

# Auditor's Annual Report on Warwickshire County Council

2020/21

14 December 2021



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We are required under s 20(1)(c) of the Local Audit and Accountability Act 2014 to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the National Audit Office (NAO) in 2020 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 Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.



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

# Executive summary



## Value for money arrangements and key recommendations

Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to consider whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. The auditor is no longer required to give a binary qualified / unqualified VFM conclusion. Instead, auditors report in more detail on the Council's overall arrangements, as well as key recommendations on any significant weaknesses in arrangements identified during the audit.

Auditors are required to report their commentary on the Council's arrangements under specified criteria. 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. We identified risks in respect of:

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

Criteria	Risk assessment	Conclusion
Financial sustainability	No risks of significant weaknesses identified	No significant weaknesses in arrangements identified, but improvement recommendations made
Governance	No risks of significant weaknesses identified	No significant weaknesses in arrangements identified, but improvement recommendations made
Improving economy, efficiency and effectiveness	No risks of significant weaknesses identified	One significant weaknesses in arrangements identified, a key recommendation and improvement recommendations made



### Financial sustainability

The Council is operating in an increasingly uncertain financial environment. For the second successive year, the Comprehensive Spending Review was a single year spending review. Warwickshire, as with all local authorities, will need to continue to plan with little certainty over funding in the medium term.

Despite this uncertainty, and the challenges posed by COVID-19, the Council has maintained a strong financial position. The MTFs framework is now fully embedded and aids the Council in remaining agile to change, this is currently balanced with no gaps identified in the medium term, although it does at present rely upon the use of a proportion of the Council's reserves in the earlier years until savings are delivered.

Overall, we are satisfied the Council has appropriate arrangements in place to plan for the future and ensure it manages risks to its financial sustainability. We have identified some opportunities for improvement.

Further details can be seen on pages 8 - 16 of this report.



### Governance

Procedures in place for the identification of risk and monitoring are implemented in line with the strategic risk framework. This demonstrates an all encompassing approach to risk management from the ground up and provides elected members and the public with a clear view of the risk profile of the Council and how these are addressed.

The annual budget setting exercise is aligned to the medium term outlook and key stakeholders both internal and external to the organisation are involved in developing the solution. The consideration of risk, sensitivity and alternative scenarios are well evidenced to ensure informed decisions can be made.

Policy documents and guidance ensure members and officers are held to account for their conduct and the appropriate standards are followed.

Overall, we are satisfied the Council has appropriate arrangements in place to manage risks and provide ample scrutiny, oversight and governance of key decisions. We have identified some opportunities for improvement.

Further details can be seen on pages 17 - 24 of this report.



### Improving economy, efficiency and effectiveness

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

We have identified a significant weakness in arrangements in relation to Special Educational Needs and/ or Disabilities service provision in the area and across all public sector partners, as highlighted by the significant concerns of the report of the joint inspectorate of CQC and Ofsted in July 2021.

Further details can be seen on pages 25 - 32 of this report.



## Opinion on the financial statements

We have substantially completed our audit of the Council's financial statements and plan to issue an unqualified audit opinion following the Council meeting on 14 December 2021.

Our findings are set out in further detail on page 37.



# Use of formal auditor's powers

We bring the following matters to your attention:

**Statutory recommendations**

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

No statutory recommendations have been made as a result of our value for money assessment. It should be noted that we are currently finalising our work in relation to an outstanding accounts objection for the year ended 31 March 2018, no statutory recommendations have been made to date.

**Public interest report**

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

We have not been required to issue a public interest report in the period and there are no matters as a result of our value for money procedures undertaken that would lead us to conclude that a report in the public interest is necessary. As noted above, we are currently finalising our work in relation to an outstanding objection for the year ended 31 March 2018 and therefore the outcome of this is yet to be concluded, no public interest report has been issued to date.

**Application to the Court**

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

We have not been required to make an application to the courts in respect of any item of account included in the financial statements for year ended 31 March 2021.

**Advisory notice**

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

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

We have not been required to issue an advisory notice in respect of any intended actions of the Council.

**Judicial review**

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


We have not applied to the courts for judicial review in relation to any matters noted in the period.



# Key recommendations

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'. Our work has identified one significant weakness in arrangements and therefore we have made a key recommendation as set out below.

Other improvement recommendations are set out within the body of the report.

	<b>Recommendation</b>	<p>In response to the September 2021 Report from the joint inspectorate review of special educational needs and/or Disabilities (SEND) by CQC and Ofsted, the Council have taken appropriate action to secure improvement in areas where the regulators have identified significant concerns in regard to the arrangements/ provisions in the local area. The Council should continue to review and improve the arrangements in place as the measures from the written statement of action evolve.</p>
	<b>Why/impact</b>	<p>Any system failure in services that support children is likely to have a significant impact, both to the service user and to the Council staff involved as well as to the reputation of the Council.</p>
	<b>Auditor judgement</b>	<p>As the report raises significant concerns, the Council, with its partners must focus on providing a service which meets the needs of its clients and will demonstrate that the remedial actions as outlined in the written statement of actions have been implemented.</p>
	<b>Summary findings</b>	<p>In September 2021, CQC and Ofsted performed a joint inspection of the effectiveness of the SEND arrangements in the local area of Warwickshire. The inspection identified some weaknesses in areas such as wait times for assessments, relationships and communication, placements, training and online offering.</p> <p>The inspectorate tasked the local area with producing a written statement of action to demonstrate what action would be taken. The Council led this activity in conjunction with partners, to address the issues noted.</p> <p>Although the inspection was undertaken in the 2021/22 period, we have considered this as relevant to our review of arrangements which were in place during the year ended 31 March 2021. There is a risk that if plans in place are not adequate, then services will continue to perform below the standards expected.</p>
	<b>Management comments</b>	

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



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

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

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

Under the Local Audit and Accountability Act 2014, we are required to be satisfied whether the 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) 3, requires us to assess arrangements under three areas:



## Financial Sustainability

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



## Governance

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



## Improving economy, efficiency and effectiveness

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



Our commentary on each of these three areas, as well as specific consideration of the Warwickshire Pension Fund and the impact of Covid-19 on the Council, is set out on pages 8 to 36.



# Financial sustainability



## We considered how the Council:

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

## 2021/22 and ongoing financial pressures

The medium term financial strategy (MTFS) is a rolling document and is therefore refreshed annually as part of the budget setting process. This ensures the strategy takes into account changes brought about by funding, policy, demand for services and one off events such as COVID-19.

The MTFS update for 2021/22 was presented to Cabinet on 10 December 2020, alongside an addendum which provided members with information on the anticipated impact of the 2020 funding settlement. The key areas covered by the addendum as they relate to the Council are the Council tax referendum and levy for social care, grant funding for collection fund losses and to mitigate council tax support schemes in the county, public sector pay freeze, increase in national living wage and additional Covid Funding. This was subsequently followed up by a full update to the Cabinet on 28 January 2021 with the actuals. The MTFS is currently balanced up to period 31 March 2026.

## Resources and funding

The primary mechanism for funding is the tax the Council raises on domestic and non-domestic properties as well as other levies and charges. The Council agreed a 2% increase in council tax in 2021/22 and thereafter. The Council also opted to take advantage of a 3% adult social care levy. This is at the discretion of the Council and in line with Government guidance. The MTFS assumes that major sources of grant income remain at current levels over the medium term with no increases or upside potential factored in. A 2% inflationary increase in fees and charges is offset by an equivalent increase in costs.

As a result of the provisional settlement in December 2020, a number of one off benefits in the form of additional COVID grant funding and council tax flexibilities were announced and the advantage of these is discussed in the MTFS update that was presented to Cabinet in January 2021.

## Permanent spending needs

This is the ongoing costs of operations and the Council have included inflationary increases of 2% and a provision for a 2% pay increase. In addition to this, specific allocations have been made to other budgets where there are known pressures such as education and social care. Council approved that £1m would be set aside in 2021/22 and a further £5.5m a year thereafter to meet unknown/ unquantifiable pressures and this will circumvent the need to identify further savings and cost reductions to services. Time limited spending needs are discretionary and allow the Council to fund investments to realise the objectives of the Council Plan. These remain in place and there is currently no need to divert resources to meet the minimum service requirements however it is acknowledged that this could be required due to future uncertainty.

Due to the highly material nature of DSG, this forms an integral part of the MTFS/ annual budget. The MTFS highlights the importance of ongoing scrutiny by members of spend and outlines the cumulative deficit of £29.9m which will need to be covered by 2025/26.



# Financial sustainability

## Balancing the books/ savings

In order to meet growing demand for services which is outstripping funding, the Council have identified the need to make savings and efficiencies over the life of the plan. Detailed plans are underway to deliver these and the Council have a strong track record of achievement. See the ‘Savings Plans’ section of our report for further information.

