

## Supplement to the agenda

### Audit and Governance Committee

Tuesday 30 January 2024, 2.00 pm

Conference Room 1, Herefordshire Council Offices, Plough Lane, Hereford, HR4 0LE

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# Title of report: External Auditor's Annual Report 2022/23

**Meeting: Audit and Governance Committee**

**Meeting date: Tuesday 30 January 2024**

**Report by: Head of Strategic Finance**

## **Classification**

Open

## **Decision type**

This is not an executive decision

## **Wards affected**

All Wards

## **Purpose**

To present to the Audit and Governance Committee the External Auditor's Annual Report 2022/23 for information and discussion.

## **Recommendation(s)**

**That:**

- a) **The committee reviews the external auditor's report, notes its findings and recommendations and considers the management responses.**

## **Alternative options**

1. There are no alternative recommendations. The auditor's Annual Report forms part of the statutory external audit of the Council.

## **Key considerations**

2. The external auditor's draft Annual Report for 2022/23 is attached at Appendix 1. Under the National Audit Office Code of Audit Practice, the external auditor is required to consider whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in the use of its resources. The Annual Audit Report looks back over the 2022/23 year and summarises all of the reports and work that the external auditors have undertaken. The report closes the 2022/23 audit.

3. As well as reporting on overall arrangements, the external auditor has considered whether there were any significant risks or weaknesses in the arrangements in place. The report includes the external auditor's findings together with their recommendations as to how any weaknesses identified can be addressed.
4. Across the public and private sectors, the Financial Reporting Council (FRC) has set out its expectation of improved financial reporting and the requirement for auditors to demonstrate increased scepticism and challenge; to undertake additional and more robust testing referred to as 'raising the quality bar' of audit.
5. The auditor judgement for 2022/23 reflects this additional challenge and scrutiny against the Value for Money criteria areas. As a consequence of increased audit review and tougher evaluation criteria, improvement recommendations have been made in respect of arrangements previously assessed and confirmed as robust and appropriate, despite there being no changes to these arrangements over the period of audit review.
6. The report focuses on the arrangements in place during the financial year ended 31 March 2023 under three key themes: financial sustainability, governance and improving economy, efficiency and effectiveness in the use of resources. Improvements noted across these themes during 2022/23 are summarised on pages 3 and 4 of the report.

### **Financial Sustainability**

7. The auditor's work considers the council's arrangements to identify risks to financial resilience, financial pressures and funding gaps as well as the robustness of financial planning and monitoring activity to support strategic priorities.
8. In this area, the report notes that there are no significant weaknesses in arrangements; with robust and realistic financial planning arrangements and appropriate financial monitoring and reporting. The report notes the council's comparatively stable financial position, despite challenges in the sector.

### **Governance**

9. The auditor's work considers how the council monitors and assesses risk, gains assurance over the effectiveness of internal controls and how the council makes properly informed decisions, supported by appropriate evidence to allow for challenge and transparency.
10. In this area, the report notes that there are no significant weaknesses in the council's governance arrangements for ensuring that it makes informed decisions and properly manages risks. There are sound arrangements in place, including internal audit and counter fraud and to ensure appropriate behaviours and standards.

### **Improving economy, efficiency and effectiveness in the use of resources**

11. The auditor's work considers how the council uses financial and performance information to identify areas for improvement and evaluate service delivery, stakeholder engagement and expected benefits from commissioning and procurement activity.
12. In this area, the report notes that two significant weaknesses identified in 2021/22 have been addressed by the council but one significant weakness remains in respect of improvement in children's services. A key recommendation has been included at page 7 of the report.
13. The improvement of children's services remains a key priority for the council and work continues with the Department for Education, the appointed Commissioner and with Leeds City Council as part of the children's services improvement programme.

## **Community impact**

14. One of the principles in the council's code of corporate governance is to implement good practices in transparency, reporting, and audit to deliver effective accountability. To support effective accountability the council is committed to reporting on actions completed and outcomes achieved, and ensuring stakeholders are able to understand and respond as the council plans and carries out its activities in a transparent manner. External audit contributes to effective accountability.

## **Environmental Impact**

15. Herefordshire Council provides and purchases a wide range of services for the people of Herefordshire. Together with partner organisations in the private, public and voluntary sectors we share a strong commitment to improving our environmental sustainability, achieving carbon neutrality and to protect and enhance Herefordshire's outstanding natural environment.
16. Whilst this is a report for information and will have minimal environmental impacts, consideration has been made to minimise waste and resource use in line with the council's Environmental Policy.

## **Equality duty**

17. Under section 149 of the Equality Act 2010, the 'general duty' on public authorities is set out as follows:  
A public authority must, in the exercise of its functions, have due regard to the need to –
  - a) eliminate discrimination, harassment, victimisation and any other conduct that is prohibited by or under this Act;
  - b) advance equality of opportunity between persons who share a relevant protected characteristic and persons who do not share it;
  - c) foster good relations between persons who share a relevant protected characteristic and persons who do not share it.
18. The public sector equality duty (specific duty) requires us to consider how we can positively contribute to the advancement of equality and good relations, and demonstrate that we are paying 'due regard' in our decision making in the design of policies and in the delivery of services. As this is a decision on back office functions, we do not believe that it will have an impact on our equality duty.

## **Resource implications**

19. There are no specific resource implications from the report itself. However, there may be resource implications from implementing specific recommendations. If these cannot be contained within approved budgets, then a specific decision will be presented for approval.

## **Legal implications**

20. There are no specific legal implications arising from this report itself.

## **Risk management**

21. Specific risks are included within the external auditor's report.

## **Consultees**

22. None.

## **Appendices**

Appendix 1 Auditor's Annual Report on Herefordshire Council 2022/23

## **Background papers**

None identified.

# Auditor's Annual Report on Herefordshire Council

2022/23

26 January 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.



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

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# Executive summary



## Value for money arrangements and key recommendations

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

Auditors are required to report their commentary on the Council's arrangements under specified criteria and 2022/23 is the third 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. Where we identify significant weaknesses in arrangements, we are required to make recommendations so that the Council may set out actions to make improvements. Our conclusions are summarised in the table below.

Criteria	2022/23 Risk assessment	2022/23 Auditor judgement on arrangements	2021/22 Auditor judgement on arrangements
Financial sustainability	No risks of significant weakness identified.	A No significant weaknesses identified, but two improvement recommendations raised.	G No significant weaknesses identified; no improvement recommendations have been raised.
Governance	No risks of significant weakness identified.	A Our work did not identify any areas where we considered that key or improvement recommendations were required, but two prior year improvement recommendations remain.	A No significant weaknesses identified, but two improvement recommendations raised.
Improving economy, efficiency and effectiveness	Three risks of significant weakness identified – all of which were carried forward from our 2021/22 judgement.	R Significant weakness in Children's Services remains. The two contracting significant weaknesses have been addressed, but one improvement recommendation made. Two prior year improvement recommendations remain.	R Three significant weaknesses identified in 2020/21 remain: 1. Failure to meet the statutory needs of children within its Children's Social Care Services 2. Not effectively contract managing its public realm contract 3. Continuing to contract with a dormant company. Two improvement recommendations raised.

**G** No significant weaknesses in arrangements identified or improvement recommendation made.

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

**R** Significant weaknesses in arrangements identified and key recommendations made.

# Executive summary (continued)



## Value for money arrangements and key recommendations

2022/23 has been another challenging year for the Council. Since issuing our 2021/22 Auditors Annual Report in June 2023 the Council has continued to focus on transforming service delivery to deliver its objectives whilst also seeking to address concerns raised in our previous reports. Our report this year also reflects additional challenge and scrutiny of the criteria areas, building on the baseline arrangements reported on in prior years. As a result, the Council should expect an increased number of suggested areas to refine arrangements in the form of improvement recommendations.

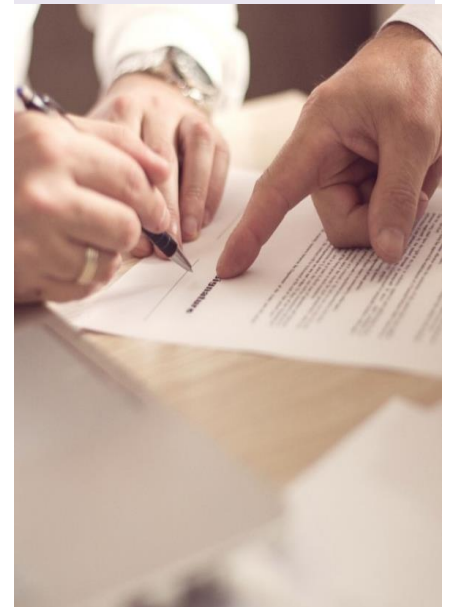
Whilst there are now emerging signs of improvements in Children's Services the speed of change remains the focus of the inspector's latest report. From a contract management perspective, specifically the public realm and facilities management contracts, the Council has sought greater accountability from the provider for service delivery, recognising deficiencies in the existing contract mean this will only be fully possible following formal re-negotiation as part of contract extension talks currently underway.

We are, however, pleased to see that the Council has sought further legal advice on exposure to any risk arising from its contract with Balfour Beatty Living Places Limited (BBLP), a dormant company. We also note the timely conclusion of the 2022/23 opinion audit of the Council's financial statements.



## Financial Statements opinion

We have completed our audit of your financial statements and issued an unqualified audit opinion on 25 October 2023, following the Audit & Governance Committee meeting on 24 October 2023. Our findings are set out in further detail on page five.



