

Auditor's Annual Report on City of Westminster Council

External Audit financial year ending 31 March 2021

Issued December 2021 and updated in January 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 Authority 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 Authority'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 Authority's arrangements under specified criteria. As part of our work, we considered whether there were any risks of significant weakness in the Authority'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.
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	No significant weaknesses in arrangements identified, but 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. Westminster, 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 Authority has maintained a good financial position. The Council has put forward a series of proposals which forecast a balanced budget for the following year. However, the MTFs identifies a funding gap of £43.1 million over the next 3 years. Savings of c£20m per year over the latter two years of the plan will be necessary to address this.

Overall, the Council has a relative amount of capacity to manage variances over the short to medium term. We are satisfied the Council has appropriate arrangements in place to ensure it manages risks to its financial sustainability.

Governance

Our work this year has focussed on developing a detailed understanding of the governance arrangements in place at the Council and the changes instigated as a response to the pandemic. We found the risk assessment and risk management processes at the Council to be good, and that management are well supported by internal audit.

We also found arrangements for budget setting, budgetary control and ongoing oversight of the budget to be good. The Council has a good set of policies and procedures in place to ensure the Council maintains appropriate legislative and regulatory standards.



Improving economy, efficiency and effectiveness

The Authority has demonstrated a good understanding of its role in securing economy, efficiency and effectiveness in its use of resources.

The Council's City for All vision was refreshed during the year. The four objectives within this vision are high profile and referred to throughout most of the key strategic documents and reports presented to members, including the budget and MTFs. Additionally, all capital programmes are now described in terms of how they address at least one of the four pillars in the capital strategy programme.

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.



Opinion on the financial statements

We have completed our audit of the Council's financial statements issued an unqualified audit opinion following the Audit & Performance Committee meeting on 29th September 2021. Our findings are set out in further detail on page 31



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 Authority We have defined these recommendations as 'key recommendations'.

Our work has identified no significant weaknesses in arrangements and therefore we have not made any key recommendations. However we have identified areas for further improvement and these are set out in relevant sections of our report.

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

Commentary on the Authority'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 the impact of Covid-19, is set out on pages 7 to 30.



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.

2020/21 and ongoing financial pressures

Westminster City Council (the Council) recorded a net deficit of £3.8m for the year. Whilst this was broadly in line with the budget and is an improvement on the outturn which had been expected part way through the year, this represents very little headroom in managing the budget. However, the useable general fund reserves balance remains strong. The Council also has a strong track record in financial management, delivering services within budget, building up its reserves position and producing annual accounts within statutory deadlines.

The Council has seen a steady decline in its funding from the local government funding settlement over the last ten years (a 58% drop-in revenue support grant over the last five years), and the Council's Medium Term Financial Plan (MTFP) is prudent in that it assumes a continuation of this declining trend. Members are therefore made fully aware that the Council's financial plans cannot place reliance on an increasing level of government contributions.

The Council reset its MTFP during the year in recognition of the impact of the pandemic as well as to the in-year update to the Council's strategic objectives.

These and other key assumptions within the plan have been reviewed and deemed to represent a prudent approach. A monthly budget monitoring report is provided to the Executive Leadership Team (ELT) for the consideration of any necessary actions and amendments, and detailed financial monitoring information is provided to the Audit & Performance Committee quarterly, so there is regular scrutiny of the Council's financial position and of the ongoing funding pressures it faces.

Savings schemes totalling £32m have been identified and are being implemented. The MTFP identifies a funding gap up to 2023/24 of a further £43.1m. Savings of approx. £20m per year are identified as being necessary to address this over the latter two years of this plan. The approach to closing this funding gap is regularly discussed within outside of Cabinet meetings with the ELT, Directorate Leadership Teams, the Leader and the Cabinet Member for Finance.

The 2021/22 budget assumes no use of reserves and there is no evidence of an unsustainable planned use of reserves over the course of the MTFP. The Council has adequate provision within its reserves to manage one-off emergencies. We are pleased to note that the Council has set a balanced budget for 2021/22. The impact of Covid-19 on the Council's finances (and nationwide) are still being felt but the Council is prepared to mitigate any 2021/22 pressures through its reserves policy.

