manages risk to financial resilience, such as unplanned changes in demand and assumptions underlying its plans.

Financial sustainability

In September 2022 we issued our Auditor's Annual Report for 2020/21 setting out our assessment of the BCP's arrangements to deliver Value for Money(VFM). This report concluded that in our view, 'the Council's current arrangements for ensuring financial sustainability were not good enough'. The report went on to say that as of September 2022 "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." On this basis we concluded that the Council did not have adequate arrangements in place for ensuring financial sustainability into the medium term.

This VFM report is for combined years and covers the period 2021/22 and 2022/23. Our 2021/22 and 2022/23 review of the Council's arrangements to ensure financial sustainability into the medium term continue to raise serious concerns about the continued financial viability of the Council.

Despite delivering revenue surpluses in both 2021/22 and 2022/23 the Council has continued, in our view, to adopt a high-risk alternative funding strategy to deliver transformational efficiencies, minimise council tax increases and avoid significant cuts to services that is not achieving the desire outcomes. This high-risk approach, reliant on the use of reserves to support the budgets, has resulted in the further depletion of revenue reserves as expected efficiencies from the transformation programme are not realised in accordance with the original timetable and are pushed back into later years.

We recognise, that since the May 2023 elections and following a change in administration, there have been some early indications of a change in the approach to financial management. We now encourage the new administration to fundamentally review the Council's approach to financial sustainability to include a stock take of the transformation programme and what is deliverable at what cost as well as a more detailed review of current service provision to identify further savings aimed at addressing the underlying deficit that has been masked to date through additional funding from Central Government during the Covid-19 pandemic.

For both 2021/22 and 2022/23 we have reported 2 significant weaknesses (SW1 and SW2) in the Council's financial sustainability arrangements.

Firstly, in relation to the Council demonstrating a clear understanding and control of its medium-term financial gap. Our concerns centre on the Councils ability to set a credible and balanced Medium Term Financial Strategy that properly reflects the spending power at its disposal (SW1). Concernn over the capacity of the Council to deliver services to the current level is driven by its ability to transform its service in the context of reduced reserves and balances, undelivered transformation and operational savings, increasing unit costs and service demand. Although it is difficult to gauge the true extend of transformational savings and efficiencies to date, it is clear that the transformation programme is not progressing at sufficient pace but is increasing rapidly in costs (mainly driven by staff and redundancy costs).

Secondly, we have reported a significant weakness (SW2) in respect of the Council's medium-term plans for its General Fund Balances and Earmarked reserves. Despite an increase in General Fund Reserves in 2022/23 the level of earmarked reserves continues to fall. The Council must continue to review the sustainability of Reserves and Balances and ensure the Medium- term Financial Strategy demonstrates a realistic plan to avoid further use of and ideally replenish reserves and balances to a healthier level.

On this basis we have concluded that for both 2021/22 and 2022/23 the Council does not have arrangements in place for ensuring financial sustainability into the medium term. We have also detailed 4 improvement recommendations for both years subject to review.

Financial sustainability

Financial Performance 2021/22

The 2021/22 budget and MTFP was approved by Council in February 2021 following extensive internal and external consultation. It included several potential risks.

One related to the harmonisation of Council Tax on 1st April 2022, 2 years after the creation of BCP. A Council Tax increase of 1.55% was applied, compared to the 4.99% maximum permitted. The allowable 3% social precept increase was deferred until 2022/23.

The MTFP noted increasing pressures in relation to Adult Social Care due to rapid hospital discharges, the several
41 challenges in relation to delivering children services (discussed further in this report). The budget included £7.5m un-itemised transformation savings and the need for £13.8m capital receipts to fund the transformation programme during 2021/22. In relation to reserves (both un-earmarked and earmarked) were anticipated to reduce by £40m during in 2021/22 primarily to balance the in-year budget position.

The final outturn position for 2021/22 was an underspend of £6.8m, of which £3.3m was carried forward to support the 2022/23 budget and the remainder (£3.5m) transferred to the Financial Resilience Reserve to mitigate the emerging in-year cost of living inflationary pressures. The outturn reflected some significant over and underspends within individual directorates with underspends most notable in the areas of Place, Operations, Adult Services and Childrens Services. Further it should be noted that the Council used £30m of reserves to support the in-year budget position.

In order to balance the budget position for 2021/22 budget the council was required to deliver £20.6m of savings consisting of £13.2m operational savings (including Childrens and Adults), and £7.5m transformation savings. Final outturn detailed that £5.4m (72%) of transformation savings was delivered with a shortfall of £2.1m. However, it was unclear from our review whether the operational savings of £13.2m had been delivered. The inability of the Council to demonstrate whether savings have been delivered and assess the impact of savings on services is regarded as significant weakness in arrangements

Financial Performance 2022/23

As with the 2021/22 budget the assumptions detailed in the 2022/23 budget and Medium-term Financial Plan (MTFP) again contained several inherent risks. The Council agreed to a Council Tax freeze however the Social Care precept of 4% was implemented. The costs of not applying the 1.99% increase on core council tax levels was approximately £4.5m per year reduction in resources available to the Council from April 22. The MTFP also assumed additional income receipts would be generated through a commercial venture [The Beach Huts] to avoid further service cuts. This is discussed in detailed further in this report.

The 2022/23 MTFP set-out that £42m of reserves would be used to support delivery of a 2022/23 balance budget position. It should be noted the council had a stated objective to increase unearmarked reserves from current levels from 5.4% of the Councils Net Expenditure to 6.1% over the next five years. Further the Council's objective was to deliver a surplus during 2022/23 which would then be used to create an earmarked reserve to support of the 2023/24 budget.

The MTFP detailed £13.3m of total savings were required, consisting of £7.9m of transformation savings and £5.4m of service-based savings. At the time, the MTFP being published detailed £4m of the transformation savings were un-itemised and unidentified.

During 2022/23 in-year expenditure controls were implemented with the objective of delivering in year underspends and support the 2023/24 MTFP position. In the draft unaudited 2022/23 outturn report, the Council reported a £10.6m underspend against its 2022/23 budget. This outturn was attributable to some significant over and underspends within individual directorates. Underspends were reported in Place, Operations and Adult Services whilst there was an overspend in Childrens Services. The latter being attributable to service pressures in relation to Looked after Children and £1.5m of unbudgeted expenditure incurred to improve the service without expectations of delivering future budget savings.

This has enabled the Council to avoid the need to evoke the initial government capitalisation direction.

Of the transformation savings £4.7m (60%) was achieved, a shortfall of £3.2m against the original estimate £7.9m. The original £68m transformation investment programme approved as part of the 2022/23 original budget included the intention to charge £6.7m per annum of internal base revenue budget staff costs to the programme which would then be financed through the flexible use of capital receipts. This was reduced by £3.5m to £3.2m in each of the three years 2022/23 to 2024/25 as there was insufficient evidence to justify the recharge staff costs to the programme. We consider this an indicative of the significant weaknesses in managing and deliver the council's transformation and savings programme.

Financial sustainability

As planned. reserves fell by £36m during 2022/23 which were used to support the 2022/23 budget outturn position and detailed in the 2022/23 MTFP. The Council's unearmarked reserves increased marginally as at 31 March 2023 to £17.9m.

The Council's 2023/24 budget, Medium Term Financial Risk and Issues

As detailed on page 8 of this report and later within the governance section, given the concerns raised in prior years the Council adopted a more traditional approach to the 2023/24 budget setting process including the proposed maximum uplift to council tax. However, shortly ahead of full council, the then leader introduced the possibility of some late amendments to the proposed budget which raised Financial Sustainability and Governance concerns. Given the risks of any late amendments without proper consideration we wrote formally to the Council on 10th February 2023 detailing our concerns. Ultimately, no such alternatives were put forward and the 2023/24 budget went through Full Council broadly as proposed.

Whilst we are reassured that the Council's final 2023/24 revenue budget reflects a more traditional and prudent approach to local government budget setting and revenue raising proposals, there are several significant inherent risks to the Council's ongoing financial sustainability. These were also captured in the S151 Officers section 25 report that accompanied the budget. These included:

Savings: The Council needs to deliver £34.6m savings during 2023/24. This figure is almost equivalent to the entire level of assumed savings over the entire last 3 years. These savings proposals include assumptions of significant income generation and a reduction in service-based expenditure. Table 1 details the level of efficiencies and savings the Council is required to make between 2023/24- 2026/27 in order to balance budgets. Further transformation savings were not identified or itemised highlighting the scale of challenge the Council is facing.

Table 1 Medium Term Savings and Efficiencies

MTFP Savings Assumptions	2023/24	2024/25	2025/26	2026/27	TOTAL
Un-itemised Transformation Saving	9.0m	15.9m			24.9m
Scheduled Service based savings (Including Adults and	25.6m	7.5m	2.6m	2.6m	38.3m
Unidentified Adult Social Care savings		1.5m	3.1m	3.5m	8.0m
Unidentified Childrens Savings		4.5m	6.5m	7.0m	18.0m
Total assumed Savings and Efficacies	34.6m	29.3m	12.3m	13.0m	89.2m

Reserves and Balances: The council's reserves and balances could be negative by 2027. Table 2 details the forecast depletion of General Fund Balances due to the risk of non-delivery of savings, and as-yet unmet budget gaps for 2024/25 and 2025/26. The Council is in a precarious situation and could incur negative reserves and a potential Section 114 notice. We have raised this as a significant weakness.

Dedicated Schools Grant (DSG): The current DSG deficit is £37m as at 2022/23. Based on current forecasts, by the end 2023/24, the deficit on the DSG is predicted to be £63.7m. This deficit predominately relates to the expenditure on the High Needs block being greater than the funding available since the introduction of Education, Health, and Care Plans (EHCPs) under the Children's and Families Act 2014.

