



Value for Money Audit Findings for Bristol City Council – section to be incorporated into final Audit Findings Report

Year ended 31 March 2020

January 2021



Value for Money

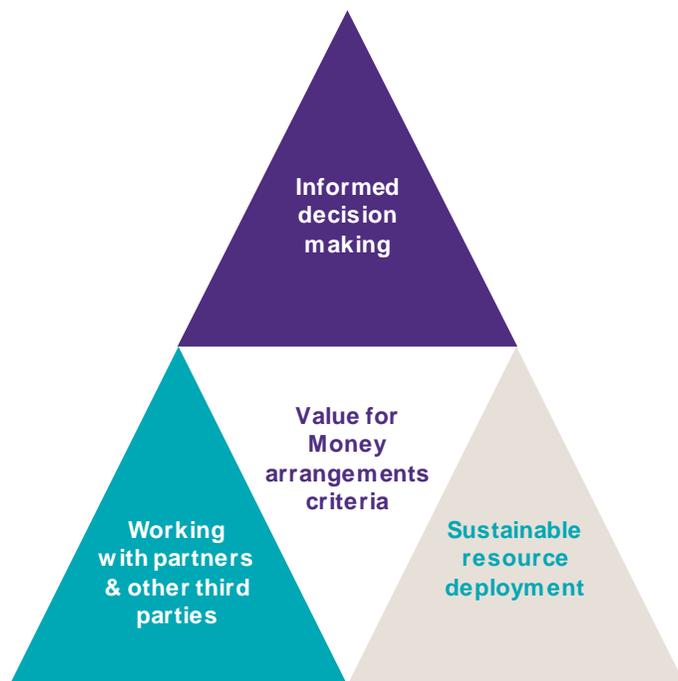
Background to our VFM approach

We are required to satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the Value for Money (VFM) conclusion.

We are required to carry out sufficient work to satisfy ourselves that proper arrangements are in place at the Council. In carrying out this work, we are required to follow the NAO's Auditor Guidance Note 3 (AGN 03) issued in April 2020. AGN 03 identifies one single criterion for auditors to evaluate:

"In all significant respects, the audited body takes properly informed decisions and deploys resources to achieve planned and sustainable outcomes for taxpayers and local people."

This is supported by three sub-criteria, as set out below :



Risk assessment

We carried out an initial risk assessment in May 2020 and identified two significant risks in respect of specific areas of proper arrangements using the guidance contained in AGN03 relating to governance arrangements for the Council's subsidiaries and financial sustainability. We communicated these risks to you in our Audit Plan dated June 2020.

Our risk assessment is a dynamic process and we have had regard to new information which emerged since we issued our Audit Plan. We have continued our review of relevant documents up to the date of giving our report, and identified a further significant risk in relation to the joint local area SEND inspection.

We will continue to consider any new information which might emerge up until the point at which we issue our audit report.

We have not identified any new VfM risks in relation to Covid-19, as we do not consider Covid-19 to be a significant risk given the date of the pandemic, although we have considered its risk in regard to the Council's ability to deliver financial sustainability.

We carried out further work only in respect of the significant risks we identified from our initial and ongoing risk assessment. Where our consideration of the significant risks determined that arrangements were not operating effectively, we have used the examples of proper arrangements from AGN 03 to explain the gaps in proper arrangements that we have reported in our VFM conclusion.

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Our work

AGN 03 requires us to disclose our views on significant qualitative aspects of the Council's arrangements for delivering economy, efficiency and effectiveness.

We have focused our work on the significant risks that we identified in the Council's arrangements. In arriving at our conclusion, our main considerations were:

- if the Council's financial plans and arrangements enable it to remain financially sustainable, taking into account the impact of the Covid-19 pandemic
- whether the Council has responded appropriately to the joint local area SEND inspection and begun to make changes to improve services

Our findings in relation to the governance arrangements relating to the Council's subsidiaries, including specifically Bristol Energy Limited, are set out within the separate report entitled 'Review of Governance Arrangements for Bristol City Council's Subsidiaries'

The results of the work we performed, and the conclusions we drew from this work can be found on page four onwards.

