Auditor's Annual Report For Bath and North East Somerset Council

2021/22 and 2022/23

13 November 2023

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.

Executive summary

Value for money arrangements and key recommendation(s)

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. 2020/21 was the first year that we reported our findings in this way. The NAO have issued guidance to auditors which states that a commentary covering more than one financial year can be issued where it is more efficient and effective to do so. This report provides a combined commentary on the Council's arrangements for 2021/22 and 2022/23.

As part of our work, we considered whether there were any risks of significant weakness in the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources. Our conclusions are summarised in the table below.

Both 2021/22 and 2022/23 have had their challenges with COVID-19 rates remaining high in 2021/22 and 2022/23 seeing the start of the 'cost of living crisis'. In 2022/23 demand for services has continued to increase, in particular within Children's Services and inflation has increased to rates not seen for some considerable time.

Criteria	Risk assessment for 2021/22 and 2022/23	2020/21	2021/22	2022/23	Auditor Judgement	Direction of travel
Financial sustainability	Risk identified: • increasing deficit for the DSG				A significant weakness has been identified relating to the Council managing its Dedicated Schools Grant (DSG) within the recovery plan it agreed with the Department for Education. Because of this, a key recommendation has been raised, along with three improvement recommendations.	
Governance	Risk identified: • Introduction of new governance structure for the wholly owned companies within the Aequus Group.				No significant weaknesses in arrangements identified, but seven improvement recommendations made.	
Improving economy, efficiency and effectiveness	No risks identified at the planning stage				No significant weaknesses in arrangements identified, but five improvement recommendations made.	

- No significant weaknesses in arrangements identified or improvement recommendation made.
- No significant weaknesses in arrangements identified, but improvement recommendations made.
- Significant weaknesses in arrangements identified and key recommendations made.

Executive summary

Financial sustainability

The Council has delivered a surplus revenue position in both 2021/22 and 2022/23. This has been achieved through appropriate financial management, the rebasing of budgets and some movement in reserves. The Council has in place a Medium Term financial Strategy and understands the financial risks and pressures. Whilst the Council has received funding from the Department for Education it does not have effective arrangements to manage the Dedicated Schools Grant within its agreed recovery plan and we have identified this as a significant weakness in arrangements. The high needs block (children with special educational needs and disability) at the end of 2022/23 was £1.53m behind plan. And at quarter two (2023/24) the Council reported a forecast year end overspend position of £3m. Based on these projections the DSG would not be in balance until 2033/34. We have also identified three improvement recommendations, including that the Council should:

- monitor and report on the amount of non-recurrent savings planned and delivered each year
- ensure it takes advantage of the Transformation Programme to consider service redesign and identify savings for 2024/25 and beyond
- strengthen the Medium Term Financial Strategy by including more detailed sensitivity and scenario analysis of the key financial risks and key demand pressures facing the Council.

Further detail on financial sustainability can be found on pages 10 to 19.

Governance

We have not identified any significant weaknesses in the Council's governance arrangements for ensuring that it made informed decisions and properly managed its risks. We have discussed with management the implications relating to working practices within a small part of its workforce and will continue to appraise members if issues develop.

We have identified six improvement recommendations, including that the Council should ensure:

- its Corporate Risk Register is regularly reviewed by members
- that member decisions are supported by risk assessments
- it considers and records within a risk register the risks in relating to the Aequus Group
- the Aequus Group business plan is reviewed by members annually
- performance management arrangements are improved for the Aequus Group
- it works closely with West of England Combined Authority (WECA) to support (within its remit) the implementation of the required improvements to the governance of WECA (as set out in Grant Thornton's previous governance report on the Combined Authority).

Further detail on governance can be found on pages 20 to 30.

Executive summary

Improving economy, efficiency and effectiveness

We have not identified any significant weaknesses in the Council's governance arrangements for ensuring that it makes informed decisions and properly manages its risks. We have identified three improvement recommendations, that the Council should:

- ensure that Cabinet receives quarterly performance reports on the Council's strategic objectives, as set out in the Corporate Strategy
- define its key partnerships and establish a register of key partnerships
- the Council should consider reviewing its process for approval of contract waivers, to ensure appropriate independence. In order to ensure transparency and financial oversight the number and extent of waivers should be reported periodically to members at a public meeting, such as Corporate Audit Committee.

Further detail can be found on pages 31 to 37.

Avon Pension Fund

The Council is the administering authority for Avon Pension Fund and we are required to consider the VfM arrangements in relation to the fund. Based on our review we are satisfied that proper arrangements are in place and we have not identified any evidence of significant weakness or improvement recommendations.

Further detail can be found on page 38.

2021/22

We have completed our audit of your financial statements and issued an unqualified audit opinion on 29 March 2023, following the Corporate Audit Committee meeting on 15 March 2023. Our findings are set out in further detail on page 42.

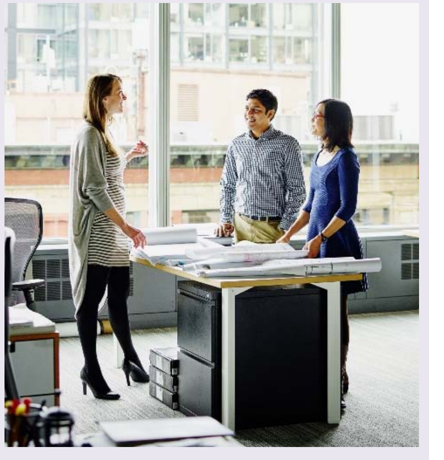
2022/23

We have substantially completed our audit of your financial statements and plan to issue an unqualified audit opinion following the Corporate Audit Committee meeting on 22 November 2023. Our findings are set out in further detail on page 43.

Key recommendation

Key Recommendation	The Council needs to take action to address the shortfall in the DSG recovery plan.
Audit year	2022/23
Why/impact	Action is required to reduce the deficit and remain within the plan agreed with the Department of Education, to ensure funding is not withdrawn.
Auditor judgement	The Council has an agreed recovery plan in place with the Department for Education (DfE) and has received funding from the DfE, however at the end of 2022/23 the Council is behind its agreed recovery plan and in 2023/24 at the end of quarter two, forecasts that it will be £3m behind plan. Based on this position we consider that the Council does not have effective arrangements to manage the Dedicated Schools Grant and have identified this as a significant weakness in arrangements.
Summary findings	The Council has had a Dedicated Schools Grant (DSG) deficit since 2019/20. The Council has been working with the DfE to reduce the deficit and achieve a sustainable financial position. The DfE has established two programmes to support councils; the Safety Valve (SV) and the Delivering Better Value (DBV) programmes. In 2022/23 the Council was accepted as part of the SV programme and secured additional funding of £19.2m over the next seven years. The first part of which was received in 2022/23 of £7.68m. The SV programme required agreement of a recovery plan which modelled and projected over the next seven years the costs, savings and additional funding received to deliver a breakeven position by 2028/29. However, at the end of 2022/23 the Council was £1.53m behind plan and in 2023/24 at quarter two the Council reported a forecast year end overspend of £3m. Based on these projections the DSG would not be in balance until 2033/34. See page 11 for more detail.
Management Comments	See the next page.

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



Key recommendation continued

Key Recommendation	The Council needs to take action to address the shortfall in the DSG recovery plan.
Management Comments	The Council will work with the Department for Education (DFE) to submit a new Safety Valve Plan by March 23. In the lead up to this deadline the Council will: • deliver a commissioned external review of our plan/recommendations – including a series of additional budget lines to explore, with a scale of risk vs acceptability • accelerate development of SEND Alternative Provision (AP) Advice Line – to increase early help and reduce need for Education, Health and Care Plan (EHCP) assessments • review of all SEND packages of care – Provide Assurance that the Council is not over providing, utilising external expertise • review overhead provision • capital investment – 7 New Resource bases, 2 Free Schools, AP & SEND (1 to be finalised) 1 Residential School. The Council is also building a 16-25 residential facility at a SEND Further Education (FE) college facility. The Council is providing additional capital investment and land as part of its commitment to SEND in our local area and to reduce independent placement costs • ensure the SEND team is fully staffed to enable robust decision making and leadership of Safety Valve workstreams • further recovery actions to be reviewed and agreed by 31/12/23.

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

Use of auditor's powers

We did not need to apply the following powers in either 2021/22 or 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

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.

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.

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.

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.

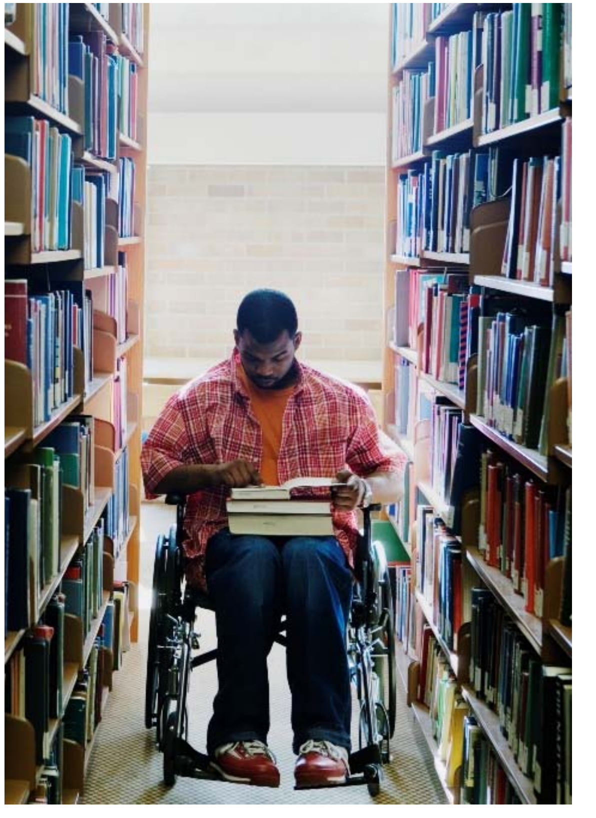
Securing economy, efficiency and effectiveness in the Council's use of resources

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.

Our commentary on the Council's arrangements in each of these three areas, is set out on pages 10 to 34. Further detail on how we approached our work is included in Appendix B.

Financial sustainability

We considered how the Council

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

Financial performance 2021/22

In July 2022 the revenue financial outturn position was reported to Cabinet, an underspend of £4.03m, against a revenue budget of £128.29m. This underspend was transferred into the Council's corporate earmarked reserves to smooth potential income and energy inflation risks in future years.