Table 2 Movement in General fund Balances

Potential General Fund Balances	(£'m)
Balance Forecast as at 31 March 2024	62.6
Un-itemised transformation savings 23/24	(9.0)
Scheduled Service Based Savings 23/24	(25.5)
Revised Balance Forecast 31 March 2024	28.1
Predicted Budget Gap 24/26	(14.6)
Predicted Budget Gap 25/26	(11.9)
Predicted Budget Gap 26/27	(12.0)
Potential General Fund Balances at 31 March 2027	(10.4)

To mitigate against this DSG position, which to varying degrees exists at most other upper tier authorities, the government issued a DSG statutory override by way of a Statutory Instrument (SI) which became law at the end of November 2020. This SI meant the council cannot contribute to the deficit, cannot hold a reserve to act as a counterweight and has been required to move the deficit to an unusable reserve where it will sit as though it did not exist.

Although this currently mitigates the position, and there could be further extensions to this exemption, there is a clear risk to the financial sustainability of the Council when the SI expires in 2026/27, not least given the Council projects an accumulated deficit of up to £160m at this point. 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.

Financial sustainability

The Council has proactively attempted to manage this financial pressure and has a High Needs Block recovery plan and included within the 2021/22 budget £10m 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 necessary to seek to manage this financial pressure given the wider financial challenges facing the Council. 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 the current period. Given the issues detailed above, the Council needs to review the delivery of the 2023/24 budget and ensure it has a robust MTFP process for 2024/25. To enable this the council should commission support from external bodies such as the LGA and/or CIPFA to advise and challenge the Council on its Financial Resilience and sustainability going forward. We understand that CIPFA have now been engaged to undertake a financial resilience review in September 2023.

We recommend the Council continue to engage with the Government nationally, through the Department for Education (DFE) Safety Value Programme, which it is now a member of, to eliminate the deficit through a medium-term transformation plans, short-term funding to support preventative measures.

The Transformation Programme

The transformation programme is the Council's main tool for driving improvement, creating capacity, identifying savings, and streamlining service delivery.

It is an ambitious programme with current implementation costs of £57.4m (detailed in the 2023/24 MTFP) which is a 53% increase from 2021/22 estimated costs of £37.6m.

The programme was initially approved by the first unity Alliance Cabinet and has rapidly increased in scope and ambition since then. The council engaged KPMG to advise on the planning and delivery of the transformation programme 2019. Interviews with Officers' detailed that KPMG's original transformation assumptions in relation to costs and savings were not submitted to committee when the transformation programme was approved in 2019,

In the budget report for 2022/23 the Cabinet, at its meeting on 9 February 2022, agreed that investment in the programme be extended to £67.9m to cover the costs of employees working on the programme who are therefore not available to support day to day or statutory improvement duties, along with investment in data and insight capability and an increase in the programme contingency.

In the 2023/24 budget report in February 2023, the Council reduced the transformation investment programme to £57.4m to reflect a reduction on the annual recharge of internal base revenue costs to £3.2m for three years in line with the evidence base.

Transformation programmes typically set out a range of potential financial benefits and usually councils would use a mid-point to provide a target for savings. The indication for potential savings for BCP has been in the range of £26.7m to £43.8m. The Council was clear in the budget report to Cabinet on 8 February 2023 that due to the increased level of investment in the programme the Council would continue to use the highest end of the range as the basis for financial planning (as it has since 2019).

However, we found the Council had historically struggled to deliver on its transformation saving targets and given the pressures on Childrens and Adults services it is unlikely service- based elements of savings will be achieved without a detrimental impact to the services. We see this as a significant weakness and the Council should review the programme to ensure that cost and savings are realistic, and an achievable programme is developed.

The financing of the programme is detailed further in this report under the sections Capital Flexibilities and Capitalisation Directive.

Capital Flexibilities

As previously noted, the transformation programme is central to the Council's plans to deliver financial sustainability through efficiencies and the avoidance of 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 which the Council sought to address through this programme.

A core element of the financing of this transformation programme was 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 Department for levelling up Housing and Communities [DLUHC]and 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.

Financial sustainability

Working with KPMG the Council explored the option of generating a capital receipts through the sale of the Council-owned beach huts to a Special Purpose Vehicle ('SPV'), wholly owned by the Council. The intention of this proposal was to generate a significant capital receipt (estimated to be in the region of £56m in a report produced by KPMG in December 2021). This capital receipt could then be used under the Flexible Use of Capital Receipts guidance to fund the revenue costs of the Council's transformation programme.

Due to the innovative complex nature of this proposal the Council consulted widely to ensure that the proposed arrangements were allowable under the Flexible Use of Capital Receipts (FUCR) guidance. The proposal was based on a detailed report produced by KPMG setting out the considerations for the Council when taking this course of action. The Council's Section 151 Officer also consulted CIPFA for advice on the proposals. The advice from CIPFA shared with the Council in December 2021 set out that it "would appear to meet the criteria set out in the guidance and direction to be regarded as transformation work which could be funded by FUCR".

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As external auditors to the Council we were approached to comment on both the extent to which different costs could be capitalised under the Capital Flexibilities Initiative as well as to comment on the proposal to sell the beach huts to a Council-owned SPV and the use of the capital receipt under FUCR guidance. We held a series of meetings with the S151 Officer to discuss both these areas and challenged as to whether several 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 huts proposal did appear to be in line with FUCR initiative but that this would be subject to further work on our part once implemented.

Once the Council's proposals around the sale of the beach huts became public DLUHC contacted the Council to discuss the proposal further. We were also contacted by DLUHC to discuss the nature of the Council's proposals. On 16 June 2022 the Minister for Equalities, Local Government, Faith and Communities wrote to the Leader of the Council detailing concerns around the Council's proposals. In this letter DLUHC confirmed that they had concerns around the flexibility not being used appropriately and, although not explicitly disallowed by the direction, the proposals were not in accordance with the spirit and intent of the flexibilities provided. The ambiguity around what constitutes a qualifying asset disposal generating a capital receipt had allowed the Council to treat the beach hut proposal as an asset disposal whilst still retaining some indirect control of the asset. DLUHC indicated in their letter that they were reviewing the guidance and considering whether amendments were necessary specifically exclude this type of proposal.

The potential risks associated with this were 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.

On the 1 August 2022 the Secretary of State for the Department for Levelling Up, Housing and Communities (DHLUC) wrote to all Council leaders informing them of the revision to the Direction to establish that capital receipts used in accordance with the Direction must only be from disposals where the authority does not retain some direct or indirect control of the assets. On this basis the Council could no longer pursue the sale of the beach huts to a SPV and use the capital receipt to fund the transformation programme. This presented the Council with a significant gap in the funding of the transformation programme and put increasing pressure of the financial sustainability of the Council.

This outcome led to the Council exploring alternative mechanisms to fund the transformation programme and a request to DLUHC for exceptional financial support in the form of a Capitalisation Directive.

Capitalisation Direction

On 15 July 2022 the Council applied for a Capitalisation Direction totalling £75m over the next three years. This would allow the Council to borrow money to finance the revenue costs of its transformation programme including an additional £24m to meet the unbudgeted costs of transformation of Adult and Childrens Services.

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. Further these conditions

Financial sustainability

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 was subject to conditions including a full plan addressing the budget gap for 2023/24 and beyond and the requirement for the Council to undergo an external assurance review of its finances and governance arrangements. At this point no decision had been made on further funding beyond 2022/23. The Council has no guarantees that the full capitalisation request will be successful or that an early decision would 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 June 2022 report to Cabinet, the Section 151 Officer recommended 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 new savings proposals. At the time of drafting this report detail proposals supported by business cases have not yet been formed and finalised. There was, however, evidence that the Council has engaged widely, taken expert advice and kept members informed of its plans.

Not presenting a full plan to balance the 2023/24 budget to DLUHC would have jeopardised the Councils ability to achieve the £20m capitalisation direction in 2022/23. This would have meant either additional in-year capital receipts needing to be generated (which the Council are continuing to test the feasibility of achieving) or utilising the resources currently supporting the balancing of the 2023/24 budget. The second of these would impede the ability to set a legal, balanced budget for 2023/24. Associated with this would have been at least the possibility of direct government intervention in the council. The "minded to" £20m capitalisation direction for 2022/23 was subject to an external finance and governance review.

DHLUC issued their report in August 2023, and it concluded that the Council's Medium Term Financial Plan (MTFP) and budget, as currently agreed is unrealistic. It is predicated on the delivery of an overly ambitious transformation programme both in terms of levels of savings and timescales for delivery. As detailed in this report we concur with the findings in the report.

The Council during the 2023/24 budget setting process agreed not to utilise the £20m Capitalisation Directive, but instead use Capital receipts to fund the Transformation programme. This is detailed further below. Avoiding the need for this capitalisation direction is seen as an early sign of a more sensible and appropriate approach to financial management at the Council.

Capital Receipts

In the context of the Council's overall financial position and financial sustainability, it is imperative that the Council generate sufficient capital receipts to finance the transformation programme over the 3-year period to 31 March 2025.

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There is still a key risk to the Council in respect of any expenditure which it intends to incur before the actual capital receipts required to fund it are delivered. In 2023/24 the council intends to spend £28.4m of transformation expenditure which it plans to finance from capital receipts.

Current monitoring (as at August 2023) indicate that it will be challenging to deliver at least £4.3m of the £7.4m originally assumed 2023/24 asset sales, exposing the Council to the risk that reserves will be required to cover the shortfall.

