

Audit Committee

30 May 2023



Report of:	Chief Executive
Title:	Draft 2021/22 Annual Governance Statement Summary of Progress to Date
Ward:	City Wide
Officer Presenting Report:	Stephen Peacock, Chief Executive

Recommendations

Audit Committee is asked to note and comment on the progress made to date to implement governance improvements and recommendations from the draft 2021/22 Annual Governance Statement (AGS).

Summary

The Chief Internal Auditor's opinion in relation to 2021/22 was that reasonable assurance could be provided that adequate governance, risk management and internal control arrangements were in place and operating effectively throughout the year.

The draft AGS 2021/22 summarised the actions and improvements which had been taken to enhance governance arrangements in 2021 /22, a number of areas to focus on for future improvements in ensuring continued compliance with the code of corporate governance and the statement identified three 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 areas for future improvement (Appendix A) and the approach and actions the council has adopted in taking these significant issues forward and acknowledges that further work is required in relation to all these issues and as such the actions remain open (Appendix B).



1. Purpose

- 1.1. The draft Annual Governance Statement (AGS) 2021/22 was reported to the July 2022 Audit Committee and along with the 2020/21 draft AGS remains a draft document until conclusion of the audit of the 2020/21 and 2021/22 Accounts by the External Auditors. Whilst we recognise that the draft AGS could be subject to change, this report provides a progress update on the areas for future improvements and the actions taken to effectively manage the significant issues identified in the draft AGS for 2021/22. 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 2022/23.

2. Draft Annual Governance Statement 2021/22 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 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. 2021/22 was a year of continued uncertainty resulting from the Covid-19 pandemic. The council continued working with its partners to address the challenges brought by the pandemic as well as considering the needs of recovery and renewal. Throughout the year the financial impact on the council caused by pandemic resulted in disruption to the delivery of planned efficiencies, reduced income and additional expenditure being incurred. £56.6million is the additional costs that arose as a result of the pandemic and was fully mitigated by grants received from central government.
- 2.4. The draft AGS summarised the actions and improvements which had been taken to enhance governance arrangements in 2021/22 and the Chief Internal Auditor's (CIA) opinion that reasonable assurance could be provided that adequate governance, risk management and internal control arrangements were in place and operating effectively throughout the year, demonstrated a positive trajectory. This opinion reflected the decrease in the number of limited assurance opinions, significant improvement in the implementation, monitoring and reporting of agreed management actions. Additionally, the increased oversight by the Corporate Leadership Board in improving the governance and internal control arrangements in areas that were identified as requiring improvement in the previous year.
- 2.5. The report sets out some key aspects of how the council has complied with the seven principles set out in the council's Code of Corporate Governance and some areas to which focus should be applied for future improvement; summarised below and an overview of progress in delivering these improvements are outlined in Appendix A.

Focus of future improvement:

- Consistent and effective management of potential conflicts of interest.
- Establishing a One City Governance Board and scrutiny engagement in BCC elements of One City, including OSMB update
- Strengthening governance and monitoring of activities that contribute to carbon reduction ambitions
- Introduce a performance hub and scorecard to retain focus on performance and necessary interventions to meet targets

- Progress on the delivery of specified key improvements will be monitored through regular updates to Corporate Leadership Board and assurance from Internal Audit

2.6. An overview of progress in delivering these future improvement areas are outlined in Appendix A.

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 three significant issues were identified and require focussed attention going forward:

1. Dedicated Schools Grant (DSG) deficit (2020/21 & 2021/22)
2. Procurement Breaches
3. Savings

2.9. The actions being taken to effectively manage these issues are detailed in Appendix B. These significant issues remain open and will be carried forward in the 2022/23 AGS, with any further insights and will be subject to ongoing review by the Internal and External auditors as appropriate.

2.10. During 2021/22, the council continued to review and strengthen many aspects of its governance arrangements and the notable strengths as identified in the 2021/22 draft AGS and some key strategies, policies and business planning processes have continued to be built on. There remains strong senior leadership ambition with a clear focus on the 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.