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## Financial sustainability

Financial planning is sound and based on reasonable assumptions. The Council is in a comparatively stable financial position, but pressures in Children's Services are leading to budget overspends. The Council needs to save £20m in 2023/24 in order to achieve its planned budget. This represents over 10% of the net budget and will inevitably require the new administration to take some difficult decisions. We have made two improvement recommendations to support the Council in better evidencing the reason for expenditure and how it supports priorities, recognising a change in focus following the local elections in May.



## Governance

The Council has sound governance arrangements in place, including risk management, internal audit, counter fraud and ensuring appropriate behaviours and standards. There is scope to further improve reporting of risks by mapping them to Council objectives.



## Improving economy, efficiency and effectiveness

The Council has made progress in Children's Services, but arrangements need to improve further and our key recommendation, initially raised in April 2022 and then revised in June 2023, remains. Sufficient progress has been made in contract management to close the two key recommendations from the prior year. We have made one improvement recommendation to support the Council in further improving contract management arrangements.

Performance reporting is comprehensive, with clear links to the Council's Delivery Plan.

# 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 2023 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 2022/23
- 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 issued an unqualified opinion on the Council's financial statements on 25 October 2023.

Further information on our audit of the financial statements is set out in the adjacent column.

## Timescale for the audit of the financial statements

The draft financial statements were submitted for audit in line with the agreed national timetable and were supported by good quality working papers.

We received excellent cooperation from Finance officers at the Council and we would like to put on record our appreciation for this support throughout the audit process.

## Findings from the audit of the financial statements

Our work did not identify any material errors or adjustments to the financial statements. No adjustments were identified that resulted in an adjustment to the Council's Comprehensive Income and Expenditure Statement.

We recommended a small number of audit adjustments to improve the presentation of the financial statements.

More detailed findings are set out in our Audit Findings Report, which was presented to the Council's Audit & Governance Committee 24 October 2023. Requests for this Audit Findings Report should be directed to the Council.

# Use of auditor's powers

We bring the following matters to your attention:

2022/23

## Statutory recommendations

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

We did not make any written recommendations under Schedule 7 of the Local Audit and Accountability Act 2014.

## Public Interest Report

Under Schedule 7 of the Local Audit and Accountability Act 2014, auditors have the power to make a report if they consider a matter is sufficiently important to be brought to the attention of the audited body or the public as a matter of urgency, including matters which may already be known to the public, but where it is in the public interest for the auditor to publish their independent view.

We did not issue a public interest report.

## Application to the Court

Under Section 28 of the Local Audit and Accountability Act 2014, if auditors think that an item of account is contrary to law, they may apply to the court for a declaration to that effect.

We did not make an application to the Court.

## Advisory notice

Under Section 29 of the Local Audit and Accountability Act 2014, auditors may issue an advisory notice if the auditor thinks that the authority or an officer of the authority:

- is about to make or has made a decision which involves or would involve the authority incurring unlawful expenditure,
- is about to take or has begun to take a course of action which, if followed to its conclusion, would be unlawful and likely to cause a loss or deficiency, or
- is about to enter an item of account, the entry of which is unlawful.

We did not issue 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 make an application for judicial review.

# Key recommendation

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## Key Recommendation 1

The Council should continue to work with the Department for Education to improve its Children's Social Care Services.

## Identified significant weakness in arrangements

While the Council continues to make improvements in Children's Services these are not yet sufficient for Ofsted to remove their "Inadequate" rating or for us to conclude there is no longer a significant weakness in arrangements.

## Summary findings

The Council is working with Ofsted, the appointed Children's Commissioner and other local authorities to secure the improvements required, including investing significant additional funding in the service. Further improvement is still required however.

## Criteria impacted by the significant weakness



Improving economy, efficiency and effectiveness

## Auditor judgement

Based on the work undertaken, we are not satisfied that the Council has proper arrangements in place to secure economy, efficiency and effectiveness in its use of resources in 2022/23. The significant weakness in arrangements regarding Children's Services, initially raised in April 2022 and then revised in June 2023, remains.

## Management comments

The Council continues to work with the Department for Education, the appointed Commissioner and with Leeds City Council as part of the children's services improvement programme. The most recent Ofsted Monitoring Visit reports identify improvements and progress made whilst recognising further work is still required. The improvement of children's services remains a key priority for the council. We have a robust Improvement Plan in place monitored by the Improvement board and by the Scrutiny Committee and we are committed to working with families to improve outcomes and ensure that the children and young people across the county thrive.

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 & Governance Committee to monitor progress of implementation to gain assurance over the arrangements in place.

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

# Securing economy, efficiency and effectiveness in the Council's 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.

**In addition to our financial statements audit work, we perform a range of procedures to inform our value for money commentary:**

- Review of Council, Cabinet and committee reports
- Regular meetings with senior officers
- Interviews with other members and management
- Attendance at Audit & Governance Committee
- Considering the work of internal audit
- Reviewing reports from third parties including Ofsted
- Reviewing the Council's Annual Governance Statement and other publications



Our commentary on the Council's arrangements in each of these three areas is set out on pages 11 to 30.

# The current LG landscape



## National context

Local government in England continues to face significant challenges as a sector. These include a high level of uncertainty over future levels of government funding, alongside delays to the Government's plans for reform of the local government finance system, impacting on medium-term financial planning. This is also a time of generationally significant levels of inflation – the UK inflation rate was 7.8% in April 2022, rising to a 41-year high of 11.1% in October 2022, then reducing to 10.1% in March 2023. Inflation levels put pressure on councils' revenue and capital expenditure, as well as the associated cost of living crisis impacting on local communities and businesses, leading to an increase in demand for council services such as children with special education needs with associated transport costs, debt advice, housing needs, and mental health, as well as impacting on some areas of council income such as car parking and the collection rates of council tax, business rates and rents. This follows a significant period of funding reductions by Government (2012 to 2017) and the impacts of Brexit and the COVID-19 pandemic which, for example, have contributed to workforce shortages in a number of council service areas, as well creating supply chain fragility risks.

The local government finance settlement for 2023/24 was better than many in the sector anticipated demonstrating an understanding by Government of the financial challenges being faced by the sector. However, the Local Government Association, in July 2023, estimated that the costs to councils of delivering their services will exceed their core funding by £2bn in 2023/24 and by £900m in 2024/25. This includes underlying cost pressures that pre-date and have been increased by the pandemic, such as demographic pressures increasing the demand for services such as social care and homelessness.

Over the past decade many councils have sought to increase commercial activity as a way to generate new sources of income which has increased the nature of financial risk, as well as the need to ensure there is appropriate skills and capacity in place to manage such activities.

Local government is coming under an increased spotlight in terms of how the sector responds to these external challenges, including the Government establishing the Office for Local Government (Oflog) and there has been an increase in the number of councils who have laid a Section 114 Notice, or are commenting on the likelihood of such an action, as well as continued Government intervention at a number of councils.

There has also been an increase in the use of auditors using their statutory powers, such as public interest reporting and statutory recommendations. The use of such auditor powers typically derive from Value for Money audit work, where weaknesses in arrangements have been identified. These include:

- a failure to understand and manage the risks associated with commercial investments and council owned companies
- a failure to address and resolve relationship difficulties between senior officers and members
- significant challenges associated with financial capability and capacity
- a lack of compliance with procurement and contract management processes and procedures
- ineffective leadership and decision-making.

Value for Money audit has an important role in providing assurance and supporting improvement in the sector.

# The current LG landscape (continued)



## Local context

Herefordshire is a county covering a geographic area of 2,180 km<sup>2</sup>. It is home to nearly 200,000 residents across rural villages and market towns with an economy combining long-standing agriculture and food production industries alongside innovative businesses in cyber and technology, construction, manufacturing and engineering. The County Plan sets out the Council's vision for the future of Herefordshire:

*“Respecting our past, shaping our future - we will improve the sustainability, connectivity and wellbeing of our county by strengthening our communities, creating a thriving local economy and protecting and enhancing our environment”.*

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Herefordshire Council (the Council) has gross expenditure budget of around £400m, used to deliver services to residents. These services include maintenance of over 2,000 miles of roads, collection of over 85,000 residential bins, safeguarding around 1,000 children (including around 350 who are in its care) and providing care and support to 2,500 vulnerable adults.

The Council employs approximately 1,300 staff (excluding staff in schools).

The Council enjoys a comparatively stable financial position, but is seeing ongoing pressures in Children's Services as it continues to invest in order to secure the improvements required following the Ofsted “Inadequate” rating.



# Financial sustainability



## We considered how the Council:

- identifies all the significant financial pressures that are relevant to its short and medium-term plans and builds them into its plans
- plans to bridge its funding gaps and identify achievable savings
- plans its finances to support the sustainable delivery of services in accordance with strategic and statutory priorities
- ensures its financial plan is consistent with other plans such as workforce, capital, investment and other operational planning which may include working with other local public bodies as part of a wider system
- identifies and manages risk to financial resilience, such as unplanned changes in demand and assumptions underlying its plans.

## Short and medium term financial planning

Financial planning is sound and based on realistic assumptions for income and expenditure. The £5.6m overspend in 2022/23 was largely attributable to the significant pressures in the Children & Young People Directorate as a result of increases in unit cost prices, inflation and rising demand for placements and transport services.

### 2022/23 financial performance

In year reporting of the revenue position to Cabinet was consistent with the outturn report and draft financial statements. There are some relatively small movements in year. We would expect some movement during the year as the Council manages the financial position and more information becomes available.