Overall conclusion

Based on the work we performed to address the significant risks, except for the matter we identified in respect of governance arrangements in relation to Bristol Energy Limited, we concluded that the Council had proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We therefore propose to give a qualified 'except for' conclusion.

Recommendations for improvement

We discussed findings arising from our work with management and have agreed recommendations for improvement.

Our recommendations and management's response to these can be found in the action plan at Appendix A and the action plan within the separate report entitled 'Review of Governance Arrangements for Bristol City Council's Subsidiaries'

Significant difficulties in undertaking our work

We did not identify any significant difficulties in undertaking our work on your arrangements which we wish to draw to your attention.

Significant matters discussed with management

There were no matters where no other evidence was available or matters of such significance to our conclusion or that we required written representation from management or those charged with governance.

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Key findings

We set out below our key findings against the significant risks we identified through our initial risk assessment and further risks identified through our ongoing review of documents.

Significant risk Financial Sustainability

Findings

2019/20 Outturn

General Fund

The Council's revised general fund net budget for 2019/20 was £374.8m. The outturn position taking into account movement to and from reserves was £380.1m, resulting in an overspend of £5.3m, just over 1% of the total budget. This is a deterioration in financial position compared to 2018/19 when the Council reported an underspend of £3.2m. The 2019/20 overspend was attributable to Adult Social Care which overspent its net budget of £149m by £6m. The service did not achieve its target savings of £4.3m due to pressures from hospital discharges and insufficient supply of home care. As a result, placements had to be made in higher cost nursing and residential settings. In order to address the under performance of savings delivery, the Council has evaluated and reassessed the achievability of its planned Adult Social Care savings. The Children and Families Service, which also forms part of the People Directorate, achieved a breakeven position. The other Directorates reported less significant budget variances.

Although the Covid-19 pandemic began in March 2020 and hence late in the financial year, it did have a financial impact on 2019/20 with emergency expenditure being incurred in February and March, along with a reduction in income and an increase in debt. The Council utilised £0.5m of the emergency funding which it received from Government to address these financial pressures.

In 2019/20 the Council had a savings target of £17.8m, £11.7m relating to 2019/20 and £6.1m carried forward from 2018/19 which had not been achieved or delivered on a recurrent basis in 2018/19. The savings were agreed as part of the budget setting process and included within the medium term financial plan (MTFP). In 2019/20 the Council only delivered 60% of its planned savings target on an ongoing recurrent basis and as a result continues to carry forward a significant element of its savings target into 2020/21.

Summary of 2019/20 savings delivered by Directorate:

Directorate	Target £m	Delivered as planned or mitigated on a recurrent basis £m	Undelivered or delivered on one- off basis £m
People	8.98	4.6	4.39
Resources and Cross cutting	4.77	3.18	1.6
Growth and Regeneration	4.03	2.96	1.07
Total	17.79	10.74	7.05

Throughout 2019/20 robust arrangements have been in place to monitor delivery of the savings programme. The Programme Management Office (PMO) was responsible for monitoring and recording progress against each savings plan. Savings that the Directorates considered to have been delivered were agreed and signed off by Finance, HR, the budget holder and the Directorate, and it was only at this stage that the savings were incorporated into the budget. Where savings could not be delivered as planned and alternative savings were identified, a change request was required and only recurrent solutions were accepted. If a non-recurrent solution was found, the saving was also carried forward to 2020/21.

The PMO reported monthly on the savings position to the Corporate Leadership Board. Specific scheme under performance was escalated to the Delivery Executive Board, although Adult Social Care savings were monitored by the Strategy and Performance Board.

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Key findings

We set out below our key findings against the significant risks we identified through our initial risk assessment and further risks identified through our ongoing review of documents.

