

Auditor's Annual Report on Shropshire Council

2020-21

July 2024



Contents



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

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



Section	Page
Executive Summary	3
Use of formal auditor's powers	4
Key Recommendation	5
Opinion on the financial statements	6
2021/22 and 2022/23 developments	8
Commentary on the Council's arrangements to secure economy, efficiency and effectiveness in its use of resources	9
Governance	10
Financial sustainability	16
Improving economy, efficiency and effectiveness	21
Shropshire Pension Fund	25
Covid-19 arrangements	26
Appendices	
A – The responsibilities of the Council	
B – Risks of significant weaknesses – our procedures and findings	
C – An explanatory note on recommendations	
D – Governance – Departure of the Chief Executive Officer	

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

Executive summary



Value for money arrangements and key recommendations

Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to consider whether the Authority has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Auditors are required to report their commentary on the Authority's arrangements under specified criteria and 2020/21 id the first year 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. Our conclusions are summarised in the table below. We stress that the focus of this report is required to be 2020/21. We recognise that this report has been delayed and the 2022/23 financial year has just finished. We will report jointly upon 2021/22 and 2022/23 later in 2023 but on page 5 we have sought to provide a high level assessment and bridge to that future work and the work in this report.

Criteria	Risk assessment	Conclusion
Financial sustainability	Risk identified because of the Council's significant medium term challenges.	No significant weaknesses in arrangements identified, but three improvement recommendations made.
Governance (Interim Assessment)	Risk identified in relation to Highways contract governance. New risk identified – Senior Officers Exit Payment	Overall, we found no evidence of significant weaknesses within the Council's general governance and highways contract governance arrangements but five improvement recommendations have been made. Our work in relation to Senior Officers Exit Payments identified a significant weakness and one Key Recommendation.
Improving economy, efficiency and effectiveness	No risks of significant weakness identified.	No significant weaknesses in arrangements identified, but one improvement recommendation made.



Financial sustainability

The Council is operating in an increasingly uncertain financial environment. For the second successive year, the Comprehensive Spending Review was a single year spending review. Shropshire, as with all local authorities, will need to continue to plan with little certainty over funding in the medium term. Despite this uncertainty, and the challenges posed by Covid-19, the Council has maintained a strong financial position.

The Medium Term Financial Strategy (MTFS) framework aids the Council in remaining agile to change, this is currently balanced with no gaps identified in the medium term, although it does at present rely upon the use of a proportion of the Council's reserves in the earlier years until savings are delivered. Overall, we are satisfied the Council has appropriate arrangements in place to plan for the future and ensure it manages risks to its financial sustainability. We have identified some opportunities for improvement. Further details can be seen on pages 16-20 of this report.



Governance

We have reviewed the Council's internal control framework, financial management and budget setting, decision making processes and standards monitoring processes. Overall, we found no evidence of significant weaknesses within the Council's general governance arrangements. The Council have appropriate risk management procedures in place and the budget setting process continues to function effectively. We did identify potential improvement areas in respect of making it easier for stakeholders to locate information on members and interests and gifts & hospitality, governance around highways contracts and the structure of Cabinet reports. Three improvement recommendations have been made in respect of these (see pages 10-15).

However, we have identified one significant weakness in respect of the current arrangements for negotiating settlements with senior officers. We have therefore raised a Key Recommendation and some associated improvement recommendations in respect of senior leadership performance management and settlement agreements. The Council has undertaken a review of its pay policy and constitution and we have awaited this final report to ensure all appropriate amendments were made (see pages 5, 10 and Appendix D).



Improving economy, efficiency and effectiveness

The Council has demonstrated a good understanding of its role in securing economy, efficiency and effectiveness in its use of resources across the areas of our review including performance monitoring, benchmarking, working with partners and procurement. The importance of this in ensuring the Council are a future fit organisation is a recurring theme which cascades from the Council Plan through to other key strategies and plan to create a cohesive and clear direction for Shropshire

We have noted the significant weaknesses identified by the Inspector in relation to Special Educational Needs and/ or Disabilities (SEND) service provision in the area and across all public sector partners, as highlighted by the report of the joint inspectorate of CQC and Ofsted in March 2020 and a reinspection reported in February 2023. The Council can demonstrate it responded to the findings and has made progress. We have therefore concluded this an improvement area rather than a significant weakness. Further details can be seen on pages 21-24 of this report.

Use of formal auditor's powers

We bring the following matters to your attention:

Statutory recommendations

Under Schedule 7 of the Local Audit and Accountability Act 2014, auditors can make written recommendations to the audited body which need to be considered by the body and responded to publicly.

No statutory recommendations have been made as a result of our value for money assessment. It should be noted that we are currently finalising our work in relation to an outstanding accounts objections for the year ended 31 March 2021, no statutory recommendations have been made to date.

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 any reports in the public interest.

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 to the court for any declarations. However, we have received two objections to the 2020/21 financial statements. One in respect of highways maintenance arrangements and a second covering areas including community infrastructure levy (CIL) arrangements, monitoring of planning conditions and management of the public estate. The first has yet to be finalised but we have issued our Final Decision and Statement of Reasons in respect of the second.

Through the objection process we identified one item where the Council concurred that it had accepted the submission of documents related to a CIL exemption claim after the six month regulatory deadline had elapsed. Even if arguments that this led to an unlawful item of account were valid, we would not, in our view, seek a declaration to this effect on the basis that:

- The cost of a seeking a declaration would be far in excess of the £4,650 CIL exemption;
- There is doubt as to whether or not income which does not appear in a set of accounts because it has not been received could constitute an unlawful item of account within the meaning of section 28.
- Given that the decision was made in exceptional circumstances (Covid-19 pandemic), seeking clarification of the lawfulness or otherwise would be of little value to future decision-making.

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 any advisory notices.

Judicial review

Under Section 31 of the Local Audit and Accountability Act 2014, auditors may make an application for judicial review of a decision of an authority, or of a failure by an authority to act, which it is reasonable to believe would have an effect on the accounts of that body.

We did not apply for a judicial review.

Key recommendation

Section 38 of the Localism Act 2011 requires the local authority to produce and publish a pay policy statement, which must include the authority's policies on termination payments. New Statutory Guidance in this area was also issued under section 26 of the Local Government Act 1999 and came into effect in May 2022 and sets out the obligations placed on Local Authorities when making Special Severance Payments (SSPs). For convenience and for practical purposes we have set out recommendations aligned to this new guidance although this was not applicable at the time of the agreement.

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

Key Recommendation 1

The Council should review:

- its Constitution and Standing Orders to ensure its arrangements for dealing with dismissal of senior officers are compliant with Localism Act 2011 and the Local Government Act 1999 (and associated regulations) and consider whether an independent committee or board may help in these circumstances, and
- for significant decisions prepare business cases that demonstrate the Council is obtaining best value. The new statutory guidance in respect of Special Severance Payments may help provide a framework for this i.e. all those incurring costs greater than £100,000 would require formal reporting to Council and those Between £20,000-£100,00 an approved report to support the decision.

Criteria impacted by the significant weakness



Governance

On the 25th February 2020, following a meeting with the former Leader of the Council, the then Chief Executive Officer (CEO) of the Council, stood down from their role with immediate effect and subsequently left the Council as part of a negotiated settlement on 15th April 2020. As reported in the Council's financial statements the settlement comprised £124,036 compensation for loss of office and £476,172 in respect of pension strain. Given the rare nature of this type of departure and the size of the exit package we determined to review the Council's governance and decision-making arrangements in respect of this matter.

Auditor judgement

Our overall conclusion is that given the specific circumstances of the matter it is unlikely that the Council would have reached a different conclusion. In reviewing the actions undertaken, we consider there was a lack of transparency in recording the decision-making and the reporting process and the possibility that the Council has not fully complied with its own Constitution (which in incorporates the requirements of Local Government Constitutional and Administrative Law) such that there was weakness in governance arrangements in this area. We understand the Council is currently undertaking a review of its pay policy and constitution and awaited this final report to ensure all appropriate amendments were made.

Management comments

The Senior Officer Employment Procedure was approved at full council on 29th February 2024 and addresses the issues outlined in the report. In addition, the internal processes relating to the use of settlement agreements for all employees has been reviewed and updated and aligns with the Statutory Guidance on Special Severance Payments (SSP).

Progressing the actions management has identified to address the recommendations made will support the Council in addressing the weaknesses identified from our work. We consider that the timescales provided by management are appropriate and encourage the Audit Committee to monitor progress of implementation to gain assurance over the arrangements in place.

Opinion on the financial statements



Grant Thornton provides an independent opinion on whether the Council's financial statements:

- give a true and fair view of the financial position of the Council as at 31 March 2021 and of its expenditure and income for the year then ended, and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of practice on local authority accounting in the United Kingdom 2020/21
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

We conducted our audit in accordance with:

- International Standards on Auditing (UK)
- the Code of Audit Practice (2020) published by the National Audit Office, and
- applicable law

We are independent of the Council in accordance with applicable ethical requirements, including the Financial Reporting Council's Ethical Standard.

Audit opinion on the financial statements

We have completed our audit of your financial statements and issued an unqualified audit opinion on 19 July 2023.



Opinion on the financial statements

 **2020/21**

Audit opinion on the financial statements

We have completed our audit of your financial statements and issued an unqualified audit opinion on 19 July 2023.

Other opinion/key findings

We issued unmodified opinions in respect of other information.

We did not report any matters by exception.

Audit Findings Report (AFR)

We took a draft AFR to the Audit Committee on 22 October 2022. A progress update was provided to the 22 February 2023 Audit Committee and a final version issued to the Council alongside our signed audit opinion on 19 July 2023. The key findings are summarised below.

Whole of Government Accounts

To support the audit of the Whole of Government Accounts (WGA), we are required to review and report on the WGA return prepared by the Council. This work includes performing specified procedures under group audit instructions issued by the National Audit Office. The Council is below the threshold requiring detailed audit procedures. As our audit opinion was delayed the NAO did not require us to submit an assurance statement.

