

Auditor's Annual Report on Cotswold District Council

2020-21

July 2022



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

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



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

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Executive summary



Value for money arrangements and key recommendations

Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to consider whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. We are required to 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. We have not identified any significant Value for Money (VfM) weaknesses, but have identified four opportunities for improvement which are set out in detail within our report. We have not had to apply any of our formal auditor's powers. Information on the powers we can deploy are set out at Appendix B.

Criteria	Risk assessment	Finding
Financial sustainability	Risk of significant weakness identified	No significant weaknesses in arrangements identified, but two improvement recommendations made
Governance	No risks of significant weakness identified	No significant weaknesses in arrangements identified, but one improvement recommendations made
Improving economy, efficiency and effectiveness	No risks of significant weakness identified	No significant weaknesses in arrangements identified, but two improvement recommendations made

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

Our review of the Council's VfM arrangements for 2020/21 is retrospective by nature, and we note that there has been a significant time lag between the end of that financial year and the timing of this report which is due to finalising our audit of the Council's financial statements for 2020/21. Our VfM findings are summarised below.



Financial sustainability

The Council is operating in an increasingly uncertain financial environment, including annual funding settlements from government. Cotswold, as with all councils, 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 next two years.

As a result of the inherent uncertainty surrounding the funding of local government we identified in the audit plan a risk of significant weakness in relation to financial sustainability. Our work has not identified any significant weaknesses in arrangements to secure financial stability at the Council, but we have identified two improvement recommendations. Further details can be seen on pages 6-12 of this report.



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.

Our work on both business as usual governance and adapted structures has not identified any significant weaknesses in arrangements, but we have identified one improvement recommendation in relation to governance.

Further details can be seen on pages 13-16 of this report



Improving economy, efficiency and effectiveness

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

Our work has not identified any significant weaknesses in arrangements, but we have identified two improvement recommendations in relation to delivering economy efficiency and effectiveness.

Further details can be seen on pages 17-21 of this report.

Opinion on the financial statements

We completed our audit of the Council's 2020/21 financial statements and issued an unqualified audit opinion on 5 April 2022.

Under International Standards of Audit (UK) (ISAs) and the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion:

- the Council's financial statements give a true and fair view of the financial position of the Council and the Council's income and expenditure for the year; and
- have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting and prepared in accordance with the Local Audit and Accountability Act 2014.

We are also required to report whether other information published together with the audited financial statements, including the Annual Governance Statement (AGS) and Narrative Report, is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

Our audit work was completed remotely during July to December 2021. Full details of our findings from the audit are detailed in our Audit Findings Report dated 16 November 2021. A small number of remaining queries took some time to resolve due to competing priorities of both officers' time and that of the audit team. We delivered an unqualified opinion on the Council's 2020/21 financial statements on 5th April 2022.

Our work did not identify any material errors or adjustments to the financial statements. No adjustments have been identified that have resulted in an adjustment to the Council's Comprehensive Income and Expenditure Statement. We recommended a small number of adjustments to improve the presentation of the financial statements.

The draft financial statements were presented for audit in accordance with the agreed timetable and were supported by working papers of a similar quality to last year. We made two recommendations for the Council as a result of our work on the financial statements, and these are included opposite.

Issue and risk	Recommendations
Disclosures relating to both critical judgements and estimation uncertainty lack the level of detail envisaged by IAS 540 and as described in the most recent FRC thematic review	<p>Given the additional focus on accounting estimates, management should consider working more closely with experts to ensure more detailed disclosures can be provided in relation to both estimation uncertainty and critical judgements.</p> <p>Management Response</p> <p>Disclosures relating to critical judgements and estimation uncertainty were expanded in 2020/21 but will be reviewed again as part of the 2021/22 closedown process to provide more detailed disclosures where appropriate</p>
Our audit testing identified a number of assets recorded in the asset register at nil net book value. While this has no bottom line impact on the accounts, it does suggest that officers need to review the UEL and determine whether they remain appropriate for the assets that are still recorded in the asset register.	<p>Officers to review the assets held in the asset register at nil net book value.</p> <p>Management Response</p> <p>Agreed. We will review the useful economic lives of equipment assets, particularly those close to being fully depreciated to assess whether the asset life and gross value remain appropriate. Given the amounts involved are not material this does not represent a significant risk to the accounts.</p>

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

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

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

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

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



Financial sustainability

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



Governance

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



Improving economy, efficiency and effectiveness

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



Our commentary on each of these three areas, as well as the impact of Covid-19, is set out on pages 6 to 21. Further detail on how we approached our work is included in Appendix B.

Financial sustainability



We considered how the Council:

- identifies all the significant financial pressures 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.

As a result of the inherent uncertainty surrounding the funding of local government we identified in the audit plan a risk of significant weakness in relation to financial sustainability

COVID-19 arrangements

COVID-19 posed a significant challenge to the Council, including to its financial sustainability, as it did to all in the local government sector. The onset of the pandemic made financial forecasting challenging as new periods of national lockdown were announced and additional tranches of government funding support were confirmed during the course of the year.

Officers first reported the potential impact of COVID-19 on the financial sustainability of the council in May, June and August 2020. At this stage early indications were that there would be an adverse movement of £3.4m when compared to the original budget for 2020/21. This was largely a result of a reduction in fees and charges income due to the impact of COVID-19 and the restrictions introduced to limit the spread of the virus. Mitigating actions were taken to bring the forecast positions back in line, which included a review of staffing and recruitment activity, a review of discretionary spending and a review of reserves and provisions. We have not seen any evidence of this funding not being used for the purposes intended.