The Council's Debt Position

The Council and its legacy authorities had maintained a lower-than-average level of debt which was mainly towards the lower end of the third quartile when compared to other upper tier authorities. As part of the 2021/22 budget, the Council revisited its financial strategy and planned to increase its level of debt in order to refinance capital schemes and release resources to support the General Fund revenue budget. The approach being to borrow in order to finance schemes over the life of the asset, examples being the ICT investment plan, the capital element of the transformation programme, and the Poole Bay beach master plan.

Full Council in November 2022 agreed to increase the Council's debt threshold from £855m to £1.334bn. On a Net Revenue Expenditure basis this moved the council's threshold from the mid-point range compared to upper tier authorities to the top 3rd quartile. There two main drivers for extending the councils debt threshold were:

Financial sustainability

To enable service-based capital expenditure to be financed from debt with the cost spread over the time-period that will benefit from the expenditure.

To support the big plan objective including the delivery of regeneration and housing business cases which will provide an ongoing resource base for the Council, as a minimum, once the borrowing is repaid

Several sizeable schemes were removed from the Councils original 2022/23 Capital strategy particularly those associated with Bournemouth Development Company proposals.

The currently revised forecast detailed in the 2023/24 MTFP including commitments made up to the end of December 2022, detail peak debt of £704m during 2026/27

The Council has agreed not to support any further increase in debt that would impact the General Fund budget through the increased costs of debt. However, this criterion was breached when council took on the debt to fund Royal Arcade development as part of the Town's Fund. The justification, was the investment attracting a sizeable level of inward funding from the Heritage Lottery Fund and Government.

If BCP council had debts of £1.334bn at 31 March 2023 it would have been the fifth most indebted unitary council in England. It should be noted that two of the four local authorities with borrowing in excess of the Council's debt threshold, have now issued Section 114 notices. These councils are now trying to find solutions to their debt levels that they can no longer afford to service, with in one case 25% of current revenue spend being used to service the debt.

Although the current level of debt held by the Council is significant below the debt threshold it remains critical that any proposals to take on additional debt are robustly scrutinised to ensure they are affordable, prudent, and sustainable.

Debt repayment is the first call on any resources generated by the Council, even before the provision of statutory services. Further debt should only be supported where the project is self-funding and is affordable, prudent, and sustainable or would significantly reduce the annual operating expenditure of the Council or generate significant inward investment via government funding.

BCP FuturePlaces

The Council formed BCP FuturePlaces in May 2021 as a wholly owned Urban Regeneration Company operating under the Teckal exemption. The company was established in order to drive regeneration and property market transformation at pace across Council owned sites.

In July 2022 a revised business plan was approved the restructuring of the funding and repayment arrangements between the Council and BCP FuturePlaces. The Council provided BCP FuturePlaces with an £8m working capital loan to cashflow feasibility activity, staffing costs and overheads prior to presenting business cases to the Council for approval. At the point of approval, BCP FuturePlaces would be paid by the Council for the work to date on each scheme. This payment would enable BCP FuturePlaces to repay their debt to the Council, and the Council would be able to capitalise the cost of the professional services related to specific schemes rather than incurring the feasibility costs in the Council's revenue budget.

We have concerns about the new arrangements in that a disproportionate level of risks sits with the Council on two fronts. Firstly, any amounts drawn down from the loan which ultimately proves to be unrecoverable (currently standing just over £2m) will be crystallised into an in-year debt and impact the revenue budget.

Secondly any payments to BCP FuturePlaces for Outline Business Cases that the council does not proceed with will be written off to the revenue. Both instances present significant financial risk for the Council.

Although the Council, as part of its outturn report for 2022/23, has provided for the full amount of working capital loan drawn down to date a fuller assessment is now required. The Council should re- evaluate the role BCP FuturePlaces plays in delivering against the Council's Corporate objectives. As part of this, The Council should ensure there is an equal distribution of risk and reward between itself and BCP Futures, and that the work commissioned by the Council is clearly defined and there is no changes in scope and objectives unless agreed and fully supported by the Council with a clear supporting Business Case. Note we have further commentary on BCP FuturePlaces in the Governance and Improving economy, efficiency and effectiveness section of this report

Statutory Officers

Concerns raised in this report in respect of the appropriateness of financial decision making given the financial challenges facing the Council have arisen despite concerns being expressed by statutory officers to decision makers.

Our review suggests that advice from statutory officers during 2021/22 and 2022/23 was heeded when it aligned with the administration's preferences. However, when such advice raised concerns or risks about a proposed decision it was often overlooked with attempts made to circumvent it.

This has inevitably led to, as set out in the recent Best Value Notice, strained and challenging relationships between senior officers and the previous administration and between different political groups.

Financial sustainability

Support and Advice

The Council has a good track record of obtaining external advice and peer support, where appropriate. The Council engaged a peer review by the Local Government Association(LGA) in December 2022. The review covered the 2 years since inception of the new authority. The review noted that the council still had a significant task to consolidate policies, practice and procedures particularly in relation to harmonisation of pay scales and terms and conditions. Further the review noted that the council need to balance leadership ambitions with a credible MTFP. The issues raised in the Peer Review align with the concerns we have identified in the Council's arrangements in relation to Value for Money.

However, given the issues we have detailed previously, the Council would benefit from commissioning an external review of its financial resilience This would provide support and challenge to the MTFP and budget process going forward. Both CIPFA and the Local Government Association provide services to Local Authorities around testing financial resilience and Peer to Peer review current arrangements. Of particular focus should be the transformation programme, the management of savings, prioritising and delivering of corporate priorities and providing assurance and confidence in the Council's ability to manage its Financial sustainability

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Improvement recommendation

Financial Sustainability

Recommendation 6	The Council should commission an external review of its financial resilience particularly in relation to the MTFP, the transformation programme and savings necessary to balance the budget, whilst ensuring Reserves and Balances are at sustainable levels.
Why/impact	The Council faces many the challenges. Key to this is delivering a realistic MTF. To enable this the Council will need external support and challenge to the MTFP and budget setting process going forward. Of particular focus should be the transformation programme, the management of savings, delivery of corporate priorities and providing assurance and confidence in the Council's ability to manage it Financial sustainability.
Management comment	The Council has engaged CIPFA to undertake a financial resilience review in September 2023.

Recommendation 7	The Council should re- evaluate the role BCPF plays in delivering against the Council's Corporate objectives. As part of this,. The Council should ensure there is an equal distribution of risk and reward between itself and BCP Futures, and that the work commissioned by the Council is clearly defined and there is no changes in scope and objectives unless agreed full by the Council and support with a clear Business Case
Why/impact	The current model has a disproportionate level of risk sitting with the council, and reward with BCP Futures. Given the challenging financial situation the council is in the current model needs to be reviewed to reflect the
Management comment	In response to the recommendations of the government's independent governance review the Council has committed to agree a business plan for BCP FuturePlaces Ltd setting out a clear portfolio of priority projects with a timescale for delivery. In addition, as part of the Chief Executives internal governance review the Council has committed to a governance review of BCP FuturePlaces Ltd and its funding.

Improvement recommendation

Financial Sustainability

Recommendation 8	The Council should robustly scrutinise any proposals to take on additional debt and ensure it is affordable, prudent, and sustainable. Debt repayment is the first call on any resources generated by the council, even before the provision of statutory services.
Why/impact	Our review noted that the Councils debt threshold had increased to £1.3b. There are several risk associated with this including the increased cost of borrowing to the council, and ensuring sufficient resources are set aside to cover MRP. Any increased borrowing will have an ongoing Revenue implication which will reduce the resources available to delivering statutory services. There needs to be a sound business case for any increase in borrowing and the council needs to ensure VFM and a rate of return on investments. Minimum Revenue Provision (MRP) is the minimum amount which a Council must charge to its revenue budget each year, to set aside a provision for repaying external borrowing (loans).
Management comment	Further to the July 2023 MTFP Update report to Cabinet and the recommendations of the July Audit & Governance Committee, Council in September 2023 will be asked to reduce the councils debt threshold by approximately 50%. This should add a layer of robust scrutiny and challenge to any further significant debt based business cases as they will now also need to be presented to the Audit & Governance Committee to agree Council being asked to in the threshold and take on the associated borrowing.

Recommendation 9	The Council should consider being a part of the Central Government Safety Value initiative in relation to High Needs Placements to help mitigating the Dedicated schools grant deficit.
Why/impact	The Council needs to consider the future risks and current costs associated with continued growth of the DSG deficit. Our review noted that the whilst the Council's management information in respect of DSG was good, and there was 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. . Due to the accumulating deficit on our Dedicated Schools Grant, BCP Council is projected to have negative reserves by the 31 March 2024. This means that all things being equal the s151 Officer would be required to issue a s114 report for the 2023/24 financial year.
Management comment	On behalf of the Council the Chief Executive, in September 2023, agreed an invitation to be part of the government's safety valve mechanism.

Governance

We considered how the Unitary Authority:

- 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 effective processes and systems are in place to ensure budgetary control; communicate relevant, accurate and timely management information (including non-financial information); supports its statutory financial reporting; and ensures corrective action is taken where needed, including in relation to significant partnerships
- ensures it makes properly informed decisions, supported by appropriate evidence and allowing for challenge and transparency. This includes arrangements for effective challenge from those charged with governance/audit committee
- monitors and ensures appropriate standards, such as meeting legislative/regulatory requirements and standards in terms of staff and board member behaviour (such as gifts and hospitality or declaration/conflicts of interests) and where it procures and commissions services.

Background and Context

Prior to the local government elections in May 2023, BCP had a Conservative led administration but without overall control (35/76). The other political groups were Liberal Democrats (13), Christchurch Independents (7) Poole Engage (5)Poole Independents (5), Bournemouth Independent and Green (4), Labour (3),unaligned (4).