Preparation of the accounts

The Council published draft accounts on 31 July 2021 in line with the revised national deadline.

We undertook our initial planning for the 2020/21 audit in February 2021, the results of which formed the basis for our Audit Plan which was reported to the Audit Committee on 30 July 2021. We received draft financial statements on 31 July 2021 and we began our audit work on your draft financial statements on 2 August 2021.

When we reported to the Council in February 2022 the key area of financial statements audit work that was outstanding was in respect of our testing of social care payments. Subsequent to that there was an emerging issue in the sector in respect of infrastructure assets that required the issuing of a Statutory Instrument to address (see opposite). This extended the overall timeline of the audit but we continued to work constructively with the Council to bring the audit to a conclusion.

Issues arising from the accounts:

We identified two material misstatements which were amended in the 2020/21 financial statements. Neither results in an adjustment to the Council's Comprehensive Income and Expenditure Statement or impact upon the Council's general fund balance. These are as follows:

- Land and building valuation – understatement of £12.118m relating to updated Gross Internal Areas not available at the time initial valuations were undertaken by the council
- Grants received in advance (GRIA) – Presentation adjustment of £20.5m between creditors and GRIA

We also identified two misstatements totalling £5.7m related to an understatement of property, plant and equipment which have not been adjusted in the financial statements. A number of disclosure and misclassification misstatements were also identified.

The inherent risks which we identified in relation to infrastructure assets were the risk of the overstatement of Gross Book Value and accumulated depreciation figures due to lack of derecognition of replaced components and the understatement of accumulated depreciation and impairment as a result of failure to identify and account for impairment of infrastructure assets and an over or understatement of cumulative depreciation as a result of the use of inappropriate useful economic lives (UELs) in calculating depreciation charges.

We worked with CIPFA and the English Government to find both long-term and short-term solutions which recognise the information deficits and permit full compliance with the CIPFA Code. It has been recognised that longer-term solutions, by way of a Code update, will take several years to put into place and so short-term solutions are being put in place in the interim. These short-term solutions included the issue of a Statutory Instrument (SI) by government.

Based on our work, we are satisfied that the Council correctly applied the SI and the requirements in the CIPFA Code update and appropriately removed the gross book value and accumulated depreciation from its disclosures, adding a new disclosure setting out opening net book value and any in-year movements

We concluded that the other information to be published with the financial statements was consistent with our knowledge of your organisation and the financial statements we have audited.

2021/22 and 2022/23 Developments

We recognise that this report has been delayed as we have considered governance arrangements in respect of senior officer exit packages. We will be preparing a joint report to cover 2021/22 and 2022/23 but on this page we have sought to provide a high level assessment and bridge to that future work and the work in this report. It therefore does not form part of our formal conclusions in respect of 2020/21.

2022/23 and 2023/24 Budgets

The 2021/22 outturn was £2.5m overbudget and when setting its 2022/23 budget in February 2022 the Council identified an underlying budget gap of c.£20m gap which it was proposing to meet from a combination of savings (£10.7m) and reserves (£9.9m). At the same time the Council flagged that there was a potential funding gap of around £60m in all future years with 2026/27 estimates as showing a £56m gap against a £590m resource envelope (- 9.5%) or around 12% of all revenue resources.

Given the size of the challenge, the Council invited the LGA to undertake a Finance Peer Challenge to assist it in its thinking and strategy development. This reported in June 2022 with the reviewers concluding that the Council's assessment overstated the scale of the funding gap, since it assumed that the government would discontinue a number of vital local government funding streams without replacing them i.e. a worst-case assumption which other councils had not built into their central financial projections. However, taking this into account, the Peer Review team did conclude the underlying budget gap for 2023/24 was still likely to be at least £30m, with further upward pressure on this figure from rising costs. The council would therefore need to focus on what action it needed to take and the tools it would utilise to address this.

The 2023/24 budget was the first to be set since the Peer Review. The Council's MTFs 2023/24 to 2027/28 estimated in year budget gaps (including savings plans) of around £44-47m for each year. Through assumptions around one-off grant funding and use of reserves the Council now estimates that the residual gap to be funded would be £0-£3.7m in each year up to 2027/28.

Having considered this we have determined that immediate reporting in respect of 2021/22 is not required. However, our risk assessment for the 2021/22 and 2022/23 VFM audits has continued to identify financial sustainability as an area of potential significant weakness. We will continue to monitor this and we propose to issue a joint report covering 2021/22 and 2022/23 during 2023.

Shropshire Plan and 'Getting It Right'

In May 2022, the Council approved the Shropshire Plan which sets out its vision and key priorities for the coming years. This document aims to help shape where the Council prioritises its activities and remove or reduce work where this does not directly support the objectives of the plan.

Alongside the Shropshire Plan, the Workforce Strategy sets out the key values of 'Getting It Right' (GiR) which is the Council's overarching approach for the long-term future of Shropshire.

The Workforce Strategy also contains a leadership programme for almost 10% of its staff, who are central to the leadership and performance of the whole Council. This leadership programme is called 'Getting Leadership Right' (GLR). Almost 300 staff are enrolled in the first phase of GLR, including the Chief Executive, Executive Directors, and all Assistant Directors.

A Target Operating Model (TOM) has been designed to draw these together and set out the most efficient and effective way for the Council to work to achieve the outcomes set out in the Shropshire Plan.

We will review and comment upon these more as part of our work on 2021/22 and 2022/23.

Joint area SEND revisit in Shropshire

Between 27 January and 31 January 2020, Ofsted and the Care Quality Commission (CQC) conducted a joint SEND (special educational need and/or disability) inspection of the local area of Shropshire to judge the effectiveness of the area in implementing the disability and special educational needs reforms as set out in the Children and Families Act 2014.

As a result of the findings of the initial inspection and in accordance with the Children Act 2004 (Joint Area Reviews) Regulations 2015, His Majesty's Chief Inspector (HMCI) determined that a written statement of action was required because of significant areas of weakness in the area's practice. HMCI determined that the local authority and the area's clinical commissioning group (CCG) were jointly responsible for submitting the written statement to Ofsted. This was declared fit for purpose on 19 November 2020.

Between 21 and 23 November 2022, Ofsted and the Care Quality Commission (CQC) revisited the area of Shropshire to decide whether sufficient progress has been made. Their conclusion was that the area had made sufficient progress in addressing three of the six significant weaknesses identified at the initial inspection. As noted on page 22 we have therefore concluded that this progress indicates there is not a significant weakness in the Council's arrangements. We will continue to monitor the progress of the Council in this area and consider any future steps taken by the Department for Education and NHS England once known.

Marches Local Enterprise Partnership

In the Spring Budget the Government stated that it was minded to withdraw central support and transfer responsibility for local economic development from Local Enterprise Partnerships (LEP) to local authorities by April 2024. The Department for Levelling Up, Housing and Communities, and the Department for Business and Trade will now consult on the proposals before confirming a decision. Shropshire Council is the accountable body for the Marches LEP and work remains ongoing to clarify future funding and delivery arrangements. We will continue to monitor the progress of the Council in this area and consider any future steps taken.

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

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

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

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

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



Financial sustainability

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



Governance

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



Improving economy, efficiency and effectiveness

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



Our commentary on each of these three areas, as well as the impact of Covid-19, is set out on pages 10 to 26 and Appendix B.

Governance



We considered how the Council:

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

Departure of the Chief Executive Officer

On the 25th February 2020, following a meeting with the former Leader of the Council, the then Chief Executive Officer (CEO) of the Council, stood down from their role with immediate effect and subsequently left the Council as part of a negotiated settlement on 15th April 2020.

As reported in the Council's financial statements the settlement comprised £124,036 compensation for loss of office and £476,172 in respect of pension strain. Given the rare nature of this type of departure and the size of the exit package we determined to review the Council's governance and decision-making arrangements in respect of this matter.

Appendix D provides extended details of our work. Our overall conclusion is that given the specific circumstances of the matter it is unlikely that the Council would have reached a different conclusion to that taken but that:

- due to the size and makeup of the compensation payment we consider that, on balance, the compensation package should have been reported to the full Council,
- there was a lack of clear and contemporaneous record keeping of the decision-making process, including an assessment of options available to the Council, and
- given the complex nature of these rare decisions the Council should have considered and documented its consideration of whether specialist legal advice was required.

Due to these matters we have concluded that there was a significant weakness in its governance arrangements in this area. We have therefore raised a Key Recommendation and some associated improvement recommendations in respect of senior leadership performance management and settlement agreements. The Council has undertaken a review of its pay policy and constitution and we have awaited this final report to ensure all appropriate amendments were made.

Monitors and assesses risk and gains assurance over the effective operation of internal controls, including arrangements to prevent and detect fraud

Risk management

The Council's Opportunity Risk Management strategy is reviewed and updated on an annual basis, it was last reviewed and signed off by the Chief Executive on 19th January 2021. The Strategy details the methodology used throughout the council for all risks - strategic, operational and project. The Risk Profile & Action Plans for managing risks are embedded in the Council's Risk Management SharePoint system.

All strategic risks are live documents where risk owners and additional control owners have full access for reviewing and updating regularly. Strategic risks are linked, where appropriate, with the Annual Governance Statement Targeted Outcomes. As at June 2021 review, there were 16 risks on the strategic risk register, each managed by specific Executive Directors. There are quarterly updates where all of the risks are discussed with the risk owners and a report is submitted to Executive Directors and Informal Cabinet. Operational risks are reviewed bi-annually. reports on current status are provided to all Heads of Service / Assistant Directors and the Executive Directors. This includes details of any key changes in risk exposure and any areas of concern. Emerging operational risks, or themes, feed into and are considered as part of the strategic risk review. There are currently 128 operational risk registers in place across the authority containing 1,299 risks in total.

Governance

A risk register is developed at the commencement of projects and held within SharePoint. Risks are allocated to appropriate project board members for management and review. The direction of travel for projects is monitored to ensure that risks are well managed.

