

# Audit Committee

8 March 2022



<b>Report of:</b>	Chief Executive
<b>Title:</b>	Draft 2020/21 Annual Governance Statement Summary of Progress to Date
<b>Ward:</b>	City Wide
<b>Officer Presenting Report:</b>	<b>Mike Jackson, Chief Executive</b>

## Recommendations

Audit Committee is asked to note and comment on the progress made to date to implement governance improvements and recommendations from the draft 2020/21 Annual Governance Statement (AGS).

## Summary

The Chief Internal Auditor's opinion in relation to 2020/21 was that reasonable assurance could be provided that governance, risk management and internal control arrangements were in place and operating effectively throughout the year. This improved opinion reflects the progress being made by the Council in addressing some of the long outstanding audit issues that had remained unresolved for a few years but also acknowledged that there are some areas that still require improvement.

The draft AGS 2020/21 summarised the actions and improvements which had been taken to enhance governance arrangements in 2020/21 and identified a number of significant issues that needed to be addressed to ensure continuous improvement in the governance framework, financial and budget management within the Council.

This report provides updates on the approach and actions the Council has adopted in taking these significant issues forward and with the exclusion of the Dedicated Schools Grant Deficit the actions are considered closed.



## **1. Purpose**

- 1.1. The draft Annual Governance Statement (AGS) 2020/21 was reported to the July 2021 Audit Committee and remains a draft document until conclusion of the audit of the 2020/21 Accounts by the External Auditors. Whilst we recognise that the draft AGS could be subject to change, this report provides a progress update of the actions taken to effectively manage the significant issues identified in the draft AGS for 2020/21. Due to the timing of the conclusion of the external audit of the accounts, any subsequent issues identified which are considered significant will be addressed as part of the AGS 2021/22.

## **2. Draft Annual Governance Statement 2020/21 Progress**

- 2.1. In accordance with the Accounts and Audit Regulations 2015, the Council is required to conduct an annual review of its system of internal control and publish an AGS with the annual Statement of Accounts. The process is a key mechanism for ensuring that the Council has an effective system of internal control and governance, and that any shortfalls are identified and addressed.
- 2.2. The Council has a duty to maintain an effective internal audit provision to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards and guidance.
- 2.3. During March 2020, the coronavirus pandemic (COVID-19) started to significantly impact the UK and continued throughout 2020/21, resulting in the need to deliver services through three national lockdowns and many other restrictions which significantly impacted the way we live and work. These unprecedented changes provided the context for the 2020/21 draft AGS.
- 2.4. The draft AGS summarised the actions and improvements which had been taken to enhance governance arrangements in 2020/21 and the Chief Internal Auditor's opinion in relation to 2020/21 demonstrated a positive trajectory in that reasonable assurance could be provided (limited assurance prior year) that governance, risk management and internal control arrangements were in place and operating effectively throughout the year.
- 2.5. Whilst we acknowledged some areas that still require improvement, this improved opinion reflects the progress being made by the Council in the programmes of work which are seeking to address a number of long outstanding audit issues, as identified in the draft AGS 2020/21 and limited assurance reports following the completion of 2020/21 audits. These include the following:
  - Mandatory training
  - KPIs
  - Harbour Office
  - Adult safeguarding
  - Better Lives
  - Cyber security
  - Procurement and contract management
  - Risk Management
  - Capital Project delivery
- 2.6. Progress relating to delivery of the improvements in these areas is being monitored through regular updates to Corporate Leadership Board and assurance from Internal Audit.
- 2.7. In determining the significant governance issues to disclose, the following factors are considered on whether the issues had:
  - Seriously prejudiced or prevented achievement of a principal objective

- Resulted in the need to seek additional funding to allow it to be resolved or had resulted in a significant diversion of resources from another aspect of the business
- A material impact on the accounts
- Been considered as significant for this purpose by the audit committee or equivalent
- Attracted significant public interest or had seriously damaged the reputation of the Council
- Resulted in formal action being taken by the Section 151 Officer/Monitoring Officer
- Received significant adverse commentary in external inspection reports and which the Council has not been able to address in a timely manner