At its inception in 2019 the Council was led by the Unity Alliance, and following two votes of no confidence in 2020 the Conservatives took over as a minority administration. In October 2021 the Conservatives moved to a majority administration. Then in June 2022, following four Councillors leaving the Conservative group the Council once again became governed by a minority Conservative administration. During this four-year period the Council had three different leaders.

Following the local government elections in May 2023 no party has overall control. The Liberal Democrats are the largest party (28/76). The other groups are Conservatives (12), Labour (10), Christchurch Independents (8), Poole People (5),Green Party (5), Independents (3), Poole Engage (2) unaligned (2) and there is one vacancy.

The Liberal Democrat leader has worked with other parties and has formed the Three Towns Alliance which consists of the Liberal Democrats, the Christchurch Independents, Poole People Party and the Bournemouth Independent Group. This is now the new administration and Councillor Slade was elected Leader of the Council at the Council meeting on 23 May 2023.

Leadership and Governance

We noted in our review that the Council continued to struggle to establish effective governance arrangements. This was apparent with member-to-member and sometimes member to officer relationships which were adversarial.

During our interviews with Officers, there were descriptions of relationship with members as “toxic” and “unpleasant”. Members were unwilling to listen to advice from officers, and becoming very involved in the operational management of the Council.

A contributing factor was Council’s Members having diverging views and opinions, and reaching consensus on the practical implementation of good governance was very difficult.

There were several complaints about the way that Councillors have used social media and a high number of complaints made to the Standards Committee. The Standards Committee met 15 times since mid-2019 to hear complaints against Councillors.

On occasions Member complaints have had to be reported to meetings of the full Council as Councillors have failed to abide by the sanctions agreed by the Standards Committee. Many more complaints have been dealt with under the informal process permitted under the Constitution and determined by the Chair in consultation or resolved informally by the Monitoring Officer under her delegated powers.

As the appointed auditors we have received a large number of communications from the public over decision making at the Council.

Governance

Some of these communications have touched on several of the concerns raised in this report.

Council meetings have often been contentious and there have been some very acrimonious meetings and debates that have taken place. We recommend a programme of mentoring, training and development for members on The Council Constitution, and Code of Conduct , and expected member behaviour particularly to enable cross-party working.

We reviewed Overview and Scrutiny (O&S) Committee and noted increased political contention particularly around the structure and frequency of meetings. The two new O&S Committees for Place and Corporate & Community were contentious with focus on carrying out pre-Cabinet scrutiny rather than developing policy and scrutiny of services. We noted that most of the decisions during the two new O&S Committees were taken on party lines however the Health and Adult Social Care, and Children's Services O&S Committees were supported well and across political parties.

Overall, the Standards Committee works well but there have been isolated cases of Members refusing to abide by their findings, resulting in reports to the Council or apologies being requested, Councillor complaints about other Councillors have historically been high in number. This does not indicate strong governance and leadership arrangements are in place and the council must make concerted efforts to mitigate this going forward.

We noted in our review that the Council needs to consider how recommendations go to Full Council for decision and how they are managed and debated.

The level of delegation should be reviewed and the procedure for proposing and seconding recommendations from the Cabinet and other Committees should be simplified.

We recommend the council develop a mechanisms for challenging and reviewing Cabinet and portfolio holder decisions. whilst encouraging opposition and backbench councillors to participate in governance.

Senior Management Team

There has been significant turnover within the senior management team since the Council was established in 2019. A new structure has been adapted to respond to developing circumstances and pressures. The senior team is now made up entirely of permanent appointments who have been in place since 2022/23. Whilst the Chief Executive and Section 151 Officers are capable of supporting the Council through these challenging times, the expertise within the wider leadership team is untested with a number of newer appointments with less experience of working in such a complex and political environment. A strong development training programme, including coaching and mentoring for all Directors would be appropriate to ensure they have experience as a team to deal with the challenges ahead.

The Budget Setting Process

As detailed in the Financial Sustainability section of this report, when setting the 2022/23 budget the Council, via its strategic advisors, devised a mechanism to generate a capital receipt from the sale of beach huts to a wholly owned company and use the proceeds to fund revenue costs of transformation under the Flexible Use of Capital Receipts direction.

At the time of this Council sought advice from both their advisors and from us as external auditors on the appropriateness of this. It was deemed that the proposal was within the technicalities of the guidance.

However, there was an intervention from DLUHC around concerns that the flexibility was not being used appropriately. This led to DLUHC reviewing the guidance and the Council having to adjust budget proposals for the 22/23 budget.

Although this was a high-risk proposal and ultimately required DLUHC to intervene the Council did consult appropriately on the matter and adhered to the altered guidance set out by DLUHC.

However, the initial proposals were predominantly driven by the then-Leader of the Council with the aim of increasing income to maintain service provision whilst minimising any need for council tax increases. This may well have benefit service recipients in the short term but the disposal of such an asset would have implications for future revenue streams and the ability of the council to balance the books into the long term. We are concerned that such decisions may not always have full regard to the risk of future council taxpayers and may be based on short term benefits at the expense of long-term sustainability.

This event was a pre-cursor to a more significant situation in 2022/23 that ultimately led to the resignation of the then-Leader.

On 1 February 2023 the Council formally published its proposed budget for 2023/24. This budget had been set in line with a more traditional approach to budget setting than previously (i.e. the beach huts proposal when setting the 22/23 budget). This budget was based on, from our perspective, a more prudent and less risky approach to budget setting and medium-term financial planning, predicated on the use of the maximum increase in Council Tax permitted and a detailed (albeit challenging) savings plan.

Governance

However, through conversations with the Section 151 Officer and Chief Executive we were made aware that the administration was considering a late amendment to the indicative budget proposals, which was potentially a high-risk amendment that proposed to be submitted. It appeared that this late amendment was being driven by the then-Leader of the Council who made it clear in a press release in late January 2023 that the administration would be working on ways to increase income and use of assets to generate additional income for the Council and reduce the burden on the Council Taxpayer through a reduced uplift in Council Tax for 2023/24.

At this point we identified several concerns with this approach being taken by the Council and the then-Leader. From a governance perspective. We formally wrote to the Council on two major concerns;

1. Given the last-minute nature of the proposed amendments to the budget, officers had limited opportunities to fully digest the impact of the changes and advise decision makers on whether the change was in the best interest of the Council. At the same time, senior Council officers had communicated concerns to us over the nature of the late change being proposed.

2. The proposed amendment was identified as being 'innovative and high risk' with it involving a proposed income strip of a Council-owned asset to generate a capital receipt and ongoing revenue stream for the Council. Given the Council's previous attempts around innovative mechanisms to generate income and support the financial position (most notably the beach huts propose from 2021.22 – see above) appropriate due diligence of the proposal was crucial. From our perspective there was no clear evidence that the due diligence had been undertaken and the decision had been subject to appropriate scrutiny.

Overall, our perspective was that any proposed amendment to the 2023/24 budget that was considered 'innovative but higher risk' was unlikely to be subject to appropriate diligence and review, with Members required to consider the proposal at short notice and with limited risk assessment. We identified this as a risk to the future financial sustainability of the Council due to the risk of entering this projects without the proper and full consideration that good governance require.

As a result of these concerns, we wrote a letter dated 10 February 2023 to the Chief Executive and Section 151 detailing our concerns and our consideration of the applicability of our additional powers and duties as external auditors of the Council. We asked that this letter was taken to the Audit & Governance Committee on 16 February 2023 to discussed the issues raised. We received a response from the Chief Executive and Section 151 Officer of the Council dated 6 March 2023 detailing the considerations the Council had given over the matter raised in our letter. The letter detailed that our concerns had been discussed at the February 2023 Audit & Governance Committee meeting and that the formal approval of the budget made by the Council on 21 February 2023 did not include the high-risk alternative funding strategy identified by the (now previous) Leader of the Council. The 2023/24 budget, whilst remaining challenging, was based on traditional and conventional approaches to local authority budgeting.

Between our letter being issued to the Council and the 2023/24 budget being approved by Council the Leader of the Council resigned from post. In his resignation statement he referenced the intervention by us in relation to the 2023/24 budget proposals.

Despite the outcome that was reached and the 2023/24 budget not including the proposed alternative income generating approach we consider there to be a significant weakness in the Council's governance arrangements during budget setting.

Without our intervention and the intervention of the Chief Executive and the Section 151 Officer there was the real risk that the then-Leader would have forced through this high-risk proposal into the 2023/24 budget. This could have exposed the Council to significant financial risk.

It should be noted that the S151 and the CE worked hard to provide balanced and sensible advice to the then administration. The Section 25 report from the S151 Officer setting out his assessment of the robustness of the annual budget and the adequacy of reserves supporting the budget for both 2022/23 and 2023/24 were very explicit about the risks facing the council.

The specific risk associated with the then-Leader of the Council has been mitigated through the change in Council leadership, and subsequent change in overall control, but we still consider this weakness in arrangements to be reflective of a wider underming of statutory officer advice if it was not viewed as consistent with the preferences of the then administration. On this basis, we consider there to be significant deficiencies in the governance in operation at the Council during 2022/23.

Further through our interviews with the monitoring Officer, the Council does not have a Budget Policy Framework linking the budgets to the Council's priorities as detailed in the Corporate plan and Big Plan. We are recommending that this is developed and agreed as part of the Councils' constitution.

Governance

This will be or particular importance during 2023/24, and the council should implement this so as the 2024/25 budget can be developed in the right context and on a sound basis.

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 14 risks included at 31 March 2022, together with mitigations and further actions. The number of risks at 31 March 2023 had increased to 22. 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 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

We reviewed the risk register as at March 2023 particularly item Risk CR9 – Failure to maintain a safe and balanced budget for the delivery of services an noted it detailed the risk associated with the MTFP position going forward, however the mitigations appeared limited in scope and urgency.