The Council had set a capital expenditure budget for 2020/21 of £257m. Whilst the outturn was below this budget (at £135m expenditure), this is in line with the Council's recent performance against a very ambitious capital programme, and actual expenditure is often below budget. We do not consider this underspend to be indicative of a significant weakness in arrangements over the capital programme, but more a reflection of the difficulties faced by all authorities in carrying out their planned capital works during the pandemic.. We will review this again during our 2021/22 audit.

Financial sustainability

As well as the provision of statutory services, Cabinet are asked to approve the decision to voluntarily contribute towards supporting discretionary services that support the three priorities of youth services, helping rough sleepers off the streets and helping people who are lonely and isolated. These are within the narrative sections of the report to cabinet. Discretionary housing payments are also set out within the budget.

Managing risks to financial resilience

Risks are considered within the budget and MTFP and the quarterly performance reporting to the Audit & Performance Committee also highlights these risks. These include the risks of financial pressures meaning services cannot be fully funded. The Council is satisfied that its Medium-Term Planning process is a mitigating action to ensure the Council balances its budget and identifies savings that can be made. We have seen this, and also that the capital programme and strategy has separate appendices setting out the assumptions behind the plan and the risks to the plan.

In addition, each lead portfolio member (Chair of the relevant committee) is closely involved in developing and setting the budget for their service area. Risks are discussed at length as part of this process. Overall, members are presented with a good understanding of the risks.

The Council also has a Treasury Management Strategy and an Investment Management Strategy. These both indicate the Council has a cautious approach to investments, seeking to minimise risk rather than prioritising investment returns. And whilst there are wholly owned subsidiary companies at the Council, the Council did not place reliance on income from these companies in the 2020/21 budget. This is also indicative of a cautious approach.

Our work confirms that the budget process is robust, that there is wide consultation across the Council in developing the budget and that challenge mechanisms are in place, from the Executive Leadership Team and from the scrutiny offered by the Budget Task Group, in addition to the challenge provided generally by members.

Conclusion

Overall, the Council has a strong capacity to manage variances over the short to medium term. We are satisfied the Council has appropriate arrangements in place to ensure it manages risks to its financial sustainability.



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 has a detailed risk register in place. This sets out risks by directorate. This register contains a lot of information, and describes both the risk and its potential impact and whether each risk could impact any of the City Vision's four pillars. Risks are given an impact and likelihood score, and tolerance to these risks (reduce or accept) is categorised. Those classified as 'accept' appear reasonable (areas not within the Council's direct control, such as flooding, no-deal Brexit impacts etc), but it is good these are included and assessed for impact here.

A scoring matrix is provided which ensures risk coordinators are consistent across the Council in their scoring decisions. The risks are reviewed quarterly and signed off by the ELT Director. This is then quality assured by the Strategy & Intelligence Team who are responsible for the production and maintenance of the risk register.

Each risk is also assigned a proximity (when this could materialise, from within a month to in more than a year) and any mitigating controls are set out. Each risk is assigned to a named officer as the risk owner and a risk coordinator is also named. The risk coordinator is the risk manager in charge of the mitigations and oversight of the risk. The risk owner is usually the ELT Director who also has ultimate responsibility for deciding whether a risk is archived.

Any risks which score over 12/25 is eligible for inclusion in the quarterly monitoring report, which goes to the Audit & Performance Committee for consideration. This provides an ongoing review by members of the key strategic risks. This is good as it highlights any changes these strategic risks from those reported in the previous quarter. Whilst the actual risk register is thorough, relevant and well researched, much of the detail around the key strategic risks reported to members could be enhanced. We have made an improvement recommendation on this.

Internal Audit is provided by a shared services team which operates across three London Boroughs. This service also provides a counter-fraud service. The Internal Audit annual report contains the opinion of the Chief Internal Auditor and provides "reasonable assurance" there is "an adequate and effective framework of governance, risk management and internal control" for the 2020/21 year. In addition, Counter Fraud Specialists undertake a programme of work, including a mix of proactive and investigatory work. Findings are reported appropriately. There have been only minor instances of fraud identified as being perpetrated in 2020/21, with 110 proven cases (220 in 2019/20) assigned a notional value of £280k.