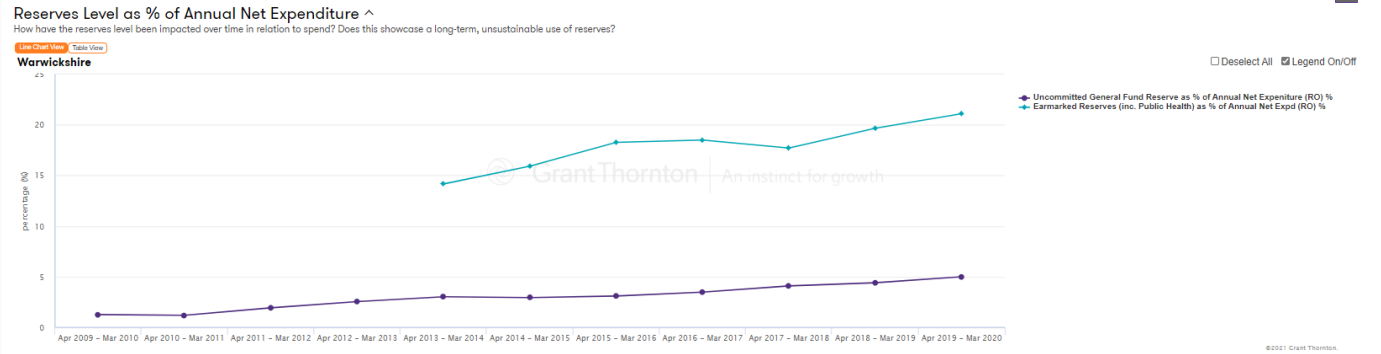
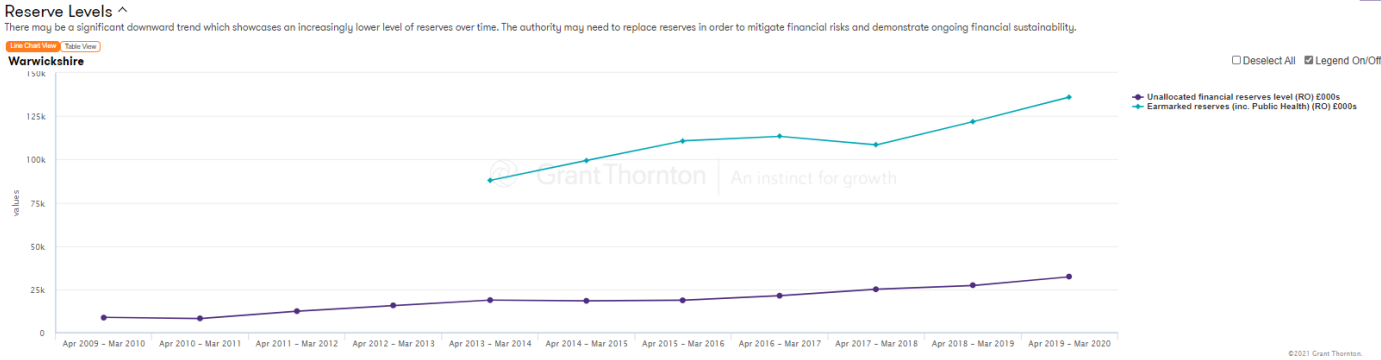
## Reserves

The Council have a strong balance sheet and robust reserves of over £256.2m at the year end 31 March 2021. In line with the reserves strategy, these are held as earmarked reserves, investment funds and management of financial risk reserves. The latter will be released to support the objectives of the Council when needed over the lifetime of the MTFs. The Council have performed a detailed review of reserves in the period in order to identify the most appropriate use for funds in furthering the objectives of the organisation and provided additional sustainability.

Overall, there is no downward trend in the reserves of the Council over the last ten years that would indicate an over reliance on the use of reserves to fill gaps in financial planning.

Likewise, a Council is deemed to be at risk if their uncommitted general fund reserves are less than 5% of their annual net expenditure, however the graph adjacent shows that in 2019/20, Warwickshire was at this level and therefore this demonstrates that a suitable level of reserves is held by the authority.

In comparison to other county councils in the country and the West and East Midlands region, Warwickshire rank highly on strength of reserves based metrics.



# Financial sustainability

## Group entities

At its 8th October 2020 meeting, Cabinet accepted the recommendation to proceed with the business case preferred option, which included the Council setting up a Warwickshire Property & Development Group (WPDG) with development and management companies within its group structure. WPDG is also able to partner with an external organisation with complementary skills, capacity and funding to form initially one joint venture partnership (JV), but with the potential over time to establish more, to undertake developments in line with an agreed Annual Business Plan.

The MTFS includes funding requirements of £1.5m and £1m in 2021/22 and 2022/23 respectively and then from 2023/24 it is forecast that a small surplus will be generated towards the revenue budget rising to £3.4m recurring by 2025/26. This adequately reflects the initial investment required and marginal returns expected while the company establishes itself. There is also a sub-section of the capital section of the MTFS which provides a qualitative view of the impact of the initiative on the MTFS.

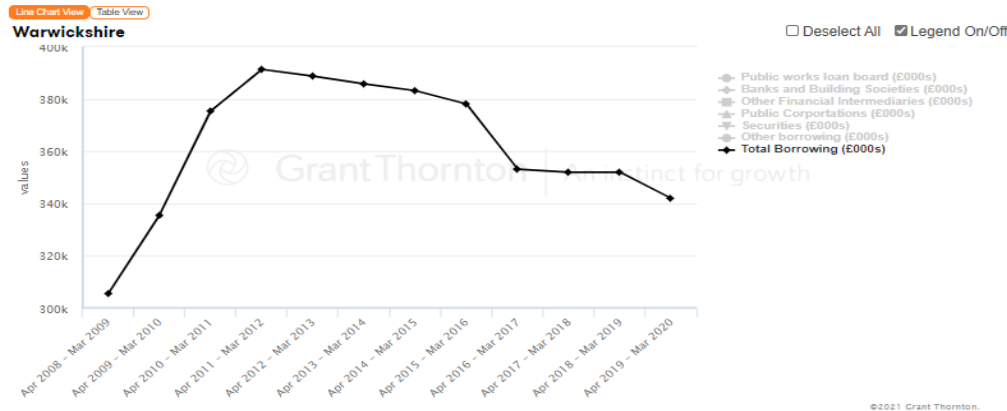
In the MTFS update in January 2021, it was recommended and agreed by elected members that a commercial risk reserve is established using temporary underspends in the revenue budget as a result of the rephasing of the capital programme to mitigate the downside risk of the Council's commercial activity. This is particularly pertinent in light of recent high profile public interest reports in regard to failed LA commercial activity.

In addition to this, following the Cabinet decision on 8th October 2020, officers progressed consideration of the options related to the creation of a Warwickshire Recovery & Investment Fund (WRIF) to support the Council's strategic place shaping agenda and its recovery and regeneration strategies, particularly in light of the significant economic impacts brought to the fore by the COVID-19 pandemic. The fund will provide loans for businesses and third sector organisations to invest for the benefit of local communities across Warwickshire.

At the meeting of the Cabinet on 17 June 2021, the business case and options appraisal was approved, authorising the Strategic Director for Resources to develop a year 1 business plan and governance arrangements for WRIF. This will see the Council invest up to £140m over the lifetime of the MTFS, £130m of which will meet the definition of capital expenditure and will be financed externally. The maximum debt is estimated to peak at £67m in 2025/26. The graph adjacent reflects the current borrowing profile of the Council which has gradually reduced over time and therefore going forward we would expect to see this rise.

## Borrowing Ranking: Total Borrowings ^

This graph showcases the total borrowing of the local authority over time, starting with 08/09. Is the local authority more reliant on debt than previously?



## Cash flow

The Council monitor cash flow on a daily basis, including maintaining an up to date forecast position for at least the next 18 months. These cash flow forecasts do not indicate any material uncertainty relating to the Council's continuing ability to meet financial obligations as they fall due. The forecast extends to March 2024 and includes the cash and cash equivalents of the Council and investment balances. This demonstrates that the Council remain comfortably within the threshold set of maintaining £80m in working cash balances each month and at least £125m in cash and investments each month.

The forecast models monthly inflows and outflows such as capital spending, group companies capital (WPDG and WRIF) and other financing needs.

# Financial sustainability

## Savings plans

Guidance is provided to officers in order to identify both revenue and capital demands/ costs pressures at a strategic level in order for the Council to determine the need for future savings. This is for specific areas of spend, rather than general inflationary rises which are separately built into the model.

This guidance is accompanied by a suite of documents that feed into the identification of savings:

1) Revenue cost and demand pressure proforma whereby officers identify permanent additional costs, time limited costs and one off costs as well as future savings. These must be supported by narrative explanation and assumptions applied.

2) Capital cost and demand pressure proforma whereby officers identify required capital costs (less any third party contributions), associated revenue costs and anticipated savings. Again, this must be supported by narrative explanation in all cases.

The Council engages with the public and their main stakeholders, through consultations. This is facilitated through the 'Ask Warwickshire' engagement hub and covers areas such as schools admission services, community services for working age adults, understanding mental health and wellbeing and the impact of Covid-19. This is structured in a survey/ questionnaire format.

In conjunction with identification of savings schemes, the Council has a budget balancing plan to identify reductions in expenditure for the coming financial year and across the lifetime of the MTFS by individual service area. This is refreshed annually in line with the budget setting process and forms an appendix to the budget and MTFS.

The impact of the pandemic brought into focus the Council's efforts to identify areas of underspend whilst ensuring the impact on services is minimised. Proposals which total £54m cumulatively have been flagged for delivery over the course of the MTFS, these are outlined by service area, with indicative timings and a RAG rating system which assesses deliverability.

The Council intend on using reserves currently in place over the earlier years of the MTFS to ensure this is balanced and to minimise impact on services. The current level of reserves as noted on page 9 will reduce to nearer £150m through commitments in 2021/22 and future years, including the application of covid funding received from central Government to fund the additional costs and loss of income as a result of the pandemic. It is noted that the current assessed minimum level of reserves, of £21.4m, will be maintained throughout however if savings or other assumptions around funding do not come to fruition, this could present a risk to financial sustainability or reduce the capacity to invest as maximum flexibility in the use of reserves has already been factored into the MTFS.

## Current year performance

The savings plan for 2020/21 required the delivery of £6.2m in savings with the Council delivering just over half of this target at £3.5m (56%). The primary reason for the delay in the residual balance of £2.7m was due to Covid-19 and the impact of the pandemic which can be deemed to be exceptional circumstances. Based on the financial position of the Council, there has been no requirement to identify additional savings in the year and slippage has been managed through additional government funding.

A total of 19 savings options were identified as part of the balanced budget setting process and of these, nine have been fully achieved, five have been partially achieved and five have reported no savings delivered against target. However, in the case of the latter, this was only to the value of £237k. The majority of savings not delivered (£1.3m) relate to capital resourcing and the reinvestment of receipts from the sale of two sites with bidders withdrawing at the start of the pandemic. The only other notable failure to achieve savings relates to the restructuring of the business support function (£700k) which again, was delayed due to Covid-19 and the need to re-prioritise efforts to response and recovery.

The Council has a good track record of delivery of savings, having achieved 74% of total savings budgeted in the prior period to 31 March 2020 and an overall 85% across the last medium term financial strategy (The One Organisation Plan) which ran from 2017 to 2020.