Robust business continuity management arrangements also exist within the Council, with enhanced business continuity management arrangements which now include tactical plans for HR, Finance, Adult Social Care and Children's Services (the latter two as a result of Covid-19). These plans provide a corporate approach across these areas to manage significant business interruption events. All of these plans will be subject to review following the recovery from Covid-19. The Council's understanding of and planning for risks appears sound and does not demonstrate a risk of a serious weakness.

Internal Audit

The Internal Audit Service operate under a standard charter as required by Public Sector Internal Audit Standards and provide risk management, internal audit, advice and investigatory services to the Council. They review and give assurance on the controls in place to manage the key risks facing the Council.

To do this, a programme of audits are devised which are discussed and agreed with the relevant stakeholders before the start of each financial year. The aim of each audit is to give an independent and objective opinion to managers on the adequacy of controls in place to manager risks within services. A report is issued for every audit which documents the findings and incorporates an action plan which has been agreed with the relevant manager to address any weakness.

When recommendations are agreed the responsibility for implementation rests with management. There are four categories of recommendation: fundamental, significant, requires attention and best practice and there are four assurance levels given to audits: unsatisfactory, limited, reasonable and good. Fundamental recommendations will continue to be progressed within the agreed time frame with the lead Executive Director being asked to confirm implementation. Internal Audit will conduct testing, either specifically on the recommendation or as part of a re-audit of the whole system. All agreed fundamental recommendations will also continue to be reported to Audit Committee. Fundamental recommendations not implemented after the agreed date, plus one revision to that date where required, will in discussion with the Section 151 Officer be reported to Audit Committee for consideration.

In 2020/21 59 final Internal Audit reports were issued. 53 with audit assurances provided and 6 with self-assessments in fundamental system areas which were completed by managers and reviewed by a member of the Internal Audit team. Despite some slippage due to staff availability during the Covid-19 pandemic and the effects of remote working, this performance represented successful delivery of over 90% of the revised plan. Audit reports are presented at Audit Committee and regular update reports were provided on internal audit's progress against the 2020/21 plan.

30 good and reasonable assurances were made in the year accounting for 57% of the opinions delivered. This represents a 7% decrease in the higher levels of assurance compared to the previous year, offset by a 7% increase in limited and unsatisfactory opinions. Overall, limited assurance was offered for the 2020/21 year that the Council's framework for governance, risk management and internal control is sound and working effectively.

Anti-fraud, bribery and corruption

The Council has a counter fraud, bribery and corruption framework which defines the approach to managing the risk of fraud, bribery and corruption across the organisation and ensures that best practice is promoted across all services, projects and partnerships.

During 2020/21, Internal Audit continued to facilitate work on the National Fraud Initiative (NFI), and several internal audit reviews were conducted to ensure appropriate controls are in place and are operational to counter the risk of fraud. This focused primarily on Covid grant awards and data analytics activity to cleanse data. An example of which was the building of counter fraud controls into Covid business grant processes and ensuring appropriate checks were completed. This was a significant exercise with £150m awarded in grants via 30,000 payments. These counter fraud activities were further supported by learning following individual investigations. Where internal control weaknesses were identified, results were reported in a management report and recommendations made and agreed to help reduce a repeat of any inappropriate activity.

The Council have a whistleblowing policy detailing what whistleblowing means, how to raise a concern, the associated confidentiality and anonymity in place to encourage this where there are genuine concerns and how the Council will respond to these claims.

Finally, the Council have a Code of Conduct which is set out in the Council Constitution.

Approaches and carries out its annual budget setting process

The budget setting process is driven internally by the Finance Department and the Executive Director of Resources. This is accompanied by a suite of documents that feed into the exercise which document cost and demand pressures and capital implications for example.

The compilation of the budget strategy involves detailed budget development of each service area within the Council. Work begins on this process from September onwards. The overarching five year strategy runs alongside the budget strategy work and will be informed by significant service changes, demand changes and demographic changes that the Council is facing but, often more significantly, will be informed by government announcements on the likely level of funding. The draft budget is then subject to consultation with a range of stakeholders including the general public. Feedback from this consultation helps inform the final Medium Term Financial Strategy (MTFS) that is agreed by Full Council in February. There is also a quarterly review of budget to outturn position by Cabinet.

Governance

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

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

Ensures effectiveness processes and systems are in place to ensure budgetary control

The Finance Department engages at least monthly with budget holders and all managers have an allocated member of the Finance Business Partner Team who takes them through monthly forecasting procedures and budget management expectations when they start in post. Budget monitoring reports summarise the overall position of the Council, variances to revenue and capital budgets both favourable and adverse, the reasons for these and the anticipated impact on the final outturn. As well as quarterly budget reports to Cabinet, a dashboard of financial performance is shared and discussed at each management team meeting. This includes a RAG (red, Amber, Green) rating for each area within the service.

Budget forecasting is completed on the Council's Business World system. The Council's virement and carry forward rules are clear and detailed in the Constitution. 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.

Ensures it makes properly informed decisions, supported by appropriate evidence and allowing for challenge and transparency

The Council operates a Leader and Cabinet form of executive arrangements. In addition, there are five scrutiny committees which hold the Cabinet to account. This is an appropriate structure for the Council.

The work of the Council's committees is governed by the constitution. This constitution is regularly reviewed and updated. The constitution is shared with all staff members on joining and is openly available on the Council's website. The Annual Governance Statement needs to be read alongside the Council's constitution, which sets out how the Council operates, how decisions are made and the policies which are followed to ensure that these are efficient, transparent and accountable to local people. There is a good suite of policies in place, covering anti-fraud and corruption, and the Council has an established antifraud culture. We have identified some opportunities to strengthen these with a central register of members' interests and similarly a central register of gifts and hospitality declared available on the Council's website.

All reports presented by the Council set out a responsible officer, including their contact details for any queries or follow-up. The cover sheet has standard sections on Risk Assessment and Opportunities Appraisal, Financial Implications and Climate Change Appraisal for decision makers to consider. In our view, this could also include legal/regulatory implications and this will be suggested as an improvement recommendation. Attendance at Audit Committee demonstrates that members provide sufficient challenge and scrutiny of officers.

During 2021/22, there has been visible and approachable leadership. More communication channels were made available and used by all to communication management decisions - these include weekly Chief Executive update to all staff, weekly Divisional management team (DMT) meetings, weekly Service Managers team meeting, regular team meetings and 1-2-1 sessions and use of computer lock screen to disseminate key messages.

Monitoring and ensuring appropriate standards

The annual governance statement is compliant with the CIPFA code. An appropriate level of care is taken to ensure the Council's policies and procedures comply with all relevant codes and legislative frameworks.

Conclusion

Overall, we found no evidence of significant weaknesses within the Council's general governance arrangements. The Council have appropriate risk management procedures in place and the budget setting process continues to function effectively. We did identify potential improvement areas in respect of making it easier for stakeholders to locate information on members and interests and gifts & hospitality, governance around highways contracts and the structure of Cabinet reports. Three improvement recommendations have been made in respect of these.

However, we have identified one significant weakness in respect of the current arrangements for negotiating settlements with senior officers. We have therefore raised a Key Recommendation and some associated improvement recommendations in respect of senior leadership performance management and settlement agreements. The Council has undertaken a review of its pay policy and constitution and we have awaited this final report to ensure all appropriate amendments were made.

Improvement recommendations



Governance

Recommendation 1 [IR1]	Whilst interests declared by members are available on their individual biographies on the website, the Council should consider the creation of a central, online register of members' interests. This would enable a review of the interests of the Cabinet or of a specific Committee as a whole.
Why/impact	Having to check each member separately is piecemeal and makes it difficult to confirm the overall complexion of interests held.
Auditor judgement	It is not immediately apparent if there are a number of interests or similar interests held by any particular committee or political grouping.
Summary findings	Whilst there is a full register of members interests made available at the library, this is not available online as a single document. Transparency could be improved by making this information available in a single place online.
Management comment	The current available information meets all the standard disclosure requirements but the Council has very recently invested in a new digital system that will allow councillors to register their interests electronically rather than manually completing a form. We will explore whether this will allow us to create a central online register of members interests
Recommendation 2 [IR2]	Whilst gifts and hospitality received are declared, as with members interests, there is not a central online register of all gifts and hospitality received.
Why/impact	Transparency of gifts and hospitality received is important. This protects members from inappropriate allegations of corruption or bias. Currently it is difficult to see the entirety of gifts and hospitality received by time period or by Committee.
Auditor judgement	It is not immediately apparent if there is any consistency in the gifts and hospitality being accepted by any particular committee or political grouping.
Summary findings	Transparency could be improved by making this information available in a single place online. This could help the Authority (and members) to demonstrate that gifts and hospitality are not tools being used to lobby or incentivise members.
Management comment	There is a central register of gifts and hospitality for members and officers. Whilst there is no requirement for that register to be published online, it is available for inspection (redacted as appropriate) on request.

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

Improvement recommendations



Governance

Recommendation 3 [IR3]

Consideration should be given to incorporate a standard section within reporting to Cabinet and equivalent which sets our legal/ regulatory implications, similar to that already provided for financial and climate change.

Why/impact

A summary of the legal and regulatory implications of reports considered will enable members to demonstrate that they are suitably informed in making their recommendations.

Auditor judgement

The inclusion of legal and regulatory matters will better reflect the work of the legal services team and oversight provided by the Monitoring Officer.

Summary findings

Reports prepared follow a standard template, no summary of any legal/regulatory implications are explicitly stated.

Management comment

The Council agrees to look into this proposal. The format for cabinet and similar reports is regularly reviewed and updated as necessary, and this may be considered a helpful next step by members. This is led by Tim Collard (AD Legal and Governance and Monitoring Officer).

Recommendation 4 [IR4]

The Councils should regularly review its Highways governance arrangements to ensure they are embedded and remain fit-for purpose.

Why/impact

The annual contract value with Kier is circa £27m which is £6m above that as advertised at the start of the contract. We are aware that the Council has reported on the challenges that have impacted the contract, and that one of its priorities was to put in place a governance framework that manages the contract and provides oversight.

