

Auditor's Annual Report on Bristol City Council

Interim Report
2021/22 and 2022/23

14 July 2023



Contents



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.



Section	Page
Executive summary	03
Use of auditor's powers	05
Key recommendations	06
Commentary on the Council's arrangements to secure economy, efficiency and effectiveness in its use of resources	14
Financial sustainability	15
Improvement recommendations	22
Governance	24
Improvement recommendations	29
Improving economy, efficiency and effectiveness	36
Improvement recommendations	39
Follow-up of previous recommendations	40
Opinion on the financial statements – 2021/22	47
Opinion on the financial statements – 2022/23	48
Appendices	
Appendix A – Responsibilities of the Council	51
Appendix B – Risks of significant weaknesses, our procedures and findings	52
Appendix C – An explanatory note on recommendations	54

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.

Grant Thornton UK LLP is a limited liability partnership registered in England and Wales: No.OC307742. Registered office: 30 Finsbury Square, London, EC2A 1AG. A list of members is available from our registered office. Grant Thornton UK LLP is authorised and regulated by the Financial Conduct Authority. Grant Thornton UK LLP is a member firm of Grant Thornton International Ltd (GTIL). GTIL and the member firms are not a worldwide partnership. Services are delivered by the member firms. GTIL and its member firms are not agents of, and do not obligate, one another and are not liable for one another's acts or omissions.

Executive summary



Value for money arrangements and key recommendation(s)

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.

Auditors are required to report their commentary on the Council's arrangements under specified criteria. 2020/21 was the first year that we reported our findings in this way and an interim findings report was presented to Audit Committee in June 2022. The NAO have issued guidance to auditors which states that a commentary covering more than one financial year can be issued where it is more efficient and effective to do so. We have decided to report a combined commentary on the Council's arrangements for 2021/22 and 2022/23 because this provides a current position of the arrangements in place and enables the Council to take timely effective action. If our findings relate only to one year this will be clearly stated, where we do not refer to a year it covers both years. As part of our work, we considered whether there were any risks of significant weakness in the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources. Our conclusions are summarised in the table below.

Both 2021/22 and 2022/23 have had their challenges with COVID-19 rates remaining high in 2021/22 and 2022/23 seeing the start of the 'cost of living crisis'. In 2022/23 demand for services has continued to increase and inflation has increased to rates not seen for some considerable time, as a result the Council has had to react and fund these additional pressures.

Criteria	Risk assessment for 2021/22 and 2022/23	2020/21	2021/22	2022/23	Auditor Judgement	Direction of travel
Financial sustainability	Risk identified because of : <ul style="list-style-type: none"> the current level of spend within Adult Social Care and Children's Services (2022/23 only) financial sustainability in the medium term 				Significant weaknesses in arrangements identified and three key and improvement recommendations made. Outstanding improvement recommendations from 2020/21.	↓
Governance	Risk identified because of the Council's arrangements to <ul style="list-style-type: none"> set & manage its capital budgets ensure informed decision making in relation to its subsidiaries 				No significant weaknesses in arrangements identified, but improvement recommendations made and outstanding improvement recommendations from 2020/21.	↔
Improving economy, efficiency and effectiveness	No risks identified at the planning stage				A significant weakness in arrangements identified and one key recommendation. Improvement recommendation made and outstanding improvement recommendations from 2020/21.	↓

- No significant weaknesses in arrangements identified or improvement recommendation made.
- No significant weaknesses in arrangements identified, but improvement recommendations made or outstanding from the previous year.
- Significant weaknesses in arrangements identified and key recommendations made.

Executive summary



Financial sustainability

We have identified two significant weaknesses in arrangements:

- Dedicated Schools Grant (DSG) – the Council does not have effective arrangements to meet the needs of children whilst remaining within current funding levels for those children with special educational needs and disability (high needs). The cumulative deficit is continuing to escalate and the management plan will only deliver part of the estimated cumulative deficit in the short term. If the Council is not allowed to write off the deficit by Central Government or the statutory override continued it would leave the Council with significant challenges to its financial sustainability.
- the Council's inability to reduce overspends in DSG, Children's and Adult's Social Care, and to deliver recurrent savings increases the risk that it may not be financially sustainable. These financial pressures and risks may increase the Council's reliance on the use of reserves to a level that may not be considered prudent or sustainable. In 2022/23 the high rates of inflation have resulted in the Council having to meet these unfunded cost pressures and the Council having to rely on one-off measures and use reserves in an unplanned way to reduce the overspend in 2022/23. The 2022/23 gross overspend of £57.9m has been mostly off-set by one-off funding, including COVID-19 grants, contingency budgets and the use of reserves, in order to achieve a net overspend of £10.4m.

The key recommendations can be found on pages 6, 8 and 10 and two improvement recommendations from page 22.



Governance

We have not identified any significant weaknesses in the Council's governance arrangements for ensuring that it made informed decisions and properly managed its risks. We have identified eight improvement recommendations, including:

- ensuring a 'lessons learned' report is completed for the Bristol Beacon as soon as possible and prior to its completion
- budget monitoring reports to Cabinet should be improved by ensuring the gross costs and overspends are clearly documented as well as the net position
- in line with the Council's capital strategy document and agree the Council's capital improvement plan
- identifying and recording the risks relating to the Client and Shareholder function for City Leap Energy Partnership Limited
- the Council should work closely with the West of England Combined Authority (WECA) to support the implementation of the required improvements to the governance of WECA.

Seven improvement recommendations can be found from page 29



Improving economy, efficiency and effectiveness

We have identified the Council's contract management arrangements as a significant weaknesses. The Council has a significant number and value of contract breaches, and following improvement in arrangements there has been no reduction in number or value of contract breaches in 2022/23. We have also identified one improvement recommendation; to ensure the partnership register reflects the new arrangements with Integrated Care Boards. In addition, a number of issues we identified in 2020/21 remain of concern, delivering sufficient savings through Adult Social Care transformation and the unit cost of Adult Social Care in comparison to other councils.

The key recommendation can be found on page 12 and one improvement recommendation on page 39.



Opinion on the financial statements

2021/22

The audit of the financial statements is well underway for 2021/22 with the majority of areas of audit well progressed. We aim to issue our audit opinion in the summer of 2023.

2022/23

Our work on the 2022/23 financial statements opinion is due to commence in the summer of 2023.



Use of auditor's powers

We bring the following matters to your attention:

2021/22 and 2022/23

Statutory recommendations

Under Schedule 7 of the Local Audit and Accountability Act 2014, auditors can make written recommendations to the audited body which need to be considered by the body and responded to publicly

We have not issued any statutory recommendations

Public Interest Report

Under Schedule 7 of the Local Audit and Accountability Act 2014, auditors have the power to make a report if they consider a matter is sufficiently important to be brought to the attention of the audited body or the public as a matter of urgency, including matters which may already be known to the public, but where it is in the public interest for the auditor to publish their independent view.

We have not issued any public interest reports

Application to the Court

Under Section 28 of the Local Audit and Accountability Act 2014, if auditors think that an item of account is contrary to law, they may apply to the court for a declaration to that effect.

We have not issued any applications to the Courts

Advisory notice

Under Section 29 of the Local Audit and Accountability Act 2014, auditors may issue an advisory notice if the auditor thinks that the authority or an officer of the authority:

- is about to make or has made a decision which involves or would involve the authority incurring unlawful expenditure,
- is about to take or has begun to take a course of action which, if followed to its conclusion, would be unlawful and likely to cause a loss or deficiency, or
- is about to enter an item of account, the entry of which is unlawful.

We have not issued any advisory notices

Judicial review

Under Section 31 of the Local Audit and Accountability Act 2014, auditors may make an application for judicial review of a decision of an authority, or of a failure by an authority to act, which it is reasonable to believe would have an effect on the accounts of that body.

We have not made an application for judicial review

Key recommendations



1	Recommendation	The Council should continue to drive forward its Dedicated Schools Grant (DSG) management plan to ensure actions are delivered as planned and at pace. Progress should be actively managed and prompt corrective action taken as required. This action should be carried out in conjunction with the Schools Forum to ensure their contribution (both financial and non-financial) is understood and delivered.
	Audit year	2022/23
	Why/impact	Effective actions are required to stop the DSG cumulative deficit increasing exponentially.
	Auditor judgement	This is a significant weakness in arrangements, as failure to stop the increase in cumulative deficit could result in the deficit reaching £128.2m by the 31 March 2028. A statutory override (Government permission to allow the DSG to go into deficit) has been provided by the Government until the end of 2025/26, however if this is not extended or financial support forthcoming to reduce the deficit, the DSG deficit may have to be met by the Council's reserves. The effect of this could significantly reduce the Council's reserves or other service areas would have to subsidise this area.
	Summary findings	<p>The services funded through the DSG are costing more than the funding provided resulting in a deficit. In 2021/22 the deficit increased by £14.7m and in 2022/23 by a further £15m, increasing the 2022/23 cumulative deficit to £39.7m. The Council has reported that if action is not taken to address the continuing overspends the cumulative deficit could be £128.2m by 31 March 2028.</p> <p>The Council with the support of the DfE's Delivering Better Value programme re-evaluated its deficit management plan. This plan was reported and endorsed by the School's Forum in March 2023 and is the start of Bristol's recovery plan. The re-evaluated plan forecasts unmitigated benefits of £16.7m per annum from 2026. If the Council is not able to reduce the cumulative deficit the DSG deficit may be a future significant financial pressure that the Council is required to address.</p> <p>Further detail can be found on pages 15 and 16.</p>
	Management Comments	On page 7.

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



Key recommendations



- 1 Recommendation** The Council should continue to drive forward its Dedicated Schools Grant (DSG) management plan to ensure actions are delivered as planned and at pace. Progress should be actively managed and prompt corrective action taken as required. This action should be carried out in conjunction with the Schools Forum to ensure their contribution (both financial and non-financial) is understood and delivered.

Management Comments

The council continues to drive forward its Dedicated Schools Grant (DSG) management plan. The DSG Management Plan is underpinned by the High Needs Block Recovery Plan which details 14 separate cost efficiency/enabling schemes grouped under 7 themes. Of the 14, 10 are in delivery with 4 being taken forward with funding awarded as part of Bristol's participation in the Department for Education's Delivering Better Value in SEND (DBV in SEND) programme. As part of the diagnostic phase of DBV in SEND, the Bristol High Needs Block Recovery Plan was assessed and validated by the programme delivery partners – Newton Europe and CIPFA – mitigation figures were updated as a result.

Bristol Schools Forum has received regular updates regarding the development of the DSG Management Plan, the development of the High Needs Block Recovery Plan and the Delivering Better Value in SEND programme process and outputs, as can be evidenced in the published papers:

Bristol Schools Forum 'buy in' to the proposals presented in reports and the approach being taken. The programme places an emphasis on developing and maintaining positive relationships with key stakeholders and a strong culture of local collective responsibility has been established. This is evidenced through schools continued decision to transfer annual to date the full amount possible from the Schools Block to be earmarked to support transformational delivery.

Moving forward, oversight of delivery will be managed at the operational level through the DSG Deficit Management Delivery Group which meets monthly. This will escalate issues and report routinely into the Our Families Programme Board on a 6-weekly basis (system-wide programme of service improvement and savings delivery in the Children & Education Directorate). CLB maintains a portfolio level view of all major transformation programmes within the organisation and additional governance, scrutiny and constructive challenge is provided by Bristol Schools Forum.

Responsible Officer: Executive Director, Children and Education
This is an ongoing process.

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



Key recommendations



2 Recommendation Action should be taken to contain expenditure and deliver savings on a recurrent basis across all services areas, with specific focus on Adult Social Care and Children's Services to ensure the transformation programmes deliver as planned.

Audit year 2022/23

Why/impact Effective actions are required to reduce the financial pressures facing the Council.

Auditor judgement This is a significant weakness in arrangements, as overspends and a failure to deliver a greater proportion of recurrent savings have a direct impact on the Council's financial sustainability. The key consequence of this is that, in order to meet the overspend and shortfall in planned savings, general fund reserves may reduce to levels that are not prudent or sustainable over the longer term, if alternative solutions such as the identification of other savings and additional income are not found.

Summary findings For 2022/23 the Council reported an overspend of £3m. However, this masks the fact that the gross service overspend is forecast at £57.9m and that, even within this net overspend, the Council is reliant on a significant number of non-recurrent measures, such as use of reserves, use of contingency (funds set aside for under delivery of planned savings and increased expenditure), non-recurrent savings and mitigations (an alternative solution to make savings), as well as non-recurring COVID-19 grants.

In recent years, the Council record of delivering recurrent savings has not been consistent across the Directorates. In 2021/22 the savings target was £11.7m, of which £6.39m (55%) was delivered on a recurrent basis. The remaining being met from one-off actions.