## Contingency planning

The budget approved by Council in February 2021 included a £1m provision in 2021/22 and a further £5.5m a year thereafter to meet unknown/unquantifiable pressures and this will circumvent the need to identify further savings and cost reductions to services. Time limited spending needs are discretionary and allow the Council to fund investments to realise the objectives of the Council plan, £20m is set aside in this respect. These remain in place and there is currently no need to divert resources to meet the minimum service requirements however it is acknowledged that this could be required to be varied over the lifetime of the plan due to future uncertainty. The Council also have flexibility in the use of reserves to mitigate any undelivered savings however if other assumptions, such as increase in council tax are not feasible then additional savings would need to be identified and delivered as the current plan already maximises this flexibility available.

## Monitoring

The delivery of savings are monitored monthly by the Corporate Board and quarterly by Cabinet. This is not reported separately from overall budget monitoring but is in sufficient detail to allow decision makers to understand current level of savings being achieved, those schemes at risk or that are non-deliverable and the reasons for this. The culmination of this is the annual outturn report which is presented to Cabinet in June. Review of minutes of the meeting of the Cabinet demonstrate challenge of savings performance and adequate commentary.

There is no obvious or specific assessment of the quality impact of savings although this may be inferred through service performance monitoring. We have therefore raised an improvement recommendation to review savings and assess after implementation whether there has been any quality impact on services.

# Financial sustainability

## Sustainable service delivery and alignment to corporate plans

The Council Plan was published in February 2020 and succeeds the former One Organisation Plan which ended in 2020. The Plan takes a look at what has been achieved over the past three years and then introduces readers to the reorganisation that took place in 2019/20 and how the organisation are moving to a commissioning led approach to service delivery.

The Plan includes the two priority outcomes of the Council and a number of supporting objectives underpinned by a cross-cutting theme of making the best use of available resources. There is no planned disinvestment of services and the theme of investment is prominent in the Council plan and this is evidenced also in the MTFS and supporting strategies.

The budget and MTFS are prepared under an agreed framework and are aligned to wider plans, namely the Council Plan 2020-25 as noted above but also supporting strategies in relation to investment and treasury management, capital strategy and the reserves strategy. These considerations are the starting point of the budget development process.

In the MTFS, spending allocations are categorised as either 'unavoidable' or 'choice'. The unavoidable costs include all expenditure related to statutory services and choice discretionary activity, both of these are being managed within the current funding envelope.

Although clear in the spend allocations appendix, the areas of core statutory spend and discretionary spend are not distinct in main MTFS and as such this could be clearer for a user. Therefore, we have raised an improvement recommendation to consider how this could be distinguished in the overarching MTFS.

The capital resources of the Council and reserves are in place to fund the annual capital programme as part of the longer term capital strategy 2020-2030. As with the MTFS and Council Plan, the Capital Strategy is geared at delivering outcomes based on the two priority areas of the Council:

- 1) Warwickshire's Communities and individuals are supported to be safe, healthy and independent; and
- 2) Warwickshire's economy is vibrant and supported by the right jobs, training, skills and infrastructure.

As supported by:

- 3) Making best use of resources

The Our People Strategy 2020-2025 focuses on vision, values and behaviour and is clearly aligned to the Council plan and links to the priorities as set out in this document.

While the strategy is well written and outlines strategic outcomes, how the council can enable these and measures of success, there is no apparent link to the financial plans and therefore this has also been included as an improvement recommendation.

The Council set an annual treasury management and investment strategy, this is divided into two distinct arms being treasury management (management of cash balances and borrowings) and investments (management of non-treasury investments e.g. Local Authority Trading Companies).

The plan provides commentary on the current situation and outlook for both elements of the strategy and this reflects on the fact that treasury management is likely to generate marginal contributions in the medium term due to low interest rates, but conversely this will also allow the Council to borrow at cheaper rates. Some additional measures have been introduced to the treasury management strategy to increase risk such as reducing credit and sovereign ratings to lower, but still acceptable levels, in order to widen access to the market.

The greater reward, but also higher risk will be provided by investments, namely the Warwickshire Property & Development Group (WPDG) and Warwickshire Recovery Investment Fund (WRIF). The strategy highlights that this should be for the primary purpose of delivering organisational objectives and not purely to make a financial gain and points towards current investments in ESPO, Educaterers and investment properties to demonstrate this.

The report includes a risk matrix which plots the current return/ contribution from investments against risk level (low, medium and high) and mechanisms

# Financial sustainability

## Managing risks to financial resilience

The MTFS is currently modelled on a 'most likely' case scenario on the back of the COVID-19 pandemic which assumes there will be a short lived recession followed by a gradual recovery in 2022 but that overall the economy will be 3% worse off in 2025 than expected pre-pandemic.

In recognition of the unprecedented level of uncertainty however, a 'best case' and 'worst case' have also been modelled. The best case assumes a return to normal economic activity in 2021 and the worst case assumed a medium term recession which lasts for the entirety of the MTFS with some gradual recovery from year 3 onwards.

The impact on the assumptions in the MTFS for the 2021/22 period and then to 2025/26 have been calculated and in the worst case scenario this shows a £15.7m reduction in resources in 2021/22 and £63.9m by 2025/26.

In addition to this, the MTFS options presented to Cabinet for decision include a section on residual financial risks and uncertainties as follows:

- 1) Taxbase increase - the MTFS assumes no growth in 2021/22 and then modest growth beyond to 1% and 2%. There is a risk that this could not materialise based on the ability to build houses in the county being delayed or increased council tax support due to the pandemic.
- 2) Level of surplus/ deficit on council tax collections - there is a risk that any deficit forecast could be higher than anticipated and the Council will need to make good of this.
- 3) Business rates taxbase growth and appeals provisions - assumptions account for a decrease and then maintenance at a set level. There is a risk that this could continue to decline.
- 4) Inflation - there is a risk that inflation could be higher than is factored into the MTFS.
- 5) Local government finance settlement - full settlement is expected in 2022 with only provisional one year settlements provided to date for incorporation into the MTFS.
- 6) Impact of government policy initiatives - there is a risk that future policy could be detrimental as the Government seek to rebuild the significant impact of the last 12 months on the treasury.

All of the above risks include quantitative analysis to show the potential impact on resources available to the Council.

As noted previously, the medium term financial strategy is a rolling document and is therefore refreshed annually as part of the budget setting process. This ensures the strategy takes into account changes brought about by funding, policy, demand for services, one off events such as COVID-19.

## Conclusion

Overall, we are satisfied the Council has appropriate arrangements in place to plan for the future and ensure it manages risks to its financial sustainability. We have identified some opportunities for improvement. These are set out overleaf.



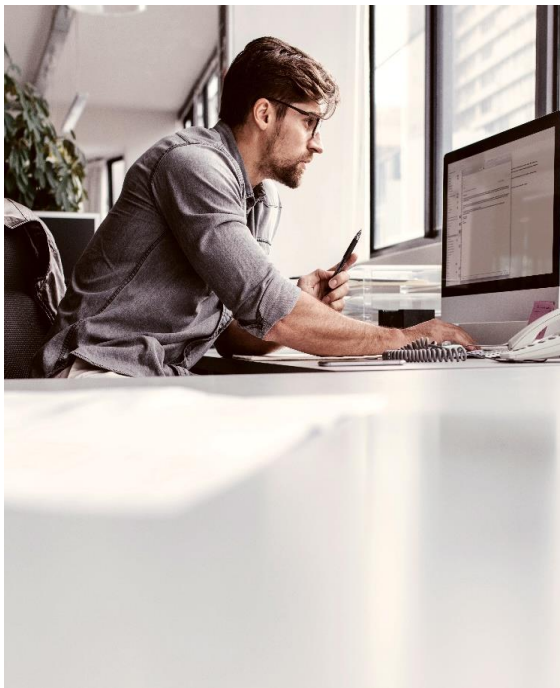


# Improvement recommendation



## Financial Sustainability

<b>Recommendation</b>	Consideration should be given to performing a dedicated review of savings after implementation and assessing whether there has been any impact on the quality of services.
<b>Why/impact</b>	This would help members and stakeholders to understand whether has been any direct link between savings implemented or reduction in services and the quality of outcomes for residents.
<b>Auditor judgement</b>	The assessment undertaken would provide benefit by informing the thinking in regard to future budget resolutions and MTFS planning.
<b>Summary findings</b>	There is no obvious or specific assessment of the quality impact of savings although this may be inferred through service performance monitoring.
<b>Management comment</b>	



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

# Improvement recommendation



## Financial Sustainability

<b>Recommendation</b>	Consideration should be given to enhancing the distinction between statutory and discretionary spending in the MTFS provided to Cabinet members and published online.
<b>Why/impact</b>	This would help residents and members to understand the difference between these types of spending, and would help inform them as to any spending which is made as a result of manifesto pledges or following a decision by the Council to undertake a specific project outside of or in addition to its statutory obligations.
<b>Auditor judgement</b>	There could be some benefit in making it clear to residents the differentiation between statutory and non-statutory services.
<b>Summary findings</b>	<p>In the MTFS, spending allocations are categorised as either 'unavoidable' or 'choice'. The unavoidable costs include all expenditure related to statutory services and choice discretionary activity, both of these are being managed within the current funding envelope.</p> <p>Although clear in the spend allocations appendix, the areas of core statutory spend and discretionary spend are not distinct in main MTFS and as such this could be clearer for a user.</p>
<b>Management comment</b>	



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

# Improvement recommendation



## Financial Sustainability

<b>Recommendation</b>	Consideration should be given to how the people strategy (workforce plan) expectations can be linked to the MTFS.
<b>Why/impact</b>	Measures linked to the MTFS will create accountability in the workforce for delivery of the future financial sustainability of the Council.
<b>Auditor judgement</b>	Performance is one of the key building blocks of the strategy, this could be expanded to include a financial angle aligned to the MTFS.
<b>Summary findings</b>	<p>The people strategy 2020-2025 focuses on vision, values and behaviour and is clearly aligned to the Council plan and links to the priorities as set out in this document.</p> <p>While the strategy is well written and outlines strategic outcomes, how the council can enable these and measures of success, there is no apparent link to the financial plans</p>
<b>Management comment</b>	



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

# Governance



## We considered how the Council:

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

## Monitoring and assessing risk

The Council have recently implemented a new strategic risk management framework, developed in conjunction with external consultants Marsh Risk Consulting Limited. The framework builds on previously established risk strategies to clearly identify appetite to risk, produce a risk assessment matrix, escalation procedures and the integration of risk into quarterly performance management and planning processes.

