

Auditor's Annual Report on Rother District Council

2020-21

April 2022



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

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



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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Council or all weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. 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.

Executive summary



Value for money arrangements and key recommendations

Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to consider whether the Authority has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. The auditor is no longer required to give a binary qualified / unqualified VFM conclusion. Instead, auditors report in more detail on the Authority's overall arrangements, as well as key recommendations on any significant weaknesses in arrangements identified during the audit.

Auditors are required to report their commentary on the Authority's arrangements under specified criteria. As part of our work, we considered whether there were any risks of significant weakness in the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources. We identified risks in respect of:

- Financial sustainability
- Governance
- Improving economy, efficiency and effectiveness.

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

- No significant weaknesses in arrangements identified or improvement recommendations made.
- No significant weaknesses in arrangements identified, but improvement recommendations made.
- Significant weaknesses in arrangements identified and key recommendations made.



Financial sustainability

The Council is operating in an increasingly uncertain financial environment. For the second successive year, the Comprehensive Spending Review was a single year spending review. Rother, as with all local authorities, will need to continue to plan with little certainty over funding in the medium term.

Despite this uncertainty, and the challenges posed by COVID-19, the Authority has maintained its financial position. The 2020/21 final outturn for the General Fund was a deficit of £1.284m. The 2022/23 budget shows the Authority coming out of deficit in 2025/26.

Overall, the Council has a relative amount of capacity to manage variances over the short to medium term. We are satisfied the Council has appropriate arrangements in place to ensure it manages risks to its financial sustainability.

We have made some improvement recommendations including the production of a workforce plan.



Governance

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 identified some improvement recommendations around risk management and the need to update some policies.



Improving economy, efficiency and effectiveness

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

Overall, we are satisfied the Council has appropriate arrangements in place to ensure it manages risks to its oversight in ensuring economy, efficiency and effectiveness in its use of resources.

We have made some improvement recommendations around service reviews and procurement



Opinion on financial statements

An unqualified audit opinion was issued on 20th May 2022.

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

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

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

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

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



Financial sustainability

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



Governance

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



Improving economy, efficiency and effectiveness

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



Our commentary on each of these three areas, as well as the impact of Covid-19, is set out on the following pages.



Financial sustainability



We considered how the Council:

- identifies all the significant financial pressures it is facing and builds these into its plans
- plans to bridge its funding gaps and identify achievable savings
- plans its finances to support the sustainable delivery of services in accordance with strategic and statutory priorities
- ensures its financial plan is consistent with other plans such as workforce, capital, investment and other operational planning
- identifies and manages risk to financial resilience, such as unplanned changes in demand and assumptions underlying its plans.

How the body ensures that it identifies all the significant financial pressures that are relevant to its short and medium-term plans and builds these into them

The Covid-19 pandemic has been the largest peace time emergency seen in this country since WWII. The knock-on effects on local government finance have meant shortfalls in income due to cessation of services and reduction in collection of both council tax and business rates. There has also been a loss of commercial income in such areas as car parking and commercial rents as people stayed at home and business were forced to close. The Council does not have a large property portfolio but does have some property holdings in district. Covid has hit rental income but in the medium-term income levels are expected to return to pre Covid levels. While government grants have covered part of the general shortfall, councils have been left with increased financial uncertainty.

Throughout the uncertainty of the last financial year, the Council worked to minimise expenditure in all areas where appropriate. Some services were suspended for example, parking enforcement, while some staff were diverted to Covid related work including paying out Covid related support grants across the district. Some of its capital programme was paused or delayed due to Covid-19. Alongside this, new, essential activity was introduced, such as the Rother Community Hub (RCH) and bringing those who are homeless into accommodation, to address the impact of the pandemic on the residents of the district.

The Council set its budget for 2020/21 and determined the council tax including the precepts for County, Fire and Police services in February 2020 before the effects of the pandemic were realized. District councils have had to pay precepts over as planned, while collection rates have been down, providing added pressures on cashflow.

The pandemic started in March and it became clear over the next couple of months that it would have a fundamental impact on the Council's finances. The Cabinet were briefed on the financial impact of Covid in June 2020. At that time, it was projected that the Council would forego approximately £2m in income and £750K planned savings and incur additional costs in the region of £500k. This shortfall was planned to be funded by use of reserves.

The final outturn for the General Fund was a deficit of £1.284m including the cost of covid. This is a relative positive performance given the income losses incurred by the Council and was achieved in part to the receipt of significant levels of government grant coupled with strong budgetary control.

A balanced budget was set for 2021/22 in February 2021. The 2021/22 budget assumes a reliance on reserves and savings as recovery begins. To ensure organisational focus is maintained on the delivery of extra income and cost savings, a financial stability programme has been established to facilitate the achievement of the Corporate Plan objective of financial stability for the Council by March 2026. Since April 2021, Heads of Service have been developing ideas in line with the key themes of invest to save, income generation and service prioritisation. This work identified a significant number of suggestions which, following a meeting of the Programme Board in September 2021 are being worked up into detailed proposals together, where necessary, with project and resource plans. A number of small proposals can be commenced straight away which is expected to deliver some savings in 2021/22 but management consider that the majority of proposals will start to be delivered from 2022/23. Progress is to be monitored by the Programme Board and reported regularly to Cabinet. Overall this programme is expected to deliver £2.2m in savings.