2.8. In concluding the review of effectiveness, the following four significant issues were identified that required focussed attention going forward:

1. Coronavirus Pandemic (Covid-19)
2. Governance arrangements for the Council's subsidiaries
3. Dedicated Schools Grant deficit
4. Bristol Beacon

2.9. The actions being taken to effectively manage these issues are detailed in Appendix A.

2.10. During 2021/22, the Council has continued to review and strengthen many aspects of its governance arrangements and the notable strengths as identified in the 2020/21 draft AGS in some key systems have continued to be built on. There remains strong senior leadership ambition with a clear focus on Council's highest priorities, while ensuring we have sufficient capacity to continue to drive the enabling activity and culture that will improve the Council's governance, risk management and internal control arrangements. Where limited assurance is identified progress has and will continue to be monitored by the Corporate Leadership Board (CLB) on an ongoing basis.

### **3. Other Options Considered – N/A**

### **4. Risk Assessment**

4.1. The publication of an AGS is a legal requirement and the processes of implementation, monitoring and reporting of improvement actions arising therefore constitutes an important element of the Council's governance arrangements. The actions identified within the response to the AGS and limited assurance reviews constitute important measures whereby the Council's overall management of organisational risk can be enhanced.

### **5. Public Sector Equality Duties**

5.1. Before making a decision, section 149 Equality Act 2010 requires that each decision-maker considers the need to promote equality for persons with the following "protected characteristics": age, disability, gender reassignment, pregnancy and maternity, race, religion or belief, sex, sexual orientation. Each decision-maker must, therefore, have due regard to the need to:

- i) Eliminate discrimination, harassment, victimisation and any other conduct prohibited under the Equality Act 2010.
- ii) Advance equality of opportunity between persons who share a relevant protected characteristic and those who do not share it. This involves having due regard, in particular, to the need to:
  - remove or minimise disadvantage suffered by persons who share a relevant protected characteristic;
  - take steps to meet the needs of persons who share a relevant protected characteristic

that are different from the needs of people who do not share it (in relation to disabled people, this includes, in particular, steps to take account of disabled persons' disabilities);

- encourage persons who share a protected characteristic to participate in public life or in any other activity in which participation by such persons is disproportionately low.
- iii) Foster good relations between persons who share a relevant protected characteristic and those who do not share it. This involves having due regard, in particular, to the need to –
- tackle prejudice; and
  - promote understanding.

5.2. No Equality Impact is anticipated from this report.

## **6. Legal and Resource Implications**

**Legal – N/A**

**Financial – N/A**

**Land – N/A**

**Personnel – N/A**

## **7. Appendices:**

- Appendix A – Draft Annual Governance Statement – Significant Issues

## **LOCAL GOVERNMENT (ACCESS TO INFORMATION) ACT 1985**

## **8. Background Papers:**

- Draft Annual Governance Statement 2020/21
- Annual Internal Audit Opinion Report 2020/21