The Council has maintained a good oversight of its COVID-19 related costs and income losses which were subject to detailed monitoring and scrutiny. The Medium-Term Financial Strategy (MTFS) was reviewed and updated during the year, and detailed quarterly reporting against the budget to cabinet was maintained throughout the year.

The most significant risk to the financial sustainability of the Council remains the uncertainty over whether income from discretionary services will return to pre-pandemic levels.

The Council's arrangements have adapted to respond to new risks being faced from 2020/21 onward in respect of COVID-19 including:

- ICT arrangements: improved technology and cybersecurity. As more officers worked from home the Council's ICT team ensured all staff had the equipment and technology they required to work from home and communicate remotely.
- Agile working: adapted processes and culture to encourage more agile working. An agile working hub is available on the Publica portal for all staff to access. Options on the future use of the Trinity Road offices in Cirencester have been accelerated by home-working during the pandemic.
- During the peak of the pandemic redeploying staff to support vulnerable members of the community.

Arrangements are in place to monitor and report against various strands of COVID-19 funding including the government's Contain Outbreak Management Fund (COMF). Compliance and enforcement spend and various other grants are spent in line with grant conditions and requirements and ensure are appropriate and reasonable.

The Council has used specific grants such as the European Regional Development Fund's Welcome Back Fund and Reopening the High Street Fund in relation to the pandemic. This included communicating safety messages to businesses, webinars for the hospitality sector to support reopening after lockdown, promotional campaigns to encourage residents to return to town centres and support local businesses, as well as physical improvements to town centres such as cycle racks, signage and public realm improvements.

Financial sustainability

2020/21 outturn

As a result of the impact of COVID-19 a revised 2020/21 budget was approved by the Council in September 2020 to ensure meaningful budget monitoring for the remainder of the financial year. The revised budget recognised a reduction in income of £2.8m, largely from reduced car parking and planning income, additional costs of approximately £1 million in relation to the Council's leisure contract, and additional costs for environmental and homelessness services. After allowing for government COVID-19 related funding, the adverse impact on the General Fund was forecast to be around £1m. Savings of nearly £600k were identified to reduce the impact upon the General Fund to approximately £400k.

The Council's 2020/21 revenue outturn was an underspend of £670k on cost of services, and a net underspend of £22k after income and adjustments. This was a result of lower income losses than forecast, and higher government COVID-19 funding than anticipated. The outturn also included underspends from the Council's contracts with Publica (£74.2k underspend) and Ubico (£386.5k underspend).

The outturn position meant that the planned contribution to the General Fund from reserves of £222k was not required, with the outturn position leading to a transfer of £34k to reserves.

The year end position was impacted by COVID-19 related government funding, including grants and reliefs to be disbursed to local businesses. This has had a distorting effect on the year end position, for example COVID-19 business grants increasing income by £5.5m and increasing expenditure by £5m, with £496k of undisbursed funding allocated to a Covid reserve to be used during 2021/22.

2021/22 budget, financial planning and savings plans

A Local Government Association (LGA) Corporate Peer Review, which concluded in November 2019, included a recommendation for the Council to develop an MTFS to underpin implementation of the Corporate Plan that identifies opportunities to enhance the Council's financial and organisational capacity, including additional sources of income, generating savings and developing a commercial strategy. During the course of our review, we note progress made by the Council in particular creating increased capacity at senior leadership team, including a new Chief Executive and the Section 151 Officer moving back to a full-time role during 2020/21 (having previously been a joint role with West Oxfordshire District Council).

The Council approved a new Corporate Plan in September 2020 for the period 2020 to 2024 and as already noted, approved a revised budget for 2020/21 to reflect the impact of COVID-19: Revised income budgets to reflect reforecast service income, revised expenditure budgets to reflect additional cost pressures, and incorporated known central government pandemic related funding and set out revised funding for the 2020/21 budget.

The Council's MTFS for 2021/22 to 2024/25 provides the financial envelope within which the Council will deliver its strategic priorities.

	2021/22 [£000]	2022/23 [£000]	2023/24 [£000]	2024/25 [£000]
Net cost of service	12,557	10,636	10,126	10,098
Central gov. funding	(6,696)	(3,564)	(2,959)	(3,078)
Council tax	(5,814)	(6,095)	(6,383)	(6,676)
Collection Fund (surplus) / deficit	(54)	(53)	(53)	(100)
Budgeted (surplus) / deficit	(7)	924	731	244

The MTFS included the following savings targets:

	2021/22	2022/23	2023/24	2024/25
Savings (£'000)	388	2,559	1,288	850
Savings (% of net cost of service)	3.0%	24.0%	12.7%	8.4%

Our work found no evidence that the Council is overly reliant on non-recurrent measures to achieve savings targets. The Council has a good track record of delivering savings; the Budget Plan for 2016-20 delivered savings of £47m and reinvested £30m into priority services. Throughout this period the Council delivered a balanced budget.

The pandemic impacted on savings planned during 2020/21. The Council's third review of performance 2020-21 noted 62% (£4.5m) of savings proposals were on target to be delivered and that 92% (£6.6m) were still considered deliverable.

For 2021/22, £290k of the savings are expected from an increase to fees and charges, and £98k from contract savings with Publica and Ubico.

Financial sustainability

2021/22 budget, financial planning and savings plans (cont'd)

However, the financial outlook for local government remains uncertain, including generationally significant levels of inflation, and changes to government funding is identified as a significant risk by the Council in the current MTFS.

