



Auditor's Annual Report on Rugby Borough Council

2020/21

May 2022



Contents



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.



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

Executive summary



Value for money arrangements and key recommendations

Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to consider whether the Council 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 Council'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 Council's arrangements under specified criteria. 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. We identified risks in respect of:

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

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



Financial sustainability

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

This has resulted in the Council being able to present a balanced budget for the current year but with material unidentified shortfalls in future years which pose a risk to the financial sustainability of the organisation.

We have therefore identified a significant weakness in arrangements in relation to future savings plans as highlighted by the current medium term financial plan

Further details can be seen on pages 8 - 14 of this report.



Governance

Procedures in place for the identification of risk and monitoring are well established and comprehensive in nature. Those charged with governance provide oversight and scrutiny of these risks and the procedure implemented to manage risk to an acceptable level.

The annual budget setting exercise is aligned to the medium term and is a collaborative effort from all directorates. The consideration of risk, sensitivity and alternative scenarios are well evidenced to ensure informed decisions can be made.

Policy documents and guidance ensure members and officers are held to account for their conduct and the appropriate standards are followed.

Overall, we are satisfied the Council has appropriate arrangements in place to manage risks and provide ample scrutiny, oversight and governance of key decisions. We have identified some opportunities for improvement.

Further details can be seen on pages 15 - 24 of this report.



Improving economy, efficiency and effectiveness

The Council has demonstrated it has the foundations in place to record and report both financial and non-financial performance in order to identify areas for improvement. There is also a strong desire to build on these foundations and this is evident through the networks and partnerships the Council are involved in and commercialisation initiatives.

Overall, we are satisfied the Council has appropriate arrangements in place to secure economy, efficiency and effectiveness. We have identified some opportunities for improvement. We have identified some opportunities for improvement.

Further details can be seen on pages 25 - 32 of this report.

Opinion on the financial statements

We have completed our audit of the Council's financial statements and issued an unqualified audit opinion following the Audit and Ethics Committee meeting on 15 December 2021.

Our findings are set out in further detail on page 36.



Use of formal auditor's powers

We bring the following matters to your attention:

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 statutory recommendations have been made as a result of our value for money assessment.

Public interest report

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

We have not been required to issue a public interest report in the period and there are no matters as a result of our value for money procedures undertaken that would lead us to conclude that a report in the public interest is necessary.

Application to the Court

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

We have not been required to make an application to the courts in respect of any item of account included in the financial statements for year ended 31 March 2021.

Advisory notice

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

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

We have not been required to issue an advisory notice in respect of any intended actions of the Council.

Judicial review

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

We have not applied to the courts for judicial review in relation to any matters noted in the period.

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 Council. We have defined these recommendations as 'key recommendations'. Our work has identified one significant weakness in arrangements and therefore we have made a key recommendation as set out below.

Other improvement recommendations are set out within the body of the report.



Recommendation

The Council should continue to review budgets and planned savings schemes as necessary to deliver a balanced financial position over the medium term.

Why/impact

The Council have significant gaps in their medium term financial plan and without the introduction of revised expenditure or implementation of savings plans, the Council is at risk of not being able to deliver on its statutory responsibilities of a balanced financial position.

Auditor judgement

The Council; has not been able to develop plans during the current year to address predicted shortfalls in the medium term financial plan in the following years.

Summary findings

The current MTFP runs to 31 March 2025 and sets a balanced position for the next financial year, but a current shortfall over the life of the plan of £2,769k in 2022/23, £100k in 2023/24 and £26k in 2024/25, overall £2,895k.

There is no indication that the authority are seeking to make use of short term initiatives or capital resources to reduce revenue pressures however there is planned use of reserves and certain elements of funding, as confirmed in the Local Government settlement, are one off in nature. The challenge of this position is exacerbated by reduction in other sources of funding such as new homes bonus and significant reductions in business rates due to the proposed reset and hence the material gap in the medium term as noted above.

Management comments

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



Commentary on the Council'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 specific consideration of the impact of Covid-19 on the Council, is set out on pages 8 to 36



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.

Current year financial performance

The budget setting process is iterative and includes a couple of rounds of consultation prior to the final report being published in February. In regard to the 2020/21 period, this process started in October 2019 and was updated in January 2020. The budget report includes a dedicated section on the Local Government Finance Settlement which notes that the budget and MTFP are based on the latest information available per the consultation issued for 2020/21.