## Appendix A – Draft Annual Governance Statement – Significant Issues

Item	Issue	Key Actions	Progress Update
1	<p><b>COVID-19</b></p> <p>The global outbreak of the COVID-19 virus had a material impact on the City and the Council's services and its finances during 2020/21. The impact and response were complex as some services operated remotely, others were closed and new responsibilities such as testing were introduced as a response to community needs. The impact of the pandemic will be felt for many years and the recovery period will be elongated. The longevity and uncertainty of the pandemic will require flexible recovery approaches and medium to long term resilience in the Council's finances.</p>	<p>Continue to implement Local Outbreak Management Plan and associated governance structures, plus communication and engagement, including about vaccination.</p> <p>Action planning and tracking / assurance work against the Council's share of the One City Economic Recovery and Renewal Strategy, plus ongoing monitoring, and assurance of wider system activity via City Office and Council teams such as Economic Development.</p> <p>Revise the Council's Corporate Strategy, Medium Term Financial Plan and Capital Strategy in concert, to ensure resilience and that the impacts and recovery actions are accounted for and part of mainstream 'business as usual' for the Council, including within its annual Business Planning process.</p> <p>Continued operation of city-wide and regional governance structures to ensure coordinated response and recovery, including One City Boards, City Leaders group, Local Resilience Forum Strategic Recovery Group, COVID-19 Health Protection Committee.</p> <p>Maintain the iterative Avon and Somerset recovery Equalities Impact Assessment which was coordinated by Bristol City Council, using this amongst other key data and evidence sources to inform activity.</p> <p>Enact plans to support a safe return of people to a more normal life, including high streets, transport, hospitality settings and the general public realm.</p>	<p>A Local Outbreak Management Plan and associated governance has been fully operational, including a cross-party, multi-sector Covid-19 Local Engagement Board overseeing communications and engagement activity. With the end of the national Contain framework and move towards 'living with Covid', much of this is being stood down; with an ability to stand up key components to manage any future local surges.</p> <p>The Council's contributions to the One City Economic Recovery Strategy are predominantly on course, tracked by the Council's economy team. The wider city activity will become part of the refreshed One City Economy Board (and other thematic boards) work programme(s) across 2022-23 and beyond.</p> <p>The Council's Corporate Strategy was updated for 2022 – 2027 and was approved by Full Council at its meeting on 7 December 2021. The development process included cross-party Scrutiny Task and Finish input, and Covid-19 recovery was accounted for, including use of the city's first Citizens' Assembly recommendations within the evidence base for the strategy. A Business Planning cycle for 2022/23 has embedded this further, with a final plan to be presented to Cabinet for information in April 2022.</p> <p>The Medium Term Financial Plan (MTFP) and Capital Strategy are key parts of the Council's financial planning process and sets out the Council's strategic approach to the management of its finances and provides a framework within which delivery of the Council's priorities will be progressed. As a living document it is subject to annual review and revision to be responsive to changing national factors, local priorities, and conditions, taking account of</p>

As a partner in One City, contribute to the annual revision of the One City Plan 2050 and other city-wide strategies that require a 'recovery' lens.

emerging pressures, risks, and opportunities to the Council's financial position. The MTFP for the period 2022/23 to 2026/27 and Capital Strategy for the period 2022/23 to 2031/32 were considered and approved by Full Council at its meeting on 7 December.

Cross-departmental and partnership working supported a return to more normal life, including specific work on high street recovery and concerted city-wide communication and engagement work; including close community engagement around vaccine take-up; overseen by the Covid-19 Local Engagement Board.

Exiting Lockdown Group oversaw the re-opening of high streets and supported traders and license holders through ongoing Covid measures and/or restrictions, particularly focusing on outside trading. This is now managed as business as normal.

A fortnightly licensing tasking group was established during Covid and focused on the compliance and enforcement (if required) with covid measures and covid secure practice. The meeting continues to meet as part of business as usual for regulatory services.

Avon and Somerset Local Resilience Forum's Strategic Co-ordinating Group has continued to meet monthly. Recent focus has been on supporting health and city partners with the response to the omicron variant of concern and the vaccination / booster programme. This group continues to meet and does add value for Bristol.

The review of the One City Plan has become two-yearly, with the most recent 2021 iteration influenced by early recovery work. Other strategy work in the One City space which has considered recovery needs includes the Belonging Strategy and the Food Equity Strategy. Progress against this is relayed through the One City Boards but is owned and tracked through the relevant

BCC service areas who have developed these with partners.