The Councils' Budget Report also highlights the lower levels of locally generated income (Council Tax and Business Rates) which is largely due to the impact of the pandemic in particular the collection rates. In the Council's first performance Review for 2021/22, collection rates were improving but remained below pre-pandemic rates.

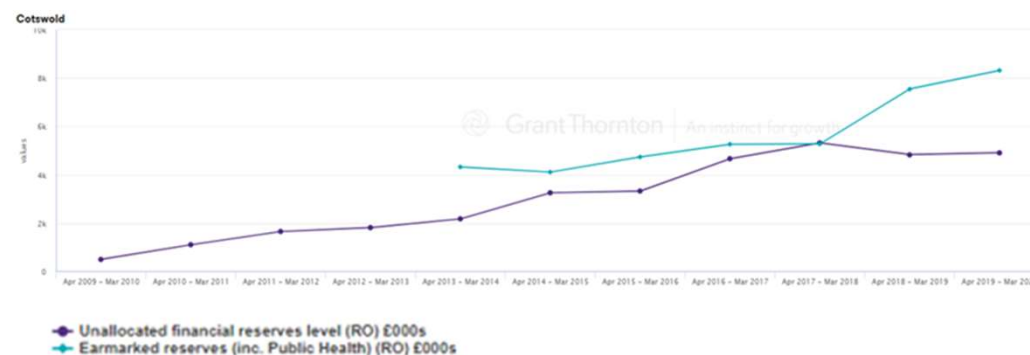
The savings planned during the period of the MTFS are significant, particularly in 2022/23. The Council has approved a Recovery Investment Strategy to invest in infrastructure to contribute to the Council's priorities, generate additional income and reduce costs of strategic service delivery partners. All investments will require full business cases. This strategy is pivotal for closing the gap left by the reduction in government funding. The Council must ensure investment projects progress in line with assumptions in the MTFS and the implementation of the strategy is carefully monitored to ensure the generation of additional revenue income and savings targets are realised.

The Council's financial plans reflect potential pressures such as pay and non-pay cost inflation at the time the budgets were set. The MTFS also identifies key expenditure drivers detailing the impact of inflation, as the Council has provided for inflation on salaries for Council employees, based upon an assumed local government pay award of 1%. Inflation assumptions should be regularly reviewed given the subsequent generationally significant increases in inflation for goods and services to ensure the MTFS provides a realistic forecasts of the Council's expenditure and income position.

The LGA Corporate Peer Challenge, which reported in November 2019 noted that Publica has invested significant resources in undertaking a review of pay and grading across all partner councils, and that this has had a direct impact on capacity to deliver wider transformation objectives. The LGA report noted that as a result of this work, the Council and Publica should seek assurance that organisationally, the risk of potential Equal Pay claims is fully understood and managed. Publica undertaking this review is critical to ensure services reflect changing needs and ensure financial sustainability for the Council.

Reserves

The Council had an earmarked reserve balance at 31 March 2021 of £15.5m and non-earmarked reserves of £895k. Included within the earmarked reserves is £7.4m of section 31 grants that will be applied in 2021/22 to the business rates deficit. The council has a trend of increasing earmarked reserves in recent years, with a trend of reducing non-earmarked reserves., the position to 2019/20 is set out below.



The Council's earmarked reserves were set out in a report to Cabinet in September 2020. The Council holds a Council Priorities Fund revenue reserve which is available for investment in initiatives which support delivery of the Council's priorities. As at February 2021 this reserve had been largely allocated so that new initiatives will require members to reallocate existing priorities and the associated funding from reserves.

The CIPFA Financial Resilience Index, using 2020/21 data for the Council and its statistical nearest neighbours, indicates the Council compares high on CIPFA's reserves sustainability measure, the level of reserves and change in reserves, and has the lowest level of unallocated (non-earmarked) reserves compared to net revenue expenditure of the comparator group, whilst it compares favourably to the comparator group when considering the increase in earmarked reserves over the past three years.

Whilst the level of unallocated reserves are low when compared to the Council's statistical nearest neighbours, the Council has significant levels of earmarked reserves, and we note that in setting the 2021/22 budget the Council's Section 151 Officer, in a report to full council on 24 February 2021, confirmed they were comfortable with the level of reserves and balances.

Financial sustainability

Capital

The Council's capital budget for 2020/21 was £11m. A total of £3.2m was spent with a further £1m of expenditure committed during the year. The most significant variance in planned capital spend was £4.3m which related to the planned investment in strategic property acquisition which was delayed due to wider economic circumstances.

Capital receipts for 2020/21 totalled £30,142 from the disposal of Ubico vehicles.

Ongoing revenue costs of major capital investments are considered in the Council's Capital Strategy. Capital assets shape the way services are delivered in the long-term and create financial commitments for the future in the form of financing costs and revenue running costs. This framework sets out the planning, prioritisation, management and funding of capital expenditure to take account of these costs.

Bids for new capital investment have been reflected in the revenue budget, with a clear justification and rationale in the context of the planned financial position. There are planned increases in investments, for example, a £2.2m investment in the vehicle fleet, which is identified in the MTFS and capital programme.

In 1997 the Council transferred its social housing to a registered provider and following this transfer the Council became debt free and held significant levels of capital receipts and revenue reserves which have been used to fund projects and investments to contribute to the delivery of the Council's priorities. The Council is now facing the prospect of borrowing to fund capital investment for the first time since the housing stock transfer.