In 2022/23 the Council planned to deliver savings worth £24.2m, which included £6m of savings rolled over from 2021/22 and £18m of new savings. Additional savings were identified increasing the target to £25.5m. The Council delivered all these savings, with 36% delivered on a non-recurrent basis and 16% covered by growth.

The overall effect of overspending and failure to deliver planned recurrent savings is that the savings target increases year on year and becomes increasingly more difficult to deliver, whilst increasing the likelihood of the shortfall having to be met from non-recurrent actions and reserves.

Further detail can be found on page 15 and 18.

Management Comments On page 9.

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



Key recommendations



2 Recommendation Action should be taken to contain expenditure and deliver savings on a recurrent basis across all services areas, with specific focus on Adult Social Care and Children's Services to ensure the transformation programmes deliver as planned.

Management Comments

Children & Education Services Transformation Programme

We will be monitoring all our benefits and costs in a robust and efficient manner. The programme has implemented a robust benefits approach, and benefits tracker for financial and non financial benefit, which is monitored through the programme board and CLB. Verification takes place monthly with the financial system and key stakeholders from the programme, to analyse spend and associated full year forecasts.

We are tracking key activity data with trend analysis projections to ensure the benefits have been realised, including pressures. We have a robust governance for both costs and benefits through monthly meetings with the Programme Director, CMT/DMT, EDM, Our Families Programme Board (transformation board for Children and Education - covering both DSG and Non-DSG) and CLB. The programme board governance includes representation from both Finance and Internal Audit for embedded assurance. The People & Resources Scrutiny Commissions will also have programme oversight in their annual work programme.

Responsible Officer: Executive Director, Children & Education

Ongoing.

Adults Social Care Transformation Programme

The ASC Transformation Programme has been scoped and work is underway in conjunction with our external delivery partners (PeopleToo) through our benefit realisation tracker to validate the financial and non financial benefits achieved, in the pipeline and further opportunities. Collectively, we seek to ensure clear plans are in place for the range of programmed and BAU activity, and that a robust overview of contemporary finance monitoring information (activity, service capacity, resource use and flow, and system flow) is available at directorate, programme, locality and workstream levels to ensure that transformational activity and savings intentions are on track.

Work is also underway in the context of the broader ICS to assess the overall finances of the health and care system in Bristol, to ensure consistent pricing of purchased activity, fair apportionment of resource across the sectors, and that the Bristol gains fair settlements on funding sources such as S117, CHC, etc.

The governance of the programme is established. An ASC Transformation Board meets monthly. The membership features the cabinet lead, the S151 officer (or representative), key lead officers, and corporate and NHS partner leads. Beyond the ASC board, regular reporting is made to the Mayor, Cabinet and CLB, and the People & Resources Scrutiny Commissions will also have programme oversight in their annual work programme.

Responsible Officer: Executive Director: Adults and Communities

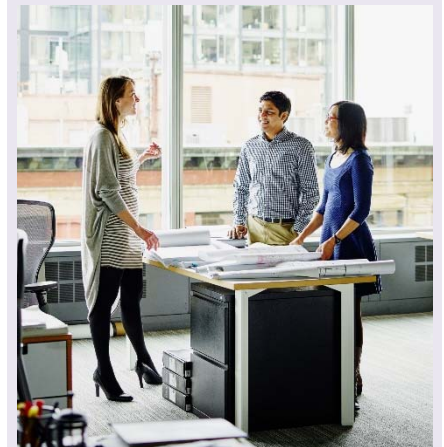
Ongoing.

Key recommendations



3	Recommendation	The Council should continue to monitor its level of unearmarked and earmarked general reserves to ensure the level remains prudent to manage current and future financial challenges and pressures.
	Audit year	2022/23
	Why/impact	An appropriate level of reserves is required to respond to unexpected events, along with earmarked reserves for funding planned one-off events. Failure to deliver planned savings and maintain spend within budget increases the likelihood that reserves will be required to meet these financial pressures.
	Auditor judgement	This is a significant weakness in arrangements, if the Council is unable to deliver its planned savings and manage expenditure the Councils is at risk of not having the necessary resources to be financially sustainable and to meet future unplanned and planned events.
	Summary findings	<p>The Council's general unearmarked reserves and earmarked reserves have reduced in 2021/22 and 2022/23. In 2022/23 the Council had planned to use £4m of reserves, but used a further £7.6m to meet increased costs, including inflation, pay awards and service pressures. In February 2023 as part of the budget setting process, in order to balance the budget for 2023/24 the Council's intended contribution from reserves was a further £4m, from the resilience reserve.</p> <p>We are concerned that the Council has had to rely upon reserves and its priority should be to manage spending and deliver its planned savings, failure to achieve this could increase the risk of unplanned use of reserves.</p> <p>Further detail can be found on page 19.</p>
	Management Comments	On page 11.

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



Key recommendations



3

Recommendation

The Council should continue to monitor its level of unearmarked and earmarked general reserves to ensure the level remains prudent to manage current and future financial challenges and pressures.

Management Comments

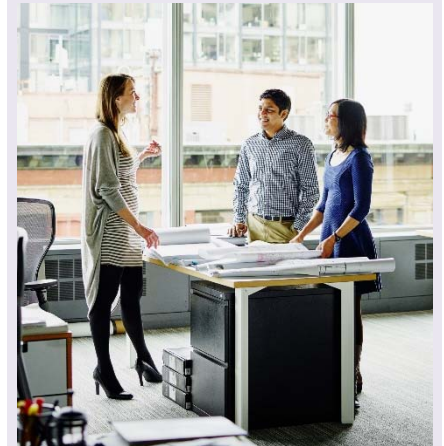
2022/23 was an unprecedented year in relation to post pandemic residual financial transactions and local need, and external factors such as pay awards, energy and inflation. Contingencies and reserves were earmarked for this purpose and applied in year. For pressures in excess of the earmarked funds a blended and pragmatic approach was adopted, which included further in year efficiencies from management actions, savings and the use where appropriate of reserves, followed by a materially revised baseline of growth in the 23/24 Budget and medium term plan.

The council has a Reserve Policy which is reviewed annually and approved by Council as part of the MTFP. The council's Medium Term Financial Plan and subsequently the budget and medium term plan, forecast to retain reserves at policy compliant levels for each year with the plan. The year end general reserve at 31 March 23 was in excess of the plan at £29.5m and similarly general fund earmarked reserve was £130.5m indicating a total useable reserves of £160m.

Reserves are periodically reviewed, and the appropriate level of reserves will be assessed after considering the strategic, operational and financial risks facing the council, risk management actions proposed to mitigate or remove risks where this is possible, and known or anticipated future expenditure. From this a prudent but not excessive level of reserves will be determined. Councillors will also ensure the council's finances are effectively managed, including the holding and use of reserves.

Responsible Officer: Director of Finance
Ongoing.

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



Key recommendations



Improving economy, efficiency and effectiveness

4 Recommendation The Council should consider what further action is required to reduce the number and value of contract breaches.

Audit year 2022/23

Why/impact Reducing the number and value of contract breaches should reduce the level of risk the Council is exposed to, such as failure to comply with procurement legislation and ensuring value for money for the Council.

Auditor judgement This level of contract breaches suggests that the improvements introduced in 2021/22 and 2022/23 have not been effective.

Summary findings In 2021/22 and 2022/23 the number and value of contract breaches has increased since 2020/21 and remained high. Whilst actions have been introduced to reduce the contract breaches, these actions have not reduced the number or value of breaches in 2022/23. The breaches are predominantly due to a failure to comply with the Council's internal procedures to gain authorisation as to why market testing has not been pursued and not the public contract regulations 2015.

2020/21		2021/22		2022/23	
Number	£m	Number	£m	Number	£m
94	£13.01	206	£72.1	342	£73

Further detail can be found on page 37.

Management Comments On page 13.

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



Key recommendations



Improving economy, efficiency and effectiveness

4 Recommendation The Council should consider what further action is required to reduce the number and value of contract breaches.

Management Comments

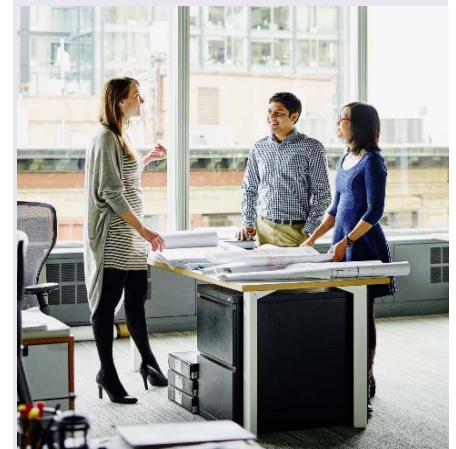
Whilst the council is compliant with public contract regulations, it is recognised that more needs to be done to improve compliance with our internal procurement standards and an action plan is in place to address this. Compliance will be part of the mandatory performance objectives for all Heads of Service in 2023/24. In addition, the following actions are proposed:

- Quarterly Director Management Team (DMT) (by request) & Executive Director Meetings (EDM) will have regular attendance by procurement business partners
- Additional specific quarterly reports on procurement compliance to EDMs, Corporate Leadership Board (CLB) and Cabinet Member Briefing (CMB) will start in Q1 FY2023/24
- Overview of future procurement activity will be part of induction for new officers with commissioning responsibilities
- Greater Executive Director accountability for compliance
- Explore system development and Power BI reporting to increase visibility of contract end dates and spend monitoring :
 - Oversight in 2023/24 will be through CLB
 - Ongoing review by Internal Auditors
 - Further updates to be provided to Audit Committee

Responsible Officer: Director of Finance

Ongoing and benchmark assessment March 24

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



Securing economy, efficiency and effectiveness in the Council's use of resources

All councils are responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness for 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 the Council's arrangements in each of these three areas, is set out on pages 15 to 39. Further detail on how we approached our work is included in Appendix B.

Financial sustainability



We considered how the Council:

- identified all the significant financial pressures that are relevant to its short and medium-term plans and builds them into its plans
- planned to bridge its funding gaps and identify achievable savings
- planned its finances to support the sustainable delivery of services in accordance with strategic and statutory priorities
- ensured its financial plan was consistent with other plans such as workforce, capital, investment and other operational planning which may include working with other local public bodies as part of a wider system
- identified and managed risk to financial resilience, such as unplanned changes in demand and assumptions underlying its plans.

Revenue outturn 2021/22 and 2022/23

In 2021/22 the Council achieved a net in-year underspend of £0.9m against a net budget of £424.4m. However this included a services overspend of £25.7m which was off-set by COVID-19 grants and corporate allowances.

The financial position has deteriorated in 2022/23. This has been compounded by high rates of inflation which have not been centrally funded and reported at the yearend a net overspend of £3m, with service net overspend of £10.4m. However, this masks the fact that the gross overspend was £57.9m (as set out opposite) and that, even within this net overspend, the Council is reliant on a significant number of non-recurrent measures, such as use of reserves, use of contingency (funds set aside for under delivery of planned savings and increased expenditure), non-recurrent savings and mitigations (an alternative solution to make savings), as well as non-recurring COVID-19 grants. The Council has reviewed these pressures and included uplifts in the 2023/24 budget to meet these pressures.

Housing revenue account (HRA)

At the end of 2021/22 the HRA reported a surplus of £3.9m against a budget of £107.9m. For 2022/23 the HRA reported an overspend of £2.8m, an improvement of £3.6m compared to period 10, it is a deteriorating movement of over £6.7mm compared to 2021/22. This overspend is as a result of increased costs following two fires within high rise Council owned housing in 2022/23.

Service net and gross overspends 2022/23

Service area	Net overspend £m	Gross overspend £m
Adult Social care	(0.2)	8.3
Children and Families	6.5	18.1
Education improvement	0.7	3.5
People Directorate - management		3.8
Public Health	(0.4)	0.3
Resources	0.5	5.5
Growth & regen	3.3	13.7
Pay award	0	4.7
Total	10.4	57.9

Dedicated Schools Grant (DSG)

The DSG is a ring fenced budget which is allocated in four blocks; schools, early years, high needs and central school services. The DSG has continued to overspend and in 2021/22 the deficit increased by £14.7m, taking the cumulative deficit to £24.7m and in 2022/23 by a further £15m, increasing the cumulative deficit to £39.7m. This deficit is attributable to the high needs block, those with special educational needs and disabilities.

In February 2023 as part of the budget setting process the Council reported that, if action is not taken to address the continuing overspends the cumulative unmitigated DSG deficit could reach £128.2m by the 31 March 2028. This is illustrated in the chart overleaf.