Significant risk	Financial Sustainability
Findings	<p data-bbox="327 411 634 439">2019/20 Outturn continued</p> <p data-bbox="327 458 702 486">Housing Revenue Account (HRA)</p> <p data-bbox="327 501 1810 558">The HRA achieved a surplus of £1.0m at the year end and the surplus was transferred into the HRA reserves, more in line with the budget in comparison to 2018/19 when the HRA was £8.3m below budget.</p> <p data-bbox="327 568 696 596">Designated Schools Grant (DSG)</p> <p data-bbox="327 611 1918 722">The DSG is a ring fenced budget which is allocated in four blocks; schools, early years, high need and central school services. The Council, along with other authorities across the Country, is facing high demand and increased costs within the high needs block. To address the forecasted need and in anticipation of future increases the Council agreed with the Schools Forum as part of the budget setting process to accelerate £2.4 funding from 2020/21, increasing the total budget for 2019/20 to £357.4m. However, even with the additional budget, the high needs block overspent by £1.5m.</p> <p data-bbox="327 732 1914 872">The DSG high needs block budget funding was increased by 13% , however, with increasing need remains a challenge in 2020/21. At period 8 the forecast outturn position for 2020/21 is an overspend of £8.2m compared to its budget of £62.5m. There is also a small deficit within the early years block, with a forecast overspend of £0.4m. The total forecast cumulative deficit is £11.4m. The Council is working with the Schools Forum and is in the process of developing an action plan utilising the Department for Education tool to address the overspend. The DSG Deficit management plan will be presented to the Schools Forum by the end of 2020/21.</p> <p data-bbox="327 886 478 915">Public Health</p> <p data-bbox="327 929 1887 986">The spend on public health was £36.4 compared to grant funding of £36.3m. As in last year, the shortfall was met by a draw down from public health reserves, with a total of £1.6m being required over the past two financial years.</p> <p data-bbox="327 1001 768 1029">Monitoring and managing the budgets</p> <p data-bbox="327 1043 1935 1138">Performance against budget is reported on a monthly basis to Cabinet, beginning at month two. All reports include the monthly position and the forecast year end position. The savings position as discussed earlier is also reported within these reports. In 2020/21, in order to provide an urgent overview of the potential impact of COVID on the Council's budget, budget reporting began with month one.</p>

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Key findings

We set out below our key findings against the significant risks we identified through our initial risk assessment and further risks identified through our ongoing review of documents.

Significant risk	Financial Sustainability
Findings	<p data-bbox="327 429 634 461">2019/20 Outturn continued</p> <p data-bbox="327 475 410 506">Capital</p> <p data-bbox="327 521 1947 632">2019/20 is the first year of an ambitious five year capital programme. It is fully funded through the use of external funding, capital receipts and borrowing with a gross budget of £856.8m. The capital programme includes some major schemes in the pipeline attributable to the Growth and Regeneration Directorate. 82% of the capital programme is aligned to large infrastructure investments and aims to stimulate growth and regenerate parts of the city, such as new house building and developing the Temple Quarter.</p> <p data-bbox="327 646 1947 815">In January 2018 Cabinet agreed its five year capital programme and 2019/20 budget of £236.4m, including the HRA capital budget of £51.8m. Following the 2018/19 outturn and requests for budget changes the capital budget at quarter 2 had increased to £252.8m, to reflect the schemes carried forward from the end of the previous year, including both general fund and HRA capital expenditure. Throughout the year this budget was amended five times. By period twelve, outturn the capital budget was £142.8m, £93.6m below the agreed budget and £110m below the revised period two budget. The final, revised capital budget was £2m overspent at the year end due to a mix of both slippage and the acceleration of projects originally planned for 2020/21.</p> <p data-bbox="327 829 1947 998">Analysis of the monthly capital monitoring reports identified that slippage was evident from period two across all Directorates and the HRA, and as the year progressed the situation did not improve. Although the Council has introduced a Capital and Investment Board to improve capital monitoring the indications are that arrangements need to be strengthened further and the focus should be on setting realistic budgets which allow for sufficient lead times before expenditure is likely to be incurred. This level of slippage is also likely to impact on the Council's growth and regeneration plans and strategic objectives and will require review in light of the slippage that has occurred. However, we do recognise that COVID-19 will have also compounded the situation.</p> <p data-bbox="327 1012 1015 1043">2020/21 Budget and the Medium Term Financial Plan (MTFP)</p> <p data-bbox="327 1058 1947 1169">The MTFP 2020/21 to 2024/25 and the Capital Strategy were agreed by Cabinet in November 2019. The supporting budget was agreed in January 2020. The MTFP differs from other Councils' MTFPs as it does not provide an analysis of expenditure and income and any resulting funding gaps across the five year period, these are addressed within the budget. As a result the MTFP combined with the budget report provide the basis to effectively manage and plan the Council's finances.</p> <p data-bbox="327 1183 1947 1298">In 2020/21 the Council has a savings target of £15.3m, this includes savings carried forward from 2019/20. Delivering savings within 2020/21 remains a significant challenge and as at month seven the Council reported that only 40% of the savings target was 'safe'. The savings reported to be at risk are £6.3m for Adult Social Care and £2.2m in relation to children's social care transformation. The pandemic has placed significant pressures on these budgets and their ability to deliver their agreed savings.</p>