The Quarter Four report to June 2023 Cabinet shows expenditure of £181.5m, being a £5.6m overspend. The largest portfolio is Health and Adult Wellbeing with a net budget for 2022/23 of £66.3m. The outturn was £65.0m, being an underspend of £1.3m. The second largest portfolio is Children's Services, with a net budget for 2022/23 of £52.9m. The outturn was £62.5m, being an overspend of £9.6m. The Quarter Four report explains this "reflects the significant pressures facing the Directorate in respect of increases in unit cost prices, inflation and rising demand for placements and transport services". The Council has, with the exception of Children's Services, been able to contain expenditure within budget.

The Council's performance against key financial and performance metrics is set out in the table below.

	2022/23	2021/22
Planned revenue expenditure	£175.9m	£161.0m
Actual revenue expenditure	£181.5m	£165.2m
Planned capital spend	£99.1m	£97.9m
Actual capital spend	£46.4m	£37.6m
Planned savings target	£1.6m	£11.2m
Actual savings delivered	£1.5m	£8.1m
Year-end cash position	£23.3m	£40.2m

# Financial sustainability (continued)

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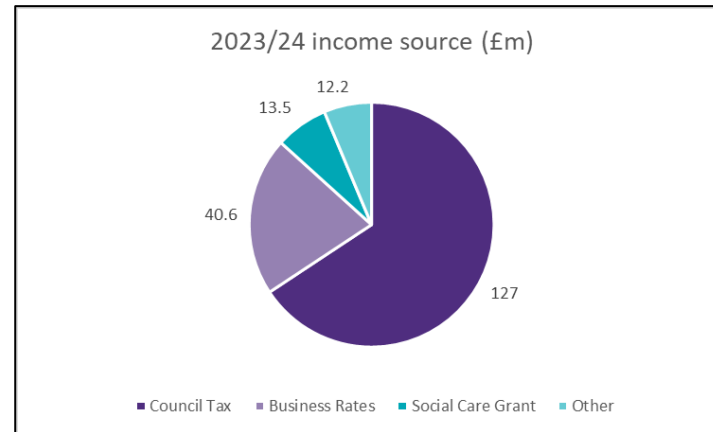
## Short and medium term financial planning (continued)

### 2023/24 financial planning

The 2023/24 Budget Setting report was presented to Full Council on 10 February 2023. It includes the provisional local government finance settlement announced on 19 December 2022 (see adjacent text box for details). While not included in the public report, the Council has undertaken appropriate analysis and consultation to arrive at reasonable assumptions for the growth in the council tax base (band D equivalent properties) and for growth in business rates, which is prudent.

The report shows that the Council is proposing a net revenue budget of £193.3m for 2023/24. This is funded primarily by council tax (£127m), business rates (£40.6m) and social care support grant (£13.5m). These three elements total £181.1m. The budget includes realistic assumptions around income, including raising council tax by the maximum permitted amount.

The budget setting report shows that the Council has included realistic assumptions around expenditure. Cost pressures totalling £33.4m are included. These include the pay award, inflation at 8% generally, but varied where a different rate is deemed more appropriate, and the impact of increases in demand for services, including £1.9m for Community Wellbeing and £5.2m for Looked After Children and Agency Fostering placements.



## Local Government Finance Settlement

The Government announced the Provisional Local Government Finance Settlement for 2023/24 in December 2022, with the Final Settlement confirmed in February 2023. The Settlement distributes a range of grants and business rate income allocations to local authorities, and these should be included in the annual budget.

The Final Settlement for 2023/24 distributed £17.1bn of funding to local authorities, a 4.8% increase in cash terms from 2022/23.

The Settlement also provides the Core Spending Power for local authorities, which is the level of resources assumed available to fund the net budget. Core Spending Power includes the levels of government grant for the coming year, for example revenue support grant, new homes bonus and social care grants. It also includes assumed levels of business rate income.

Core Spending Power includes the assumption that local authorities will increase council tax up to the referendum limit, which for 2023/24 is 3% plus an additional 2% for upper tier authorities who provide adult social care services. District Councils can increase council tax by £5 or 3%, whichever is higher.

The Government will undertake Spending Reviews that set out government departmental budgets over a multi-annual period of typically 3 years, including local government. These reviews are different to, but inform, the annual Local Government Finance Settlement.

# Financial sustainability (continued)

## Short and medium term financial planning (continued)

### Financing carbon reduction

The Council has a Carbon Management Plan and an Action Plan. The plan and the capital budget for 2023/24 are aligned. For example, £1.2m for fitting solar PV panels to Council buildings. The Council has not fully costed the ambition to be carbon neutral by 2030, but works on five year cycles, linked to the Medium Term Financial Strategy (MTFS), ensuring that projects are affordable within the capital programme. In the adjacent text box we set out some of the challenges facing local authorities.

The Council is taking a proactive approach to addressing climate change, with a longstanding effort to reduce carbon emissions and a declaration of a climate emergency in March 2019. The Council's dedicated webpage for climate change suggests that it is committed to transparency and engaging with the public on this issue. Quarterly performance monitoring includes the objective "Protect and enhance our environment and keep Herefordshire a great place to live" where a delivery section sets out the ambitions of the Council, action, lead officer, progress and risk rating. The report also includes specific performance measures.



### Carbon reduction

The UK government has a target of 100% reduction in 1990 greenhouse gas emissions by 2050. Many of the carbon budgets set by the government are relevant to Local Authorities. By June 2022, more than 250 English Local Authorities in England had declared Climate Change Emergencies and set carbon reduction targets of their own.

To deliver value for money whilst also implementing carbon reduction, Local Authorities need strong processes. Carbon reduction costs need to be reflected within medium-term financial plans; funding needs to be consistent with other strategic priorities; costs need to be accurately recorded and monitored; and the relative costs of acting versus not acting need to be evaluated on an ongoing basis.

Climate change is often already reflected in local authority risk registers and where local authorities set themselves strategic goals around carbon reduction, effective processes for monitoring progress against those goals is needed. Training should be kept up to date both for executives and for members overseeing climate change and carbon reduction risk and performance. As legal requirements are evolving and new sources of funding and grants continue to come forward, horizon scanning for new duties and opportunities will also need to be vigilant.

# Financial sustainability (continued)

## Identifying savings

The Council needs to make savings of £20m in 2023/24 in order to stay within the planned budget. There is a further £16m funding gap up to 2026/27. The scale of savings required is challenging. However, our testing of the most significant schemes indicated that they were properly developed and realistic. Primarily owing to pressures in Children's Services, the Quarter One finance report for 2023/24, presented to Cabinet in September 2023, shows a forecast outturn deficit of £9.5m. Delivery of planned savings is therefore crucial, but the report notes that £7.8m of savings are "At risk".

### 2023/24 savings required

The Budget Setting report clearly sets out the financial challenge the Council faces "Whilst a balanced budget is proposed for 2023/24, there is a total funding gap of almost £16m over the period from 2024/25 to 2026/27 and this must be addressed through future reductions in spending, savings or transformation of services." The balanced budget for 2023/24 is dependent on the Council achieving £20m of savings in year, across 36 schemes. In 2022/23 there were 20 schemes, with planned savings of £1.6m. While all but £0.1m of this was achieved, to move from £1.6m to £20m is a step change.

### Testing savings schemes

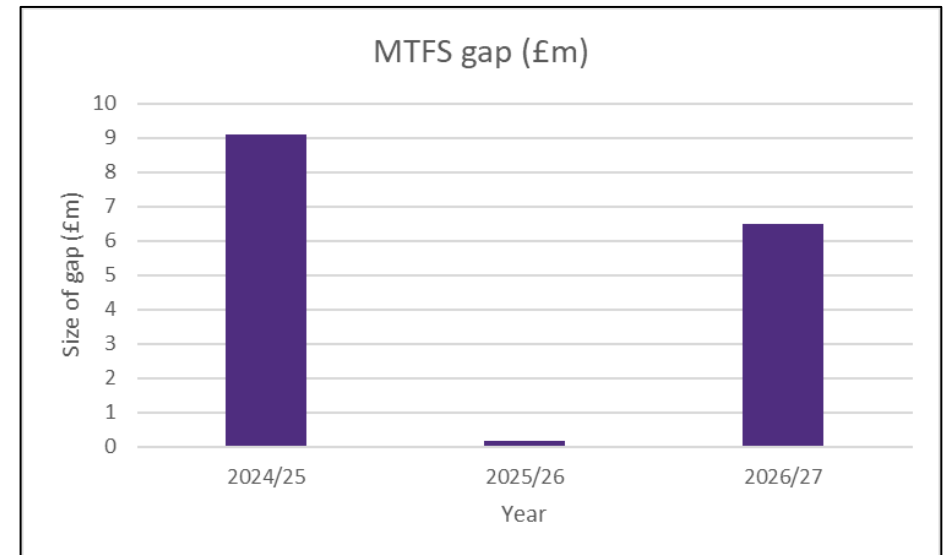
To test the robustness of the savings proposals we looked at the two highest value schemes, both of which are within the Children and Young People Directorate - "Reduction in numbers of children coming into our care; increased recruitment of foster carers; review of sufficiency; tight management control of high-cost placements" planned to deliver £2.5m savings and "Reduction in reliance on agency staff and move to a permanent staffing establishment. Gradual withdrawal of previously added additional capacity. Revised Workforce

Strategy" planned to deliver £2m savings. Both of these are closely linked to the Children's Improvement Plan. We found that there was appropriate evidence to support these schemes and that they had been consulted upon.

We also tested £5.9m of "central savings" of which £1m is related to transformation work being supported by PwC and includes three workstreams: Service Cost Recovery, Customer Acceleration and Third Party Spend. Detailed work has been undertaken to identify proposed areas of transformation activity.

