

Clerk: Lisa Antrobus
Telephone: 01803 207013
E-mail address: governance.support@torbay.gov.uk
Date: Friday, 20 May 2022

Governance Support
Town Hall
Castle Circus
Torquay
TQ1 3DR

Dear Member

AUDIT COMMITTEE - WEDNESDAY, 25 MAY 2022

I am now able to enclose, for consideration at the Wednesday, 25 May 2022 meeting of the Audit Committee, the following reports that were unavailable when the agenda was printed.

Agenda No	Item	Page
4.	Auditor's Annual Report on Torbay Council 2020/21	(Pages 2 - 27)

Please note a revised report has been issued, the revisions are in relation to the graphs contained on the page headed 'Borrowings table 3&4: Comparison of borrowing relative to long terms assets and income.'

Yours sincerely

Lisa Antrobus
Clerk

Auditor's Annual Report on Torbay Council

Page 2
2020/21

May 2022



Contents

Page 3



We are required under s 20(1)(c) of the Local Audit and Accountability Act 2014 to satisfy ourselves that the Authority 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) in 2020 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 Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.



Section	Page
Executive Summary	3
Key recommendations	5
Commentary on the Council's arrangements to secure economy, efficiency and effectiveness in its use of resources	6
Financial sustainability	7
Governance	15
Improving economy, efficiency and effectiveness	18
COVID-19 arrangements	21
Opinion on the financial statements	22
Appendices	
A - The responsibilities of the Council	
B - An explanatory note on recommendations	

The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Council or all weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

Executive summary



Value for money arrangements and key recommendations

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

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

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

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



Financial sustainability

Despite the uncertainty, and the challenges posed by COVID-19, the Council has maintained a sound financial position in the context of national local authority finances. The Council set a balanced budget for 2021/22 and 2022/23. As at 31 March 2021, the Authority held £63m of general and earmarked reserves, including £17m to meet the 2020/21 collection fund deficit in respect of business rates, and £389m in borrowings matched with property. Our initial benchmarking identified that in relation to annual spend, Torbay has unusually high borrowing compared to other councils. On further investigation comparing the financial statements of various unitary authorities, we were satisfied that the ratio of borrowing to expenditure and assets is reasonable.

The Council has a good understanding of its financial position and like all public bodies, it is under pressure to identify savings in the years ahead.

Our work has not identified any significant weaknesses in arrangements to secure financial stability at the Council.

Further details can be seen on pages 7-11 of this report.



Governance

Our work this year has focussed on developing a detailed understanding of the governance arrangements in place at the Council and the changes instigated as a response to the pandemic.

Our work on both business as usual governance and adapted structures has not identified any significant weaknesses in arrangements in relation to governance.

Further details can be seen on pages 12-14 of this report.



Improving economy, efficiency and effectiveness

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

Our work has not identified any significant weaknesses in arrangements or improvement recommendations in relation to delivering economy efficiency and effectiveness.

Further details can be seen on pages 15-17 of this report.



Opinion on the financial statements

Our work on the 20/21 accounts remains ongoing . All audits with material infrastructure assets are currently delayed pending a CIPFA consultation on new accounting requirements.



Key recommendations



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 Authority. We have defined these recommendations as 'key recommendations'.

Our work has not identified any significant weaknesses in arrangements and therefore we have not made any key recommendations.

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

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

All local authorities 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 Authorities 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) 3, requires us to assess arrangements under three areas:



Financial Sustainability

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



Improving economy, efficiency and effectiveness

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



Our commentary on each of these three areas, as well as the impact of Covid-19, is set out on pages 7 to 18.



Financial sustainability



We considered how the Council:

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

Page 8

2020/21 and ongoing financial pressures

The Covid-19 pandemic has been the largest emergency seen in this country since the Second World War. Nationally, the knock-on effects on local government finance have meant shortfalls in income due to cessation of services and reduction in collection of both Council Tax and Business Rates. We'd also expect there to have been a loss of commercial income in such areas as car parking and commercial rents as people stayed at home and business were forced to close. While government grants have covered part of the general shortfall, councils have been with increased financial uncertainty.

Torbay Council has a large property portfolio including investment property held to generate rental revenue. Around 31% of the asset base is investment property but from November 2020 there are no plans to increase the amount of investment property held due to the change in lending available for such property from the Public Works Loan Board.

Precepts for 2020/21 for Fire and Police services were set in February 2020 before the effects of the pandemic were realised and, as such, the Council had to pay these over as planned, while collection rates have been down, providing added pressures on cashflow.

Some services were suspended for example, parking enforcement, while some staff were diverted to Covid-19 related work including paying out Covid-19 related support grants across the authority.