Auditor judgement

We are satisfied the council has responded positively however they will need to ensure the new governance arrangements embed across the Council and are sufficiently agile to adapt quickly to changes in contract arrangements or emerging challenges. An improvement point has been raised

Summary findings

A new Governance Framework has been introduced to the Highways Service to improve management of the Highways and Environment Term Maintenance Contract with Kier.

The Framework consists of a new Strategic Board, an Operations Board, and a number of individual Service and Task & Finish groups designed to drive forward improvements within the Contract.

Management comment

The Council already regularly reviews the governance of the Highways contract to ensure it is fit for purpose and meets all necessary requirements as and when those may change. Changes in the responsibilities of senior staff (from June 2023) in the Place Directorate have included this review, and changes may be forthcoming as a result. This is led by Andy Wilde (Interim AD Highways and Transport).

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

Improvement recommendations



Governance

Recommendation 5 [IR5]

- 1) In future settlement negotiations the Council should:
 - ensure that contemporaneous notes and minutes of discussions and judgments are both made and retained,
 - take and record appropriate legal advice and where it is of the view that this is not required document its reasons
- 2) Ensure that its policies in respect of performance and capability are known by all staff and being followed in order that any concerns are addressed at the earliest opportunity in accordance with the Council's policies and procedures and best practice to ensure that employees are treated fairly and the risks to the Council of facing challenge through employment tribunals or the courts are mitigated.

Why/impact

The lack of written records of a very significant decision in terms of the Council as an organization is indicative of weak governance arrangements in our view and does not assist and transparent decision-making.

Auditor judgement

Our overall conclusion is that given the specific circumstances of the matter it is unlikely that the Council would have reached a different conclusion. While we have drawn this conclusion we also note that there was a general lack of clarity in respect of the recorded decision-making process. We consider that best practice would expect these decisions to have been recorded, including setting out a record of the decision including the date it was made, a record of the reasons for the decision, details of any alternative options considered when making the decision in order to comply with regulation 13 Local Authorities (Executive Arrangements) (Meetings and Access to Information) (England) Regulations 2012. As well as potentially being non-compliant with these regulations the lack of written records of a very significant decision in terms of the Council as an organization is indicative of weak governance arrangements in our view.

Summary findings

When reviewing the departure of the former Chief Executive Officer our overall conclusion is that given the specific circumstances of the matter it is unlikely that the Council would have reached a different conclusion to that taken but that:

- due to the size and makeup of the compensation payment we consider that, on balance, the compensation package should have been reported to the full Council,
- there was a lack of clear and contemporaneous record keeping of the decision-making process, including an assessment of options available to the Council, and
- given the complex nature of these rare decisions the Council should have considered and documented its consideration of whether specialist legal advice was required.

Management comment

The Senior Officer Employment Procedure was approved at full council on 29th February 2024 and addresses the issues outlined in the report. In addition, the internal processes relating to the use of settlement agreements for all employees has been reviewed and updated and aligns with the Statutory Guidance on Special Severance Payments (SSP). The lack of contemporaneous notes, legal advice and recorded decisions is noted. If a similar situation was to occur in the future it is accepted that these concerns would need to be addressed.

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

Financial sustainability



We considered how the Council:

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

Identified all the significant financial pressures it is facing and builds these into plans

The medium term financial strategy (MTFS) is a rolling document and is therefore updated annually as part of the budget setting process or at more regular intervals should there be significant changes to the Council's financial position. This ensures the strategy takes into account changes brought about by funding, policy, demand for services and one-off events such as Covid-19.

Despite the challenging environment in which it is operating, the Council delivered a £0.655m underspend against the 2020/21 revenue budget. The General Fund balance as at 31 March 2021 stands at £14.091m, which is an increased balance when compared with March 2020, but is still below the required risk assessed target level as set by the Council of £15.482m. The Council was sufficiently provided with revenue funding relating to Covid-19 in 2020/21, and therefore no additional costs have had to be funded by the Council's base budget.

The Housing Revenue Account (HRA) delivered an underspend of £3.634m and the level of the Housing Revenue Account reserve stands at £11.341m (£10.140m in 2019/20).

We are satisfied that, the council has appropriate financial planning arrangements and there is evidence of it being scrutinised at Cabinet, Council and Audit Committee. It is clear that financial risks are clearly considered as part of the Council's risk management arrangements. The Council's Risk Manager Annual Report 2020/21 presented to the September 2021 Audit Committee provides a summary of current strategic, operational and project risks for the council, this includes 2 high level risks regarding the ability to fund Adults and Children's services. This demonstrates the Council is aware of the significant challenges it continues to face and is actively managing its financial health.

The Council has arrangements in place to recognise, assess and re-evaluate the impact of changes in expenditure drivers, including pay inflation. The MTFS sets out the range of key assumptions that the Council has made in developing its financial plans, this includes:

- **Demographic increases:** The two most significant areas of growth are within Adult Social Care and Children's Social Care. The numbers of looked after children and particularly the complexity of need is also providing a demographic pressure in 2020/21 with £8.4m of additional costs projected in 2021/22. This pressure has been exacerbated by the ongoing pandemic which saw increasing numbers of children coming into social care, this leads to other additional costs including additional social workers required to support the looked after children and increasing legal and court costs relating to legal cases of looked after children. The pressure element which is estimated to relate to Covid-19 has been assumed to be funded nationally so this has not been factored into future growth assumptions. Total demographic pressures for 2021/22 are £15.5m. Projections of growth are anticipated over the next three years of the financial strategy, with Adult Social Care and Children's Social Care being the two main areas of growth anticipated
- **Inflation:** The Council employs approximately 4,900 full time equivalent members of staff and so inflationary increases in pay is one of the key elements of inflation to be included. The majority of staff pay is linked to the National Joint Council rates, or if not this body then other recognised pay bodies, and so the inflationary pay award is negotiated nationally, which the Council then implements. The Council has assumed a 2% increase for 2021/22 (£2.7m) and maintained this increase at 2% for the next five financial years.

We are aware given the current financial climate the Council is reviewing its key assumptions and provided a revised MTFS in July 2022

A budget report was presented to the Council in February 2021, in line with Section 25 of the local Government Act 2003. The report confirmed the Council Tax calculation for 2021/22. It and the MTFS are based on evidence based estimates. The budget report clearly identified the need to build up the Council's reserves to support uncertainty in the short and medium term.

Financial sustainability

Plans to bridge its funding gaps and identify achievable savings

The Authority has historically managed its finances well, however for several years the Council has been reporting significant medium-term financial challenges and this has been exacerbated by the pandemic. The Council has suffered loss of operational income, and has had to deal with the allocation, distribution and provision of emergency loans and grants at sometimes relatively short notice, while continuing to provide “business as usual” services such as social care and education.

The MTFS was considered as part of the budget setting process for 2021/22 in February 2021. This sets out its plans for 2021/22 through to 2025/26. This includes over £9m of savings proposals across all areas of the Council. Many of these savings, however, are a continuation of plans stalled in 2020 due to the Covid-19 outbreak. With an allocation from the Financial Strategy Reserve the Council has produced a balanced budget for 2021/22.

Saving schemes are risk rated and monitored monthly to determine progress on delivery. Savings delivery is monitored internally by Directors as part of regular meetings where the variances are challenged and scrutinised.

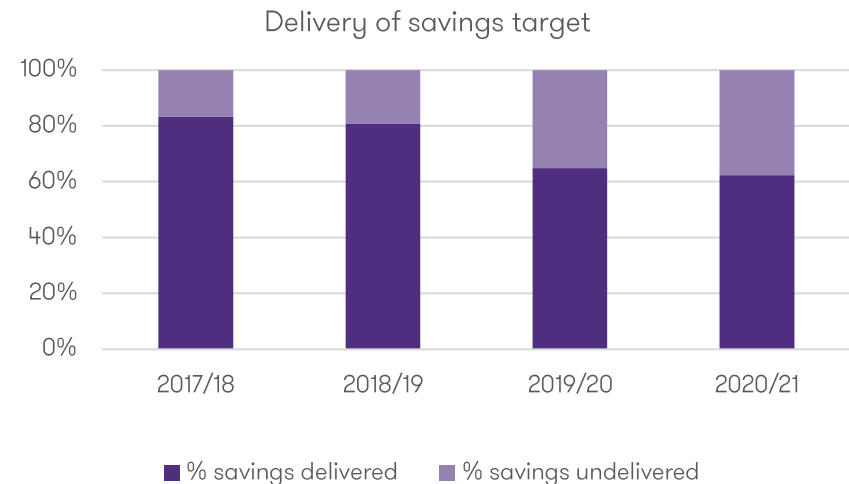
Despite managing the implications of the global pandemic, including lockdown restrictions, staff redeployment and revised service delivery, 62% of the 2020/21 approved savings were nevertheless achieved and rated green. The remaining savings were rated red, and where this was directly attributable to Covid-19 implications have been covered by un-ringfenced government grant. £7.040m savings remain unachieved at outturn, some of which have been offset in part by one-off savings in year. However, when setting the Council’s budget for 2021/22, growth funding has been applied in order to remove the 2020/21 red savings that have been determined to be undeliverable.

We have analysed the Council’s delivery of savings over the past four years since 2017/18. This analysis shows that the council has not delivered their savings target over the past four years. We acknowledge that savings delivery has been challenging in the context of the pandemic in Q4 2019/20 and 2020/21. However, there is a trend of underdelivered savings. Our experience in the sector is that in sustained periods of austerity, savings become harder to deliver over time. This is likely to be the case for the Council, given the impact of 10 years of funding reductions, the scale of savings already delivered and the continuing impact of the pandemic. In this context, we recommend the Council refine its existing arrangements for monitoring savings, to ensure they support delivery of savings required in the period 2021/22 to 2025/26. We have raised an improvement recommendation in relation to this on page 19.