<p>2</p>	<p><b>Governance arrangements for the Council's subsidiaries</b></p> <p>The External Auditors issued a qualified 'except for' opinion in their value for money assessment in relation to governance arrangements in respect of BE 2020 Ltd, and the report outlined 12 recommendations for improvement. The actions taken by the Council to address the issues outlined in the report will be assessed by the External Auditors within the 2020/21 Audit. The scope of the review in respect to BE 2020 Ltd was expanded and the findings are due to be reported in 2021/22.</p>	<p>Management actions in response to the value for money report recommendations were agreed and submitted to the Audit Committee in January 2021. The Council is monitoring the implementation of these management actions to ensure that the issues identified by the External Auditor are fully addressed.</p> <p>Review of Governance Arrangements for Bristol City Council's Subsidiaries was discussed separately at the Extraordinary Full Council public meeting February 2021 and a subsequent report to Full Council public meeting in May 2021 to consider the progress on the implementation of the management actions.</p> <p>The expanded scope of the external audit work on the governance arrangements regarding BE 2020 Ltd has been completed and the Council awaits the outcome of the External Auditors review and the standard consideration of whether the application of formal audit powers will be applied.</p>	<p>Further to the Grant Thornton VFM Report "Review of Governance Arrangements for Bristol City Council's Subsidiaries", in order to provide a view having considered the full picture, a supplementary review was undertaken resulting in a secondary comprehensive report entitled "Report concerning the governance arrangements for Bristol Energy" completed in September 2021. This report set out all the findings on governance matters including those not set out in the original report, namely the Council's initial decision making when establishing the Company and considered the final outcomes following the Council's decision to dispose. This report was provided to Audit Committee on 27 September 2021 by Grant Thornton in line with their responsibilities to report to Audit Committee on matters of concern.</p> <p>In parallel to the reviews mentioned above, the Shareholder Representative, (a Mayoral role, formally delegated to Cllr Cheney, Deputy Mayor) commissioned the Independent Shareholder Advisor, and member of the Shareholder Group to undertake a review of the entire governance structure pertaining to the management of the Council's wholly owned companies.</p> <p>The overview of the reports and update of the management actions in relation to the reviews conducted over the course of 2020 and 2021 were reported to 23 November Audit Committee and Full Council received a report of the Audit Committee on 7 December, which included the key areas the Committee would monitor to support further improvements.</p>
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			Further updates in relation to open actions will be provided in the 2021/22 AGS and subject to ongoing review by the Internal and External auditors as appropriate.
3	<p><b>Dedicated Schools Grant deficit</b></p> <p>The Dedicated Schools Grant (DSG) was in deficit of £10.004m at the financial year-ending 2020/21. A range of outcome and process improvements are being delivered in line with the Written Statement of Action however, the financial deficit is forecasted to increase by c. 100% (£10.5m) by the year end 31 March 2022. Should this forecast be realised, this will result in a cumulative forecasted, carry forward deficit of £20.5m at the end of the financial year.</p>	<ul style="list-style-type: none"> <li>The forecasted deficit in the DSG is predominantly attributed to the significant increase needed for support for children and young people with special educational needs and /or disabilities (SEND), via the High Needs budget. The scale of SEND deficit is a national issue and the SEND review announced in September 2019 with a commitment to boost outcomes and improve value for money, has been subject to repeated delays.</li> <li>Whilst the Council will continue to call for sufficiency of government funding to address the legislatively driven deficits, investment and clarity about future funding, arrangement plans will need to be considered for a sustainable long-term provision that meets the needs of children and young people in Bristol.</li> <li>The Education Transformation Programme is largely focused on the following SEND improvement activities. <ul style="list-style-type: none"> <li>financial sustainability via the pursuance of inclusion throughout the sector</li> <li>projects that will deliver additional capacity for specialist provision</li> <li>new clear and transparent system for accessing Element 3 Funding; and,</li> <li>working in partnership with schools, a range of interventions designed to improve the offer and experience for children and young people with SEND.</li> </ul> </li> </ul> <p>The first iteration of the evolving DSG Deficit Management Plan (DMP) has been published and presented to Schools Forum (June 2021).</p>	<p>The DSG is forecasted to end the year with a deficit of £26.7 million and the key financial pressure in the DSG deficit is in the High Needs Block. The DSG Deficit Management Plan (DMP) is an iterative document / tool, required by the DfE for any LA with a DSG deficit. The DMP enables LAs to:</p> <ul style="list-style-type: none"> <li>Monitor how DSG funding is being spent and identify demand management levers</li> <li>Compare data on high needs spend between LA's</li> <li>Form evidence-based and strategic future plans for the provision of services</li> <li>Set out how the deficit will be managed and deliver better value to the SEND system</li> </ul> <p>The following actions have been taken:</p> <ul style="list-style-type: none"> <li>Continued development of the DMP. The third iteration will be reviewed by Schools Forum in March 2022.</li> <li>Development of EQiAs and consultation requirements for the mitigations identified within the DMP</li> <li>With the agreement of the Schools Forum, secured additional £1.5m funding to support the continuation of the Education Transformation Programme. This 3rd phase is focused on sustainable school-based programmes aimed to deliver improved consistency to SEND inclusion within mainstream settings</li> <li>Formally requested engagement / support from the ESFA/DfE and been accepted on the Delivering Better Value in SEND programme</li> </ul> <p>In order to deliver the service need on a sustainable footing, work and collaboration continue with the</p>