Within the individual service areas there was a mix of overspends and underspends, with the following service areas overspending:

- Economic Development and Resources, the overspend being attributable to a reduction in income at its heritage sites
- Children and Young People and Community, the main driver being increased costs in the demand-led placements and packages for children and young people
- Neighbourhood services, due to additional support for leisure services and increased energy prices.

These overspends were compensated by an underspend within Adults Social Care Services, as the anticipated number of placements was below expectations.

The Council set a capital budget of £96m and spent £58.3m in year, an underspent by £37.7m, 39% of the budget. This underspend was largely attributable to slippage as capital projects were not completed within the original timeframe.

Financial performance 2022/23

The Council also achieved an **underspend in 2022/23 of £0.06m,** despite costs of the pay award being in the region of £2.6m and continued pressures within Children and Young People and Community portfolio.

The overspend within the Children and Young People and Community portfolio was largely offset by an underspend within the Resources portfolio.

In 2022/23 the capital budget was £106.9m and spent £74.2m in year, an underspent by £32.7m, 31 % of the budget. This was a a slight improvement on the amount of slippage from the previous year.

The Council recognise that when the capital budgets are set there is a tendency to be overly optimistic and assume a greater proportion of the budget will be spent than is often the case.

Financial sustainability

Dedicated Schools Grant Deficits

On 12th 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.

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 are a challenge both for financial sustainability and for maintaining the overall quality and effectiveness of service provision.

Dedicated Schools Grant (DSG)

The DSG is a ring fenced budget which is allocated in four blocks; schools, early years, high needs and central school services. Since 2019/20 the Council has spent more than the funding provided and has been in a deficit (overspend) position. This deficit is attributable to the high needs block, ie to fund services to those with special educational needs and disabilities.

The Department for Education (DfE) has established two programmes to support councils who have large deficits within their DSG high needs block; the Safety Valve (SV) and the Delivering Better Value programmes. Both programmes work with local authorities to develop recovery plans to achieve financial sustainability. The SV programme includes financial support from the DfE.

In 2021/22 the Council began discussions with the DfE as part of the SV programme and was focused on understanding the issues and developing solutions to reduce the demand and cost. The challenge for the Council has been the significant rise in Education Health and Care Plans (EHCP) and a lack of suitable provision within the Council's own geographical area.

In 2022/23 the Council was successful in being accepted into this programme and the SV agreement and recovery plan were agreed with the DfE in January 2023, with ministerial approval granted in March 2023.

The Council was successful in securing £19.22m. The Council received £7.68m in March 2023 and the remainder is payable in stages over the next six years.

Throughout the process of the development of the plan the Schools' forum have been involved and fully briefed on progress. This process required the Council to understand why they were overspending and the demand pressures within the service to be able to develop effective actions.

The DSG recovery plan includes 7 discrete actions, which includes:

- Cultural change from within the schools to increase support within schools and thereby reduce the need to raise an EHCP. This is a key risk and will take time to have an effect.
- Increase supply of appropriate places, so that more suitable and lower cost placements are available within the local area. The Council plans to open a new special school in 2025.
- Review of the Joint Agency Plan (JAP). The JAP oversees the joint agency pooled budget which is a funding stream to support the placement and funding of children and young people with complex needs. Its membership includes Health (a representative from the Integrated Care Board), Children's Social Care and Education. A review has been commissioned and negotiations are underway to resolve and implement the findings of this review, which the Council considers will reduce the spend on the DSG.

Financial sustainability

Dedicated Schools Grant (DSG) continued

The DSG recovery plan is a detailed financial plan which models and plans the expected financial position over a seven year period. The intention is that the funding provided by the DfE is equivalent to the amount by which costs and activity need to reduce, so that at the end of the seven year period when all the funding has been received, the Council would be in a sustainable position and no longer have a deficit. Based on these assumptions the recovery plan assumed that the Council would end 2022/23 with a deficit position of £19.6m, excluding funding. However as illustrated opposite the cumulative deficit would have been £21.13m without the SV funding of £7.68m. Indicating that the Council was £1.53m behind plan at the end of 2022/23.

In addition, monitoring of the 2023/24 position has identified a forecast 2023/24 yearend overspend of £3m. Based on these additional overspends the Council anticipate that it would not be in balance until 2033/34. This position has been reported and communicated to the DfE. The DfE have not formally responded to this position.

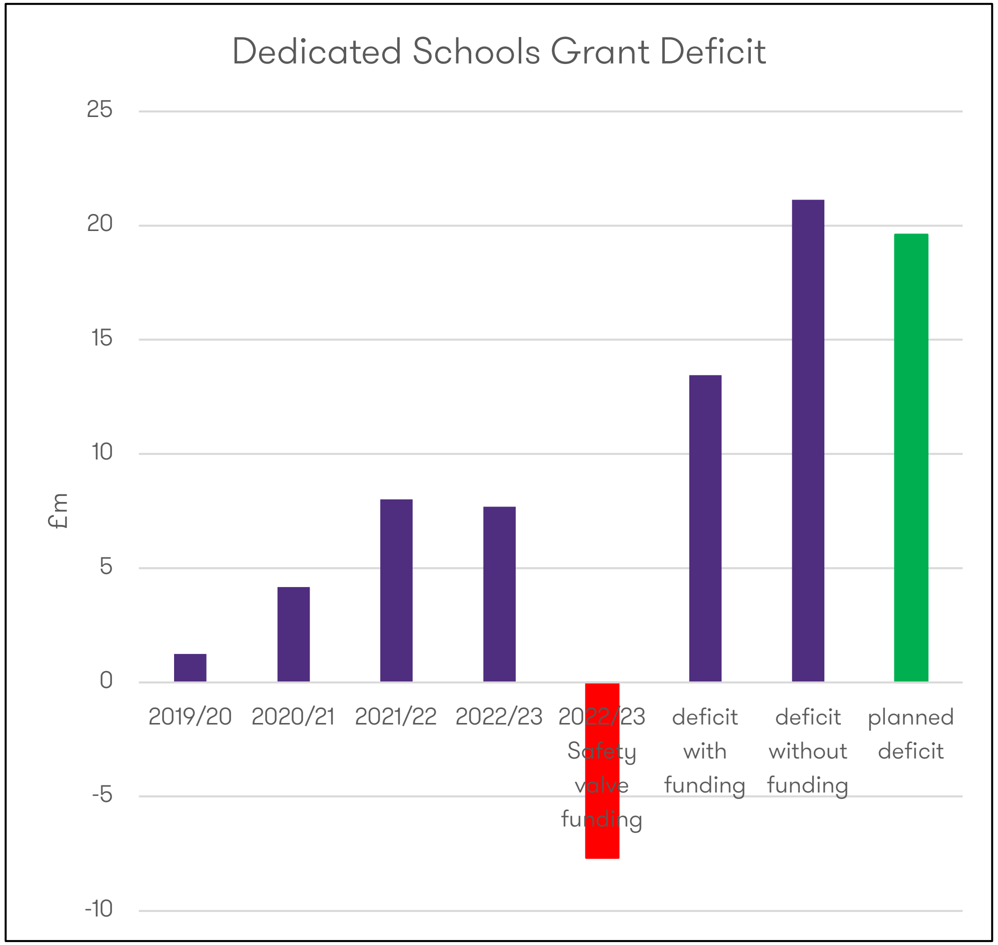
The additional costs are as a result of the increased demand for EHCPs and the Council's actions (as identified on the previous page) not yet having an impact.

This is a significant weakness in arrangements in 2022/23 as the Council did not have proper arrangements in place to reduce the costs within the DSG to achieve is planned recovery. The recovery plan was behind at the end of 2022/23 and forecasts an overspend position of £3m for 2023/24. We have raised a key recommendation on page 6.

Within the Council, the DSG recovery plan is monitored by a sub-group of the Children's Service and Education Transformation Board and the Senior Leadership Team. An action log is maintained by management.

The DSG deficit position has been reported in the Council's Annual Governance Statement in 2021/22 and 2022/23 and has been reported within the Council's corporate risk register. Senior management are able to articulate the most significant risks in relating to delivery of the recovery plan and the specific actions, but have not yet begun the process of recording the risks in line with it's the Council's risk management policy.

We understand that this is being developed and as a result have not raised an improvement recommendation.



Financial sustainability

Delivery of planned savings

The amount of savings planned for each financial year are agreed as part of the budget setting process, which is discussed in more detail on page 23.

The chart opposite illustrates that the amount of saving required has increased year on year and shows that in 2021/22 the Council delivered 93% of the planned target and 90% in 2022/23. Within both years we identified that non-recurrent (one-off) savings were included within the planned savings and were also delivered in year to mitigate shortfalls, such as staff vacancies. In 2022/23 the Council planned and delivered a non-recurrent saving of £1.3m (2% vacancy factor savings across the organisation to account for in-year turnover).

Staff vacancies are non-recurrent savings as staff posts are held vacant with the intention to fill the post at a later stage or just held vacant for a short period of time. If staff posts were permanently removed from the establishment, such as through a staff restructure, then the saving would be a recurrent saving.

We note **that the Council has not reported or identified the amount of non-recurrent savings planned and delivered.** Non-delivery of recurrent savings and reliance on non-recurrent savings increases the amount of savings required the following year. We have the following improvement recommendation:

The Council should monitor and report on the amount of non-recurrent savings planned and delivered each year. This information could be included in the outturn reporting.

The Council's track record for delivering savings is illustrated in the chart opposite.