We also noted that the register included CR13 a 'failure to deliver the transformation programme' and reported that Good progress has been made with all key workstreams moving into their "Construct" phase, several key deliverables have been signed off for the base builds of the Customer Digital "Front Door" and the Master Data

Management software forming part of the Data & Insights technology. In relation to mitigation, that the programme is "to be developed during mobilisation of the full programme following appointment of the Strategic Implementation Partner (SIP)" that the programme itself is in a very formulative stage. Again, we are concerned that this does not reflect the true position of the transformation programme given the un-itemised savings and the rapid increase in transformation costs.

Internal Audit Function

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. During 21.22 All Service directorates had some form of audit coverage during 2021.22 and a high percentage (86% - 68 out of 79 audits) of the original audit plan was completed. This was slightly under the 90% target.

During 2022/23 67 Audits were carried out. In summary, 1 'Substantial', 49 'Reasonable' and 7 'Partial' assurance level opinions were given during the year. Additionally 8 consultancy and 2 follow up reviews were also carried out during 2022/23. There were no Minimal assurance opinions given for any of the audits. Whilst the 'Partial' opinion audits are reported during the quarterly reporting to Audit & Governance .

The Chief Internal Auditor annual audit report detailed that during 2021/22 and 2022/23 arrangements were in place to ensure an adequate and effective framework of governance, risk management and control (internal control environment) and that where weaknesses were identified there was an appropriate action plan in place to address them

Corporate Strategy and the Big Plan

The Council has two separate strategic plans , "The Big Plan" and a Corporate Strategy . 'The Big Plan' sets out five big projects that the Council states will 'deliver big changes across the whole area and support the creation of 13,000 jobs'. The Big Plan is primarily focused on regeneration and place. The Council also has a corporate strategy which sets out the Council's vision, mission, ambitions, priorities and values.

From our review we could not see a cohesive link between these plans. Officers detailed how this led to confusion particularly in relation prioritising and delivering services. Further the Big Plan had not been formally approved by Council. We recommend both plans are summarised into a single cohesive document which will set out one coherent vision for the organisation and the key objectives it will deliver.

Governance

This will simplify the strategic framework of the Council and will help to guide the key priorities for services and financial planning.

The Transformation Programme

The Transformation Programme sets out the ambitious plans for creating a new, single operating model which will help the Council achieve its strategic vision. The Programme was initiated by the Unity Alliance and has been continued by the Conservative Administration. We noted in our review the lack of strategic engagement and communication with members. This is critical given the size, nature, risk and issues associated with the programme and how critical it is to the Council's Financial stability.

BCP Future Places

One area of concern related to BCP Futures places. In May 2021, following an external review of the regeneration opportunities and the Council's capacity, the council approved the formation of BCP FuturePlaces Ltd, ("FuturePlaces") a wholly owned Urban Regeneration Company (URC), operating under the Teckal exemption. BCP FuturePlaces was created to drive "Place Making", regeneration and property market transformation at pace across key sites owned by the Council and the wider area to support the aspirations set out in the Council's Big Plan.

The governance of the BCP Futures has been a matter of significant concern. The Leader and Deputy Leader were both appointed to the Board. We consider to be poor practice for the Chair and Vice Chair of a council company to be the Vice Chair and Chair respectively of the Cabinet to whom the company is accountable. Further Members need to have visibility and clarity of the work commissioned by the Council in relation to BCP Futureplaces.

Note we have made further comments on BCP Futures in Financial sustainability and improving Efficiency effectiveness and Economy sections of this reports

Budgetary control

There are 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.

The Council published an online budget books to allow transparency and scrutiny of spending at a service line level. The budget papers issued by the Council reflected both the national and local position and outlook and reflecting on the uncertainty inherent within the process, along with details on the assumptions that underpinned the budget.

Also included was detail on the Council's capital strategy and its funding mechanisms, along with separate budgets for the Housing Revenue Account. 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 reports from the S151 Officer for both financial years was clear in relation to the risk and issues facing the council,.

Further Councillors and officers continue to maintain a robust financial management culture and continue to implement constant, vigilant, and strong financial management to ensure any variations from budget are actively managed.

However, in our review we noticed the lack of transparency in relation to operational savings and evidence they were delivered, in both 2021/22 and 2022/23. Further there was a lack of operational plans and oversight on transformation cost and savings This is a significant weakness and has been detailed in the Financial sustainability part of this this report.

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. 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 since inception 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.

Governance

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. As discussed earlier in this report. The Council needs to consider how recommendations are submitted to Full Council for decision and how they are managed and debated. The level of delegation should also be reviewed and the procedure for proposing and seconding recommendations from the Cabinet and other Committees should be simplified.

Audit & Governance Committee

The Council's Audit and Governance Committee consisted of 11 members in 2021/22 and 9 members in 2022/23. There is no statutory requirement to determine the numbers, CIPFAs guidance Audit Committee Practical Guide for Local Authorities and Police recommends that authorities should strive to have not more than eight. The council is generally slightly over with 9 members.

However, the council does not have any independent members of the Committee. This will help mitigate the historic political instability with the Council and also ensure continuity between changes in administration. Further CIPFA endorses this approach of including lay or independent members and we have raised this as an improvement recommendation.

Improvement recommendation

Governance

Recommendation 10	The Council should A)ensure that the transformation programme is clearly visible to Cabinet, Scrutiny and members, and progress on delivery of the programme , its associated costs, and savings delivered are reported to members on a quarterly basis B)Establish a separate portfolio for Transformation (including Council wide savings programme). Members need to have clear visibility on the programme and how it is progressing and tangible evidence that savings are being delivered, milestones are being achieved and a return on investment is being made. C)Ensure greater visibility and transparency in relation to delivery of savings particularly in the quarterly finance and performance reports to Cabinet and the annual MTFP report and budget setting process
Why/impact	Our review identified weaknesses in reporting and management of the transformation programme and reporting progress on delivery of the programme itself and the savings to be delivered. The Transformation Programme is critical to the ongoing Financial Sustainability of the Council as well as being a substantial investment. It should be clearly visitable throughout the Council Both Officers and Members need to be fully aware of the progress on delivering savings within the Council and the impact savings have on service delivery and outcomes. We found a lack of transparency in relation to savings programme and the progress made on delivering savings and impact on services. This could be facilitated by using dashboards with rag ratings, risk and issues logs and clearly mapped to Corporate Priorities. Given the scale and ambitions of the programme it requires keen member oversight to ensure strategic priorities are delivered, and ensure council is making a return on its investment. There has been a lack of member oversight and visibility on the transformation programme particularly in relation to increasing costs and the timely delivery savings.
Management comment	Post May 2023 a cross party member working group has now been established to provide oversight of the transformation programme. In addition, the Leader of the Administration has appointed a separate Portfolio Holder for Transformation. Quarterly budget monitoring reports from 2023/24 onwards include, in the body of the report, a summary of savings achieved against the original budget supported by a more detailed and transparent appendix which shows progress against each and every one of the assumed savings.

Improvement recommendation

Governance

Recommendation 11	The Council needs to ensure all Cabinet members, have a rolling programme of induction and training. Further members should have contact with formal coaches or mentors, who should be experienced local government leaders.
Why/impact	Leadership and tone from the top has been lacking with particularly contentious committee meetings and poor member behaviour. There are very few mentoring arrangements in place for members and this needs to be reestablished after the local elections in May, working with the LGA, CIPFA etc
Management comment	A comprehensive member induction programme was put in place in May 2023. All members of Cabinet have been enrolled on relevant Leadership Essentials courses with the LGA and have been offered a mentor via the Group Offices. Chairs of other committees have also been offered professional courses from the LGA and other relevant organisations. The majority of courses are due to take place in Q3 of 2023/24 due to LGA capacity issues and mentoring will continue through 2023/24.
Recommendation 12	The Council should ensure "The Big Plan" and the Corporate Strategy are aligned and there is one single vision statement of the key priorities for the BCP area and how the Council will work to deliver to those priorities.
Why/impact	Our review noted that that there was no direct correlation between the Big Plan and the Corporate Strategy. The Council needs a combined Corporate Strategy and vision for the place and for the Council. That will clarify the key priorities for the Council and will guide the preparation of future budgets. There has been confusion as to the stated ambitions of the administration and financial envelope to deliver these
Management comment	Since May 2023 the new administration and CMB have been working together to develop a new corporate vision for the place and for the Council that will clarify the key priorities for the Council and will guide the preparation of future budgets. A public consultation to support this process has now commenced.

Improvement recommendation

Governance

Recommendation 13	The Council should consider appointing one, ideally two co-opted appropriately qualified independent members to the audit and governance committee.
Why/impact	Our review found there were currently no independent members on the Audit and Governance Committee Inclusion will provide the council with continuity outside of the political cycle and bring a non-political view and approach to committee decisions making
Management comment	Audit & Governance Committee in July 2023 agreed to engage two independent members and the Council has commenced the appointment process.

Recommendation 14	The Council should undertake a Governance review of BCP FuturePlaces. This should include a re- evaluation of the role BCP FuturePlaces plays in delivering against the Council's Corporate objectives and how going forward it ensures equal distribution of risk and reward between itself and BCP Futures. Consideration should also be given to removing officer or councillor representation to leave one or the other, not both, on the same board. The Leader and Deputy Leader should resign from the Board of BCP Future places and be replaced by a suitable independent Chair and Deputy Chair.
Why/impact	We have concerns about the arrangements in place between the Council and BCP FuturePlaces, specifically the disproportionate level of risks sits with the Council .We noted that the leader and deputy leader were on the Board of BCP FuturePlaces This could be deemed a conflict of interest given the council is the companies only customer in effect.
Management comment	In response to the recommendations of the government's independent governance review the Council has committed to agree a business plan for BCP FuturePlaces Ltd setting out a clear portfolio of priority projects with a timescale for delivery. In addition as part of the Chief Executives internal governance review the Council has committed to a governance review of BCP FuturePlaces Ltd and its funding.