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Key findings

We set out below our key findings against the significant risks we identified through our initial risk assessment and further risks identified through our ongoing review of documents.

Significant risk

Financial Sustainability

Findings

2020/21 Budget and the Medium Term Financial Plan (MTFP) continued

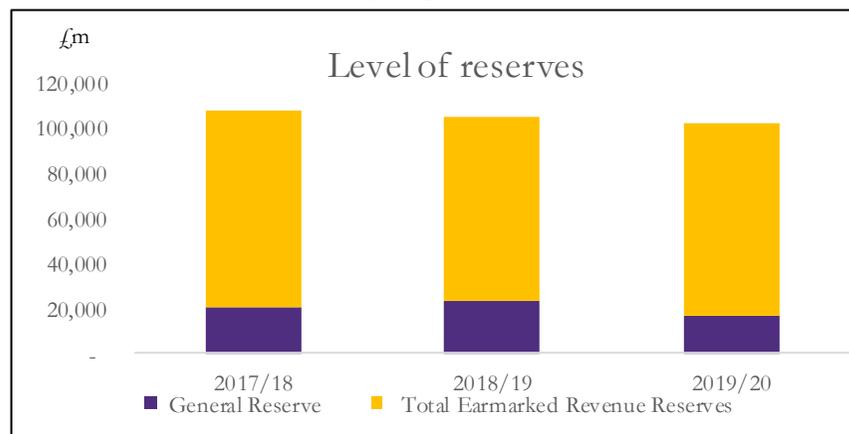
In order to meet its financial pressures the Council has increased its council tax levels. In 2018/19 it increased council tax by 4.99%, including 2% for Adult Social Care, 3.99% in 2019/20 with 1% to support Adult Social Care and 3.99% in 2020/21 with 2% Adult Social Care precept. Business rates were also increased by 2% in 2019/20 and 1.6% in 2020/21 in line with the inflationary multiplier set by the Government.

These increases have supported the Council's funding gaps and reduced the amount of savings required.

Reserves

The chart below illustrates the movement in reserves over the last three years. At the 31 March 2020 the Council held £17m in its general reserves, a reduction of £6.3m from 2019/20. As a result general reserves have fallen below 5% of the Council's net revenue budget. This is not within the Council's general reserve principle, as set out within the MTFP. General reserves should not be lower than the recommended 5-6% of the net revenue budget. Total earmarked reserves have increased by £3.2m compared to 2018/19 to £84.4m, but remain below 2017/18. Total reserves £101.4m as at 31 March 2020 this is equivalent to the 25% of the Council's agreed net revenue budget (£395m) for 2020/21

This reduction in general reserves is due to the Council agreeing to fund the 2019/20 People Directorate overspend of £6m from general reserves. Full Council approval was sought for this draw down of reserves as it was a deviation from the Council's agreed minimum reserve balance. This was agreed on the basis that it would be a temporary movement as the reserves would be topped up from Social Care (Revenue) Grant.