The MTFS sets out unavoidable budget pressures, including £287k in 2021/22 for the revenue impact of increase to external borrowing in relation to planned capital spend.

Alignment of financial and other corporate plans

There was a change in political control of the Council following the May 2019 local elections. The new administration set out its aims and priorities for the period 2020 to 2024 which were adopted by the Council in September 2019. More detailed work was impacted by the pandemic, but also provided an opportunity to review the Council's priorities in the context of Covid recovery. A new Corporate Plan for the period 2020 to 2024 was approved by the Council in September 2020.

The Council's Corporate Strategy provides a clear link between stated corporate strategic priorities and the design of the budget, particularly in regard to investment and disinvestment in services, and the approach to financial sustainability. The Strategy sets out the 6 key priorities of the strategy as follows:

- delivering our services to the highest standards

- responding to the challenges presented by the climate crisis
- providing good quality social rented homes
- presenting a local plan that's green to the core
- helping residents and communities access the support they need for good health and wellbeing
- supporting businesses to grow in a green, sustainable manner, and to provide high value jobs.

The budget supports the priority themes set out in the Council Plan, the priorities include Climate Change, Transport options, A vibrant District Economy, Leisure services, Modern Council Services and Sustainable Finance. As already noted, the Council has approved a large scale investment strategy framework which would see the Council invest significant sums over the next few years in order to further the Council's priorities. The Council's workforce plan (as part of 2020-24 Council Plan) aligns with financial plans set out by the Council. The workforce plan outlines the financial challenges faced by the Council and the requirement to deliver savings and efficiencies.

The majority of the workforce are employed via Publica, the Council budget is set through consultation/discussion with Publica officers to ensure the Council's MTFS is consistent with workforce plans, recruitment growth/savings. Any increase in budget is agreed at Executive level. The Publica Business Plan was recently updated and will be reviewed as part of preparations for the 2023/24 budget and MTFS process.

Treasury management

The Council's Treasury Management Strategy notes that the Council uses purpose-built cash flow forecasting software, Logotech, to determine the maximum period for which funds may prudently be committed. The forecast is compiled on a prudent basis to minimise the risk of the Council being forced to borrow on unfavourable terms to meet its financial commitments.

Limits on long-term investments are set by reference to the Council's MTFS and cash flow forecast. The investment portfolio has a mixture of investments. The Quarter 4 Finance report to the July 2021 Cabinet highlighted interest received in respect of investments included a £114,000 variance to budget due to the impact of the pandemic on global financial markets. This represented an improvement from a variance of £169,000 at Q3 due to improving market conditions for property, bond and equity investments and equates to a 1.8% return on investment for the financial year. On 31st March 2021, the Authority had net investments of £23.577m (19/20 £24.987m) arising from its revenue and capital income and expenditure.

Financial sustainability

Treasury management (cont'd)

The borrowing strategy confirms that the Council does not hold any debt, but some temporary borrowing could occur in latter part of 2020/21 and into 2021/22 to fund daily cash-flow. Up to £63m is required to be borrowed in the forecast period to fund the capital programme. There is no evidence of weaknesses to the Council's cash flow, for example an inability to pay creditors.

Conclusion

We identified financial sustainability as a significant risk in planning this work. Following our review we are satisfied that the Council has appropriate arrangements in place to ensure it manages risks to its financial sustainability. We have not identified any significant weaknesses.

However, we recognise that the COVID-19 support provided by government will cease and this, combined with the need to manage more significant funding gaps in 2022/23 and 2023/24, will present a bigger challenge for the Council. This includes increased levels of savings required in these years, as well as the inevitable increased strain on services due to the cost of living crisis. Continued close in year monitoring and timely corrective action will be required to ensure savings are delivered and service redesign with partners are successfully implemented.

We have identified two opportunities for improvement which are set out on the following pages.



Improvement recommendations



Financial sustainability

1 Recommendation	The Council should carefully monitor its investment strategy so that forecast additional savings (new sources of income and reduced costs) are generated in line with the assumptions in the MTFS.
Why/impact	Generating additional income and reducing costs based on the investment strategy is critical to the medium to long term financial sustainability of the Council.
Auditor judgement	New income forecast to be generated by the investment strategy, along with reduced costs, is a key assumption in the MTFS.
Summary findings	The Council must ensure investment projects progress in line with assumptions in the MTFS and the implementation of the strategy is carefully monitored to ensure the generation of additional revenue income and savings targets are realised.
Management comment	Management accept the recommendation and has put in place a Capital Programme Investment Board, comprising of a cross-party group of Members to consider business cases for investment, monitor and drive delivery of the Recovery Investment Strategy.



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

Improvement recommendations



Financial sustainability

2 Recommendation The Council should ensure continued close in year monitoring and timely corrective action will be required to ensure savings are delivered and service redesign with partners are successfully implemented.

Why/impact The COVID-19 support provided by government will cease and this, combined with the need to manage more significant funding gaps in 2022/23 and 2023/24, will present a bigger challenge for the Council. This includes increased levels of savings required in these years, as well as the inevitable increased strain on services due to the cost of living crisis.

Auditor judgement Increased uncertainty and the scale of funding gaps in the MTFS require close in-year monitoring to ensure planned actions to manage the gap are realised.

Summary findings Reduced funding and increasing cost pressures mean that the Council must deliver planned savings, efficiencies and costs reductions to ensure financial sustainability.