The Audit & Performance Committee receive quarterly updates from Internal Audit setting out the work they have completed in the quarter, the assurance ratings on each of their reports and the action plans in place against their recommendations, so there is good oversight of the work of this service.

27 Internal Audit reports were completed over the year, with a further seven school audits completed. 95% of audits undertaken resulted in a positive (substantial or satisfactory) assurance opinion (2019/20 83%). There is a good acceptance of recommendations, with most (93%) being accepted and fully implemented by management. Only one area, Adult Social Care Direct Payments received a "limited assurance" conclusion. This finding was additionally reported in the Council's annual governance statement, so this one area of non-compliance has been given an appropriately high level of scrutiny and is due to be followed up by internal audit in the current year.

Governance

Overall, Internal Audit are satisfied their procedures for drawing up the annual internal audit plan are sound and capture the relevant risks across the council. This is based on a close integration with management. Internal Audit meet quarterly with managers to review the risks and issues in their area and to jointly assess whether the level of internal audit work being carried out or planned remains appropriate. These meetings represent an opportunity to capture emerging issues and to discuss new or proposed legislation or regulations which will impact the Council. As the Internal Audit service works across three boroughs and are part of a pan-London network, they use these interactions to check they have captured emerging issues within local government, including new legislation.

Whilst Internal Audit produce an annual plan, this can be flexible as they now have a 3+9 approach whereby there is scope to amend the work in the final quarter as necessary. Key systems always remain within the audit plan. Internal audit provide the expected level of coverage of the key financial systems and work well with management to ensure their work includes all key systems and risks.

Budget Setting Process

The development of the budget is highly collaborative. This starts in July when the Finance team engages with directorates, budget options are discussed and any budget gaps are identified. Executive Directors hold overall responsibility for the budget of their Directorate.

There is also an internal refresh of the MTFP discussed between budget holders and finance, then in November, each Cabinet portfolio member (Chair of the relevant Committee) has a challenge session called a 'Member's Review Session'. As well as the portfolio holder, these meetings include the Lead Member for Finance, the s151 officer (and deputy), the Chair of the Audit Committee and the Council CEO. These sessions provide plenty of opportunity for challenge and review of both the budget, savings, timelines, political considerations, dependencies, investment requirements and RAG ratings etc. They are also provided with information on pressures and investments. Where extra money (or investments) have been requested, these are subject to additional challenge at these meetings.

The information provided to portfolio holders includes a lot of detail is provided here, with each line of the budget set out. As portfolios now align to the Directorate structure, there is a direct correlation between the portfolio holder's remit and the budget.

Informal Cabinet meetings are also held during the budget setting process to discuss emerging issues and any inputs from the Budget Task Group, a scrutiny group which meets during the budget setting process to provide additional scrutiny and challenge.

The budget setting processes at the Council are appropriate and in line with what we would expect to see for a Council of this size. There is a good level of ownership of and involvement in the budget setting and monitoring process, from budget holders, through executive directors and up to members.

Budgetary control

Individual budget holders have clear roles and responsibilities (these were subject to a detailed refresh when HANTS started working with the Council). Those with the higher risk budgets have ongoing monthly sessions with finance (these are slightly less frequent for the lower value, less complicated and/or less risky budgets).

Every month, budget holders are provided with their budget report, called their 'monitor'. As well as monthly figures, this report sets out expected outturn positions. Variances are followed up in meetings with finance. This monthly information together with meetings with Finance, provides enough timely information to budget holders to enable them to act promptly in managing their budgets.

The Executive Leadership Team holds weekly meetings. The Director of Corporate Finance attends these meetings and presents ongoing and updated budget reports to this group.

The Audit & Performance Committee receives financial monitoring reports throughout the year, and the Cabinet receives the draft budget for consideration and the final budget and MTFP for approval. This reporting to Cabinet is very detailed. The MTFP includes multiple appendices. However, this is in line with what we have seen at other authorities and provides enough information to inform decision making. There is not an excessive amount of detail as the budget information is at a relatively high level.

