Auditor's Annual Report on Rother District Council

2021/22

February 2022

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.

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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.

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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 and 2021/22 is the second year that we have reported our findings in this way. 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.

Criteria	Risk assessment	2020/21 Auditor Judgment		2021/22 Auditor Judgment		Direction of travel
Financial sustainability	No risks of significant weakness identified	Amber	No significant weaknesses in arrangements identified, but improvement recommendation made	Amber	No significant weaknesses in arrangements identified. The Council addressed the majority of the improvement recommendations from the prior year. We have made some additional improvement recommendations as part of this year's work.	↔
Governance	No risks of significant weakness identified	Amber	No significant weaknesses in arrangements identified, but improvement recommendation made	Amber	No significant weaknesses in arrangements identified. The Council has addressed the improvement recommendations from the prior year. We have made some additional improvement recommendations as part of this year's work.	↔
Improving economy, efficiency and effectiveness	No risks of significant weakness identified	Amber	No significant weaknesses in arrangements identified, but improvement recommendation made	Amber	No significant weaknesses in arrangements identified. The Council addressed the majority of the improvement recommendations from the prior year. We have made some additional improvement recommendations as part of this year's work.	↔

- Green: No significant weaknesses in arrangements identified or improvement recommendation made.
- Amber: No significant weaknesses in arrangements identified, but improvement recommendations made.
- Red: Significant weaknesses in arrangements identified and key recommendations made.

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Executive summary

Financial sustainability

The Council continues to operate in an increasingly uncertain financial environment. For 21/22 the Council set a budget that required the use of £2.7m of reserves to meet a breakeven position. At year end the Council produced an outturn position of breakeven requiring a lower use of reserves than initially planned.

The Council continues to face financial challenges in terms of the medium term financial outlook which is becoming increasingly reliable on the use of further reserves and would not be sustainable if left unaddressed. The Council is taking several actions to respond to this pressure including an upcoming Service Planning Review process to investigate how services can be delivered differently, a Financial Stability Programme aimed at finding the necessary efficiencies required and devolving services to Bexhill Town Council. The track record of delivering savings in 2021/22 and 2022/23 is low at 31% and 21% respectively. A contributory factor to this is delays in the transfer of services to Bexhill Town Council. Officers expect this process to gain traction in 2023/24 to deliver the required savings on a recurring basis.

We have not identified a significant weaknesses in arrangements in 2021/22, but note the developing 2023/24 budget and updated MTFP that confirms without further action, an underlying budget deficit will remain until at least 2027/28 requiring a use of reserves that will see usable reserves fall below £5m (the minimum level recommended by the Chief Finance Officer) between 24/25 and 27/28 and the Council will not be able to replenish revenue reserves during this period. Taking decisive action now to minimize the use of reserves in the medium term is key.

Governance

The Council has undertaken a full review of its risk management processes with the support of external consultants. This review has responded to improvement recommendations made in the prior year Value for Money work. The improvements were implemented in the 2022/23 year due to the timing of the VFM work but have positively impacted the processes that allow the Council to meet its objectives.

We have made some improvement recommendations that represent actions that could be taken to achieve best practice in risk management, internal audit assurance, budget monitoring and the budget setting processes at the Council. However none of these points represent a weakness in arrangements.

Improving economy, efficiency and effectiveness

2021/22 was the first full year of operation of two of the Council's key partnerships, Bexhill Town Council and Rother DC Housing Company. Activity between the Council and these two organisations has been limited in the year. The arrangements in place to set up and approve the two projects are appropriate. We have raised some improvement recommendations in relation to strengthening the ongoing governance arrangements between the Council and these two organisations to ensure that members receive regular updates on the progress and performance of the two projects whilst still in a transition phase. In relation to the company, actions to make these improvements are already in train in 2022/23.

Benchmarking analysis has highlighted three areas of high unit cost services that the Council may have the opportunity to take a targeted approach to reducing as part of the upcoming Service Planning Review process to assist further with the medium term financial challenge.

Monitoring of non-financial performance remains largely unchanged and we have made some improvement recommendations that could further strengthen the process.

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Opinion on the financial statements and use of auditor's powers

We bring the following matters to your attention:

Opinion on the financial statements Auditors are required to express an opinion on the financial statements that states whether they : (i) present a true and fair view of the Council's financial position, and (ii) have been prepared in accordance with the CIPFA/LASAAC Code of practice on local authority accounting in the United Kingdom 2021/22	We have substantially completed our audit of your financial statements and expect to issue an unqualified audit opinion, following the Audit & Standards Committee meeting on 20th March 2023.
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	No such issues identified
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.	No such issues identified
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.	No such issues identified
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.	No such issues identified
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.	No such issues identified

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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 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 the Council's arrangements in each of these three areas, is set out on pages 7 to 28.

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Financial sustainability

We considered how the Council:

- identifies all the significant financial pressures that are relevant to its short and medium-term plans and builds them 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 which may include working with other local public bodies as part of a wider system
- identifies and manages risk to financial resilience, such as unplanned changes in demand and assumptions underlying its plans.

21/22 Financial Position

The Council set a balanced budget for 21/22 which was approved by members in February 2021. In order to produce the balanced position the Council was reliant on efficiency savings through its Financial Sustainability Programme (FSP) of £632k and the use of £2.7m of general fund and earmarked reserves. Therefore, the budget was an expected underlying deficit position, before use of reserves. The forecast outturn position is monitored by the Finance Team and reported to members quarterly. In the first two quarters of the year the Council expected to overspend on its balanced budget predominantly due to under delivery of the Financial Sustainability Programme. Although under delivery of that programme has continued throughout 21/22 the Council's year end outturn position was better than the initial budgeted position, breaking even with the use of £1.4m of reserves, compared with the planned £2.7m usage. The reason for the improved performance was increased income from government grants, such as for homelessness prevention, and improved performance by the Housing, Communities and Neighbourhood Directorate across income and expenditure factors.

22/23 Budget and Medium Term Financial Plan (MTFP)

Although the Council's year end performance for 21/22 is ahead of its budgeted position, achievement of a breakeven position still required the use of reserves which is unsustainable in the medium term. The position also relied on government grants, which carry a degree of uncertainty and therefore are unpredictable as a source of future funding. The Council continues to explore additional ways in which generate income from other sources including its commercial property investment programme and returns on financial investments, and ways to respond to uncertainty and reserve usage as part of its annual update of the MTFP.

Members approved the 22/23 budget and MTFP in February 2022. The budget, in line with legislation, was a balanced position consisting of net expenditure of £16.736m matched with income from key funding sources such as Council tax, Business Rates, government grants and the planned use of reserves of £3.2m to produce a breakeven position. At Q2 of 22/23 the Council's forecast outturn is £527k better than budgeted and therefore the Council is on track to achieve its balanced budget at the mid-point of the financial year, with a lower ruse of reserves than initially forecast.

The MTFP spans 22/23 to 26/27 and forecasts a total budget gap of £2.7m over the 5 year period of the MTFP to be funded from reserves. This equates to 3.9% of the net expenditure expected over the life of the MTFP. We would consider a 5% deficit or more to be significant in terms of sustainability. This position does not currently suggest a weakness in budgetary arrangements but if the underlying causes of the deficit position in the early years of the MTFP are left unaddressed the gap could increase. The 23/24 budget setting process has already seen the forecast gap over 5 years increase to £4.4m. The financial gap is greater than 5% of net expenditure in individual years, however there are currently sufficient reserves available to support the full 5-year deficit. A continued focus on reducing the medium term gap over future years needs to be the Council's priority to meet its objective of protecting services. The Council already has its Financial Stability Programme in place as well as a plan to transfer some discretionary service to Bexhill Town Council. In 23/24 the Council will also undertake a Service Planning Review to identify potential alternative delivery models for services. These are all positive actions to respond to its financial challenge, notwithstanding that due to the multi year nature of the projects, their full impact will take some time to be evidenced. A time lag between implementation and effect is to be expected.

We would expect the Council to review and update assumptions in relation to key sources of funding (from Council Tax and Business Rates, fees and charges and funding included in the annual Local Government Settlement) and key sources of expenditure (most notably inflation and pay) each year during the budget setting process.

Income assumptions within the budget and MTFP have been identified as being appropriate and realistic reflecting the annual Local Government Settlement and the maximum allowable Council Tax increase without triggering a referendum. The Council has effectively maximised this stable form of income to mitigate some of the uncertainty around grant funding from central government. Fees and charges for services have been reviewed in full as part of the budget setting process. The increases are in line with the Retail Price Index (RPI), unless charges are set by a national tariff. The inflation base is appropriate based on the nature of the services.

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Financial sustainability

RPI continued to rise throughout the budget setting process and 22/23 financial year, by virtue of their nature fees and charges are set annually with limited scope to continually make changes. The 23/24 budget does account for the significant increase.

Assumptions in relation to key sources of expenditure in the budget have been observed to be on the more optimistic side and therefore may require review when producing the 23/24 budget process, which uses a roll forward approach and updates for changes in key assumptions. Non-pay inflation increases in the 22/23 budget were based on the Consumer Price Index (CPI) which is appropriate. During the budget setting period the average CPI rate was 5.15% and therefore the inflation estimate used in the budget of 1.8-2% is considered optimistic and could result in the Council having a further budget shortfall than anticipated. The Council does have a £200k contingency within the budget to react to changes in assumptions however our high-level analysis demonstrate this may not be sufficient, in isolation, to cover inflation above the Council's estimate.

The Council's estimate for pay related awards of 1% from September 2022 was arguably optimistic given the developing environment at the time of budget setting. Trade unions have since negotiated a much higher award (although this was not known at the time of the budget) which averages out to approximately 7% across the pay spine backdated to April 22.

Despite these key expenditure assumptions being optimistic the Council is on track to deliver its 22/23 forecast position as a result of favourable variances across other assumptions such as financing costs for capital projects which have been delayed, however these are likely to be non-recurrent events and therefore it is important that assumptions are reviewed as part of the 23/24 budget setting process **(Recommendation 1).**

Throughout the budget setting and MTFP process there is a clear consideration of the financial risks the Council is facing. Although there is not one dedicated section within the documentation that highlights these risks it is inherent throughout the budget setting papers, discussion by members and challenge by the Overview and Scrutiny Committee. All common risks in the sector are covered and there is also consideration of Council specific risks based on the demographic and operations of Rother District Council, including risks around homelessness and planning appeals. A key risk to the MTFP is the ongoing use of reserves and this is reiterated consistently to members and officers throughout the year.