Management comment Management accept the recommendation. The Council has already commenced the refresh of the Council's MTFS and preparation for the budget in 2023/24. Engagement with the Cabinet will commence in July 2022. The Council receives monthly financial performance reports from Ubico, which will identify the impact of inflation, particular on the cost of vehicle fuel and employee costs. Similarly, Publica provide an update on a quarterly basis to its Board which is shared with Council Officers. Car parking revenue, has been significantly affected by the Covid-19 pandemic, as demand reduced. The income stream is reported weekly to the Cabinet Member along with other performance metrics. Information from quarterly budget monitoring is used to inform development of the budget for 2023/24 and the MTFS



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.

COVID-19 arrangements

As a result of the lockdown restrictions announced on the 16th March 2020, the Council moved to ensure that all but a handful of essential staff were able to work from home. This continued throughout the pandemic, with no significant impact identified on productivity. Following the introduction of regulations to hold formal meetings via remote attendance, committee meetings moved to video conferencing. In the intervening period, some decisions had to be taken by the Chief Executive under delegated powers, and a mechanism was put in place to ensure that any key decisions that had to be taken had the informal approval of Cabinet members. Governance arrangements were strengthened in respect of procurement and arrangements have been reviewed by Internal Audit, who reported substantial assurance in this area. The strategic risk register has also been updated to ensure Covid-related risks are recorded appropriately, mitigated and monitored.

The Council put in place a robust set of emergency governance measures to monitor and respond to the pandemic and involved working with Partner Councils and its main service providers including Publica. Regular meetings (originally twice per week) were held with Cabinet members, members of the opposition group and two ungrouped members to ensure that there was transparent and inclusive discussion on matters related to Covid-19. The Head of Paid Service and latterly the Interim Chief Executive, used powers set out in the Constitution to enable emergency decisions to be taken. Those decisions were subject to consultation with Members. A log of decisions taken were subsequently presented to the Overview and Scrutiny Committee.

In 2020/21, the Council distributed a total of £57.7m in covid support grants to local businesses. The Council's Counter Fraud Manager oversaw this grant distribution and was responsible for the post payment assurance work required by the government.

Regular reconciliations have been submitted to the Department of Business Environment and Industrial Strategy (BEIS) and repayments made of unused grant funding where applicable.

Risk management

The Council's risk and opportunity management strategy outlines the overall approach to risk and opportunity management. Including opportunities alongside risks is good practice.

The Council's risk management approach has five steps: identifying, evaluating, managing, reviewing and reporting. Most of the Council's operational and project risks are identified and managed by Publica. Roles and responsibilities are set out in the strategy with full Council approval of the associated policy framework and budget. The Council's Cabinet considers and challenges risks when making key decisions, and the Audit and Governance Committee approves the Risk and Opportunity Management Strategy and reviews risk management reports. Publica Managers and Council Managers identify team level risks and opportunities and leads reviews within their teams.

One of the objectives of the strategy, is to "embed risk and opportunity management as a key part of strategic, operational, financial and project planning and management" This includes updating service plans to reflect operational risks and priorities, and identify the need for risk management to be part of the annual business planning process. The Council's Corporate Governance group carry out quarterly "spot checks" on risk registers, and this group offer advice and guidance on reporting of risk

The Corporate Risk Register describes each risk, risk controls, is scored, RAG rated and assigned to a responsible senior officer. We note that risks are not mapped to corporate objectives. The Council should consider undertaking such mapping, and we have raised this as an improvement recommendation.

Governance

Risk management (cont'd)

Discussions with senior management highlighted various projects where the Council has used a risk management approach to support decision making by the Capital Investment Board. These include the Cotesway loan for social housing, a project on economic development (to help young people stay within the district) and green energy projects both on Council buildings, and to encourage solar farms. These are business case driven, are aligned to the Council's strategy for generating new sources of income, with risk management recognising a change in the Council's risk appetite.

Internal controls

Internal Audit is provided by SWAP Internal Audit Services (SWAP). SWAP undertake work in compliance with the International Professional Practices Framework (IPPF) of the Institute of Internal Auditors, and by guidance on interpretation provided by the Public Sector Internal Audit Standards (PSIAS) and the CIPFA Local Government Application Note. SWAP was externally assessed in February 2020 and it was confirmed that they meet PSIAS.

SWAP was due to present its 2020/21 internal audit plan to the Council's Audit Committee in April 2020. However this meeting was postponed due to the pandemic. The plan was then amended to reflect COVID-19 related risks. It was also agreed to defer some of the less urgent audit work in the original plan to 2021/22. The outcome of all audits was reported to the Audit Committee throughout the year.

The Internal Audit Annual Opinion Report 2020/21 notes that SWAP completed 94% of planned audits in 2020/21 which compares favourably against a target of 90% with the remaining 6% of work in progress at year end. This excludes a number of audits that were deferred or were removed from the plan, based on a risk-based re-prioritisation following the outbreak of the pandemic, meaning that approximately 70% of planned audits were completed in year against the original plan.

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SWAP did not identify any significant corporate risks during the audits carried out in 2020/21. A limited assurance report was issued relating to Council Tax and Business Rates due to weaknesses in key control processes.

Our work found no significant gaps in assurance, and the reporting structure and reports provide a good overview of whether internal controls are in place and are effective.

Leadership and committee effectiveness

The Council is led by its Cabinet which is supported by an appropriate committee structure. Senior officers attend the Cabinet and Committees to present reports and are open to questions during Committee meetings. The Council's current administration is keen to modernise and innovate which will require cultural change.