There is also an annual Treasury Management Report made to Cabinet. This sets out the Council's strategy to focus on low-risk investments utilising cash received in advance. Treasury management information is also included in the quarterly financial reports considered by the Audit & Performance Committee.

The Council has a good liquidity position. Borrowings are considered within the reporting on the capital programme and the expenditure incurred. The Council's Capital Strategy sets out the Council's long term capital investment plans over the next 15 years – up to 2034/35, and proposes a gross budget of £2.862bn with a net borrowing requirement of £1.629bn. This is set out in the MTFP, although there is limited reporting on borrowing as there was no additional net external borrowing in the 2020/21 year. This reporting is adequate and complies with both CIPFA and legislative reporting requirements.

The governance around the Capital Programme is now led by the Capital Review Group (CRG). This group reviews the strategic direction of the programme and ensures outcomes are aligned with the City for All strategy.

Governance

Leadership and committee effectiveness/decision making

Appropriate leadership is in place. The Council operates under a Leader/Cabinet system. Councillors are supported by the Executive Leadership Team (ELT), which is headed by the Council's Chief Executive. The ELT is responsible for the overall leadership and management of the Council, for setting and monitoring overall strategic direction and for ensuring high performance in the delivery of council services

In addition, there are scrutiny committees which hold the Cabinet to account.

The work of the Council's committees is governed by the constitution. This constitution is regularly reviewed and updated. The constitution is shared with all staff members on joining and is openly available on the Council's website. The Annual Governance Statement needs to be read alongside the Council's constitution, which sets out how the Council operates, how decisions are made and the policies which are followed to ensure that these are efficient, transparent and accountable to local people. There is a good level of engagement with the local community and with stakeholders, although it is not clear in public facing documentation how any such feedback has been used to inform decision making. We have included an improvement recommendation on this.

There is a good suite of policies in place, covering anti-fraud and corruption, and the Council has an established antifraud culture. We have identified some opportunities to strengthen these with a recommendation for a central register of members' interests as is the case for gifts and hospitality, where declared items are published together on the Council's website.



Monitoring and ensuring appropriate standards

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

The Monitoring Officer is the Council's Director of Law who, with the Chief Executive, is responsible for ensuring legality and promoting high standards of public conduct. The council asserts that they have arrangements in place to meet all relevant requirements of the CIPFA/Solace Framework.

Codes of Conduct for members and officers reinforce a public service ethos and high standards of behaviour. These are supported by more detailed guidance such as, Anti-Fraud, Bribery and Corruption Strategies, as well as Whistleblowing Procedures and a Procurement Code. The Monitoring Officer and Section 151 Officer both have specific responsibilities to ensure that Council decisions meet legal requirements.

The gifts and hospitality policy compares favourably with others seen in that gifts and hospitality declined must be declared alongside that which has been received. This demonstrates a high level of standards of expected behaviour and of transparency.

All decisions referred to members are set out using a template. That template includes legal and regulatory implications. This requires legal advice to be obtained or confirmed before all decisions are taken, to ensure decisions are appropriate.

An annual report on ethical standards is produced. The latest report notes that there is no evidence of "systemic weaknesses or problems of unethical conduct in the Council or in any particular department". Breaches, potential breaches and actions taken in investigating all cases are set out in this report.

Marble arch project

The Marble Arch project straddles 2020/21 and 2021/22 financial year. This project was commissioned in 2020/21, with the financial spend of circa £6million incurred in 2021/22, and in January 2022 the project ended. The project governance and decision making took place at a time of Covid emergency powers, allowing Council's to make decisions, in an unusual situation. As a result of the project the Council received increased media scrutiny, and the project has impacted on the Council's reputation. A review was undertaken by the Council, published and considered by Members in October 2021. This identified recommendations for the Council to take forward, learning lessons from the project. Our VFM work in 2021/22 will consider the progress Officers are making in implementing the recommendations.

Conclusion

Overall, the Council has good policies in place to promote and maintain good standards of governance.