The Council also has a Property Investment Strategy, which is gathering pace and it expects its investments to deliver a substantial amount of additional income.

Financial sustainability

While there are obviously risks to the delivery of the above income and savings, clear plans are in place and being activated which should build back reserves in the medium term.

One key element of the savings plan is the transfer of services to the newly formed Bexhill Town Council and other local parish councils. Negotiations on this transfer is on-going and it is unclear if and when these savings will be realised. Given the anticipated savings, we will monitor this situation and may comment further in subsequent reports.

Review of Council papers indicate the assumptions used for the financial planning for 2020/21 and 2021/22 are sound. We have seen no evidence that short term measures are being used to relieve current pressures.

The future financing of local government is still unclear. A planned government long term spending review was postponed from 2020 due to the pandemic and the local government settlement for 2020/21 and 2021/22 only covered year. The date of the long-term review, whilst announced in the October 2021 budget statement, is yet to be confirmed with 2022/23 being covered by a 1-year settlement also.

The Council has a detailed financial plan covering five years. Given the uncertainty of the financial regime, its plan has been drawn up on prudent assumptions on future income streams. The Council has considered the financial pressures brought about by the pandemic and has also looked at long term pressures on funding streams such as council tax, business rates and the Government funding settlement. Lack of information on future funding is a national issue but we have seen pre pandemic that the Council has a sensible approach to financial planning and budget management.

Financial plans are discussed at Council, Cabinet and Overview and Scrutiny Committee. The Council has a history of transparency in financial matters. Financial plans are discussed with wider stakeholders through an annual consultation exercise. We were provided with evidence of consultation.

Section 25 of the Local Government Act 2003 requires that when a local authority is agreeing its annual budget and precept, the chief finance officer must report to it on the robustness of the estimates made for the purposes of the calculations and the adequacy of the proposed financial reserves. While budget reports to Cabinet for 2020/21 do discuss financial risks, budget assumptions and reserves, there is no overt statement that the s151 officer believes the estimates to be robust and the level of reserves held is adequate. The former point has been corrected by the 2022/23 budget report but the statement on reserves is still omitted. We feel Members would benefit from the assurance provided by such a statement [recommendation 1].

How the body plans to bridge its funding gaps and identifies achievable savings

The Council's financial stability programme's purpose is to provide structure, focus and direction in addressing the financial challenge faced by the Council. This programme was initiated during 2020/21 to address the changes in financial circumstances engendered by the pandemic. The programme is required to deliver £9.4m of savings over the next 5 years.

As part of the 2022/23 budget setting, budgets have been reviewed and changes to the budget were made, adjusting for pressures, new initiatives, expected cost increases and income changes. The current financial plan highlighted a potential use of reserves of £5.5m in the medium term along with the required savings of £7.1m. There is an expectation set by officers and endorsed by Members, that the Council will be making a net contribution to reserves by 2025/26. The Council currently has a healthy reserves position so this expected draw down of reserves is not of immediate concern. On 31st March 2021, the Council held useable reserves of £13.2m. The Council has been prudent in its' funding assumptions and the council tax base and the Council is anticipating collection fund balances should be better than expected and thus the predicted level of use of reserves to support the general fund may not be as great as forecast. The CIPFA resilience index does not raise concerns over the use of reserves.

While savings potential has been affected by the pandemic, from our experience in previous years, Rother has a history of successful delivery on savings. Some £1.8m of savings/income were identified in the December 2017 and December 2018 budget reviews and built into the 2018/19 and 2019/20 budgets and delivered. The identification and delivery of future savings remains a challenge.

How the body plans finances to support the sustainable delivery of services in accordance with strategic and statutory priorities.

We found a robust financial planning process which ties in with corporate objectives. There is extensive internal consultation to ensure the budget meets the needs of the service. The process ensures that key services remain funded. We found no evidence of the need to curtail services to support short term funding deficiencies.

The Council currently has no workforce strategy. The preparation of this has been delayed by Covid, revision of the corporate plan and a management reorganization, but officers expect work on this will commence shortly. The development of such a document should be seen as a priority. As a sector, local government is facing a recruitment and retention challenge. The need for future workforce planning to ensure the Council has the appropriate staff, with the right skills, at the right time to deliver sustainable council services is clear. We would recommend the Council invests in a workforce review for the medium term [recommendation 2].

Financial sustainability

The Council has the necessary resources for financial management including a financial system able to provide timely financial information; the necessary financial skills, experience and capacity in the finance team; and budget holders in the services, with clearly defined responsibilities for budget management. Corporate Management and member challenge of performance, holding budget holders to account, and making decisive interventions where necessary provide effective challenge. The Finance team is well established with significant experience of managing the Council's finances.

We consider, based on our work, that the Council has a positive financial culture and an appropriate 'tone from the top' set by the Chief Executive and the executive. The ongoing management of the Council's financial position over recent years is evidence of this. In challenging times, it is vitally important that a strong financial culture is maintained. We do note that the Council has a number of key projects to deliver over the next few years and it will need to ensure that it has sufficient finance staff capacity and consider requests for additional support as identified by the s151 officer.

Budgets are monitored monthly with budget holders and the forecast is reported to CMT monthly. There are plans to move to cash limited budgeting from zero based and enhance ownership of budgets with managers.