Savings

The Council established its Financial Sustainability Programme (FSP) in March 21 to deliver efficiencies in 21/22 to 23/24. The FSP approach to addressing the revenue budget deficit was based on the protection of discretionary services rather than reducing services via savings. Heads of Service, relevant portfolio holders, members of the Senior Leadership Team and the Corporate Management Team all have input into the identification and ongoing monitoring of the delivery of the programme and therefore internal stakeholder engagement in relation to savings is appropriate.

The total efficiency target from the programme in each year is included in the Council's MTFP and budget and monitored at this high level through quarterly budget monitoring reports. Cabinet also receives a twice yearly update on the programme which focusses on monitoring the progress of the processes in relation to the programme and highlighting any newly identified schemes. Cabinet does not receive monitoring of the individual schemes within the programme on a regular basis in order for schemes with specific delivery challenges to be highlighted and targeted action taken. There has been informal monitoring at this detailed level undertaken by the officer led Programme Management Office (PMO) in 21/22 and by the Financial Stability Board (FSB) (merged into the Corporate Programme Board) in 22/23 which includes a useful performance dashboard approach. Given that the programme has under-delivered in 21/22 it would be of benefit for schemes to be monitored more frequently and at a more granular level of detail at the top tier of the organization to ensure that decision makers have a full suite of information with which to make informed decisions. We do note improvements below Cabinet noted in 22/23 and therefore there is the opportunity to extend these upwards to a member attended forum. **(Recommendation 2)**

The Council does not report on the split of non-recurrent to recurrent savings in its monitoring to the FSB Corporate Programme Board. This may be useful to include in the monitoring dashboard, so decision makers have sight of savings which have a multiyear impact and the scale of reliance on one off savings. This can help prompt decisions to shift the balance more towards recurrent means. The majority of the savings target for 22/23 was non-recurrent (£485k of the £635k target - 76%). The Council should explore ways that it can shift this balance and identify more recurrent schemes **(Recommendation 2).**

For 21/22 the efficiency target included in the FSP was £632k as a result of the changes made to services, but only £196k was achieved. Likewise for 22/23 the target was £635k and £133k had been achieved as at the Q2 monitoring report. This demonstrates that the Council is finding savings delivery a challenge. The delivery of the FSP, is directly linked to the use of reserves required to balance the Council's budget each year and therefore under-delivery is placing pressure on the Council's future financial sustainability. The Council's own analysis demonstrates that if the whole programme under-delivers by 50% over the 5 year period of the MTFP then reserves would fall to an unsustainably low level by 26/27 and if only 25% of the FSP was delivered reserves would run out before the 5 year period of the MTFP was reached (in 25/26). The delivery rate of 31% and 21% in 2021/22 and 2022/23 respectively highlights the risk to financial sustainability. The Council therefore needs to prioritise exploring ways to increase the deliverability of the FSP in order to protect the delivery of future services and its reserves **(Recommendation 2).**

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Financial sustainability

A key project that has been undertaken to protect the Council's discretionary services has been the creation of Bexhill Town Council with certain discretionary services to be devolved and allow them to continue to be delivered for the benefit of service users while making vital savings for the Council. Services identified for devolvement include parks and gardens, non-income earning car parks, public conveniences, christmas lights, museum services, bus shelters and the cost of backfilling a devolvement team. Over the 3 year period of the FSP the transfer is estimated by the Council to make savings of £1.4m in total, recurring in each year after the end of the FSP. In 21/22 no services were transferred. Officers expect that the first service will be transferred at the end of 22/23 or early 23/24 as negotiations are nearing completion at the time of writing. Although this devolving of services was expected to be a phased approach it is vital to realizing the savings within the FSP and therefore the Council should explore ways that it can increase the frequency, intensity and formality of liaison with the Town Council to increase the speed of transfer of services **(Recommendation 2).**

We investigated whether the Council carry out "Post implementation reviews" of savings initiatives, to ensure lessons are learned and opportunities to make further savings are maximized. We did not identify any such reviews. Given that savings are undelivered in years 21/22 and 22/23 to date these reviews could allow corrective action to be taken on under-delivering projects and also identify successfully delivered schemes and explore opportunities to extend these projects to other service lines **(Recommendation 2).**

Reserves

The Council reviews its reserves strategy annually as part of the budget setting process. As such it is able to forecast the use of reserves that is likely to be required to balance the budget and MTFP over a 5 year period or where the Council may be able to contribute to those reserves. The Council then reports performance of reserves usage against its financial plan as part of the quarterly budget reporting to Cabinet and Overview and Scrutiny Committee.

The reserves available for use are the Council's General Fund Reserve, which can be used for any purpose, and earmarked General Fund Reserves which are set aside by the Council for specific purposes or projects but can be used without restriction. Reserves are finite and therefore once used require replenishment to be able to protect the Council against future financial uncertainties. The usage of earmarked reserves, as a temporary measure for purposes they were not earmarked for, takes away resources for the specific projects they were intended for and therefore also require replenishment to allow Council priorities to be met. The Council has set a minimum level of reserves of £5m that it deemed appropriate to hold to protect itself against future uncertainties

In 21/22 the Council used £1.4m of general fund and earmarked reserves to balance the budget and £3.2m in 22/23. By the end of 22/23 the Council expects to have £7.5m in usable reserves.

The initial 22/23 MTFP recorded that in 23/24 to 26/27 the Council's reserve usage would see reserves drop below the £5m minimum agreed level with members but would recover, with reserves being replenished in the latter years of the MTFP. The 23/24 budget process which is still in progress, confirms that without further action, an underlying budget deficit will remain until at least 2027/28 requiring a use of reserves that will see usable reserves fall below £5m between 24/25 and 27/28 and the Council will not be able to replenish revenue reserves during this time.

Grant Thornton published a paper in September 22 entitled 'Lessons from recent Public Interest reports' which includes a strong emphasis on the importance of maintaining an adequate level of reserves. There is no formal definition as to what constitutes adequate, but Grant Thornton's view is that reserves should be a minimum of 5% of net spending and preferably be somewhere between 5% and 10%. The Council has undertaken some analysis as to what the 5% and 10% levels would be based on the MTFP and has determined that their planned reserve levels are within the expectations set out in the report. As stressed to Members, the paper is only intended as a high-level guide and the judgement on the adequacy of the reserves is the responsibility of the Council. In the view of the Chief Finance Officer (CFO) it would be prudent for the Council to ensure that its Revenue Reserves are at least £5m and where this cannot be achieved in the short term, to develop proposals that replenish reserves to that level. Therefore, for the Council to be in line with its own analysis of adequacy, the Council should establish a detailed action plan to replenish reserves over the medium term and ensure this is closely monitored as a stand alone item by the Senior Leadership Team (SLT), Overview and Scrutiny Committee (OSC) and Cabinet **(Recommendation 3).**

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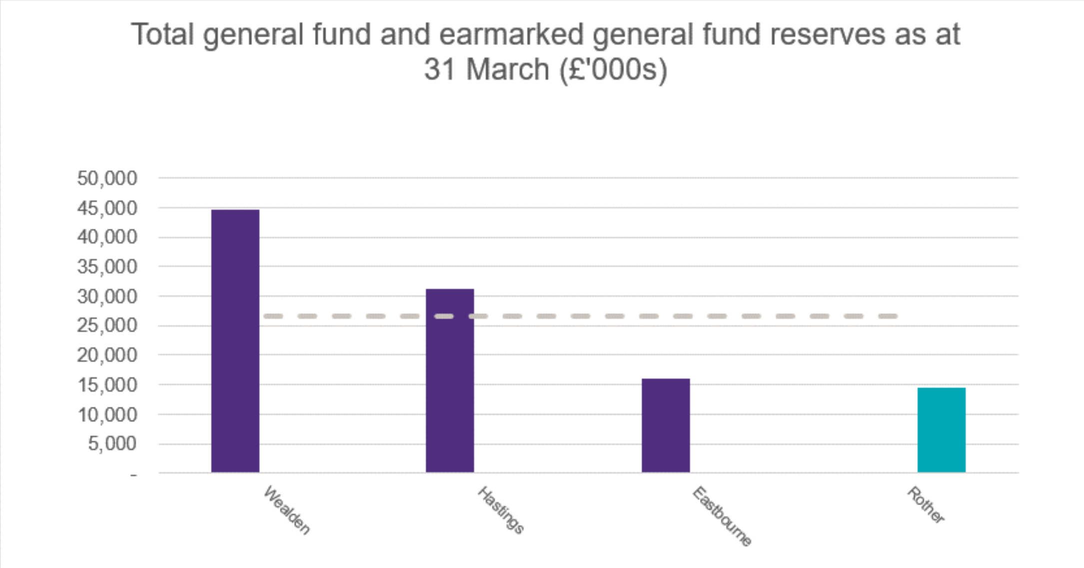
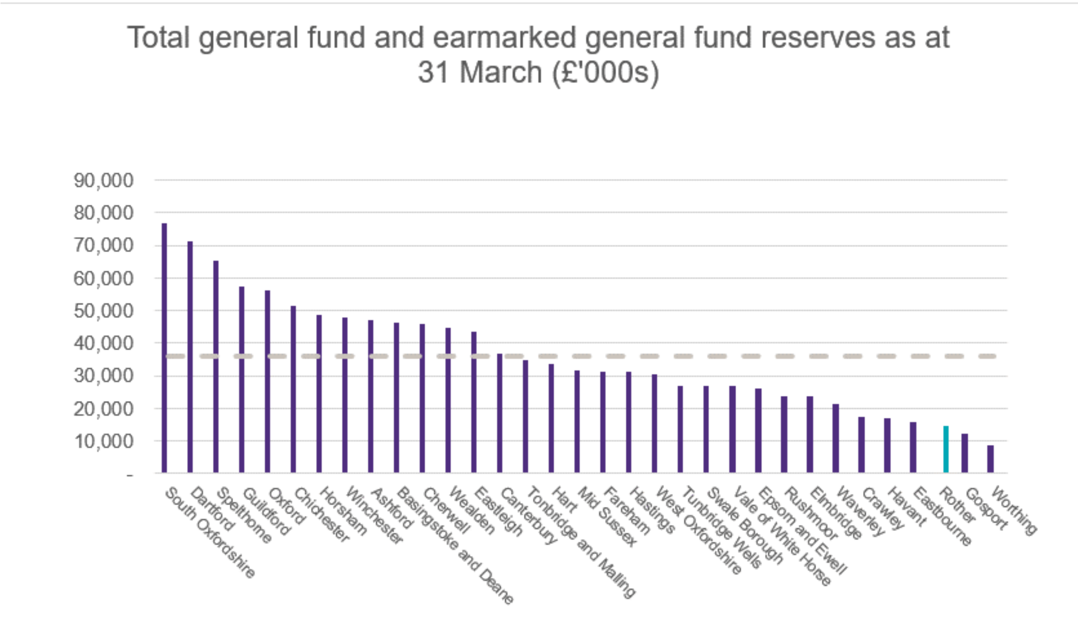
Financial sustainability





Benchmarking analysis comparing reserves levels against other district councils in East Sussex and others in South East England confirms that the Council's general fund and earmarked reserves levels as disclosed in the 21/22 Financial Statements are significantly below the average balances of other similar councils. This therefore further supports the improvement recommendation that replenishment of reserves should be a priority in the medium term.