Dedicated Schools Grant (DSG) continued

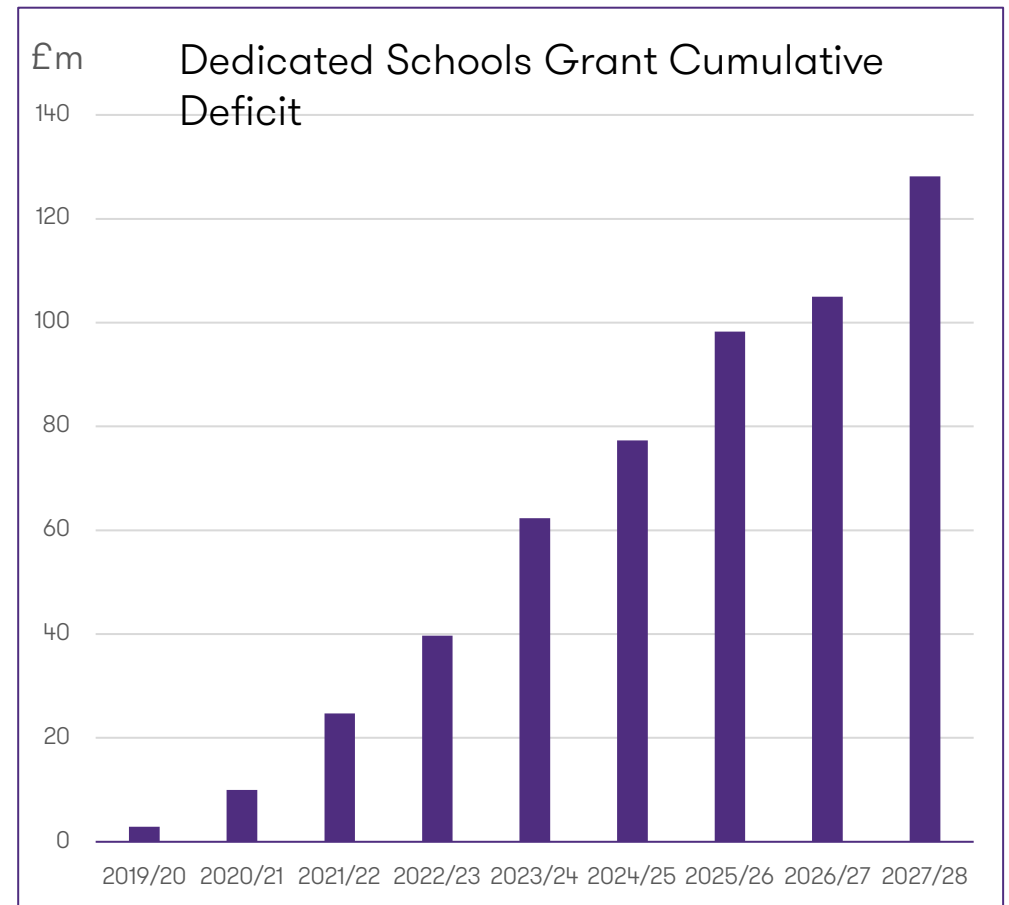
A statutory override is in place to allow the DSG deficit to be carried over as a negative reserve and has been provided by the Government. This Instrument is however time-limited and was due to end in March 2023 but in recognition of the national challenge in relation to DSG deficits was extended for a further three years to March 2026. It is unclear if the statutory override will be extended beyond March 2026. The extension is to allow councils the short-term flexibility needed to implement changes to reduce the spend within the high needs block of the DSG to a financially sustainable position. So that the costs are contained and the deficit no longer increases.

Councils with a DSG deficit are required by the Department for Education (DfE) to develop and agree a DSG deficit management plan with the Council's Schools Forum. With the support of the DfE's Delivering Better Value programme the Council re-evaluated its deficit management plan. This plan was reported and endorsed by the School's Forum in March 2023. The Council and has received additional funding of £1m from the DfE as part of the programme.

The plan is a long-term plan and is not expected to impact until 2023/24 and is not likely to have cleared the cumulative deficit until after the statutory deficit has ended. From 2025/26 it is estimated to deliver reduced costs of £16.7m per annum. These plans if successful might reduce the rate of increase of the deficit, but the Council could still reach a deficit of £60m before things begin to improve.

If the Council was unable to reduce the increasing DSG deficit, the cumulated unmitigated deficit is estimated to be £128m by 2028. Therefore, if the statutory override is not extended or financial support forthcoming to reduce the financial deficit, the DSG deficit may place significant pressure on the Council's reserves and put at risk the Council's general fund unearmarked and earmarked reserves.

We consider the Council's arrangements to manage and reduce the DSG cumulative deficit to be a significant weakness and if the Council is not able to reduce the cumulative deficit or the statutory override is not extended or financial support, the DSG deficit may be a future significant financial pressure that the Council is required to address.



The figures for 2023/24 onwards are estimates

2023/24 budget pressures

The Council has a Medium-Term Financial Plan (MTFP) which is reviewed and updated on an annual cycle and it is through the MTFP process that financial pressures (which have been managed and mitigated on a one-off basis) would be managed on a recurrent basis. The Council's current MTFP 2023/24 to 2027/28 was reviewed and agreed by Full Council in October 2022. It identified indicative funding gaps for each year from 2023/24 to 2027/28, with the indicative funding gap for 2023/24 estimated at £31.14m. The cumulative funding gap across the five years was reported as £178.94m, with the highest forecast funding gap being in 2027/28 at £37.5m, with the best- and worst-case position varying from £14m to £87.6m in that year.

In the 2023/24 budget the funding gaps were updated to reflect the funding settlement and amendments to assumptions and service demand. The 2023/24 funding gap was reduced to £20.3m but rising to £40m in 2027/28.

In 2023/24 the Council has increased its net expenditure budget by £52.5m to £483.5m. In order to achieve this position the Council has agreed to:

- deliver significant savings of £26.2m
- make contributions from reserves (£4m planned)
- increase Council Tax.

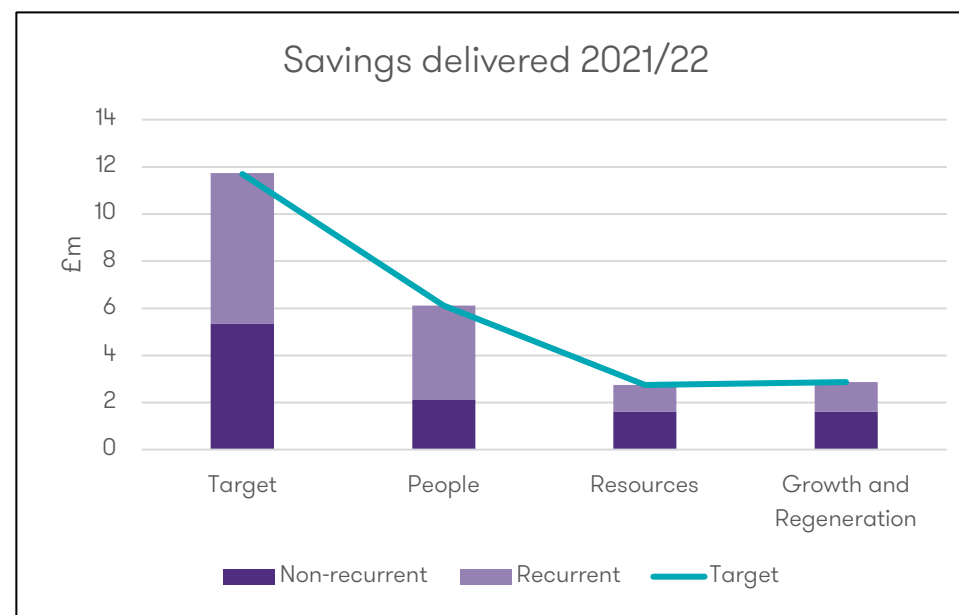
We also note that all service expenditure budgets exclude any uplift for inflation, as this fund is held centrally for distribution later in the year. In our view, as inflation is known to be high we are concerned that this may undermine accurate budget monitoring and are aware that this is not standard practice across other councils. We are aware that that the Council is of the view that holding an inflationary fund centrally will assist in driving further efficiencies so have not raised an improvement recommendation.

Delivery of planned savings

The Council's approach is that savings agreed as part of the budget setting process should be recurrent and should only be delivered through one-off approaches if recurrent savings cannot be delivered. All planned savings which were not delivered on a recurrent basis should then be carried forward to the following year.

We consider in recent years, the Council's record of delivering recurrent savings has not been consistent across the Directorates, as illustrated in the chart opposite, which has a compounding effect, in subsequent years, where non-delivery of recurrent savings increases the amount of savings required the following year. In 2021/22 the savings target was £11.7m, of which £6.39m (55%) was delivered on a recurrent basis. The remaining being met from one-off actions.

In 2022/23 the Council delivered savings to the value of £25.5m, which included £6m of savings rolled over from 2021/22. At the end of 2022/23 the Council reported to Cabinet that 64% were delivered on a recurrent basis.



In 2023/24 the compound effect of rolling forward savings (£8.6m from 2022/23) is that the savings target is now £32.7m, of which at February 2023 £4.4m are considered to have no plans in place to ensure delivery. A contingency budget is set aside to meet this shortfall, along with the risk of non-delivery and optimum bias in other areas.

The Council has a range of processes in place to monitor delivery during the year, through the programme management office and the Delivery Executive. In our view the issue faced by the Council is its inability to deliver a greater proportion on a recurrent basis, not in its ability to monitor and track savings delivery.

Further analysis of the planned savings for 2023/24 identifies a number of high value proposals we consider are a significant risk of delivery on a recurrent basis, such as :

- £4m – Adult Social Care purchasing budget, at risk as this service was overspent in 2022/23
- £1.9m on Temporary Accommodation - this budget is overspending and the saving represents a high proportion of the budget for a demand led service.

The delivery of savings within Temporary Accommodation, Adult Social Care and Children's Service will also be monitored through the planned transformation programmes.

Financial Pressures – Former People Directorate

In order to more effectively manage the challenges within the People Directorate, the Council separated Children's Services from Adult Social Care to create two separate directorate management teams. The aim being that this would create greater capacity to focus on the challenges that both these services faced.

Adult Social Care

As reported in our previous Auditor's Annual Report, the Council continues to have some of the most expensive adult social care in England. These costs are high across a range of adult social care areas:

- Mental health support, both 18-64 year olds and over 65s
- Learning disability support for adults aged over 65
- Physical and sensory support for adults aged over 65
- Substance misuse support.

In order to reduce these costs in 2021/22 the Council established a transformation programme and engaged an interim project director to lead the programme. This programme was intended to be a five year plan. However, this individual left the Council in January 2023. The transformation programme considered existing savings schemes and programmes already in place and built on work already underway. A project mandate was agreed in May 2022 which included 13 savings schemes. Each saving scheme required a delivery plan, was agreed by Corporate Leadership Board, and was monitored through the Council's Programme Management Office framework. A review of lessons learned progress made on the 2021/22 transformation programme was expected in April 2023 and has yet to be delivered.

Delivery has been monitored through the Programme Management Office and the Transformation Board. The transformation programme has improved the understanding and pressures faced by the service, cash and non-cashable savings have been delivered, but additional cashable savings are required. We notes that whilst cashable savings are monitored the programme has not monitored non-cashable benefits as robustly. We have raised an improvement recommendation on page 22.

A decision has been made to develop a new transformation mandate. The Council hopes that delivery of savings will be improved by closer working between the Adult Social Care Directorate and an external delivery partner and the Council's Director of Resources.

Children's Services

The Children and Families Services were overspent by £3.8m in 2021/22 and are forecast to be overspend by £7.5m in 2022/23, due to increasing volumes and prices. These financial pressures have not just arisen in recent years but have been building for a number of years. The Council appointed a new Director of Children's Services in January 2023 and is developing a transformation programme for the service. A Transformation Director has been appointed and a project mandate is in the process of being agreed, with a supporting business case due to be in place by July 2023. The main focus of this work will be delivery of the planned savings of £5.5m in 2024/25.

Both Adult Social care and Children's services remain significant financial challenges for the Council and major contributors to the overall financial challenge that the Council faces in the short to medium term.

It is expected that the delivery of savings within Adult Social Care and Children's Service will be monitored through the PMO and Delivery Executive but also be monitored through the planned transformation programmes.



Reserves

The purpose of the Council's general fund reserve is to meet costs arising from any unplanned or emergency events such as unforeseen financial liabilities or natural disasters. It also acts as a financial buffer to help mitigate against the financial risks the Council faces and can be used to a limited degree to 'smooth' expenditure on a one-off basis across years. Whereas earmarked reserves are set aside for specific purposes. The Council's general reserve policy requires that general reserves are maintained at a minimum level of between 5% and 6% of the Council's net revenue budget.