The Council has a Capital Programme and has adopted a Capital Strategy and Capital Planning process which are regularly reviewed to reflect changing circumstances. Other than funding for the replacement of assets which deliver services as well as recurring capital expenditure, the programme includes the property investment strategy, housing developments and purchase of housing for temporary accommodation. The capital programme is overseen by Cabinet, while projects are subject to an appraisal and approval process.

The current corporate strategy covers the period 2020 to 2027. The current areas of focus are:

- Financial Stability
- Prosperity and Economic Development
- Increasing the supply of affordable homes in the District
- Delivering more effective services
- Protecting the natural environment and tackling climate change
- Empowering our people and strengthening our processes and resources

The understanding of drivers of risk in the Council budget are strong and variances from budget are understood. However, there remain fluctuations in variances to budget which may indicate further work is required, either to arrive at more accurate assumptions / a better understanding of cost pressures in the budget, or to ensure budgetary adherence is improved by budget holders. Some variance is inevitable as some services are demand led and difficult to predict. The Covid-19 pandemic has also made it more difficult to predict future costs and demand as the Council has experienced a 'difficult-to-predict-and-plan-for' year. However, in emerging from the pandemic, a return to the norms of budgetary monitoring and financial discipline will be required to ensure financial success. It will be equally critical to ensure that budget holders, and the Council as a whole, on signing up to future budgets, are held to account for any future failure to deliver the budgets agreed to. The Council will also need to be cognisant, early on, of pressures to budgets, with effective early warning systems to identify risks and ensure corrective action is taken. It is equally critical there are effective monitoring and assessment arrangements in place to understand whether future budgetary overspends are the result of unavoidable / unforeseeable cost pressures, or deficiencies in budgetary and financial discipline within directorates. Previous experience has indicated to us that the Council is well equipped to deal with the challenges ahead as long as its strong financial culture is maintained.

Statutory and discretionary spend is not clearly differentiated in the financial planning reports which underlie the budget and MTFP. After years of savings at local authorities, the Council continually reviews all its services to identify potential savings, including the level of statutory services provided while still meeting its obligations. However, being clear on discretionary spend in its financial planning and reporting, will contribute to its decision making as the Council seeks to balance its annual budgets (Recommendation 3).

How the body ensures that its financial plan is 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.

In 2020/21, an additional role of the Council was to support the response to the pandemic. The response was coordinated at a county level by East Sussex County Council. The Council has paid out millions in Covid grants, supported local residents and business and provided advice to business. Planning for 2021/22 has been challenging as the pandemic has provided increased uncertainty around future funding. In November 2020, a one-year funding settlement was announced and the next year's funding settlement is due for announcement shortly at the time of writing.

Financial sustainability

We found a robust financial planning process which ties in with corporate objectives. There is evidence of staff working collaboratively across the Council as opposed to silo working and evidence of positive working with other councils. Service provision is aligned to the funding envelope.

How the body identifies and manages risks to financial resilience, e.g., unplanned changes in demand, including challenge of the assumptions underlying its plans.

2020/21 has been a unique year for financial management of dealing with a pandemic including the temporary cessation of some services to deal with Covid demands and a changing profile of demands on services.

Within the corporate risk register, the Council has identified the risk of not delivering savings and incomes targets. It is noted that the latest Strategic Risk Register indicated the risk was marked as “amber”. Budget reports are monitored on a regular basis and finance reports are subject to scrutiny and challenge at Cabinet meetings. A list of financial risks is included in budget papers sent to members when setting the Council’s budget. It is evident that the Council has built up its reserves in the “good times” for any “rainy day”.

As the Council emerges from the pandemic, and the ‘new normal’ begins to be established – crucially, a normal which once again comes with financial constraints – the organisation should assess what covid working patterns and arrangements should continue in the post pandemic world.

Summary

We found no evidence or indication of significant risks to your financial sustainability as such no further risk-based work has been undertaken in this area.

Improvement recommendations



Financial Sustainability

Recommendation One

Summary recommendation

The Chief Finance Officer should make a definite statement in the annual budget setting report that he believes the level of reserves held are adequate in line with s25 of the 2003 Local Government Act.

Auditor judgement

s25 of the Local Government Act 2003 requires that when a local authority is agreeing its annual budget and precept, the chief finance officer must report to it on the robustness of the estimates made for the purposes of the calculations and the adequacy of the proposed financial reserves. While the budget report to Cabinet for 2020/21 does discuss financial risks, budget assumptions and reserves, there was no overt statement that the s151 officer believes the estimates to be robust and the level of reserves held is adequate. While the former had been corrected by the 2022/23 budget report there was no statement about the adequacy of reserves. We feel Members would benefit from the comfort assurance provided by such a statement.

Management comment

Paragraph 4 of the budget report to Cabinet on the 10th January 2022 states that 'the estimates have been prepared on a robust basis'. However, whilst we think it is implied in the body of the report we agree with the recommendation about the adequacy of reserves and will rectify this for the 2023/24 budget process.

Recommendation Two

A workforce plan or people strategy, aligned to the corporate plan and MTFS should be prepared, formally approved and circulated to appropriate officers.

We have been unable to identify any People Strategy or Workforce Plan, so we were unable to ascertain how this ties in with corporate plans and the budget. Failure to develop a workforce plan may mean that the Council does not have the staff it needs to deliver services going forward.

We agree with the recommendation and SLT/SMT will develop a plan to implement this.