Transformation Programme

The Council has established a transformational programme, which has four workstreams:

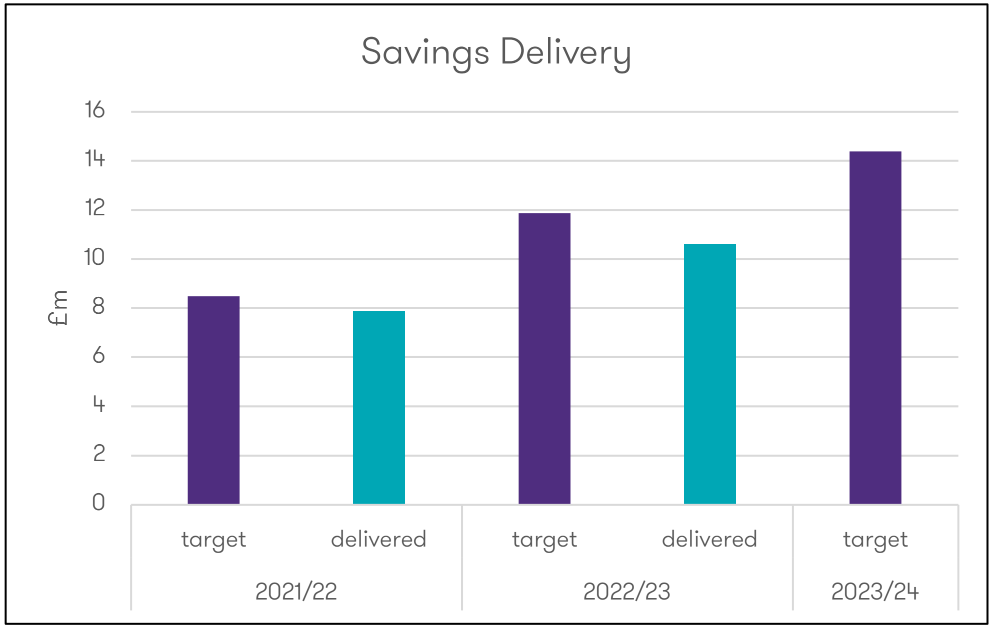
- Customer experience
- Children's services and education
- Adoption of the corporate landlord model for property asset management
- Working well together

In 2022/23 the Council created a Business Change Hub to support business change proposed through the Transformation Programme.

The Transformation Programme is in the early stages of development and has not yet identified savings which would contribute to funding gaps within its financial plans (MTFS), other than the savings required within the DSG.

The Council is applying flexible use of its capital receipts to fund transformation, as set out in the MTFS.

Going forward **the Council should ensure it takes advantage of the Transformation Programme to consider service redesign and identify savings for 2024/25 and beyond.**

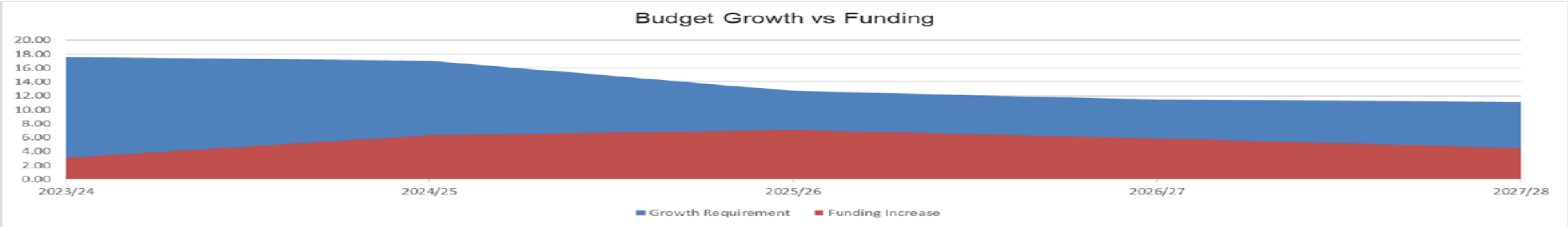


Financial sustainability

2023/24 budget pressures

The Council has a Medium-Term Financial Strategy (MTFS) which is reviewed and updated annually. The Council's current MTFS, 2023/24 to 2027/28 was reviewed and agreed by Cabinet in November 2022. It identified the **projected budget funding gap for 2023/24 of £17.11m. With the cumulative funding gap from 2023/24 to 2027/28 of £33.45m.** This subsequently reduced to **£26.64m in the budget setting process.** This is illustrated bellow, from the Council's 2023/24 budget report.

Budget Planning		Future years assumptions £m				
	2023/24	2024/25	2025/26	2026/27	2027/28	Total
Growth Requirement	17.52	17.02	12.69	11.48	11.09	69.80
Funding Increase	3.14	6.37	7.09	5.91	4.53	27.05
Annual Funding gap	**14.38**	**10.65**	**5.60**	**5.57**	**6.56**	**42.76**
Savings Proposals	**14.38**	**0.69**	**1.05**	**0.00**	**0.00**	16.12
Remaining Funding Gap	**0.00**	**9.96**	**4.55**	**5.57**	**6.56**	**26.64**



The MTFS included a range of assumptions, such as pay inflation, council tax and growth in demand in adults and children's social care. We are satisfied that the MTFS for both 2021/22 and 2022/23 sufficiently reflected the risks and pressures faced by the Council at the point of publication and that these risks and pressures were then updated for agreement of each annual budget.

The Council faced, and continues to face, increased service demand within its Children's Social Care Service, Adult Social Care, inflationary pressures, and a reduction in income, from both its heritage assets and parking income. In order to manage these pressures the Council has identified additional in year (2022/23) mitigations as well as adjusting its base budgets to allow for growth and reduced income.

The MTFS for both 2022/23 and 2023/24 set out the amount of reserves set aside to act as a contingency and to mitigate unforeseen risks, and the risk of savings not being delivered. In 2022/23 there was planned use of £3m of reserves to mitigate reduced income and in 2023/24 £0.43m. This is viewed to be sustainable and reserves are considered in more detail on the next page.

Financial uncertainty and risk can be better understood by providing scenarios and sensitivity analysis. These scenarios can illustrate possible financial outcomes should costs increase or decrease by varying amounts. The MTFS in 2021/22 and 2022/23 included a limited amount of scenario testing, identifying three scenarios in each year.

We consider that the MTFS could be strengthened by the inclusion of more detailed sensitivity and scenario analysis of the key financial risks and key demand pressures. For example, forecasting the budget gap if pay costs were to increase by 1, 2 or 3%.

Financial sustainability

Reserves

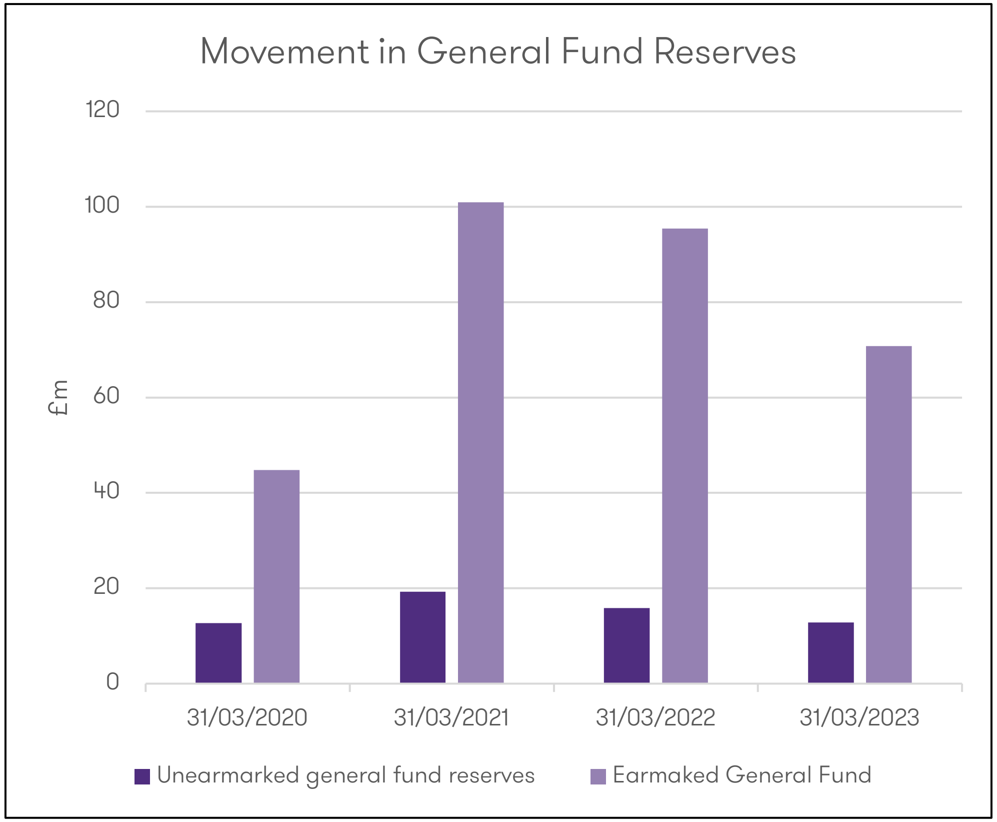
The purpose of unearmarked general fund reserve is to meet costs arising from any unplanned or emergency events such as unforeseen financial liabilities or natural disasters. These reserves also act as a financial buffer to help mitigate against the financial risks the Council faces and can be used to a limited degree to 'smooth' expenditure on a one-off basis across years. Whereas earmarked reserves are set aside for specific purposes.

The Council in both 2021/22 and 2022/23 has set aside reserves to mitigate unforeseen risks, and the risk of savings not being delivered. The Council calculated the reserve risk each year, as part of the budget setting process. This is a quantifiable amount of the risks and estimates within the budget and is used to gauge the amount of funds required within the unearmarked general reserves. The level of unearmarked reserves at the end of 2021/22 and 2022/23 was in line with the Council's reserves risk assessment for both financial years.