The Council set its budget for 2020/21 in February 2020. The pandemic started in March and it became clear over the next couple of months that it would have a fundamental impact on the Council's finances. The Cabinet were briefed on the financial impact of Covid in June 2020. At that time, it was projected that the Torbay area could lose over 18,000 jobs and the Council incur additional staffing costs in the region of £390k to cope with that issue alone. The Medium Term Resource Plan of October 2020 estimated that the financial impact on 2021/22 would be £7.7m. There was, as expected, an overspend in the Collection Fund in the year given the impact on Council Tax and National Non-Domestic Rates, however this deficit is allowed to be spread over three financial years. The final outturn for the General Fund was an underspend which allowed larger than expected contributions to be made to reserves. This is laudable performance given the income losses incurred by the Council due in part to receipt of significant levels of Government Grant but also due to strong budgetary control. This outcome had positive benefits for the Council's financial resilience in 2021/22 and beyond. A balanced budget was set for 2021/22 in February 2021, helped in part by the difficult decision to increase Council Tax. Review of Council papers indicate the assumptions used for the financial planning for 2020/21 and 2021/22 are sound. We have seen no evidence that short term measures are being used to relieve current pressures. The Council has been proactive in securing additional funding where due. For example, the additional pressures caused by Covid-19 on the higher needs block of dedicated schools grant has been assessed and responded to by engaging with the Education and Skills Funding Agency to obtain funding from the 'Safety Valve' programme. Our understanding is that funding via this programme is based on a rigorous set of criteria for action set out by DfE.

The future financing of local government is still unclear. A planned government long term spending review was postponed from 2020 due to the pandemic and the local government settlement only covered the 2021/22 year and then subsequently 22/23 on a one year basis. The date of the long-term review, whilst announced in the October 2021 budget statement, is yet to be confirmed with the clarification that 2022/23 will also be covered by a one year settlement. We are aware that post year end, the Council has successfully negotiated a renewed fixed price arrangement for delivering Adult Social Care Services which will improve future forecasting.

Financial sustainability

2020/21 and ongoing financial pressures (continued)

Given the uncertainty of the financial regime, the Council does not have a detailed long term financial plan. It's existing budgets have been drawn up on prudent assumptions on future income streams. The Council has considered the financial pressures brought about by the pandemic and has also looked at long term pressures on funding streams such as Council Tax, Business Rates and the Government funding settlement considering best and worst case scenarios.

Lack of information on future funding is a national issue but we have seen pre pandemic that the Council has a sensible approach to financial planning and budget management.

Financial plans are discussed at Council, Cabinet and the Overview and Scrutiny Board. The Council has a history of transparency in financial matters.

Savings plans

The Council plans for savings are summarised in the Proposals for efficiencies, income generation and service change document within the publicly available budget pages on the Council Website. These plans are included in the MTP for the year. The purpose of the proposals are to provide structure, focus and direction in addressing the financial challenge faced by the Council.

The final budget is approved by Council. The Council has a history of delivering on savings and on its budget. Savings delivery is monitored at Cabinet as part of the quarterly budget monitoring reports.

As part of the 2021/22 budget setting, budgets have been reviewed and changes to the budget were made adjusting for pressures, new initiatives, expected cost increases and income changes. The 2021/22 Medium Term Resource Plan highlighted a cumulative £16.2m required from savings or transformation.

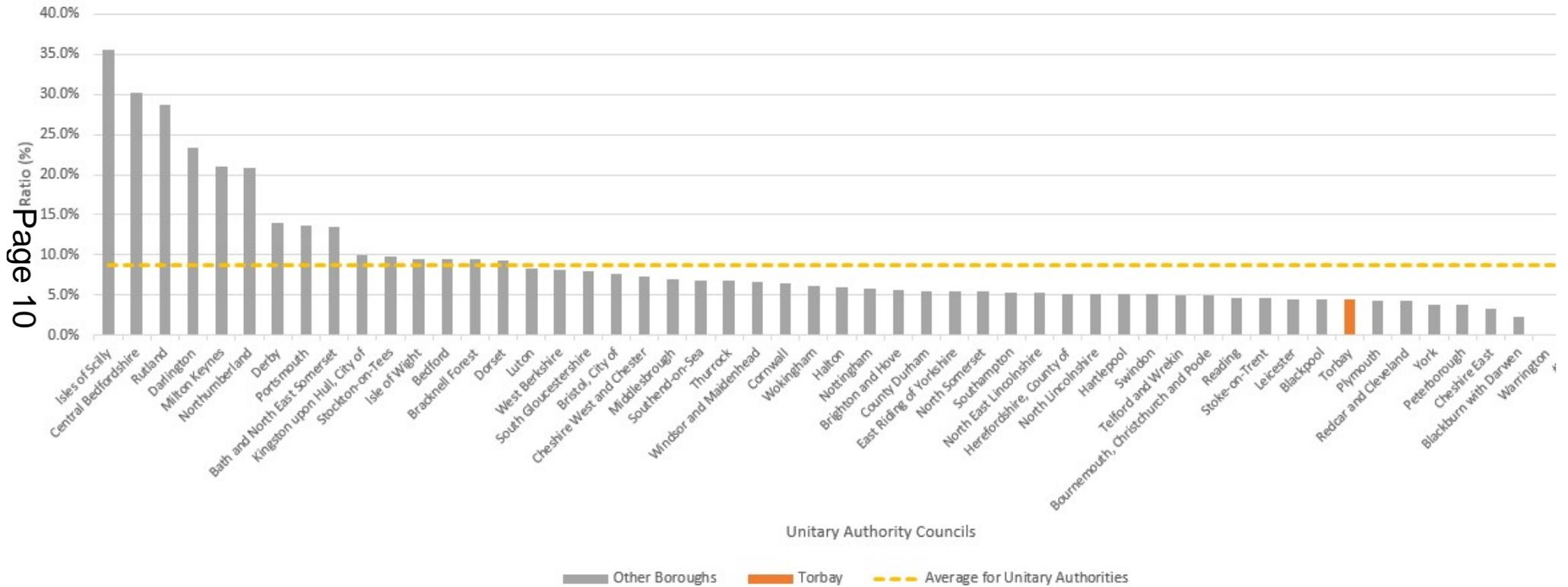
The Council is not proposing to use reserves to cover shortfall. At the end of 2020/21 the Council planned to contribute to the general fund balance to bring it up 5% of the Council's net budget using the underspend in the year. This was only after allocating to one off monies to earmarked funds including a Covid-19 reserve to safeguard the Council's future. The Council has clearly identified its relatively low reserves position (see Grant Thornton benchmarking tool overleaf 'CFO Insights' which based on the opening 2020/21 position charted Torbay as one of the unitary authorities with the lowest % of general fund reserve to annual expenditure positions). This is not unusual given Torbay's status as a unitary authority which historically have had lower reserves. The CIPFA Resilience Index in table 2 page 10 shows that while the unallocated reserves balance is low, it has increased steadily since 2017/18.