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

Improvement recommendations



Financial Sustainability

Recommendation Three

Summary recommendation	Consideration should be given to making a clear distinction between statutory and discretionary spending in the budgetary information provided to members and published on the web.
Auditor judgement	No distinction is made in the financial information reported to TCWG between statutory and discretionary spending. This approach would help residents to understand the difference between these types of spending and would help inform them as to any spending which is made as a result of manifesto pledges or following a decision by the Council to undertake a specific project outside of or in addition to its statutory obligations.
Management comment	Whilst it is possible to estimate the costs any split between statutory and discretionary service spending will to a certain degree be arbitrary and of limited value. We will consider an approach to this as part of the 2023/24 budget setting process

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

Governance



We considered how the Council:

- monitors and assesses risk and gains assurance over the effective operation of internal controls, including arrangements to prevent and detect fraud
- approaches and carries out its annual budget setting process
- ensures effectiveness processes and systems are in place to ensure budgetary control
- ensures it makes properly informed decisions, supported by appropriate evidence and allowing for challenge and transparency
- monitors and ensures appropriate standards.

How the body monitors and assesses risk and how the body gains assurance over the effective operation of internal controls, including arrangements to prevent and detect fraud

Governance is the system by which an organisation is controlled and operates and is the mechanism by which it and its staff are held to account. It works from Council meetings to the front line. Ethics, risk management, compliance, internal control and best practice are all elements of governance. Effective governance requires both clear and unambiguous structures and processes and effective working of people within these frameworks. Effective governance also requires an open culture that promotes transparency, a willingness to learn and improve and no fear to speak the truth.

The Annual Governance Statement for 2020/21 notes “The Council has an approved Risk Management Policy and Strategic Integrated Framework. This document shows the role both Members and officers have in the identification and minimisation of risk. Progress has been made to further embed risk management within the organisation and is now driven by risk and corporate governance forming an integral part of meetings of the Corporate Management Team”

Risk Management of Covid-19 was reviewed by Internal Audit in 2020/21 and was provided with “substantial” assurance. The only issue found related to one service area, where no formal record had been kept of the risks affecting that service. This omission has since been corrected.

The risk management policy was reviewed in March 2021 but there is no detailed guidance for managers on how to identify, assess and manage their risks. While roles and responsibilities are clearly defined the Council has not defined its risk appetite. We have been informed that staff have not received any training on risk management.

The Council’s Strategic Risk Register is reported to the Audit and Standards Committee annually and we were informed it is reported to Corporate Management Team every six months. It was last reported to Audit and Standards Committee in March 2022 The Strategic Risk Register contains 38 risks which we feel may be too many for all risks to be provided with appropriate focus. Risks are scored for inherent and residual risk and the risk register contains two “red” risks relating to significant contract failure and loss of staff due to the pandemic.

The risk register format is clear showing current and residual risk score, direction of travel, lead officer, contingency. The risk register does not document a number of potential factors including target risk score, actions required, sources of risk and assurance and dates of last and next review. The Council should consider developing information provided to Members and Senior Management regarding risk and this can be linked to the three lines of defence model advocated by the Institute of Internal Auditors.

The Council could strengthen its risk management framework further by developing a full training programme for all levels of staff, providing greater clarity of the relationship between all the risk registers used across the Council, including strategic, operational, project and partnership risk. These should align to ensure that there is a clear golden thread of risks that runs up and down the organisation (recommendation 4).

Internal audit is provided by an in-house team. Although the agreed plan had to be adjusted because of the pandemic, Internal Audit provided sufficient fieldwork and completed reports within the year and the Head of Internal Audit Opinion provided to the Council by June 2021. Progress reports highlighting key issues and findings on reviews are reported to Audit and Standards Committee periodically. The Head of Internal Audit Opinion concludes that “the Audit Manager’s overall opinion on the Council’s framework of governance, risk management and control in 2020/21 is therefore that it is adequate and effective.” Review of the Annual Internal Audit Opinion indicates a wide breadth of work during the year covering financial and operational processes and including a flexible approach which allowed adjustments to the plan in year.

Governance

Internal audit presented no “limited” or “minimal” assurance reports in 2020/21.

Counter fraud services are also provided by the internal audit team. The Annual Internal Audit Opinion makes reference to this service. The internal audit team undertake work related to the National Fraud Initiative and other counter fraud duties primarily focused on council tax and business rates. This includes the identification of unbanded dwellings, removal of discounts/disregards that are no longer applicable, removal of small business rate relief and identification of unrated holiday lets.

Counter fraud operations are underpinned by Member and Staff codes of conduct (dated May 2021 and 2011 respectively), an Anti-Fraud and Corruption Strategy (dated September 2019) and a whistleblowing policy (dated September 2019). Some of these documents have not been reviewed recently and an updating of them is recommended with annual review thereafter (recommendation 5).

The annual work plans for internal audit are currently approved and overseen by the Audit and Standards Committee. From our attendance at this Committee, we consider it to robustly review the work of internal audit, providing appropriate challenge.

How the body approaches and carries out its annual budget setting process

The Government financial landscape has made this a unique year for financial planning. The Council has a robust approach to financial planning and assumptions made appear reasonable. While future funding is unclear, a medium-term financial plan has been produced based on prudent assumptions about future income streams. Our previous knowledge of the Council informs us those arrangements are in place with the Council to model the uncertainties in the system notwithstanding the factors that are outside the Council’s control. We understand that the model medium term financial strategy is a living document, constantly updated following discussions across the Council. Given the approach, we have seen evidence of scenario planning.