Conclusion

Overall, although we have identified areas for improvement in arrangements, these represent actions to be taken to ensure best practice in ensuring financial sustainability and do not represent a weakness in current arrangements. The Council's financial arrangement remain fit for purpose. The majority of improvement recommendations made in 20/21 having been addressed in 21/22. See our follow up of prior year recommendations on pages 29 to 31 for further details.

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Improvement recommendations

Financial sustainability

Recommendation 1	**The Council should review the assumptions in the budget and MTFP to ensure they are realistic**
Why/impact	Assumptions which are overly optimistic in the budget setting process can lead to additional financial pressures higher than expected unplanned variances occur in year.
Summary Findings	The non-pay inflation assumptions used within the budget as well as the pay award assumptions have been found to be overly optimistic. The inflation assumption ns used were lower than both the CPI at the time of the budget and the consistently increasing CPI over the financial year. The pay award assumption was also significant lower than the pay award announced, however this was not announced at the time of the budget setting. The Council is on track to meet its breakeven budget for 22/23 despite the use of optimistic expenditure assumptions due to favourable variances elsewhere in the budget
Management Comments	The assumptions contained within the MTFP have to based on the best information available at the time of writing and need to be both realistic and affordable. There are instances where contracts are linked to various indices (CPI/RPI etc) where we would absolutely need to be reflecting the inflationary position as we know that these are the rates set out in the contracts and we have certainty over what those cost pressures will then be in at least the next financial year, with assumptions having to be made regarding the movement of inflation in future years. The position is not however the same when it comes to staff pay awards, there is no contractual basis on which to directly link the award to any inflationary index and indeed public sector pay has lagged behind both private sector and inflation for years now. To forecast pay awards at 10% would not be realistic or prudent, this would not be affordable for local government as a sector and that is widely acknowledged and would be significantly increasing forecast deficits which would be highly unlikely to materialise. Having noted this it is however accepted that the MTFP could be enhanced and improved through the use of additional sensitivity analysis not only around areas such as pay awards but also other significant budget headings which may be subject to volatility and forecasting error, such as business rates, changes in collection rates etc. We will therefore review the assumption used when compiling the 2024/25 MTFP and also include a section on sensitivity analysis to show what impact a material change might have on any projected future surplus/deficits.

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

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Improvement recommendations

Financial sustainability

Recommendation 2	The Council therefore needs to prioritise exploring ways to increase the deliverability of the Financial Stability Programme (FSP) in order to protect the delivery of future services and reserves. Some factors to consider in achieving this include: - Greater oversight of the programme more frequently, at individual scheme level and by decision makers at the top tier of the organisation - Increased focus on identifying recurrent, rather non-recurrent one off, savings within the programme - Increasing the frequency, intensity and formality of liaison with Bexhill Town Council to progress transfer of discretionary services at a faster rate - Undertake post implementation reviews of savings schemes within the programme once they have been delivered (in full or partially)
Why/impact	Due to the recent under-delivery of savings via the FSP, and expected under delivery in 22/23, closer and more frequent attention by decision makers may be required to the progress of savings schemes in year so that action can be taken in a timely manner to respond to any under-delivering schemes. To maximise the success and achievability the Council could benefit from additional scrutiny and input in identifying savings in the initial stages of budget setting. Recurrent savings are those which have a multi year impact and therefore reduce the pressure on services to identify an increasing level of savings each year. Protecting discretionary services is a key objective of the FSP and a key element of achieving this is transferring services to the Town Council to ensure they continue to be delivered at no cost to the Council. Successful negotiations in relation to the terms of the transfer are required to progress this process, delays in these negotiations therefore have a direct impact on the ability for the Council to realise the associated savings. Performing post implementation reviews of savings after they have been achieved is a way the Council could ensure lessons are learned and opportunities to make further savings are maximised.
Summary Findings	Performance of the FSP against target is included, in total within the quarterly budget monitoring reporting to Cabinet. Progress of the processes involved in the FSP are reported twice yearly to Cabinet. Monitoring of savings at individual scheme level is undertaken informally by the Programme Management Office and by Senior Leadership Team and Corporate Management Team. The Council has formalised review of the programme via the Financial Stability Board, which has been subsumed into the Corporate Programme Board, via a dashboard. However these arrangements were not implemented until 22/23. Of the 22/23 savings target within the FSP of £635k, only £150k of these were recurrent, with the remainder being one-off savings lasting only one financial year. As such the Council is reliant on non-recurrent means of meeting its savings target and budget which is not sustainable for the medium to long term. Despite devolving services being a key success factor in the FSP, with savings due to be realised from the start of the FSP in 21/22, at the end of 22/23 negotiations remain ongoing with Bexhill Town Council and no services have yet been successfully transferred. This is expected to gain traction and progress towards the end of 22/23 and in 23/24 under a phased approach. We did not identify any post implementation reviews taking place in relation to successful savings schemes.

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Improvement recommendations

Financial sustainability

Recommendation 2 (continued) Management Comments	Phase 1 of the devolution programme (effective from April 2023) focusses on the devolvement of public conveniences in Bexhill to the Town Council. As of January 2023 the Town Council have agreed in principle to take over the running and maintenance of the 14 public conveniences in the town, subject to approval of the leases by their Full Council in March 2023. The leases are planned to be in place for the start of the 2023/24 financial year. This is an important milestone in the protection of discretionary services for Rother residents and it marks the first phase of the wider devolution programme. Savings from the 1 April 2023 are expected to be in the region of £147,000 for running costs alone. Phase 2 of devolvement programme (effective from April 2024) focusses on the devolvement of public conveniences and other assets in parishes and Rye and Battle Town Councils. But it is expected that the biggest savings will come from devolving the maintenance of open spaces across the district. An options paper on grounds maintenance will be presented to Members in due course, informed by the ongoing discussions with the town and parish councils. The returns for the Service Planning process were submitted at the end of January 2023 and included savings proposals and the Strategic Leadership Team (SLT) is now in the process of assessing and prioritising the savings before bringing proposals forward to Members for consideration. This will then inform a revised Financial Stability Plan with the aim implement all initiatives by April 2024 (sooner where possible). The aim of the process is to embed organisational resilience and give the Council greater financial flexibility, enabling future year's budgets to be balanced without the use of reserves. Longer term initiatives including a programme of Customer Focus Reviews (aimed at making efficiencies, digitalising services and considering alternative delivery models (such as shared services)) will also begin in the latter part of 2023. Savings proposals will be monitored on a quarterly basis as part of the budget monitoring process as well as being included as part of the Corporate Programme Board. Part of the improved project governance process being developed will include post project implementation reviews and 'lessons learnt'.

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Improvement recommendations

Financial sustainability

Recommendation 3	The Council should establish a detailed action plan to replenish reserves over the medium term and ensure this is closely monitored as a stand-alone item by the Senior Leadership Team (SLT), Overview and Scrutiny Committee (OSC) and Cabinet with a clear method to hold relevant budget holders to account, given the potentially significant impact on service delivery of sustained reserves usage. Whether the frequency of review of this action plan is sufficient should also be considered.
Why/impact	Reserves are a finite resource and to ensure that the Council can use reserves to protect itself, and its services, from future uncertainties reserves are required to be rebuilt and replenished.
Summary Findings	The Council forecasts that in each of the 5 years of the MTFP there will be a budget gap, which left unaddressed, will require the use of reserves to balance the budget. The Council has used reserves in 21/22 and plans to do so in 22/23. The Council has a policy of maintaining a minimum level of general fund and earmarked reserves of £5m. The latest MTFP suggests, that without further action, the Council’s reserves will fall below this level in 24/25. Non-delivery of the FSP in full could further exacerbate the need to call on reserves and reduce the balance at a much quicker rate.
Management Comments	The forecast budget gap for 2024/25 is c£0.9m. As mentioned above in response to recommendation 2, officers are currently working on savings proposals, to inform a revised Financial Stability Programme, identified as part of the new Service Planning process, the intention of which is to try and ensure the budget is sustainable in the medium term by removing any reliance on reserves to balance the revenue budget whilst also protecting the current recommended minimum reserve levels (currently set at £5m for the 2023/24 financial year.

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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 effective processes and systems are in place to ensure budgetary control; communicate relevant, accurate and timely management information (including non-financial information); supports its statutory financial reporting; and ensures corrective action is taken where needed, including in relation to significant partnerships
- ensures it makes properly informed decisions, supported by appropriate evidence and allowing for challenge and transparency. This includes arrangements for effective challenge from those charged with governance/audit committee
- monitors and ensures 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 procures and commissions services.

Risk Management

The Risk Management Coordinator is responsible for facilitating all strategic risk management activity including maintaining the Risk Management Policy and collating and reporting on updates to the Corporate Risk Register to the Audit and Standards Committee. The responsibility for identifying and managing risks, however, remains with Senior Management. The Risk Management Co-Ordinator for the majority of 21/22 was the Assistant Director of Resources. This role passed to the Audit Manager from March 22 due to retirement. There has been a smooth transition with no gaps in oversight or management noted as a result of the change.

The Council engaged their insurance provider, Zurich, to undertake a review of their Enterprise Risk Management, Business Continuity and Disaster Recovery arrangements in February 2022, and following the findings of this work have been engaged to carry out further work to implement practical solutions to help to improve risk management processes. Most of these improvements, given the timing of that work, have occurred after the 21/22 year, having been implemented in September 22. Therefore the improvement recommendations raised in our prior year Auditor's Report have been addressed upon completion of these updates.

Prior to the 21/22 year the Council's Risk Management Policy was last reviewed in detail in February 2020, with a summarized review in March 21, by the Audit and Standards Committee. A full review and update took place as part of the Zurich work and a new Policy has been implemented in 22/23. The most significant changes made to the previous policy are: the inclusion of detail on the risk management methodology and defining the Council's risk appetite; defining clear roles and responsibilities of Council staff in the risk management process; providing a clear framework for the three types of risk (corporate, service based and project based) as well as a step by step process for identifying, scoring and monitoring risks. As such the policy is now deemed fit for purpose in 22/23.