The Council has been prudent in its use of funding and management of reserves where it can.

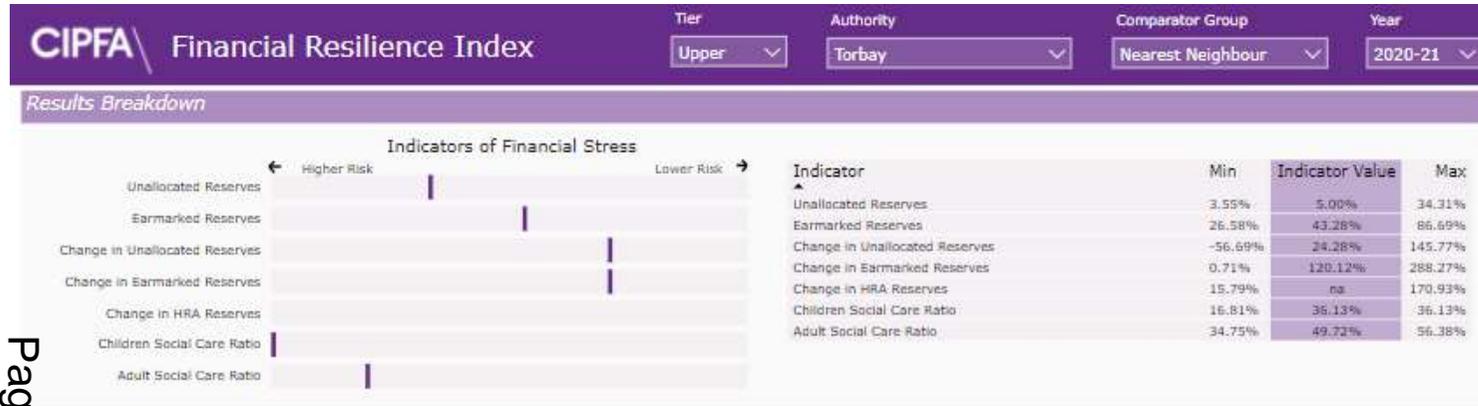
The plans for future savings to address the expected funding gap will be addressed further in the 2021/22 Annual Audit report.

Reserves table 1: CFO Insights – total general fund reserves as a % compared to annual net expenditure 20/21

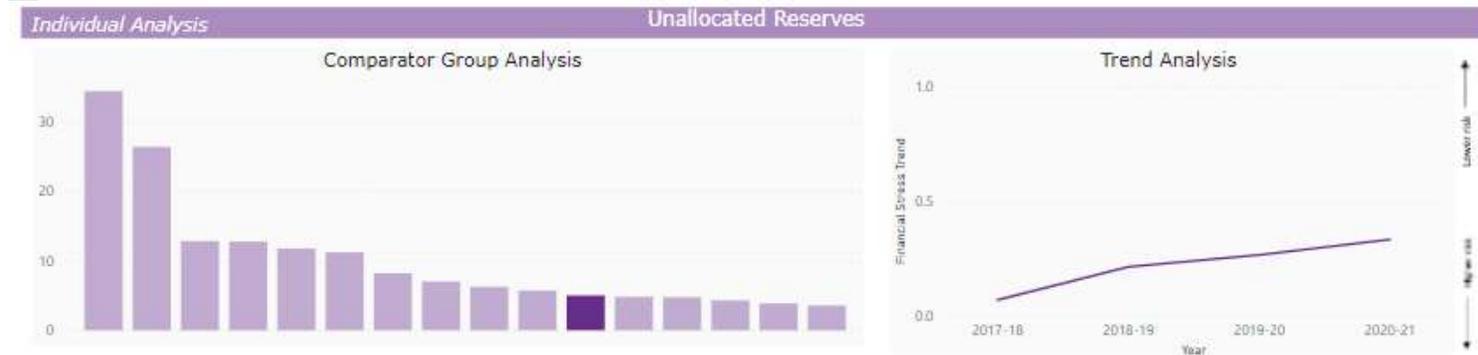
General fund reserves as a percentage of net service revenue expenditure (%)