Improvement recommendation



Governance

Recommendation	Whilst interests declared by members are available on their individual biographies on the website, the Council should consider the creation of a central, online register of members' interests. This would enable a review of the interests of the Cabinet or of a specific Committee as a whole.
Why/impact	Having to check each member separately is piecemeal and makes it difficult to confirm the overall complexion of interests held.
Auditor judgement	It is not immediately apparent if there are a number of interests or similar interests held by any particular committee or political grouping.
Summary findings	A full register of members interests is not available online as a single document. Transparency could be improved by making this information available in a single place online.
Management comment	The Council will consider this recommendation for 2022/23 financial year



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's 'City for All' strategy was refreshed during the year. This sets out the four key 'priority objectives' of

- Thriving economy
- Greener and cleaner
- Vibrant communities
- Smart City

These four objectives are high profile and referred to throughout most of the key strategic documents and reports presented to members, including the budget and MTFP

There are quarterly performance reports to the Audit & Performance Committee which track the outcomes of Council activities. These are set out against key performance indicators and include detailed commentaries on associated risks, achievements and other issues. These reports also highlight remedial actions being taken where slippage does occur. Senior Management and Members (via Scrutiny Committees and the Audit & Performance Committee), ensure the Council remains focused on achieving its agreed objectives and priorities. Regular reporting also goes to the Innovation and Change Board which is made up of ELT members. This provides an update on how the Council is progressing against its strategic indicators and outcomes.

These KPIs are well contextualised. The main ones are set out by service directorate. These KPIs are particularly helpful, as each is accompanied by the prior year outturn KPI for context, and each is reported against a target range, which sets out a minimum, ideal and aspirational percentage against which the Council can be assessed. In addition, there are four categories of RAG rating against which each KPI is measured. These are; target missed, target exceeded, target achieved and minimum standard met.

This enables a good assessment of the Council's performance. The narrative commentary, which is very informative, pulls out any key findings from the year. We are satisfied that KPI and performance reporting is strong at the Council

The Council has an ambitious capital strategy with a five-year capital investment programme totalling £1.6bn, with a further £2bn allocated to the HRA programme. The Council's long-term capital investment is underpinned by the objectives of City for All. This overall capital programme is agreed by Cabinet on an annual basis and the reporting on this provides updates on the progress against the plan, costs, sources of funding and the progress of key projects.

The revenue implications of capital projects are also set out here, so members are provided with a detailed oversight of the capital programme, how this ties back to the corporate strategy, the capital and revenue costs of the strategy, the budgetary impacts and how this is all to be funded.

Improving economy, efficiency and effectiveness

There is a rigorous, formal process for the approval of capital projects. The Capital Review Group (CRG) oversees the capital programme with approval of the annual plan within the capital strategy and the HRA business plan. This group also have oversight of the capital contingencies budget which exists to ensure the capital programme can absorb any unplanned additional costs such as inflationary impacts. The CRG is a member-led internal review group, chaired by the Cabinet Member for Finance. This provides initial approval to earmark the capital spend (and the revenue costs associated with financing this spend).

In year, any capital projects in excess of £1.5m spend must then be individually put before the relevant portfolio holder in Cabinet at the CRG. This Cabinet member report is a public document which triggers approval of the actual expenditure and a release of the cash. There is delegated approval to the relevant Directorate's Executive Director for the sign off of projects below £1.5m which had been approved by CRG within the capital programme .

Projects costing £5-10m go through a business case process before coming before the CRG. For projects over £10m, a full Treasury Green Book evaluation must be completed and submitted to the CRG for approval.

Capital expenditure is detailed in the monthly Monitor reports to ELT. In addition, the Audit & Performance Committee receives a summary of the capital outturn reports within the quarterly finance information included in the performance monitoring report. These capex monitor reports are taken to CRG at least quarterly. This is where we would expect to see a challenge of overspends. In fact, at the Council there has been an underspend against the capital programme in recent years, so they challenge of late has been more about the slippage seen and how to get projects back on track.

There is a good level of oversight of the capital programme and capital projects.