The framework uses a 'why, what, how?' approach to strategy development in order to establish why the council are doing what they do i.e. the objective, what tools and activities are available to deliver objectives and manage risk, and how this will be implemented and governed.

At a high level, risks are recorded in the Risk Appetite Statements which provide a description of the risk in respect of multiple different areas e.g. people, reputational, service delivery, climate change, staff health and wellbeing etc, alongside the risk appetite which range from averse to hungry and an accompanying commentary on the rationale for the chosen appetite.

This is then analysed at a more granular level in the risk register which includes all risk information and is monitored and updated on a quarterly basis by the Corporate Board and Cabinet. This document assesses risk and evaluates against a matrix using the formula (impact score x likelihood score) + impact = Risk score. The impact of risks range from insignificant to catastrophic and likelihood from highly unlikely to very likely. The definitions and criteria are set out in the risk management framework.

Ownership of risks are assigned to service managers, project managers and partnership arrangements. Oversight is provided by bodies such as Delivery Boards, Corporate Board, the Integrated Planning Forum and risk management commissioning team. Internal audit and external assessments also provide assurance on risks.

The strategic and service risk registers are reported to Cabinet on a quarterly basis for monitoring and scrutiny. Cabinet members are presented with an appendix to the risk register which focuses on 'net red risks' which are those risks that even after consideration of current and future planned actions, are still deemed to be pervasive. Such risks are accompanied with a 'Net red risk mitigation strategy' to provide further assurance to members.

The reporting of KPI performance and progress against the Council plan 2020-2025 also includes a section on risk management, and risks arising through possible non-delivery of the plan. This feeds into the annual governance statement whereby the Council highlight significant governance risks and action plans in place to address these.

# Governance

## Internal Audit

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

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

Internal Audit report to the Audit and Standards Committee on the results of each audit and the progress with delivering the annual audit plan. Regular liaison meetings are also held with assistant directors to make sure that the work done contributes to the highest areas of risk across the council.

In 2020/21, Internal Audit were able to deliver their plan, although specific reference is made to the impact of the COVID-19 pandemic on the function. Internal Audit provided an annual opinion of 'moderate assurance' that the significant risks facing the Council are addressed. This is the third tier in the level of assurance, after full and substantial assurance but above limited assurance. The opinions in the current year show a downward trend in audits receive full or substantial assurance but also a downward trend in audits receiving limited assurance. The opinion of the Head of Internal Audit is that overall control findings are not pervasive to the Council.

## Anti-fraud, bribery and corruption

The Council have a counter fraud, bribery and corruption framework which is underpinned by the need to "support a culture of openness, honesty and integrity". The Framework defines the approach to managing the risk of fraud, bribery and corruption across the organisation and ensures that best practice is embedded across all services, projects and partnerships.

The policy goes on to set out a statement of expectations, scope (all activities of the council are covered) relevant legislation and approach which is split into sub-sections as follows: 1) Deterrence, 2) Prevention, 3) Detection, 4) Investigation, 5) Sanctions and 6) Redress

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

Finally, the Council have both an officer and member code of conduct. The former is set out in the Council constitution which all employees should be familiar with and the latter is determined periodically with reference to good practice.

## Budget Setting Process

The budget setting process is driven internally by the Resources Directorate and the Assistant Director - Finance communicates the process and timelines accordingly. This is accompanied by a suite of documents that feed into the exercise such as a revenue cost and demand pressure proforma and a capital cost and demand pressure proforma. Officers then identify permanent additional costs, time limited costs and one off costs as well as future savings. These must be supported by narrative explanation and assumptions applied.

Guidance notes are also provided to budget holders in relation to trend analysis which includes the need to identify areas of consistent revenue over/underspending at objective and/or subjective level. This should also include those areas where income targets are consistently over/underachieved. The purpose of this is to identify whether there are budgets that require realignment, where income targets should be adjusted, and/or future savings can be achieved from.

The Council refreshes the MTFS each year in line with the annual budget. This is considered by Corporate Board prior to the options and flexibilities available being presented to Cabinet. The refresh is animated by an interactive budget model which allows management and members to consider a range of scenarios and therefore determine the key variables of the plan for the coming year, this is to say, the ones they have control of e.g. council tax, inflation and spending allocations.

There is no formal public engagement on the annual budget process and this would be considered unusual. Instead, this is covered as part of the wider engagement around the Council Plan and the Council's priorities on the basis that the budget should follow priorities and not be something separate. The survey questions and/or supporting information as part of the engagement process do include specific finance elements. The Council also undertakes the annual statutory consultation with business ratepayers. This is undertaken jointly with the trade unions in January each year and is led by the Leader on behalf of the Council with other leaders of political groups also invited to attend.

Approval of the annual budget is by full Council after going through a through a scrutiny and assurance process led by Corporate Board as well as the usual governance process of finance and legal sign-off for all Member reports. All of the information in the reports and the supporting documentation in the options presented to Cabinet in December are signed off by the individual Assistant Directors at the time it is submitted.

These individual service submissions also go through the relevant Directorate Leadership Team where there is the initial challenge/assurance process led by the Strategic Director. There is also opportunity for political groups to provide suggested amendments and these are also cleared as deliverable by both Finance and the relevant Assistant Director.



# Governance

## Budgetary control

Budget monitoring reports are presented to Corporate Board on a monthly basis which summarise the overall position of the Council, variances to revenue and capital budgets both favourable and adverse and the reasons for these and anticipated impact on the final outturn.

The report includes graphical dashboard style summaries of performance, high-level commentary on key variances and risks and pertinent changes from the prior period. Further detailed analysis of the variances by each service line (Communities, Resources and People) are reported on an under/ over spend basis. Where required, sub-reports are produced to support any recommendations from meetings.

The report also covers performance in the period and year to date on delivery of savings plan and narrative on those initiatives which will not be achieved or are at risk of under achievement.

The monthly culmination of these reports form the basis for quarterly reporting to Cabinet. This is reported at a high level initially and then drills into further detail by revenue outturn in each service area, savings plans delivery, reserves position and capital programme delivery. A number of appendices are presented alongside the executive summary for further scrutiny by members.

The financial regulations state that Strategic Directors are fully accountable for the financial performance of their service area against the budget allocated and that Assistant Directors are responsible for managing expenditure and income against revenue and capital budgets and must provide information to Strategic Directors and the Chief Finance Officer, at the earliest stage, of any issue where corrective action needs to be taken to keep expenditure within their approved budget.

Quarterly and monthly monitoring and reporting was redesigned during 2020/21, and has been reviewed again during 2021/22, in order to improve the reporting of outcomes/deliverables to Directorate Leadership Teams, Corporate Board and Members. In particular, details of material variances to budget are accompanied in the narrative section by the Service's intended mitigating action and the MTFS impact of any variations is quantified.

Where there is risk that mitigating actions are not taking place effectively, or that there are factors that suggest that underspends or overspends will continue, Finance escalate this to Corporate Board/Directorate Leadership Teams/Assistant Directors as appropriate. In the current financial year this escalation process has resulted in Corporate Board requesting deep dives into three overspending areas (SEND, children's placements and children with disabilities) and a review of the service and finance boundaries between adult social care and other services.

Non-financial information is not factored into financial reports presented to the Cabinet on a quarterly basis, these are presented separately but alongside each other and non-financial information is given equal prominence.

Treasury management activity is reported to the Cabinet bi-annually i.e. on the first six months of the period and then the outturn for the year. The update report includes headlines in relation to cash balances, investment returns, debt repayments and outstanding borrowings, these are then further analysed in the body of the report which is supported by a number of appendices. The update also comments on the compliance with the strategy as approved by the Council. The outturn report then reports on this position as at 31 March 2021.

## Delegated budgets

Members' delegated budgets are funded from a £2m allocation annual allocation approved as part of the capital programme. The £2m is split equally between Members - £35k per Member per year. The process from April 2020 is that each member must coordinate their delegated budget requests through their Highways Locality Officer.

In 2019 this was part of a Communities Overview and Scrutiny Review and a series of changes to improve the arrangements were agreed at Cabinet in June 2020. We have included an improvement recommendation to review the revised arrangements post implementation to ensure they are having the desired impact.

# Governance

## Leadership and committee effectiveness/decision making

All reports presented by the Council set out an author (individual responsible for preparing the detail), the relevant Strategic Director and Assistant Director (for queries) and the Portfolio Holder (member with overall responsibility).

The relevant Strategic Director and Assistant Director review reports as they are prepared and sign these off prior to being considered by the Council and/ or the Cabinet and applicable sub-committee for scrutiny and challenge. The cover sheet has standard sections on financial implications and environmental implications for decision makers to consider. In our view, this could also include legal/ regulatory implications and this will be suggested as an improvement recommendation.

Service user feedback is taken into account when significant changes to services are proposed or engagement is required over long term plans. The Council engage with the public, their main stakeholder, through consultations. This is facilitated through the 'Ask Warwickshire' engagement hub and covers areas such as schools admission services, community services for working age adults, understanding mental health and wellbeing and the impact of Covid-19. This is structured in a survey/ questionnaire format.

Corporate Board also considers feedback from a number of sources in key service areas such as adult social care, children and families and corporate customer service. These reports include recommendations in improvement and actions and are supported by detailed information from the power BI reporting system as an appendix to illustrate findings.

Attendance at Audit and Standards Committee demonstrates that members provide sufficient challenge and scrutiny of officers. Overall, members bring a balance of different experiences to the Committee and also have access to a range of training materials as part of the learning and development catalogue on the intranet. Modules include contract management, financing of capital projects, working effectively with finance and critical thinking.