Improvement recommendation

Governance

Recommendation 15	The Council should ensure: A)Overview and scrutiny committees should be encouraged to take evidence and contributions from officers as well as portfolio holders, to ensure a more informed approach to O&S recommendations. B)The Overview and Scrutiny it should focus on policy development and engagement rather than functioning as a pre cabinet scrutiny. C) Overview and scrutiny (O&S) committees should continue to increase their focus on policy development and engagement rather than pre-Cabinet scrutiny. D) Council needs to consider the mechanism by which recommendations go to Full Council for decision and how they are managed and debated. The level of delegation should be reviewed and the procedure for proposing and seconding recommendations from the Cabinet and other Committees should be simplified.
Why/impact	A)We found from our discussion with officers there was still a marked reluctance amongst the broader overview and scrutiny committees to ask questions directly of officers and there are regular comments that leading councillors do not give clear answers to questions, but other councillors do not seek that clarity from officers, which they could. The contribution and evidence from officers will lead to improved and more informed decision making at O&S committee. B)Our findings detailed that there has been little movement in the focus of the two new overview and scrutiny committees (Place and Corporate & Community) that have replaced the Corporate O&S Board, with an ongoing focus on pre-Cabinet scrutiny. This had led to inadequate scrutiny and poor policy development and council wide performance C)Our review found there was an opportunity to strengthen the focus of O&S on performance management, through the overview and scrutiny committees. O&S Committees for Place and Corporate & Community are contentious and focus on pre –cabinet scrutiny rather than policy development, and performance reporting
Management comment (continued on next page)	Since May 2023 all O&S Committees have appointed a Chair, and in most cases, a Vice-Chair, from outside of the Administration. Since June there has been a noticeable shift in emphasis within the Council, with officers being invited to contribute on specific issues in Cabinet and this need needs to be extended to O&S committees.

Improvement recommendation

Governance

Management Response (continued)	A full Member induction programme was developed for the post-election period from May 2023 which included a session on Overview & Scrutiny as part of the essential training. The session covered a number of things including the purpose of scrutiny, the role of councillors and how to be a critical friend. The range of inquiry from councillors and the presentation of information by officers in Overview & Scrutiny Committee is much improved and could benefit from additional encouragement and awareness by councillors in asking questions and examining issues Since the elections in May, the administration has sought to restructure Overview and Scrutiny, which will establish a closer link to the Cabinet cycle for one O&S Committee but keeps the other 3 committees removed from the Cabinet cycle. This is due to come before Council in September 2023.

Recommendation 16	The Council should ensure that the risk register reflects the realistic position on the transformation programme and the Councils Financial sustainability
Why/impact	Our review found a disconnect between the risk registers progress report on the transformation programme and Financial monitoring report for both 2021/22 and 2022/23 The delivery of the Transformation programme is essential to the Councils ongoing financial stability in the medium term
Management comment	The Council considers that the risk register does robustly reflect the position in respect of transformation and financial sustainability but will consider if the links can be further strengthened.

Improving economy, efficiency and effectiveness

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We considered how the Unitary Authority:

- 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 and engages with stakeholders it has identified, in order to assess whether it is meeting its objectives
- where it commissions or procures services assesses whether it is realising the expected benefits.

Assurance Review (March 2023) & Best Value Notice (August 2023)

As detailed in the Financial Sustainability portion of this report, during September 2022 the Minister of State wrote to the Council Leader stating that the government continued to have significant concerns about the strategic financial direction of the Council. He required the Council to produce a full plan for addressing its budget gap in 2023/24 and beyond by the end of September 2022. Secondly, he stated that the Council would need to agree to an external assurance review of its finances and governance arrangements. The Council, via a letter from the Chief Executive, accepted the conditions placed on the availability of a capitalisation direction and indicated the Council would engage positively and proactively with the governance review.

Prior to the completion of the external review the Chief Executive undertook an internal Assurance Review (published in March 2023) which detailed several issues within the Council ranging from Political and Financial Governance, Culture and Leadership, Performance, and Capacity and Capability. The report concluded with 33 recommendations and a RAG rating on progression.

In August 2023, the DHLUC issued its Best Value notice, which detailed 8 key recommendations and 11 step roadmap for improvement with target dates for the Council. In relation to both reports our review concurred with the many of findings which are detailed in this VFM report and summarised in our improvement recommendations which this report.

Performance management and areas for improvement

Performance measures, comparing outcomes and outputs with targets, goals and objectives are used across the Council to understand and manage service delivery and identify emerging business risks. The Corporate Strategy which underpins the Council's Big Plan, represents the strategic objectives that the Council has set out to achieve and is a vital framework for the Council's performance management. We noted in Governance there was a lack of alignment between the Big Plan and the Corporate Strategy and detailed an improvement recommendation in relation to this.

Based on the key performance report we viewed between 2021/22 and 2022/23, generally BCPs services appear to perform reasonably well, except for Children's Services which is covered further in this report. However, Officers raised concerns have there had been too much focus on regeneration and particularly the "beech huts proposal at the expense of ensuring the key services improved performance.

The performance of the planning team has been under scrutiny and a Planning Improvement Board has been established chaired by the Chief Executive to drive performance improvements. The 2021/22 annual report of the Local Government Ombudsman shows that the number of complaints dealt with are comparable to those of other similar Councils. Although the Council is performing below the average for providing satisfactory remedies to complaints before they reach the Ombudsman.

Improving economy, efficiency and effectiveness

The Council does not have a centralised case management system for complaints which makes it difficult to get an accurate picture of complaints received or a corporate review of how well complaints are dealt with.

Performance in relation to Children's Services

Since the full inspection by OFSTED in December 2021, the inspectorate reported in February 2022 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 many children and their families.

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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. achieved.

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 several recommendations to try and prevent a Written Statement of Action being issued should an inspection take place. However, this objective was not

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.

A further monitoring visit in June 2022 which focussed on the 'front door' service highlighted continuing concerns. Progress included the appointment of a permanent Corporate Director of Children's Services, but the Council recognised that time was necessary for these changes to fully impact on service.

A second monitoring visit on 4 and 5 October 2022. concluded, at the time of the last inspection, too many children in Bournemouth, Christchurch and Poole were not being kept safe. It was of particular concern that very young children were left in unsafe situations where the risks to their welfare was not assessed or met. The local authority, was supported by an improvement partners to deliver sustainable improvement plan aimed at providing a better-quality service for children.

There was the third monitoring visit on 21 and 22 March 2023 since the local authority was judged inadequate in December 2021. The inspectorate reported that quality assurance of social work practice continues to improve. Practice learning reviews (PLRs) were having an increasingly positive impact on practice. Compared to the last monitoring visit, PLRs continue to identify most gaps in practice, and this was Increasingly translated into actions for social workers and their supervisors, and completed within set timescales, however the direct impact on children's lives are yet to be fully realised.

A new Department of Education (DfE) Advisor and Sector Led Improvement partner (SLIP) was appointed by the DfE to create a strong framework and to guide the necessary improvements, whilst supporting the Council and Children's Services. The DfE intervention did not involve a formal commissioner role but did imply that structural governance of the service was an immediate issue.

The DfE steer throughout has been clear that if progress is not effective in the short term, structural intervention, such as a Children's Trust could not be ruled out. The DfE Advisor made it clear in his first report, that there were two critical areas following his assessment for improvement, these included: The state of the services themselves and corporate and political context in which the service operates.

Although there has been some improvement in the service, the Council's Children's services remain inadequate, leading us to conclude that there is still significant weaknesses in the Council's arrangements for ensuring that it makes informed decisions and properly manages risks in relation to its Children Services

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Improving economy, efficiency and effectiveness

Adults Social Care

In common with many other unitary authorities there are challenges at the interface of health and social care, particularly in terms of hospital discharge and social care. There are challenges with the increased acuity of people being discharged from hospital and the hospital itself is concerned about the numbers of patients well enough to be discharged who remain in hospital

The Council has witnessed unprecedented challenges and pressures in relation to health and social care services, particularly in relation to National Hospital Bed targets of 95% and target discharge of hospital patients. Further consideration needs to be made to strength partnerships working with the health sector and identify efficiencies and cost reductions. The council should strengthen preventative services to prevent increase demand and pressures on high costing residential services

BCP Council has volunteered for a bespoke Safeguarding Practice Review in preparation for the CQC Assurance Framework. This review will look at the delivery of Adult Social Care (ASC) Safeguarding services within the Council. This is critical for ASC and the outcomes will be shared with CQC as part of their assurance visit, as well as with the LGA who have allocated consultancy funding to the Council to support this.

Learning from others

The Council has consistently reached out to the LGA and taken advantage of the support networks available at a corporate or service level. However, the Council needs to improve the speed of follow-up for the action planning to have maximum effect. The Corporate Peer Challenge (CPC) was a good example where the concept was embraced and adopted but the return visit was delayed, reducing the impact of the outcomes. There has been good levels of acceptance for the recommendations coming out of the CPC and other reviews, both internal and external. The Council has volunteered for a bespoke Safeguarding Practice Review in preparation for the CQC Assurance Framework. This review will look at the delivery of Adult Social Care (ASC) Safeguarding services within the Council. This is critical for ASC and the outcomes will be shared with CQC as part of their assurance visit, as well as with the LGA who have allocated consultancy funding to the Council.

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 this.