Other items comprising the £5.9m include £1.9m arising from a change in the Minimum Revenue Provision (MRP) policy, recommended by the Council's treasury advisors, and £2.1m savings arising from changes to the pension fund contributions following the triennial review. There is a further £0.9m relating to business rates pooling gain, which is on track to be achieved. While these are non-recurrent measures, it is appropriate to include them, and the Council is not relying solely on them.

The MTFS shows estimated funding gaps of £9.1m in 2024/25 (after applying £5m savings / efficiencies); £0.175m in 2025/26 and £6.5m in 2026/27. The £5m efficiencies reflect the transformation work planned across the Council.



# Financial sustainability (continued)

## Identifying savings (continued)

### Reporting on savings delivery

Quarterly budget and performance reports to Cabinet include appropriate monitoring and reporting of savings schemes. In 2022/23 there were 20 schemes, with planned savings of £1.6m. All but £0.1m of this was achieved, and the under achievement was anticipated and reported from Quarter 1 (September 2022).

### 2023/24 financial position

The Quarter One finance report for 2023/24, presented to Cabinet in September 2023, shows a forecast outturn deficit of £9.5m.

Children's Services is the main financial pressure, as expected given the High Court judgement and "Inadequate" Ofsted rating. The Council has invested to improve the service and has a three year plan after which it anticipates the service will return to financial balance. Adult Social Care is an emerging financial pressure, which the Council is again seeking to manage over the longer term, including looking at future provision of care homes and reducing demand for places.

The table below shows the planned savings for 2023/24.

	2023/24
Planned savings	£20.0m
Planned savings as a % of budget (£193.3m)	10.3%



The Quarter One finance report for 2023/24 explains that, of the £20.0m savings included in the budget, £7.8m are assessed as "At risk". The report sets out the corrective actions being taken in each area, as well as the need to develop further contingency schemes. While the Council has therefore identified and clearly reported the risks in the savings plan and is taking appropriate steps to mitigate them, achieving £20m of savings (over 10% of the budget) is very challenging. In our prior report we commented "The Council does not have a track record of delivering all its planned savings." While recognising that the recent past has been significantly impacted by the Covid-19 pandemic, the scale of the savings required is unprecedented for the Council and early indications are that it is already falling behind plan. The very low level of savings in 2022/23 has inevitably increased pressure in 2023/24. We have not raised an improvement recommendation as the Council is taking appropriate action, but we have noted the risk of non delivery.

# Financial sustainability (continued)

## Financial planning and strategic priorities

While financial planning is robust and realistic, there is scope to further enhance public reporting by setting out which areas of expenditure are statutory and which are discretionary. As part of this, investments in both revenue and capital should be clearly aligned to Council priorities. While a challenge many councils face, there is also scope to improve the accuracy of capital expenditure forecasts.

### Linking budget setting to Council priorities

The Budget Setting report to Council in February 2023 does not distinguish between core statutory and discretionary services. Two pieces of feedback on the extensive budget consultation included "Reduce discretionary services and focus on what is core to the community." and "Concentrate on core services and not spend on optional costs relating to climate change." Highlighting which areas of expenditure are statutory and which are discretionary would enhance the report and provide greater clarity to readers, including those who have provided feedback on the consultation. This is an improvement area and we have made a recommendation below.

The Budget Setting report states that the themes in the County Plan are reflected in the budget. The budget includes £33.4m of cost pressures, and these are clearly set out. But it is not clear what investments in services the Council is making to support its vision and aims. Improving links between the Council Plan and annual investments in service areas would support readers in understanding the expected impact of budget increases. This is an improvement area and we have made a recommendation.

The Council should further enhance the budget setting report by linking planned revenue and capital investments to the Council Plan to show how they contribute to achieving the Council's vision and aims. As part of this process the Council should set out those areas that are statutory and those discretionary areas of spend where Council priorities can be delivered.

The Budget Setting report very clearly sets out that an additional £4.5m is included in the budget to support the Children's Improvement Plan. The Council therefore invests in services where this is needed to improve provision.

### Capital budgeting

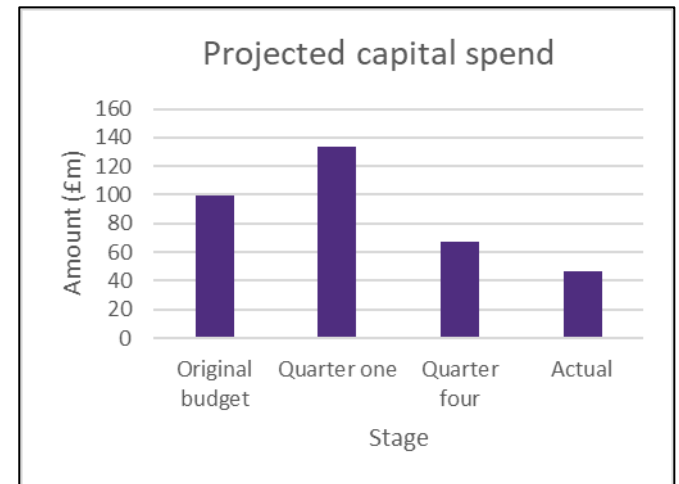
The proposed Capital Budget for 2023/24 totals £140.3m, with schemes clearly set out. However, the report could be further enhanced by including a reference to how the capital expenditure will support achievement of the Council priorities. This is an improvement area and we have made a recommendation, incorporated into the one above.

Forecasting capital expenditure is challenging for all councils. For Herefordshire, the original 2022/23 capital budget approved in February 2022 was £99.1m. Reports to Cabinet show that this changed to £133.8m at Quarter One. By Quarter Four this had been re-revised to £67.0m. Actual expenditure was £46.4m, representing an underspend of £52.7m against the original budget of £99.1m.

Movements of this scale present a number of challenges, including ensuring that appropriate funding is available through treasury management. Council capital spending can also have a positive impact on the local economy. This is an improvement area and we have made a recommendation.

The Council should review its arrangements for setting its annual capital programme to ensure it is realistic and deliverable having regard to prior year performance.

Delivery of the capital programme is included in the quarterly finance reports to Cabinet. Each capital project is shown, with explanations for any variances (including slippage). The explanations are reasonable.



# Financial sustainability (continued)

## Financial planning and other operational plans

The Council has identified that it needs to improve the links between its workforce planning and delivery of priorities, which will be supported by service plans.

### Workforce

The adjacent text box sets out some of the workforce challenges local authorities face. In our prior year Auditor's Annual Report we made an improvement recommendation "The Council should develop more comprehensive and integrated workforce plans which support its recently developed workforce strategy." The Council has a "Human Resources and Workforce Strategy" which covers years 2021-2024. The Council recognises that this needs updating, including to reflect the impact of the Covid-19 pandemic and the Children's Services Ofsted report and subsequent actions. The Council's Scrutiny Management Board made a number of recommendations in January 2023, including "Clearer linkages are made between the council's updated workforce strategy to the council priorities, organisational staffing structure and the delivery of service plans." We agree with this recommendation, and have not sought to repeat the it. However, our previous recommendation remains ongoing.

## Treasury Management

The Council has clear policies for the contribution of treasury management as part of its financial plan, finding an appropriate balance between mitigating risk and optimising the contribution that borrowing and investment can offer. The Treasury Management Strategy sets out the Council appetite to risk and where any surplus funds will be invested.



### Workforce

Local government faces multiple workforce challenges including skill shortage in areas like social work and planning and the lessening attractiveness of local government as a career choice when staff can be paid more for less stressful work in other sectors.

This trend has seen an increase in the use of more expensive agency staff and use of interims.

The need for future workforce planning to ensure the Council has the appropriate staff, with the right skills, at the right time to deliver sustainable council services is therefore clear.

To achieve this aim, councils need to develop a workforce plan or strategy which not only sets out aims and aspirations but also a roadmap with numerical targets against which outcomes can be measured and assessed

The workforce strategy needs to be clearly linked with strategic objectives and financial planning.

Without a corporate workforce plan, Councils cannot take a strategic view of how the needs of the council in terms of human resources will develop over the medium term and appropriate development through training and recruitment may not be undertaken.

# Financial sustainability (continued)

## Managing risks to financial resilience

**Financial risks are identified at the planning stage where possible and reflected in the budget. For unforeseen risks which cannot be addressed within the budget the Council uses reserves. The budget is underpinned by appropriate scenario planning, with the most likely outcomes used.**

The Council identifies risks associated with financial planning, incorporates these into the budget where possible and clearly communicates these in reports. The approach is that, where risks materialise in year and cannot be accommodated within the budget, earmarked reserves and an annual contingency budget are used to manage the risk and financial impact.

Reports to Scrutiny Management Board form part of the budget setting process and include an element of scenario analysis. For example, the impact of different rates of inflation or pay awards.

Scenario planning undertaken covers different increases in council tax, pay and non contractual inflation and business rates. The Council then uses the most likely scenario in the MTFS. This analysis has not been reported in the budget or MTFS presented publicly due to the sensitive nature of the range of values. The range in council tax and inflation has been discussed between Officers and Members and a number of Councillors asked for the impact of the Council Tax increase on each valuation band.

The Council has a Dedicated School's Grant (DSG) deficit at 31 March 2023 of £1.0 million (£0.3 million at 31 March 2022). This deficit sits as a negative unusable reserve on the balance sheet as permitted via a statutory instrument. In the context of other DSG deficits we are aware of, this is modest. The adjacent text box sets out some of the national challenges.



## Dedicated Schools Grant Deficits

On 12<sup>th</sup> December 2022, the UK Government announced that it would be extending statutory override for the Dedicated Schools Grant (DSG) in England for the next 3 years, from 2023-24 to 2025-26. By the time this period elapses, the statutory override will have been in place for six years.