The Social Care (Revenue) Grant is paid in monthly instalments and the Council received £3m in April 2020, enabling reserves to be restored to £20m, inline with the Council's reserves policy.

Although total reserves have decreased year on year and general reserves have had a temporary year end reduction we consider that the Council has an adequate level of reserves in place to mitigate any financial risks.

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Key findings

We set out below our key findings against the significant risks we identified through our initial risk assessment and further risks identified through our ongoing review of documents.

Significant risk	Financial Sustainability
Findings	<p data-bbox="327 415 430 439">Covid-19</p> <p data-bbox="327 461 1949 568">Although the impact of the pandemic was limited to March 2020 for the 2019/20 financial year, it has still had an impact and required changes to governance arrangements. The Council declared a major incident and implemented its Gold Command arrangements as a result of the pandemic. Decision making arrangements were streamlined to enable the Council to respond quickly and effectively. In April 2020, Cabinet approved an extension of its existing emergency decision making powers.</p> <p data-bbox="327 589 1949 782">For 2020/21, for the first time, month one financial performance was reported to Cabinet in June 2020. This identified that Covid-19 was having a significant financial impact, at the point of reporting likely to be about £112.7m (forecast increased expenditure by £34.5m and forecast income reductions of £78.3m, including losses in levels of council tax and business rates and their impact on the collection fund) for 2020/21. This was a movement of £3.4m compared to the previous forecast. As at month seven the financial impact has continued to be significant with expenditure over budget at £80.5m, of which £74m relates to Covid-19 pressures which are being funded centrally. The forecast general fund overspend is £6.6m and is predominately within the People Directorate. Demand pressures facing the People Directorate, which have outstripped its ability to secure net savings have contributed to this overspend.</p> <p data-bbox="327 803 1949 915">As noted above, the Council has received significant funding from central government to meet these additional costs. In 2019/20 the Council received the first tranche of funds totalling £13.5m. The Council subsequently received a range of different elements of funding, to support services such as homelessness, administering welfare grants and to compensate for a lack of fees and charges, totalling £67.8m. In addition the Council has received £174m to support residents and businesses in Bristol.</p>
Conclusion	<p data-bbox="327 936 1949 989">The Council continues to face uncertainty over the future of levels of funding along with the impact of COVID and will need to deliver its savings targets going forward, however we consider that there were adequate arrangements in place to manage financial sustainability in 2019/20.</p>

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Significant risk

Joint Local Area SEND Inspection

Findings

In November 2019 the Council received a letter setting out the findings of a joint Ofsted and Care Quality Commission (CQC) inspection. As a result of the findings of this inspection, and in accordance with the Children Act 2004 Regulations 2014, the inspectorate determined that a Written Statement of Action (WSOA) was required because of significant areas of weakness in the local area's practice. The five specific areas of improvement were:

- a lack of accountability of leaders at all levels, including school leaders;
- inconsistencies in the timetable and effectiveness of the local area's arrangements for the identification and assessment of children and young people with SEND;
- a dysfunctional Education, Health and Care Plan (EHCP) process, and inadequate quality of EHCPs;
- underachievement and lack of inclusion of children and young people with SEND; and
- fractured relationships with parents and carers, lack of co-production and variable engagement and collaboration.

In February 2020 the People Scrutiny Commission received an update on the inspection and following this also held an open meeting asking members of the public, parents and carers to respond and inform the WSoA. The Council and the Clinical Commissioning Group were jointly responsible for submitting the written statement to Ofsted.

The WSoA was agreed by Ofsted in March 2020 and has been published on the Council's website. The WSoA acknowledges that it will take some time to improve the arrangements and that progress will be monitored by the SEND Improvement Board. The WSoA also sets out the governance arrangements for both the CCG, Council and the Local Area.