The Audit and Standards Committee also prepares an annual report which summarises the work it has undertaken and its contribution to the governance framework in the period, in conjunction with officers, internal audit and external audit. Going forward, the Committee also intend to undertake a self assessment in line with CIPFA guidance to identify best practice and areas for improvement.



# Governance

## Monitoring and ensuring appropriate standards

The Council has a 120 strong legal services team headed by the Monitoring Officer who ensures the organisation meets legislative and regulatory requirements. As noted in the Annual Governance Statement (AGS), the legal services team have received LEXCEL accreditation from the Law Society in recognition of the high standard of services provided internally and externally.

The monitoring officer will attend relevant meetings of the full Council, Cabinet and other committees such as Audit & Standards to advise on legal and regulatory matters. In order to better reflect the work of the legal services team, an improvement recommendation will be made to consider the inclusion of 'legal implications' as a standard section within reports provided to Cabinet and/ or Council.

As noted previously, the Council has both an officer and member code of conduct.

There is no evidence of significant non-compliance with the Council's constitution or laws and regulations identified as a result of our review of relevant documents and discussions with management and those charged with governance.

The Council has set guidance for gifts and hospitality which are documented for the reference of officers, this stipulates that as a local government employee, it is of paramount importance to ensure such instances are considered carefully and recorded correctly as to not bring the Council and themselves into possible disrepute through a perceived self interest/ influence.

This outlines the gifts and hospitality that can be accepted without prior approval (marginal value items and goodwill gestures, attendance at events where individual is representing the council), what require Assistant or Strategic Director approval (more than just a token) and what should never be accepted (cash, lavish items, gifts from tenderers).

The policy goes on to provide guidance on recording gifts and hospitality, as well as declined offers. The implications of not following the policy are also clear.

We note the policy was due for review in February 2021 however this is not significantly out of date.

As a result of our review of gifts and hospitality in the period as part of audit procedures performed, we have not identified any instance of non-compliance.

Guidance on the register of interests and an Frequently Asked Questions document is available to all officers. A standard proforma template which includes a number of questions and declaration must be completed by all staff each year to capture interests. It is then management responsibility to consider the implication of these interests.

The same principles apply for members who are required to make an annual declaration with detailed of interests published on the County Council website.

As a result of our review of the register of interests in the period as part of audit procedures performed, we have not identified any undisclosed related parties or transactions.

## Conclusion

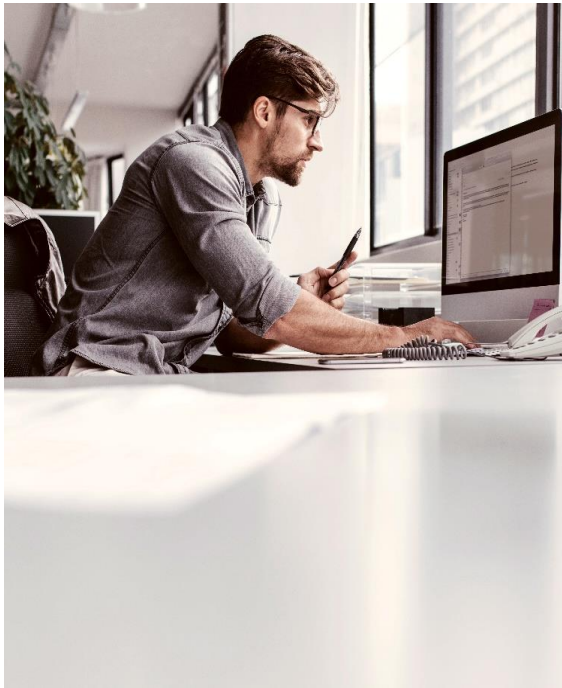
Overall, we are satisfied the Council has appropriate arrangements in place to manage risks and provide ample scrutiny, oversight an governance of key decisions. We have identified some opportunities for improvement. These are set out overleaf.

# Improvement recommendation



## Governance

Recommendation	Consideration should be given to incorporate a standard section within reporting to Cabinet and equivalent which sets our legal/ regulatory implications, similar to that already provided for financial and environmental.
Why/impact	A summary of the legal and regulatory implications of reports considered will enable members to demonstrate that they are suitably informed in making their recommendations.
Auditor judgement	The inclusion of legal and regulatory matters will better reflect the work of the legal services team and oversight provided by the Monitoring Officer.
Summary findings	Reports prepared follow a standard template and while all papers are considered by the legal services team, no summary of any implications are explicitly stated.
Management comment	



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

# Improvement recommendation



## Governance

<b>Recommendation</b>	Consideration should be given to the review and renewal of the gifts and hospitality policy as these were due to review in February 2021.
<b>Why/impact</b>	Officers and members alike should be provided with up to date policies and procedures to follow in their respective duties.
<b>Auditor judgement</b>	Timely review and update of policies will ensure that these are in line with current best practice in the industry.
<b>Summary findings</b>	The gifts and hospitality policy provided for review was due for review in February 2021.
<b>Management comment</b>	



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



# Improvement recommendation



## Governance

<b>Recommendation</b>	Consideration should be given to performing a review of updated arrangements in respect of delegated budgets once these have been fully implemented.
<b>Why/impact</b>	The Council has recognised the need for improvement in the operation of the delegated budgets programme and devised an appropriate plan. The implementation and subsequent review of this will ensure it has been effective and the use of resources is providing value for money for residents.
<b>Auditor judgement</b>	The solutions posed by the Overview and Scrutiny Committee and revised online platforms will improve communication and access around delegated budgets which will allow members to plan accordingly for delivery within the financial year.
<b>Summary findings</b>	Following review of arrangements in relation to delegated budgets, a number of change were agreed by Cabinet to improve the process.
<b>Management comment</b>	



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

# Improving economy, efficiency and effectiveness



## We considered how the Council:

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

## Performance review, monitoring and assessment

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

Alongside this, the Council also monitor qualitative performance against measures put in place to support the Council Plan 2020-25. The introduction of Power BI in 2020 allows for comprehensive reporting which is split into three distinct dashboards, namely, communities, economy and resources. Progress in achieving the high level outcomes of the plan is assessed against 58 key business measures (KBMs).

Where KBMs are not on track, the report outlines narrative to explain the current performance, the improvement activity underway or planned to remedy under-performance and justification for future trajectory of the KBM i.e. why performance will remain static, get better etc.

The assurance obtained over data quality takes place in various ways. Prior to any in-year performance monitoring starting a 'data measure sheet' is completed for each indicator which specifies the owner, how the measure will be calculated and the source of the data. This is completed and agreed in conjunction with the Corporate Performance Team. Once specified a data collection sheet is sent to all measure owners to complete each month. The data and commentary is then reviewed by the Service Manager before being signed off by the relevant Assistant Director in a meeting with the Corporate Performance Team. This is evident in the final columns of the spreadsheet embedded.

Finance data is reconciled to the financial system both in terms of the budget being quoted and the outturn forecast. This is done by pre-populating the tables that support monitoring reports with data downloaded directly from Agresso. Where manual adjustments to figures are requested because of errors in forecasts identified as part of the assurance process these have to be approved corporately, by Finance.

Internal Audit have also undertaken an independent review of data quality.

# Improving economy, efficiency and effectiveness

## Regulatory inspections

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

This is then reported to Cabinet for agreement and to put the funding required to deliver the action plan in place. Delivery of the action plan then follows the Council's standard project/programme management approach, with reports to Cabinet and Overview and Scrutiny Committees and the regulator on the monitoring of the action plan on the appropriate timescale.

The Council received a COVID-19 inspection in the period in relation to the Fire and Rescue Service. The report highlighted many areas of good practice and praised the partnership working the Council had adopted in its response to the pandemic.

In 2017 The Council had an Ofsted inspection of Children's Services which resulted in a Requires Improvement overall rating. In 2018 there was a focused inspection which concluded the local authority has been able to demonstrate some progress in the delivery of social work services since the last inspection, with a new approach to working with children in need through a recognised model of working with families. This is beginning to have an impact on outcomes and ensuring that families receive good quality, targeted direct work. Moreover, a focus on reducing the numbers of agency staff, along with recruitment of a significant number of social workers, has been successful. An Ofsted inspection of Children's Services was started in March 2020 however this was postponed due to the pandemic and has recently been concluded with the final outcome and report expected in February 2022.

Although not in the 2020/21 year, in September 2021 the CQC and Ofsted published a joint inspectorate report following inspections carried out in July 2021 which highlighted significant concerns in the arrangements for special educational needs/ and or Disabilities (SEND) in the local area. The main findings recognised that the current area leaders have acknowledged the weaknesses in the service and are proactive in implementing their change programme and the benefits of this are already beginning to be seen. However, the findings highlight long waiting times for assessment of children with autism, lack of stakeholder communication in some areas, a legacy of leadership teams and forums not working together closely, diminished confidence in schools to support SEND children appropriately based on insufficient training and the online resources available to parents and carers.

In response to this, the Council has summarised the findings for the local area/partners from the regulatory report for the attention of Cabinet and prepared a written statement of action that members will be asked to endorse in December 2021. This includes an additional request for funding of £99k to support the delivery of this plan, in addition to the major investment in the SEND Change and Inclusion Plan. The statement of action plan spans January 2022 to June 2023 and sets out the local area response to concerns and the monitoring arrangements in place to ensure delivery of these measures.

We recognise that the findings from the joint CQC/ Ofsted local area inspection highlighted a number of strengths against the key areas in which effectiveness was assessed, and praised the expertise and commitment of current leaders. However, we believe that the significant concerns reported highlight a significant weakness in arrangements that would have been in place throughout 2020/21. The Council's self assessment prepared in advance of the inspection recognised that the local area had been slow in implementing the requirements of the Children and Families Act 2014. Prior to this inspection, the Council were aware that improvements were required and in December 2020 had identified a number of recommendations to try and prevent a Written Statement of Action being issued should an inspection take place. However, this objective was not achieved. A key recommendation will be made to continue to review the arrangements in place as the measures from the written statement of action evolve as any continued system failure could have significant impact on service users and the reputation of the Council.