The primary impact upon the authority was in relation to:

- 1) Council tax - authorities were able to increase council tax by the higher of 1.99% or £5; and
- 2) New Homes Bonus - payments to continue based on current allocations however no legacy payments were to be made on these amounts with this now winding down, however legacy payments to be made on allocations from previous years.

Resources and funding

The primary mechanism for funding is the tax the council raises on domestic and non-domestic properties as well as other levy's and charges. The Authority proposed a £5 increase in council tax in 2020/21 which is the maximum allowable and will continue to do this thereafter, subject to no significant political opposition to this. In line with the funding settlement, business rates retention was rolled forward in 2020/21 as there was no reset imposed. Government grants forecast to reduce in and this is in line with expectation. Other sources of income generated through fees and charges are at the discretion of the authority and there are also growth factors forecast from CPI and increases in volume. All assumptions in regard to income are RAG rated based on their deliverability, the majority of which are green and amber.

Expenditure

The expenditure budget of the Council is rolled forward from the prior year plus/ minus in year adjustments to provide a baseline for the current year. Assumptions are then made in relation to inflation and growth (appendix 3) and payroll. In terms of the latter, this was budgeted at 1% plus an initial allowance for staff earning less than £24,000 prior to the public sector pay freeze. Total growth proposals for 2020/21 were £575k and are broken down into constituent portfolios. Where a corresponding savings/ income proposal is in place to offset growth, this is cross referenced.

The overall outturn on the GF position in 2020/21 as a result of income/ expenditure was a surplus of £281k which was as a result of income pressures created by the COVID-19 pandemic but offset by various savings made across portfolios.

Financial sustainability

Savings

In year savings targets were £437k and are analysed in a similar RAG rating system to income proposals noted. There were no red RAG rated savings schemes with many considered to be low risk based on their nature or the fact they had already been delivered/ secured. 75% of these savings were achieved by the 4th quarter of the financial year with the shortfall being due to the impact of COVID-19.

Medium term financial strategy and plan

The Medium Term Financial Strategy (MTFS) is a high level document which provides a framework within which to achieve the authority's corporate priorities, this runs from 2018 to 2023. It has been acknowledged recently however (Cabinet meeting January 2021) that in light of recent significant changes this will be reviewed and updated accordingly.

It should also be read in conjunction with a number of underlying documents, namely the Medium Term Financial Plan (MTFP). The MTFP is prepared on a rolling four year basis in order to remain agile to changes and financial pressures as they arise. It provides the foundations to allow the Council to meet its statutory obligations and to set a balanced budget for each financial year.

The primary drivers of the annual budget and rolling MTFP are the annual Local Government finance settlements, occasional and comprehensive Local Government spending reviews and local demand for services, as experienced historically.

The current MTFP runs to 31 March 2025 and sets a balanced position for the next financial year, but a current shortfall over the life of the plan of £2,769k in 2022/23, £100k in 2023/24 and £26k in 2024/25, overall £2,895k.

There is no indication that the authority are seeking to make use of short term initiatives or capital resources to reduce revenue pressures however there is planned use of reserves and certain elements of funding, as confirmed in the LG settlement, are one off in nature. The challenge of this position is exacerbated by reduction in other sources of funding such as new homes bonus and significant reductions in business rates due to the proposed reset and hence the material gap in the medium term as noted above. There is also planned use of reserves over the medium term.

We have reported this as a significant weakness identified in relation to unidentified savings/ funding gaps in financial planning that would substantially threaten the delivery of the MTFP and services that the Council provide.

Group entities

At the current time, there is no involvement with significant group entities, we are aware that the authority are in the process of setting up a property development and investment company however this is in its infancy and therefore other than initial set up costs, no significant assumptions are made in the budget or MTFP. In addition to this, the Council are also party to a significant joint venture with other authorities to construct a recycling facility (Sherbourne). The total cost of the investment for RBC is estimated at £5.5m per February 2021 update paper reported to the Cabinet, as above, there are no significant costs incurred in 2020/21 and construction is scheduled for completion in 2023. The graph below shows the current borrowing profile of the authority with the majority held with the Public Works Loan Board (PWLB). We would expect to see this increase in coming years to finance significant projects.