In March 2020 Cabinet received an update from the People Scrutiny Commission, but have not received an update since. The People Scrutiny Commission were formally updated in February 2020 and December 2020, receiving only an informal update in May 2020. The Health and Wellbeing Board have not received any updates and are part of the governance structure as set out within the WSoA.

In May 2020 the Council published the feedback it had received from parents and carers and in September 2020 provided an update on the progress made on the July 2020 milestones. The report identified that 75% of the planned actions were achieved. It stated that Covid-19 had delayed or paused delivery for 12% of the actions and 13% were either on track for the end of the term or had changed focus due to the pandemic.

Formal updates have been provided to Ofsted and CQC in July and November 2020. The notes of these meetings indicate that the regulators recognise that good progress is being made despite the disruption of COVID-19.

Conclusion

We consider that arrangements are adequate, the Council has implemented a WSoA and is making progress on the milestones. However, we consider arrangements to report progress to elected members should be improved.

Action plan

We have agreed our recommendations with management and we will report on progress on these recommendations during the course of the 2020/21 audit. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

Assessment	Issue and risk	Recommendations
 High	<p>The Dedicated Schools Grant (DSG) was in deficit at the year end (£1.5m) and this position is worsening in 2020/21 with a forecast deficit of £8.3m, with a cumulative deficit of £11.3m</p>	<p>The Council should develop a recovery plan for the DSG and agree this with the schools' forum and the Department for Education.</p> <p>Management response</p> <p>The forecasted deficit in the DSG is predominantly attributed to the increase need for support via the High Needs budget and in year movement attributed to emerging pressures in Early Years, due to longstanding underfunding of the early entitlements further exacerbated by the pandemic. Whilst we will continue to call for sufficiency of funding, investment and clarity about future funding arrangements for these sectors, plans will need to be considered for a sustainable long term provision that meets the needs of Children and young people in Bristol.</p> <p>The Education Transformation Programme has concluded its first year of delivery; largely focused on SEND improvement activities (linked also to delivering the Written Statement of Action) and promoting system-wide education inclusion. As the Programme enters its second year of delivery, priorities are being refreshed to promote financial sustainability via the pursuance of inclusion throughout the sector. Specifically focusing on the projects that will deliver additional capacity for specialist provision; a new clear and transparent system for accessing Element 3 Funding; and, working in partnership with schools, a range of interventions designed to improve the offer and experience for children and young people with SEND</p> <p>Work is underway to complete the DSG Deficit Management Plan. This is a comprehensive tool that has been produced by the Department for Education to enable LAs to :</p> <ul style="list-style-type: none"> • monitor how DSG funding is being spent. • compare data on high needs spend between LA's • form evidence-based and strategic future plans for the provision of services for children and young people with SEND. <p>Completion of the plan is being project managed and is due to be presented to Schools Forum on 30 March 2021. The completed plan will be kept up to date and used routinely for planning thereafter.</p>
		<p>Responsible Officer Director::Education</p> <p>Timing 30/03/21</p>

Controls

-  High – Significant effect on control system
-  Medium – Effect on control system
-  Low – Best practice