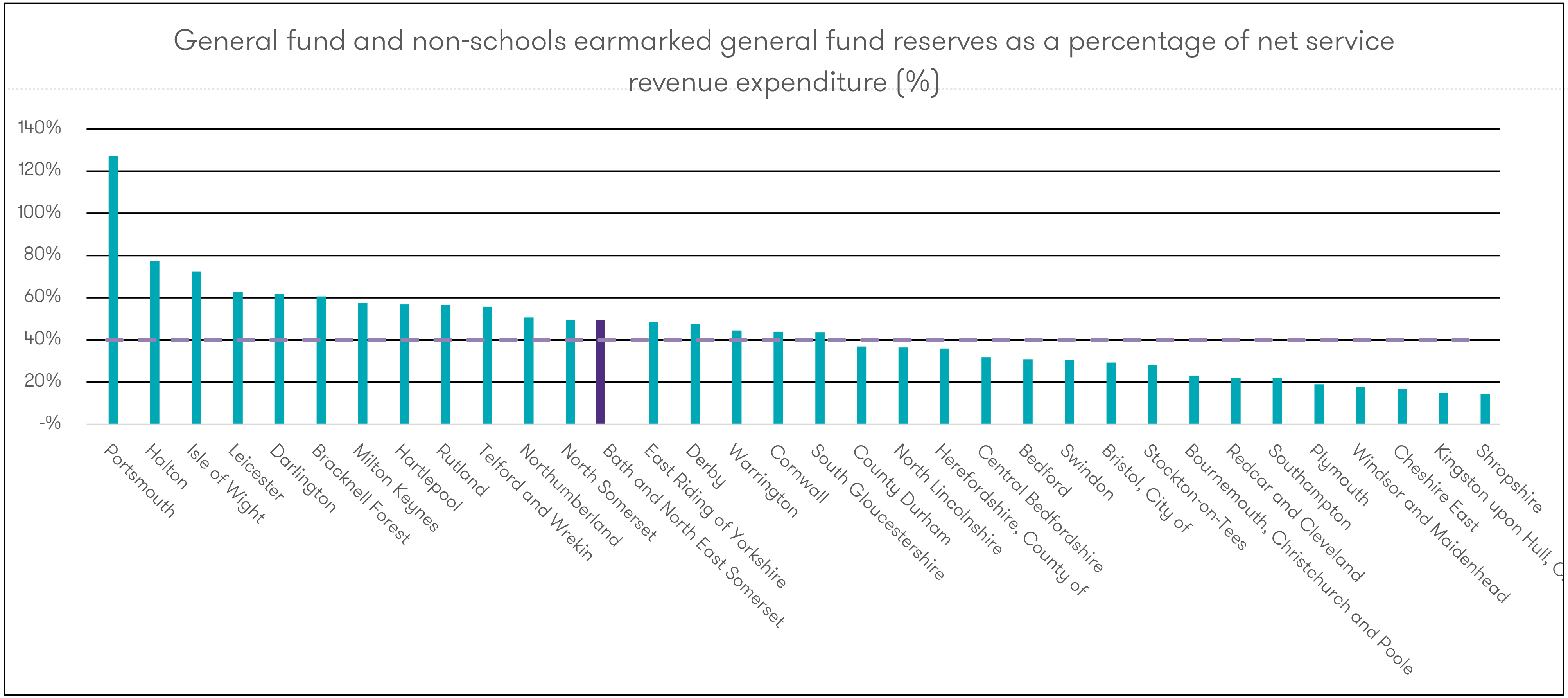
The table below illustrates the level and movement of general fund reserves over the past four years. It should be noted that the increase in earmarked reserves in 2020/21 was largely attributable to COVID-19 funding.

The budget papers for 2021/22 and 2022/23 included the Chief Finance Officer's Section 25 statement of the Local Government Act 2003. This statement sets out the adequacy of the reserves and the robustness of the estimates within the budget. These statements confirmed the adequacy of reserves and were based on 'robustness statements' produced by the individual Directors of the Council. The Section 25 statement also set out the amount set aside within contingency funds to manage risk and that the Council had benchmarked its level of reserves with other unitary authorities and was satisfied that it had sufficient levels of reserves.

Based upon the current level of reserves and the Council's projected funding requirements and gaps, as set out in the MTFS, we consider that the Council has proper arrangements in place in respect of its level and management of reserves.



Financial sustainability



Reserves continued

The chart above illustrates the Council's level of earmarked reserves in comparison to other unitary authorities, this confirms **that the Council does not appear to be in an adverse position compared to others and has a reasonable level of reserves taking into account the financial challenges it faces.**

Improvement recommendations

Financial sustainability

Improvement Recommendation 1	The Council should monitor and report on the amount of non-recurrent savings planned and delivered each year. This information could be included in the outturn reporting.
Audit year	2021/22 and 2022/23
Why/impact	This would enable the Council to more actively manage the extent to which it is reliant on non-recurrent savings.
Auditor judgement	The Council has delivered the majority of its planned savings, so we do not consider this to be a significant weakness in arrangements.
Summary findings	In 2021/22 and 2022/23 the Council has not clearly identified the proportion of non-recurrent savings that were included within the planned savings and were delivered in year - both as part of the plan but also to mitigate shortfalls in other areas as the year progressed. Reliance upon non-recurrent savings increases the financial pressure in future years. Further detail is provided on page 13.
Management Comments	The split between recurrent and non-recurrent savings will be included in the 2023/24 Outturn reports and subsequent quarterly budget monitoring reporting to Cabinet.

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

Improvement recommendations

Financial sustainability

Improvement Recommendation 2	Going forward the Council should ensure it takes advantage of the Transformation Programme to consider service redesign and identify savings for 2024/25 and beyond.
Audit year	2022/23
Why/impact	This should enable the Council to identify larger savings based on transformational design.
Auditor judgement	Although the Transformational Programme is not yet part of the solution to identify savings in 2024/25, we do not consider this to be a significant weakness in arrangements.
Summary findings	The Transformation Programme is at the early stages of development and has not yet identified savings or contributing to savings within the MTFS, other than the savings required within the DSG. Further detail is provided on page 13.
Management Comments	The Council's Business Change function during 2023/24 has completed in depth reviews across Children's Services, Estates and Property and Customer Services – as a result we are now agreeing and taking forward opportunities that will create operational efficiencies and delivery ongoing revenue budget savings. Once fully quantified and evidenced these will be put forward as emerging budget savings plans.

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

Improvement recommendations

Financial sustainability

Improvement Recommendation 3	The MTFS should be strengthened by the inclusion of more detailed sensitivity and scenario analysis of the key financial risks and key demand pressures facing the Council.
Audit year	2021/22 and 2022/23
Why/impact	This should enable members to better understand the financial pressures and risks facing the Council and the impact of these risks should they materialise in line with the modelled assumptions.
Auditor judgement	The Council has an appropriate MTFS in place which is updated annually, the inclusion of more detailed sensitivity and scenario analysis would improve the MTFS, so we do not consider this to be a significant weakness in arrangements
Summary findings	The MTFS in 2021/22 and 2022/23 included a limited amount of scenario testing. In each year the MTFS identified three scenarios in each year, and each scenario included a number of different changing factors. We consider that modelling a greater rage of factors and situations across a broader range of potential outcomes would provide decision makers with a better understanding of the financial risks and how changes impact upon the financial situation. Further detail is provided on page 14.
Management Comments	The 2024/25 MTFS has incorporated a +/- tolerance on variable contract and demand pressures to test budget sensitivity, this will be built on for future years budget planning.

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

Governance

We considered how the Council:

- monitors and assesses risk and gains assurance over the effective operation of internal controls, including arrangements to prevent and detect fraud
- ensures it makes properly informed decisions, supported by appropriate evidence and allowing for challenge and transparency. This includes arrangements for effective challenge from those charged with governance/audit committee
- monitors and ensures appropriate standards, such as meeting legislative/regulatory requirements and standards in terms of staff and board member behaviour (such as gifts and hospitality or declaration/conflicts of interests) and where it procures and commissions services
- approached and carried 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.

Risk management

The Council has a Risk Management Strategy for 2019-2024 which sets out the Council's approach to risk management. It operates a corporate risk register, alongside service and operational risk registers. Risks were recorded and logged on its risk registers during 2021/22 and 2022/23 and it uses its Integrated Reporting Framework (IRF) to do this. Officers have access to this system but members do not.

The Corporate Audit Committee has responsibility within its terms of reference for overseeing the risk management framework of the Council. However, we found that in both 2021/22 and 2022/23 the Corporate Audit Committee did not receive any risk management updates, or review the corporate risk register. The only member review of the risk management arrangements and the corporate risk register was undertaken by the Corporate Policy Development and Scrutiny Panel, which received a risk management update in July 2022. Whilst we understand that the Council did not want to duplicate the work undertaken by this Scrutiny Panel and that chair and vice chair of the Corporate Audit Committee attended the meeting, this would still not enable the Corporate Audit Committee to discharge its responsibilities.

The corporate risk register was only reviewed once by members in 2021/22 and 2022/23 and is not available on the Council's website. In order to demonstrate the Council's commitment to openness and transparency we consider that the corporate risk register should be more easily accessible to the public.

The improvement recommendation raised in 2020/21 remains outstanding:- **The highest ranked corporate risks should be included annually in the Corporate Audit Committee agenda and include links to the Council's Corporate Strategic Policies and Principles.**

This recommendation remains outstanding and should be implemented to ensure the Corporate Audit Committee complies with its terms of reference. This recommendation is discussed further on page 40.

We have also raised an additional improvement recommendation for 2021/22 and 2022/23:- **The corporate risk register should be regularly reviewed by members, either by Cabinet or the Corporate Audit Committee in a public meeting, so that it is more easily accessible to the public.**

In 2021/22 the Council strengthened its risk management arrangements through the introduction of its Risk Management Steering Group of officers, which met for the first time in October 2021. The Group met four times per year, its purpose is to have oversight of risk management activity on behalf of the Corporate Management Team.

Informed decision-making

Risk management is a key part of informed and effective decision-making. If those making the decisions are not fully aware of the risks and the importance of the risks they may not make the most appropriate decision.

We note that the supporting reports provided to Cabinet, which routinely set out the background for all Cabinet decisions, include a risk management section. The standard practice is not to document and set out the key risks, which the decision maker should be aware of, but to document that '*a risk assessment related to the issue and recommendations has been undertaken, in compliance with the Council's decision-making risk management guidance.*'

The risk assessment was also not included within the reports pack to support the decision.

Governance

Informed decision-making continued

The risk management arrangements to support decisions should therefore be strengthened and we have raised an improvement recommendation:- The Council should ensure the risk assessment undertake to support a member decision is included within the supporting papers. The supporting member report should also set out the key risks relating to the decision.

We have discussed with management the implications relating to working practices within a small part of its workforce and will continue to appraise members if issues develop.

Informed decision-making – Aequus Group

In 2021/22 (July2021) the Council commissioned a review of the Aequus Group, which included Aequus Developments Ltd (ADL) and Aequus Construction Ltd (ACL). This review included a range of recommendations to improve the governance arrangements. These arrangements culminated into a restructure and changes to the governance structure which was agreed by Full Council in March 2022. This decision was made by Full Council. Full Council also agreed the business plan for the Aequus Group, which covered 2021/22 to 2023/24.

It is unclear why the business plan was approved at the end of the first year (2021/22), as this period had already commenced. Ideally the business plan should be approved ahead of the period to which it applies and should be approved on an annual basis.

The decision was discussed with key officers and directors of the Aequus Group, prior to the decision being presented to Full Council. The Corporate Policy Development and Scrutiny Panel was updated on the changes, but this was after the decision had been made in April 2022 and also included the business plan.