Benchmarking and performance evaluation

In March 2021 the Council refreshed its City for All Vision and Strategy to re-align its priorities following the Covid-19 outbreak. A new pillar, thriving economy, was developed in response to COVID so this is evidence strategic priorities have been recently evaluated and reviewed for relevance. The four pillars of this strategy are referred to throughout the reports submitted to members and appear to be at the forefront of the thinking behind information presented to members to inform their decisions.

Whilst the Council acknowledges that there was less benchmarking during the pandemic year as this information was not as up to date, useful or relevant as would have been ideal, there has been ongoing liaison with quarterly meetings with the London Councils Performance Network which provides an opportunity to compare and interrogate KPIs. There are also references to evaluation against London-wide trends and national trends in the narrative commentary within the quarterly performance reports seen by the Audit & Performance Committee. These show some element of benchmarking and comparison against other local authorities was maintained during the pandemic.

Improving economy, efficiency and effectiveness

Partnership working

Partnership working is a strong theme within the City for All strategy. A refreshed strategy is due to be published in March 2022. The strategy itself reflects significant engagement with partners and residents. To support partnership working the Council has established a new Communities function, led by a Director of Communities. Stakeholder feedback is sought throughout the year from many sources including the city survey, resident panels, resident engagement sessions, and open forum sessions for example.

The Council continues to recognise the importance of partnership working and community engagement including continuing to improve engagement with communities, to make sure services address stakeholder needs, alongside improving engagement. The Communities function will also strengthen the arrangements across all Council areas, internally, on capturing and reporting on partnership working. Recognising the new function and ongoing developments this is an area we will further consider in our 2021/22 VFM work.

The Council works with Voluntary, Community and Faith Sector (VCFS) bodies. As well as commissioning these bodies to work with residents and other bodies, the Council also provides funding to support the VCFS infrastructure locally. However, there is not a central register of grants issued by the Council. Having a central oversight of the amount and type of grant funded activities could provide an insight to members on what grant funded activities are occurring within the Borough. There could also be closer networking and integration of those overseeing the work of grant funded bodies (as is being developed for contract managers). We have made improvement recommendations in both these areas.

Some of the Council's strategic aims are delivered through its wholly owned subsidiary companies. There is good monitoring and oversight over the projects being delivered by these companies. The Council has identified further opportunities to improve the governance arrangements over these subsidiaries, which we will consider in 2021/22 on how those arrangements are embedded.

Procurement

In 2019/20, the Council made a decision to invest in its procurement function. One of the initiatives from this was to invest in a new leadership team. As this team was recruited over the course of 2020/21, the Council has been on an 'improvement journey' in terms of its procurement functions. Now, within each of the Directorates is a Head of Commercial. This is a senior post supporting teams within each directorate on procurement and contracting arrangements. Recently, there has been the introduction of Procurement Boards, at which Heads of Commercial meet with the procurement team specialist within the Council to identify training needs, consider contract governance arrangements and to consider ways to improve procurement activities. These were implemented in the final quarter of 2020/21 and are an output of the work undertaken during that year to identify opportunities to improve the procedures in place.

There is a procurement code in place. This has been recently reviewed and updated. This sets out that the required type of procurement activity is determined by the contract risk (the definition of high risk includes all contracts over £100k, as well as other features which may point to a more unusual risk). Responsibility for contract management rests with 'commissioners' (also called 'contract owners' in the Code). They are supported by the Procurement and Commercial Service team who are tasked with providing support and technical inputs throughout the process. Ethical procurement requirements are set out in the Code (under "Responsible Procurement") and contract terms and conditions for contracts over £100k include statements around the Council's ethical procurement expectations.

There is now a Commercial Gateway Review Board (CGRB) at which all proposed high risk contracts are reviewed. Contract managers must submit a bid to the CGRB for the proposed contract to be agreed to proceed to procurement. This bid must detail the rationale behind the proposed contract, together with the VFM and risk management considerations.