A Draft Medium Term Financial Strategy (MTFS) is taken to Overview & Scrutiny Committee in November, this is worked up through consultation with budget holders, CMT, Members and the general public to a draft budget which goes to Cabinet and Overview & Scrutiny Committee in January. Final agreed budget is sent to Cabinet for approval in February.

Investments and Borrowings are included within the financial plan, but the effects are minimal given the current rates of return on investments.

How the body ensures effective processes and systems are in place to ensure budgetary control.

Budget managers have access to finance system and can review budgets at any time. Budgets are monitored monthly with budget holders and the forecast is reported to Corporate Management Team monthly. Quarterly monitoring reports are submitted to Overview and Scrutiny Committee and Cabinet every quarter. Review of Cabinet papers indicates that variances are adequately identified and explained.

The Finance team is duly qualified, stable and experienced. The senior management team has recently been restructured and further staffing restructures are planned. The S151 Officer is the Chief Finance Officer and sits on the Management Team.

It is clear that financial delivery is a key objective from the top down. 2020/21 has been a tough year financially for Rother and without a concerted effort across the council the year end position could have been troubling for financial sustainability.

We consider budget management arrangements to be robust and we have found no areas of concern during our work.

How the body ensures it makes properly informed decisions, supported by appropriate evidence and allowing for challenge and transparency.

From review of papers and discussions with staff, we believe the Council’s decision-making processes are open, transparent and strong and we have no evidence that reactive or unlawful decisions have been made.

It is evident from our review of papers that sufficient information is provided to members and they challenge and hold senior management to account appropriately. The Council is engaged and provides appropriate levels of scrutiny to external and internal audit. There is no evidence of serious and pervasive weaknesses in final accounts processes leading to material errors in draft accounts, failure to meet statutory reporting deadlines and/or a modified opinion on the financial statements.

Covid-19 brought some unique challenges to the Council and some decisions had to be taken on a short timescale. However, as will be seen in our section on Covid in this report, we feel that appropriate arrangements were put in place to facilitate both agile decision making but also appropriate scrutiny and authorization in line with the wishes of the Council.

Governance

The Council is well established and since 2019 run by a coalition led by independent members. The Members therefore have an understanding of the organisation in order to make informed decisions. This is supported by detailed and comprehensive reports from officers. The importance of maintaining a strong financial culture is vital in the context.

Financial and operational activity appears well planned with no need for reactive actions and short-term remedies. Even during the height of the effects of the pandemic responses have been deliberate and thought out.

The Council has ambitious plans for the next period including building new homes through its arm's length housing company, development of the Bexhill leisure centre, purchase of commercial property for regeneration and increased income and buying accommodation to house the homeless on a temporary basis. The ability of the Council to deliver this relies on capacity of both officers and members and will need to be monitored closely.

How the body monitors and ensures appropriate standards, such as meeting legislative/regulatory requirements and standards in terms of officer or member behaviour (such as gifts and hospitality or declarations/conflicts of interests)

Various internal and external mechanisms are used to ensure the Council meets the necessary standards and legislative requirements.

Our work has not uncovered any non-compliance with the Constitution, statutory requirements or expected standards of behaviour. We have not been made aware of any data breaches at the Council.

Officer and Member codes of conduct are in place and members' interests are published on the Council website. There is an opportunity for Members to declare interests at every meeting as a set agenda item. Related party transactions are required to be declared as part of year end closure of accounts and sent to all Members and Senior officers for their completion. Officers are advised on the rules related to gifts and hospitality and registering of interest. There is a register of gifts and hospitality for officers and officers are required to declare interests annual. A register of officer interest is maintained by corporate services. We found no evidence of adverse outcomes of interests, gifts or hospitality not being declared.

Summary

We found no evidence or indication of significant risks to your governance arrangements as such no further risk-based work has been undertaken in this area.

Improvement recommendations



Governance

Summary recommendation

Recommendation Four

To further enhance the risk management approach the Council's review of risk management it should consider:

- Provide detail guidance on risk management for risk managers
- Reducing the number of risks in the corporate risk register to those risks with greatest impact or likelihood and manage the lower scored risks at Director level.
- Factors such as target risk score, actions required, sources of risk and assurance and dates of last and next review should be recorded in the risk register.
- Developing a comprehensive risk management training programme for members and staff.

Recommendation Five

Codes of conduct, the Anti Fraud and Corruption Strategy and Whistleblowing Policy should be updated as soon as possible and annual thereafter

Auditor judgement

The risk management policy was reviewed in March 2021 but there is no detailed guidance for managers on how to identify, assess and manage their risks. While roles and responsibilities are clearly defined the Council has not defined its risk appetite. We have been informed that staff have not received any training on risk management.

The Strategic Risk Register contains 35 risks which we feel may be too many for all risks to be provided with appropriate focus. Risks are scored for inherent and residual risk and the risk register contains two "red" risks for residual risk relating to significant contract failure and loss of staff due to the pandemic.

The risk register does not document a number of potential factors including target risk score, actions required, sources of risk and assurance and dates of last and next review.

Counter fraud operations are underpinned by Member and Staff codes of conduct (dated May 2021 and 2011 respectively), an Anti-Fraud and Corruption Strategy (dated September 2019) and a Whistleblowing Policy (dated September 2019).