Annual Governance Statement 2021/22

The AGS concludes that BCP Council "has effective and fit-for purpose governance arrangements in place in accordance with the governance framework". After considering all the sources of assurance (for governance arrangements), BCP Corporate Management Board identified that the following significant governance issues existed:

A)Governance of Children's Social Services: The most significant challenge for children's social care is the ability to recruit and retain a highly skilled workforce. High agency usage continues to mean tackling practice inconsistencies is difficult, hence recruitment and retention being a key priority moving forward.

B)Governance Arrangements with External Bodies During 2021/22, significant work has been undertaken to improve the governance in these areas., however we have reported on the issues in relation to BCP Futureplace in both financial sustainability and Governance section of this report.

C) Delay in the completion of the 2020/21 External Audit. The delay is caused by national issues regarding the accounting treatment and auditing of infrastructure assets which is affecting approximately 50% of local authorities, and therefore, out of the Council's direct control.

Procurement and contract management

During 2021/22 and 2022/23 the Council did not have an agreed procurement strategy, although it does have procurement and contract processes within the financial regulations and agreed guidance in order to guide

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procurement activity. On this basis the Council is not currently 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 to procurement From om our review we are not aware of any evidence that the Council has failed to operate a fair procurement process in 2021/22 and 2022/23 for any of its significant contracts.

The table from the Annual Breaches & approved Waivers of Financial Regulations Report 2021/22 details contract waivers:

Table 3 Annual Waiver and Breaches report 2021/22

	2021/22		2020/21		2019/20	
	Breaches	Waivers	Breaches	Waivers	Breaches	Waivers
Total (count)	4	77	5	116	8	66
Total (£ value)	£1,347,429	£6.3M	£870,561	£12.6M	£171,625	£13.8M

The lower number (77) of approved waivers in 2021/22 showed a reassuring drop from the exceptional Covid-19 impacted 2020/21 year (116). The comparison by £ value.

provided further reassurance that significantly less Council expenditure was subject to an approved waiver. This meant that a greater proportion of the Council's total expenditure was subject to the full procurement requirements set out in the Council's Financial Regulations

BCP FuturePlaces Ltd

BCP FuturePlaces Ltd was established in 2021 and is the Council's wholly owned Urban Regeneration Company. It was set up to ensure that that BCP has the capacity, expertise and resources to drive investment in regenerations and unlock value from major council owned sites.

We found in our review, several areas of concern. This included the governance arrangement and the relationship with the Council discussed in the previous section. Further we had concerns about how the Council commissions work from BCP FuturePlaces. The Council did not have a clear business plan for BCP Future Places Ltd and its expectations of how the company would help deliver the Council's regeneration programme. Further there was evidence of scope creep and an unclear commissioning of services by the Council from the company.

The Bayside Restaurant

The Council opened Bayside Restaurant between Bournemouth and Boscombe piers in August 2022. The eatery was funded by the council and was open for just one month in a barn-style wooden framed marquee. Ahead of its opening, BCP Council said the restaurant was part of its plan to assess the "viability" of allowing more hospitality activities on the beach, to create 'more local jobs and encourage tourism', However the scheme lost more than £175K in 4 weeks. An internal audit investigation found there were no formal business plans or project plans in place for individual pop-ups and lessons were not learned from a failed similar 'upmarket' undertaking at West Cliff earlier in 2022. Further the decision-making arrangements were difficult to determine with no clearly documented formal decision record beyond the limited detail contained within Procurement Waivers.

The decision to proceed with Bayside appears to have been made by the Director of Destination & Culture in June 2022. Officers and third-party contractors felt that, even when they raised concerns, these were dismissed on the basis that Bayside was a trial and it was what councillors and/or the Council wanted. The internal audit investigation detailed 18 recommendations.

However as detailed in Governance section it is imperative that members set the correct "tone" from the top and that the council has a framework to robustly scrutinise investment and commercial opportunities and ensure sound decisions are made which consider risk and reward and a return on investment. This once again, highlights the importance of decision making based on complete and accurate information that fully reflects the risks as well as the rewards.

Concerns over the basis of such decision making on specific initiatives including the transformation programme, BCP FuturePlaces and other service delivery models as well capital projects and small investments such as the Bayside Restaurant initiative are indicative of a significant weakness in arrangements for ensuring economy, efficiency and effectiveness in the use of resources.

Transformation

We have detailed in this report the change in funding arrangements around the programme. A critical issue for the council is generating enough capital receipts to finance its transformation programme over the 3-year period to 31 March 2025. The Council on 10 January 2023 agreed to establish a cross -party working group to review the capital disposal strategy for 2023/24 with an intention that this group makes recommendations to assets that should be sold. It is imperative that the Council can ensure value for money in relation these sales given the challenging timetable.

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As part of the Council's Transformation Programme, the Council has invested in a new comprehensive Microsoft based Enterprise Resource Planning (ERP) system. It is a comprehensive and intuitive system which brings together finance and HR and allows a greater degree of self-service by budget holders.

However, a further risk we noted during our review was Officers stating there were problems reporting from the new systems. Particularly mapping FTE information to budget and costs. We note that this could be a considerable issue to enabling the Council to control and manage its finances during a very critical time.

Debt Management

Although the current level of debt held by the Council is significant below its debt threshold, it remains critical that any proposals to take on additional debt are robustly scrutinised to ensure they are affordable, prudent, and sustainable. Debt repayment is the first call on any resources generated by the Council, even before the provision of statutory services. Further debt should only be supported where the project is self-funding and is affordable, prudent, and sustainable or would significantly reduce the annual operating expenditure of the Council or generate significant inward investment via government funding.

Capacity

There has been significant turnover of the senior leadership team since the Council established itself in 2019. A new structure has been adapted to respond to developing circumstances and pressures. The senior team is now made up entirely of permanent appointments who have been in place since 2022/23. Further the Chief Executive. The Chief Executive has put in place a senior officer reorganisation which will result in him having fewer direct reports and will provide greater strategic support. Two of the new posts were vacant at the time of the review and it will be important that these posts are filled with permanent appointments as a matter of urgency.

During our review many of the Senior Management Team (SMT) stated they had pressures around recruitment and retention, with high levels of vacancies., and extensive use of temporary and agency staff. It must be made clear that this is not unique to the authority and is a nation-wide issue in the local Government. The council has a People Strategy which issued in 2019 and covers the period to 2023. We recommend that it is refreshed and ties into the Council's corporate strategy, and links to the ambitions of the transformation agenda and savings programme.

Improvement recommendation

Improving economy, efficiency and effectiveness

Recommendation 17	The Council should develop a Council Wide case management system for complaints
Why/impact	The Council does not have a centralised case management system for complaints which makes it difficult to get an accurate picture of complaints received or a corporate review of how well complaints are dealt with.
Management comment	Proposals are current being drafted for consideration by the Corporate Management Board during the next quarter.

Recommendation 18	The Council should refresh its People strategy considering its transformation programme and savings programme
Why/impact	The council has a People Strategy which issued in 2019 and covers the period to 2023. We recommend that it is refreshed and ties into the Council's corporate strategy, and links to the ambitions of the transformation agenda and savings programme.
Management comment	Following a period of extensive consultation, the new People strategy will be launched in September 2023. The strategy will cover the period to 2027 and has been aligned to both the new Corporate Strategy and the transformation programme.

Follow-up of previous recommendations

	Recommendation	Type of recommendation	Date raised	Progress to date	Addressed?	Further action?
1	The council should urgently identify 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	Statutory	September 2022	The approved 2023/24 budget was one based on traditional and conventional approaches to the formation of a local authority budget and was in line with the spirit and intent of all local government finance legislation. This included a 4.99% council tax increase, an additional investment of £1.9m into unearmarked reserves and £34.3m of savings and efficiencies. The 2022/23 Financial Outturn report to July 2023 Cabinet confirms the council avoided the use of the Capitalisation Direction in 2022/23 principally through asset sales to funded its transformation programme (via the Flexible Use of Capital Receipts) and through on-going expenditure controls.	No	Yes
2	The Council should also consider what additional assets could be disposed to fund transformation. Even if the current proposal on a Capitalisation Direction come to fruition, capital receipts will inviably form part of the strict conditions. If this direction is not awarded in full then even more capital receipts to fund transformation will be required	Key	September 2022	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)".	Yes	Yes

Follow-up of previous recommendations

	Recommendation	Type of recommendation	Date raised	Progress to date	Addressed?	Further action?
3	The Council should provide more information on the increasing costs of the transformation programme alongside the associated savings, the proposed timelines for implementation and ongoing reporting of delivery against these milestones to ensure further slippage is minimised and savings and the associated improvements in the service provision are realised. The Council should also ensure that is periodical clear reporting is provided on the benefits realisation of the transformation programme against original expectations	Statutory	September 2022	The 2023/24 Budget report to full council and the 2022/23 financial outturn report to July 2023 Cabinet contain an enhanced level of reporting and transparency around the transformation investment programme be that its costs (one-off or ongoing) and the associated savings.	Yes	Yes
4	The Council should continue to address the weaknesses identified by Ofsted to ensure all children have access to quality services and meet their needs on a timely basis.	Key	September 2022	The 2023/24 Budget approved a further £14.6m investment into Children's Services excluding pay based costs. Since then a further £189k one-off investment into Children's commissioning has been agreed, funded via Earmarked Reserves, by the Corporate Director for Wellbeing and a £784k one-off investment into the Special Educational Needs and Disability service funded by a redirection of Earmarked no longer needed for their original purpose. In addition July Cabinet will be asked to make a £4.462m one-off investment into the Children's Services Improvement and Transformation journey funded by a combination of unearmarked reserves (improvement expenditure) and the flexible us of capital receipts (transformation).	No	Yes