We have raised the following improvement recommendation:- **The business plan for the Aequus Group should be reviewed and approved by members on an annual basis, ahead of the period to which it applies. If the Corporate Policy Development and Scrutiny Panel is to have an effective scrutiny role, its members should have the opportunity to scrutinise the business plan prior to its approval by Full Council.**

The revised structure included the establishment of a holding company and changes to the reserved matters (matters/decisions that require approval by the shareholder, the Council). Legal and financial advice was obtained and jointly instructed so that both the Council and the Aequus Group could rely upon it. The supporting paper was clear on the decision to be taken, the advice obtained and the reasons for the decision. However, the report did not include the key risks to be considered as a part of the decision and officers have subsequently been unable to provide evidence of any risk assessments which were undertaken to support the decision making process.

We have not raised an additional improvement recommendation as this is covered by the previous recommendation.

In addition, the Council has confirmed that the Aequus Group and any related risks associated with the Group are not recorded on any of the Council's risk registers, either Corporate/Directorate or Operational Risk registers. This is a weakness in arrangements and should be addressed, and we have raised an improvement recommendation:- **The Council should identify the risks in relation to being a shareholder of the Aequus Group and record these risks on an appropriate risk register and manage them accordingly.**

The Leader of the Council is the designated shareholder of the companies. Decisions relating to individual projects and developments are taken by the Leader of the Council as a single member decision. These decisions are recorded in the same manner as all other single member decisions, in line with the Council constitution. Business cases are provided for each of these decisions and reviewed by officers and the various groups and forums as described below, prior to final approval by the Leader of the Council.

Performance management of the Aequus Group

The Council has developed a company protocol to support the governance arrangements and has established the following which provide oversight and performance manage the Aequus Group:

- Officer working group – this group should meet monthly and include officers from the Council and from Aequus Group as follows; the Aequus Managing Director, Aequus Executive Director of Operations, Director of Regeneration and Housing, Monitoring Officer and the Head of Housing. These meetings aim to discuss tactical transactional matters. We have been told that the meetings should review the site tracker and finance dashboard, but minutes were not taken.

Governance

- Investment forum – these meetings should be quarterly and should include only officers and members from the Council; the Chief Executive, Chief Finance Officer, Monitoring Officer, Director of Regeneration and Housing, the Leader of the Council, Deputy Leader (Resources) and Cabinet member for Housing. This forum is not a decision making group, but will discuss issues prior to a formal decision and undertakes a performance management role. Actions undertaken include review of the site tracker, business plan and review of performance against the business plan key performance indicators. Minutes are taken for these meetings.
- Shareholder advisory group - these meetings should be quarterly and include officers of the Council and members from across the political parties of the Council, including the Leader of the Council. This group is not a decision making group and its intention is to ensure all political parties understand what the Aequus Group is doing and why. Minutes are not recorded for the meetings.

However, we have established that the above meetings were not held as frequently as set out in the Council's protocol for governance of local authority trading companies, especially in 2021/22:

	Expected frequency	2021/2022	2022/2023
Officer working group	12	4	12
Investment forum	4	3	5
Shareholder advisory group	4	1	1

In addition to the arrangements set out above a number of member committees are in place, as follows:

- Corporate Audit Committee – in line with the Committee's terms of reference the Committee reviewed the audited accounts of Aequus Development Limited and Aequus Construction Limited in 2021/22 and 2022/23
- Corporate Policy Development and Scrutiny Panel – the companies protocol requires that the Council's companies will report their performance on a six monthly basis to scrutiny. This did not occur in 2021/22 and only two updates were reported in 2022/23.

Whilst we recognise that scrutiny can have role in performance management it does not have the authority to ensure action is taken if there are issues regarding under performance, as such issues would have to be escalated to Cabinet.

We note that performance of the Aequus Group was not reported to Cabinet in 2021/22 or 2022/23.

The Aequus Group has been successful in delivering its expected financial returns in line with its business plan for 2021/22 and 2022/23 and the indications are that individual projects are progressing as planned, however performance management could be improved and we have raised an improvement recommendation:- **The Council should improve the performance management arrangements for the Aequus Group. Specifically, it should:**

- **determine which formal and informal member committees and groups should be involved in the performance management of the Aequus Group, what information should be reviewed, the frequently and if Cabinet should be involved**
- **ensure officer performance management is undertaken on a regular basis in line with the Council's own protocol for governance of local authority trading companies.**

Confidential item – informed decision-making

We have identified a confidential item relating to decision making. This is not a significant weakness, but an improvement recommendation has been raised.

Internal Audit

The Council's internal audit service has continued to be delivered by One West in 2021/22 and 2022/23, a trading arm of the Council. With over 80% of the reviews completed and reasonable assurance opinions provided in both years. Regular update reports were provided to the Corporate Audit Committee throughout the two years and we did not identify any issues to suggest that proper arrangements were not place during 2021/22 and 2022/23.

Monitoring standards

The Council has a range of policies and procedures in place against which standards could be guided and assessed. These were reviewed and updated by the Corporate Audit Committee in 2022. During our review we did not identify any issues to suggest that proper arrangements were not in place during 2021/22 and 2022/23.

Governance

Budget setting and monitoring

Revenue

The setting of revenue followed a similar process in 2021/22 and 2022/23.

The process begins with a review of cost and demand pressures and priorities. The Finance Team will then work with Directorates to achieve a balanced budget through the development of savings proposals. Reserves were identified and set aside to manage the risks within the budget and non-delivery of savings. Benchmarking was undertaken and provided to Directors to support their identification of savings.

In both years budgets have been adjusted for cost growth and reduction in income.

For each year the overall budget was presented and discussed informally with members before being considered by Scrutiny, Cabinet and final agreement by Full Council. A formal consultation process with local people and businesses was also undertaken.

Budget monitoring was undertaken by the Corporate Management Team and budget reports are provided to budget holders on a quarterly basis, with monthly reporting undertaken for more volatile/demand led service areas.

For both years Cabinet received quarterly budget monitoring reports. In addition. treasury management reports were also provided.

Capital

The capital budgets were agreed alongside revenue budgets. Capital financing requirements were included within the budget for 2021/22 and 2022/23, including projections for the next four years.

The Council has introduced an internal capital monitoring dashboard in 2022/23, which considers each capital project and RAG rates timeliness, deliverability and budget for each scheme to reduce the amount of slippage. This dashboard was considered by the Council's Capital Strategy Group, in order to assess the progress and performance of individual projects.

Overall we identified no significant weaknesses in the Council's approach to budget setting and monitoring.

Governance

Partnership Governance - West of England Combined Authority (WECA)

The Council is a voting member of WECA. WECA delivers a number of services, including transport, on a regional basis and is also a means by which devolved government funding is obtained and distributed among the constituent councils for infrastructure and other development projects. The governance of WECA is overseen by the West of England Combined Authority Committee, which comprises the leaders of the member authorities (Bath and North East Somerset Council, South Gloucestershire Council and Bristol City Council) and is chaired by the directly elected West of England Combined Authority Mayor.

The Mayor and Chief Executive of the West of England Combined Authority, and the Leaders and Chief Executives of the three constituent unitary councils, have acknowledged that the relationships between members of the Combined Authority are currently strained. This is partly attributable to inherent tensions between the West of England Mayor's mandate to create and deliver a regional strategy and the desire of individual authorities to retain and protect their own political and strategic areas or remits. The dynamic is further complicated by local circumstances, that include the existence in parallel of a separately constituted Joint Committee that includes North Somerset Council as an additional member but outside of the Combined Authority; the co-existence of the West of England Mayor and the Bristol City Mayor over part of the same footprint, and; the constitutional requirement for significant elements of Combined Authority business to require unanimous voting, which effectively allows any member to veto a decision.

It is in this context that we note the external auditor has issued a critical report on the governance of WECA that identifies five significant weaknesses in governance and includes three statutory recommendations. This relates to events that took place during the financial year 2021/22. Two of the statutory recommendations place an obligation on the members of WECA to work together to improve working relationships and the level of engagement on key decisions.

The two statutory recommendations that directly impact on the Council are as follows:

- The Mayor and members of the Combined Authority represented by the Council Leaders, must commit to improving their working relationship and demonstrate that significant progress has been made within a reasonable timeframe to be determined by the Mayor and Combined Authority. This should include a role for independent mediation and the constructive consideration of advice arising from this process (SR1).
- A formal protocol should be agreed between member organisations within the Combined Authority to commit to consultation on key proposals, that they should define, at an earlier stage. Combined Authority members should engage effectively in this process, to help mitigate points of contention before they are published and debated in public. This should include a commitment to deliver proposals on a reasonable timetable (SR2).

A constructive and collaborative working relationship between partners is fundamental to the ability to continue to reach consensus, approve the use of devolved funding and attract funding and deliver value to the region, in addition to the ongoing delivery of key regional services including local bus services. The report recognises that the day-to-day business of the Combined Authority in regard to its budget and financial allocations to projects has continued effectively in 2021 and to date in 2022. In addition, we note that significant new funding has been brought into the region and been allocated to approved projects, including those impacting on individual unitary authorities via the Investment Fund. This provides assurance that the Combined Authority has not become dysfunctional and has continued to deliver benefit to residents in the region.

However, the WECA external auditor expresses concern that the ongoing poor state of relationships could limit the ability of all parties to work together to optimise strategic opportunities in future. External perceptions of disfunction could also affect the reputation of the Combined Authority with central government and other partners., ultimately affecting the ability to raise further funding and undermining public confidence.

While we recognise that the onus is on WECA, as a separate statutory body, there is a key role for the Council to work with the WECA management team to ensure that all the required improvements are made. We have raised the following improvement recommendation:- **The Council should work closely with the West of England Combine Authority (WECA) to support (within its remit) the implementation of the required improvements to the governance of WECA (as set out in the Combined Authority's governance report).**

Since the issue of the statutory recommendations to WECA, the Combine Authority has been supported by SOLACE, who undertook a review of partnership arrangements. As a result, a transformational plan has been developed.