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 Chief Internal Auditor's annual opinion, actions identified within the response to the AGS, and limited assurance reviews constitute important measures of risks and a strong indication of areas where organisational risk management 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 – Focus of future improvement in compliance with the Code of Corporate Governance
- Appendix B – Draft Annual Governance Statement – Significant Issues

LOCAL GOVERNMENT (ACCESS TO INFORMATION) ACT 1985

8. Background Papers:

- Draft Annual Governance Statement 2021/22
- Annual Internal Audit Opinion Report 2021/22

Appendix A – Focus of future improvement in compliance with the Code of Corporate Governance

Core Principle	Focus of Future Improvement	Action
A. Behaving with integrity, demonstrating strong commitment to ethical values and respecting the rule of law	Consistent and effective management of potential conflicts of interest.	Due to resource pressures an e-learning module on the management of potential conflicts of interest has not been developed but training was delivered to some specific service areas. The development of the e-learning module will be prioritised and delivered in Quarter 3, 23/24. This action remains open.
B. Ensuring openness and comprehensive stakeholder engagement	Establishing a One City Governance Board and scrutiny engagement in BCC elements of One City, including OSMB update.	There have been several engagement sessions with scrutiny and other elected members, however the governance board has not progressed due to capacity within the One City team. This action remains open for 23/24 consideration.
C. Defining outcomes in terms of sustainable economic, social and environmental benefits	Strengthening governance and monitoring of activities that contribute to carbon reduction ambitions.	<p>An advisory engagement on the governance arrangements introduced in 2022 was completed by Internal Audit. The engagement involved reviewing the effectiveness of these arrangements in providing oversight and challenge of Climate and Ecological Emergency (CEE) actions, a review of proposals for improving current governance, and utilising industry practice to identify areas where governance could be improved to ensure that CEE commitments are effectively delivered, tracked and reported.</p> <p>The draft conclusions of the review are:</p> <p>2.1 The council's Climate and Ecological Strategic Board is demonstrating its effectiveness in challenging council proposals for reducing carbon impacts. The governance below this strategic level is not yet established, though proposed changes agreed in April 2023 should help ensure that information flow and direction between operational and strategic levels is facilitated</p> <p>2.2 To maximise effectiveness of this governance the council will need to:</p> <ul style="list-style-type: none"> ○ consider how it will identify and manage interdependencies and cross-cutting issues between function specific working groups.

		<p>Each group should define and clarify its contribution to the council's overall climate commitments/targets</p> <ul style="list-style-type: none"> ○ ensure there is appropriate balance between top-down strategy and bottom-up implementation, reducing the risk of divergent or misaligned delivery strategies for individual workstreams ○ tighten up reporting and monitoring through the development of specific measures and milestones for each strategic commitment ○ ensure that consideration of environmental impacts are built into decision making through roll-out of the environmental assessment and capital sustainability framework. <p>The further recommendations as outlined above are in the process of being implemented and this action can be considered closed.</p>
<p>D. Determining the interventions necessary to optimise the achievement of the intended outcomes</p>	<p>A new performance management framework has been developed for 2022/23 which focuses on reporting on the Business Plan themes with Directors leading performance review and monitoring.</p> <p>It is also planned to introduce a performance hub and scorecard to retain focus on performance and necessary interventions to meet targets.</p>	<p>During 22/23 a new performance framework was adopted, with seven thematic quarterly performance clinics running each quarter to examine in more detail specific areas of performance. Reports from these clinics were appended to regular quarterly performance reports to Executive Director Meetings (EDM), Corporate Leadership Board (CLB), Overview and Scrutiny Management Board (OSMB) and Cabinet.</p> <p>Resource constraints prevented delivery of a new performance hub in 22/23. However, by early 23/24 the quarterly performance reporting process has been improved through the creation of a Power BI dashboard that enables leaders to view key progress and performance against targets. It is anticipated that in-flight work on an interactive Organisational Scorecard product will be complete by the end of May 23.</p> <p>Whilst the aim remains to develop a fully integrated performance hub whereby all data and insight is available through a series of dashboards tailored to specific business areas or the council as a whole. This will be a longer term goal as there is a significant amount of work required to standardise the organisation's data, its quality and our ability to access it in real time through loading more lines of business systems to our data lake.</p> <p>This action can be considered closed</p>