Reserves table 2: CIPFA Resilience Index



Page 11



Financial sustainability

Treasury Management

A review of benchmarking data from the CFO Insights (CFOI) tool by Grant Thornton shows that borrowing by the Council is very high relative to its net spend (info graphics shown opposite):

1. Relative to its spend, Torbay's borrowing has taken it outside of the trend line comparing spend to borrowing (in percentile terms suggestive of £ per £ of spend) of all UK councils (excluding councils with low borrowing i.e. borrowing is in lowest 50% of £s borrowed). Based on this graph, further tables have been presented overleaf.
2. Borrowing has increased significantly from 2016/17.

In response to this, the auditor has considered the procedures in place around borrowing.

As a general principal, the Council only approves a borrowing funded capital scheme where an income stream will be generated to cover the costs of repayment. All proposed schemes are required to be considered via a laid down governance process and include a business case to be submitted for approval onto the Capital Plan. In terms of the Investment Fund expenditure, all proposals were considered by a dedicated Committee of Members and Officers.

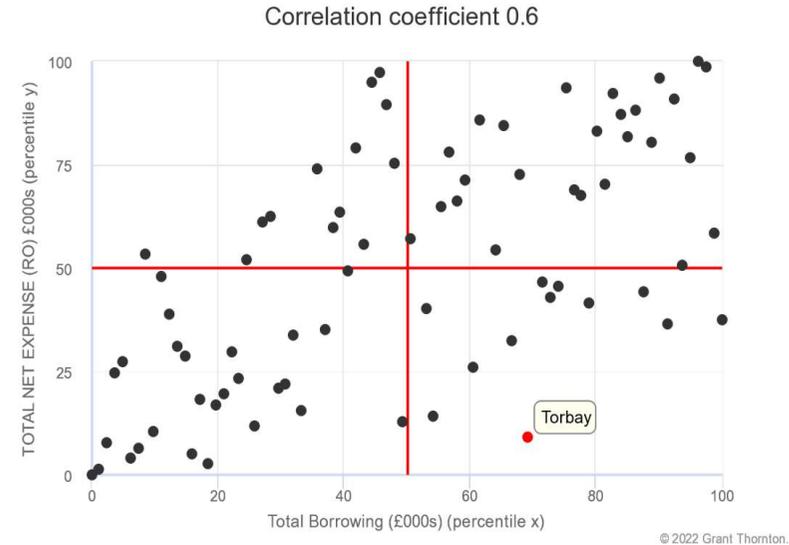
Borrowing decisions are based on the overall Capital Plan (CFR) and consider the availability of internal resources and forecasts for interest rates. Information and advice is received from the Council's treasury advisor and considered in terms of the overall borrowing strategy and timing of individual loans. The overall borrowing strategy forms part of the annual Treasury Management Strategy document approved by full Council and adheres to statutory guidance and the CIPFA Prudential Code and Code on Treasury Management.

There is no indication that the borrowing is being mismanaged but its security is tied to the success of the capital plan. Having gained assurance over the process for managing borrowing, the 2021/22 Annual Auditor's Report will consider the capital side of the plan in greater detail.

Opposite: Borrowings tables 1&2.

This data has been taken from information published by Councils across the country. As part of this work, we are not making a value judgement on these data-driven indicators, but are sharing them for member information for the level of borrowing at Torbay.

As part of this work we have considered whether these indicators show potential significant weaknesses. Part of sound governance is to identify problems and take action. The Council has a treasury management strategy to monitor the risk that comes with the borrowing.



Borrowing Ranking: Total Borrowings ^

This graph showcases the total borrowing of the local authority over time, starting with 08/09. Is the local authority more reliant on debt than previously?