Management comment

The shortcomings of the existing risk management processes are recognised by CMT and workshops have been arranged with our insurance provider (Zurich) in June and July 2022 which should address most of the issues raised.

Agreed

Improving economy, efficiency and effectiveness



We considered how the Council:

- uses financial and performance information to assess performance to identify areas for improvement
- evaluates the services it provides to assess performance and identify areas for improvement
- ensures it delivers its role within significant partnerships, engages with stakeholders, monitors performance against expectations and ensures action is taken where necessary to improve
- ensures that it commissions or procures services in accordance with relevant legislation, professional standards and internal policies, and assesses whether it is realising the expected benefits.

How financial and performance information has been used to assess performance to identify areas for improvement

This year has been incredibly challenging one for public services as a whole and Rother are no different. Rother played its part in the county wide effort to support residents and local business. Local Government will face yet more challenge as it moves from the Covid response stage to the task of supporting long-term economic and social recovery.

Performance management sits at several levels in the organisation. A suite of 8 to 10 performance indicators selected annually by Members are reported quarterly to Overview and Scrutiny Committee. Below this health check, performance indicators are reported to the Chief Executive and Deputy Chief Executive. These include 25 to 30 indicators around operational performance and are reported monthly. The Council used to have 652 performance indicators under this collated by the performance management office. Use of these has been discontinued and the performance management office are looking to produce a new rationalized suite of performance indicators. The Council has recently replaced the Pentana performance management system with a bespoke solution. All performance indicators can go to Overview and Scrutiny by exception. Below this service heads monitor delivery service plans and action plans.

Benchmarking has been used to assess performance in the past but with the focus on dealing with the pandemic over the last 20 months, understandably resources have not been available to focus on service improvement. We would recommend, especially given the need for significant efficiencies in the medium term, a return to looking to see how other councils provide services with a view to introducing best practice, identifying efficiencies and providing value for money (recommendation 6).

The Council has a Performance Data Quality Policy which was reviewed in 2018 and is due for review in 2023. The policy sets out the Council's data quality principles, rules related to ownership and accountability, monitoring and reporting and analysis and use and the Council's expectations in regard to system and processes.

How the body evaluates the services it provides to assess performance and identify areas for improvement

The Corporate Plan is used by officers to deliver services and to inform their recommendations to service committees. Councillors use it to inform their decisions too. The current Corporate Plan runs until 2027.

As previously mentioned, the Council has a comprehensive approach to performance management.

We found no evidence of failure to meet minimum service standards or to consider appropriate service delivery options. The organisation has a focus on long term development and not short-term expediency.

How the body ensures it delivers its role within significant partnerships, engages with stakeholders it has identified, monitors performance against expectations, and ensures action is taken where necessary to improve.

Partnerships and in particular shared services have been seen as a cost effective and efficient way to provide services by the Council for a number of years. Partnerships have been entered into with neighbouring councils in East Sussex to provide key services such as refuse collection and licensing. The Council is flexible in its approach, working in partnership when it is efficient and economical to do so, and reverting to direct provision, should circumstances call for that. Leisure Facilities are run by Freedom Leisure, a not-for-profit leisure trust who work with other councils both adjacent to Rother and across the country. The Council is transparent about its dealing with significant partners except where commercial sensitivity precludes this.

Improving economy, efficiency and effectiveness

Where the body commissions or procures services, how the body ensures that this is done in accordance with relevant legislation, professional standards and internal policies, and how the body assesses whether it is realising the expected benefits.

Procurement support services across the organisation delivering front line and back-office services. The Council uses the services of the East Sussex Procurement Hub (ESPH) which is hosted by Wealden District Council. It is a three-way partnership including Hastings Borough Council, although the Hub do undertake wider joint procurements across East Sussex and beyond where there is an economic/market advantage in procuring together. The Council has a Procurement Strategy last updated in May 2020.

During July 2019 ESPH held a workshop with Members to inform the development of a new strategy that would meet legal requirements and policy objectives. The strategy includes performance targets for 2020/21. We can find no report where 2020/21 performance against these targets was reported., although a performance report for 21/22 was presented to Cabinet in February 2022. The strategy covers value for money, social value, sustainability, local procurement and contract management and refers to the National Procurement Strategy for Local Government in England which was introduced in 2018. It does not mention partnering, e-procurement or procurement with small to medium size enterprises and the voluntary sector. We feel the document is in need of review (recommendation 7).

The Council has a legal duty to secure value for money in commissioning and procuring its requirements and to continually improve the quality in everything the public sees and expects from it. Central Government policy seeks to ensure that all commissioning and procurement activity should be based on obtaining value for money. This is defined as considering the optimum combination of whole life cost and the quality necessary to meet the customer's requirements. In conjunction with relevant legislation and the Council's Constitution (particularly the Financial Procedure Rules and Contract Procedure Rules).

We found no evidence that appropriate procurement processes were not followed during 2020/21.

The Council has no significant commercial ventures.

Summary

We found no evidence or indication of significant risks to your arrangements as such no further risk-based work has been undertaken in this area.

Improvement recommendations



Improving economy, efficiency and effectiveness

Recommendation Six

Summary recommendation

Consideration should be given to developing a programme of service reviews using such tools as benchmarking to identify best practice. Firstly, it could compare its performance reporting (in terms of number and types of KPIs against other Sussex Districts) to determine whether others are capturing and reporting useful information the Council is not. Secondly, the Council could actually compare the performance of existing KPIs against other Councils (starting in Sussex initially to determine whether the exercise is useful).