<p>E. Developing capacity including the capability of its leadership and the individuals within it</p>	<p>No improvements identified in 2021/22</p>	<p>No improvements actions required in 2022/23</p>
<p>F. Managing risk and performance through robust internal control and strong public financial management</p>	<p>There are a number of improvement programmes in progress within the council which continue to strengthen and redesign how services and projects are delivered more effectively. The progress relating to delivery of the improvements in these areas will be monitored through regular updates to Corporate Leadership Board and assurance from Internal Audit. These include the following:</p> <ul style="list-style-type: none"> • Procurement and Contract Management • Risk Management • Capital Project delivery • Education Transformation - Including High Needs (SEND and Deficit) • ICT • Information Governance • Performance Management 	<p>Progress relating to delivery of the improvements in these areas is being monitored through regular service or activity updates to EDM, CLB, Corporate Investment Board (CIB), Cabinet Member Briefing (CMB); Delivery Executive (DE) and assurance from Internal Audit follow up reviews. Regular updates are provided to Bristol Schools Forum in relation to the Education Transformation Programme.</p> <p>Audit Committee received the following reports during 22/23:</p> <ul style="list-style-type: none"> • Procurement and Contract Management - 8 March 2022 • Risk Management Annual Report and Improvement Plan – 26 September 2022 • ICT (Digital Transformation and Governance Update) - 30 January 2023 • Information Governance – SIRO report to be received on 30 May 2023. <p>This action can be considered closed</p>
<p>G. Implementing good practices in transparency, reporting and audit to deliver effective accountability</p>	<p>No improvements identified in 2021/22</p>	<p>No improvement actions required in 2022/23</p>
<p>Responsible Officers for Improvements: Corporate Leadership Board</p>		

Appendix B – Draft Annual Governance Statement – Significant Issues

Item	Issue	Key Actions	Progress Update
1	<p>Dedicated Schools Grant (DSG)</p> <p>The in-year forecast deficit on the DSG is significant at £14.6m, which when added to the brought forward balance of £10.0m means that the DSG is carrying forward a total deficit at the end of the year of £24.6m. The main financial challenge continues to be the High Needs block, which has an in-year overspend of £15.3m (Carry forward deficit of £27.9m) resulting from increases in EHCP assessments and need; this is offset by an underspend of £0.9m in the schools' block and £0.1m overspend on the other blocks.</p>	<p>A separate, more detailed High Needs Block Recovery Plan is in development, which details the key mitigations required to achieve a sustainable position.</p> <p>The actions will sit alongside the DSG Deficit Management Plan and will be agreed with Bristol Schools Forum.</p> <p>Equalities Impact Assessments (EQiAs) are being completed and public consultations will commence where required.</p> <p>Bristol has accepted the DfE's offer to engage in the 'Delivering Better Value in SEND' Programme'. Diagnostic analysis will inform further actions and access to funding from the DfE to support an 18-month programme aimed at bringing spend in line with budget.</p>	<p>Bristol's DSG has reported an annual net deficit for several years, with a cumulative deficit of £39.7m as at 31 March 2023. The key financial pressure in the DSG is within the High Needs Block where Bristol has been unable to deliver local need within the budgets available. A long term programme is being developed to improve the delivery of SEND services in our local area whilst working towards financial sustainability.</p> <p>The following actions have been taken:</p> <ul style="list-style-type: none"> • The council with the Schools Forum has developed the iterative DSG Deficit Management Plan - May 2021 with regular updates to Schools Forum throughout 2022/23 • The Education Transformation Programme transitioned into the Belonging with SEND programme in September 2022, • High Needs Block Deficit Recovery Plan produced some initial proposals with iterative EQiAs, which subject to final approval could contribute to the delivery of the deficit mitigations contained in the DSG Management Plan. The indicative mitigation proposals in the High Needs Block Deficit Recovery Plan were presented to Schools Forum on 27 September 2022. • High Needs Block Recovery Plan indicative mitigation proposals engagement and survey conducted during October and November 2022