Improvement recommendations

Governance

Improvement Recommendation 4	The corporate risk register should be regularly reviewed by members, either by Cabinet or the Corporate Audit Committee in a public meeting, so that it is more easily accessible to the public.
Audit year	2021/22 and 2022/23
Why/impact	Elected members, have ultimate responsibility over the management of risk and require access and input into the corporate risk register to fulfil this role.
Auditor judgement	This is not a significant weakness, but an improvement recommendation and would enable elected members, who have ultimate responsibility over the management of risk to be aware and understand the risks faced by the Council in order to fulfil this function.
Summary findings	The Corporate Audit Committee has responsibility within its terms of reference for overseeing the risk management framework of the Council. However, we found that in both 2021/22 and 2022/23 the Corporate Audit Committee did not receive any updates or review the corporate risk register. Whilst a review was undertaken by the Corporate Policy Development and Scrutiny Panel in July 2022, this still did not enable the Corporate Audit Committee to discharge its responsibilities. Further detail is provided on page 20.
Management Comments	A regular report will be taken to the Audit Committee with regards to risk management which includes updates on the corporate risk register. This will be actioned by February 2024

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

Improvement recommendations

Governance

Improvement Recommendation 5	The Council should ensure the risk assessment undertake to support a member decision is included within the supporting papers. The supporting member report should also set out the key risks relating to the decision.
Audit year	2021/22 and 2022/23
Why/impact	This will ensure a risk assessment is undertaken and a record maintained.
Auditor judgement	As risk assessments are undertaken but not routinely provided to support decisions, we do not consider this is a significant weakness in arrangements, but an improvement recommendation.
Summary findings	The risk management section within member reports does not document the key risks and the papers do not include the risk assessment. Further detail is provided on page 21.
Management Comments	The council is due to review its Risk Management Strategy during 2023/24 and will ensure that the existing guidance and process in relation to risk management within the decision making process is refreshed as part of this work. This will include a requirement to attach the formal risk assessment to Cabinet papers where a key decision is being made and appropriate training and guidance will be developed to ensure this is fully operational by April 2024.

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

Improvement recommendations

Governance

Improvement Recommendation 6	The business plan for the Aequus Group should be reviewed and approved by members on an annual basis, ahead of the period to which it applies. If the Corporate Policy Development and Scrutiny Panel is to have an effective scrutiny role, its members should have the opportunity to scrutinise the business plan prior to its approval by Full Council.
Audit year	2021/22 and 2022/23
Why/impact	This will ensure members can scrutinise and agree the business plan on a more timely and regular basis.
Auditor judgement	The business plan was reviewed by members, but not on an annual basis, so do not consider this to be a significant weakness in arrangements, but an improvement recommendation.
Summary findings	The risk management section within member reports does not document the key risks and the papers do not include the risk assessment. Further detail is provided on page 21.
Management Comments	The Council will organise for annual scrutiny of interim business plan updates by the Corporate Scrutiny Panel. Approval of the business plan is a Shareholder Reserved Matter (as an executive function) considered via Council as part of Budget setting. Current Company articles currently require this to be approved on a 3 year business plan cycle not annually. In light of the recommendation for an annual Business Plan, we propose the Company provides the shareholder with Interim Business Plans for its approval.

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

Improvement recommendations

Governance

Improvement Recommendation 7	The Council should identify the risks in relation the Aequus Group and record these risks on an appropriate risk register and manage them accordingly. The risks are likely to include both reputational risks as a shareholder, as well as financial risks.
Audit year	2021/22 and 2022/23
Why/impact	This will ensure the risks are understood and managed appropriately.
Auditor judgement	We consider that proper arrangements are in place and as a result do not consider this to be a significant weakness, but an improvement recommendation.
Summary findings	The Aequus Group and any related risks associated with the Group are not recorded on any of the Council's risk registers, either Corporate/Directorate or Operational Risk registers. Further detail is provided on page 21.
Management Comments	Agree, these risks will be added to the appropriate risk register.

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

Improvement recommendations

Governance

Improvement Recommendation 8	The Council should improve the performance management arrangements for the Aequus Group. Specifically, it should: • determine which formal and informal member committees and groups should be involved in the performance management of the Aequus Group, what information should be reviewed, the frequently and if Cabinet should be involved • ensure officer performance management is undertaken on a regular basis in line with the Council's own protocol for governance of local authority trading companies.
Audit year	2021/22 and 2022/23
Why/impact	This will ensure performance is effectively monitored and corrective action can be taken as required.
Auditor judgement	We consider that proper arrangements are in place and as a result we do not consider this to be a significant weakness, but an improvement recommendation.
Summary findings	The Aequus Group has been successful in delivering its expected financial returns in line with its business plan for 2021/22 and 2022/23 and the indications are that individual projects are progressing as planned, however performance management could be improved. Performance has not been reviewed by Cabinet and has been limited to the Corporate Policy Development and Scrutiny Panel in 2022/23 only and to internal officer and member groups. The Officer Working Group and the Investment Forum have not met as frequently as expected in 2021/22 although frequency has improved in 2022/23. Further detail is provided on page 22.
Management Comments	Agree and this will be reviewed. A review of current adopted Company Governance provisions will be undertaken with the Monitoring Officer and S151. Role of Scrutiny and Audit Committees in relationship to Shareholder actions to be undertaken as the Shareholder is an executive function of the Council. Clarity on the relationships between existing Governance Arrangements for Investment Forum, Shareholder Advisory Board, O&S Panel and Audit Committee to be reviewed and set out more clearly. Performance Management is undertaken via monthly Officer-Director meetings and quarterly Investment Forum and Shareholder Advisory Group (if called upon to consult Shareholder Decisions) in line with the adopted Company protocol. Frequency of quarterly considered appropriate to maintain oversight and performance of Company via its agreed business plan KPI's.

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

Improvement recommendations

Governance

Improvement Recommendation 9	The Council should work closely with the West of England Combine Authority (WECA) to support (within its remit) the implementation of the required improvements to the governance of WECA (as set out in the Combined Authority's governance report)
Audit year	2021/22 and 2022/23
Why/impact	A constructive and collaborative working relationship between partners is fundamental to the ability to continue to reach consensus, approve the use of devolved funding and attract funding and deliver value to the region, in addition to the ongoing delivery of key regional services including local bus services.
Auditor judgement	This is not a significant weakness from the perspective of Bath and North East Council, but the Council has a key role to play in ensuring that the required improvement to this key partnership are made.
Summary findings	The Council is a voting member of WECA. WECA delivers a number of services, including transport, on a regional basis and is also a means by which devolved government funding is obtained and distributed among the constituent councils for infrastructure and other development projects. The governance of WECA is overseen by the West of England Combined Authority Committee, which comprises the leaders of the member authorities (Bath and North East Somerset, Bristol City, and South Gloucestershire Councils and is chaired by the directly elected West of England Combined Authority Mayor. We note the external auditor has issued a critical report on the governance of WECA that identifies five significant weaknesses in governance and includes three statutory recommendations. This relates to events that took place during the financial year 2021/22. Two of the statutory recommendations indicate that the members of WECA should work together to improve working relationships and increase the level of engagement on key decisions. Further detail is provided on page 24.
Management Comments	The Council continues to work very actively at all levels with WECA on key programmes within the transformation programme, and has engaged with the Solace work commissioned by the Combined Authority. As highlighted, the audit success will rely on the joint work of all parties.

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

Improving economy, efficiency and effectiveness

We considered how the Council:

- uses financial and performance information to assess performance to identify areas for improvement
- evaluates the services it provides to assess performance and identify areas for improvement
- ensures it delivers its role within significant partnerships 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.

Performance management

The Council adopted its four-year Corporate Strategy in 2020 which set out its strategic priorities and how it intends to deliver and measure them over the four-year term. The Corporate Strategy included a list of commitments under three corporate principles :

1. Preparing for the Future
2. Delivering for Local Residents
3. Focusing on Prevention.

During 2021/22 quarterly performance information was provided to senior management and presented to Cabinet. These reports included a dashboard which included a summary dashboard and RAG rated performance for 21 indicators.

For 2022/23 Cabinet did not receive quarterly reporting and only received the quarter three report in March 2023 and a detailed end of year report in May 2023. Regular performance reporting is important and should be re-introduced for 2023/24.

We have raised the following improvement recommendation:- **The Council should ensure that Cabinet receive quarterly performance reports on its strategic objectives as set out in the Corporate Strategy.**

In 2020/21 the Council began operating an interactive Integrated Reporting Framework (IRF). The IRF takes information from a range of business systems across the Council and through Power BI has developed an interactive system available to all officers, but not members.

IRF enables officers to access performance information at any point in time. Dashboards are available for each Directorate. 60% of the information and data on the IRF is automated and continues to be developed to expand the information it holds and how it is presented.

The Corporate Strategy 2023 -2027 was updated and agreed by Full Council in July 2023.

The Council's Data Strategy sets out the Council's commitment to ensuring strategic decisions are informed by quality data. The data quality is assured by processes in place to review the dashboards and reports by senior officers and Directors prior to release and publication.

Benchmarking and learning from others

In 2021/22 and 2022/23 the Council has carried out unit cost benchmarking centrally. This benchmarking was shared with the Directors of each service area. It was the responsibility of each individual Director to review and ensure action was taken as necessary.

Improving economy, efficiency and effectiveness

Benchmarking and learning from others continued

Benchmarking was undertaken as part of our VfM work using our management tool 'CFO Insights', based on 2021/22revenue outturn (RO) data. This identified the following high cost areas:

- Planning and development, due to high unit costs for economic research, environmental initiative and other planning policy
- Children's Social Care, due to high unit costs for children looked after and other children and families' service
- Public Health – these high unit costs were discussed with officers and confirmed why their understanding of why the cost might appear high and how costs might be reduced following a re-procurement exercise.

In January 2023 the Council undertook detailed benchmarking using revenue outturn information and the Local Government Associations (LGA) VFM profile tool. This review identified the following potential areas where costs could be reduced. We are satisfied that the Council is undertaking sufficient benchmarking, and that the information is shared with management to inform their decision-making processes.

Star rating	3 Stars	4 stars	5 stars
3 stars - £2m - £5m 4 stars - £5m - £10m 5 stars over £10m	Parking Services	Children Looked After	Children's Social Care
	Mental health support	Environmental and Regulatory Services	Management Support Services (under Non-Distributed Costs)
	Regulatory Services	Central Services	
	Environmental Protection, Noise & Nuisance	Recycling	
	Waste Management Service		

Inspections form external regulators provide an opportunity for the Council to better understand and improve its services. The Children's Social Care Services were last inspected by Ofsted in March 2022 and the Council received an overall rating of 'Good'.

Improving economy, efficiency and effectiveness

Partnerships

The Council's Corporate Strategy recognises the importance of partnerships and that a number of joint outcomes are being delivered through joint delivery plans. The Council was and continues to be involved a range of statutory and voluntary partnerships.