# Improving economy, efficiency and effectiveness

## Benchmarking and evaluation

The Council uses nationally/regionally available benchmarking information to assess the value for money provided by services and to inform service planning. At a service level benchmarking information is reported to service leadership teams and through to both Strategic Directors, Corporate Board and the relevant Overview and Scrutiny Committee, where available. This information is derived from a number of sources - the LGA, regional/national professional groups. Where areas of concern are identified these are followed up in more detail.

Examples of this are embedded in relation to a central costs comparison with other 2 tier authorities, a report commissioned through the LGA to review use of resources in key service area adult social care, and a benchmark of the fire and rescue authority with other entities.

The Council also subscribes to GT and CIPFAs CFO Insights service which provides online analysis and benchmarking for all Councils in the UK on financial performance, socio-economic context and service outcomes.

The Council learns from other organisations to improve performance, the Society of County Treasurers and County Council Network are key partners and Warwickshire have representatives on both groups who contribute to outputs and thought leadership produced. Two recent examples of this demonstrate collaborative thinking on pertinent topics such as high needs and children's services.

The Council also uses the CIPFA Resilience Index, CFO Insights (as noted above) and other information to identify those authorities they could learn from but also to inform the prioritisation of resource internally to identify where investment will generate the greatest returns.

We understand that an LGA peer review is scheduled for early 2022, having been postponed due to covid last year. The last LGA peer review was in 2016.

We have obtained benchmarking reports produced by CFO Insights and reviewed the canvas for indications of potential Value For Money significant weaknesses, we have summarised these as follows and the graphs are included overleaf for reference:

## Budgeted expenditure vs actual expenditure

This shows a close correlation between the lines and therefore provides comfort that management forecasting is accurate within reasonable proximity.

## Total service expense per head

This puts Warwickshire at 14th out of 26 when compared with peers suggesting an average cost neither too high or too low overall. However, the detailed analysis shows very low unit cost in adult social care, environmental and regulatory and other services while planning and development housing services are classified as very high. The highest areas of spend for the Council are in Adult Social Care and Children's Social Care which is in line with our understanding of the Council. When benched against 10 nearest neighbours and Midlands County Councils, Warwickshire is broadly in line.

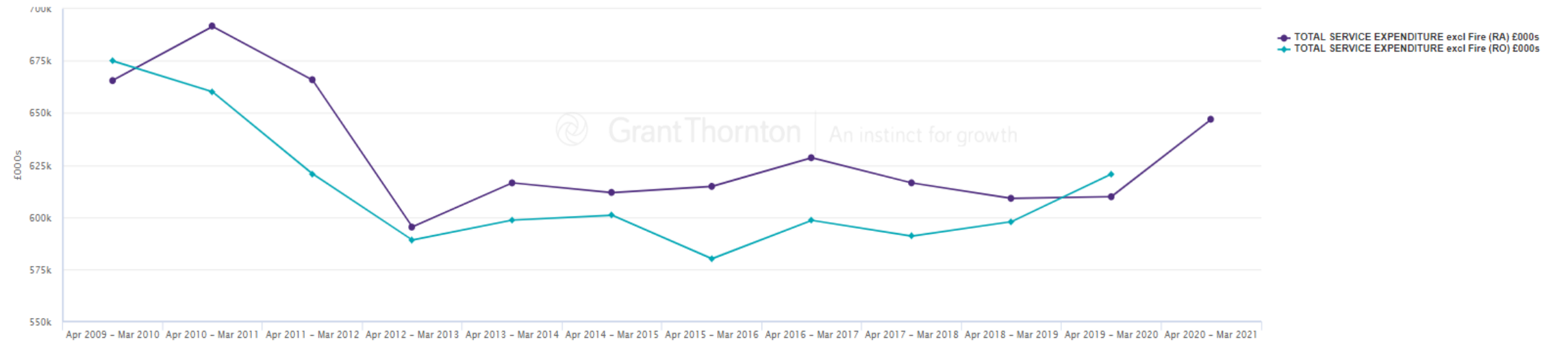
# Improving economy, efficiency and effectiveness

## Budget vs Actual Service Expenditure ^

Have budgets been accurate in recent years at the local authority?

Line Chart View Table View

Warwickshire



©2021 Grant Thornton.

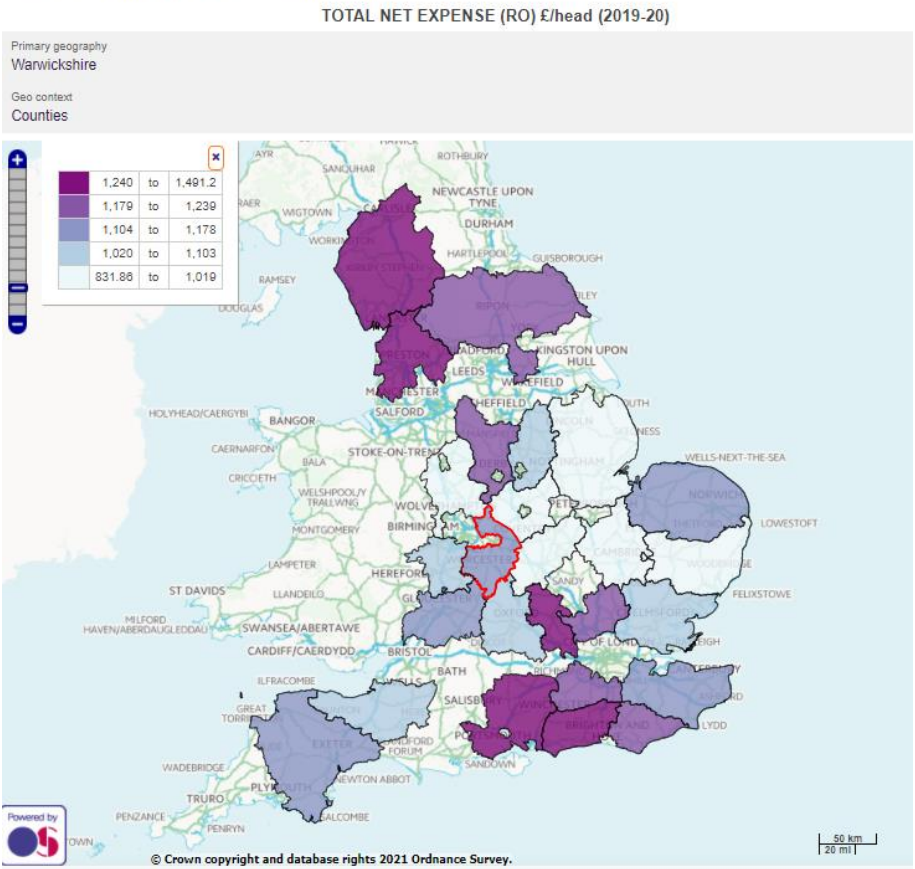
In relation to the lines plotted, RA relates to budgeted expenditure and RO relates to actual expenditure.



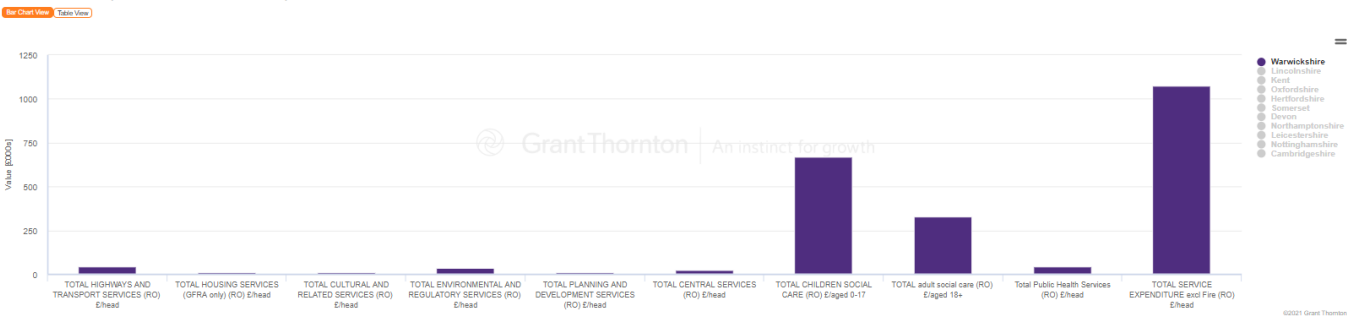
# Improving economy, efficiency and effectiveness

How does total service spend vary across my peer geographies? ^

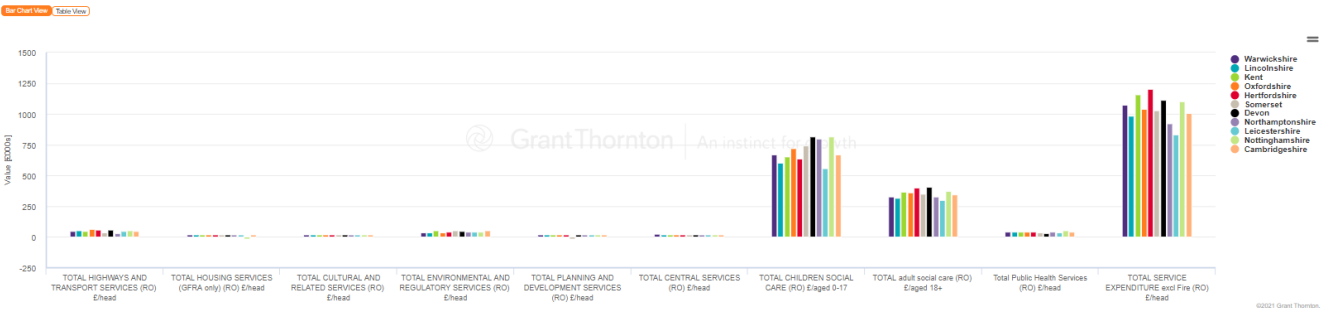
Total service expenditure per head (Actuals latest period)



Service Line Expenditure £/head Comparison



Service Line Expenditure £/head Comparison



# Improving economy, efficiency and effectiveness

## Partnership working and engaging with stakeholders

The Council works in partnership with many organisations across all sectors - private, public and voluntary, and this spans all services and directorates of the Council.