Recent estimates put the total national deficit for local authorities in tens of billions by March 2023. Whilst statutory override remains in place, there is no requirement to make provision from general reserves for repaying the deficit. Reforms and savings targets have been agreed with those local authorities with the biggest deficits. However, all local authorities need to focus on managing (and reducing) their deficits – because how these will crystalize as liabilities in 2026 is not clear.

Within DSG, the High Needs Block has proved particularly problematic. The Block is there to support children with special educational needs (SEN), which means providing more teaching staff and resources. However, there is often a significant gap between funding granted per child and the actual cost of the teaching and other resources needed.

Every parent has the right to apply for support for their child. An expensive appeal process also exists. There are significant regional differences in numbers of plans granted by local authorities and cost management on those plans once they are granted. Managing (and reducing) the growing DSG deficits that arise as a result will be a challenge both for financial sustainability and for maintaining the overall quality and effectiveness of service provision.



# Financial governance

## Annual budget setting

**The Council has sound arrangements for internal and external consultation over the budget.**

The annual budget setting process for 2023/24 began formally in September 2022. The starting point is the prior year budget which is then adjusted for known pressures or planned investments or savings. Trends are factored in. For example, anticipated increases in demand for social care. Other options are considered during the process, before the proposed budget is presented to Full Council in February.

### Consultation

The Council has sound arrangements in place to ensure that there is adequate internal and external engagement in the budget setting process. This began in July 2022 with a report to Cabinet setting out the proposed timetable, reports and internal and external consultation. Public consultation included 12 local events, presenting high-level options to contribute towards balancing the Council's budget for 2023/24 and their likely impact. These options included reducing and transforming services, increasing charging for services and increasing council tax. There were 428 participants across these local events. Online consultation received 243 responses. Internally, Scrutiny Management Board received reports in September, October and January, with a report to Cabinet in January drawing everything together and setting out the consultation feedback.

The Council has appropriate arrangements to ensure that budget holders, finance staff and Corporate Directors are involved in the budget setting process. Regular reporting to Scrutiny Management Board ensures that Members are involved in the process and can have an input before presentation to Cabinet and then Full Council.

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## Budgetary control

**The Council has sound arrangements in place to ensure that budget holders are provided with appropriate information and support. Reports to Members contain an appropriate level of detail.**

### Working with budget holders

As part of the monthly reporting cycle, regular meetings between the Finance team and budget managers take place to share information, update the forecast and consider any emerging risks and pressures.

These meetings also serve to ensure that activity data which informs the forecast is updated and challenged by Finance. Since February 2023 Directorate Finance reports have been redesigned and now include:

- Headlines and key risks including key pressures in forecast
- Recommendations
- Key Risks/Impact and Assumptions
- Forecast Outturn by Service Areas and Key Variances over £0.250m (plus change since last month)
- Analysis of Key Pressures.

## Reporting to Members

Cabinet receives quarterly budget and performance reports. These include all of the information we would expect to support key decisions, without providing too much detail. Reports include key financial information on the revenue and capital budgets, treasury management activity and performance information.

In our prior year Auditor's Annual Report we made an improvement recommendation "*The Council should include its performance against budget for the Dedicated Schools Grant (DSG) within its quarterly Cabinet budget reports.*" The position was included in the Quarter Four report to June Cabinet, which was the earliest opportunity following presentation of our report. Our recommendation has therefore been addressed.

### External financial reporting

The Council has robust arrangements in place to prepare and publish its financial statements and to respond to audit questions. The 2022/23 financial statements were published within the national timeframe and the audit completed by the end of October - one of the earliest upper tier councils in the Country - with very few, minor, adjustments required.

# Improvement recommendations

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## Improvement Recommendation 1

The Council should further enhance the budget setting report by linking planned revenue and capital investments to the Council Plan to show how they contribute to achieving the Council's vision and aims. As part of this process the Council should set out those areas that are statutory and those discretionary areas of spend where Council priorities can be delivered.

## Improvement opportunity identified

The budget includes investments in services, but it is not clear how these investments support delivery of the Council's aims and objectives. The ability of a Council to reduce or change service provision is impacted by whether they are statutory or discretionary, recognising the level of service provision for statutory services can be flexed. The Council's public consultation on the 2023/24 budget included feedback around discretionary and core (statutory) services. The budget report does not clearly identify spending in these areas.

## Summary findings

Financial planning is robust and realistic, but there is scope to make the reasons for decisions and how they will support achievement of Council aims clearer.

## Criteria impacted

 Financial sustainability

## Auditor judgement

Our work has enabled us to raise a recommendation to support management in making appropriate improvements.

## Management comments

There is a clear focus on the delivery of statutory responsibilities across the council and this is clearly aligned to financial management and monitoring. There are limited instances of non-statutory spending across council Directorates as the majority of services are regulated, in part at least, by statute with some discretion within the delivery.

The budget report, and supporting information, clearly outlines how planned investment supports the delivery of the council's priorities and objectives in respect of both capital and revenue. Quarterly budget and performance monitoring reported, presented by Cabinet, provide in-year information on the achievement of these priorities by reference to the approved annual revenue and capital budgets.

Management note the improvement recommendation but consider that the budget report, and supporting financial and performance information, provides significant and valuable information for residents.

Progressing the actions management has identified to address the recommendations made will support the Council in addressing the improvements identified from our work. We consider that the timescales provided by management are appropriate and encourage the Audit & Governance Committee to monitor progress of implementation to gain assurance over the arrangements in place. The range of recommendations that external auditors can make is explained in Appendix B.

# Improvement recommendations

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## Improvement Recommendation 2

The Council should review its arrangements for setting its annual capital programme to ensure it is realistic and deliverable having regard to prior year performance.

## Improvement opportunity identified

Forecast capital expenditure in 2022/23 was subject to significant movements in year. This reflects the difficulty faced in delivering capital to projects to what are often tight delivery timelines given current supply chain challenges. This makes treasury management activity more difficult and also means that Council priority projects do not progress as planned.

## Summary findings

Forecasting the timing of capital expenditure is difficult, and something many councils struggle with. However, there is scope for the Council to improve accuracy of forecasting.

## Criteria impacted



Financial sustainability

## Auditor judgement

Our work has enabled us to raise a recommendation to support management in making appropriate improvements.

## Management comments

The arrangements for setting the council's annual capital programme are robust and appropriate. Movements in the capital forecast arise as a result of changes in the delivery of capital works which are informed by a variety of variables and this is typical across local authority capital programmes. The arrangements to forecast capital expenditure in a timely and reliable manner for internal decision making and for external reporting are robust and appropriate. The council has effective treasury management arrangements in place and the council's budget and Medium Term Financial Strategy reflect assumed slippage in the estimate of capital financing costs to ensure that the impact of movement in the delivery of capital activity is appropriately reflected in short and medium term financial plans.

Management note the improvement recommendation but consider that current arrangements for setting its capital programme are appropriate and informed by relevant information to estimate planned delivery.

Progressing the actions management has identified to address the recommendations made will support the Council in addressing the improvements identified from our work. We consider that the timescales provided by management are appropriate and encourage the Audit & Governance Committee to monitor progress of implementation to gain assurance over the arrangements in place. The range of recommendations that external auditors can make is explained in Appendix B.

# Governance



## We considered how the Council:

- monitors and assesses risk and gains assurance over the effective operation of internal controls, including arrangements to prevent and detect fraud
- approaches and carries out its annual budget setting process
- ensures effective processes and systems are in place to ensure budgetary control; communicate relevant, accurate and timely management information (including non-financial information); supports its statutory financial reporting; and ensures corrective action is taken where needed, including in relation to significant partnerships
- ensures it makes properly informed decisions, supported by appropriate evidence and allowing for challenge and transparency
- monitors and ensures appropriate standards, such as meeting legislative/regulatory requirements and standards in terms of staff and member behaviour (such as gifts and hospitality or declaration of interests) and where it procures and commissions services.

## Risk management and internal controls

The Council has appropriate arrangements in place in respect of risk management, internal audit and counter fraud. There is scope, as we recommended in our prior year report, to further enhance risk reporting by mapping risks to Council objectives.

### Risk Management

The Council has set out high-level responsibilities for managing risk in the Constitution which highlights that the Audit and Governance Committee is responsible for providing assurances on risk management arrangements. The Performance Management Framework documents risk management arrangements and establishes that the Council operates three levels of risk registers - Corporate, Directorate and Service. The highest risks are found on the Corporate Risk Register, with lower level operational risks on Service Risk Registers.

During 2022/23 the Audit and Governance Committee received quarterly risk updates. As part of this process, a review of the risks was undertaken, resulting in the addition of some risks while others were downgraded to accurately reflect the Council's significant risks. The January 2023 risk register identifies 19 risks that have been assessed as the most significant. This is at the higher end of the number of risks we would expect to see reported to Members. As such, we agree with the Annual Internal Audit Report 2022/23 which noted that *"the Council recognised that its approach to risk needed to be more strategic and more consistent to be sure that the Council's leadership was directing attention and council resources to where they will have the most impact."*

In our prior year Auditor's Annual Report we made an improvement recommendation *"The corporate risk register should be updated to map each corporate risk to the relevant corporate objective."* This has not been completed and remains an area for improvement.

## Internal Audit

The Council's Internal Audit service is provided by SWAP who are guided by professional standards and subject to regular internal and external reviews to ensure compliance and effectiveness. The quarterly updates on progress and the annual opinion report to the Audit and Governance Committee help to ensure that the Council is aware of any issues or areas for improvement identified by the Internal Audit team and can take appropriate action to address them.