The policy continues to use a well-established 5x5 scoring matrix to assess the significance of the Council's strategic risks as reported in the Corporate Risk Register.

This method is common place in the sector and therefore well understood at the Council, no significant changes in this respect.

The Audit & Standards Committee receive the Corporate Risk Register to monitor, challenge and make changes to the risks included in the register to ensure they continue to reflect the current priorities and environment. The Committee met six times during 21/22 and received the risk register at 2 of those meetings – September 21 and March 22. This level of oversight is less than would normally be observed at similar councils. The level of oversight should reflect the level of risk being faced at the Council. The number of red rated risks, which are the most likely and/or impactful, has increased from 2 to 4, after mitigations, between March 21 and March 22 and therefore shows an increase in the risk potentially being faced by the Council which has not been matched by a change in the level of monitoring of those risks (Recommendation 4).

We do note that there are no severe scoring risks (25 would be the highest score) which demonstrates that the Council is effectively putting in place mitigations to reduce risks to an acceptable level within their appetite per their Risk Management Policy.

The Corporate Risk Register is reviewed and updated by the Corporate Management Team, including the lead officer, prior to presentation to the Committee. Therefore there is an additional layer of review and scrutiny of the register and its risks prior to members receiving this for discussion. We have not noted the Corporate Risk Register being presented as a stand-alone item in 21/22 to Cabinet who are the decision makers of the organisation and therefore we would recommend this takes place as the understanding of risk in making key decisions is paramount in ensuring that the decisions being approved can be tolerated within the Council's risk appetite (Recommendation 4).

To ensure the number of risks is manageable, reflective of the size and operations of the Council and strategic in nature we would expect the risk register to include between 10 and 20 based on comparison of similar councils across the country. Rother had 38 in 21/22 which could limit the opportunity for meaningful discussion to take place and to monitor effectively. Review of the register confirms all risks are strategic in nature and additions, changes in risk scoring and removals of risks have taken place throughout the year.

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Therefore, the high number of risks is not having a negative impact on the level of oversight achieved. Following updates to the risk management process in September 22 the number of risks has been reduced to 16 which is within our expectation. This addresses our prior year recommendation.

The register, despite its length, was well discussed with members raising concerns or queries on specific risks and this is expected to continue following the improvements made in the 22/23 year.

In addition to the Corporate Risk Register the Audit & Standards Committee was expected to receive and review the risk registers for individual services to raise awareness of the key operational risks faced by each service area and the mitigations that are in place to prevent or reduce their impact. This process has been halted amid management changes in services and although this would be useful to allow members to link the impact of operational risks on strategic risks and priorities it is not commonplace for the two types of risk to be presented regularly in the same forum. It is beneficial to keep a clear distinction between operational and strategic risks as they are managed differently, at different levels of the organisation and have different potential impacts. It has been observed that very few service areas keep their own risk registers to manage operational risks. However, this shortcoming is expected to be addressed by a requirement to complete a risk register as part of the new Service Planning Programme process which is currently being rolled out in 23/24 and should be prioritized to ensure all types of risk are effectively managed (Recommendation 4).

In order to ensure that risks can be appropriately assessed by decision makers we would expect the format of the risk register to meet some minimum standards – these include:

- risks being assigned to a specific officer for accountability,
- risks being mapped to the Council's priorities within the Corporate Plan
- risk being RAG (Red, Amber, Green) rated to highlight those that require immediate action,
- direction of travel of each risk is clear to highlight any trends where action should be taken immediately or risks removed,
- scoring includes likelihood and impact factors and that risks are linked to the Council's objectives

Prior to the refresh of the risk register following Zurich support there was no evidence of risks being linked to Council priorities or stating the direction of travel. These elements are beneficial to allow members to identify further action that may need to be taken to improve direction of travel, where a risk can be removed based on its trend and to ensure that only risks that impact the ability to achieve objectives are included on the register as this should be the focus of decision makers.

Other areas of good practice are noted within the register in place in 21/22 including a clear distinction between risk score before and after mitigating actions to allow members to assess the effectiveness of actions being taken. As noted a full review of the register with the support of Zurich has taken place in 22/23 and this has resulted in multiple positive changes which provide additional information to assist members in making more informed decisions. However this has removed some of the useful information such as scores before and after mitigating actions so there is less clarity on their impact (Recommendation 4).

Internal Audit and Audit & Standards Committee (Those Charged with Governance)

Effective risk management at the Council is supported by the Internal Audit Service. To be effective, Internal Audit must be, and be seen to be, independent from the activities it evaluates. Rother's Internal Audit Service achieves this by operating as an independent unit within the Deputy Chief Executive's Directorate. It has unrestricted access to Senior Management; reports in its own name and has no managerial responsibility for any of the systems it reviews. This enables Internal Audit to provide independent and objective assurance when reporting on the Council's activities.

The team completed 91.3% of the 21/22 Audit Plan and only two planned audits were still outstanding at the end of the financial year. Both of these audits have since been completed and good/substantial assurance was obtained in each case. The 21/22 plan had good coverage across a range of the Council's operations including finance, housing, health and safety, planning, IT and procurement. There are no gaps in the assurance provided by Internal Audit. 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 2021/22 is therefore that it is adequate and effective." There were 20 audits completed in total in year and of these 3 were limited assurance, which is a low level of assurance. Internal Audit has confirmed in its year-end report that the issues raised in these reports have now been addressed. This is a timely response from the Council to identified weaknesses. The limited assurance reports were on creditors, debtors and the BACS system.

Most Internal Audit recommendations are implemented by management within six months of the audit report being issued. However, a few take far longer to resolve. Two of the three long outstanding audit recommendations highlighted in the 21/22 annual report date back to 2018/19 and are still unresolved. These relate to the Procurement audit and the ICT Governance audit. Internal Audit continually seek resolution through quarterly reminders, escalation to senior management and escalation to the Audit & Standards Committee but with limited success and as such an alternative approach to foster greater engagement on these specific issues is required (Recommendation 5).

Internal Audit update the Audit & Standards Committee quarterly on progress against their audit plan. The frequency of such reporting is in line with the prior year and is commonplace in the sector.

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Members of the Committee are well engaged in the process and regularly ask questions of the Internal Audit Manager. Membership of the Committee has remained relatively stable in 21/22, there has been the addition of two Audit Independent Persons to the committee in year. Both have further strengthened arrangements and ability to scrutinize risk management, governance, Internal Audit progress and processes whilst retaining the knowledge of existing members.

The Internal Audit Manager is required to develop and maintain a Quality Assurance and Improvement Programme to evaluate the Internal Audit Team's conformance with the Standards they are required to follow, to assess the efficiency and effectiveness of all Internal Audit activity and to identify opportunities for improvement. This is achieved via several mechanisms - annual self-assessments, 5-yearly external quality assessment, supervision and the review of all Internal Audit output and obtaining client feedback

The Team's first external quality assessment was completed in April 2017 and the report concluded that the Rother Internal Audit Service "generally conforms with the Public Sector Internal Audit Standards and general good practice for the profession". However more than five years have elapsed since the last external quality assessment and a further review is now overdue. Consequently, the Audit Manager is currently in the process of obtaining competitive quotes to carry out another review this financial year. This will need to be prioritised to ensure members can be assured of the effectiveness of the service (Recommendation 5). To provide assurance, in light of an out of date external review, members have been made aware of positive performance in terms of the service's self assessment, response to quality assurance questionnaires and performance against its Key Performance Indicator (KPI) metrics.

Although there is a focus on effectiveness reviews of the Internal Audit Service we have not noted any such reviews being undertaken of the Audit & Standards Committee or any of the other Council committees. These are a mechanism by which the Council ensure that their committees remain fit for purpose and adhere to their terms of reference (Recommendation 6).

The Audit and Standards Committee considers any complaints against councillors. There have been a small number of complaints in the year. Reporting details the action taken in each case and demonstrates the Council reacted in a timely manner and resolutions found in the majority of cases with further investigation sought where required.

Budget Setting Process

The approach to setting the budget has remained largely consistent with the prior year with the 22/23 budget following a three phase approach starting with a refresh of the MTFP in September 21 which then informed the drafting of the annual budget before both were finalised in February 22 ahead of the financial year. At each stage the Overview and Scrutiny Committee has received and challenged the budget and MTFP prior to Cabinet receiving the information. Final sign off and approval was then provided by Full Council in February 2022. By virtue of the process, the budget is informed by the MTFP and the two are developed in conjunction following initial updates to medium term assumptions.

The budget setting process is largely driven by the Chief Finance Officer with support from the Finance Team. The team liaise with budget holders throughout the year to gather financial performance information, explain variances and work together to develop savings schemes. The annual budget setting process does seem to be a largely top-down approach lead by finance and therefore greater collaboration with budget holders could be of benefit as this can identify new opportunities for efficiencies, more robust assumptions and more buy in from teams to deliver budgets as they have a greater sense of ownership. In 23/24 the Council are initiating a Service Planning Process whereby each service will produce an action plan for efficiencies, savings and how they will deliver services and this will directly impact the budget, this is expected to foster greater collaboration (Recommendation 7).

The top-tier of the organisation are well engaged in the budget setting process with input and challenged observed from the Senior Leadership Team (SLT), Cabinet and Council members, the Overview and Scrutiny Committee and externally through the annual public consultation exercise and as such robust collaborative arrangements already exist at this level.

As there have been several iterations of the budget, there has been several opportunities for the Council to consider trends, scenarios, and sensitivity analysis which are useful tools in ensuring that assumptions used in the budget are robust.

Scenario planning usually takes the form of planning for optimistic, pessimistic and middling scenarios in relation to the budget based on movements in key assumptions. There is no evidence of this being formalised within the MTFP or budget. This is commonly used in the sector as a way of planning ahead for potential challenges and limiting the need to make reactive decisions should such challenges occur. As such the Council may benefit from implementing this kind of analysis, given future uncertainties around inflation, cost of living, Covid-19 recovery and future government funding beyond the 22/23 settlement (Recommendation 7).

Trend analysis involves looking at historical data as a way of predicting what may happen in the future and incorporating this into the budget assumptions. The MTFP and budget is forward looking in nature and as such there is no evidence of trend analysis. Given the dynamic nature of the local government financial landscape this would have limited benefit and the current approach based on knowns and forecasts is appropriate.