Auditor judgement

Benchmarking has been used to assess performance in the past but with the focus on dealing with the pandemic over the last 20 months, understandably resources have not been available to focus on service improvement. We would suggest, especially given the need for significant efficiencies in the medium term, a return to looking to see how other Councils provide services with a view to introducing best practice and providing value for money.

Management comment

The Council has already improved its approach to performance management, which is now reported to Overview & Scrutiny Committee. However, this recommendation will also be discussed at Senior Leadership Team.

Recommendation Seven

Consideration should be given to improving procurement practice by

- Reporting performance against agreed performance targets every six months
- When the Procurement Strategy is next updated sections are added outlining guidance in relation to partnering, e-procurement and procurement with small to medium size enterprises and the voluntary sector.

The Council has a Procurement Strategy last reviewed in May 2020. During July 2019 East Sussex Procurement Hub held a workshop with Members to inform the development of a new strategy that would meet legal requirements and policy objectives. The strategy includes performance targets for 2020/21. We can find no report where performance against these targets was reported in 2020/21. The strategy covers value for money, social value, sustainability, local procurement and contract management and refers to the National Procurement Strategy for Local Government in England which was introduced in 2018. It does not provide guidance partnering, e-procurement or procurement with small to medium size enterprises and the voluntary sector.

We agree with these recommendations and would point out that Procurement performance and Strategy were both reported to Cabinet on the 28th February 2022.

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

COVID-19 arrangements



Since March 2020 COVID-19 has had a significant impact on the population as a whole and how Council services are delivered.

We have considered how the Council's arrangements have adapted to respond to the new risks they are facing.

Financial Sustainability

On 15 March 2020 based on epidemiological forecasts, the UK government said everyone should avoid all "non-essential" travel and contact with others, avoid crowds, and work from home if possible. Those with symptoms, and their household, were asked to self-isolate. Pregnant women, people over 70, and those with certain health conditions were asked to self-isolate for longer. On 20 March 2020, the UK governments closed all schools, restaurants, pubs, indoor entertainment venues and leisure centres, with some exceptions. On 23 March 2020, the government imposed a lockdown on the whole population, banning all "non-essential" travel and contact with people outside one's home, and shutting almost all businesses, venues, facilities, amenities and places of worship. People were told to keep apart in public. Police were given power to enforce the lockdown, and the Coronavirus Act 2020 gave the government emergency powers including local authorities.

These measures did not significantly change through the whole financial year 2020/21. The first six months of the year was spent largely adjusting to the demands of the pandemic with new services being introduced and the payment of grants to support residents and local business. Staff were seconded to help with Covid related work and this had a knock-on effect to day-to-day services.

The pandemic has had significant financial effect on the Council predominately through the loss of income from such things as commercial rents and car parking. However, operational changes have led to a change in expenditure profile which have partially offset losses.

In the early stages of the pandemic the Government announced various funds to provide financial support for business (Small Business Grant Fund, the Retail, Leisure and Hospitality Grant Fund and the Local Authority Discretionary Grant Fund (LADGF)). Local authorities were made responsible for delivering grants to eligible businesses. The administration of grants was reviewed by internal audit who provided "substantial" assurance.

Nevertheless, there is likely to be significant pressure on public funds in future years given the levels of borrowing undertaken by Government to fund Covid-19 support measures. The Council has commenced some scenario modelling on the potential impact on the Council Tax base for the number of households from which full Council Tax can be collected, to understand how this may affect the Council's core funding in the immediate future. In the short term any unexpected shortfall in funding will be met from reserves.

The Council received additional grant funding to cover costs incurred as a result of Covid-19. This funding was utilised in a variety of ways. The Government also announced a support package to partly cover the irrecoverable council tax and business rate loss of income in 2020/21, whereby 75% of losses incurred will be funded by Government Grant.

Governance

Given that the Government had introduced measures to restrict travel, adhere to social distancing rules and for people to work from home unless otherwise unavoidable, the Council held an extraordinary meeting on 23 March 2020 to agree emergency procedures to enable officers, in consultation with key Members, to make COVID-19 related critical executive or regulatory decisions that could not wait during the period of Government restrictions. It was also agreed that as a result of the COVID-19 emergency, all scheduled meetings be suspended until further notice; Member non-attendance would be considered as an absence approved by the Council until further notice and the Chairman of Council and all Committee Chairmen and Membership would remain as currently constituted until such times as the Annual Council meeting could be held.

On 4 April 2020, the Local Authorities and Police and Crime Panels (Coronavirus) (Flexibility of Local Authority Police and Crime Panel Meetings (England and Wales) Regulations 2020 came into force. These regulations allowed local authorities to hold remote meetings, along with other considerations including there being no requirement to hold an Annual Council Meeting until May 2021. By mid-April it was agreed to pursue Microsoft Teams as the favoured platform in the short-term for remote meetings. Microsoft Teams had been rolled out to staff just prior to the lockdown and rolled out to Members shortly thereafter.

COVID-19 arrangements



Since March 2020 COVID-19 has had a significant impact on the population as a whole and how Council services are delivered.

We have considered how the Council's arrangements have adapted to respond to the new risks they are facing.