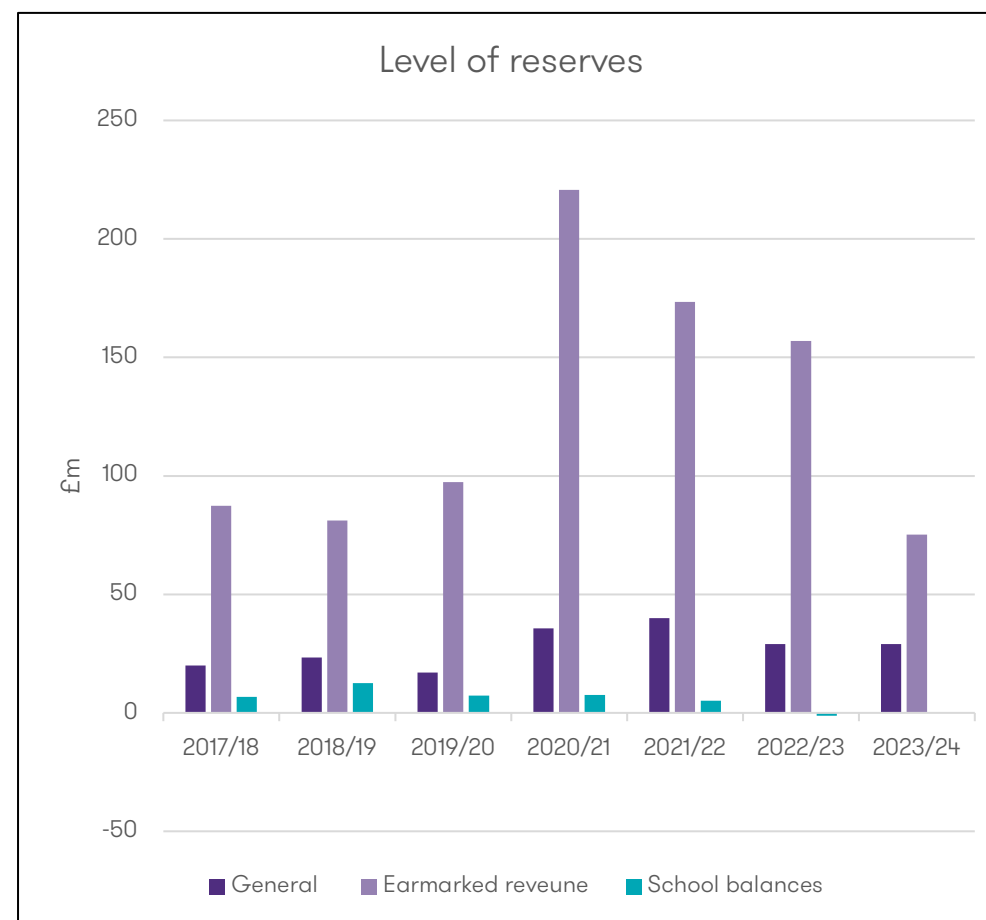
The chart opposite illustrates that both the general unearmarked and the general fund earmarked reserves increased significantly during COVID-19 and have reduced in 2021/22 and 2022/23. In 2022/23 whilst earmarked reserves remain above pre-COVID-19 levels (2019/20) they are forecast the drop below 2019/20 levels in 2023/24. From 2022/23 general unearmarked

In 2022/23 the largest movement in earmarked reserves is attributable to COVID-19 and Section 31 business rates grants, as intended. For 2022/23 the Council had planned to use £4.7m of general unearmarked reserves, but has required a further £3m to meet the in year overspend. In order to balance the budget for 2023/24 the Council's intended contribution from reserves will be a further £4m. In addition, we understand that any further contribution required from reserves will be met first by utilisation of the resilience reserve, prior to any re-direction of other earmarked reserves.

We have reviewed the Director of Resource's Section 25 statement, provided within the 2022/23 and 2023/24 budget reports and consider that current arrangements for producing the statement are adequate.

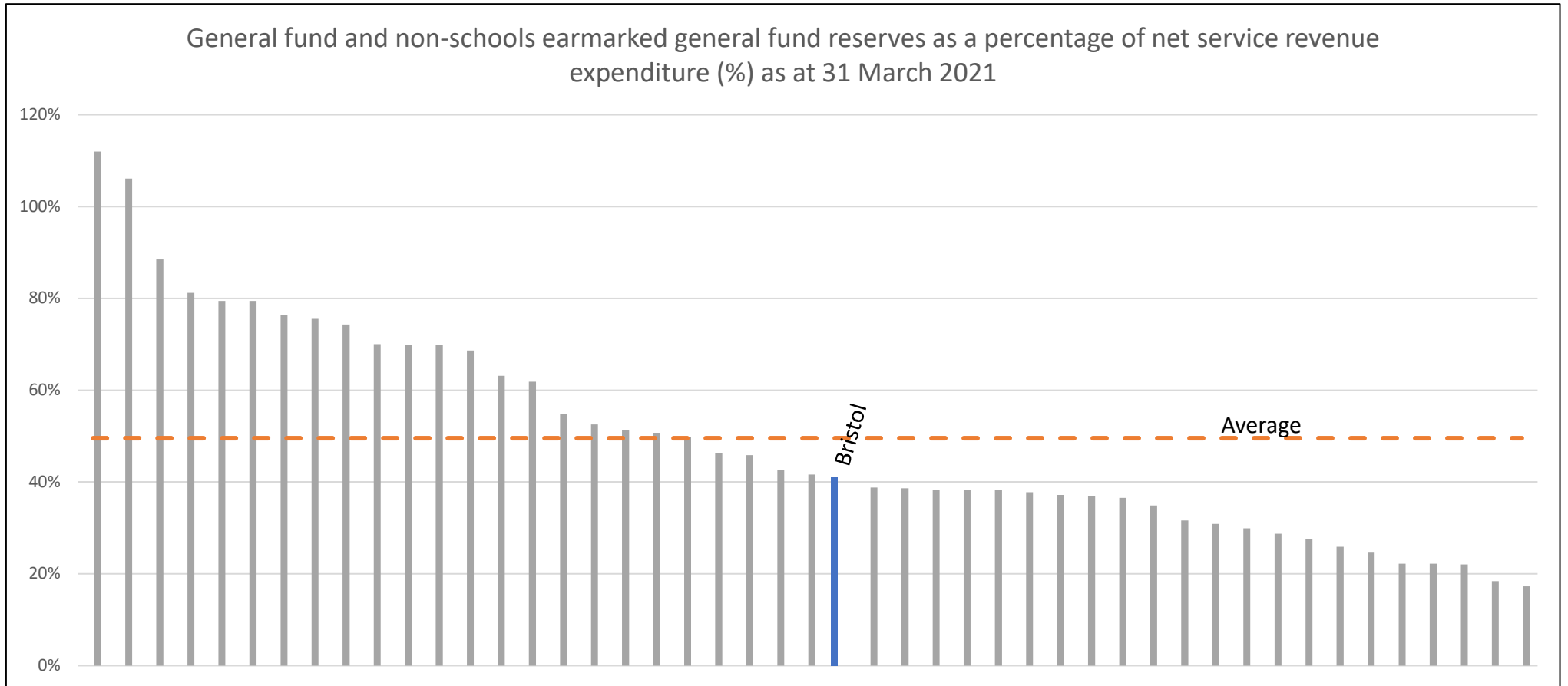
We are concerned that the Council has had to rely upon on reserves and its priority should be to manage spending and deliver its planned savings, failure to achieve this could increase the risk of unplanned use of reserves.

As discussed on pages 15 and 16, the Council's inability to manage spending and deliver recurrent savings is having an impact on its level of reserves. We have raised a key recommendation on page 10.



Reserve level comparisons as at 31 March 2021

This chart illustrates that at 31 March 2021 the Council's general fund and non-schools earmarked general fund reserves as a percentage of net service revenue expenditure was below average in comparison to other unitary authorities.



Turnover of finance staff

During our review we became aware of vacancies and the requirement for interim posts within the finance function. The Council is aware of its turnover within its finance function and whilst the average for 2022/23 is lower than 2021/22 there was a spike in turnover in March 2023. This includes a number of long serving finance colleagues, so this may be a risk going forward. We recommend that the Council should continue to monitor the turnover levels in finance so that action can be taken if required.

Auditor judgement

We have identified two significant weaknesses in arrangements:

- Dedicated Schools Grant - the cumulative deficit is continuing to escalate. The forecast position has improved and is forecast to deliver £80m with a residual deficit of £48m in 2027/28. Although we note that 2023/24 is the first year of delivery so is as yet untested. If the Council is not able to reduce the cumulative deficit or the statutory override is not extended or financial support forthcoming, the DSG deficit may be a future significant financial pressure that the Council is required to address.
- The Council's inability to reduce overspends in DSG, Children's and Adult's Social Care, and to deliver recurrent savings increases the risk that it may not be financially sustainable over the longer term, if alternative solutions such as the identification of other savings and additional income are not found. In 2022/23 the high rates of inflation have resulted in the Council having to meet these unfunded cost pressures and the Council having to rely on one-off measures and use reserves in an unplanned way to reduce the forecast overspend in 2022/23. The 2022/23 forecast gross overspend of £57.9m has been mostly off-set by one-off funding, including COVID-19 grants, contingency budgets and the use of reserves, in order to achieve a net overspend of £10.4m. We note that these pressures have been met by growth in the 2023/24 budget.



Improvement recommendations



Financial sustainability

1	Recommendation	The Council should ensure that its Transformation Programme monitors non-cashable benefits as well as cashable, possibly by establishing a benefits realisation plan.
	Audit year	2021/22 and 2022/23
	Why/impact	Monitoring non-cashable benefits is recognised good practice in project management and ensures all benefits and objectives are known and monitored throughout the project or programme to ensure delivery.
	Auditor judgement	This is not a significant weakness in arrangements.
	Summary findings	In order to reduce its costs in Adult Social Care in 2021/22 the Council established a transformation programme and engaged an interim project director to lead the programme. The transformation programme considered existing savings schemes and programmes already in place and built on work already underway. A project mandate was agreed in May 2022 which included 13 savings schemes. Each saving scheme required a delivery plan, was agreed by Corporate Leadership Board, and monitored through the Council's Programme Management Office framework and the Transformation Board. Cashable savings were monitored by the Corporate Leadership Board and the Programme Management Office, however, non-cashable savings and benefits were not monitored as robustly.
	Management Comments	This recommendation is covered by the response to key recommendation 2 above.



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

Improvement recommendations



Financial sustainability

2 Recommendation The Council should continue to monitor staff turnover levels in finance so that action can be taken if required.

Audit year 2022/23

Why/impact High turnover can result in a lack of corporate knowledge and reduced ability to meet statutory deadlines. Monitoring the situation will enable action to be taken if required.

Auditor judgement This is not a significant weakness in arrangements.

Summary findings In 2022/23 there has been a high turnover of staff within the finance department and as such there are a high number of interims in place. This includes a number of long serving finance colleagues, so this may be a risk going forward.

Management Comments The public sector across many professions is continuing to report recruitment and retention difficulties, as the labour market becomes more and more competitive with higher rates of employment and scarce skills. The council recognises the need to have a sustainable, transformative and high performing finance function and ensure sufficient capacity and capability exists within the function in order to deliver the further improvement to which the council aspires.

Turnover, recruitment and retention will be closely monitored and an assessment of our short term workforce needs, and recruitment plan, along with longer term workforce planning focused on future talent, will assist in addressing the challenges.

Responsible Officer: Director of Finance
By October 2023



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

Governance



We considered how the Council:

- monitored and assessed risk and gained assurance over the effective operation of internal controls, including arrangements to prevent and detect fraud
- approached and carried out its annual budget setting process
- ensured effective processes and systems were in place to ensure budgetary control; communicated relevant, accurate and timely management information (including non-financial information); supported its statutory financial reporting; and ensured corrective action was taken where needed, including in relation to significant partnerships
- ensured it made properly informed decisions, supported by appropriate evidence and allowing for challenge and transparency. This included arrangements for effective challenge from those charged with governance/audit committee
- monitored and ensured appropriate standards, such as meeting legislative/regulatory requirements and standards in terms of staff and board member behaviour (such as gifts and hospitality or declaration/conflicts of interests) and where it procured and commissioned services.

Risk management

The Council has a risk management policy that was reviewed by Cabinet in 2019 and reviewed by Risk Manager in 2021. The policy sets out the Council's commitment to effective risk management. The Audit Committee has responsibility for providing independent assurance over the adequacy of the risk management framework and the associated control environment.

The Audit Committee received a risk management annual report for 2021/22 in September 2022. It has yet to receive its report for 2022/23 which is scheduled for September 2023. The 2021/22 report provided the Audit Committee with an update on the actions taken and plans to improve the effectiveness of risk management across the Council. The report highlighted that Internal Audit has once again provided a 'limited assurance' opinion on the Council's risk management arrangements. However, in 2022/23 Internal Audit provided a 'reasonable assurance' opinion on its Strategic Risk Management, as reported in May 2023. This review identified that strategic risks were not identified in a timely manner and were not always scored appropriately. A recommendation has been raised by Internal Audit and management action agreed, therefore we do not consider this a significant weakness in arrangements.