Sensitivity analysis takes the form of calculating the impact a percentage movement in a budget assumption would have on the outturn overall. Although there is limited evidence of this within the budget across the full range of assumptions there is evidence that this has been undertaken in relation to the Financial Stability Programme (FSP) specifically. The Council also access information from their Treasury Advisors and the LG Futures tool to assist with ad-hoc, informal modelling. The Council could benefit from wider use of sensitivity analysis of key assumptions within the budget which are demonstrating changes over the year such as Inflation and Interest rates. The analysis undertaken should balance the capacity and resources available with the benefit it generates to the budget setting process and member understanding (Recommendation 7).

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Governance

Budget Monitoring

Cabinet, and Overview and Scrutiny Committee (OSC), continue to receive a report monitoring performance against the budget each quarter. The frequency of review should reflect the risk associated with finances and given uncertainty in the sector and the expected use of reserves review of the financial position, monthly would seem more appropriate. The Senior Leadership Team receive a report on the position monthly and the finance team, in order to produce, challenge and ensure accuracy of the information, liaise with budget holder regularly prior to the SLT meetings. As such there is sufficient oversight of the position reflecting the financial environment and input from Overview and Scrutiny ensures there is an additional layer of support and scrutiny throughout the process. Input from these groups between Cabinet meetings also mitigates some of the risk of the 3-4 month time lag noted between the date of Cabinet meetings and the date the financial information relates to as SLT and OSC are able to escalate issues to Cabinet based on more up to date information to help inform their decisions.

The regular liaison between the finance team and budget holders, which is then reported to SLT, ensures that budget holders are regularly being held to account for any variances in their individual service budgets by SLT and that these variances are picked up promptly. SLT then attend Cabinet meetings where they are actively held to account by members, although budget holders do not attend these meetings SLT act as the mechanism of accountability between budget holders and members and there is a clear line of reporting between the operational and strategic levels of the organization in terms of finances.

The format of the budget monitoring reports provides the actual quarterly variance from budget and the forecast outturn position. This is an important distinction to allow budget holders and decision makers to assess the full potential impact of the current variance by year end and take action accordingly. The report effectively explains why the variance in each case has occurred and therefore ensures members understand the underlying operational factors impacting the budget. However there is limited information included on next steps and actions being taken where there are negative variances, this would be particularly useful for underperforming services and would allow decision makers to track progress at each meeting against those actions (Recommendation 8).

Stakeholder Engagement

This is facilitated through a dedicated section of the website for past and current consultations. Therefore there is an open forum with which to actively seek feedback from service users in relation to proposals to change the way services are delivered. This is supported by a Consultation Charter which reinforces and acknowledges the benefit of consultation and seeks to encourage it in an open, honest and transparent manner. In 21/22 the Council undertook public consultation exercises across a range of operations including anti-poverty, budget and Council tax, public spaces, street trading and leisure and therefore demonstrates a wide scope in seeking feedback to ensure multiple service lines benefit from suggested improvements.

Public consultations are time and resource intensive and therefore should only be used where the benefit of the information outweighs that cost. There were approximately six consultation exercises in 21/22 and this reflects the size of the Council and fact that no significant changes, reductions or removals of the services are expected in the near future.

Each consultation is advertised openly and is easy to access, it clearly identifies how to take part and provides necessary background information to the proposal to ensure there are no barriers to people providing their opinions. Questionnaires are used to gather feedback which are succinct, focused on the issue at hand but also provide the opportunity for open input. Therefore the Council's approach to gathering feedback is appropriately inclusive and transparent.

Responses tend to be predominantly from residents, as opposed to other stakeholders such as staff, partnership organisation or local businesses. Response rates are low when compared to the number of residents in the borough. However, although the Council could explore ways to increase the response rate to increase the benefit of the information received on decision making this is unlikely to be a priority given the time and resource cost involved in consultations. Any risk of low response rates from specific consultations is somewhat mitigated by the fact that the Council has Rother Citizens Panel. The Panel are hundreds of Rother residents who volunteer to take part in consultations and customer research from Rother District Council and its partners. Any resident can join and therefore this is an additional route, already in place, to bolster the formal consultation feedback. The Council also actively encourage public questions at Council and Committee meetings, and there is evidence that this does take place in practice with public attendance observed at Cabinet, Overview and Scrutiny Committee and Audit and Standards Committees in the year.

The Council undertook a Customer Survey presented to Cabinet in October 21. The survey results will help identify objectives for the new Corporate Customer Service Strategy, as part of the Corporate Plan priority objective to be a more open Council and place customers at the heart of everything they do. This is yet another example of consultation, openness and collaboration with service users.

Overall there are multiple examples of service user engagement and the Council has effectively balanced the benefit of stakeholder engagement with the cost of achieving that engagement and therefore value for money seems to have been achieved in this area.

Conclusion

Overall, although we have identified areas for improvement in arrangements, these represent actions to be taken to ensure best practice in ensuring robust governance and do not represent a weakness in current arrangements. The Council's governance arrangements, where unchanged from prior year, remain fit for purpose, and improvements have been evidenced since the prior year, therefore demonstrating a positive direction of travel.

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Improvement recommendations

Governance

Recommendation 4	To further enhance the risk management process the Council should consider: - Increasing the frequency with which the Audit & Standards Committee review the Corporate Risk Register - Ensuring that Cabinet receive the Corporate Risk Register at least annually - Ensuring that each service develops and maintains its own service level risk register - Continually reviewing the format of the risk register, following external consultation, to ensure it continues to remain fit for purpose
Why/impact	The Corporate Risk Register is a key mechanism for managing risk to the achievement of the Council's strategic objectives and therefore it is important that there is a clear link between those objectives and the risk being faced, and that the content of the register appropriately informs decision makers. To ensure that the risks within the register, supporting actions and scoring remain appropriate it is important it undergoes regular scrutiny at the top tier of the organisation and is included in Cabinet meeting papers for transparency to the entire organisation and to ensure that decisions approved at this level are acceptable within the Council's risk appetite. Effective risk management ensures that both the strategic and operational risks of the organisation are managed consistently.
Summary Findings	The level of oversight of the Corporate Risk Register should reflect the level of risk being faced at the Council. The number of red rated risks, which are the most likely and/or impactful, has increased from 2 to 4, after mitigations, between March 21 and March 22 and therefore shows an increase in the risk potentially being faced by the Council which has not been matched by a change in the level of monitoring of those risks. The Audit & standards Committee, who monitor the register only received this twice in the financial year. In addition Cabinet did not receive the Corporate Risk Register in the 21/22. It has been observed that very few service areas keep their own risk registers to manage operational risks. However, this shortcoming is expected to be addressed by a requirement to complete a risk register as part of the new Service Planning Programme process which is currently being rolled out in 23/24 and should be prioritised to ensure all types of risk are effectively managed. The Council have reviewed and updated the format of the Corporate Risk Register following consultation with an external expert, however some beneficial information appears to have been omitted including linking risks to corporate objective, demonstrating the direction of travel for each risk and removing information relating to risk scoring before and after mitigating actions. Each of these elements is useful in helping members make informed decisions in relation to risk.
Management Comments	To further improve and embed risk management processes and understanding within the Council we are proposing the following; • As at January 2023 there were no red risk ratings on the Corporate Risk Register. Risk registers are also provided to the Corporate Projects Board covering significant projects. It is therefore proposed to keep to reporting every 6 months to Audit and Standards Committee • An annual update to Cabinet as part of the Councils medium term budget planning process • Annually reviewing the Corporate Risk Register and Risk Appetite Statement to ensure it remains fit for purpose As recognised within the findings, there is a section on service risks within the new Service Planning templates designed for the 2023/24 financial year which requires all service areas to record and monitor their operational risks.

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Improvement recommendations

Governance

Recommendation 5	In order to maximise the effectiveness of the Internal Audit service in supporting the Council's risk management arrangements the Council should explore ways that it can increase the responsiveness to longstanding internal audit recommendations. The Internal Audit service should also prioritise obtaining an external review of its effectiveness to ensure it is compliant with relevant standards and the Council can continue to be assured of its effectiveness.
Why/impact	Audit recommendations are raised to highlight areas of improvement required to strengthen the internal control environment and therefore if not addressed in a timely manner the challenges highlighted by the recommendation remain within the system. External assurances provide a view on and recommendations for improvements that ensure Internal Audit continue to be effective in their role. This type of review is also a requirement, every 5 years, under the Public Sector Internal Audit Standards with which the service must comply.
Summary Findings	Two of the three long outstanding audit recommendations highlighted in the annual report for 21/22 date back to 18/19 and are still unresolved. Internal Audit continually seek resolution through quarterly reminders, escalation to senior management and escalation to the Audit & Standards Committee but with limited success and as such an alternative approach to foster greater engagement on these specific issues is required. The Internal Audit Team's first external quality assessment was completed in April 2017 and the report concluded that the Rother Internal Audit Service "generally conforms with the Public Sector Internal Audit Standards and general good practice for the profession". However more than five years have elapsed since the last external quality assessment a further review is now overdue.
Management Comments	An external review of the internal audit service is currently being undertaken, the results of which should be available in March 2023 at which point any recommendations for improvement can be considered and prioritised. Long outstanding audit recommendations will be reviewed by SLT on a 6 monthly basis and then prioritised as appropriate.

Recommendation 6	The Council should consider implementing a rolling schedule of committee effectiveness reviews
Why/impact	Effectiveness reviews provide useful information to members on whether the committees that help them to make informed decisions remain fit for purpose and are complying with their terms of reference.
Summary Findings	Although there is a focus on effectiveness reviews of the Internal Audit Service we have not noted any such reviews being undertaken of the Audit & Standards Committee or any of the other Council committees.
Management Comments	The Audit and Standards Committee will be undertaking the CIPFA best practice self-assessment tool in March 2023 to assess the effectiveness of the committee and to establish an action plan to address any areas which may need strengthening.