Action plan

Assessment	Issue and risk	Recommendations
 Medium	<p>Public health earmarked reserves have been required to fund public health revenue overspends for a second year, with a total overspend of £1.6m over the last two financial years.</p>	<p>The Council should address the overspends within Public Health to ensure sufficient reserves are maintained to meet any future overspends.</p> <p>Management response</p> <p>The Public Health budget had been subject to annual grant reductions from 2015 of which C.2.6% (£858k) was reduced in each of the two years, 2018/19 and 2019/20. The service had anticipated this 2 year reduction in 2018/19 and planned to manage the service within its reducing financial resources (including reserves) whilst a review was undertaken to ensure that delivery within this reducing budget envelope, reflected key priorities. A service restructure and re-commissioning exercise was completed and all recurrent commitments are within budget, with reserves being applied where appropriate for one-off Public Health related initiatives. This position will continue to be closely monitored and reported in budget monitoring, particularly in view of Covid-19.</p> <p>Responsible Officer Director : Public Health</p> <p>Timing Ongoing</p>
 High	<p>The Council is unable to set a realistic capital budget that reflects likely spend which undermines the Council's ability to effectively manage its capital budget and deliver its growth and regeneration plans.</p>	<p>The Council should evaluate and consider how it sets its capital budget to enable it to set more realistic budgets going forward. The Council's growth and regeneration plans should be updated to reflect the slippage in capital plans.</p> <p>Management response</p> <p>The Capital Programme is managed and monitored through the Capital & Investment Board and Delivery Executive provides member oversight. A Delivery Executive call in process has been established within 2020/21 to challenge and support capital project delivery as well as establishing more realistic delivery profiles which takes appropriate account of optimism bias. The new governance arrangements will need to be embedded and will be subject to continuous review to ensure they are working effectively.</p> <p>Improved reporting arrangements are now in place within Growth and Regeneration, with a monthly internal G&R Board reviewing progress against plan and monthly highlight reports for each capital project.</p> <p>A strategic partner for capital projects has been procured and commences 1 Feb 2021, which will provide additional capacity and capability to support capital programme delivery and improve overall governance of capital projects from 2021/22.</p> <p>Responsible Officer Executive Director: Growth & Regeneration</p> <p>Timing Ongoing</p>

Action plan

Assessment	Issue and risk	Recommendations
 Medium	<p>The Council faces uncertain financial challenge in 2021/22 as savings planned for 2019/20 and 2020/21 have not been delivered on a recurrent basis.</p>	<p>The Council should focus on the identification its savings plans for 2021/22 and beyond to ensure that these can be actioned promptly and delivered on a recurrent basis.</p> <p>Management response</p> <p>The combined savings programme approved by Council in 2017/18 and 2018/19 equated to £110 m and robust governance arrangements were established for monitoring and reporting performance against the savings proposals. The savings of £15m represent the tail of this programme. The current gap in savings delivery is largely attributed to adult and children social care and facilities management. Delivery of which has been impacted by Covid-19.</p> <p>A review has been undertaken of the residual propositions and where necessary revisions have been made in the 2021/22 budget for a combination of new proposals or growth funding, and subject to approval of the budget by Council in February, delivery will be monitored via the budget monitoring and savings reports during the course of the financial year.</p> <p>Responsible Officer Director: Finance</p> <p>Timing Ongoing</p>
 Medium	<p>Cabinet, scrutiny and the Health and Wellbeing Board are not made aware of progress following the Joint Local Area SEND Inspection, so are not able to monitor and manage progress.</p>	<p>The Council should report progress on the Joint Local Area SEND Inspection to Cabinet and scrutiny on a regular (six monthly or quarterly) basis. Progress should also be reported to the Health and Wellbeing Board.</p> <p>Management response</p> <p>People's Scrutiny undertook a SEND deep dive through the format of an Evidence Day in February 2019. Recommendations were integrated into the SEND Written Statement of Action (WSOA), which is monitored formally by the Department for Education (DfE) and NHS England (NHSE). Progress against the WSOA and the specific Evidence Day findings are regularly reported to People Scrutiny. To date - May 2020 and December 2020.</p> <p>The Cabinet lead members for Education and Skills and Children, Women and Families are both members of the SEND Improvement Board. This board meets every two months and receives detailed reports of progress against the Written Statement of Action (SEND inspection action plan) including a comprehensive data dashboard. The formal milestone monitoring reports are signed off by the Board prior to the DfE/NHSE's visit.</p> <p>The SEND Improvement Board reports to the Health and Wellbeing Board (HWBB) The role of the HWBB is outlined in the SEND Code of Practice and has identified Health and Wellbeing Champions. The Board has received two SEND Seminars and several papers, including the strategy in 2019-20. Detailed progress on inspection findings will be reported by September 2021.</p> <p>Responsible Officer Director: Education</p> <p>Timing By September 2021</p>