Following the application of growth funding during the budget setting process, £5.954m of the red savings still remained within the Council’s budget and are still required to be delivered, as the delivery of these savings targets was considered to be delayed rather than undeliverable. Delivery of these savings will be scrutinised at regular savings challenge meetings scheduled to take place with Senior Managers throughout 2021/22.

The proposed expenditure plans for 2021/22 of £615.492m exceeds the total funding anticipated of £554.318m, leaving a funding gap to be resolved. This funding gap is increased in 2021/22 on a ‘one-off’ basis due to a reliance on additional Covid-19 grants. It is anticipated that the funding gap will increase each year over the five year period to 2025/26 unless additional funding or ongoing savings can be identified.

The Council is required by law to set a balanced budget each year, and therefore the Council is planning to bridge this gap by using one off grants from the government. The Council has also been building up a Financial Strategy Reserve (£21m) in order to build up funds to assist with any potential funding shortfall that may occur when the Fair Funding Review is implemented. For 2021/22 it is intended that £13.5m of this reserve will be used. This could be seen as unsustainable use of reserves but considering the impact of Covid as a one-off impact, this is deemed to be a justified use of the reserve.



Financial sustainability

Plans its finances to support the sustainable delivery of services in accordance with strategic and statutory priorities.

The Council appointed a new, permanent Chief Executive in September 2020, who was tasked with creating a new Corporate Plan to meet the expectations and direction of a new Administration. The need to put time aside to develop a new Corporate Plan, itself within a developing environment, did not afford the Council time to delay the production of a robust Financial Strategy, and so the Council developed a series of organisational principles for the Council to operate under. The MTFs outlines these Organisational Principles and aligns the direction of the Council's Financial Strategy under them with focus on the cost of investment, return on investment and delivery of cost and efficiency savings required to ensure sustainability and balance of the strategy into the future.

The capital programme also supports the Council's corporate priorities. The Council had plans to deliver a £120m Capital Programme over 2020/21. The programme was reprofiled over the year, to align with realistic delivery expectations, to £68.566m. Total capital expenditure for 2020/21 was £65.739m, which equated to 96% of the re-profiled capital programme.

The Council prepares an annual treasury management and investment strategy, this sets out the Council's policies for managing its investments and for giving priority to the security and liquidity of those investments. The Treasury Strategy outlines affordable borrowing limits based on the level of capital expenditure planned within the Capital Strategy and also considers the requirement for taking out new borrowing. The Council is currently under-borrowed as funding for capital schemes is from high cash balances rather than new prudential borrowing given that returns on cash balances are low and the Council is currently holding a healthy cash balance due to levels of reserves being held at a reasonable level.

The MTFs and underlying budget reports do not however clearly demonstrate the cost of delivering core statutory services as distinct from discretionary areas of spend. We have identified this as an improvement recommendation.

Ensures its financial plan is consistent with other plans such as workforce, capital, investment and other operational planning

The Council's MTFs sets the framework for how the Council plans to use its financial resources to fund the activity to deliver the Council's outcomes. The MTFs is fully integrated with the Council Corporate Plan and Workforce Strategy 2017/17-2020/21. The Council Plan sets the Council's long term vision. The Workforce strategy provides an organisation wide framework to achieve the Council's priorities. Given historic challenges in recruitment in a number of services, it is important that the council continue to engage in proactive workforce planning and develops its own people through investment in apprenticeships and other on the job training.

The ongoing revenue costs of major capital investments are reflected in revenue budgets. The Council has a robust process in place to test and consider all capital investment proposals with the underlying requirement that all decisions taken are affordable. The Council's Asset Management Strategy, Economic Growth Strategy and Commercial Strategy are important documents that link together with the Capital Strategy and Treasury Strategy to enable the Council to take long term decisions in a considered manner.

The Council has a Treasury Management Strategy which sets out the balance between optimising return and mitigating risk. The Council continues to adopt a low risk investment strategy.

Identifies and manages risk to financial resilience, such as unplanned changes in demand and assumptions underlying its plans.

Risks are incorporated into the MTFs. There is a section entitled 'Analysis of Budget Assumptions and Financial Risks, including the Council's Financial Management Arrangements and Appropriate Mitigation'. This section of the MTFP discusses key risks to the delivery of the MTFP and the actions to mitigate each risk identified. The draft MTFP was presented and discussed by Cabinet before presentation to Council in February 2021.

The potential impact of changes of various estimates and assumptions is discussed with Cabinet as part of the briefing process in the development of the budget, this is not however formally reported to members. We recommend that the Council introduce formal reporting to members on the sensitivity analysis and scenario planning, undertaken on key assumptions and estimates, as part of the development of the annual budget and MTFs. This will provide transparency on the sector wide uncertainties the Council is subject to and the potential impact of these on its financial sustainability. This is reflected in the improvement recommendation on page 20.

There is no evidence of the Council failing to update financial plans to reflect changes in government policy.

Conclusion

Overall, we are satisfied the Council has appropriate arrangements in place to ensure it manages risks to its financial sustainability. 2020/21 financial performance was cushioned by one-off Covid-19 grants, enabling the Council to finish with an underspend. However, the Council anticipates its funding gap will increase each year over the five-year period to 2025/26 unless additional funding or ongoing savings can be identified. We have not identified any risks of significant weakness in its arrangements. We have identified three improvement recommendations which are set out overleaf.

Improvement recommendations



Financial Sustainability

Recommendation 6 [IR5]	Refine formal reporting to Members on sensitivity analysis and scenario planning, undertaken on key assumptions and estimates, as part of the development of the annual budget and MTFP.
Why/impact	Regular review of MTFP assumptions will help to ensure ongoing accurate financial forecasting and allow for timely action. Reporting MTFP assumptions, sensitivity analysis and scenario planning to members will provide the opportunity for challenge, scrutiny, oversight and improve the accuracy of forecasting.
Auditor judgement	Greater agility on financial management is required given current financial uncertainties, regular review and challenge of MTFP assumptions to help ensure financial forecasts remain accurate.
Summary findings	Sensitivity analysis and scenario planning is undertaken on key assumptions and estimates, as part of the development of the annual budget and MTFP, however this analysis is not formally presented to members.
Management comment	This was implemented during 2022/23 as part of the planning process for the 2023/24 financial year, but has not yet led to changes in the overarching budget report. The Council will give consideration to this as a further step in the development of our planning processes. This is led by Ben Jay (AD Finance and IT and deputy CFO).
Recommendation 7 [IR6]	Refine existing arrangements for identifying and monitoring MTFS savings plans to ensure planned savings are fully delivered or where circumstances change to affect delivery these are clearly reported.
Why/impact	Sufficient and appropriate arrangements to monitor, manager and address slippages will improve savings deliver and reduce pressure on the Council's useable reserves.
Auditor judgement	There is a risk that MTFS savings become harder to identify and deliver over the medium-term.
Summary findings	We have analysed the Council's delivery of savings over the past four years since 2017/18. This analysis shows that the council has not delivered their savings target over the past four years. We acknowledge that savings delivery has been challenging in the context of the pandemic in Q4 2019/20 and 2020/21. However, there is a trend of underdelivered savings. Our experience in the sector is that in sustained periods of austerity, savings become harder to deliver over time.
Management comment	This has been implemented as part of the changes to overall financial management for the 2023/24 financial year, with savings 'trackers' being maintained by service areas for each individual saving line in the MTFS. This includes financial values and forecasts as well as narrative comment and updates. This is led by Ben Jay (AD Finance and IT and deputy CFO).

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

Improvement recommendation



Financial Sustainability

Recommendation 8 [IR7]

Consideration should be given to making a clear distinction between statutory and discretionary spending in the budgetary information provided to members and published on the web.

Why/impact

This would help residents to understand the difference between these types of spending and would help inform them as to any spending which is made as a result of manifesto pledges or following a decision by the Council to undertake a specific project outside of or in addition to its statutory obligations.

Auditor judgement

The different categories of spending could be made clearer. Currently it is not apparent whether any of the Council's spending is discretionary.

Summary findings

No distinction is made in the financial information reported to TCWG between statutory and discretionary spending.

Management comment

The Council will review this analysis, but has already explored this at a corporate level and determined that in many areas all spending that is undertaken is statutory, and the level of discretion is principally the extent or quality of the service. However, the Council agrees that the overall budget analysis as published would benefit from further levels of detail, perhaps including this, and we will explore ways to achieve that. This is led by Ben Jay (AD Finance and IT and deputy CFO).

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

Improving economy, efficiency and effectiveness



We considered how the Council:

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

Performance monitoring

The Council undertake quarterly budget monitoring which reports performance to plan and analyses any significant variances in both revenue and capital spend which have arisen. The nature of the medium term financial strategy (MTFS) is such that this is a rolling plan and is therefore refreshed on an annual basis to incorporate changes in demand or key underlying assumptions.

Alongside this, the Council also monitor qualitative performance, with Quarterly Performance Reports produced which presents the Cabinet with the Council's Performance against seven key outcomes. Each of the seven outcome areas contains a number of sub-outcomes with a range of associated performance measures or milestones. Reports show direction of movement and make reference to the Council's performance portal – 'inphase' where further detail including trends can be found.

There are multiple internal audits conducted throughout the year which allows the body to gain assurance over the accuracy of financial and performance data. Benchmarking charts are produced which can be found on the website. This compares costs and performance data against other local councils. It is clear from the MTFS that the Council uses the data to identify areas of strength and areas for improvement.

Partnership working

The Council's 2020/21 Annual Governance statement outlines how it ensures openness and comprehensive stakeholder engagement. In summary, it states that whilst there have been some delays on projects overall, the Council engages positively and sets out to work in a collaborative open partnership approach with several strategic partners. The Council has a proactive Business Board which it services and engages with on key initiatives and policies.

A multi-agency high cost placement funding panel with Children's Services, Education Services and the Clinical Commissioning Group (CCG) is established to manage high cost placements efficiently. There is a Local Resilience Forum (LRF) which is supported throughout the Council, including at Chief Executive level, through which work is undertaken with the community and multi-agency partners to ensure a robust response is possible for any emergency, this has been key to managing the response to Covid-19.