The key partnerships are set out in the Councils Annual Governance Statement in 2021/22 and 2022/23, four partnerships were listed. The Council does not maintain a register of all its key/significant partnerships and has not defined what it considers to be a key partnership. This is not a significant weakness in arrangements, but we consider that arrangements could be improved through the adoption of the following improvement recommendation:-

The Council should define its key partnerships and establish a register of key partnerships. The partnership register should include:

- **the strategic objectives to which the partnerships contribute**
- **why the partnership is a significant partnership in line with the Council's definition.**

In order to assess the partnership arrangements in place we considered the partnership arrangements for the Council's Community Safety and Safeguarding Partnership. A statutory partnership under the Care Act 2014 to ensure that all public sector agencies work together to ensure that children, and adults with care and support needs are protected from abuse, harm, and neglect. We found that annual reports were produced for 2021/22 and 2022/23 on the work and performance of the partnership and presented to the Health and Wellbeing Board. Escalation procedures are in place and should the partnership objectives not be met, then the issue would be raised with the Senior Leadership Team and members as required.

In May 2022 the Local Government Association (LGA) completed a peer review of the Community Safety and Safeguarding Partnership . This review did not identify any areas of significant weakness but did identify areas for improvement. An action plan has been developed, which will be implemented and monitored by the partnership.

We have raised an improvement recommendation on the Council's partnership governance with WECA on page 30. In this section, we were also able to confirm that update and approval reports on WECA were presented to Cabinet in 2021/22 and 2022/23. These reports ensured that Cabinet were kept up to date and made aware of any issues of concern.

Members are also made aware of partnership performance through the annual Corporate Strategy year end review.

The 2022/23 Corporate Strategy year end review reported achievements of the Council in partnership with Bath College; Homeless Partnership Agencies; Landscape Partnership Scheme and the Community Safety and Safeguarding Partnership.

Contract management and procurement

The Council has a Procurement and Commissioning Strategy which is published on its website. It is the Council's intention to update its strategy for the new public procurement regulations which were published in 2022 and the new Procurement Act which is likely to come into force in October 2024.

The Council recognises that it needs to improve its contract management arrangements and has established the Procurement Steering Group in 2022/23. This group includes Directors and the Council's procurement and contracting specialists. It oversees the contract management arrangements across the Council. This group received a range of reports and information to enable them to improve and effectively manage their contracting and procurement function.

The Procurement Steering Group commissioned a contract management review by Local Partnerships in 2023/24, initial findings were reported to the Procurement Steering Group in July 2023 and has identified a range of areas for improvement including a lack of:

- consistency
- governance and oversight from above
- risk management and registers maintained for the contracts
- contract management capability and practice and understanding of what good looks like.

Based on these findings more detailed work has been undertaken by Local Partnerships, however, the findings have yet to be reported to the Council.

We do not consider the findings of the Local Partnerships review on contract management to be a significant weakness in arrangements in 2021/22 or 2022/23. The findings were interim findings and the detailed findings have yet to be reported to the Council. The review was undertaken in 2023/24 and we did not identify any significant procurement issues in either year, nor did our review of the contract registers identify any areas of concern. We will however, review in more detail the findings on this review as part of our 2023/24 VfM work.

Improving economy, efficiency and effectiveness

We have raised the following improvement recommendation:- **The Council should improve its contract management processes and address the issues identified in the review undertaken by Local Partnerships.**

A contract waiver, is where a contract is awarded without competition or a contract is not re-tendered at the end of the contract period. There are legitimate reasons for why a contract waiver is permissible, but equally contracts can be extended which are outside the Council's agreed policies and current legislation. It is important that the Council has appropriate authorisation processes and records the number and extent of contract breaches to ensure the level of contract breaches is understood and can be effectively managed.

However, we found that the authorisation is undertaken by the Director in the same Directorate as the waiver originated, increasing the opportunity for abuse of the system. Whilst we are not aware of any inappropriate or fraudulent practices, we recommend that authorisation should be undertaken by someone with greater independence, such as central finance.

In addition, we note that contract waivers were not regularly reported to members. In our experience contract waivers are regularly reported to a member committee, such as an audit committee, to enable comparisons and trends to be monitored and addressed.

We have raised the following improvement recommendation: **The Council should consider reviewing its process for approval of contract waivers, to ensure appropriate independence. In order to ensure transparency and financial oversight the number and extent of waivers should be reported periodically to members at a public meeting, such as Corporate Audit Committee.**

Improvement recommendations

Improving economy, efficiency and effectiveness

Improvement Recommendation 10	The Council should ensure that Cabinet receive quarterly performance reports on its strategic objectives as set out in the Corporate Strategy.
Audit year	2022/23
Why/impact	Regular performance reporting ensure Cabinet are aware of performance and can ensure action is taken as required.
Auditor judgement	This is not a significant weakness as officers have access to performance information, however, members have a key role in performance management so an improvement recommendation has been raised.
Summary findings	In 2022/23 Cabinet did not receive quarterly performance reports on its strategic performance indicators. Cabinet only received two reports which covered quarter three and year end. Further detail is provided on page 31.
Management Comments	A regular report will be taken to Cabinet on performance which will also include the Council Annual Performance Report and Activity summary as we have done in previous years. The strategic performance report will report on a suite of strategic indicators which have been aligned to show the progress against the key deliverables within the Councils new Corporate Strategy and these will be reported for Q2, Q3 and Q4. This will be fully operational by April 2024.

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

Improvement recommendations

Improving economy, efficiency and effectiveness

Improvement Recommendation 11	The Council should define its key partnerships and establish a register of key partnerships. The partnership register should include: • the strategic objectives to which the partnerships contribute • why the partnership is a significant partnership in line with the Council's definition.
Audit year	2021/22 and2022/23
Why/impact	The partnership register should ensure all key partnerships are documented and recognised.
Auditor judgement	We do not consider this to be a significant weakness, as key partnerships are set out within the Annual Governance Statement.
Summary findings	The key partnerships are set out in the Council's Annual Governance Statement for 2021/22 and 2022/23, four partnerships were listed. The Council does not maintain a register of all its key/significant partnerships and has not defined what it considers to be a key partnership. Further detail is provided on page 33.
Management Comments	The Council has reviewed and published the full list of Outside bodies and partnerships that it takes part in on the basis of the fit to the Corporate objectives and priorities of the Council. We are currently revising the advice given to nominees, Councillors or officers, that take part on their role in ensuring that the Councils interests are best represented in such arrangements. (list https://democracy.bathnes.gov.uk/mgListOutsideBodies.aspx?bcr=1)

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

Improvement recommendations

Improving economy, efficiency and effectiveness

Improvement Recommendation 12	The Council should consider reviewing its process for approval of contract waivers, to ensure appropriate independence. In order to ensure transparency and financial oversight the number and extent of waivers should be reported periodically to members at a public meeting, such as Corporate Audit Committee.
Audit year	2021/22 and 2022/23
Why/impact	Improving the authorisation processes will reduce the opportunity for fraudulent practices. Introducing member oversight should ensure that any trends and inappropriate practices are identified and can be addressed.
Auditor judgement	We do consider this to be a significant weakness, but arrangements could be improved by introducing oversight of the process and ensuring Directors are not able to approve waivers within their own directorates.
Summary findings	Contract waivers are authorised by the Director in the same Directorate as the waiver originated, increasing the opportunity for abuse and fraudulent practices. In addition, contract waivers were not regularly reported to members. In our experience contract waivers are regularly reported to a member committee, such as audit committee to enable comparisons and trends to be monitored and addressed. Further detail is provided on page 34.
Management Comments	The current process for approving waivers is deemed effective based on the existing scheme of delegation, however we will refresh the process to ensure all waivers will now be co-authorised by the responsible Service Director and a senior manager within the Resources Directorate. We will also report a periodic update on contract waivers to the Audit Committee within its report on risk management as identified in an earlier recommendation. This will be fully operational by April 2024.

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

Avon Pension Fund

Bath and North East Somerset Council is the administering authority for Avon Pension Fund (APF) and we are required to consider the Council's arrangements in respect of the governance and management of the pension fund. This requirement is for administering authorities only and as such we have undertaken a high-level review of arrangements in respect of:

- Governance
- Financial sustainability
- Improving economy, efficiency and effectiveness.

The APF planned and managed its resources, monitored performance, and managed risk to ensure that it can continue to deliver its services. The following operated throughout 2021/22 and 2022/23:

- Avon Pension Fund Committee - the decision-making committee with delegated authority from the Council, met seven times in 2021/22 and four times in 2022/23. The committee received a range of performance information and agreed policies through the year.
- Avon Pension Board – its role is to ensure the effective governance of the Local Government Pension Scheme and compliance with regulations and legislation. It met five times in in 2021/22 and three time in 2022/23.
- Avon Pension Investment Panel – the aim of the panel is to consider matters relating to management and investment of assets of the fund.

The Funding Strategy Statement is a key strategy to ensure that the APF is able to meet its liabilities and identifies how employer's pension liabilities are best met and seeks to ensure the solvency and long term cost efficiency of the APF. The APF have updated and in the process of consulting on its Funding Strategy Statement with a view to approving it in December 2023. The previous Funding Strategy Statement was agreed in September 2022.

In 2022/23 the three year actuarial valuation was undertaken and the findings were presented to the AFP in March 2023. The report examined the outcome of the valuation process for the whole fund and highlighted the key changes that had occurred since the last valuation in 2019. it also set out the contribution rates for all employers for the next three years.

The valuation report set out that the deficit recovery period had reduced along with the overall deficit, as a result of an increase in the investment return.

We found that the risk register was a standard agenda item of Avon Pension Board and that annual governance reviews were undertaken each year for the Board and the Committee. In 2022/23 the review included the governance gap analysis undertaken by Hymans Robertson, which concluded that the arrangements were 'satisfactorily compliant', just one rating below full compliance. Arrangements and actions have been taken to address the gaps identified.

The service plan and budget were set in March of each year. The service plan included administrative KPIs against which performance was monitored through both years. Throughout this time the APF has under performed in a number of processing targets. The APF is aware of this issue and has been open and transparent in reporting where performance has been below target and is actively trying to address the issues by:

- actively trying to recruit and reduce the vacancy rate
- improve the management information to better understand the bottlenecks in the system
- introduce automation to reduce duplication.

Based on our review of the arrangements for administering the Avon Pension Fund we are satisfied that proper arrangements are in place and we have not identified any evidence of significant weakness or improvement recommendations.