The Audit Committee demonstrates appropriate challenge of financial and non-financial items. The Committee contains officers with financial knowledge to provide appropriate challenge on these items. Major decisions are made at the Cabinet Body. These are discussed at an Executive level prior to the presentation to Cabinet Body/Committee. The Council requires minutes approval of the Cabinet decisions. The Council Cabinet body has appropriate arrangements to monitor and ensure appropriate standards, such as meeting legislative/regulatory requirements and standards in terms of officer or member behaviour (such as gifts and hospitality or declarations/conflicts of interests) are in place and are regularly reviewed.

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.

The policies and arrangements are in place relating to anti-fraud and corruption, and the Council has an established anti-fraud culture.

Budget setting and monitoring

The budget is reviewed quarterly by Cabinet. The accompanying reports and information supporting the budget is used to explain and clarify issues as they arise and add context to highlight potential impact on the expected outturn. The outturn report also identifies reasons for variances. A review of the MTFS and quarterly budget reports does not indicate or discuss alternative proposals or scenarios, it would be useful to evidence and discuss alternative proposals and scenarios prior to the budget being agreed. We have raised this as an improvement recommendation.

There is a good analysis of risks posed to the achievement of the budget within these reports. Forecasts are subject to a high level of challenge and scrutiny from Cabinet.

There is adequate internal and external engagement. Consultation was held with residents, businesses and Town and Parish Councils. Consultation also took place with management from Publica and Ubico, and the Council Overview and Scrutiny Committee.

Strategic directors are responsible for their budgets. Departmental managers provide advice, guidance and challenge to their strategic directors. Their performance reviews are based on this role, not necessarily on achieving budget.

Financial performance is a key responsibility of budget holders (with this included in relevant job descriptions) and they are expected to understand their budget within the wider context of the Council as a whole and recognise where savings they identify would help the Council achieve its targets (even if that's in another directorate).

Governance

Budget setting and monitoring (cont'd)

Budget holders are required to evidence their growth requirements – evidence of how any previous growth has been spent, evidence the cost driver(s) behind that spend and produce the data to support that. Consequently, budget holders are not simply asked to make requests for additional budget, but to set those requests within the context of their own management accounts information. Consequently there is formal and reasonably sophisticated accountability for budgets, and an understanding of the wider implications of financial performance is a key objective for senior managers and budget holders.

The Council closely monitors its finances with reports being reviewed by members on a quarterly basis and remedial action being taken whenever required to offset emerging budget pressures. All savings proposals are regularly reviewed for deliverability and risk assessed by officers throughout the year. The Council also undertake regular reviews of its balance sheet risks and takes appropriate action as necessary.

Managers are held to account for the delivery of their budget through quarterly budget monitoring process where significant variances and outturn at a cost centre level is reported to both the senior leadership team and to Cabinet and Overview and Scrutiny Committee demonstrating performance management against budget.

The current budget book memo distributed to group managers and business managers sets out roles and responsibilities for business managers group managers and budget holders and includes details of key areas to be discussed at meetings including explanations for significant variances to budget.

Policies, procedures and controls

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..

There is a member code of conduct in place, which is based on the model LGA code, which was approved by the Audit Committee in early 2021. The Standards Committee forms part of the Audit Committee and standards matters are discussed as required. We have not identified any significant non-compliance with the constitution or other standards.

Council officers continue to look at the information that is provided to members and are working with the LGA to use best practice, and are working with the Overview and Scrutiny Committee to develop a performance management protocol. Key Performance Indicators have been developed for the Publica contract as part of the previously mentioned improvement actions.

The pandemic has led to a review of the Council's constitution and the introduction of a new scheme of delegation. The constitution is shared with all staff members on joining the Council and is openly available on the Council's website.

The council has arrangements in place for officers and members to make declarations of interest and the current Hospitality and Gifts Register has been in place from May 2019. Our work highlighted there have been no documented cases where interests were not declared.

Conclusion

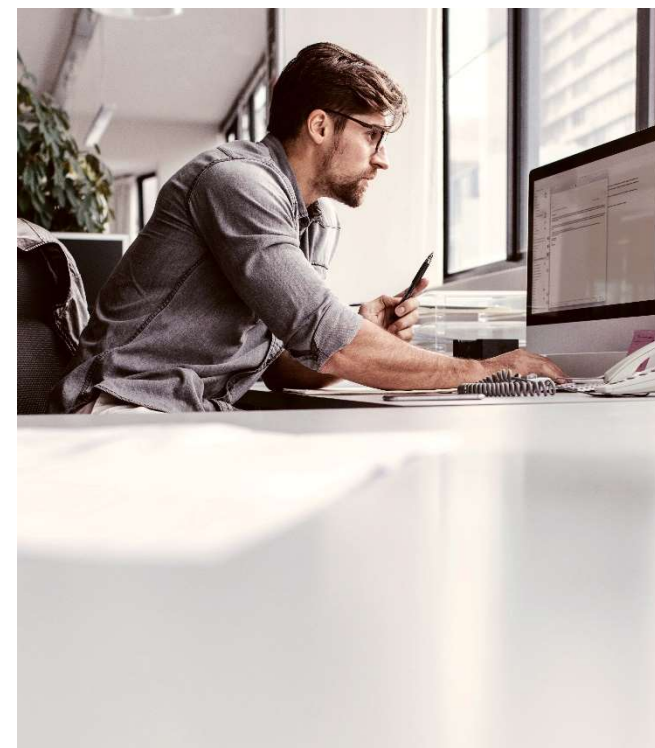
Overall, we found no evidence of significant weaknesses in the Council's arrangements for ensuring that it makes informed decisions and properly manages its risks. We have made one improvement recommendation which is set out on the following page.