## Fraud, bribery and whistleblowing

The Council has adequate arrangements in place for the detection and prevention of fraud evidenced by the Anti-fraud, Bribery and Corruption Policy which is regularly updated to reflect the current environment. The launch of a new Anti-fraud, Bribery and Corruption Policy has also supported the arrangements and provides guidance and information such as relevant policies, awareness videos, news articles, successes, and provides advice on scams and corporate fraud. A joint quarterly fraud update is provided to the Audit and Governance Committee from the Council's Counter Fraud Department and SWAP Internal Audit. An annual fraud report is provided to the Audit and Governance Committee each year by the Council's Counter Fraud Manager.

A revised Whistleblowing Policy has been simplified and made clearer for both staff and managers to operate, and includes a checklist for managers on how they should deal with whistleblowing concerns.

# Governance (continued)

## Informed decision making including the Audit Committee

The Council has sound arrangements in place to ensure that all appropriate information is presented to Members to ensure informed decision making. Senior Officers and Members have created an appropriate culture and the Audit and Governance Committee is effective.

### Decision making

Each Committee has a work programme, agreed at the start of the year, detailing issues to be discussed at each meeting. The Council also clearly defines “key decisions” (principally expenditure over £0.5m) and ensures that appropriate information is provided for these. For example, the Hereford Transport Hub, presented to Cabinet in October 2022 for the approval of outline design, specification and cost plan.

### “Tone from the top”

Senior Officers and Members create an appropriate culture and tone. In the Ofsted Monitoring Visit Feedback report presented to Cabinet in June 2023 the Inspector reports *“Leaders in Herefordshire are determined and committed to improve services in Herefordshire. The chief executive and director of children’s services, along with other senior leaders understand the scale of change based on a realistic self evaluation. A systematic approach to improvement is being implemented. Leadership capacity and governance has been enhanced by utilising additional resources and a commitment from leaders across the council. Leaders are now more outward looking, proactively learning from better practice within the wider sector nationally.”*

### Audit and Governance Committee

The Audit and Governance Committee provides appropriate challenge to Officers. In our prior year Auditor’s Annual Report we made an improvement recommendation that *“The Council should consider having independent members of the Audit & Governance Committee.”* The Council has sought to address this and, although there had been expressions of interest, a recruitment exercise for additional Independent Persons has not resulted in any applicants coming forward. Our recommendation is therefore closed.

The Council’s performance against key governance metrics is set out in the table below.

	2022/23	2021/22
Annual Governance Statement (control deficiencies)	None	None
Head of Internal Audit opinion	“There is generally a sound system of governance, risk management and control in place”.	“There is generally a sound system of governance, risk management and control in place.”
Ofsted inspection rating	”Inadequate”	“Inadequate”

# Governance (continued)



## Standards and behaviours

The Council has suitable arrangements in place to ensure appropriate standards and behaviours are adhered to. However, as noted in our prior year report, there is scope to further develop arrangements in respect of recommendation tracking and ensuring learning is shared widely.

The Council is committed to ensuring that it operates in compliance with relevant regulations and standards, and has established clear protocols and procedures, enshrined in the Constitution, to achieve this goal.

In our prior year Auditor's Annual Report we made an improvement recommendation "The Council needs to make more progress in implementing the change required to bring about the desired improvements in respect of the key recommendations. It should ensure:

- rigorous processes are in place so that recommendations are completed fully and on a timely basis
- a single record of all external regulator and Internal Audit priority recommendations so that, amongst others, the Audit and Governance Committee can proactively monitor implementation."

Although the Council has arrangements in place to monitor compliance with regulatory standards there is still room for improvement. For example, weaknesses identified by Internal Audit in terms of the Registration Service which found "The Council does not have a corporate process for monitoring, reviewing and reporting on internal review and external reports, as is required for internal audit reports." Internal Audit state "The review found that there was no effective corporate oversight over all inspection reports. Had this been in place, the issues identified in the Registration Service internal review report would have been tracked and addressed, which would have mitigated the control weakness at the earliest opportunity." Our prior year recommendation therefore remains valid.

Not having a majority administration causes additional work for Officers and can lead to some delays in decision making. However, relationships between the parties are constructive.

## Gifts and hospitality and Declarations of Interest

The Council has appropriate arrangements for the declaration of gifts and hospitality, including a policy that guides Officers and Members. Members' declarations are available on the Council public website.

Appropriate arrangements are also in place for the declaration of interests with declarations for Members published on the website and also made at the start of each meeting if relevant. Officers annually declare their interests through the Council's software systems.

The Council has several policies and procedures in place to ensure compliance with legislative standards and promote good governance in procurement and commissioning processes. These policies and procedures help to ensure that the Council's procurement activities are transparent, ethical, and effective. The Council undertakes consultations and seeks guidance in order to meet legislative requirements. For example, when considering extending the existing waste collection service.



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

## Use of financial and performance information

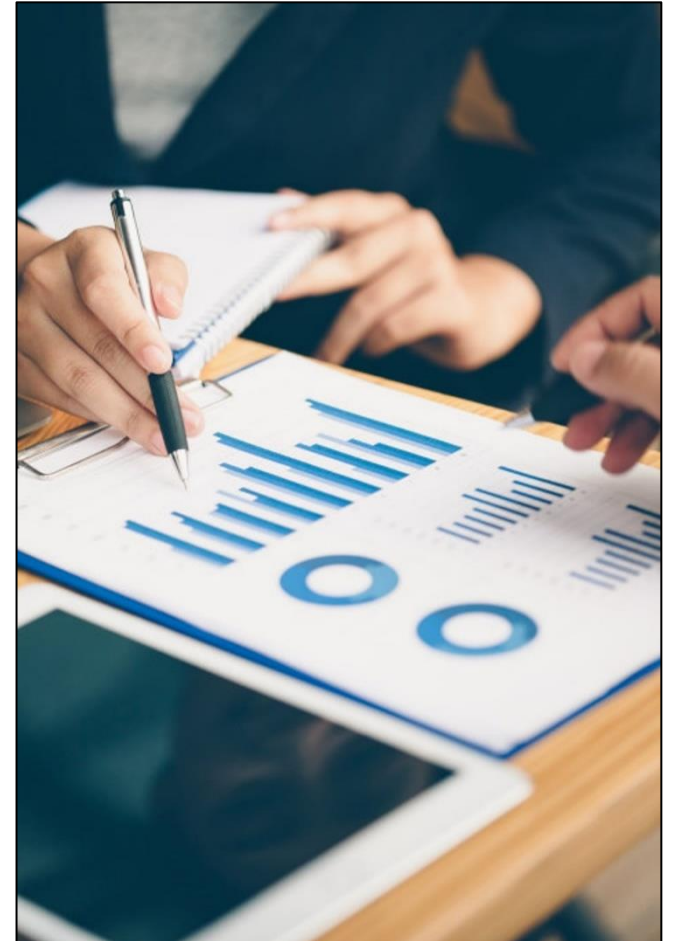
Performance management reporting is comprehensive with clear links to the Council's Delivery Plan. Areas reported are reviewed to ensure relevance – for example, Children's Services improvement measures. The Council is working with Internal Audit in order to obtain independent assurance over the accuracy and quality of information reported.

### Performance management

Cabinet receives comprehensive performance information quarterly. Reports include a good narrative explanation of performance against the delivery plan in economy, environment, community and corporate, with key activity in each area. The report also includes detail against each of the "Ambitions" and supporting "Actions" as well as relevant performance measures. There is a narrative explanation for each action which explains corrective action being taken where delivery is not as expected.

In our prior year Auditor's Annual Report we made a recommendation "The Council should review and consider updating the indicators used to assess delivery and progress on ambitions and objectives within the County Plan 2020-2024 and its supporting delivery plan to ensure they take account of the Children's Services Improvement Plan." The Quarter One 2023/24 report, presented to September 2023 Cabinet, addresses this recommendation with references to the Improvement Plan and also a suite of performance measures which underpin it.

The Council obtains independent assurance over the accuracy of reported financial data through the work of Internal Audit. Their "Main Accounting System" report does not raise any major issues regarding the accuracy of financial information. The Council is working with Internal Audit to obtain assurance over the accuracy of performance information, and the Internal Audit work programme includes "Data Quality / Data Management". This work is still ongoing. We have not raised an improvement recommendation.



# Improving economy, efficiency and effectiveness (continued)

## Children's Services

Children's Services have been rated "Inadequate" by Ofsted since their inspection in July 2022. The Council continues to invest in the service and indications are that progress is being made. As expected it will be several years before all improvements are complete and the "Inadequate" rating removed. Our assessment is therefore that there continue to be significant weaknesses in arrangements in this area.

In our prior year Auditor's Annual Report we reported "In July 2022 Ofsted undertook a detailed inspection and the service received an overall rating of 'Inadequate' and a statutory improvement notice was issued." We identified a significant weakness in arrangements and raised a key recommendation "The Council should continue to work with the Department for Education to improve its Children's Social Care Services."

The Council has responded positively to the original Ofsted inspection report with enhanced governance and oversight arrangements and significant financial investment in 2022/23 and 2023/24. The Children and Young People Scrutiny Committee receives regular progress reports which set out the nine improvement areas identified by Ofsted plus a further one as a result of the SEND (Special Educational Needs and Disabilities) review (which the Council requested through the Local Government Association). For each of the ten areas there are a number of actions with a Lead Officer, deadline, narrative of progress and a risk rating. For each area there are "Expected outcomes" and "Measures that matter" (Key Performance Indicators) that are reported and are used to monitor progress. This includes the information we would expect, including current and historic performance. These cover all of the 10 areas. Charts are included as well to provide a graphical view of performance.