Follow-up of previous recommendations

	Recommendation (FS)	Type of recommendation	Date raised	Progress to date	Addressed?	Further action?
1	The Council needs to explore and take appropriate actions to ensure that the DSG deficit is eliminated at the earliest practicable time	Improvement	May 2022	In 2021/22 the Council began discussions with the Department for Education (DfE) and in March 2022 was accepted as part of the 'Safety Valve' programme. This has resulted in the development of a management plan , which has been agreed by DfE and funding of £19.22m payable in tranches over the next six years. However, at the end of 2022/23 the Council was behind plan and as at quarter 2 of 2023/24 is forecasting to be £3m behind plan at the year end.	Ongoing	See key recommendation raised on page 6.
2	The Council must continue with its range of activities and mechanisms to deliver balanced budgets and ensure that risks to delivery are identified at an early stage so that appropriate and where possible, timely action can be taken. In particular to ensure that demand led services as far as possible, model and plan for future changes.	Improvement	May 2022	The 2022/23 base budgets were reviewed and rebased to take account for changes in demand and activity levels. This will remain a challenge in the existing economic climate.	Yes	No
3	Reference to the relationship between capital and revenue budgets should be included in the budget proposal, for example, the impact on revenue for future costs, such as repairs and maintenance	Improvement	May 2022	Budget reports for 2022/23 were presented to Corporate Policy and Scrutiny Panel which identified the additional cost to revenue (capital financing) for new capital schemes The revenue impacts of the capital programme arising from new schemes or scheme changes were assessed in terms of their financial impact and governed through the Council's capital strategy group chaired by the S151 Officer.	Yes	No
4	Using vacancies to deliver savings should be kept to a minimum and changes in staffing levels should be supported by service delivery model and workforce planning	Improvement	May 2022	The Council has continued to rely upon vacancies to deliver savings, in 2021/22 and 2022/23. vacancy savings have been delivered in both a planned way and unplanned way. These savings are non-recurrent and continue to place financial pressure on future years.	Ongoing	See improvement recommendation on page 17.

Follow-up of previous recommendations

	Recommendation (Gov)	Type of recommendation	Date raised	Progress to date	Addressed?	Further action?
5	The highest ranked corporate risks should be included annually in the Corporate Audit Committee agenda and include links to the Council's Corporate Strategic Policies and Principles	Improvement	May 2022	The Corporate Audit Committee did not receive any updates or a copy of the corporate risk register in 2021/22 or 2022/23. Risk management reviews by scrutiny do not enable the Corporate Audit Committee to discharge its responsibilities in line with its terms of reference.	Outstanding	Implement original recommendation
6	The Audit and Assurance Annual Report refers to Whistleblowing and Investigations, Although it detailed numbers of incidents, it does not provide details on trends, earning and subsequent action, is appropriate taken by the Council in response to concerns raised by stakeholders	Improvement	May 2022	Internal audit were involved in investigating any whistleblowing cases that required their attention in 2021/22 and 2022/23. The numbers were too low to report on trends, learning and subsequent action.	Outstanding	No
7	During the next review of the complaints and feedback policy, consider making some small presentational changes. For example, the initial Stage One process and what us expected from the complainant should be described with links to next steps and the commentary about how to give feedback or make a complaint could be included at the start of the document.	Improvement	May 2022	No action taken	Outstanding	Implement original recommendation
8	Treasury management performance reporting could be enhanced by 1) Bringing together the information on the overall impact (i.e., no further borrowing forecast in year, the budget implications with more detail about "re-phasing of capital spend") with the existing summary 2) Including the overall score (RAG rated) and some trend information in the Risk Register extract. The Council should also consider whether some further trend information on investment returns and borrowing would provide some context and further improves reporting.	Improvement	May 2022	The Council has considered and incorporated these changes in the 2023/24 treasury management performance reporting.	Yes	No

Follow-up of previous recommendations

	Recommendation	Type of recommendation	Date raised	Progress to date	Addressed?	Further action?
9	The register of interests and declarations of gifts and hospitality completed by Members should be routinely updated annually.	Improvement	May 2022	Outstanding, same procedures remain in place as 2020/21	Outstanding	No
10	The Integrated Reporting Framework should continue to be developed to provide a more sophisticated and joined up performance management framework. The Key Performance Indicators (KPIs) should be better aligned to objectives	Improvement	May 2022	This is an ongoing process, as the Council develop and improve its IRF system.	Ongoing	No
11	Strengthen the existing benchmarking processes by developing and formalising a structured framework ensure that the information in the annual VFM heatmaps is acted on and that benchmarks are incorporated into the Integrated Reporting Framework	Improvement	May 2022	The arrangements remain unchanged. The heat maps were provided as part of the CIPFA VFM toolkit, however, the Council no longer subscribe to this service. Outstanding	Outstanding	Implement original recommendation
12	Consider raising the profile of action planning and lessons learned from external inspection reports, such as Ofsted and the CQC by including an annual summary report to Council or Cabinet.	Improvement	May 2022	The arrangements remain unchanged. Outstanding	Ongoing	No
13	Ensure that an appropriate response and action plan to the Aequus Governance review is delivered on a timely basis	Improvement	May 2022	The new structure was approved in March 2022.	Yes	We have raised a number of improvement recommendations. See pages 27, 28 & 29
14	The Council should develop its contract management arrangements further, 1) It should ensure that staff have the appropriate skills and knowledge to manage contractual relationships with partners appropriately and consistently, using an agreed contract management framework. 2) The approach to monitoring, reporting and challenging service delivery , should be proportionate in line with the nature of the contract and the importance of the partner (perhaps through clearly identifying its key/significant partners).	Improvement	May 2022	This remains an area for improvement and the Council has commissioned a review by Local Partnerships. Improvements are to be made once this review has been received.	Outstanding	The Council is waiting for findings and recommendations from a third party review.

Opinion on the financial statements for 2021/22

Audit opinion on the financial statements

We gave an unqualified opinion or we qualified the opinion on the Council's financial statements on 29 March 2023.

Audit Findings Report

More detailed findings can be found in our AFR, which was published and reported to the Council's Audit Committee on 15 March 2023.

Whole of Government Accounts

To support the audit of the Whole of Government Accounts (WGA), we are required to review and report on the WGA return prepared by the Council. This work includes performing specified procedures under group audit instructions issued by the National Audit Office (NAO).

The council is below the NAO's threshold. We have submitted assurance statements and did not identify any issues in the work undertaken.

Preparation of the accounts

The Council provided draft accounts in line with the national deadline and provided a good set of working papers to support it.

Issues arising from the accounts:

The key issues were:

- Control recommendations relating to journal processes and property valuation approach;
- Material adjustments to the financial statements relating to property, plant and equipment; and
- Several disclosure and misclassification errors, most of which have been adjusted for.

Grant Thornton provides an independent opinion on whether the accounts are:

- True and fair
- Prepared in accordance with relevant accounting standards
- Prepared in accordance with relevant UK legislation

Opinion on the financial statements for 2022/23

Audit opinion on the financial statements

We plan to give an unqualified opinion on the Council's financial statements following the corporate audit committee

Other opinion/key findings

Key findings are reported in the Audit Findings report, which accompanies this report to the Corporate Audit Committee.

Whole of Government Accounts

To support the audit of the Whole of Government Accounts (WGA), we are required to review and report on the WGA return prepared by the Council. This work includes performing specified procedures under group audit instructions issued by the National Audit Office.

The council is below the NAO's threshold for detailed procedures, so our work involved reporting audit findings to the Whole of Government Accounts component auditor.

Preparation of the accounts

The Council provided draft accounts in line with the national deadline and provided a good set of working papers to support it.

Grant Thornton provides an independent opinion on whether the accounts are:

- True and fair
- Prepared in accordance with relevant accounting standards
- Prepared in accordance with relevant UK legislation

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.

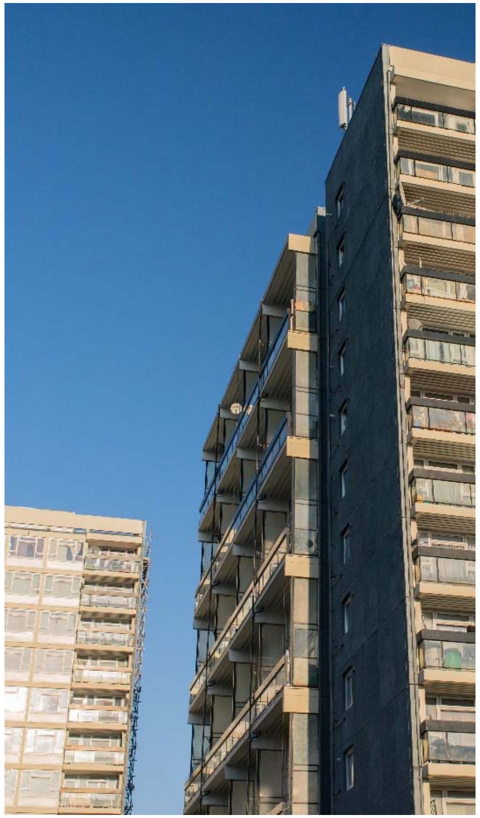
Financial statements are the main way in which local public bodies account for how they use their resources. Local public bodies are required to prepare and publish financial statements setting out their financial performance for the year. To do this, bodies need to maintain proper accounting records 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 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 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 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 is responsible for assessing the Council's ability to continue as a going concern and use the going concern basis of accounting unless there is an intention by government that the services provided by the Council will no longer be provided.

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



Appendix B – Risks of significant weaknesses, our procedures and findings

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

Year of audit	Risk of significant weakness	Procedures undertaken	Findings	Outcome
2021/22 and 2022/23	Financial sustainability was identified as a potential significant weakness, relating to the dedicated schools grant see page 11 for more details.	We considered the arrangements in place to reduce the deficit and the recovery plan agreed with the Department for Education.	This as a significant weakness in arrangements.	Appropriate arrangements not in place, one key recommendation raised.
2021/22 and 2022/23	Governance arrangements and how the Council makes decisions in relation to its companies (Aequus Group) was identified as a potential significant weakness, see page 21 for more details.	We considered the arrangements to make an informed decision when the Council restructured its companies and the arrangements in place to effectively performance manage the companies	We did not identify any significant weaknesses in arrangements.	Appropriate arrangements in place, three improvement recommendations raised.

Appendix C – An explanatory note on recommendations

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

Type of recommendation	Background	Raised within this report	Page reference
Statutory	Written recommendations to the Council under Section 24 (Schedule 7) of the Local Audit and Accountability Act 2014.	No	N/A
Key	The NAO Code of Audit Practice requires that where auditors identify significant weaknesses as part of their arrangements to secure value for money they should make recommendations setting out the actions that should be taken by the Council. We have defined these recommendations as 'key recommendations'.	Yes	6
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	17 – 19 25 – 30 35 - 37

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