Over the year there has been work to build a contracts register. In 2020/21 contracts were registered and stored on the CapE system. This included the names of contract owners. As at the end of March 2021, this register included over 90% of contracts over £100k, compared with less than 50% of these contracts when the project began in 2020. The introduction of the standardised 'Gate' process should now allow better tracking of when contracts are created although we understand this process could be improved. We have included this as an improvement recommendation.

The Audit & Performance Committee received a new format of contract monitoring report in September 2020. This is a good report setting out an assessment of contracts, with 14 being rated as above expectation and three as below expectation, together with reasons for these ratings.

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.

Improvement recommendation



Improving economy, efficiency and effectiveness

Recommendation	<p>Work should continue to ensure the completeness of the contracts register to ensure it contains details of all contracts over £100k and all contract owners. The roles and responsibilities around maintaining this CapE register should be formalised and implemented. Consideration should also be given to including grant funded contracts with the voluntary, community and faith sectors in a similar database or register.</p> <p>All those charged with the management and monitoring of contracts with the voluntary, community and faith sector (VCFS) should be offered annual training regarding best practice in managing these relationships. This should include establishing and monitoring KPIs for service providers in this sector.</p>
Why/impact	<p>There is not yet a complete data set over contracts in use. This prevents useful management information from being produced or provided to members on the contracts in place. A register of contract owners would enable better networking and knowledge sharing between contract managers.</p> <p>Training would provide an opportunity to knowledge share and to share best practices. This should also ensure contract managers are provided with an opportunity to consider whether their contract monitoring could be improved.</p>
Auditor judgement	<p>The Council only started to create a formal contracts register during 2020/21. Members are unable to consider the quantum or type of work being contracted out without this information.</p>
Summary findings	<p>The contracts register is incomplete and does not detail all contracts in use by the Council.</p>
Management comment	<p>The contract register has much improved coverage of larger contracts over £100k. Phase 2 will now look at any gaps in critical information for suppliers where contract or grant expenditure exceeds £75k per year. The contract register is available to all contract managers to improve accessibility and data quality.</p> <p>For contract managers a range of templates have been produced (KPIs and social value) and an online contract manager training module is being launched.</p>



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

The impact of COVID-19 has cut across the Council, impacting both its income in the collection rates of housing rents, Council Tax and Business Rates, and notably a significant fall in its sales, fees and charges income. Expenditure by the Council has seen additional pressures, most notably on adult social care.

The additional funding offered by government to offset the impact of COVID-19 was £55m, to cover both lost income and additional expenditure incurred. At the year end, the Council recorded an overspend of £3.8m. This overspend was significantly reduced during the year, as monthly oversight by the ELT and regular financial reporting to members meant an ongoing process of challenge provided opportunities to identify and implement savings and efficiencies during the year.

The Council has maintained a good oversight of its COVID-19 related costs and income losses. These were identified early on and subject to detailed monitoring and scrutiny. The MTFP was reviewed and updated during the year, and additional work on the financial impact of COVID was set out to members in a financial framework document, which re-iterated approval levels for expenditure but required additional input from the Executive Director of Finance & Resources and the decision-making bodies (SILVER and GOLD) to ensure oversight of COVID-specific expenditure commitments.

Despite the 'cushion' of emergency COVID funding from government, the Council expects these financial pressures to be ongoing. Whilst it has set a balanced budget for 2021/22, with savings and efficiencies built in, the Council will undoubtedly need to maintain a high level of monitoring and scrutiny over its finances in order to achieve this budget.

Governance

While the Council generally maintained a business-as-usual approach to its governance arrangements during the pandemic, some adjustments were required. As a result of the lockdown restrictions announced in March 2020, the Council adjusted some of its internal control processes to support effective governance throughout the pandemic. As soon as these were lawful, the Council started holding members' meetings online.

All committees have maintained a keen interest in the Council's response to the pandemic.

Commencement of the 2020/21 internal audit work plan was slightly delayed by the pandemic as priorities and resources within the Council were focused on the response required to support their residents and businesses. This slight delay did not impact significantly on the delivery of an appropriate level of internal audit coverage during the year and the service was not adversely impacted by the need to work remotely.