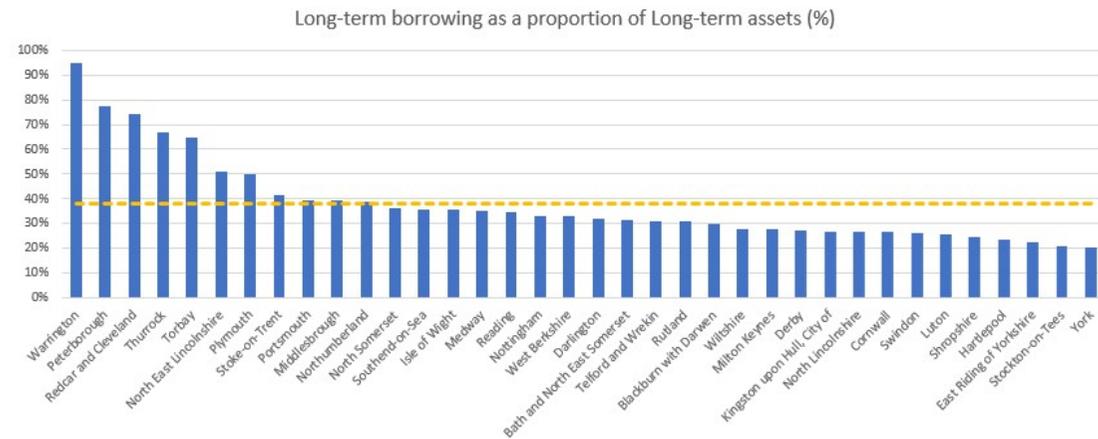
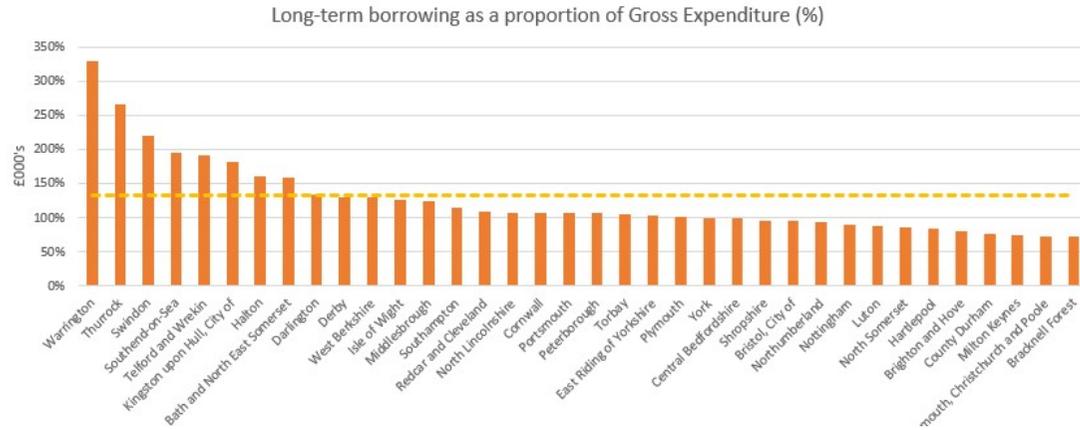
Borrowings tables 3&4: Comparison of borrowing relative to long term assets and income (comparing data from 20/21 financial statements)

After identifying the trend in the scatter graph on p11, we compared Torbay's borrowing level relative to long term assets and gross expenditure with other unitary authorities. The figures used in these calculations have been taken from the financial statements.

When comparing borrowing relative to gross expenditure (graph 3 in orange), we can see that Torbay's borrowing is more in line with average unitary authority borrowing to spend ratios than graph 1 suggested. The variance between the graphs will be the way that different authorities classify expenditure on their revenue outturn reports.

Torbay does rank higher comparing borrowing to total long term assets (graph 4 in blue). The reason for this is that Torbay's capital borrowing has been very recent meaning that there has not been the reduction over time in borrowings compared to asset valuation.

These graphs do not indicate that there is a significant weakness or risk in relation to borrowings at Torbay Council.



Page 13

Financial sustainability

Financial Planning

We found a robust financial planning process which ties in with corporate objectives. There is a formal Budget and Policy Framework which triggers an extensive internal consultation to ensure the budget meets the needs of the service. The process ensures that key services remain funded. We found no evidence of the need to curtail services to support short term funding deficiencies. Public consultation is included on the draft budget proposals demonstrating good democratic practices.

The Council has the necessary resources for financial management including a financial system able to provide timely financial information, the necessary financial skills, experience and capacity in the finance team and budget holders in the services. There are also clearly defined responsibilities for budget management by officers and member challenge of performance, holding budget holders to account, and making decisive interventions where necessary. The finance team is well established with significant experience of managing the Council's finances. We feel the Council has a positive financial culture and an appropriate 'tone from the top' set by the Chief Executive officer. The ongoing management of the Council's financial position over recent years is evidence of this. In challenging times, it is vitally important that a strong financial culture is maintained.

Budget holders receive monthly budget reports. The onus is on budget holders to flag issues with finance rather than regular meetings being held. £20k variances must be reported to the Director of Finance

The Council has a Capital Plan and has adopted regularly reviewed and updated annually to reflect changing circumstances. Other than funding for the replacement of assets which deliver services as well as recurring capital expenditure.

The current corporate strategy covers the period 2019 to 2023 and was agreed in September 2019. The current areas of focus are:

- Thriving People (poverty, aspirations, safer communities)
- Thriving Economy (environment for business, premier resort town)
- Tackling Climate Change (carbon neutral and community support)
- Council fit for future (technological, resilient, enabling of community)

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

A recommendation has been raised as statutory and discretionary spend is not clearly differentiated in the financial planning reports which underlie the budget and Medium Term Resource Plan. Whilst discretionary spends are the areas which come under scrutiny when savings plans are being considered, it would not be clear to a resident that there is a distinction between statutory and discretionary spend.

Conclusion

Overall, we are satisfied the Council has appropriate arrangements in place to ensure it manages risks to its financial sustainability. We have not identified any risks of serious weaknesses. We have the opportunity for improvement which is set out overleaf.

Improvement recommendation



Financial Sustainability

Recommendation Consideration should be given to making a clear distinction between statutory and discretionary spending in the budgetary information provided to members and published on the web.