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Improvement recommendations

Governance

Recommendation 7	The Council should consider ways in which it can strengthen the annual budget setting process, including: - Exploring ways to foster greater collaboration with budget holders - Incorporating the use of scenario planning - Extending the use of sensitivity analysis beyond the Financial Stability Programme
Why/impact	Budget holders are ultimately the officers who are responsible for delivering the budget at an operational level and therefore greater collaboration with budget holders could be of benefit as this can identify new opportunities for efficiencies, more robust assumptions and more buy in from teams to deliver budgets as they have a greater sense of ownership. Scenario planning is commonly used in the sector as a way of planning ahead for potential challenges and limiting the need to make reactive decisions should such challenges occur, as they already have an action plan in place for a range of possible scenarios ahead of time. Similarly with sensitivity analysis, awareness of the impact of possible changes in dynamic assumptions within the budget allows the Council to plan ahead for those situations.
Summary Findings	The budget setting process is largely driven by the Chief Finance Officer with support from the Finance Team. The team liaise with budget holders throughout the year to gather financial performance information, explain variances and work together to develop savings schemes. In 23/24 the Council are initiating a Service Planning Process whereby each service will produce an action plan for efficiencies, savings and how they will deliver services and this will directly impact the budget, this is expected to foster greater collaboration. There is no evidence, in the 22/23 budget for MTFP, of planning for optimistic, pessimistic and middling scenarios based on the potential changes in key assumptions. Likewise, although sensitivity analysis is used in the Financial Stability Programme to highlight the impact of savings delivery on reserves no other key assumptions in the budget or MTFP have been subject to this type of analysis.
Management Comments	As outlined within the response to recommendation 1 above, sensitivity analysis will be added to the 2024/25 MTFP and this will also include a section on scenario planning. The team structure and responsibilities of the finance team are currently under review, the future focus will be on delivering a 'business partnering' approach with a greater emphasis on connecting the revenue and capital spending of the council and more of a focus on the needs to the service departments being supported to engender a more collaborative approach and greater ownership and accountability of budgets by service managers.

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Improvement recommendations

Governance

Recommendation 8	The Council should review the format of the budget monitoring reports presented to Senior Leadership Team and Cabinet to ensure that they contain sufficient relevant information to allow members to hold services to account, in particular the Council should consider including actions being taken in relation to negative variances.
Why/impact	To ensure that decision makers can easily identify those services which are underperforming financially and the actions that will be taken to address that underperformance. This allows members to more easily track progress and impact of those actions on underperforming services and hold relevant budget holders to account where required.
Summary Findings	Quarterly budget monitoring reporting to Cabinet highlights variances to budget and effectively explains why the variance in each case has occurred. Therefore members understand the underlying operational factors impacting the budget. However there is limited information included on next steps and actions being taken where there are negative variances.
Management Comments	The budget monitoring reports will be reviewed and improvements will be introduced for the 2023/24 financial year.

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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 and engages with stakeholders it has identified, in order to assess whether it is meeting its objectives
- where it commissions or procures services assesses whether it is realising the expected benefits.

Non- Financial Performance Reporting

The Council continue to monitor operational performance via Key Performance Indicator (KPI) reporting to Cabinet and Overview and Scrutiny Committee. The KPIs are reviewed and refreshed at the start of each financial year to ensure they remain relevant and these have been presented and finalised by Cabinet, initially in March 21 and finalised in May 21. The KPIs cover planning, additional income, housing and communities, waste collection and economic development and poverty related activities. Although these categories do not directly link to all priorities in the Corporate Plan nor the directorates structure there is coverage across a range of the Council's operations, in particular there is monitoring of services where the Council is experiencing below target financial performance. As such the Council does have mechanisms in place to support identifying the operational factors that may be driving financial challenges so that action can be targeted appropriately.

The KPIs reviewed at the start of the year have a clear target for each with the aim of providing decision makers with information with which to judge if a service is under or overperforming against expectations. The quarterly monitoring report against these KPIs includes a summary which highlights the status of whether the KPI target has been met and short and long term trends in the data, this draws decision makers attention to areas of challenge and therefore facilitates a targeted approach to discussion. This is supported by a detailed appendix with additional information. However, as with the financial reporting members receive, there is limited information on the actions proposed to be taken and who is accountable for KPIs which are underperforming. At 21/22 Q4 performance has an alert status for the majority of KPIs, meaning they are below their target, as such this additional information would be useful to help members understand what is being done in response and who is accountable so that this can easily be monitored (Recommendation 9).

Cabinet and the Overview and Scrutiny Committee are expected to receive the monitoring report quarterly however for 21/22 there was no reporting observed for Q1.

Given the underperformance across several metrics at year end more frequent monitoring of the KPI's at this level of the organisation may better facilitate earlier response to the underlying cause and positively impact performance by year end (Recommendation 9).

The KPI monitoring report focusses on establishing the effectiveness of the Council's performance by focusing on an inward looking view. In order to gain an alternative perspective the Council could also undertake an outward view to gauge performance relative to other similar organisations and learn from those organisation where they may be comparatively worse, or provide assurances where comparatively better. We raised a recommendation in the prior year around the benefits of undertaking benchmarking however there is still limited evidence of this comparative analysis being included in the KPI reporting, undertaken for specific services or used even on an ad-hoc basis. There is the opportunity, as part of the upcoming Service Planning Review process, to formalise benchmarking to support decision making for service lines. Informal benchmarking does take place as part of the budget setting process as the Finance Team by comparing to similar bodies and this is used as an additional source of assurance for the assumptions the Council has made in its budget (Recommendation 9).

Improving economy, efficiency and effectiveness

Complaints, where the complainant is unsatisfied with the action taken by the Council, can also be raised with the Ombudsman. For 21/22 there were 6 such complaints taken to the Ombudsman for investigation of which 5 were upheld as the Council were found to be at fault. This is more than the average for similar councils but we do note that the cross section is small in terms of data and 6 complaints in total is a low level. The upheld complaints covered a range of issues from confidentiality to speed of response and therefore there is not one significant issue that needs addressing but small issues of human error, albeit not pervasive in nature.

The Council took part in a peer review undertaken by the Local Government Association in 21/22. The review covered a range of Council processes across a range of services to see how well they were governed, its purpose being to identify potential improvements to Council processes. The review raised 12 recommendations, which is in line with similar reviews at other councils. The recommendations are focused on improvements that would demonstrate best practice as opposed to signifying weaknesses in the Council's arrangements. The Council has accepted all of the recommendations and developed them into an action plan to ensure that they can be delivered. There is no evidence of monitoring of this action plan at committee or Cabinet level and therefore progress against the recommendations is unknown (Recommendation 10).

Benchmarking Analysis

Using Grant Thornton internal benchmarking tools, which makes use of the annual RA return forms sent by each council nationally to Department for Levelling Up, Homes and Communities (DLUHC), we have compared unit costs of Council services with all other district councils. This is a tool designed to highlight high level potential opportunities for savings where unit costs may be high, with the caveat that the information does not account for regional variances between districts or differences in the categorisation and completion of the underlying RA returns by different councils. This analysis has identified those directorates with very high comparative unit costs, which also contain individual services with very high comparative unit costs, and which are also significant areas of expenditure for the Council. The information available relates to 22/23, although we note little difference in total service expenditure in the RA form between 21/22 and 22/23 for the Council.

Service	Total Cost 21/22 £000	Units (per head/per dwelling)	Unit Costs £	Unit Cost Score	Council Response to Date
Housing Services – Homelessness	1,999	96,716	20.67	Very High	Increased demand for this service has occurred as a result of the pandemic, which is largely out of the Council's control. This impacts high total costs but given unit costs are also very high the Council has the opportunity to explore ways to tackle unit costs as well as demand to reduce the deficit currently being seen from the budget in this area (Recommendation 11). We do note that the Council has already taken extensive action to respond to the challenges, which are both reactive as well as proactive focusing on prevention and root cause. Response include a clear defined strategy for homelessness, close monitoring of homelessness specific KPIs, investment in temporary accommodation, Rother Leasing scheme to increase access to housing and working with social enterprise to tackle prevention. These are all positive responses and a time lag between action and impact is to be expected.
Environmental and Regulatory Services – Street Cleansing	1,347	96,716	13.93	Very High	This is not an area the Council monitors closely with no specific KPIs included in the quarterly performance reporting to members nor is it highlighted as a cause of any specific financial variances in the budget monitoring. As such the Council has the opportunity to undertake work to identify the cause of the high cost, develop an action plan to respond and monitor performance on an ongoing basis (Recommendation 11).
Environmental and Regulatory Services – Waste Collection	48,261	46,024	68.68	Very High	Waste Collection KPIs are monitored via the Councils performance monitoring, quarterly. At the end of 21/22 Waste Collection levels were below target and therefore there is potential that this is contributing to the high unit costs by the Council being unable to benefit from economies of scale and incurring fix costs despite collections being behind where they should be. The Council has a commercial waste contractor who has been in place since 2019 and therefore there is the opportunity to liaise with the contractor to explore efficiencies that could be generated within the terms of that contract (Recommendation 11)

Improving economy, efficiency and effectiveness

As noted the Council is planning to undertake a Service Planning Review process in 23/24 which is a deep-dive approach to identifying efficiencies and new ways of delivering services. Through this process the Council has the opportunity to identify and take a targeted approach to unit cost, as well as demand, reduction (Recommendation 11).

Key Partnerships

Two key partnerships associated with the Council, as they help support the Council's operational and financial ambitions and relatively newly established, are Bexhill Town Council, set up to devolve specific discretionary services to, and Alliance Homes (Rother) Ltd (now Rother DC Housing Company Limited) set up to deliver affordable homes in the borough in line with the Council's Corporate Plan.

Bexhill Town Council came into being from 1 April 2021 . The entity was established to transfer, under a phased approach, six discretionary services. At the time of writing, and in 21/22, no services have yet been transferred to the Town Council and negotiations and agreement of terms are still being discussed. The first service, public conveniences, is expected to transfer at the end of 22/23 or early 23/24, with more services following in 23/24. Therefore, to date, the Council has not yet realised the savings expected from this element of their plan to protect discretionary services.

Members received regular communications at Cabinet during the decision making phase of setting up the Town Council, however the last report to Cabinet observed in relation to the Town Council was in June 21. In the process of setting up the entity the Council received support from a Community Governance Review, a dedicated steering group and legal representatives. The decision was approved appropriately through the governance structures of the Council, regularly, prior to the establishment of the Town Council at the start of the year. Given that there has been a delay in transferring services and realising the benefits from this project members would benefit from frequent updates on the progress of negotiations on transferring services to the Town Council, similar to the level during the set up phase of the project, so that action can be taken as required to progress the project (Recommendation 12).

Rother DC Housing Company is a wholly owned subsidiary of the Council and was set up prior to 21/22 and evidence has confirmed that appropriate approval processes were followed, the company has a clear rationale and purpose which supports the Council's objectives, appropriate advice was sought in setting up the company and the risks and rewards of the project were considered. There has been limited activity at the company and limited transactions between the company and the Council in 21/22, however the established governance arrangements have been in place for the entire financial year.

The Business Plan which underpins the company sets the principles by which the company will operate and are the Shareholder's direction to the board. The Governance Structure is simple and clear from the documentation that the Council is the sole shareholder and that below that the Company is run by an independent Board supported by a Chief Operating Officer (COO) and a team of three officers (Housing Development Programme Manager, Developments Project Manager and Business Support Assistant).