			<ul style="list-style-type: none"> • 6-week engagement period with wider stakeholders to help shape and inform the proposals ahead of any formal statutory consultation • Delivering Better Value in SEND - A paper outlining the preliminary findings of the DBV programme was presented to Schools Forum on 12 January 2023 • With the agreement of the Schools Forum, secured additional £1.6m ringfenced funding to support the continuation of the Belonging with SEND Programme. • Upon completion of a 6-month diagnostic period, a grant application based on diagnostic findings was submitted to the DfE. Bristol secured a £1.07m grant to pump-prime deficit mitigation interventions identified through the programme. <p>There are four separate areas of work explicitly or implicitly charged with mitigating the deficit present in the DSG High Needs Block budget:</p> <ol style="list-style-type: none"> 1. DSG Management Plan (DfE reporting tool) 2. Delivering Better Value in SEND Programme 3. High Needs Block Deficit Recovery Plan 4. Belonging with SEND Programme <p>The following actions are proposed: For 2023/24 The activity and programmes that have a contributing role to managing the DSG HNB deficit are being brought together into a single cohesive programme of work under a single governance structure to achieve the objectives.</p> <p>Formal consultation is estimated to commence in the summer term 2023, with options being tested with stakeholders and recommendations ready to present to Cabinet in the Autumn term. Schools Forum will be asked to endorse these recommendations at September's Schools Forum and provide their feedback to include in the Cabinet report following that meeting</p> <p>Monitoring and oversight will be through:</p> <ul style="list-style-type: none"> • Regular updates to Bristol Schools Forum
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			<ul style="list-style-type: none"> • Our Families Transformation Board • DfE Delivering Better Value in SEND <p>Whilst annual financial sustainability has not been achieved the action will remain open. Further updates will be provided in the 2022/23 AGS and subject to ongoing review by the Internal and External auditors as appropriate.</p>
2	<p>Procurement Breaches</p> <p>The number of breaches of the council's procurement rules during 2021/22 significantly increased from 2020/21. The 20/21 VFM report by the council's external auditors has recommended urgent action be taken to address the high level of breaches. When the procurement rules are breached, there is an increased risk that the council enters into a contract which is not Best Value and/or is not the best way of achieving organisational objectives. Breaches also reduce transparency and fairness of decision making, which can increase the risk of fraud, conflicts of interest and reputational damage.</p>	<p>Whilst full compliance can never be guaranteed and 'under-reporting' of breaches, in particular, is an inherent possibility, an effective and transparent breaches governance process is in place to detect instances of non-compliance.</p> <p>Procurement compliance training will be more widely rolled out via e-learning and actual compliance activity reported quarterly to Audit Committee via Internal Audit.</p>	<p>When the council's procurement rules have not been followed these are recorded as non-compliance with the council's internal Procurement Regulations.</p> <p>FY2021/22, there were 201(9%) instances of non-compliance (total value £68m, 6%), out of a total of 2206 procurement decisions made (total value of £1,088m). In 2022/23 there were 342 (16%) instances (total value £73m, 9%), out of a total of 2134 procurement decisions made (total value £786m).</p> <p>Further analysis undertaken indicates that the majority of non-compliance relate to:</p> <ol style="list-style-type: none"> 1) extending or entering into a new contract without first seeking the signoffs required under BCC's internal procurement rules 2) extending or awarding a new contract via direct award when BCC's internal procurement rules require competition <p>Whilst this does not evidence whether better value would have been achieved had an alternative course of action been followed, it does however indicate a weakness in internal control and risk that best value may not be achieved.</p> <p>The 22/23 analysis indicates that the category of purchases result in the most breaches are: urgent social care & support for adults, children's & education provision, agency staffing spend within children, families & safer communities, professional consultancy services and technology (IT).</p> <p>The following actions have been taken in 2022/23:</p> <ul style="list-style-type: none"> • Additional data collection and reporting on breach risks and root causes developed to give greater insights for officers and senior leaders • Training on procurement compliance developed, launched and promoted to officers who have been involved in procurement activity (79% completed) • Targeted engagement with teams with cultural or process issues • Breach Dashboard launched last summer and gives "live" detailed information on procurement breaches with a tab for each Division