Ofsted undertook a monitoring visit on 28 and 29 June 2023. Ofsted found "...leaders have recognised the scale of improvement and are in the process of implementing a wide-ranging improvement plan. Practice is starting to improve and positive progress is being made with some families. However, the quality and effectiveness of practice with children in need and those subject to a protection plan remain variable. The achievement of more consistently effective practice is hampered by several issues. These include continued

high turnover of social workers, a legacy of some families with chronic long-term needs who have experienced poor practice over several years, closure of children's cases to social care before sustained change has been achieved, leading to increased re-referrals, and management support which is not yet consistently effective."

In the text box below we set out some of the challenges facing many councils with Children and Young People services.



### Children and Young People - Social Care

Single tier councils and county councils spent £12.2 billion in 2021/22 and have increased their budget to £12.7 billion in 2023/24 as demand for children's social care services have increased.

Councils have a statutory duty to safeguard and promote the welfare of children at risk. A range of services can be provided including support to families as well as keeping children safe from harm and providing services for those children who are 'looked after' by the council.

In recent years there has been an increase in demand with an increase in the number of child protection places and looked after children, as well as an increase in complexity of the needs of the children.

The increase in demand and complexity has resulted in an increase in the cost of individual residential placements which are often not local and outside the Council's geographical locality as well as private and agency foster carers.

Many councils have failed to model and anticipate the increase in demand and as a result lack sufficient local quality provision and are now actively trying to meet this challenge.



# Improving economy, efficiency and effectiveness (continued)

## Children's Services (continued)

Ofsted undertook a further monitoring visit to the Council on 26 and 27 September 2023. Their report recognised that the Council was seeking to make progress, but judged that this was too slow, commenting "Significant objectives in the improvement plan have been delayed or are not on track."

The Council has invested significant sums of money in the service, initially to recruit agency care workers to address the challenge of too many cases per worker. As demand starts to slow these temporary staff are being released. The Council has benefitted from working with other Councils, as well as expert external support and advice through the appointed Children's Commissioner. We understand from Officers that the latest Commissioner report identified progress and recommended the service to stay in-house.

It is clear that the Council is making progress, and that this has been recognised by Ofsted. However, there is clearly work to do and, as expected, the process will take a number of years to fully complete. Arrangements have not progressed sufficiently to conclude that there is no longer a significant weakness in arrangements. We have therefore repeated our key recommendation from the prior year.

The Council should continue to work with the Department for Education to improve its Children's Social Care Services.

# Improving economy, efficiency and effectiveness (continued)

## Assessing performance and identifying improvement

The Council sets out its vision and aims clearly and reports against these. The Council also considers alternative options for service delivery, recognising that this does not necessarily mean the lowest cost option is best.

The "County Plan 2020-24" sets out the vision and strategic priorities. Quarterly performance reports to Cabinet take the strategic priorities and identify a number of "Ambitions" and then associated "Actions" to support delivery. A narrative on progress is included. The performance reports evidence that the Council considers the cost-effectiveness of activities and has a wider view of "value" than simply financial.

The Council considers alternative options for service delivery. For example, external consultants were used to develop options for a new waste collection which were then put out to public consultation. The new service is expected to cost an additional £2.1m per annum, but is a more comprehensive service which is aligned to the Council's environmental ambitions.

## Partnership working

The Council has appropriate arrangements in place for working in partnership.

The Council website clearly articulates which partnerships it considers to be "Significant" and how this is assessed. The "Partnership Governance Framework" sets out good governance and good practice arrangements around key criteria for partnership working as well as roles and responsibilities. The "Partnerships governance framework: annual checklist for significant partnerships" sets out a definition of what the Council considers to be "Significant" and then requests information on the governance arrangements.

Key partners include Herefordshire and Worcestershire NHS Integrated Commissioning Board and Mercia Waste Management Limited. Arrangements with these are set out in the Council's financial statements.

Where the Council is working in partnership on specific projects or "Actions" these are included in the quarterly performance reports to Cabinet.



# Improving economy, efficiency and effectiveness (continued)

## Commissioning and procurement

In our prior year Auditor's Annual Report we reported two significant weaknesses in regard to the Council's commissioning and contract management arrangements. The Council has made good progress in this area and recognises the need to further improve. We consider that arrangements are now adequate, but we have made one recommendation to support further improvement.

## 35 Major Contracts

In our Auditor's Annual Report for 2021/22 we concluded that a Key Recommendation made in the previous year was still valid "The Council should progress the actions within its major contracts' improvement plan, and to ensure delivery we recommend that performance against this plan should be reported to Cabinet." Since then the Council has continued to make progress in this area, with the action plan reported to the Contract Partnering Board showing that the majority of actions are now complete. Some are not yet due. A report to October 2023 Cabinet shows that the majority of the actions have been completed, with the rest on track.

The Major Contracts Improvement Board has had a noticeable impact, with an Annual Plan, driven by the Council, being agreed with Balfour Beatty and quarterly performance meetings through the Strategic Partnership Board, Chaired by the Council. The Council recognises that the performance measures in the original contract have become dated, and do not provide a good basis for contract management. Through the Annual Plan it is seeking to address this, while considering the best way forward once the contract expires.

The Council has commissioned further external consultancy work into the City Link Road contract to support its improvement and anticipates taking a report to Cabinet towards the end of 2023. The report has highlighted a number of areas where the Council can strengthen arrangements and it has plans in place to learn lessons. While work in this area had not been completed by 31 March 2023 we consider that it is appropriate to close the recommendation as sufficient progress has been made.

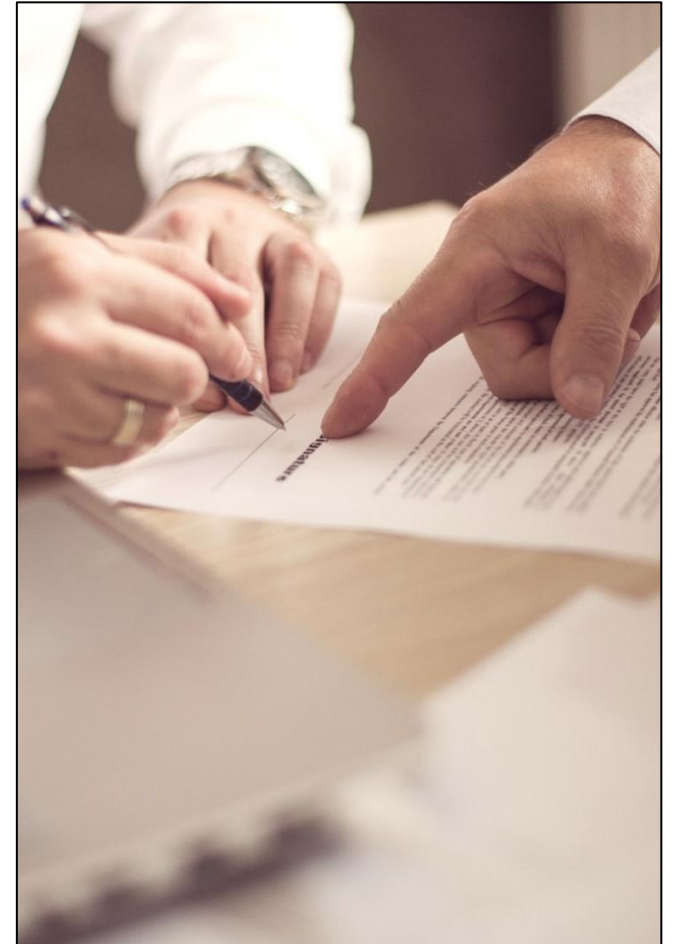
### Future contracting arrangements

Whilst recognising that the Council has sought greater accountability from Balfour Beatty within the existing contract, owing to deficiencies in the contract this will only be fully possible following a new contract. New contracts will also need to ensure that there is a better balance of risk and reward between the Council and successful contractor.

As the Council is likely to enter into further high value and high profile contracts over the next few years, we believe that it is appropriate to raise an improvement recommendation that contracts allow for performance measures to be revisited to ensure they remain relevant and appropriate throughout the life of the contract.

**The Council should ensure that major contracts allow for performance measures to be revisited and updated as appropriate in order that contractors can be more easily held to account.**

On the next page we set out some of the common contact management challenges and issues that local authorities face.



# Improving economy, efficiency and effectiveness (continued)

## Commissioning and procurement (continued)

### Balfour Beatty Living Place Limited

In our prior year Auditor's Annual Report we noted some progress around the dormant company, Balfour Beatty Living Places Limited, but raised a key recommendation "The Council should review its arrangements and document its decision and related risks if it plans to continue to contract with BBLP. The decision should be formally communicated and signed off by Cabinet." In May 2023 the Council sought expert legal advice which set out that, in the event of a dispute, the Council would first seek recompense through the dormant company. It is likely it has no assets, so the Council would then seek recompense from Balfour Beatty Group as parent company under the guarantee. The legal advice was considered by Cabinet on 26 October 2023. Therefore, the Council has addressed our recommendation and assured itself over the relationship. While this had not been completed by 31 March 2023 we consider that it is appropriate to close the recommendation.

### Hoople

In our prior year Auditor's Annual Report, in regard to Hoople Ltd, we recommended "The Council should also consider reporting to Cabinet performance inline with key performance indicators as set out in the SLAs." Performance against Key Performance Indicators (KPIs) is reported bi-monthly to the Hoople Board, which includes two Council representatives as Directors. While the KPIs were reviewed by Council staff as part of regular contract management arrangements, the KPIs were not reported to Cabinet in 2022/23. Cabinet papers to October 2023 indicate that KPIs have not yet been presented to Cabinet. While the Council continues to make progress in this area the recommendation is still valid.