Why/impact This would help residents to understand the difference between these types of spending and would help inform them as to any spending which is made as a result of manifesto pledges or following a decision by the Council to undertake a specific project outside of or in addition to its statutory obligations.

Summary findings No distinction is made in the financial information reported to Committees responsible for budgeting between statutory and discretionary spending.

Management comment In reality, the level of service provision is more complicated than a simplistic discretionary/statutory split. The council budgets will consider the level of all services provided and how it can meet statutory commitments while achieving a balanced budget in the medium term.



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

Governance



We considered how the Council:

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

Page 16

Monitoring and assessing risk

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

The Annual Governance Statement for 2020/21 notes that a new Performance and Risk Strategy was agreed at a Cabinet Meeting in December 2020. This strategy acknowledges that “everyone should be involved in reviewing performance and risks as all staff and elected members need to be aware and act upon the performance and risk data from their areas of responsibility”. Further training to staff has been offered post year end (this is reasonable given the timing of the strategy). Roles and responsibilities are clearly defined and the guidance describes the process for identifying, assessing, evaluating, escalating, allocating and monitoring risk (improvement recommendation made in Improving Economy, Efficiency and Effectiveness section based split between responsibilities of performance versus risk but risk strategy).

As the Performance and Risk Management Strategy was being implemented in the year, internal audit did not the procedures directly but the overall plan and opinion must take account of the organisations risk management framework (Internal Audit Plan 2020-21 p1). In May 2021 the Head of Internal Audit gave an opinion of Reasonable Assurance for the year 2020-21.

Based on our review of your risk management processes, we concur with this view. The Council Corporate Risk Register is reported quarterly to the Audit Committee and Cabinet. The Corporate Risk Register is linked to the corporate plan. In quarter 4 of 2020/21 it had 12 risks relating to Thriving People and Communities, 5 relating to Thriving Economy, 3 Tackling Climate Change and 15 Council Fit for the Future. This is within our expected range of risk (5 to 15 risks for an area) to allow adequate review of those threats to Council objectives. Risks are scored and the risk register contains 10 “red” risks after mitigation.

The risk register format is clear showing current and target risk score, lead officer, description including consequences, and current mitigations. The risk register does not document a number of potential categories such as target score, direction of travel, sources of risk and actions required.

Internal Audit services are provided by the Devon Audit Partnership. Although the agreed plan had to be “significantly revised” as a result of the pandemic to “operationally support” the Council’s response, Internal Audit provided sufficient fieldwork and completed reports within the year and the Head of Internal Audit Opinion provided to the Council by May 2021. Review of the Annual Internal Audit Opinion indicates a wide breadth of work during the year covering financial and operational processes and including a flexible approach which allowed adjustments to the plan in year.

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

Internal audit presented multiple limited assurance reports in 2020/21 however a review of these showed that all were either now improving based on an action plan or were developing one. These related to ICT Information Governance (due to ongoing work on Children’s Services), follow up findings in key financial systems (action plans being agreed for NNDR and Council Tax), Commissioning and Performance Monitoring by the Council of TDA (action plan agreed and progress is reasonable), elements of Children’s Services –Special Educational Needs services and Adoption – working well to action plan.

Counter fraud operations are underpinned by a Code of Corporate Governance within the Constitution and Member and Officer Codes of Conduct. These documents are subject to annual review last updated in May 2022.

Governance

Budgetary control

Budget managers have access to finance system and can review budgets at any time. Budgets are monitored by Finance on key high-risk areas. Meetings are held on ad hoc basis with budget holders, furthermore the accountancy team review the budgets under their control raising questions with the services as required. Budget holders receive a monthly budget monitoring report, all variances over £20k must be addressed with eh finance team. Review of Cabinet papers indicates that variances are adequately identified and explained.

The Finance team is duly qualified, stable and experienced. The S151 Officer is the Director of Finance and sits within the Senior Management Team.

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

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

Monitoring and ensuring appropriate standards

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

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

Officer and Member conduct is set in codes of conduct within the constitution. Members interests are published on the Council website. There is an opportunity for Members to declare interests at every meeting as a set agenda item. Related party transactions are required to be declared as part of year end closure of accounts and sent to all Members and Senior officers for their completion. There is a member protocol on gifts benefits and hospitality. Officers are advised on the rules related to gifts and hospitality. We found no evidence of adverse outcomes of interests, gifts or hospitality not being declared.

Budgetary Setting Process

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

Budgets are discussed with budget holders, senior leadership and members prior to approval at Council level.

Investments and Borrowings are included within the financial plan, refer to consideration in the Financial Sustainability section.



Governance

Leadership and committee effectiveness/decision making

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

It is evident from our review of papers that sufficient information is provided to members and they challenge and hold senior management to account appropriately. The Council is engaged and provides appropriate levels of scrutiny to external and internal audit. There is no evidence of serious and pervasive weaknesses in final accounts processes leading to material errors in draft accounts.