			<ul style="list-style-type: none"> • Joint planning of future procurement activity as part of service planning • The Proactis Contract Management system now allows contract managers to schedule reminders in order to keep track of contract end dates and actions. • Live breach reporting for Directors developed and recently re-promoted <p>It is recognised that more needs to be done to improve compliance with our standards and an action plan is in place to address this. The following actions are proposed:</p> <ul style="list-style-type: none"> • Quarterly DMT (by request) & EDM attendance by procurement Business Partners • Additional specific quarterly reports on procurement compliance to EDMs, CLB and CMB will start in Q1 FY2023/24 • Overview of future procurement activity as part of Induction for new officers with commissioning responsibilities • Greater Executive Director accountability for compliance • Incorporating the requirement for procurement compliance as a collective objective within individual’s performance frameworks • Explore system development and Power BI reporting to increase visibility of contract end dates and spend <p>This action remains open due to the increasing trend and will be subject to further CLB oversight, ongoing review by the Internal auditors and further updates to be provided to the Audit Committee in 2023/24.</p>
3	<p>Savings</p> <p>The council continues to face challenges in delivering required savings.</p> <p>Out of the £11.7m of savings planned for delivery within the 2021/22 budget only 46% was achieved on a recurrent basis. If these</p>	<p>The council has experienced a period of sustained increase in demand resulting from current global market factors (such as supply chain and fuel shortages) and for some of the services provided for the most vulnerable members of the community (as a result of Covid and subsequent economic impact), particularly within adult and children’s social care.</p>	<p>It was recognised in the 2022/23 budget report that the savings were at varying degrees of development and given the level of savings proposed, stage of due diligence on each, crosscutting nature of a number of the propositions and a number that may require consultation, the savings were underpinned by an optimism bias and savings delivery contingency totalling £6.2m.</p> <p>The savings programme agreed by Council in March 2022 included 2022/23 savings totalling £18.0m. These combine with £6.2m of savings carried forward from prior years still requiring delivery, to bring the total savings delivery target for 2022/23 to £24.2m.</p>

<p>savings continue to be unachievable in the future the council will need to identify other ways of delivering these savings which could result in significant impact on service delivery.</p>	<p>Following the announcement of government grant allocations and estimates of the council's funding, a significant challenge remained in the council budgets.</p> <p>The council identified six key areas for service reviews:</p> <ul style="list-style-type: none"> • Property and capital • Be more business-like and secure more external resource • Improving efficiencies • Digital transformation • Reducing the need for direct services • Redesigning, reducing, or stopping services. <p>Savings, efficiencies and income generation opportunities in the region of £34.3 million, subject to final due diligence, optimism bias, engagement, impact assessment and consultation has been identified over the medium term.</p> <p>The development of detailed plans and activity is being closely monitored by EDM, CLB and Delivery Executive and details will be included in the quarterly Finance reports to Cabinet.</p> <p>In addition, work has commenced early in 2022/23 to refresh the MTFP model assumptions and identify any new emerging pressures which may need to be addressed for 2023/2.</p>	<ul style="list-style-type: none"> • Of these £16m (66%) were delivered on a recurrent basis with £8.2m (34%) not being achieved in year as planned. Of the £8.2m, £0.5m (2%) of savings were deemed to not be deliverable and were written off in the 2023/24 budget process. The impact of initial propositions not being achieved has been partially mitigated during the year utilising £4.1m of the savings / optimism bias contingency. • Alternative recovery activity/savings of £10.0m (allowing for £0.5m of corporately held savings) predominantly one off were identified, where original plans were predicted to not achieve targeted savings and additional in year pressures noted. Of the in-year recovery savings £8.4m (84%) were delivered. The residuals were mitigated on a one off basis utilising a further £1.6m of the savings / optimism bias contingency. <p>The outcome results in £8.6m being carried forward to be delivered on a recurrent basis in 2023/24.</p> <p>This action remains open due to the scale of the carried forward savings combined with the 2023/24 savings programme to be delivered to achieve a balanced budget in 2023/24.</p> <p>The development of detailed plans and activity is being closely monitored by Governance Boards, CLB and Delivery Executive and details will be included in the quarterly Finance reports to Scrutiny and Cabinet and ongoing review by the Internal auditors in 2023/24.</p>