Throughout 2021/22 and 2022/23 the corporate risk registers were reviewed quarterly by the Corporate Leadership Board, Audit Committee and Cabinet. Directorate risk registers sit below the corporate risk registers and are reviewed by the Directorate Management Teams and below these service level risk registers.

We consider that adequate arrangements were in place during the periods and, as such, we do not consider the Council's risk management arrangements to be a significant weakness.

The internal audit function operating at the Council was provided internally throughout 2021/22 and 2022/23.

The service provided its annual plan, update reports and annual assurance opinion to Audit Committee.

For 2021/22 and 2022/23 overall "Reasonable Assurance" opinions were given by Internal Audit on the systems of internal control, governance and risk management arrangements. This is the same opinion as was given in 2020/21.

A counter fraud service has also been delivered during both years, along with updates to the Audit Committee. An effective internal audit service was provided during 2021/22 and 2022/23.

Budget setting, control and monitoring - revenue

The Council's budget setting processes in 2021/22 and 2022/23 followed similar processes to those undertaken in 2020/21. With Cabinet receiving in July 2022 a medium term financial outlook to provide an early indication of the challenges ahead.

The 2022/23 budget was agreed by Full Council in March 2022, following member debate in February 2022 and the Mayor putting forward an alternative budget in March 2022. The 2023/24 budget was agreed in February 2023.

For each year the budgets had previously been discussed with Cabinet on a number of occasions at Cabinet Board meetings (non-public meetings) and formally at Cabinet the following month. In addition, the budgets were reviewed and challenged by the Council's Resources Scrutiny Task and Finish Budget Group and a supporting report was provided to Full Council. Four public budget scrutiny sessions were also held by the Resources Scrutiny Commission.

The Treasury management strategy was agreed along with the budget in for both financial years. Updates on the treasury strategy were presented to Audit Committee during 2021/22 and 2022/23.

Budget setting, control and monitoring – revenue continued

The Council had effective processes for budgetary control. Throughout 2021/22 and 2022/23 the financial position was first reported to the Executive Director and to the Executive Director Meetings, before summary reports were issued to Cabinet. The Council moved to quarterly and exception reporting in 2022/23.

The Council overspend position in 2022/23 was £10.4m (net position) and £57.9m (gross position). The budget monitoring reports demonstrate that Cabinet is fully aware of the Council's net financial position, but we consider that transparency of reporting could be improved by ensuring the reports also clearly set out the gross position and the contribution required from reserves. Whilst we recognise that the gross position is included within the appendices and narrative, in our view this is key information and should be more prominent and readily available to the reader at the beginning of the report, therefore we have raised an improvement recommendation on page 29.

Although as discussed with the Financial Sustainability section, the significant issue for the Council is not its ability to monitor and be aware of the financial position, but its ability to remain within its planned budget. This has been raised on page 15.

Budget setting, control and monitoring - capital

The capital strategy for 2021/22 and 2022/23 was agreed by Full Council in the autumn along with the MTFP. The following capital budgets were agreed:

Capital budget	2021/22	2022/23
Original budget agreed HRA	£321m £111m	£300.5 £123m
Revised budget	£203.7m	£227.2m
Outturn	£167.3m	£198.7m
Underspend compared to revised budget	£36.4m (18%)	£28.5m (9.5%)
Underspend compared to original budget	£153.7m (48%)	£101.8m (34%)

The Council has continued its approach of amending its capital budget throughout the year and reporting its capital spend against its revised budget. At the end of 2021/22 it also reported the position against its original budget. The table above sets out the Council's performance in delivering against its original capital budget and its revised budget.

The Council continues to have a significant proportion of slippage throughout the year and note that this has decreased slightly from 2021/22 to 2022/23. The Council continues to reduce the level of slippage that occurs, see page 41 where we raised a recommendation on this in 2020/21.

The Council recognises that it needs to improve its capital governance arrangements and this is clearly acknowledged within its Capital Strategy for 2022/23 to 2031/32 and 2023/24 to 2032/33. The Council now has an overarching summary of the new capital programme management process; forms for project managers to complete for access to the capital programme and year-on-year re-profiling. However, in-year profiling is not undertaken and the details of spending to budget are not reported in detail to Cabinet, just at a very high level. Although we recognise that detailed monitoring is undertaken by the Capital Investment Board.

In 2022/23 it appointed a delivery partner (Arcadis) to provide expertise and additional capacity. These Capital Strategies identify that the Council has developed and is implementing a capital governance improvement plan. The first (2022/23 to 2031/32) identifying that the improvement plan will be operational by April 2022 and the second (2023/24 to 2032/33) by April 2023. However, the improvement plan has not been documented and remains outstanding.

Bristol Beacon

In 2020/21 we considered the refurbishment of the Bristol Beacon - a city centre live music/entertainment venue in detail. It is a Grade 2 listed heritage building, a freehold asset owned by the Council and operated since 2011 by Bristol Music Trust (BMT).

In May 2018 the project was originally estimated to take two years to redevelop at a cost of £48.8m. This increased to £52.2m in June 2019, £106.9m in March 2021 and in January 2023 to £131.9m, of which the Council's contribution was 64%, £83.9m. The project should be complete and open to the public in November 2023.

During 2021/22 the Council has strengthened its project management arrangements, appointed a strategic partner, Arcadis and brought on board additional capacity and technical and specialist expertise. The increase in costs have been attributed to the impact of inflation and compensation events as a result of the nature and complexity of the fabric of the building.

In 2020/21 we identified that the Council should learn from the Bristol Beacon project and ensure all capital projects have effective and rigorous project management arrangements in place. Whilst we are still of the view that proper arrangements were in place to manage the Bristol Beacon project in 2021/22 and 2022/23 the Council should ensure that it benefits from any lessons learned from undertaking this project and should complete a lessons learned exercise as soon as possible and not delay this until the refurbishment is complete.

In January 2023 Cabinet made the decision to increase the funding and to complete the refurbishment of Bristol Beacon.

Bristol Beacon continued

In addition, as part of this report's assessment of the Council's arrangements, we also considered Cabinet's decision to increase the funding in January 2023. Cabinet was provided with an options report covering the decision, third party advice, both technical relating to the refurbishment requirements and financial.

The report identifies that both the completion timeframe and cost of Bristol Beacon remain significant risks. The risks have been considered but are set out within the appendices to the Cabinet report. In our view it would have been more transparent and clearer for the reader if these are been documented within the main body of the report.

The financial advice identified that the project will generate a negative net present value (NPV) under the current commercial arrangements between the Council and BMT and even with amendments is not likely to achieve a breakeven position. Following the opening of Bristol Beacon consideration will need to be given to explore the wider potential for investment return to the Council from the Bristol Beacon. The Council has recognised that the City will benefit from wider social and economic benefits and should ensure that these wider benefits are monitored along with the return on Bristol Beacon. We have raised an improvement recommendation on page 30.

Partnership Governance and Informed Decision-making – City Leap Energy Partnership Limited

The development of the Council's City Leap Energy Partnership began in 2018, a series of energy and infrastructure investment opportunities to assist in the delivery of a carbon neutral City by 2050 (and by 2025 in relation to direct carbon emissions from buildings and vehicle fleet under the Council's control). The Council intends to achieve this by working in partnership with the private sector, through a joint venture to enable low carbon investments into the City's energy system and will be achieved through two elements; low carbon energy infrastructure and heat networks. This agreement does not commit the Council to additional funding.

The first one to two years will focus on the Council's buildings to achieve carbon neutrality, such as the Council's social housing retrofit and targeting energy efficiency and decarbonisation in poorly insulated Bristol buildings.

The Council began a complex and unique process with Cabinet agreeing the establishment of the joint venture City Leap Energy Partnership Limited in December 2022. The result is a joint venture with Ameresco, with the Council having equal joint ownership.

The time line below sets out the key decisions and steps undertaken to achieve this:

Date	Key steps/decisions
May 2018	Soft market testing to assess market interest in the City Leap concept.
July 2020	Procurement process revised and recommenced to take into account feedback from the market and to remove Bristol Energy from the process.
October 2020	Bidders were shortlisted.
December 2020	Cabinet was notified as to the outcome of the selection questionnaire stage of the procurement process.
August 2021	Invitation to tender was published.
January 2022	Report to Cabinet to request additional funding to complete the procurement process.
April 2022	Cabinet approved Ameresco Limited with Vattenfall Heat Limited as an essential Contractor as the preferred bidder.
July 2022	Cabinet approved the transfer of all heat network assets currently owned by the Council to its wholly owned company, Bristol Heat Networks Limited (BHNL).
December 2022	Cabinet approved the establishment of City Leap Energy Partnership Limited.
January 2023	Staff from the Council's Energy Services Department were transferred to City Leap Energy Partnership Limited, under TUPE (transfer of undertakings, protection of employment). Shared Purchase Agreement (SPA) arranged for the sale and transfer of BHNL. 20 year concession

Partnership Governance and Informed Decision-making – City Leap Energy Partnership Limited continued

City Leap Energy Partnership Limited is a joint venture of which the Council has equal ownership along with Ameresco. Vattenfall Heat UK, a subcontractor of Ameresco will deliver the heat network requirements. Delivery of carbon neutrality is managed through a concession agreement which includes contractually binding key performance indicators against which performance will be monitored. Individual projects must pass through gateway approval process, which depending on the value of the project will require either Cabinet approval or by the Delivery Implementation Group (DIG). The DIG is part of the client function and as at July 2023 has been established.

The Council undertook a complex procurement process and sought third party, legal and financial advice to support the process. An evaluation panel was established which was supported by subject matter experts. The procurement process included assessment of the financial standing of the preferred bidders and this was undertaken by financial advisors, EY and expert legal advice was provided by Burgess Salmon. Clear procurement practices were followed and in our view seem reasonable, although we have not used procurement experts to review the process.

Throughout the process a project board has reviewed and discussed issues and decisions prior to key decisions being made by Cabinet. The project board membership included two Cabinet members, the Chief Executive, the Executive Director for Regeneration and Growth, Director of Finance, Monitoring Officer and the Director of Energy Services. The project board has maintained a record of discussions and met over the past three years either on a monthly basis or weekly as required. The Shareholder Group has also received regular updates as has the Cabinet portfolio lead, along with the Mayor, as required.

An initial business plan is in place and was agreed as part of the Cabinet decision in December 2022. The business plan will evolve over time will be agreed and amended by the Council and Ameresco.

The governance arrangements and contract arrangements were all discussed by the project board prior to the decision being made. It was agreed that the concession agreement would be managed and monitored by a client function within the Council. The client function is not yet fully operational and the Council is still recruiting to the client function.

The risks in relation to establishing the joint venture were considered throughout the process and were provided to support the decision taken by Cabinet in December 2022, however, as the client function is not yet fully operational the risks from the Council's perspective have not yet been identified.

Governance of the Council's wholly owned subsidiaries

Following the establishment of City Leap Energy Partnership Limited and the transfer of the Heat Network assets to the joint venture the Council only has three wholly owned subsidiaries:

- Goram Homes
- Bristol Waste
- Bristol Holding Limited

The Council has been considering the governance arrangements of its subsidiaries for a number of years, with a governance review undertaken in 2021 and presented to the shareholder representative in June 2021. This review emphasised the need for an appropriate and proportionate governance model to be adopted once the Bristol Heat Network was no longer under the ownership of the Council and recommended that a further governance review should be undertaken in 2022. This governance review has not yet been carried out.

Interim arrangements have been introduced where Bristol Holding Limited has a reduced assurance role and within the Council a strategic client role is established and developed. The Strategic Client's role has been enhanced at the same time as that of the Holding Company is reduced. The Council also has established Audit and Risk Assurance Committees for each of the subsidiaries.

However, these arrangements are not yet legally binding and have not been included within the Company's articles of association or shareholder agreement. We have raised an improvement recommendation on page 34.

Partnership Governance - West of England Combined Authority (WECA)

The Council is a voting member of the WECA. WECA delivers a number of services, including transport, on a regional basis and is also a means by which devolved government funding is obtained and distributed among the constituent councils for infrastructure and other development projects. The governance of WECA is overseen by the West of England Combined Authority Committee, which comprises the leaders of the member authorities (Bristol, Bath and North East Somerset and South Gloucestershire Councils) and is chaired by the directly elected West of England Combined Authority Mayor.

The Mayor and Chief Executive of the West of England Combined Authority, and the Leaders and Chief Executives of the three constituent unitary councils, have acknowledged that the relationships between members of the Combined Authority are currently strained. This is partly attributable to inherent tensions between the West of England Mayor's mandate to create and deliver a regional strategy and the desire of individual authorities to retain and protect their own political and strategic areas or remits. The dynamic is further complicated by local circumstances, that include the existence in parallel of a separately constituted Joint Committee that includes North Somerset Council as an additional member but outside of the Combined Authority; the co-existence of the West of England Mayor and the Bristol City Mayor over part of the same footprint, and; the constitutional requirement for significant elements of Combined Authority business to require unanimous voting, which effectively allows any member to veto a decision.