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

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

Wholly Owned Companies

The governance arrangements in place for the wholly owned subsidiary companies have been highlighted as an area of focus assessing Value for Money. Due to changes in 2020/21 to improve Council oversight of the subsidiaries and member queries, it is considered more appropriate to draw conclusions in the 2021/22 Annual Auditor's Report. It is noted that the companies are considered within the financial planning and treasury management strategy.

Conclusion

Overall, we found no evidence of significant weaknesses in the Council's arrangements for ensuring that it makes informed decisions and properly manages its risks.

Improving economy, efficiency and effectiveness



We considered how the Council:

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

Performance review, monitoring and assessment

This year has been incredibly challenging one for public services as a whole and Torbay are no different. The first six months of the year were spent getting to grips with the unique challenges of the pandemic, as services adapted to this unknown threat and challenges of the first lockdown. Torbay Council played its part in the county wide effort to support residents and local business. Local Government will face yet more challenge as it moves from the Covid response stage to the task of supporting long-term economic and social recovery.

In the first quarter of 2020/21, the Council appointed a Senior Performance and Risk Officer. One of their responsibilities has been to improve performance review, monitoring and assessment, which has continued in to 2021/22. Having a lead officer for performance management is an example of how Torbay is building a strong platform for improving economy, efficiency and effectiveness.

2020/21 was in the middle of the 2019-2023 Community and Corporate Plan. This set out four visions for the Council which have been appropriately referenced in the risk register and performance monitoring and reporting. This means that there is a framework for how the Council can demonstrate that it is achieving its goals, or identify and improve areas where it is missing targets.

There is a comprehensive suite of key performance indicators which are reported on quarterly to the Overview and Scrutiny Board. (17 Thriving People goals with 36 Key Performance Indicators (KPIs), 7 Thriving Economy goals with 7 KPIs, 13 Tackling Climate Change goals with 15KPIs and 12 Council Fit for the Future goals with 20 KPIs).

Having reviewed the reports and observed the collation of data and benchmarking, this reporting can be considered robust. The Senior Performance and Risk Officer oversees the collation and content of the reports which comprise of narrative summaries written by the lead directors and data input directly from department heads taken from live reporting systems used by the respective teams. Benchmarking data is taken directly from government recognised sites such as NOMIS. Torbay has worked in partnership with the LGA to build a national indicators report allowing the Council to promptly obtain relevant data for their monitored benchmarks.

Although the quality performance reporting is good, a recommendation has been made to suggest that the performance and risk reports should be separated. The performance report should go to the Overview and Scrutiny board rather than the Audit Committee.

In 2018 Ofsted rated the quality of Children's Services in Torbay as Inadequate. Just prior to 2020/21 the Council appointed a new Director of Children's services.

There is evidence that the Council's response to improve has been appropriate. Firstly, Failure to implement the Children's Services Improvement Plan has remained as an item on the Corporate Risk Register since then showing a dedication to use the reports of regulators to improve services. Secondly, this Improvement Plan has helped create KPIs which are tracked in the quarterly performance reporting and also to the Improvement Board specifically for Children's Services. The Council has engaged in multiple peer reviews from the LGA network and with the Department for Education which have allowed scrutiny of performance.

Partnership working

We have reviewed the Council's arrangements for working in partnerships such as the Devon Audit Partnership (DAP), the South West Devon Waste Partnership (SWDWP) as well as how the Council works with the Local Government Agency and other Authorities. We have also considered how the Council Manages major contracts including those with the local NHS Foundation Trust for services for People with Complex Needs.

Improving economy, efficiency and effectiveness

The Council has Member representation on the SWDWP Joint Committee which annually considers performance, future plans and the financial position of the SWDWP. The DAP produces annual reports for the Council making recommendations to the authority for any improvements – these are added to the relevant service boards to improve prospective performance.

In September 2020 the Council appointed a central Senior Contracts Officer and a Contracts Support Officer. One of their responsibilities has been to monitor contract performance and management including where the Council has been working with partners. One development has been the creation of a formal contract variation process which has identified where performance issues have arisen. One instance was the energy contract where it became clear that the relationship with supplier was not being monitored effectively as responsibility was spread across too many individuals. As a result, the contract has been restructured with oversight passed back to the Contract Management team.

The Council is flexible in its approach, working in partnership when it is efficient and economical to do so, and reverting to direct provision, should circumstances call for that.

The Council also works with other agencies to co-ordinate and improve services and value for money. In the financial sustainability section, we noted the fixed price arrangement for Adult Social Care services. The contract would not have been arranged but for the careful monitoring of cost by the Council to secure effective value for money in the new contract. This arrangement is a market leader for councils obtaining a secure price for one of their core services. The Council's long term integrated care model provides real certainty and value.

The Council is transparent about its dealing with significant partners except where commercial sensitivity precludes this.

Procurement

Procurement support services across the organisation delivering front line and back-office services. The Council has an up-to-date Procurement Strategy approved in August 2020 and running to March 2023 based on the National Procurement Strategy. The strategy covers partnering, e-procurement, procurement with small to medium size enterprises and the voluntary sector and sustainable procurement, as well as safeguarding and social value needs. The National Procurement Strategy provides a toolkit for the Council to assess its progress against the themes and objectives and it's clear that this has been considered.