In March there was an impact on business as usual and delivery of services mainly from staff working at home and some self-isolation, some services were unable to function during the initial lockdown such as parking enforcement. Decisions around any necessary changes to internal controls were discussed with senior managers and escalated if necessary. The Council started a food delivery service for those shielding in partnership with NHS volunteers at the request of government and procured personal protective equipment to help staff carry out their roles. An initial assessment of the costs and loss of income of immediately apparent changes was also carried out and reported to management and members

Member meetings went on-line and all staff started working from home where possible to reduce the risk of spread of the disease. Other measures were put in place to ensure the safety of those who still had to work in the community. The first formal meeting of the Council to use the Microsoft Teams platform was the Audit and Standards Committee on 18 May 2020

Governance arrangements were amended to meet the challenges of the pandemic. Specific cost centres were set up to allow for accurate recording of Covid related costs.

The Council was kept up to date with the situation through regular updates through reports to Cabinet.

Improving economy, efficiency and effectiveness

The Councils response to the Covid-19 emergency included providing temporary accommodation for rough sleepers and people at risk of homelessness, supporting vulnerable residents and the Council distributed millions of pounds in Business Grants.

Conclusion

We found no evidence or indication of significant risks to your Covid-19 arrangements as such no further risk-based work has been undertaken in this area.

Opinion on the financial statements



Audit opinion on the financial statements

We gave an unqualified opinion on the financial statements on 20th May 2022.

Audit Findings Report

More detailed findings can be found in our Audit Findings Report, which was published and reported to the Council in April 2022.

Preparation of the accounts

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

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.

As in previous years we expect the Council to be below the threshold requiring audit procedures however at the time of issuing this report the Group Instructions have not been issued by the NAO to confirm the approach for 2020/21.



Appendices

Appendix A - Responsibilities of the Council



Role of the Chief Financial Officer (or equivalent):

- Preparation of the statement of accounts
- Assessing the Council's ability to continue to operate as a going concern

Public bodies spending taxpayers' money are accountable for their stewardship of the resources entrusted to them. They should account properly for their use of resources and manage themselves well so that the public can be confident.

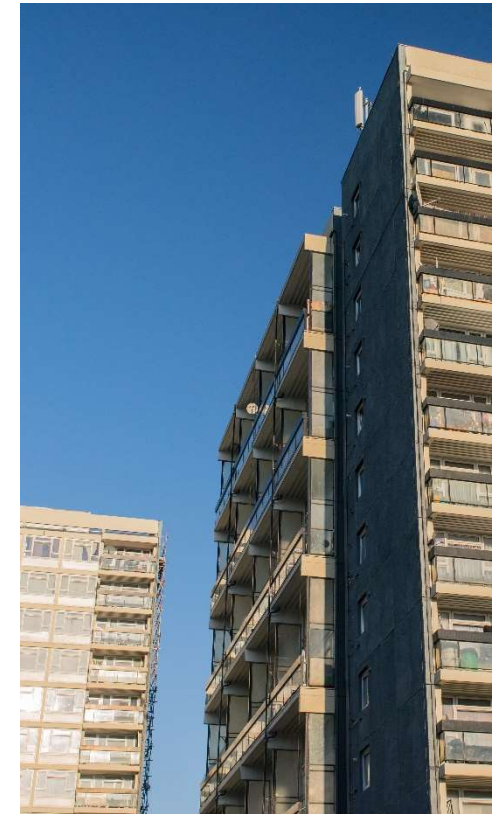
Financial statements are the main way in which local public bodies account for how they use their resources. Local public bodies are required to prepare and publish financial statements setting out their financial performance for the year. To do this, bodies need to maintain proper accounting records and ensure they have effective systems of internal control.

All local public bodies are responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness from their resources. This includes taking properly informed decisions and managing key operational and financial risks so that they can deliver their objectives and safeguard public money. Local public bodies report on their arrangements, and the effectiveness with which the arrangements are operating, as part of their annual governance statement.

The Chief Financial Officer (or equivalent) is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Chief Financial Officer (or equivalent) determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The Chief Financial Officer or equivalent is required to prepare the financial statements in accordance with proper practices as set out in the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom. In preparing the financial statements, the Chief Financial Officer (or equivalent) is responsible for assessing the Council's ability to continue as a going concern and use the going concern basis of accounting unless there is an intention by government that the services provided by the Council will no longer be provided.

The Council is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.



Appendix B - An explanatory note on recommendations

A range of different recommendations can be raised by the Council auditors as follows:

Type of recommendation	Background	Raised within this report
Statutory	Written recommendations to the Council under Section 24 (Schedule 7) of the Local Audit and Accountability Act 2014. A recommendation under schedule 7 requires the Service to discuss and respond publicly to the report.	No
Key	The NAO Code of Audit Practice requires that where auditors identify significant weaknesses as part of their arrangements to secure value for money they should make recommendations setting out the actions that should be taken by the Council. We have defined these recommendations as 'key recommendations'.	No
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, see pages 13 and 14.

Appendix C - Use of formal auditor's powers

The following are formal powers that can be used by auditors:

Formal power	Used by auditor in 2020/21
<p>Statutory recommendations</p> <p>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</p>	Not required.
<p>Public interest report</p> <p>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.</p>	Not required.
<p>Application to the Court</p> <p>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.</p>	Not required.
<p>Advisory notice</p> <p>Under Section 31 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:</p> <ul style="list-style-type: none"> • 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. 	Not required.
<p>Judicial review</p> <p>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.</p>	Not required.