Per the Business Plan, Articles of Association and Shareholder Agreement the Board is permitted to be comprised of up to 4 Elected Members of the Council and up to 4 other independent persons be appointed as Executive Directors of the company. The Council is responsible for the financial funding of the company activities and also operates a Service Level Agreement (SLA) to minimise revenue expenditure in the early years. Under this agreement the company does not directly employ staff and instead the Council provides this resource therefore allowing the company access to resources at a cost.

The fact that funding is provided by the Council, staff are essentially loaned by the Council under the SLA and the fact that the Board of Directors is made up of some elected members of the Council potentially impacts the independence of decision making, this is partially mitigated against by the fact there are independent Board members. The Housing Director of the Council is the lead Officer at the company loaned under the SLA agreement from the Council. His duties at the Council have been back-filled during this secondment to ensure there is some distinction in roles and responsibilities between the two entities.

A 2018 article by Grant Thornton identified some early steps for success of companies and this included that the governance structure should enable the company to trade freely and compete with the private sector. Elected members and local authority officers are likely to sit on the board of any company it owns, but balancing this with the appointment of non-executive directors and the use of shareholder committees helps to keep the local authority's input at a strategic rather than operational level. The Business Plan does include these two specific distinctions but more could be done to ensure that operational decisions were more independent as Council staff currently deliver these under the SLA (Recommendation 13).

Ongoing monitoring of the performance, financial and non-financial, is a way of gaining appropriate assurances the company is achieving value for money. Monitoring arrangements were relatively informal in 21/22. These include a weekly meeting each Thursday at project officer level between the two entities and a weekly Shareholder Representative meeting, which is a strategic level conversation lead by the Council. The intention has been to formalise these meetings since January 22 and Terms of Reference have been in place since December 22 to facilitate this. Meetings continued to be informal prior to this, and therefore provide the opportunity to discuss performance but with no specific agenda, although we suggest they are sufficiently regular reflecting the relative newness of the company. Regular, but highly informal, discussions between the Chief Finance Officer of the Council and the acting COO of the Company also take place.

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Improving economy, efficiency and effectiveness

Since the purpose of the company is to deliver housing for which the Council is providing finance, the Council's Capital Programme and quarterly monitoring includes schemes being delivered by the company. As such there is currently a mechanism in place for decision makers at the Council to review performance. Council and Cabinet receive an annual report from the company which is essentially a refresh of the Business Plan, This was last reviewed in February 2022. However delivery of the capital schemes by the Company included in the Council Capital Programme are behind schedule and there is limited information on actions being taken within these reports, as already noted, and as such members would benefit from more regular and detailed reporting of the activity and performance of the company outside of the Council's established capital monitoring to help facilitate increased progress (Recommendation 13).

Governance arrangements between the Council and company are formally reviewed and updates provided to the Audit & Standards Committee as an effective way to ensure they remain fit for purpose as the arrangements are embedding, these reviews are expected to continue.

In addition to seeking to increase housing provision for the benefit of residents the Council also has a Property investment Strategy which aims to increase the volume and quality of commercial properties in the borough and therefore is one of the few commercial ventures the Council has. The strategy sets out the types of property that the Council will seek to acquire and the factors that will be considered when assessing the suitability of potential acquisitions. It also describes how purchases may be funded and how the Council will manage risk. Therefore it clearly balances the risk and the reward. Members receive regular updates on the progress of the strategy and the strategy itself is updated for changes in legislation to ensure it remains relevant. In April 22 members were assured that although in the past, it was feasible to consider properties that were outside the district boundary, provided that a case could be made for the acquisition having an economic benefit to the district; recent tightening of Treasury Guidelines around the use of borrowing from the Public Works Loans Board (PWLB) effectively means that only properties within Rother District can now be considered. This was therefore reiterated to ensure the strategy does not focus on investments such as these. In practice, the Council has only ever acquired premises within Rother and therefore has avoided any risk to date.

Conclusion

Overall, arrangements to secure economy, effectiveness and efficiency are appropriate. Improvement recommendations have been made but these are suggested as methods of achieving best practice as opposed to correcting underperforming arrangements at the Council.

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Improvement recommendations

Improving economy, efficiency and effectiveness

Recommendation 9	The Council should consider ways it can enhance the monitoring of non-financial performance. This could includes: - Adhering to a programme of at least quarterly reporting of performance against operational performance metrics to Cabinet - Including information on the actions to respond to and the responsible individual for underperforming metrics within the KPI reporting to Cabinet - Including within the KPI reporting, or as a separate exercise, a Council-wide approach to benchmarking performance with similar entities
Why/impact	Paying equal attention to financial and non-financial performance assists members in making informed decisions since, in most cases, non-financial underperformance directly impacts the Council's financial position. Comparing performance to similar organisations provides important information to assess if certain services our outliers in terms of their financial and non-financial performance, therefore identifying potential opportunities for improvement. This information is of maximum benefit if applied consistently across the Council.
Summary Findings	Cabinet and the Overview and Scrutiny Committee are expected to receive the monitoring report quarterly however for 21/22 there was no reporting observed for Q1. Members received detailed information within the performance reporting Cabinet in relation to actual performance compared to target, trends and underlying causes but there is no information on the action being taken to respond or who is responsible for that action. The KPI monitoring report focusses on establishing the effectiveness of the Council's performance by focusing on an inward looking view. In order to gain an alternative perspective the Council could also undertake and outward view to gauge their performance relative to other similar organisations and learn from those organisations where they may be comparatively worse, or provide assurances where comparatively better. There is no evidence of this taking place at the Council on a consistent basis, the 23/24 Service Planning Review process provides an opportunity to use this type of analysis.
Management Comments	The Council's Service Planning Review taking place in the 23/24 will provide an opportunity to explore the use of benchmarking to assist decision making as part of that programme. There are also plans to implement a programme of Customer Focus Reviews (from late 2023 onwards) to not only address the 3Es but also inform the future Digital Programme and alternative service delivery methods where appropriate.

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Improvement recommendations

Improving economy, efficiency and effectiveness

Recommendation 10	The Council should ensure that the action plan to respond to recommendations from the Local Government Association (LGA) Peer review is monitored regularly by a relevant committee.
Why/impact	To ensure the expected benefits can be realised from the actions identified from the recommendations it is important that their progress is tracked and action taken to respond where progress is not identified.
Summary Findings	The Council took part in a peer review undertaken by the Local Government Association in 21/22. The review raised 12 recommendations. The Council has accepted all of the recommendations and developed them into an action plan to ensure that they can be delivered. There is no evidence of monitoring of this action plan at committee or Cabinet level and therefore progress against the recommendations is unknown.
Management Comments	The recommendations from the Peer Review, Annual Governance Statement, this VFM improvement plan (and future Customer Focus Reviews) will be brought together into a single Improvement Plan for the Council and will be reported through to the Audit and Standards Committee.

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Improvement recommendations

Improving economy, efficiency and effectiveness

Recommendation 11	The Council should use the Service Planning Review process, taking place in 23/24, to explore ways that it can target reduction of both unit cost and demand in services which are producing comparatively high unit costs when compared to other districts. These areas are homelessness, street cleansing and waste collection. Where services are delivered by contractors (waste collection) this process should be used to liaise with those contractors to explore potential efficiencies and where operational metrics are not currently monitored in relation to these areas (street cleansing) the Council may wish to consider including these within their performance KPI reporting to track impact of any actions.
Why/impact	Although the Council has experienced increased demand across certain services, as a result of the pandemic or changing patterns of consumption, which impacts the total costs of the services it provides there is another factor which exacerbates total costs which is the cost of providing each unit of that service. As such the Council's approach to efficiencies and savings should seek to target and reduce both elements of total cost.
Summary Findings	Having compared unit costs of Council services with other District Councils to identify those directorates with very high comparative unit costs, which contain individual services with very high comparative unit costs, which are also significant areas of expenditure for the Council, we have identified homelessness, street cleansing and waste collection as areas with comparatively high unit costs which if reduced could help the Council respond to the medium term financial challenge it faces.
Management Comments	There are currently discussions ongoing with the Council's waste and street cleansing contractor (Biffa) in terms of contract savings which can be achieved. However it should be noted that as these are formal contract arrangements there is only so much that can be achieved through negotiation and service adjustments outside of a new procurement exercise. These discussions are also being held with the Councils' grounds maintenance contractor as this is another area of significant spend which is being negatively impacted by the significant increases in inflation currently being experienced. This review focuses on the 2021/22 financial year but since that time the waste partnership has introduced independent street cleansing output monitoring every 4 moths through a third party contractor. The following KPI's have also just been recommended by Cabinet; • Waste collections missed bins/100,000: Target 62/ 100,000 • % of public land found with unacceptable levels of litter: Target 2.50% • % of public land found with unacceptable levels of detritus: Target 7% • Fly tips recorded on public land/month: Target Average below 70 • NES - fly tips: Target Monitor The Council has a capital initiative in place to help address the high unit cost of homelessness and in particular temporary accommodation which involves the acquisition of property to support residents that present as homeless. There is a corporate KPI in place which helps to monitor this and as can be seen from the latest report the direction of travel for this indicator is positive with the target cost of temporary accommodation £1,201 compared to the actual as at qtr 3 (2022/23) of £1,082. The Council is however intending to undertake a review of the capital intervention to ensure that this is still the best strategy in terms of improved outcomes for residents and value for money. We also feel it is important to note that, while the benchmarking undertaken is useful to highlight potential areas for further investigation, the RA/RO forms used compare all district councils and therefore do not take any account of regional and local variations, such as high housing costs. Waste contracts for example are more expensive to deliver in rural areas due to increased travel times and similarly housing costs can be disproportionately high for authorities that no longer have their own housing stock to use for temporary accommodation needs. This context is important when considering high level benchmarking of this nature.

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Improvement recommendations

Improving economy, efficiency and effectiveness

Recommendation 12	Whilst the Council is in a transition phase of transferring discretionary services to Bexhill Town Council, it should consider instilling a regular agenda item at Cabinet to update members on the progress of the negotiations until all services, agreed as part of the Financial Stability Programme, are fully transferred.
Why/impact	The success of the Financial Stability Programme, which began in 21/22, relies upon savings expected as a result of the transfer of services to Bexhill Town. Therefore members should be able to track the progress of the transfer as it impacts the financial objectives of the Council.
Summary Findings	Members received regular communications at Cabinet during the decision making phase of setting up the Town Council, however the last report to Cabinet observed in relation to the Town Council was in June 21. Given that there has been a delay in transferring services and realising the benefits from this project members would benefit from frequent updates on the progress of negotiations on transferring services to the Town Council, similar to the level during the set up phase of the project, so that action can be taken as required to progress the project
Management Comments	An additional section will be added to the quarterly budget monitoring reports to ensure this area is given adequate focus and consideration.