The Council has a legal duty to secure value for money in commissioning and procuring its requirements and to continually improve the quality in everything the public sees and expects from it. Central Government policy seeks to ensure that all commissioning and procurement activity should be based on obtaining value for money. This is defined as considering the optimum combination of whole life cost and the quality necessary to meet the customer's requirements. In conjunction with relevant legislation and the Council's Constitution (particularly the Financial Procedure Rules and Contract Procedure Rules). The Council has responded to these requirements by ensuring that there is a formal process to tendering and moderating tender applications. Where applicable, the waiver process has also been enhanced to seek permission for waivers and documenting the alternative proves followed. In 2021/22, the audit team will consider the volume of waivers used. Any contracts procured via direct award are published using a Voluntary Ex Ante Transparency (VEAT) notice. The Council have not received any challenges or complaints in relation to VEAT notices in 2020/21.

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

Conclusion

Overall, we are satisfied the Council has appropriate arrangements in place to ensure it manages risks to its oversight in ensuring economy, efficiency and effectiveness in its use of resources. We have identified some opportunities for improvement, set out below.



Improvement recommendation



Improving economy, efficiency and effectiveness

Recommendation Currently, the quarterly performance reports are presented to Audit Committee for review and challenge. It would be more appropriate for the performance reports to be present to Overview and Scrutiny Board and for the risk reports to remain with Audit Committee so their focus is on the updated risk register and mitigating actions being taken to address it. The responsibilities of the Audit Committee and Overview and Scrutiny Board should be clearly split and this would be apparent by not taking the performance reports to a non-scrutiny committee.

Why/impact There is a risk that the council's Audit Committee are taking on the responsibility for performance review as well as risk oversight. This reduces the committee's capacity to focus on identifying and reviewing risk and also prevents overview and scrutiny members seeing sight of the performance reports to enable political challenge against performance.

Summary findings The council's performance management processes are good and improving but currently the member involvement in the review and challenge is not inline with what we would expect to see.

Management comment The Monitoring Officer will liaise with Chair of Audit Committee and the Overview and Scrutiny Co-Ordinator to review the Council's Approach.



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

COVID-19 arrangements



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

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

Page 22

COVID-19 arrangements

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

In response to the covid-19 pandemic, the multi-agency Strategic Coordination Group declared the coronavirus pandemic a major incident on 24 March 2020 and Torbay went into a national lockdown on that date. These measures did not significantly change through the whole financial year 2020/21. The first six months of the year was spent largely adjusting to the demands of the pandemic with new services being introduced and the payment of grants to support residents and local business.

In March 2020 there was an impact on business as usual and delivery of services, mainly due to staff working at home and some self-isolation. Some services were unable to function during the initial lockdown such as parking enforcement. Decisions around any necessary changes to internal controls were discussed with senior managers and escalated when required.

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

In the early stages of the pandemic the Government announced various funds to provide financial support for business (Small Business Grant Fund, the Retail, Leisure and Hospitality Grant Fund and the Local Authority Discretionary Grant Fund (LADGF)). Local authorities were made responsible for delivering grants to eligible businesses.

Member meetings went on-line and all staff started working from home where possible to reduce the risk of spread of the disease. Other measures were put in place to ensure the safety of those who still had to work in the community.

The Council's response to the Covid-19 emergency included the Torbay Covid Champions Programme which facilitated the spread of public health messages and also receive feedback on their delivery. The Council also recognised that Torbay has a high proportion of older people in it's communities and co-ordinated an approach to protect those people including the establishment of the Proactive Care Homes Group as early as April 2020 providing information to that sector via webinars, newsletters and an available Quality Assurance and Information team. A care homes visiting group was also established to support homes in developing visitor pods, screens, communications technology, and other ways of keeping in contact with families.

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

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

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

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

Conclusion

Our review has not identified any significant weaknesses in the Authority's VFM arrangements for responding to the Covid-19 pandemic.

Opinion on the financial statements



Audit opinion on the financial statements

Our work on the 20/21 accounts remains ongoing.

Other opinion/key findings

We have not identified any significant unadjusted findings in relation to other information produced by the Council, including the Narrative Report, Annual Governance Statement or the Pension Fund financial statements.

Audit Findings Report

The final AFR will be published once the work on the 20/21 accounts is concluded. A draft was shared with the Audit Committee at the meeting on 06/12/2021

Issues arising from the accounts

All adjusted and unadjusted misstatements identified for the Council's 2020/21 financial statements to date are disclosed in the 20/21 Audit Findings Report, Appendix C.

Preparation of the accounts

The Council provided draft accounts in line with the national deadline. The quality of the draft financial statements and, overall, the supporting working papers continue to be of a good standard.

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.

We will complete our work on the Whole of Government Accounts consolidation pack in line with the national deadline.

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

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



Appendices

Appendix A - Responsibilities of the Council



Role of the Chief Financial Officer (or equivalent):

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

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

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

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

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

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

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



Appendix B - An explanatory note on recommendations

A range of different recommendations can be raised by the Council'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. A recommendation under schedule 7 requires the Council to discuss and respond publicly to the report.	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	FS p. 11 Governance N/A 3Es p. 17