Improvement recommendations

Governance

3 Recommendation	The Council should consider mapping risks to corporate objectives.
Why/impact	For each risk reported to Cabinet, relevant key controls and sources of assurance should be set out and RAG-rated. Adequate evidence that risks are mapped to corporate objectives and allocated to a named senior officer should be detailed.
Auditor judgement	Each risk should be mapped to corporate objectives and this detail included in risk register.
Summary findings	Each risk is described, attached to controls, scored, RAG rated and assigned to a responsible senior officer. Risks are coded, however not mapped to corporate objectives.
Management comment	This recommendation will be considered by the Risk Management Group of officers and management support its implementation.



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.

COVID-19 arrangements

The strategic risk register has been updated to ensure Covid-related risks are recorded appropriately, mitigated and monitored. Effective relationships were formed with existing partners and wider relationships developed. Decision making was more streamlined, and the better use of technology meant that issues were resolved quickly. The Council have reflected back on the 12 months of the pandemic and have used the response to date and progress made as a platform upon which to identify the issues that need to be focused on going forward. Existing plans have been adapted and discussed with a wide range of partners and challenges have been identified to guide the recovery.

The Council reacted well to the need to move meetings into a virtual environment during COVID-19, some decisions were made under delegated authority, but these were within the rules as set out in the constitution. Meetings are now returning to face to face complimented with virtual meetings which have worked well.

Performance management

The four-year Council Plan sets out strategic priorities for the period. The Annual Statement and Council Plan are heavily focused on service delivery, and there is a regular high level review of service delivery. The Authority MTFS is over a 4 year period evidencing the body is focusing on longer-term options. The MTFS highlights there are no plans for reductions in services. The Council detailed priorities and Corporate strategy are heavily focused on service delivery, and there is a regular high level review of service delivery.

Regular reviewing and monitoring of the Council Plan, is achieved using a quarterly report for performance. There is effective use of a Performance Management framework and performance reporting arrangements. The work of partnerships falls within this framework.

Each performance measure is benchmarked against West Oxfordshire and Forest of Dean District Councils, and this data shows performance against targets and areas for improvement, as well as comparison with these other councils.

Through the production of the Performance and Finance Report, which is accessible from the Council's website, the Council have demonstrated a detailed reporting mechanism on financial and operational performance. This report includes functionality which makes it interactive and enables performance to be assessed at a Council-wide level and also at a service area level. This report also benchmarks Council performance against comparator groups and identifies areas for improvement. The performance reporting of the Council operates within a Performance Management Framework to ensure data quality when using this information to assess the Council's performance.

Members are confident in senior finance officers of the Council and with financial reporting. The new Cabinet is seeking further improvement in performance reporting, specifically the completeness and timeliness of non-financial KPIs including those in respect of Publica. This was in development during the course of our review.

Improving economy, efficiency and effectiveness

Benchmarking

We have undertaken our own benchmarking using 2019/20 Revenue Outturn (RO) data comparing the Council to its ten statistical neighbours. The Council's cost of provision benchmarks very low or average for all service areas, other than for the Environmental and Regulatory Services, and the Central Services blocks, for which unit cost are very high when compared to the benchmark group. The Council should review to determine if there is potential for efficiencies within these service blocks, or if they are comfortable with the comparative unit costs due to variations in statistical nearest neighbours' priorities, as part of their acknowledged interest in using benchmarking to learn from others.

We have set out our benchmarking on reserves in the earlier section on Financial Sustainability, which highlighted that earmarked reserves have been increasing in recent years, whilst the level of non earmarked reserves has remained largely stable since 2017/18. The Council has had no borrowing since at least 2018/19 with capital expenditure reducing since 2015/16.

Significant partnerships

The Council have a significant partnership with Publica Group (Support) Ltd, a council owned employment company which delivers shared services between Cotswold, West Oxfordshire, and Forest of Dean District Councils. Publica provides commissioning advice and support to the Council as well as directly providing many services. The 2020/21 contract cost to the Council was £8.7m.

The LGA Corporate Peer Challenge, which concluded in November 2019, noted that there was a disconnect between the objectives of the Council and Publica, as a result of which elected members didn't appear to "own" Publica in their hearts and minds and there was confusion over the branding and identities of Publica and the Council. The LGA recognised that there was a genuine desire to reframe and reset the relationship between Publica and the Council. The appointment of a new Managing Director by Publica provided an opportunity to review how it operates and responds to the Council's priorities, whilst governance, roles and responsibilities required review, development and clarification. Feedback during the course of our review noted that officers and members of the Council are pleased with improvements made to the relationship with Publica. The Council should continue to drive these planned improvements with Publica, including reviewing the effectiveness of planned changes to contract monitoring, governance and reporting arrangements from Publica to key Council decision makers. We include this as an improvement recommendation.

There is a shared legal service across the three district councils involved in the Publica arrangement including the Council. Evidence suggests that this arrangement is working well, with the Council reviewing arrangements at the time of our audit. The Council's Monitoring Officer role formed part of the shared service arrangement with West Oxfordshire DC, and for 2020/21 was an interim post. In December 2021 the position became permanent, with the individual taking up the role of Director of Governance and Development, which includes the Monitoring Officer role. This post is now exclusive to the Council, providing further capacity at the leadership level.