The development of strategies and associated actions, which are produced by service line managers and overseen by the relevant Assistant Director, must be presented to the appropriate body for approval through their governance processes before the strategy is formally approved by the partnership. This ensures that the partnership cannot agree to decisions that do not align to the Council's objectives and priorities and cannot commit the Council's resources to fund actions to which it has not agreed.

There are agreements and Memoranda of Understanding in place that specifically set out these relationships, areas of responsibility, aspects that partners must cooperate in and how disputes, if any, will be resolved.

There is also evidence of the involvement of key decision making bodies such as the Cabinet considering reports on partnership working and in particular where changes to agreements are sought for approval.

Where projects and programmes are agreed and workstreams established, these form part of the normal monthly and quarterly revenue and capital performance monitoring as discussed in the governance section of this report.

See page 11 and 20 for commentary on how the Council engages with the public on key service areas and considers feedback to improve performance. This is also discussed on page 18 in relation to the overall Council Plan.



## Procurement

Since 2010, the Council has endorsed a sub-regional approach to procurement in partnership with others in the Warwickshire, Coventry and Solihull region. A sub regional and local strategy covers the period 2015 to 2020 and is written in accordance with the national procurement strategy for local government framework.

The Council uses a number of regulated portals for procurement of services, this is for contracts above £100,000. Opportunities required to be advertised according to the EU procurement directive are advertised in the Official Journal of the European Union. The Council are currently assessing post Brexit procurement implications.

The procedures followed depend upon the value of the services and range from obtaining one oral quote confirmed in writing to three written quotes to fully compliant procurement process for high value contracts.

The standard purchase order terms and conditions cover legal and regulatory matters and apply to all purchase orders and must be accepted by the tenderer.

The Council also owns an equal share in ESPO, a professional buying organisation owned by six member authority councils: Leicestershire County Council, Lincolnshire County Council, Cambridgeshire County Council, Norfolk County Council, Warwickshire County Council, and Peterborough City Council. The Joint Committee deals in the procurement and supply of stationary, equipment, furniture and other resources through access to catalogue products and frameworks.

Contract Standing Orders set out clearly the process managers should follow when procuring/renewing contracts. Where managers wish to vary from these an exception notice is required, for which there is also a clearly documented process and guidance notes. For contracts with a total contract value of £100,000 or above, the final approval rests with the Strategic Director for Resources. For contracts with a total contract value below £100,000 the final approval rests with the Directorate Financial Services Manager and Directorate Contracts Coordinator.

The Council has a contract management framework in place that sets out the Council's priorities for and approach to good and effective contract management. This sets out the arrangements Services/managers are expected to follow.

Module 10 of the framework covers performance management measures and stipulates that responsible individuals need to monitor and manage the performance of their contract to ensure that it is delivering what is required and if it isn't, to provide a mechanism by which a set of remedial actions can be agreed with the contractor. The importance of maintaining robust performance data is stressed to support any decisions to terminate a contract if the required levels of performance cannot be delivered.

# Improving economy, efficiency and effectiveness

There is guidance in place for managers for the use of consultants and interim staff. The guidance has been written to support managers with a temporary or interim resourcing need. Given that using temporary resource can be a costly option, the general presumption is that agency staff and consultants should not be used as a long-term fix but may be suitable for short term increases in demand and special projects of where there is a need for technical expertise that is not required on a full time basis or where it is not cost effective to recruit.

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

Where funding is not available from within the service then a separate report to Cabinet seeking approval to access uncommitted corporate capital resources is required. Prior to such reports going to Cabinet a business case, technical evaluation (led by Finance) and approval from Corporate Board is required. Our review of the agendas and minutes of various Cabinet reports as included on the Council website demonstrates this.

Within the Communities directorate, a Major Schemes Board is in place, chaired by the Assistant Director – Environmental Services, to ensure there is a greater degree of oversight and scrutiny of major projects. Per discussions with management, the Council recognises the need to be more systematic about the oversight of capital projects beyond just the financial monitoring and an improvement project is underway to achieve this.

## Commercial transformation

As noted in financial sustainability section of our report, the Council is currently undertaking significant commercial ventures in the form of the Warwickshire Property & Development Group (WPDG) and Warwickshire Recovery and Investment Fund (WRIF). The implementation of these initiatives has been undertaken through a formal project management approach.

A project board was established for each, which drew on key professional specialists from across the Council and also the support of a range of external advisors as necessary to develop business cases. Beneath each project board was a series of workstreams, including a Finance workstream.

Project Boards initially met fortnightly to monitor progress and each of the workstreams reported updates to the Board and identified any areas of concern. Governance, risk and the financial implications were fundamental to the reports/business cases approving both WPDG and WRIF.

Members were engaged throughout the process through a series of briefings both before and after the May 2021 elections to ensure their views and concerns were managed. Reports were also considered by the Resources and Fire and Rescue Overview and Scrutiny Committee. These reports specifically included appendices on the recent Public Interest Reports on local authority commercial investments, to ensure the financial risks were clear.

The Council engaged external advisors to support this new and complex activity to help support the development of the business plan for both the WPDG and WRIF.

The WPDG constitutes a major transformational change for the Council and a step towards a more commercially focused body. A comprehensive options appraisal and business case, which is structured in a 'five case model' outlining strategic case, economic case, commercial case, financial case and management case, was produced. The business case and covering report is balanced and distinguishes both benefits and risk of the activity.

A business plan for WRIF was also prepared, supported by the use of external advisors, and follows a similar theme in regard to management of the fund, finances, operations, risk and performance management.

## Conclusion

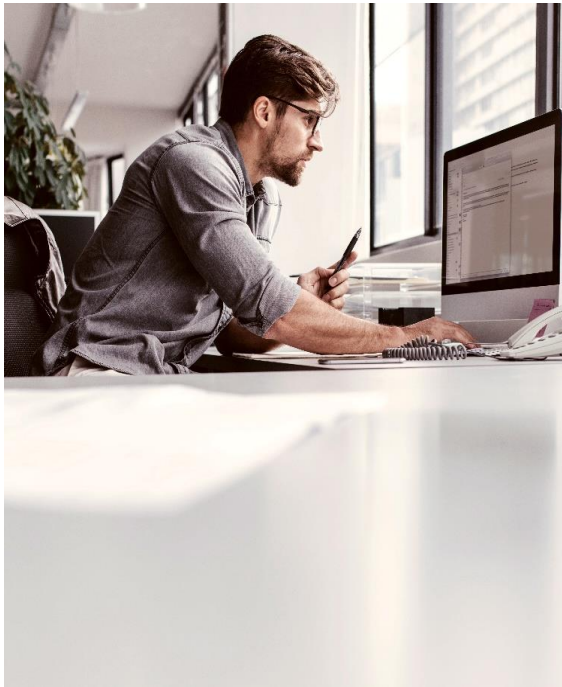
Overall, we are satisfied the Council has appropriate arrangements in place to ensure it manages risks to its oversight in ensuring economy, efficiency and effectiveness in its use of resources. We have identified one key recommendation which is included in the executive summary section and some opportunities for improvement, these are set out overleaf.

# Improvement recommendation



## Improving economy, efficiency and effectiveness

Recommendation	Consideration should be given to the review and renewal of the procurement strategy as this covered the period to 2020
Why/impact	The current strategy is dated having begun in 2015 and therefore may not take into account the latest national procurement requirements.
Auditor judgement	Timely review and update of policies will ensure that these are in line with current best practice in the industry.
Summary findings	Since 2010, the Council have endorsed a sub-regional approach to procurement in partnership with others in the Warwickshire, Coventry and Solihull region. A sub regional and local strategy covers the period 2015 to 2020 and is written in accordance with the national procurement strategy for local government framework.
Management comment	



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

# Warwickshire Pension Fund



## We considered how the Council:

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

## Financial sustainability

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

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

The investment activity of the Fund is dictated by the investment strategy statement which sets out the type of investments that Pension Fund money should be invested in, indicative allocations and expected returns and volatilities. The performance of these investments is then monitored by the Investments Sub-Committee and Local Pension Board.

Although commissioned in March 2020, and therefore just outside of the period subject to audit, the Pension Fund engaged actuary Hyman Robertson to produce a cash flow strategy. The purpose of this paper was to identify the extent to which estimated contributions and investment income due to be received by the Warwickshire Pension Fund are sufficient to meet expected benefits and investment outgoings over the short term.

## Governance

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

The Local Pension Board, this body was established by Council on 5 February 2015 to meet the requirements of the Public Services Pension Act 2013 for each Local Government Pension Scheme to set up a Local Pension Board to assist the administering authority in ensuring compliance with legislation and the Pension Regulator's requirements. Members consider reports on policy, regulation, codes of practice, risk and fund performance (both investment and administrative).

The Pension Fund Investment Sub-Committee have a primary focus on the oversight of the general framework within which the Fund's investments are managed and the investment policy. Members are responsible for monitoring the work of the fund managers and the investment pool, Border to Coast Pensions Partnership, and holding these external bodies to account for performance.

The Staff and Pensions Committee provide general oversight of the day to day operations of the Pension Fund, with a specific remit on terms and conditions of the Fund and employee matters.

All of the above have met a number of times during the financial period. In line with other meetings of the Council, once a legal precedent was established, these were held virtually during the pandemic.

Review of the minutes of meetings demonstrates that members discharge their responsibilities and make informed decisions based on sufficient and appropriate information.

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# Warwickshire Pension Fund

## Improving economy, efficiency and effectiveness

As noted above, the Local Pensions Board with the assistance of the Investments Sub-Committee monitor investment performance on a quarterly basis in arrears in line with the reporting provided by fund managers.