Follow-up of previous recommendations

	Recommendation	Type of recommendation	Date raised	Progress to date	Addressed?	Further action?
5	The Council should ensure that both in year and outturn reports are clearer on delivery of savings against original budget. This becomes more critical given the greater reliance on delivery of savings via the transformation programme going forward	Statutory	September 2022	As stated in the response to question 3 the outturn report includes an enhanced level of reporting in regards to transformation savings. Moving forward the intention is that the Quarter One report for 2023/24 includes an enhanced level of monitoring in regards to the wider budgeted savings.	No	Yes
6	The Council should ensure that its risk management arrangement are capable of identifying capturing and monitoring innovation but often 'high risk' schemes such as the 'beach hut ' proposals thus ensuring members are fully sighted on the underlying assumptions risk and rewards to allow course correction if such schemes are not delivering the intended benefits at planned time.	Key	September 2022	The 2022/23 budget report clearly set out the risk associated with the securitisation of the beach hut income stream and the fact that the budget would need to be redrawn if the model was not implemented. As this risk materialised the council took proactive steps to manage the 2022/23 in-year position which resulted in an underspend as part of the process for managing the 2022/23 and 2023/24 budgets.	Yes	No
7	The Council should consider aligning the risk reported in the risk register to the Council's Corporate Objectives	Improvement	September 2022	The Corporate risks are now aligned to the Council's Corporate Objectives and reports on Corporate Risks include this information. A new Corporate Strategy Framework is under development and as this moves forward the corporate risks will be reviewed in the context of this framework and the corporate objectives.	Yes	No

Follow-up of previous recommendations

	Recommendation	Type of recommendation	Date raised	Progress to date	Addressed?	Further action?
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 through process of review of the financial statements to prevent material errors from arising including where an external expert such as a property valuer was engaged.	Improvement	September 2022	The future Target Operating Model for the whole council includes a new specific element relating to the design and operation of the finance functions. This will be implemented as the evolution to the new model takes places. In addition, an internal team within financial services has been created as a Quality Assurance process in support of the statement of accounts.	No	Yes
9	The Council should consider separating the category 1 members interests between those where member or officers controls the entity rather than where a standard employment relationship exists	Improvement	September 2022	Officers have considered this proposal and raised it through the Constitution Review Working Group. It is felt that the proposal may not align with the LGA Model Code of Conduct and Guidance but it will be kept under review.	No	No
10	The Council should provide more timely corporate reports for Cabinet		September 2022	The end of year 2022/23 performance report is on the Cabinet agenda for July 2023. In line with our agreed protocols the council will continue to report both the mid-year and year end position with quarterly report to the Leadership in the intervening periods. An automated reporting process will be built based around the new corporate strategy.	No	Yes

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Follow-up of previous recommendations

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	Recommendation	Type of recommendation	Date raised	Progress to date	Addressed?	Further action?
11	The Council should agree a data quality policy	Improvement	September 2022			
12	The Council should strengthen its partnership arrangements. This should include: Defining partnerships Determining the importance including those which directly contribute to 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 with information detailed above		September 2022	The Annual Governance Statement supporting the 2022/23 Accounts states that the Council now believe that its partnership arrangements have been sufficiently enhanced for the item to be removed from the statement. Partnerships – draft documentation, including definitions, guidance, templates and registers have all been produced, with agreement, adoption and roll out by the action plan agreed 31/3/2023.	Yes	No
13	The Council should develop and adopt a procurement strategy		September 2022	Previously the councils procurements arrangements were set out in detail as part of its financial regulations. The Council is in the process of lifting them out of this document and updating them for recent government guidance and good practice and elements like social value to create a overarching procurement and contract management strategy for the authority. The current intention is that the new procurement and contract management strategy is presented to Cabinet in September/October 2023.	No	Yes
14	The Head of Internal Audit should not be part of the authorisation process for contract waivers		September 2022	Actioned	Yes	Yes

Opinion on the financial statements

Audit opinion on the financial statements

As at the 31 August 2023 our work on the Council's financial statements for 2021/22 is in progress. We recommenced our post-statements audit in July 2023 and are aiming to conclude our work later in the year.

Once we conclude 2021/22 our attention will turn to the 2022/23 audit.

Appendices

Appendix A – Responsibilities of the Unitary Authority

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.

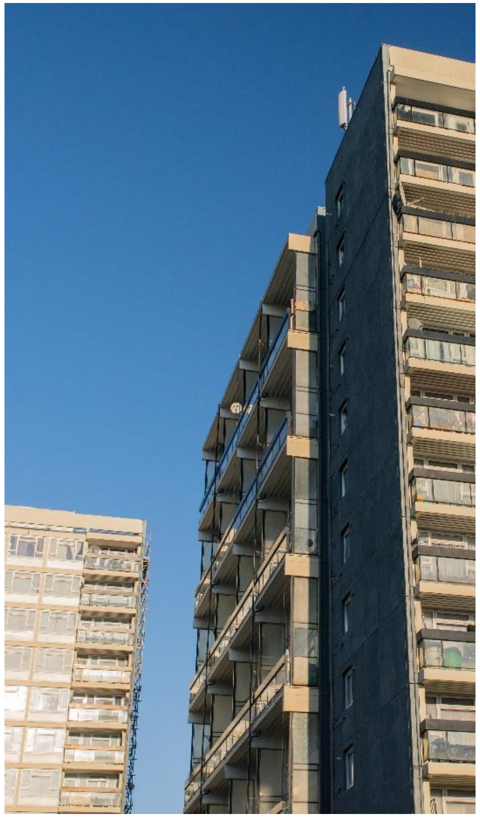
Financial statements are the main way in which local public bodies account for how they use their resources. Local public bodies are required to prepare and publish financial statements setting out their financial performance for the year. To do this, bodies need to maintain proper accounting records 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 Unitary Authorities 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 Unitary Authority will no longer be provided.

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



Appendix B – An explanatory note on recommendations

A range of different recommendations can be raised by the authority's auditors as follows:

Type of recommendation	Background	Raised within this report	Page reference
Statutory	Written recommendations to the authority under Section 24 (Schedule 7) of the Local Audit and Accountability Act 2014.	No	N/A
Key	The NAO Code of Audit Practice requires that where auditors identify significant weaknesses as part of their arrangements to secure value for money they should make recommendations setting out the actions that should be taken by the authority. We have defined these recommendations as 'key recommendations'.	Yes	9-13
Improvement	These recommendations, if implemented should improve the arrangements in place at the authority, but are not a result of identifying significant weaknesses in the authority's arrangements.	Yes	24-25,32-36,42

Appendix C – Sources of evidence

Staff involved

- Adam Richens, Director of Finance
- Nigel Stannard, Head of Audit Services
- Betty Butlin, Director of Adult Social Care
- Cathi Hadley, Director of Children's Services
- Phil Hornsby, Service Director Procurement and Commissioning
- Graham Farrant, Chief Executive
- Isla Reynolds, Service Director Marketing, Comms and Policy
- Bridget Webber, Head of Policy and Research
- Katie Lacey, Head of Transformation
- Susan Zeiss, Monitoring Officer
- Jess Gibbons. Chief Operating Officer

Documents Reviewed

- Corporate Quarterly Performance Reports 2021/22 and 2022/23
- Council Plan 2022-25
- Cabinet Reports 2021/22 and 2022/23
- Audit Committee Papers 2021/22 and 2022/23
- Letter of Joint Area SEND revisit in BCP
- Annual Governance Statement 20-21
- Directorate Plans 2021/22 and 2022/23
- Capital Programme Monitoring
- Statement of Accounts 2021/22
- Procurement Strategy 2022
- Procurement Improvement Plan 2022
- Corporate Risk Reports
- Members Code of Conduct
- Employee Code of Conduct
- Audit Services Annual Performance Report 2021/22
- Anti-Fraud and Corruption Strategy
- Audit & Standards Annual Report 21/22
- Corporate Procurement Audit Report
- Waiver Record
- BCP Governance Review 2023
- Treasury Management Strategy 21/22, 22/23
- Revenue Outturn 21/22, 22/23
- Workforce Strategy
- Budget Reports 21/22, 23/24
- Cash Flow Forecast
- Medium Term Financial Strategy
- Department for Education, Guidance on our intervention work with local authorities October
- Annual Report of the Committee on Standards in Public Life
- Risk Management Report
- Code of Corporate Governance 2022
- Whistleblowing Policy
- BCP Unitary Constitution
- Internal Audit Plan Report 22-23
- Internal Audit Plan 21- 22, 23-24
- Annual Overview and Scrutiny Report 2021-22
- Appointments Committee Reports Pack April 2023
- Senior Leadership Team Structure
- Exemptions from the requirement for a competitive procurement process
- Children and Young People 's Plan Update Report

Appendix D - Key acronymous and abbreviations

The following acronyms and abbreviations have been used within this report

NAO – National Audit Office

AGS – Annual governance statement

The Code - Code of Audit Practice

CIPFA – Chartered Institute of Public Finance and Accountancy

VfM – Value for Money

SLT – Senior Leadership Team

BCP – Brighton, Christchurch and Poole Unitary Authority

DSG – Dedicated Schools Grant

DfE – Department for Education

MTFP – medium term financial plan

PSIAS – Public Sector Internal Audit Standards

S151 – Section 151

VFM – Value for Money

IMO – independent monitoring officer

FAFE – Forging a Future Executive

KPI – key performance indicator

HR – human resources

SLA – Service Level Agreement

PMO – Project Management Office

SEND – special educational needs and disabilities

NPLSG - National Procurement Strategy for Local Government

DHLUC - Department for Levelling Up, Housing and Communities

SPV – Special Purpose Vehicle

FUCR – Flexible Use of Capital receipts

EHCPs - Education, Health, and Care Plans

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