The completed DMP will be kept up to date, and along with the Education Transformation programme, will be reported periodically to the Schools Forum, People Scrutiny commission and or Cabinet during 2021/22.

Transformation Programme working group to finalise early mitigation proposals for consideration by the Schools Forum in March 2022. Further work and engagement will be required thereafter, and where appropriate consultation on the co-design of these potential mitigations for development and implementation in subsequent years.

The DMP is a long term plan which will continue to be updated throughout 2022/23 and beyond, presented to Schools Forum on a termly basis and due to the material nature of the deficit further updates will be provided to the Audit Committee during 2022/23.

4	<p><b>Bristol Beacon</b></p> <p>During the refurbishment of the Bristol Beacon, as the building was dismantled, contractors identified large numbers of significant and unforeseen structural and heritage issues that created huge complexity and added significant time and costs to the project. Recognising the cultural importance of the building and its contribution to the region's economy, Cabinet agreed a revised capital investment budget of £106.9m, an increase of £58.1m (119%) on the original approved budget of £48.8m..</p> <p>This represents a significant diversion of Council resources.</p>	<p>The Bristol Beacon has been re baselined in terms of budget and duration. A Project Management Office has been created and a Strategic Partner commissioned to provide key professional support to the project. Project assurance is ongoing in the form of Project Board reporting and management process.</p> <p>The Capital Programme is managed and monitored through the Capital &amp; Investment Board and Delivery Executive provides member oversight. These governance arrangements together with skills and capacity brought by the Capital Strategic Partnering arrangements, continues to strengthen and improve capital monitoring and is providing a focus on setting realistic delivery budgets and profiles, which allow for sufficient lead times before expenditure is likely to be incurred. The new governance arrangements will need to be embedded and will be subject to continuous review to ensure they are working effectively.</p> <p>The strategic partner is also helping to establish a Capital Portfolio Office which will become an information hub about the Council's capital programmes and projects and will provide advice and information to senior officers to make strategic decisions.</p>	<p>Bristol Beacon is now progressing well against its re baselined time and cost parameters. The BCC Project Management Office with support from the Capital Strategic Partner is providing high quality information to Project Board and wider BCC management.</p> <p>Capital monitoring of the project is well embedded in the directorate governance processes. Delivery budgets and spend profiles are subject to regular review and responding to the challenges in the construction sector. Risks and issues are being clearly reported and management actions clearly communicated to the Project Board. Key risks include the ongoing cost and schedule pressures given the nature of the building, covid and national supply chain issues.</p> <p>Internal Audit are preparing to work with the Project Management Office to provide embedded assurance and ensure governance arrangements are working effectively.</p> <p>The outcome of the External Auditors VFM Review is awaited, and the Council will give appropriate consideration to any findings / agreed recommendations for improvement arising from this review.</p>
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**Responsible Officers for Improvements: Corporate Leadership Board**