It is in this context that we note the external auditor has issued a critical report on the governance of WECA that identifies five significant weaknesses in governance and includes three statutory recommendations. This relates to events that took place during the financial year 2021/22. Two of the statutory recommendations place an obligation on the members of WECA to work together to improve working relationships and the level of engagement on key decisions.

The two statutory recommendations that directly impact on Bristol City Council are as follows:

- The Mayor and members of the Combined Authority represented by the Council Leaders, must commit to improving their working relationship and demonstrate that significant progress has been made within a reasonable timeframe to be determined by the Mayor and Combined Authority. This should include a role for independent mediation and the constructive consideration of advice arising from this process (SR1).

- A formal protocol should be agreed between member organisations within the Combined Authority to commit to consultation on key proposals, that they should define, at an earlier stage. Combined Authority members should engage effectively in this process, to help mitigate points of contention before they are published and debated in public. This should include a commitment to deliver proposals on a reasonable timetable (SR2).

A constructive and collaborative working relationship between partners is fundamental to the ability to continue to reach consensus, approve the use of devolved funding and attract funding and deliver value to the region, in addition to the ongoing delivery of key regional services including local bus services. The report recognises that the day-to-day business of the Combined Authority in regard to its budget and financial allocations to projects has continued effectively in 2021 and to date in 2022. In addition, we note that significant new funding has been brought into the region and been allocated to approved projects, including those impacting on individual unitary authorities via the Investment Fund. This provides assurance that the Combined Authority has not become dysfunctional and has continued to deliver benefit to residents in the region.

However, the WECA external auditor expresses concern that the ongoing poor state of relationships could limit the ability of all parties to work together to optimise strategic opportunities in future. External perceptions of disfunction could also affect the reputation of the Combined Authority with central government and other partners., ultimately affecting the ability to raise further funding and undermining public confidence.

While we recognise that the onus is on WECA, as a separate statutory body, there is a key role for Bristol City Council to work with the WECA management team to ensure that all the required improvements are made.

Auditor judgement

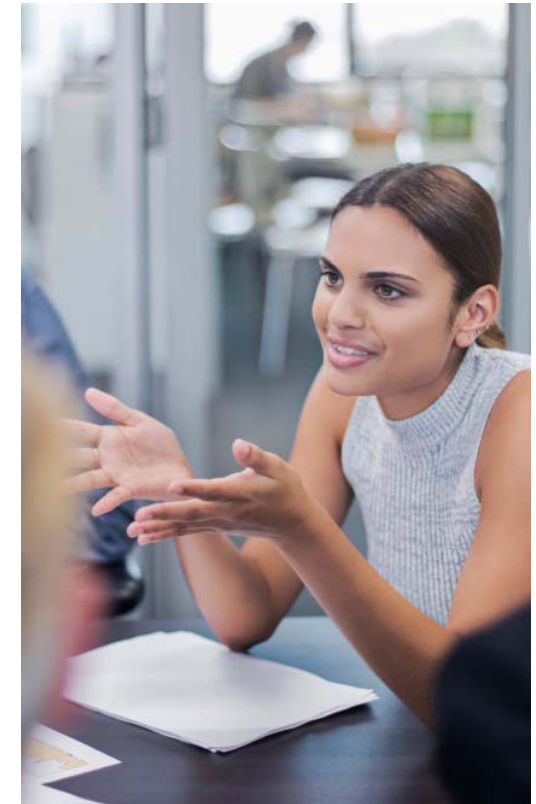
Overall, we found no evidence of significant weaknesses in the Council's arrangements for ensuring that it makes informed decisions and properly manages its risks. We have made eight improvement recommendations, set out on the following pages.

Improvement recommendation



Governance

3	Recommendation	Monthly budget monitoring reports, reported to Cabinet should clearly set out the gross overspend position and the contribution required from reserves, as well as the net position for each service area, so that the extent of the challenge faced by the Council is fully understood.
	Audit year	2022/23
	Why/impact	This would improve transparency of reporting.
	Auditor judgement	This is not a significant weakness, but an improvement recommendation would be beneficial and would enable the Council to better understand the extent of the overspend within individual services.
	Summary findings	The Council has reported an overspend for 2022/23 of £10.4m (net position) and £57.9m (gross position). The budget monitoring reports demonstrate that Cabinet are fully aware of the Council's net financial position, but we consider that transparency of reporting could be improved by ensuring the reports clearly set out the gross position and the contribution required from reserves. In our view this is key information and should be readily available to the reader at the beginning of the report, not within the detail or appendices.
	Management Comments	<p>The council will seek to enhance the budget monitoring reporting to cabinet. The gross position as reported in Quarter 1 (period 2 extrapolated), directorate appendices throughout the year and provisional outturn, will be captured in the standard reporting format for all reports from 2023/24, to provide greater transparency to the end reader of the financial position as we progress through the year.</p> <p>Responsible Officer: Director of Finance 2023/24 budget monitoring reports</p>



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

Improvement recommendation



Governance

4	Recommendation	The Council should urgently undertake a lessons learned exercise on its refurbishment of Bristol Beacon.
	Audit year	2022/23
	Why/impact	The lessons learnt exercise should not be delayed until completion of the project, as the lessons learnt could be applied to ongoing and new capital projects.
	Auditor judgement	This is not a significant weakness, but an improvement recommendation would be beneficial.
	Summary findings	<p>In May 2018 the project was originally estimated to take two years to redevelop at a cost of £48.8m. This increased to £52.2m in June 2019, £106.9m in March 2021 and in January 2023 to £131.9m, of which the Council's contribution was 64%, £83.9m. The project should be complete and open to the public in November 2023.</p> <p>During 2021/22 the Council has strengthened its project management arrangements, appointed a strategic partner, Arcadis and brought on board additional capacity and technical and specialist expertise. The increase in costs have been attributed to the impact of inflation and compensation events as a result of the nature and complexity of the fabric of the building.</p> <p>The Council has yet to fully evaluate and produce a lessons learned report. See page 26.</p>
	Management Comments	<p>A lessons learnt exercise has been designed and will start w/c 26th June 23. It will be led by an independent team from Arcadis, the council's capital strategic partner. The lessons learnt will take place in phases and is designed to provide critical lessons learnt and stimulate important insights. Care has been taken not to add risk to the project by diverting resource as the project is currently in its critical final period. Initial phases will focus on data collection and analysis. The final phase will be Jan 24 post full commercial operation of the facility with a</p> <p>Responsible Officer: Executive Director, Growth & Regeneration Final draft issued Feb 24.</p>



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

Improvement recommendation



Governance

5 Recommendation In line with the Council’s Capital Strategy the Council should document and agree its capital governance improvement plan.

Audit year 2021/22 and 2022/23

Why/impact Progress cannot be monitored and assessed if the agreed actions have not been documented.

Auditor judgement This is not a significant weakness, but an improvement recommendation to ensure its capital governance continues to improve.

Summary findings The Council recognises that it needs to improve its capital governance arrangements, and this is clearly acknowledged within its Capital Strategy for 2022/23 to 2031/32 and 2023/24 to 2032/33. In 2022/23 it appointed a delivery partner (Arcadis) to provide expertise and additional capacity. These Capital Strategies identify that the Council has developed and is implementing a capital governance improvement plan. The first Capital Strategy identified that the improvement plan will be operational by April 2022 and the second by April 2023. However, the improvement plan has not been documented and remains outstanding. See page 25.

Management Comments The Capital Strategy sets out the framework for the governance of capital assets for the council and accountability for its approval rests with Full Council in line with the Prudential Code. The details in relation to the improved capital processes will be outlined in more depth in a capital guidance note, which will include the governance boards and relationship between the boards, development of the capital programme in line with the capital gateway process, the monitoring of progress, programme adjustments and reporting. The capital guidance note will be prepared for corporate Capital Investment Board endorsement, socialised with project managers and published on the source

Responsible Officer: Director of Finance
September 23.



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

Improvement recommendation



Governance

6	Recommendation	The Council should ensure it secures the best operating model that it can for Bristol Beacon so that it delivers the best possible outcomes for the Council and residents of Bristol. This should be clearly communicated to members.
	Audit year	2022/23
	Why/impact	The Council has committed significant funds to refurbish Bristol Beacon and should ensure that it secures the maximum benefit for its invested funds.
	Auditor judgement	This is not a significant weakness, but an improvement recommendation has been raised.
	Summary findings	<p>As a result of the increased funding and overall costs of refurbishing Bristol Beacon the project will generate a negative net present value (NPV) under the current commercial arrangements between the Council and BMT and even with amendments it is not likely to achieve a breakeven position. The Council has recognised that the City will benefit from wider social and economic benefits and should ensure that these wider benefits are monitored along with the return on Bristol Beacon.</p> <p>Following the opening of Bristol Beacon, BMT will no longer receive financial support from the Council and consideration will need to be given to explore the wider potential for investment return to the Council from the Bristol Beacon. The Council will need to ensure that Bristol Beacon delivers the best possible return and outcomes for the Council.</p> <p>See page 25.</p>
	Management Comments	<p>Discussions are ongoing with Bristol Music Trust and other key funders such as Arts Council England to agree a future operating model which removes future revenue commitments for the council and seeks to maximise future returns to the council from the Beacon. Briefings have been arranged with the council's Overview and Scrutiny Management Board members</p> <p>Responsible Officer: Executive Director, Growth & Regeneration 30 November 2023</p>



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

Improvement recommendation



Governance

7 Recommendation The Council should identify and document its risks relating to the client and shareholder function for City Leap Energy Partnership Limited. The risks should be logged and monitored in line with the Council risk management policy.

Audit year 2022/23

Why/impact The risks should be identified to ensure the Council is aware and effectively manages the risks.

Auditor judgement This is not a significant weakness, but an improvement recommendation to ensure risk management arrangements are effective.

Summary findings In December 2022 cabinet agreed to establish the joint venture City Leap Energy Partnership Limited. This decision was supported by a risk register which identified and scored the risks relating to this decision and the operation of the joint venture. The Council is in the process of establishing its client function for this subsidiary and as a result has not yet identified the risks relating to City Leap Energy Partnership Limited and ensuring its objectives are achieved.

See page 26.

Management Comments The client team for City Leap has now been established and the governance arrangements are in place for making decisions on individual projects which will have their own risk analysis. The shareholder function has established procedures for escalating matters to the shareholder, although given the joint venture nature of City Leap, the number of matters that will be escalated to the shareholder is limited.
Responsible Officer: Director, Legal and Democratic Services
Ongoing



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

Improvement recommendation



Governance

8	Recommendation	The Council should review its governance arrangement for its remaining wholly owned subsidiaries and update the shareholder agreements and articles of association to reflect the new agreed governance arrangements.
	Audit year	2022/23
	Why/impact	Interim governance arrangements are in place but have not been formally agreed.
	Auditor judgement	This is not a significant weakness, but an improvement recommendation would ensure the governance arrangements are formally agreed and documented.
	Summary findings	<p>Following the establishment of City Leap Energy Partnership Limited and the transfer of the Heat Network assets to the joint venture the Council only has three wholly owned subsidiaries. The Council has been considering the governance arrangements of its subsidiaries for a number of years, with a governance review undertaken in 2021 and presented to the shareholder representative in June 2021. This review emphasised the need for an appropriate and proportionate governance model to be adopted once the Bristol Heat Network was no longer under the ownership of the Council and recommended that a further governance review should be undertaken in 2022. This governance review has not yet been carried out.</p> <p>Interim arrangements have been introduced where Bristol Holding Limited has a reduced assurance role and the Council's strategic client role is established and developed. The Strategic Client's role has been enhanced at the same time as that of the Holding Company is reduced. However, these arrangements are not yet legally binding and have not been included within the Company's articles of association or shareholder agreement. See page 27.</p>
	Management Comments	<p>The council continues to keep the governance arrangements for the council's companies under review and it has been determined that the Holding Company group structure will remain in place for the foreseeable future. The shareholder agreements and articles of association have recently been revised and are in the process of approval by the Company Boards.</p> <p>Responsible Officer: Director, Legal and Democratic Services Actioned March 2023</p>

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

Improvement recommendation

Governance

9	Improvement Recommendation	The Council should work closely with the West of England Combine Authority (WECA) to support (within its remit) the implementation of the required improvements to the governance of WECA (as set out in the governance report).
	Audit year	2021/22 and 2022/23
	Why/impact	A constructive and collaborative working relationship between partners is fundamental to the ability to continue to reach consensus, approve the use of devolved funding and attract funding and deliver value to the region, in addition to the ongoing delivery of key regional services including local bus services.
	Auditor judgement	This is not a significant weakness from the perspective of Bristol City Council, but the Council has a key role to play in ensuring that the required improvement to this key partnership are made.
	Summary findings	<p>The Council is a voting member of WECA. WECA delivers a number of services, including transport, on a regional basis and is also a means by which devolved government funding is obtained and distributed among the constituent councils for infrastructure and other development projects. The governance of WECA is overseen by the West of England Combined Authority Committee, which comprises the leaders of the member authorities (Bristol, Bath and North East Somerset and South Gloucestershire Councils and is chaired by the directly elected West of England Combined Authority Mayor.</p> <p>We note the external auditor has issued a critical report on the governance of WECA that identifies five significant weaknesses in governance and includes three statutory recommendations. This relates to events that took place during the financial year 2021/22. Two of the statutory recommendations indicate that the members of WECA should work together to improve working relationships and increase the level of engagement on key decisions.</p>
	Management comment	In its capacity as a member of WECA, the council is committed to support the improvements needed, and the recommendations made by WECA's external auditor regarding the required improvements to the Combined Authority's governance.