Internal audit have acted in an advisory capacity throughout, where processes and systems have had to adapt to changed circumstances. Internal audit also demonstrated it can offer a responsive service, delaying the commencement of its annual plan to consider the changed circumstances. However, as many Council staff were already set up to work from home, there was not a need for urgent unplanned adaptations to key financial systems at the start of the pandemic, and these changes were mainly around the use of prepaid cards to provide food and medication to shielding residents.

Despite delay to starting planned work, internal audit still completed 27 audits in the year and a further 7 schools audits, which was in line with the original internal audit plan. Additional, unplanned reviews were carried out on COVID income compensation schemes. As The Council suffered a significant reduction in income during the pandemic, this area was given a high priority to reduce the risk of errors resulting in clawback of those monies. Internal audit reviewed the compensation claims made by the Council and the data behind those claims to provide this assurance.

Internal audit did not identify any serious weaknesses in internal controls as a result of COVID adaptations or challenges over the course of the year.

COVID-19 arrangements

All office-based staff were provided with the necessary equipment to work from home, enabling a smooth transition to remote working where this was possible. Home-based working has continued throughout the pandemic and there has been a good level of continuity of service. Enabling staff to work from home also supported the Council in protecting its frontline staff and residents by reducing the risk of virus transmission. PPE was also sourced and provided to all Council staff where this was deemed necessary.

Improving economy, efficiency and effectiveness

The Council has been mindful of the impact of the pandemic on its most important resource, its staff. Actions have been put in place to support staff wellbeing and supporting staff remains a key priority for the Council. In aiming to support staff wellbeing, the Council has been able to maintain an efficient and effective delivery of its statutory services.

The Council maintained a high level of performance monitoring during the pandemic, with quarterly performance reports provided to the Audit & Performance committee. There was a high level of challenge within these reports, with examples where KPIs appeared good being challenged in the narrative commentary, reminding members that the pandemic may have had a perverse impact on the performance reported. For example, the number of looked after children continued to fall. But it was pointed out this could have been as the amount of contact between vulnerable children and key partners (such as schools) would have reduced and could mean children in need of support were not identified. This is good, and shows the Council did not demonstrate complacency during the pandemic, even where their KPIs appeared positive.

Partnership working is a key theme of the Organisation Strategy, and work with community partners increased during the pandemic. This is set out in the reporting to those charged with governance. The Council has been working closely to maximise support to communities and has given grants to support the pandemic response and recovery.

Conclusion

Our review has not identified any significant weaknesses in the Authority'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 Audit & Performance Committee meeting on 29 September 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 AFR, which was published and reported to the Council's Audit & Performance Committee on 29 September 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 C.

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 Chief Financial Officer (or equivalent):

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

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

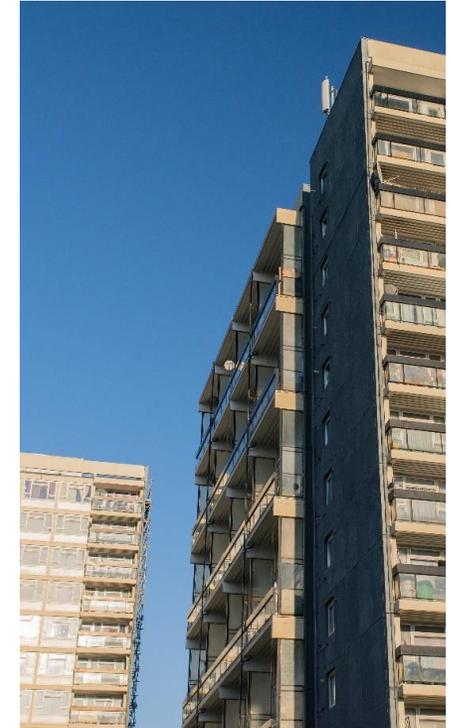
Financial statements are the main way in which local public bodies account for how they use their resources. Local public bodies are required to prepare and publish financial statements setting out their financial performance for the year. To do this, bodies need to maintain proper accounting records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

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

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

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

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



Appendix B - 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'.	None identified	N/a
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 10-12 Governance 17-19 3Es 23-28