In our prior year Auditor's Annual Report we also recommended "The Council should review its governance arrangements for Hoople Ltd considering the role of:

- the shareholder
- members and officers on the company board to ensure the scope for conflicts of interest is minimised to ensure there is a clear divide between those responsible for holding them to account and or overseeing them scrutiny."

The papers for the Shareholder Committee on 18 April 2023 propose appointing two Officer Directors to both Hoople and Cyber Quarter Ltd, with appropriate indemnity. Our recommendation has therefore been addressed.



## Contract Management

In 2021, Local Government spent more than £71 billion on purchasing goods and services for England in one year - nearly one third of all English public sector revenue purchasing. Most Local Authorities have well established central functions supporting their initial procurements, but contracts can span decades and it can be after the procurement is complete that best value is sometimes delivered.

Contract management is often devolved to service lines. This works well with the right support, but risks increase if roles and responsibilities of service line contract managers are not clear; technical knowledge is not kept up to date for the whole life of a contract; and performance indicators within the contract are either unclear or not rigorously monitored.

Sometimes it can be very simple steps that help protect value. Most Local Authorities set up contract registers, but vigilance is needed in keeping these up to date. Planning future procurements effectively relies on knowing current contracts well. This means having the resources in place to register, monitor and record current progress over the whole life of contracts, not just at the beginning.

# Improvement recommendations

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## Improvement Recommendation 3

The Council should ensure that major contracts allow for performance measures to be revisited and updated as appropriate in order that contractors can be more easily held to account.

## Improvement opportunity identified

As it enters in future major contracts the Council needs to ensure that performance measures can be changed as required in order to ensure that contractors can be held to account for poor performance.

## Summary findings

The Council recognises that the Balfour Beatty contract has not been designed in such a way to allow for performance measures to be updated. The Major Contracts Improvement Board has had an impact, through the Annual Plan, in better holding the contractor to account, but this needs to be made easier.

## Criteria impacted



Improving economy, efficiency and effectiveness

## Auditor judgement

Our work has enabled us to raise a recommendation to support management in making appropriate improvements.

The Public Realm Contract has provision for the performance indicators (Strategic and Operational) to be reviewed and amended with agreement by both parties. Building on the findings of the previous audits, the improvement plan and a review of the contract, the council issued Early Warnings under the contract to formally notify BBLP that it rejects the indicators and required these to be refreshed and updated. This resulted in a new set of revised operational performance indicators which were introduced into the contract as part of the Annual Plan for 2023/24. These indicators included higher performance thresholds to stretch contractor performance.

## Management comments

The council, as part of the Early Warning process, has also developed a new performance framework for the contract which has been accepted in principle by BBLP. The new framework is now being further developed to construct the new indicator definitions, thresholds and caps which will then be calibrated to the contract. This work is part of the fundamental review and design for the Future Operating Model (FOM) that was agreed by the Cabinet on 2 March 2023 and is to be considered again on the 28 March 2024. The intention is that this new framework will be agreed and in place as part of the Annual Plan for 2024/25 prior to formal adoption in 2025/26 as part of the implementation of the Future Operating Model. The framework will be introduced either as part of the FOM as part of any contract extension with BBLP or as part of any procurement exercise if alternative delivery models are preferred.

Progressing the actions management has identified to address the recommendations made will support the Council in addressing the improvements identified from our work. We consider that the timescales provided by management are appropriate and encourage the Audit and Governance Committee to monitor progress of implementation to gain assurance over the arrangements in place. The range of recommendations that external auditors can make is explained in Appendix B.

# Follow-up of previous recommendations

	Recommendation	Type of recommendation	Date raised	Progress to date	Addressed?	Further action?
1	The Council should continue to work with the Department for Education to improve its Children's Social Care Services.	Key	June 2023	It is clear that the Council is making progress, and that this has been recognised by Ofsted. However, there is clearly work to do and, as expected, the process will take a number of years to fully complete. Arrangements have not progressed sufficiently to conclude that there is no longer a significant weakness in arrangements. See page 26.	No	Yes – work is ongoing, so while progress has been made, the recommendation remains valid.
2	The Council should progress the actions within its major contracts' improvement plan, and to ensure delivery we recommend that performance against this plan should be reported to Cabinet.	Key	June 2023	The Council continues to make progress in this area, with the action plan reported to the Contract Partnering Board showing that the majority of actions are now complete. Some are not yet due. The Council has commissioned further external consultancy work to support its improvement, and anticipates taking a report to Cabinet towards the end of 2023. Therefore it is appropriate to close the recommendation. See page 29.	Yes	No
3	The Council should review its arrangements and document its decision and related risks if it plans to continue to contract with BBLP. The decision should be formally communicated and signed off by Cabinet.	Key	June 2023	The Council has addressed our recommendation and assured itself over the relationship, therefore it is appropriate to close the recommendation. See page 30.	Yes	No

# Follow-up of previous recommendations

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Recommendation	Type of recommendation	Date raised	Progress to date	Addressed?	Further action?
4 The Council needs to make more progress in implementing the change required to bring about the desired improvements in respect of the key recommendations. It should ensure: <ul style="list-style-type: none"> <li>rigorous processes are in place so that recommendations are completed fully and on a timely basis</li> <li>a single record of all external regulator and Internal Audit priority recommendations so that, amongst others, the Audit and Governance Committee can proactively monitor implementation.</li> </ul>	Improvement	June 2023	Internal Audit in their Annual Report state " <i>The Council does not have a corporate process for monitoring, reviewing and reporting on internal review and external reports, as is required for internal audit reports</i> ". The commentary indicates that Internal Audit are working with the Council performance team to develop tracking. We note that the Council response to our prior year recommendation was that this would be developed in 2023/24. The recommendation therefore remains valid. See page 24.	No	Yes – implement the recommendation
5 The Council should consider appointing independent members to the Audit and Governance Committee.	Improvement	June 2023	The Council has sought to address this and, although there had been expressions of interest, a recruitment exercise for additional Independent Persons has not resulted in any applicants coming forward. See page 23.	Yes	No
6 The Council should review and consider updating the indicators used to assess delivery and progress on ambitions and objectives within the County Plan 2020-2024 and its supporting delivery plan to ensure they take account of the Children's Services Improvement Plan.	Improvement	June 2023	The Council response was that this would be reviewed from 2023/24. We would expect to see the Q1 2023/24 report presented to September 2023 Cabinet. This report does include reference to the Children's Services Improvement Plan. See page 25.	Yes	No - while the recommendation was not fully addressed by 31 March 2023, the Council had made sufficient progress to discharge it.

# Follow-up of previous recommendations

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Recommendation	Type of recommendation	Date raised	Progress to date	Addressed?	Further action?
7 The Council should review its governance arrangements for Hoople Ltd considering the role of: <ul style="list-style-type: none"> <li>the shareholder</li> <li>members and officers on the company board to ensure the scope for conflicts of interest is minimised to ensure there is a clear divide between those responsible for holding them to account and or overseeing them scrutiny.</li> </ul>	Improvement	June 2023	The papers for the Shareholder Committee on 18 April 2023 proposes appointing two Officer Directors to both Hoople and Cyber Quarter Ltd, with appropriate indemnity. See page 30.	Yes	No - while the recommendation was not fully addressed by 31 March 2023, the Council had made sufficient progress to discharge it.
8 The Council should also consider reporting to Cabinet performance inline with key performance indicators as set out in the SLAs. (Hoople)	Improvement	June 2023	Performance against Key Performance Indicators (KPIs) is reported bi-monthly to the Hoople Board, which includes to Council representatives as Directors. While the KPIs were reviewed by Council staff as part of regular contract management arrangements, the KPIs were not reported to Cabinet in 2022/23. However, Cabinet papers for October 2023 indicate that KPIs have not yet been presented to Cabinet. While the Council continues to make progress in this area, as this had not been completed by 31 March 2023 the recommendation is still valid. See page 30.	No	Yes - this work is still ongoing, so our recommendation had not been fully addressed at 31 March 2023.
9 The corporate risk register should be updated to map each corporate risk to the relevant corporate objective.	Improvement	June 2023	This has not yet been actioned. See page 22.	No	Yes – implement the recommendation.



# Follow-up of previous recommendations

	<b>Recommendation</b>	<b>Type of recommendation</b>	<b>Date raised</b>	<b>Progress to date</b>	<b>Addressed?</b>	<b>Further action?</b>
10	The Council should include its performance against budget for the Dedicated Schools Grant (DSG) within its quarterly Cabinet budget reports.	Improvement	June 2023	The position was included in the Quarter Four report to June Cabinet. See page 19.	Yes	No
11	The Council should develop more comprehensive and integrated workforce plans which support its recently developed workforce strategy.	Improvement	June 2023	This is still being developed. The proposed strategy was reviewed by the Council's Scrutiny Management Board in January 2023 and a number of recommendations made. See page 17.	No	Yes - this work is still ongoing, so our recommendation had not been fully addressed at 31 March 2023.

# Appendices

# Appendix A: Responsibilities of the Council

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

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



# Appendix B:

## An explanatory note on recommendations

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

Type of recommendation	Background	Raised within this report	Page reference(s)
Statutory	Written recommendations to the Council under Section 24 (Schedule 7) of the Local Audit and Accountability Act 2014.	No	N/A
Key	The NAO Code of Audit Practice requires that where auditors identify significant weaknesses as part of the Council's 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	7
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	20, 21, 31