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

Improving economy, efficiency and effectiveness



We considered how the Council:

- used financial and performance information to assess performance to identify areas for improvement
- evaluated the services it provided to assess performance and identify areas for improvement
- ensured it delivered its role within significant partnerships and engaged with stakeholders it has identified, in order to assess whether it is meeting its objectives
- where it commissioned or procured services assesses whether it is realising the expected benefits.

Performance management

The Council's five-year Corporate Strategy 2022-2027 was approved by Full Council in December 2021 for implementation in 2022/23 onwards. Cabinet agreed its updated Business Plan for 2021/22 in March 2021 and for 2022/23 in April 2022. The business plan is the Council's annual plan which sets out how the Council will deliver its commitment within the Corporate Strategy. The Council's performance management framework was also reviewed and agreed at each of these meetings. The performance management framework summarises how the Council will monitor and assess the key commitments set out within its Business Plan.

In 2021/22 and 2022/23 quarterly reporting on key performance indicators was provided to officers, Cabinet Members, Scrutiny Commissions and Cabinet.

In 2020/21 we identified that these reports were presented over three months after the period end. New performance clinics have been introduced to improve the performance management arrangements, but more timely reporting to Cabinet has not been introduced.

The Council's Data, Insight and Information Strategy was approved by Cabinet in October 2021. This strategy includes the importance of good quality data and the Council's approach to data quality.

Benchmarking and learning from others

In March 2022 Audit considered the findings of the external inspections undertaken in 2021/22, which included but not limited to the following:

- Ofsted Visits
- Care Quality Commission

- Local Government Association (LGA) Peer challenge on Quality Assurance
- LGA Children and Families Services peer challenge.

This report enables the Audit Committee to note the actions taken as a result of the inspections but to also gain assurance on the Council's response to the inspections. This review was also undertaken in 2022/23 and in March 2023 the Audit Committee was provided with an update based on ten external inspections.

Joint Local Area SEND Inspection

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 and Families Act 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.

A Local Area re-inspection was completed in October 2022 and the report published in November 2022. Four out of five areas identified in 2019 were judged to have made sufficient progress, with one area, relationships with parents and carers, judged as insufficient progress having been made. As a result an Accelerated Action Plan was required and was submitted to the Department for Education by 1 February 2023. The outcome of the inspection was reported to Cabinet and Health and Wellbeing Board in January 2023.

Ofsted inspection

An Ofsted inspection of its children's services was undertaken in January 2023. The findings were published on 10 March 2023 and are available on the Council's website. The Council received an overall rating of 'requires improvement to be good', the same rating as the Council received in 2018.

Benchmarking and learning from others continued

The Council has continued to use benchmarking to compare its cost of Adult Social Care services to other Councils, using tools such as PowerBI to better understand where its unit costs appear high in comparison to others in England and the South West.

In 2020/21 we identified three areas where the unit costs were very high in comparison to other councils:

- adult social care
- planning and development services
- housing services.

In 2021/22 we can see some movement as follows:

- adult social care – remains very high
- planning and development services – moved from very high to high
- housing services – remains very high
- cultural and related services – was high moved to very high

Reducing the cost of the Council’s Adult Social Care service remains a significant challenge for the Council as previously reported on page 15.

Contract management and procurement

The Council is actively working to improve its contract management and procurement arrangements and in September 2022 appointed a Head of the Procurement and Contract Management Service. In April 2023 Cabinet agreed its procurement and contract management strategy. The strategy aligns to the Corporate strategy and sets out overarching principles, which are underpinned by a range of policies such as procurement rules, social value, healthy and sustainable procurement, ethical and equitable investment policies. The service plan will be instrumental in direct delivering, monitoring and or tracking that the commitments in the strategy are satisfactorily progressed. However, the delivery plan has yet to be developed. The intention is that the service plan will include detailed actions and key performance indicators based on compliance and agreed savings.

The Council has authorisation processes in place for contract breaches and in August 2021 remedial actions were proposed and endorsed by the Corporate Leadership Board , as follows:

- contract management system and reporting, pilot phase which should support planning and visibility of contract end dates

- improved breach data is being gathered which started in 2022/23 to give additional visibility to Directors and Internal Audit
- training and support for officers.

Reporting on breaches and remedial action has been undertaken during 2021/22 and 2022/23 as follows:

- monthly reporting to Directors
- quarterly Divisional Team meetings
- quarterly report to Executive Directorate meetings.

The training introduced was e-learning procurement training, with 324 participants enrolled. The participants included Contract Managers, Commissioners and Budget Holders, as at March 2023 81% (262) have completed the training.

In our previous report we raised concerns over the level of contract breaches and despite the improved processes remains a challenge for the Council in 2021/22 and 2022/23. The table below identifies that the number of breaches has continued to increase, although the value suggests a levelling off in 2022/23.

Contract breaches

2020/21		2021/22		2022/23	
Number	£m	Number	£m	Number	£m
94	£13.01	206	£72.1	342	£73

In 2020/21 we raised an improvement recommendation, based on the value and number of breaches that had occurred in 2020/21 and the increase in 2021/22. Whilst the Corporate Leadership Board have endorsed new arrangements the value and number of contract breaches remains significantly high. In 2022/23 the number of breaches has continued to increase with a slight increase in value. The breaches are predominantly due to a failure to comply with the Council’s internal requirements to gain authorisation as to why market testing has not been pursued and not the public contract regulations 2015. However, the level and extent of contract breaches suggests that the Council is a risk of perpetuating a culture of breaches in procurement. We consider the Council’s inability to reduce the number and value of contract breaches to be a significant weakness in arrangements.

Partnerships

The Council's business plan and quarterly performance reports acknowledge the importance of partnership working and where partnerships contribute to the Council's objectives.

In February 2021 the Council introduced its first Partnerships and Collaboration Policy, with the intention that the policy would be updated in February 2022, this update remains outstanding. The policy provides guidance on what constitutes a partnership and that all partnership should be entered on the Council's partnership register.

The partnership register now includes 91 partnerships. The register is a live document maintained by the Executive Office and includes a range of information including Directorate Management Meeting and Executive Directorate meeting status and sign-off.

In 2020/21 we identified the following partnerships which were included in the Council's Business plan but were not included on the register; Learning City Partnership and the Voice and Influence Partnership. Whilst these partnerships are no longer included within the Council's new Corporate Plan we understand that the Council is still involved in these partnerships and they have yet to be added to the Council's partnership register.

In 2020/21 we also noted that one trust and the Council's companies were listed, which is not in line with the Partnerships and Collaboration Policy. The Council has removed its companies from the partnership register, but the trust remains on the register.

The current register identifies the objectives of the partnership but still does not link these to the Council's objective to which it contributes, this was previously raised as an improvement recommendation. Further details regarding the improvement recommendation we raised in 2020/21 can be found on page 39.

We identified that the partnership register includes the Bristol, North Somerset and South Gloucestershire Integrated Care Board, but does not separately identify the Integrated Care Partnership. Both the Integrated Care Partnerships and Board were established on the 1 July 2022. We suggest that the partnership register is reviewed to ensure the register correctly reflects both bodies and whether it should include the Integrated Care Board.

We note that in September 2022 Cabinet approved the Integrated Care Partnership's terms of reference and the Council's nominations for the Integrated Care Partnership and the Integrated Care Board. The Health Scrutiny Committee also received an update on the new arrangements in October 2022.

In 2021/22 and 2022/23 we found no evidence of any significant failings in any of the Council's partnerships.

Auditor judgement

We have identified the Council's contract management arrangements as a significant weaknesses. The Council has a significant number and value of contract breaches, and following changes in arrangements there has been no reduction in number or value of contract breached in 2022/23. We have identified one improvement recommendation.



Improvement recommendations



Improving economy, efficiency and effectiveness

10	Recommendation	The partnership register should be reviewed to ensure the register correctly reflects both bodies and whether it should include the Integrated Care Board.
	Audit year	2022/23
	Why/impact	The partnership register should include all significant partnerships in which the Council is involved.
	Auditor judgement	Proper arrangements are in place, this would ensure all significant partnerships are appropriately considered.
	Summary findings	The Council's partnership register includes the Bristol, North Somerset and South Gloucestershire Integrated Care Board, but does not separately identify the Integrated Care Partnership. Both the Integrated Care Partnerships and Board were established on the 1 July 2022.
	Management Comments	<p>The Partnership Register is reviewed quarterly in Executive Director Meetings and it is the responsibility of the accountable Director for each partnership to ensure it is correctly updated. We will ensure that this partnership is correctly logged at the next available review point</p> <p>Responsible Officer: Director, Policy, Strategy and Digital July 2023</p>



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

Follow-up of recommendations raised as part of our 2020/21 VfM review

Recommendation	Progress to date	Addressed?	Further action?
Financial sustainability			
1 The Council and the Schools Forum should continue to work together to develop a clear mitigation plan which addresses the Dedicated Schools Grant (DSG) high needs overspend.	In 2021/22 the DSG deficit increased by £14.7m and in 2022/23 by £15m, increasing the 2022/23 cumulative deficit to £39.4m. The Council reported that if action is not taken to address the continuing overspends the cumulative deficit could be £128.2m by 31 March 2028. With the support of the DfE’s Delivering Better Value programme the Council has re-evaluated its management plan. This plan was reported and endorsed by the School’s Forum in March 2023 and is the start of the recovery plan.	Outstanding	Key recommendation raised, see page 6.
2 The Council should focus on the identification of its savings plans for 2022/23 and beyond to ensure that these can be actioned promptly and delivered on a recurrent basis.	In 2021/22 the savings target was £11.7m, of which £6.39m (55%) was delivered on a recurrent basis. The remaining being met from one-off actions. In 2022/23 the Council planned to deliver savings worth £24.24m, which included £6m of savings rolled over from 2021/22 and £18m of new savings. In 2022/23 the Council planned to deliver savings worth £24.2m, which included £6m of savings rolled over from 2021/22 and £18m of new savings. Additional savings were identified increasing the target to £25.5m. The Council delivered all these savings, with 36% delivered on a non-recurrent basis and 16% covered by growth. For 2023/24 the compound effect of rolling forward savings is that the savings target is now £32.7m.	Outstanding	Key recommendation raised, see page 8.

Recommendation	Progress to date	Addressed?	Further action?
Governance			
3 The Council should explore why the majority of capital expenditure occurs in the final quarter of the financial year and ensure current practices are appropriate.	Internal Audit undertook a capital programme management review in February 2023. A reasonable assurance opinion was given. The review based on a sample of projects/programmes selected identified that a lack of proactive and prioritised financial management by Budget/Project Managers, and knowledge gaps on budgeting rules by Budget/Project Managers contributed to a disproportionate level of spend occurring in quarter 4.	Yes	No
4 The Council should continue to ensure realistic capital budgets are set so that the level of slippage is reduced.	Slippage of the capital budget continues to be an issue for the Council. For 2021/22 the Council reported an underspend of £154.1m (48%) when compared to the original budget and an underspend of £101.8m (34%) for 2022/23, indicating an improving position.	Ongoing	Continue to work to reduce the amount of slippage.
5 The Council should continue to actively monitor the redevelopment of the Bristol Beacon and learn from this project to ensure: <ul style="list-style-type: none"> consideration is given to how complex capital and heritage buildings could have better cost certainty and allow for over optimistic outcomes consistent, robust and effective management arrangements are introduced and a strong client-side function is maintained, including technical expertise to enable the Council to hold its contractors and third-party support and advisors to account. 	The Bristol Beacon is a significant capital project that was expected to take two years to redevelop at a cost of £48.8m. However, the project has taken five years to refurbish at a cost of £131.9m. A substantially assured delivery framework has been implemented on the project including project governance and resource. Monthly board meetings and highlight reporting provides oversight of the project. A client side team is in place to ensure that contractor and thirds parties are held to account.	Partial	Improvement recommendation raised on page 32.