Public Health has been at the forefront of engagement with all stakeholders during the pandemic. An engagement board has liaised with members and community leaders, with continued engagement through the Health and Wellbeing (HWB) and Partnership Forums. Local leaders have also been brought together in areas of high cases or in outbreak situations. Other work streams such as the Drug and Alcohol Strategy, Joint Strategic Needs Assessment and Weight Management work are centred around good engagement.

Many Council services are delivered in partnership with other organisations such as the Local Strategic Partnership, Fire Service, Shropshire Towns and Rural (STaR) Housing, West Mercia Energy, Shropshire County Pension Fund, town and parish councils and voluntary bodies and trusts. The Safeguarding Executive Board comprises of NHS, police, third sector creating a strategic forum for planning and delivering services, for example, hospital discharges with NHS providers and commissioners.

Annually the public is consulted on several projects. The full list of consultations undertaken is available on the Council website which is well utilised and where required consultations are extended to allow for any local concern that is raised.

In 2020/21 the Place Directorate currently had 1,700 volunteers benefiting from opportunities to work with Council staff across a wide range of activities. It is highly engaged with its service users and there is strong evidence of how well it is valued. Development of strategies or projects have benefited from significant stakeholder engagement and public consultation to ensure that they are reflective of local priorities.

Officers from several areas have continued to receive and respond to multiple enquiries from communities, residents and businesses following the impact of flooding and Covid. Web services are increasingly used to provide updates to common enquiries and roll out self-service channels, such as Revenues and Benefits products; business grant applications; Adult Social Care in promoting self-service and ensuring that information is accessible and relevant to meet service needs. Shropshire Choices has provided information about a wide range of sources of help and support, including independent financial advice and information about care homes and housing options.

Improving economy, efficiency and effectiveness

SEND Joint Inspection







Reports from regulators are considered by the relevant Service Management Team, Directorate leadership Team and Corporate Board. An action plan is developed where feedback identified weaknesses in services.

Between 27 January and 31 January 2020, Ofsted and the Care Quality Commission (CQC) conducted a joint SEND (special educational need and/or disability) inspection of the local area of Shropshire to judge the effectiveness of the area in implementing the disability and special educational needs reforms as set out in the Children and Families Act 2014. The outcomes of the inspection were published in May 2020. The inspection letter identified six significant areas of weakness in the area's practice.

The report also identified many strengths including the positive education outcomes for Shropshire children and young people with an Education, Health and Care Plan (EHCP) that attend mainstream schools and colleges; the pathways that are in place to identify and meet the needs of younger children; some of the services that are provided to children and families such as portage, sensory inclusion service, the severe speech and language impaired children's team and community children's nurses.

As a result of these findings, the Chief Inspector determined that the local area was required to produce a Written Statement of Action (WSOA). In response Shropshire Council, Shropshire Clinical Commissioning Group (CCG) and the Parent Carer Council (PACC) worked together to develop to co-produce documents that identified how all partners would work together to address the concerns identified during the inspection. A Statement of Intent was published in July 2020 and the WSoA was published in November 2020. A strategic board was established of key partners to monitor and implement the WSoA.

There was a re-inspection in November 2022 (reported in January 2023) which concluded that the area had made sufficient progress in addressing three of the significant weaknesses identified at the initial inspection but had not made sufficient progress in addressing three other significant weaknesses (see Table opposite). However, Ofsted and CQC confirmed they would not carry out any further revisit unless directed to do so by the Secretary of State and it was for the Department of Education (DfE) and NHS England to determine the next steps.

Significant Weakness January 2020	Sufficiently addressed November 2022
Inconsistent strategic leadership and weak strategic planning across the area, most notably in the CCG, including the ineffective use of data to accurately commission and plan services.	
The lack of inclusion of health services' input into the area's SEND action plan.	
Significant wait times for large numbers of children and young people on the ASD and ADHD diagnostic pathways.	
Significant waiting times for those needing assessment and treatment from the speech and language therapy service.	
Inconsistency in the quality of input from education, health and care into EHC assessment and planning.	
The high rate of exclusions for children and young people with an EHC plan and the high rate of repeat fixed-term exclusions for those receiving SEND support.	

Whilst the inspectors have identified weaknesses in service performance the Council can demonstrate that, alongside partners, it took actions in 2020/21 that, by 2022/23, have led to progress on the significant recommendations raised. There is still work to be done but on the basis we have concluded that this is not a significant weakness in arrangements that requires a Key Recommendation.

We have raised an Improvement Recommendation that the Council should continue to work with its partners to full address the remaining three significant weaknesses. We will continue to monitor the progress of the Council in this area and consider any future steps taken by the Department for Education and NHS England once known.

Improving economy, efficiency and effectiveness

Ensures that it commissions or procures services in accordance with relevant legislation, professional standards and internal policies, and assesses whether it is realising the expected benefits.

The Council is obliged to publish all items of expenditure on goods, services and works which exceed £500 in value. Prior to placing any order, Officers must consider whether the expenditure can be justified. Orders must not be artificially split with the intention of bringing the value of each order below £500, or to avoid a contract threshold, or order less than is actually required.

Contract Standing Orders set out clearly the process managers should follow when procuring/renewing contracts. Where managers wish to vary from these an exception notice is required, for which there is also a clearly documented process and guidance notes.

Reporting continues to Executive Directors through the Commissioning and Assurance Board which seeks contract assurance information and evidence of managing small and medium enterprises, local procurement expenditure, contract signature authorisation and progress of contracts. The Commissioning and Assurance Board allows for stakeholder engagement, integral in managing key decisions. There is wide advertising of procurement opportunities (Website, Twitter, UK Contract Finder, UK tender finder, Delta e-sourcing) Contracts awarded and procurement information is updated monthly on our websites and full, detailed and timely feedback is available to all unsuccessful bidders.

All major contracts must either be signed by the Chief Executive or the Assistant Director - Legal & Democratic Services together with one other Officer who has had authority delegated to them by the Chief Executive or Assistant Director - Legal & Democratic Services or sealed with the Council's Common Seal duly witnessed by an Officer authorised to do so.

Capital monitoring takes place on a quarterly basis. It is reported to Leadership Teams, Corporate Board and Cabinet as part of the same report as revenue budget monitoring. This includes requiring narrative explanations of reasons for changes in total project costs and changes to the phasing of delivery between years. This process is coordinated centrally and where there are any increases in a project costs the additional funding required is also identified. This has been corroborated through our review of budget monitoring reports.

Conclusion

Overall, we are satisfied the Council has appropriate arrangements in place to ensure it manages risks to its oversight in ensuring economy, efficiency and effectiveness in its use of resources. We have identified some opportunities for improvement, set out in the following improvement recommendations.



Improvement recommendation



Improving Economy, Efficiency and Effectiveness

Improvement Recommendation 9 [IR 8]

In response to the March 2020 report from the joint inspectorate review of special educational needs and/or Disabilities (SEND) by CQC and Ofsted, the Council and its Partners have taken action to secure improvement in the six areas where the regulators identified significant concerns in regard to the arrangements/ provisions in the local area. The re-inspection in November 2022 identified Council and its Partners had made adequate progress in three areas but improvements were still required in three. The Council should therefore continue to work with its partners to full address the remaining three significant weaknesses. We will continue to monitor the progress of the Council in this area and consider any future steps taken by the Department for Education and NHS England once known.

Why/impact

Any system failure in services that support children is likely to have a significant impact, both to the well being and future prospects of the children and to the Council staff involved as well as to the reputation of the Council.

Auditor judgement

As the report raises significant concerns, the Council, with its partners must focus on providing a service which meets the needs of its clients and will demonstrate that the remedial actions as outlined in the written statement of actions have been fully implemented. Whilst their re-inspection inspectors have identified continuing weaknesses in three areas the Council can demonstrate that, alongside partners, it took actions in 2020/21 that, by 2022/23, have led to adequate progress in three other areas. There is still work to be done but on this basis we have concluded that this is not a significant weakness in arrangements that requires a Key Recommendation.

Summary findings

Between 27 January and 31 January 2020, Ofsted and the Care Quality Commission (CQC) conducted a joint SEND (special educational need and/or disability) inspection of the local area of Shropshire. The inspection letter noted six significant weaknesses in arrangements and as a result the Chief Inspector determined that the local area was required to produce a Written Statement of Action (WSOA). Shropshire Council, Shropshire Clinical Commissioning Group (CCG) and the Parent Carer Council (PACC) worked together to develop the document that identified how all partners will work together to address the six priority areas identified during the inspection. There was a re-inspection in November 2022 (reported in January 2023) which concluded that the area had made sufficient progress in addressing three of the priority areas identified at the initial inspection but had not made sufficient progress in addressing three significant weaknesses.

Whilst the inspectors have identified weaknesses in service performance the Council can demonstrate that, alongside partners, it took actions in 2020/21 that, by 2022/23, have led to progress on the significant recommendations raised. There is still work to be done but on the basis we have concluded that this is not a significant weakness in arrangements that requires a Key Recommendation but we have raised this Improvement Recommendation.

that the Council should continue to work with its partners to full address the remaining three significant weaknesses. We will continue to monitor the progress of the Council in this area and consider any future steps taken by the Department for Education and NHS England once known.

Management response

The Accelerated Progress Plan (APP) was formerly approved by the DfE and NHSE in April 2023 covering the three remaining areas requiring further improvement and will be monitored monthly by senior leaders and reported to the SEND Partnership Board. Work continues at pace to drive improvements across the SEND system in partnership with education, health and social care through the LA and NHS. This is led by Tanya Miles as DASS/DCS.

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

Shropshire County Pension Fund



We considered :

- How the pension fund plans and manages its resources to ensure it can continue to deliver its services
- How the pension fund ensures that it makes informed decisions and properly manages its risk; and
- How the pension fund uses information about its costs and performance to improve the way it manages and delivers its services

Financial sustainability

The primary resources of the Pension Fund can be categorised broadly into two areas, contributions received from active members and returns on investments (interest, dividends, profit on disposal etc).