The Local Pensions Board are provided with high level commentary on the portfolio of assets held by the fund including their value as at a point in time, cash flow information and cash balances. A more detailed analysis of funding and performance is considered by the Investments Sub-Committee and this is prepared by the actuary Hymans Robertson and reviewed in private session due to its commercially sensitive nature. The detailed report provides members with information on valuation, sensitivity and benchmarking, in order to determine potential areas for improvement in investment activity.

The Fund is an equal equity shareholder in the Border to Coast Pension Partnership investment pool. The pool was born out of an initiatives to centralise LGPS investments and achieve efficiencies through economies of scale and synergies from collective investment powers. The detailed funding and performance update reports on the cost savings delivered by the pool through savings on fund manager fees.

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

Regarding the latter, the Fund have been undertaking a significant project in the period to implement the i-Connect system which will vastly improve the efficiency of information sharing between the Fund and employers.

The output of the performance of the Fund in the year is captured in the Pension Fund annual report.

## Conclusion

Overall, we are satisfied the Council as administering authority has appropriate arrangements in place to ensure the appropriate governance and management of the Pension Fund.

It should be noted that the nature of the LGPS is such that the scheme is highly regulated under various Pensions Regulations and compliance with these regulations will ensure adequate arrangements to provide value for money.



# COVID-19 arrangements



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

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

## Financial sustainability

In June 2020, the Cabinet was presented with a COVID-19 recovery and reform paper which set out the Council framework for responding to the impact of the pandemic and how it will transition through the various phases of this from foundation to consolidation to accelerate. The document focused on the first phase (Foundation) but also included a timeline of the longer term recovery.

This sets out the framework for how the Council have assessed the impact of the pandemic in 2020/21 and will use this to remodel the MTFs for 2021/22 and beyond. This refresh will:

- Determine the likely levels of resources available over the medium term;
- Determine the level of spending priority commitments arising from COVID-19; and
- Identify additional gaps which will occur and provide options to bridge these.

This is an iterative process and began in September 2020 with the first quarterly monitoring report post implementation. The key takeaway from this was that while the outcome is still very uncertain, based on scenario planning it is envisaged that the Council would be required to make an additional £16m in savings in 2021/22 and £23m in total over the life of the MTFs, this is as well as £33m already planned over the lifetime of the original MTFs.

A second paper, was presented to Cabinet on 10 September 2020, this was the formal County Council COVID-19 Recovery Plan, developed following engagement with key partners via the Warwickshire Recovery Advisory Group. The Plan set out ten recovery objectives linked to the priority outcomes mentioned in the Council Plan, therefore creating a cohesive sub-strategy. The actions taken by the Council in response to the pandemic are clearly categorised under three areas: accelerate, apply learning from COVID and lay foundations for the future.

The Recovery Plan has subsequently been monitored and progress reported to the Cabinet periodically as the Council move through the consolidate and accelerate stages.

As part of the response to the pandemic, the Council have updated budget monitoring reports to include a specific sub-section for Covid-19. This analyses Covid expenditure and income pressures and the related grant funding received to meet these pressures.

Where grant funding is received but passported directly to third parties i.e. the Council is acting as an agent, this is not reported in the gross pressure and funding figures. All data reported in the graphical summary dashboard separately reports over/underspend by covid and non-covid related performance.

The culmination of this is the annual outturn report for 2020/21 which reflects the final position of the Council as at 31 March 2021, naturally a consistent theme in this report is the impact of Covid and additional costs arising from the response which were £51.020m.

The County Council subscribes to the CFO Insights service provided by Grant Thornton and CIPFA. This provides dedicated COVID-19 modules under the COVID-19 measures suite, this includes a vulnerability index, recovery index and business rates collection impact. The vulnerability index provides an assessment of the area through 6 lenses and helps to identify any additional needs arising due to the pandemic.

The tool puts Warwickshire in the mid region between most vulnerable and least vulnerable. The recovery index seeks to demonstrate how well placed an organisation is to bounce back from the pandemic and benchmarks Warwickshire strongly in its ability to recover. This information is utilised by management to feed into the Recovery Plan and Medium Term Financial Strategy.





# COVID-19 arrangements

## Governance

Local authorities were permitted to hold virtual meetings from 4 April 2020, when regulations came into force. These are the Local Authorities and Police and Crime Panels (Coronavirus) (Flexibility of Local Authority and Police and Crime Panel Meetings) (England and Wales) Regulations 2020 (SI 2020/392), made under section 78 of the Coronavirus Act 2020.

These regulations applied to all local authorities in England and Wales, including parish, town, and community councils. They specify that a 'meeting' of a local authority can lawfully take place online, with members 'in remote attendance' who can hear and be heard by, and if possible see and be seen by, other members. Therefore, from April onwards the Council held all meetings virtually and these were streamed live and recorded for later consumption. It should be noted that while these arrangements were put in place, a small number of meetings were cancelled however this is not outside of our expectation and is consistent with other local authorities.

As section 78 of the Coronavirus Act 2020 only permitted regulations to apply to council meetings that take place before 7 May 2021, from this point onwards the Council returned to meetings in person in order to effect the governance regime in place.

In line with peers and other organisations across the UK, the finance team moved to virtual platforms such as Microsoft teams which replaced normal processes undertaken in the preparation of the financial statements i.e. meetings to discuss technical issues or accounts presentation.

Discussions with key management personnel including the Assistant Director of Finance and the Information Governance Strategy and Commissioning Manager have established that officers have full access to systems remotely and therefore there are no limitations or implications on the system of internal control as a result of the pandemic. This is supported by our walkthrough testing of the controls in place over operating expenditure in particular which we have concluded are designed effectively.

Internal Audit supported with controls advice during the response phase and as part of their annual report, reference the COVID decision log as a source of evidence for demonstrating continuity of compliance with governance arrangements during the pandemic. The annual report of Internal Audit also notes that the service were engaged during the period to certify a number of grant claims, including ones in relation to COVID payments and the team provided consultancy on the controls over funding received for COVID Purposes. Despite these additional pressures, overall, Internal Audit were able to sufficiently deliver their internal audit plan in order for the Head of Internal Audit to be able to issue an opinion on the control environment.

This shows how the income received has been used to fund expenditure and loss of revenue across the organisation.

## Improving economy, efficiency and effectiveness

The Council website includes a comprehensive and easily accessible suite of information in regard to the coronavirus which is available to service users. This provides useful guidance on key areas such as keeping yourself and others safe and physical mental health, support for employers and extremely vulnerable residents. The importance of this information should not be down played in the overall response to the pandemic and ability to provide the wider community with the tools they require to obtain support and combat ill health, thus reducing pressure on services.

As noted in the body of the report, the Council have embraced the use of digital and technology to transform the way in which officers work and members provide oversight and scrutiny. The flexible working arrangements adopted during the pandemic will be taken forward and are evolving into a hybrid of remote working and on site work to aid in collaboration. There is also scope to build on the success of services which have been provided on-line with minimal impact on quality.

On the 'Ask Warwickshire' service, there is an open engagement in regard to a survey which is being conducted by Warwickshire County Council and Coventry University, with the aims of understanding how people living or working in Warwickshire have been affected by COVID-19 in 2021. The aim is that this will help in planning future services and support and prioritising areas for action.

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

## Conclusion

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

# Opinion on the financial statements



## Audit opinion on the financial statements

We have substantially completed our audit of the Council's financial statements and plan to issue an unqualified audit opinion following the meeting of the Council on 14 December 2021.

## Other opinion/key findings

We have not identified any significant unadjusted findings in relation to other information produced by the Council, including the Narrative Report, Annual Governance Statement or the Pension Fund financial statements.

## Audit Findings Report

More detailed findings can be found in our Audit Findings Report, which was published and reported to the Council's Audit & Standards Committee on 4 November 2021.

## Issues arising from the accounts

All adjusted and unadjusted misstatements identified for the Council's 2020/21 financial statements are disclosed in the 2020/21 Audit Findings Report, Appendix B.

## Preparation of the accounts

The Council provided draft accounts in line with the national deadline. The quality of the draft financial statements and on the whole the supporting working papers continue to be of a good standard.

## 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.

We will complete our work on the Whole of Government Accounts consolidation pack in line with the national deadline.

## 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



## Role of the Strategic Director for Resources:

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

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

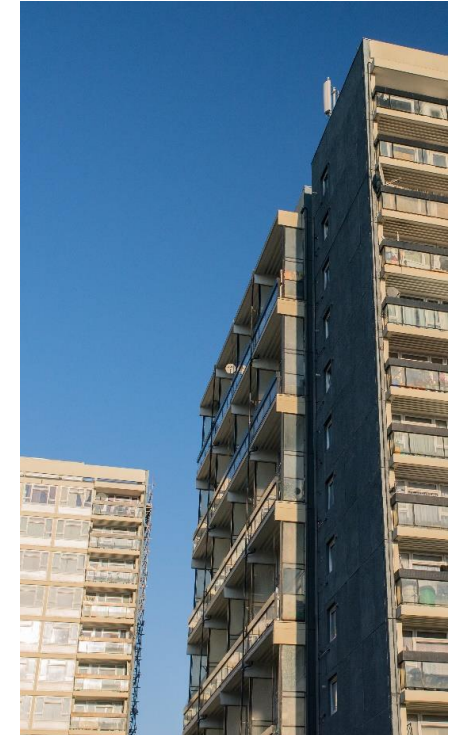
Financial statements are the main way in which local public bodies account for how they use their resources. Local public bodies are required to prepare and publish financial statements setting out their financial performance for the year. To do this, bodies need to maintain proper accounting records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

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

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

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

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



# Appendix B - An explanatory note on recommendations

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

Type of recommendation	Background	Raised within this report		Page reference	
Statutory	Written recommendations to the Council under Section 24 (Schedule 7) of the Local Audit and Accountability Act 2014. A recommendation under schedule 7 requires the Council to discuss and respond publicly to the report.	No		N/A	
Key	The NAO Code of Audit Practice requires that where auditors identify significant weaknesses as part of their arrangements to secure value for money they should make recommendations setting out the actions that should be taken by the Council. We have defined these recommendations as ‘key recommendations’.	Yes		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		FS Governance 3Es	14-16 22-24 32