Publica support service transformation with their partner councils and with the Council's other key service delivery partners. This includes Ubico Ltd, who provide waste and recycling, grounds maintenance and street cleaning services on behalf of the Council. The 2020/21 contract cost was £6.9m. Publica work with Ubico to deliver improvements and efficiencies to these services

The Environmental Services Innovation Programme (ESIP) sets out how the Council will work with Ubico to deliver new, more efficient and modern waste, recycling, grounds maintenance and street cleansing services. ESIP is also expected to improve transparency on how Ubico operates including reporting finance and performance information; opening shareholders events to all Council members; improving how risks are managed, and the recruitment of independent non-executive directors, including an independent chair. As previously noted, there was an underspend of £386.5k during 2020/21 on the Council's contract with Ubico.

The Council is working with Ubico on Cleaner Greener Cotswold which includes engaging town councils, and has been successful in securing associated grant funding monies, in particular carbon efficiency for the Council offices of £1.3m.

SLM provides the Council's leisure and cultural services. SLM provides a contribution to the Council of £100k per year, however, during 2020/21 due to the impact of the pandemic the Council waived the planned contract payment.

As experienced by many councils, the pandemic led to examples of effective partnership working by the Council. This included working closely with partners to redeploy staff to support vulnerable members of the community, and working with local groups and town and parish councils to support people self-isolating.

A help hub was established to provide advice and signposting to other partner organizations and the Council made direct contact with clinically extremely vulnerable people to ensure their needs were being met.

Improving economy, efficiency and effectiveness

Significant partnerships (cont'd)

The Council also worked with local charities and volunteer organisations to ensure that food parcels and prescription medication were delivered to those who were shielding and were unable to leave the house. The Council also worked with Young Gloucestershire and Cotswold Counselling to develop 'Cotswold - Let's Chat', a mental health counselling initiative for young people, many of whom have experienced additional challenges due to the COVID-19 restrictions.

The Council intends to build on the effective partnership working which developed during the pandemic.

Procurement of services

The Council has a defined procurement strategy in place. Every contract entered into by the Council is required to comply with all relevant statutory provisions including codes and statutory guidance, such as the Local Government Transparency Code.

The procurement of services must align to the Council's constitution and associated contract standing orders, financial regulations and scheme of delegation. In addition, procurements should demonstrate alignment to the Council's strategic objectives procurement strategy, procurement code and climate emergency policies. The procurement policy objective is to ensure that all works, goods and services are obtained with probity and propriety to ensure the proper expenditure of public funds, are appropriate for the purpose for which they are obtained and to ensure best value for money.

The arrangements in place are appropriate.

We note ongoing discussions between senior officers and members at the Council in relation to organisational risk appetite, including where ambitions require innovation to the procurement approach.

Conclusion

Overall, we found no evidence of any significant weaknesses in the Council's arrangements for improving economy, efficiency and effectiveness. We have made two improvement recommendations in this area.



Improvement recommendations



Improving economy, efficiency and effectiveness

4 Recommendation	To undertake a review of 2020/21 Revenue Outturn data to understand variances in unit costs with statistical neighbours.
Why/impact	To identify why the Council, for some service blocks, has very high comparative unit costs, to determine if there is any potential for savings and efficiencies beyond those already planned.
Auditor judgement	To ensure that the Council has considered all potential for additional savings and efficiencies, given the ongoing and significant financial challenges over the medium-term.
Summary findings	Our analysis of 2020/21 RO data has highlighted variances in unit costs between the Council and its nearest statistical neighbours. It will be important for the Council to understand the reasons for these variances.
Management comment	This recommendation will be implemented through the budget setting process for 2023/24.



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

Improvement recommendations



Improving economy, efficiency and effectiveness

5 Recommendation	The Council should continue to drive these planned improvements with Publica, including reviewing the effectiveness of planned changes to contract monitoring, governance and reporting arrangements from Publica to key Council decision makers
Why/impact	These planned improvements are critical to managing medium-term budget pressures, which need to be monitored effectively by key decision makers.
Auditor judgement	The Council is progressing recommendations made by the LGA Corporate Peer Challenge to reset their relationship with Publica. Given the significance of the Council's partnership with Publica, this reset is critical to ensure ongoing economic, efficient and effective service delivery.
Summary findings	The Council has recognised the need to reset their relationship with Publica and the changes planned need to be fully implemented.
Management comment	Agreed, the Council is working closely with the Publica Executive Directors, Group Managers and Business Managers to find solutions to the financial challenges facing the Council. A Transformation working group is due to be set up to oversee the Publica Service Improvement Programme. The Chief Executive and Leader of the Council will continue to embed the improvements to governance arrangements which will make Publica more accountable for improving economy, efficiency and effectiveness.



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

Opinion on the financial statements



Audit opinion on the financial statements

We gave an unqualified or we qualified the financial statements on 5 April 2022

Audit Findings Report

More detailed findings can be found in our Audit Findings Report, which was published and reported to the Council's Audit Committee on 16 November 2021.

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.

These instructions have yet to be issued and as such we cannot complete this work or formally certify the closure of our audit

Preparation of the accounts

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

Issues arising from the accounts:

- We identified no material errors or adjustments to the outturn position.
- We recommended some adjustments to improve the presentation of the financial statements.
- We raised two recommendations for officers to consider in the preparation of the 2021/22 financial statements.

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'.	No	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	Financial Sustainability: p.11-12 Governance: p.16 3 Es:: p.20-21