Recommendation	Progress to date	Addressed?	Further action?
<p>6 The Council should continue to ensure the following actions are taken to improve the information provided to support Cabinet decisions:</p> <ul style="list-style-type: none"> • Cabinet summary reports should include: <ul style="list-style-type: none"> ○ a summary of the risks identified within the exempt papers ○ scored and RAG rated risks in public papers ○ a summary of key messages relating to the financial information, the only financial information should not be just within the appendices ○ the outcome of any consultation with the Shareholder Group and Bristol Holding, where applicable • Cabinet summary reports should be supported with an eco-impact assessment within the appendices, if not a note should be included to set out why it is not applicable. 	<p>Our review of a number of key decisions undertaken in 2021/22 identified that proper arrangements were in place and that the majority of Cabinet summary reports included:</p> <ul style="list-style-type: none"> ○ scored and RAG rated risks in public papers ○ a summary of key messages relating to the financial information, the only financial information should not be just within the appendices ○ the outcome of any consultation with the Shareholder Group and Bristol Holding, where applicable <p>We did identify that greater attention could be given to the risks identified and that a summary of the key risks was not always provided within the Cabinet summary report.</p>	<p>Partial</p>	<p>Summary Cabinet reports should include a summary of the keys risks and these risks should be quantified and RAG rated.</p>
<p>7 The Council should consider introducing performance monitoring against the Business Plan on a more timely basis.</p>	<p>This recommendation has not been actioned. Quarterly performance reports are presented to Cabinet often over three months after the period end.</p>	<p>Outstanding</p>	<p>Implement original recommendation</p>

Recommendation	Progress to date	Addressed?	Further action?
Improving Economy, efficiency and effectiveness			
8 The Council should continue to have oversight of progress on the Joint Local Area SEND Inspection.	A Local Area re-inspection was completed in October 2022 and the report published in November 2022. Four out of five areas identified in 2019 were judged to have made sufficient progress, with one area, relationships with parents and carers, judged as insufficient progress having been made. As a result an Accelerated Action Plan was required and was submitted to the Department for Education by 1 February 2023. The outcome of the inspection was reported to Cabinet and Health and Wellbeing Board in January 2023.	Ongoing	Oversight will be required until all outstanding issues have been addressed.
9 The Council should continue to actively monitor and review its progress against the outcomes and savings within its Adult Social Care Transformation Programme.	The Council continues to have some of the most expensive adult social care in England, and that these high costs are not isolated to one area of the service. In order to reduce these costs in 2021/22 the Council established a transformation programme and engaged an interim project director to lead the programme, who left the Council in January 2023. The transformation programme considered existing savings schemes and programmes already in place and built on work already underway. A project mandate was agreed in May 2022 which included 13 savings schemes. Each saving scheme required a delivery plan, was agreed by CLB, and monitored through the Council's PMO framework. Whilst the transformation programme has improved the understanding and pressures faced by the service it has not delivered sufficient cashable savings and the focus has been on cost avoidance schemes. A decision has been made to develop a new transformation mandate.	Ongoing	Key recommendation raised see page 8.
10 The Council should consider if additional benchmarking would be beneficial and explore the very high unit costs identified for : <ul style="list-style-type: none"> • Planning and development services • Housing services. 	Benchmarking is undertaken within the individual departments and the Council is of the view that no further action is required.	Yes	No further action

	Recommendation	Progress to date	Addressed?	Further action?
	Improving Economy, efficiency and effectiveness			
11	The Council should develop a procurement strategy.	The Council has developed a procurement & Contract Management Strategy which was approved by Cabinet in April 2023.	Yes	No further action
12	The Council should continue to scrutinise and act to reduce contract breaches. To do this the Council should: <ul style="list-style-type: none"> introduce procurement compliance training reporting of breaches should be reported to Cabinet or Audit Committee. 	Whilst actions have been taken contract breaches remain a significant challenge for the Council. The Council is not yet seeing a significant reduction in value and number of breaches.	Ongoing	Key recommendation raised on page 12.
13	The partnership register should be extended to include a link to the Council's objective(s) and reviewed to ensure all key partnerships are included and the rationale for the inclusion of the Council's companies and trust evaluated.	The current partnership register identifies the objectives of each partnership but still does not link these to the Council's objective to which it contributes. In 2020/21 we identified the following partnerships which were excluded from the Council's partnership register; Learning City Partnership, Business Improvement Districts and the Voice and Influence Partnership. The inclusion of these partnerships from the register remain outstanding. The Council has removed its companies but the trust remains.	Partial	Completion of the original recommendation

The following recommendations were raised in our report concerning the governance arrangements for Bristol Energy and presented to the Council’s Audit Committee on 27 September 2021. Recommendations that were recorded as complete in our previous VfM report have not been repeated. BE Audit Committee Report

Recommendation	Priority	Progress to date	Addressed?	Further action?
1 The Council should consider communicating to the public the full cost of operating and winding down Bristol Energy.	● Medium	The Members Voluntary Liquidation process is still progressing - once complete the overall position will be reported.	In progress	Further action required
2 In order to support key decisions relating to significant projects the Council should ensure an options appraisal that is fit for purpose is completed prior to completing a business plan.	● Medium	A model has now been produced and requires testing on services	Complete	No further action required
3 Where the Council is working with external advisors on complex projects it should better document its response against all recommendations made.	● Medium	Guidance and training for officers is being prepared.	In progress	Further action required

Recommendation	Priority	Progress to date	Addressed?	Further action?
<p>4 The Council should update the articles of association and shareholder agreement to reflect the strengthened role of Bristol Holding Limited. The terms of reference for all elements and functions of the governance structure should be in place and updated*</p>	<p>● High</p>	<p>Interim arrangements have been introduced where Bristol Holding Limited has a reduced assurance role and the Council's strategic client role is established and developed. The Strategic Client's role has been enhanced at the same time as that of the Holding Company is reduced. However, these arrangements are not yet legally binding and have not been included within the Company's articles of association or shareholder agreement.</p>	<p>Outstanding</p>	<p>See improvement recommendation on page 34.</p>

Opinion on the financial statements for 2021/22



Audit opinion on the financial statements

Audit work is well progressed on the 2021/22 financial statements audit with most areas substantially complete. Our financial statements audit cannot be concluded until the opinion for the financial year to 31 March 2021 is given.

Other opinion/key findings

We identified one prior period adjustment relating to the presentation of Revenue Funded from Capital Under Statute (REFCUS).

A misclassification of creditor balances was identified and this was adjusted, moving it to grants received in advanced.

A number of other disclosure findings were identified.

Audit Findings Report

More detailed findings can be found in our AFR, which will be published and reported to the Council's Audit Committee on the conclusion of audit work.

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 and will be completed on the conclusion of our audit procedures.

Preparation of the accounts

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

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



Opinion on the financial statements for 2022/23



Audit opinion on the financial statements

The audit of the financial statements for 2022/23 is due to commence in the summer of 2023.

Audit Findings Report

More detailed findings will be reported in our AFR on the conclusion of audit procedures.

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.

Our work will be completed as part of our detailed audit procedures in the summer of 2023.

Preparation of the accounts

The Council provided draft accounts on 31 May 2023 in line with the national deadline.

Grant Thornton provides an independent opinion on whether the accounts are:

- True and fair
- Prepared in accordance with relevant accounting standards
- Prepared in accordance with relevant UK legislation



Appendices

Appendix A – Responsibilities of the Council

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 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 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 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 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 – Risks of significant weaknesses, our procedures and findings

As part of our planning and assessment work, we considered whether there were any risks of significant weakness in the Council’s arrangements for securing economy, efficiency and effectiveness in its use of resources that we needed to perform further procedures on. The risks we identified are detailed in the table below, along with the further procedures we performed, our findings and the final outcome of our work:

Year of audit	Risk of significant weakness	Procedures undertaken	Findings	Outcome
2021/22 & 2022/23	Financial sustainability - the Council set a balanced budget for 2021/22, but the longer term picture looks more challenging with a £37.535m gap identified over the Medium Term Financial Plan period to 2027/28. There is a risk that medium term financial plans are not sufficiently developed to close the funding gap, which in turn could impact on the council’s ability to deliver services. Due to the inherent uncertainty we have concluded that there is a significant risk of weakness in arrangements for delivering financial sustainability.	We reviewed the arrangements for: <ul style="list-style-type: none"> the Council’s arrangements for identifying and monitoring risks to financial delivery the robustness of the council’s medium term financial strategy and savings plans level and use of reserves. 	<ul style="list-style-type: none"> Dedicated Schools Grant - the cumulative deficit is continuing to escalate and the management plan at best will only deliver £48m of the estimated accumulative deficit. If the deficit is not written off or the statutory override continued it could leave the Council with significant challenges to its financial sustainability and significant reduce their reserve levels. The Council's inability to curb overspends and to deliver recurrent savings increases the risk that the Council will not be financially sustainable, increasing its reliance on the use of reserves, including re-directing some of its existing earmarked reserves. The Council has had to rely on one-off measures and use reserves in an unplanned way to reduce the forecast overspend in 2022/23. <p>Further detail on pages 15-16.</p>	Two significant weaknesses in arrangements identified and three key recommendations raised.
2021/22 & 2022/23	Financial sustainability – Our VfM work in 2020/21 identified that the Council has one of the highest Adult Social Care unit costs for Authorities of a comparable size. Liaison meetings with the council in September 2022 also confirmed a significant increase in the cost of Children’s Social Care during 2022/23. There is a risk that with the costs remaining as they are the spend will be unsustainable and will contribute to further financial pressures on the Council’s medium Term finances.	We reviewed the arrangements for: <ul style="list-style-type: none"> the Council’s social care transformation programme plans to tackle the historic cost pressures monitoring spend against budget reviewing and amending the medium term financial plan in light of the economic climate. 	<p>Adult Social Care and Children’s Social Care Services are high cost areas which continue to overspend and are unsuccessful in delivering their planned savings. These financial pressures have contributed to the issues identified above.</p> <p>Further detail on page 15.</p>	As above.

Appendix B – Risks of significant weaknesses, our procedures and findings

Year of audit	Risk of significant weakness	Procedures undertaken	Findings	Outcome
2021/22 & 2022/23	Governance - The annual capital budgets did not reflect actual spend in 2020/21 leading to an improvement recommendation in the Auditor's Annual Report. In 2021/22, the economic climate has led to significant fluctuations in the cost of construction. As a result the Council is reviewing all projects for feasibility. As a result of these factors, there is a risk that the Council's is unable to effectively manage its capital budgets.	We reviewed the Council's arrangements for setting, monitoring its capital budgets in 2021/22 and 2022/23. We also considered any changes made since the improvement recommendation relating to the Bristol Beacon was issued in our 2020/21 VfM report.	<p>The Council continues to have a significant proportion of slippage throughout the year and this has increased from 2021/22 to 2022/23. The Council recognises that it needs to improve its capital governance arrangements and this is clearly acknowledged within its Capital Strategy for 2022/23 to 2031/32 and 2023/24 to 2032/33. The Council now has an overarching summary of the new capital programme management process; forms for project managers to complete for access to the capital programme and year-on-year re-profiling. However, in-year profiling is not undertaken and the details of spending to budget are not reported in detail to Cabinet, just at a very high level.</p> <p>Bristol Beacon remains a high risk capital programme. In May 2018 the project was originally estimated to take two years to redevelop at a cost of £48.8m. This increased to £52.2m in June 2019, £106.9m in March 2021 and in January 2023 to £131.9m, of which the Council's contribution was 64%, £83.9m. The project should be complete and open to the public in November 2023. Further detail on page 25.</p>	Proper arrangements in place two improvement recommendations raised.
2021/22 & 2022/23	Governance - how the Council ensures it makes informed decisions for its companies and for key decisions relating to high profile transactions.	<p>We reviewed the arrangements to ensure informed decision making for the following:</p> <ul style="list-style-type: none"> the governance arrangements over changes to the Council's Group structure procurement processes the key decision in relation to City Leap. 	<p>In December 2022 Cabinet agreed to establish the joint venture City Leap Energy Partnership Limited. This decision was supported by financial advice, a range of third party evidence and risk registers to enable an informed decision to be made.</p> <p>The Council is in the process of establishing its client function for this subsidiary. Following the establishment of City Leap Energy Partnership Limited and the transfer of the Heat Network assets to the joint venture the Council only has three wholly owned subsidiaries. Interim arrangements have been introduced where Bristol Holding Limited has a reduced assurance role and the Council's strategic client role is established and developed. The Strategic Client's role has been enhanced at the same time as that of the Holding Company is reduced. However, these arrangements are not yet legally binding and have not been included within the Company's articles of association or shareholder agreements. Further detail page 26.</p>	Proper arrangements in place two improvement recommendations raised.

Appendix C – An explanatory note on recommendations

A range of different recommendations can be raised by the Councils’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.	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’.	Yes	6, 8, 10 and 12
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 – 22 and 23 Governance – 29 - 35 Improving economy, efficiency and effectiveness – 39