In line with regulations, the Fund is required to be formally valued every three years (triennial valuation) by a qualified actuary. As part of this exercise, the actuary will undertake an in-depth review of the Fund based on its current funding plans i.e. the level of assets required to meet future benefit payments, the time period over which it aims to achieve this and then determines the contribution rate at which employer bodies must contribute for the following three years. This also outlines that for major employers, rates may be paid in advance to the fund to cover the three year period. This should be considered in line with the funding strategy statement.

The investment activity of the Fund is dictated by the investment strategy statement which sets out the type of investments that Pension Fund money should be invested in, indicative allocations and expected returns and volatilities. The performance of these investments is then monitored by the Pensions Committee and copies of the reports sent to the Pension Board for information.

Governance

The operation of the Pension Fund is overseen and scrutinised by a number of committees, namely:

- The Local Pension Board was established by Council to meet the requirements of the Public Services Pension Act 2013 for each Local Government Pension Scheme to set up a Local Pension Board to assist the administering authority in ensuring compliance with legislation and the Pension Regulator's requirements. Members consider reports on policy, regulation, codes of practice, risk and fund performance (both investment and administrative).
- The Pensions Committee has a primary focus on the oversight of the general framework within which the Fund's investments are managed and the investment policy. Members are responsible for monitoring the work of the fund managers and the investment pool, LGPS Central Limited, and holding these external bodies to account for performance.

All of the above have met a number of times during the financial period. In line with other meetings of the Council, once a legal precedent was established, these were held virtually during the pandemic. Review of the minutes of meetings demonstrates that members discharge their responsibilities and make informed decisions based on sufficient and appropriate information.

Improving Economy, efficiency, effectiveness

As noted above, the Pension Committee monitor investment performance on a quarterly basis in arrears in line with the reporting provided by fund managers. Copies of all Pension Committee reports are also circulated to the Pension Board and included as agenda items for discussion at the next meeting.

The Local Pensions Board are provided with all Pension Committee reports and are also invited to Pension Committee meetings. A more detailed analysis of funding and performance is considered by the Pensions Committee and this is prepared by the actuary and reviewed in both the public and private sessions due to some content being of a commercially sensitive nature.

The detailed report provides members with information on valuation, sensitivity and benchmarking, in order to determine potential areas for improvement in investment activity.

The Fund produce quarterly reports to update the Local Pensions Board on the key developments affecting pensions administration and the performance of the Pensions Administration Service. This covers a suite of KPIs and measure of performance against these indicators, therefore identifying areas for improvement. The report also monitors workloads, breaches of policy and other projects ongoing to improve the service. The output of the performance of the Fund in the year is captured in the Pension Fund annual report.

Conclusion

Overall, we are satisfied the Council as administering authority has appropriate arrangements in place to ensure the appropriate governance and management of the Pension Fund. It should be noted that the nature of the LGPS is such that the scheme is highly regulated under various Pensions Regulations and compliance with these regulations will ensure adequate arrangements to provide value for money.

COVID-19 arrangements



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

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

Financial sustainability

The impact of COVID-19 has cut across the Council, impacting both its income in the collection rates of Council Tax and Business Rates and cost pressures.

The Council has maintained good oversight of its finances and additional COVID-19 expenditure and income losses throughout the pandemic. These were identified early on and were subject to detailed scrutiny and monitoring.

The MTFs 2021-22 to 2026-27 was approved in February 2021 and forecasts that COVID will continue to have an impact on the budget for the next financial years, with the Council receiving further support funding and compensation for loss of fees and charges income.

Whilst it has set a balanced budget for 2021/22, with savings built in, the Council will undoubtedly need to maintain its high level of monitoring over its finances in order to achieve this budget.

Governance

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

The Council responded quickly to the COVID-19 pandemic with the use of delegated powers where appropriate. This allowed the Council to be as agile as possible in its response to the COVID-19 pandemic emergency.

Internal controls and processes did not need to adapt significantly, as systems were already in place for remote working. Over time we have seen that officers have been provided with improved technology, for example, Microsoft Teams.

The Council's Corporate Risk Register has been updated to ensure COVID related risks are recorded appropriately, mitigated where appropriate and monitored.

Internal Audit's delivery of the 2020/21 audit plan was significantly impacted by the pandemic. However, 59 final Internal Audit reports were issued. 53 with audit assurances provided and 6 with self-assessments in fundamental system areas which were completed by managers and reviewed by a member of the Internal Audit team. This performance represented successful delivery of over 90% of the revised plan.

Improving economy, efficiency and effectiveness

The Council website includes a comprehensive and easily accessible suite of information in regard to the coronavirus which is available to service users. This provides useful guidance on key areas such as keeping yourself and others safe and physical mental health, support for employers and extremely vulnerable residents.

The importance of this information should not be down played in the overall response to the pandemic and ability to provide the wider community with the tools they require to obtain support and combat ill health, thus reducing pressure on services. As noted in the body of the report, the Council have embraced the use of digital and technology to transform the way in which officers work and members provide oversight and scrutiny.

The flexible working arrangements adopted during the pandemic will be taken forward and are evolving into a hybrid of remote working and on site work to aid in collaboration. There is also scope to build on the success of services which have been provided on-line with minimal impact on quality.

The Council has demonstrated that during the pandemic it has continued to forge strong relationships with partners and formed new alliances. This is particularly prevalent with the health and voluntary sector.

Conclusion

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

Appendices

Appendix A - Responsibilities of the Council



Role of the Chief Financial Officer (or equivalent):

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

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

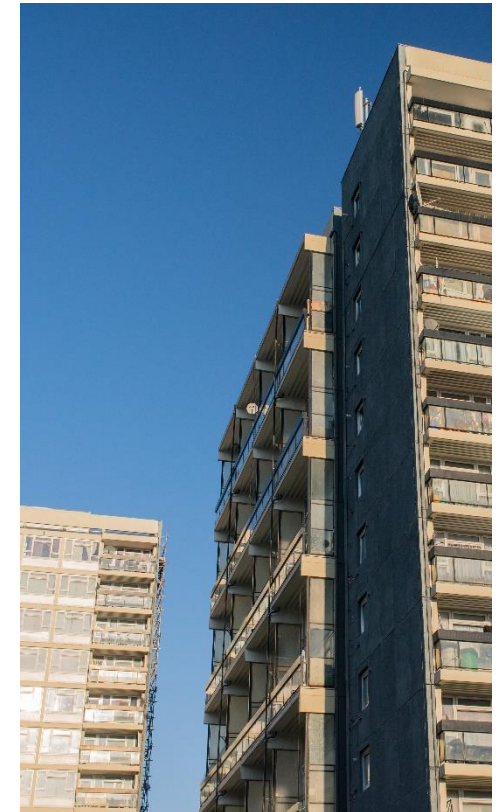
Financial statements are the main way in which local public bodies account for how they use their resources. Local public bodies are required to prepare and publish financial statements setting out their financial performance for the year. To do this, bodies need to maintain proper accounting records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

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

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

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

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



Appendix B - Risks of significant weaknesses - our procedures and findings

As part of our planning and assessment work, we considered whether there were any risks of significant weakness in the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources that we needed to perform further procedures on. The risks we identified are detailed in the table below, along with the further procedures we performed, our findings and the final outcome of our work:

Risk of significant weakness	Procedures undertaken	Findings	Outcome
<p>Financial sustainability</p> <p>The Authority has historically managed its finances well, however for several years the Council has been reporting significant medium-term financial challenges and this has been exacerbated by the pandemic.</p> <p>The Council has suffered loss of operational income, and has had to deal with the allocation, distribution and provision of emergency loans and grants at sometimes relatively short notice, while continuing to provide “business as usual” services such as social care and education.</p> <p>As reported to Cabinet in February 2021 the e Council’s Financial Strategy sets out its plans for 2021/22 through to 2025/26. This includes over £9m of savings proposals across all areas of the Council. Many of these savings, however, are a continuation of plans stalled in 2020 due to the Covid-19 outbreak. With an allocation from the Financial Strategy Reserve the Council has produced a balanced budget for 2021/22.</p> <p>The Council will need to maintain focus on delivering its budget, and be agile in the face of any continuing impacts of the pandemic.</p>	<p>We have considered:</p> <ul style="list-style-type: none"> • how the Council ensures that it identifies all the significant financial pressures that are relevant to its short and medium-term plans and builds these into them • how the Council plans to bridge its funding gaps and identifies achievable savings • how the Council plans finances to support the sustainable delivery of services in accordance with strategic and statutory priorities • how the Council ensures that 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 • how the Council identifies and manages risks to financial resilience, e.g. unplanned changes in demand, including challenge of the assumptions underlying its plans 	<p>We have determined that while the Council’s arrangements are appropriate, the Council must refine existing arrangements for identifying and monitoring MTFS savings plans to ensure planned savings are fully delivered or where circumstances change to affect delivery these are clearly reported.</p>	<p>Appropriate arrangements in place, three improvement recommendations raised.</p>

Appendix B - Risks of significant weaknesses - our procedures and findings

As part of our planning and assessment work, we considered whether there were any risks of significant weakness in the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources that we needed to perform further procedures on. The risks we identified are detailed in the table below, along with the further procedures we performed, our findings and the final outcome of our work:

Risk of significant weakness	Procedures undertaken	Findings	Outcome
<p>Highways contract governance</p> <p>On the 1st of April 2018, following a competitive tender process the council entered into a seven year contract with Kier to deliver highways and street scene services across Shropshire. The annual contract value is circa £27m. The Council recognises that this is above the £21m per annum when the contract was originally advertised. We are also aware that the Council has reported on the challenges that have impacted the contract, (particularly in the first 2 years of the contract), and the progress made on improvements.</p> <p>The Council has identified one of its priorities was to put in place a governance framework that manages the contract and provides oversight.</p>	<p>As part of our minute reviews we have considered existing reporting made to relevant committees in relation to highways contract governance.</p> <p>We have reviewed the internal Audit report regarding the Kier contract dated 21 October 2022.</p> <p>We have reviewed the highways performance reporting as part of the new governance structure implemented.</p>	<p>A new Governance Framework has been introduced to the Highways Service to improve management of the Highways and Environment Term Maintenance Contract with Kier.</p> <p>The Framework consists of a new Strategic Board, an Operations Board, and a number of individual Service and Task & Finish groups designed to drive forward improvements within the Contract.</p> <p>The improvement team is the first Task & Finish Group to be initiated and has focused on driving improvements in reactive maintenance repairs.</p> <p>Further Service and Task & Finish Groups are currently being set up by the council and will be set up as needed</p>	<p>We are satisfied the council has responded positively however they will need to ensure the new governance arrangements embed across the Council and are sufficiently agile to adapt quickly to changes in contract arrangements or emerging challenges. An improvement point has been raised</p>

Appendix C - An explanatory note on recommendations

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

Type of recommendation	Background	Raised within this report	Page reference
Statutory	Written recommendations to the Council under Section 24 (Schedule 7) of the Local Audit and Accountability Act 2014. A recommendation under schedule 7 requires the Council to discuss and respond publicly to the report.	No	N/A
Key	The NAO Code of Audit Practice requires that where auditors identify significant weaknesses as part of their arrangements to secure value for money they should make recommendations setting out the actions that should be taken by the Council. We have defined these recommendations as 'key recommendations'.	Yes	Page 5
Improvement	These recommendations, if implemented should improve the arrangements in place at the Council but are not a result of identifying significant weaknesses in the Council's arrangements.	Yes	Pages 13 to 15 and 19 to 20 and 24

Appendix D - Governance

Departure of the Chief Executive Officer

On the 25th February 2020, following a meeting with the former Leader of the Council, the then Chief Executive Officer (CEO) of the Council, stood down from their role with immediate effect and subsequently left the Council as part of a negotiated settlement on 15th April 2020.

As reported in the Council's financial statements the settlement comprised £124,036 compensation for loss of office and £476,172 in respect of pension strain. Given the rare nature of this type of departure and the size of the exit package we determined to review the Council's governance and decision-making arrangements in respect of this matter.

Severance payments and negotiated settlements arise from a complex mix of competing interests:

- the political leadership has a democratic mandate and wants a chief executive who will help implement its policies,
- chief executives work for the whole council, not just the political leadership and have a right to fair treatment and protection from political interference, and
- taxpayers expect their money to be spent appropriately.

Reconciling the interests of members, chief executives and taxpayers is difficult.

Severance payments are often used at senior management level in both the public and private sectors. When dismissal is not appropriate, such payments make it possible to change the leadership of an organisation. This may be needed when a new strategic direction is required, or when a change in governance arrangements means that the leadership role has changed. A constructive working relationship between the chief executive and senior members is also important for running the council well. If this relationship breaks down, a quick departure may be in the public interest. The cost to the taxpayer needs to be weighed against the negative impact of a dysfunctional relationship at the top of the council and the leadership vacuum that may result.

The Council has performance and capability arrangements in place for all staff, including senior officers. Following these if there are concerns in respect of either performance or capability should lead to better outcomes for taxpayers i.e. individuals will hopefully improve and become more effective in their roles or, if not, then the time and costs of negotiated settlements can be avoided. No concerns had been raised in this respect ahead of the meeting on the 25th February and a negotiated settlement approach was effectively decided upon on the basis that relationships had broken down.

The Council has acknowledged that there are limited contemporaneous documents in relation to the matter, and specifically the consideration of options available to it at the time as part of the negotiated settlement process. Retrospectively it has provided an assessment of the relative risk assessment and cost of the options which were taken into account at the time the decision was being made. These conclude that although the sums were likely to be significant whether a settlement or capability route was taken, it was still cheaper, quicker and less damaging to the continued effective running of the Council's services and its reputation to seek a negotiated settlement. The conclusions have been reached by officers experienced in these areas but our experience at other councils has been that specialist legal advice is also often sought in order to mitigate risks.

As noted opposite, the Council's financial statements disclose that the settlement comprised £124,036 compensation for loss of office and £476,172 in respect of pension strain. We have reviewed the retrospective calculations and are satisfied that they are consistent with the considerations we have seen elsewhere in similar situations. However, it is unusual for these not to have been formerly recorded or reported upon ahead of a formal offer or decision in order to demonstrate that best value was being obtained for local taxpayers. The Council's view is that these did not require approval by full Council on the basis that:

- As the departure of the former CEO was a negotiated settlement the Council's view is that this is therefore not a dismissal under the 2001 regulations.
- Within the £124,036 compensation for loss of office there is a sum of £25,000 that the Council's view at the time was a statutory entitlement linked to invoking a payment in lieu of notice (notice period for chief officers is 3 months) and therefore this element of the package was under £100,000 (the threshold for full Council approval).
- The pension strain was calculated in line with regulation 30(7) of the Local Government Pension Scheme Regulations 2013 ('the 2013 regulations') which require that where an active member who has attained the age of 55 or over and whose employment is terminated by mutual consent on grounds of business efficiency, that member is entitled to, and must take immediate payment of retirement pension relating to that employment payable under the regulations without reduction. It is therefore a statutory entitlement and falls outside of the requirements of paragraph 4.13.2.

Appendix D - Governance

We accept:

- the Council's view that the former CEO's employment was terminated by mutual consent rather than as a result of dismissal. However, we recognize the possibility that the termination could have been via dismissal had settlement not been reached and there is no evidence the Council had considered this risk and the potential need for full Council approval if that proved to be the case,
- that the former CEO could have been entitled to an unreduced pension under the 2013 regulations. However, we would have expected the Council to have formally documented its considerations and the advice it had received when concluding an unreduced payment was entitled, and
- whilst in respect of the compensation for loss of office the Council cannot demonstrate whether it considered whether the payment was being made under the Local Government (Early Termination of Employment) (Discretionary Compensation) (England and Wales) Regulations 2006 we have reviewed the calculations and are satisfied it is less than the maximum of 104 weeks' pay cap under those regulations.

However, it is less clear in our view as to whether there is a "statutory entitlement" to the payment of two months pay in lieu of notice (£25,000 gross). The former CEO may have been entitled to 3 months' notice but, in our view, this would not generate an entitlement to receive, or requirement to accept the offer of, payment instead of that notice. The payment in lieu of notice was something that was agreed between the parties rather than an "entitlement". On that basis, in our view, there is a possibility that the Council did not fully comply with its pay policy and Constitution (which in incorporates the requirements of Local Government Constitutional and Administrative Law) that would have required the decision to agree the terms of the settlement agreement to have been approved by the full Council.

Our overall conclusion is that given the specific circumstances of the matter it is unlikely that the Council would have reached a different conclusion. While we have drawn this conclusion we also note that there was a general lack of clarity in respect of the recorded decision-making process. We consider that best practice would expect these decisions to have been recorded, including setting out a record of the decision including the date it was made, a record of the reasons for the decision, details of any alternative options considered when making the decision in order to comply with regulation 13 Local Authorities (Executive Arrangements) (Meetings and Access to Information) (England) Regulations 2012. As well as potentially being non-compliant with these regulations the lack of written records of a very significant decision in terms of the Council as an organization is indicative of weak governance arrangements in our view.

Policies and governance arrangements vary between councils but, in general, decisions of this nature are made either by full council or by a human resources (HR) sub-committee or an equivalent. We would also note that new Statutory Guidance in this area was also issued under section 26 of the Local Government Act 1999 and came into effect in May 2022 (after the decision being considered here) and sets out the obligations placed on Local Authorities when making Special Severance Payments (SSPs). SSPs are described as payments made outside of statutory, contractual or other requirements when leaving employment in public service. The key to whether such exit related payments are SSPs will be whether they exceed statutory, contractual, or other requirements.

The guidance requires that consideration must be given as to whether a SSP would be a proper use of public money. This is determined through scrutiny of the economic rationale, as well as the impact on efficiency and effectiveness. The Council is responsible for ensuring that SSPs are only made when there is a clear, evidenced based justification.

The government expects that any Special Severance Payments should be approved according to the following process:

- payments of £100,000 and above must be approved by a vote of full council, as set out in the Localism Act 2011
- payments of £20,000 and above, but below £100,000, must be personally approved and signed off by the Head of Paid Service, with a clear record of the Leader's approval and that of any others who have signed off the payment
- payments below £20,000 must be approved according to the local authority's scheme of delegation. It is expected that local authorities should publish their policy and process for approving these payments.

Where the proposed SSP is to the Head of Paid Service, to avoid a conflict of interest the payment should be approved by a panel including at least two independent persons.

At the time of drafting we were unable to identify where these had been incorporated into the Council's current Constitution. We communicated our view to the Council that it should review its Constitution and Standing Orders to ensure its arrangements in place for dealing with dismissal of senior officers are compliant with Localism Act 2011 and the Local Government Act 1999 (and associated regulations) and consider whether an independent committee or board may help in these circumstances. As noted in Management's Response on page 5 the Senior Officer Employment Procedure was approved at full council on 29 February 2024 and addresses the issues outlined here. The updated arrangements aim to ensure that the Council has a clear procedure in place should similar events arise in the future.



[grantthornton.co.uk](https://www.grantthornton.co.uk)

© 2021 Grant Thornton UK LLP.

'Grant Thornton' refers to the brand under which the Grant Thornton member firms provide assurance, tax and advisory services to their clients and/or refers to one or more member firms, as the context requires. Grant Thornton UK LLP is a member firm of Grant Thornton International Ltd (GTIL). GTIL and the member firms are not a worldwide partnership. GTIL and each member firm is a separate legal entity. Services are delivered by the member firms. GTIL does not provide services to clients. GTIL and its member firms are not agents of, and do not obligate, one another and are not liable for one another's acts or omissions.