Recommendation 13	The Council should continually review governance arrangements between themselves and Rother DC Housing Company to ensure they remain fit for purpose, including reviewing the appropriateness of the use of Council staff delivering services at the company on the independence of decision making and more regular and detailed reporting of company performance to the Council.
Why/impact	A 2018 article by GT included some early identified steps for success of companies and this included that the governance structure should enable the company to trade freely and compete with the private sector. This is facilitated by independent, commercially focused decision making. The Council is the sole shareholder of the company and provides funding for its projects, as such members should be aware of the performance of the company on a regular basis as it directly impacts the Council's ability to meet its financial targets.
Summary Findings	Elected members and local authority officers are likely to sit on the board of any company it owns, but balancing this with the appointment of non-executive directors and the use of shareholder committees helps to keep the local authority's input at a strategic rather than operational level, the Business Plan does include these two specific distinctions but operational decisions are implemented by Council staff under the Service Level Agreement between the two entities.
Management Comments	A governance review of the Housing Company has just been undertaken with recommendations made to the Audit and Standards Committee in January 2023. The Local Partnerships 'Local Authority Company Review Guidance' has been shared with both the company and internal audit as the guidance provides a best practice check list in terms of expected governance arrangements. The company is going to use this checklist to benchmark how things are currently operating which will in turn drive an improvement plan for any areas identified which need strengthening. The Company s also currently seeking to recruit non-executive directors to the Board which also rep[resents best [practice. An internal audit review of the company's governance arrangements is scheduled to take place in 2023/24.

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Follow-up of previous recommendations

	Recommendation	Type of recommendation	Date raised	Progress to date	Addressed?	Further action?
1	Financial Sustainability - The Chief Finance Officer should make an 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.	Improvement	April 22	This has not been addressed in the 22/23 budget setting process which took place in the 21/22 financial year. This is due to the recommendation being raised after the process completed in February 2022. We note that the level of reserves is reported quarterly alongside the budget monitoring and is key aspect of the budget setting process but their adequacy is not explicitly confirmed. There is evidence that the CFO has included a much more robust statement regarding adequacy of reserves within the 23/24 budget and has explicitly stated the intention to maintain a minimum balance of general fund reserves of £5m.	Yes (in 22/23)	No – addressed in the 22/23 year when producing the 23/24 budget and as such has been achieved and can be considered closed for next years VFM work.
2	Financial Sustainability - A workforce plan or people strategy, aligned to the corporate plan and MTFS should be prepared, formally approved and circulated to appropriate officers.	Improvement	April 22	We identified no evidence of such a plan or strategy having been produced in the 21/22 year	No	Yes - The recommendation is re-raised for action and follow up 22/23. We accept that the timing of the 20/21 report did not allow for this to be produced and aligned with the 22/23 budget. However there is no evidence of this having been progressed as part of the 23/24 budget setting process currently under way.
3	Financial Sustainability - 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.	Improvement	April 22	The Council's budget for 22/23 and 23/24 continues to be allocated to directorates and services, with no distinction between those that are statutory and those that are discretionary. Protecting discretionary services is centric to the ethos of the Council's Financial Stability Programme with Bexhill Town Council having been set up to facilitate devolvement of these types of services. As such decision makers would continue to benefit from being able to distinguish those that are discretionary and can be devolved more easily.	Yes (in 22/23)	Yes - The recommendation is re-raised for action and follow up 22/23. We accept that the timing of the 20/21 report did not allow for this change. However there is no evidence of this having been progressed as part of the 23/24 budget setting process currently under way.

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Follow-up of previous recommendations

	Recommendation	Type of recommendation	Date raised	Progress to date	Addressed?	Further action?
4	Governance - 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.	Improvement	April 22	The Council engaged Zurich to provide support in updating their risk management procedures, the improvements identified from this work were implemented in September 22. The updates to the processes as a result of this work have included clarity on staff roles and responsibilities within the refreshed Risk Management Policy, a reduction in the number of risks in the Corporate Risk Register from 38 to 16, updates to the format of the Corporate Risk Register and staff training and input into the refresh facilitated by Zurich. As such the recommendations from the prior year VFM work have been addressed in the 22/23 year.	Yes (in 22/23)	No – addressed in the 22/23 year following external support and as such has been achieved and can be considered closed for next years VFM work.
5	Governance - Codes of conduct, the Anti Fraud and Corruption Strategy and Whistleblowing Policy should be updated as soon as possible and annual thereafter	Improvement	April 22	We would expect key policies to be reviewed every 3-5 years to remain relevant, prior year work noted that the policies were from Sept 2019 and these still remain relevant to 21/22. We have noted updates to key policies, including the Code of Conduct in late 2022 and therefore, although not in the 21/22 year, provide evidence of ongoing updates taking place.	Yes	No

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Follow-up of previous recommendations

	Recommendation	Type of recommendation	Date raised	Progress to date	Addressed?	Further action?
6	Improving Economy, Effectiveness and Efficiency (3E's) - 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).	Improvement	April 22	As noted in our narrative within the 3E's section of our report there is still no evidence of a formal, council wide, approach to benchmarking.	No	Yes – to be reconsidered in future years' VFM work, we note that the prior recommendation was not raised until April 22 and the Council's Service Planning Review taking place in the 23/24 year provides an opportunity to explore the use of benchmarking to assist decision making as part of that programme.
7	Improving Economy, Effectiveness and Efficiency (3E's) - 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.	Improvement	April 22	On the first point we have noted both an annual report being taken to Cabinet in February 22 on Procurement Activity and a mid-year report in October 22. The Procurement Strategy and the Annual Report includes KPI targets for 20/21 and then an action plan for 22/23 which suggests that there was a lack of monitoring of performance in 21/22, there is no evidence of reporting of any such KPIs prior to February 22 to Cabinet. Our recommendations were raised in our report dated April 22 and therefore since us raising this issue the Council has responded successfully responded. This has impacted 22/23 rather than in 21/22 due to the timing of our reporting. The Procurement Strategy was last updated in Dec 2020 and therefore is not yet due to be updated, we expect strategies to be updated every 3-5 years unless legislation or the operational environment requires and as such we would not expect the second point to have been addressed	Yes	No

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Opinion on the financial statements

Audit opinion on the financial statements

We expect to issue an unqualified audit opinion on the Council's financial statements. Our Audit Findings Report will be presented to the Audit & Standards Committee on 20th March 2023.

Audit Findings Report

More detailed findings can be found in our Audit Findings Report, which is reported alongside this report at the Council's Audit & Standards Committee on 20th March 2023.

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. This work will be completed following the audit of the financial statements. The Council's expenditure and assets are below the £2bn threshold for a detailed audit of the return.

Preparation of the accounts

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

Issues arising from the accounts:

The key issues were:

- Kjdsfj
- Fjhsfho
- Dsjfhffoi

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

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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.

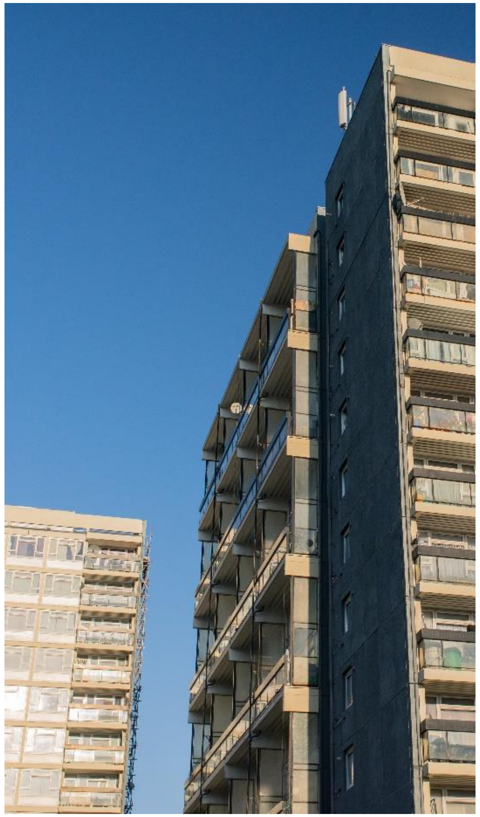
Financial statements are the main way in which local public bodies account for how they use their resources. Local public bodies are required to prepare and publish financial statements setting out their financial performance for the year. To do this, bodies need to maintain proper accounting records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



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Appendix B – An explanatory note on recommendations

A range of different recommendations can be raised by the Council'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'.	No	N/A
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 relevant sections

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Appendix C – Sources of evidence

Staff involved

- Malcolm Johnston, Chief Executive
- Antony Baden, Chief Finance Officer
- Lorna Ford, Deputy Chief Executive and Monitoring Officer
- Lisa Cooper, Democratic Services Manager and Deputy Monitoring Officer
- Joe Powell, Head of Housing and Community Services (seconded to Rother Dc Housing Company)
- Nicola Mitchel, Corporate Programme and Projects Officer
- Gary Angell, Internal Audit Manager

Documents Reviewed

- 21/22, 22/23 and 23/24 Budget Report
- Medium Term Financial Plan
- Capital Strategy
- Treasury Management and Annual Investment Strategy
- Reserves Strategy
- Budget Monitoring Reports
- Financial Stability Programme Reports
- Capital Monitoring Reports
- Treasury Management Monitoring Reports
- Year-End Outturn Report
- Cashflow Forecast
- Corporate Plan
- Internal Audit Plan
- Internal Audit Progress Reports
- Internal Audit Annual Report (including Head of Internal Audit Opinion)
- Internal Audit Self- Assessment
- Risk Management Policy
- Corporate Risk Register
- Annual Governance Statement
- Member Code of Conduct
- Constitution
- Anti-Fraud and Corruption policy
- Whistleblowing Policy
- Councillor Gifts, Hospitality and Interests Declarations
- Non-Financial Performance Reporting
- Consultation and Engagement Framework
- Consultations (including Public Consultation on 22/23 Budget)
- Rother DC Housing Limited Business Plan
- Committee Papers and Minutes (Council, Cabinet, Audit & Standards and Overview and Scrutiny predominantly)
- Procurement Strategy
- Procurement Rules
- Annual Procurement Report and KPI Reporting
- Contract Register
- Customer Survey
- LGA Corporate Peer Review
- External Audit Progress Reports
- Statement of Accounts 21/22
- Code of Conduct Complaints Monitoring
- Property Investment Strategy and Updates
- Grant Thornton – In Good Company September 2018

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