Borrowing:



Financial sustainability

Cash flow

The annual budget and medium term financial forecast is created prior to the start of each financial year and includes all known payments and receipts i.e. salaries, precepts, council tax receipts, credit payment runs, maturing investments/borrowing. These forecasts are entered in as estimates and are updated throughout the year as and when the actual figures become available. This enables the Council to plan and take a strategic view of our borrowing/lending requirements.

The cash flow forecast is also reviewed daily through the Logotech system to make sure adequate cash is available to pay creditors. The estimates that had previously included in the forecast for general day to day activity are updated to give a more detailed position to ensure compliance with the Treasury Management strategy. The forecast extends to 31 March 2023 and does not indicate any cash flow difficulties, this is in line with our expectation and in addition to cash held, the authority hold significant financial investments.

The Council have a comprehensive suite of treasury management practices documents available for use by officers involved in the process.

Savings plans

Internally, the Council communicate through the finance function and provide budget guidelines to all portfolio holders and provides information on the context for the budget, timetables and deadlines and instructions on completing revenue and capital appraisal forms.

The latter allow officers to submit budget proposals which include details on the nature of the proposal, financial implications (increase in expenditure, savings and income changes) and a risk assessment of the proposal. The budget is then discussed between the relevant officer and member of the financial services team, at senior management team meetings and with elected members.

In response to the need for greater engagement with the public on the future of service provision and thus any decisions that would impact this such as reductions or other savings initiatives, the Council launched a survey to the public asking for views and feedback on the weighting for services that the Council provides.

As noted on the previous pages, the annual budget and rolling MTFP include sections whereby savings proposals (as well as income proposals and growth items) are reported to members of the Cabinet for scrutiny. All savings are monitored quarterly by the Cabinet, where targets are not being achieved then commentary is provided to explain why this is and the circumstances which have led to lack of delivery/whether these are at risk for outturn.

There is currently no documented assessment of savings initiatives post implementation to further understand the quality impact on services and therefore this has been reported as an improvement recommendation.

Any unidentified savings are reported as variances to budget and this is to enable the Council to look ahead to the future and begin to plan how these gaps will be addressed. There are currently shortfalls in the MTFP from 2022/23 to 2024/25, however this position changes annually as officers complete work in year to identify cost savings/ income increases.

This is demonstrated by review of the most current annual budget and MTFP which shows a balanced budget for 2022/23 as required (previously £2.7m shortfall) with contribution to reserves, but significant short fallings in the following year 2023/24 of £3.2m due to the anticipated reset in business rates. This is on top of planned use of reserves in this period. Therefore, overall there still remains a significant risk in regard to financial sustainability.

Financial sustainability

Sustainable service delivery and alignment of supporting strategies to corporate plans

The Corporate Strategy sets out the objectives of the authority and how they will achieve these under the banner of each of the relevant portfolios which are: Corporate Resources, Communities and Homes, Environment and Public Realm and Growth and Investment.

The MTFS and MTFP also follow this line of reporting and so there is a consistent theme between the documents, the culmination of which is the Narrative Report as included in the financial statements which provides a comprehensive and balanced review of the Council's performance in the financial year, in line with the above portfolios.

Our understanding is that there is currently no structure to report costs between statutory and non-statutory, but rather, each service line has its own cost centre which has an individual budget. We have therefore reported an improvement recommendation to revisit format of MTFS and supporting documents in order to make the distinction between statutory and discretionary spend clear.

The Council operate under strict guidelines on the limit of borrowing and investment that can be undertaken, as well as the level of risk they can be exposed to. These are outlined in the constitution and treasury management and capital strategy.

The most significant new investments for the Council are in relation to the property development and investment company and joint venture to construct and operate a materials recycling facility in Sherbourne.

The business plans for both include clear justification of the pros and cons of the projects as well as detailed estimates of financial implications. As both are in the initial stages, there is no significant impact for 2020/21 other than low level set up costs however these will form a greater part of the annual budget and MTFP going forward.

The revenue and capital budgets are developed alongside each other. There is recognition in the budget of the need to allocate resource to capital financing costs and therefore an allocation is made to meet the interest and principal costs of new borrowing required across the life of the annual budget and MTFP.

In relation to any capital project, officers are required to submit a capital appraisal form which includes the strategic context for the investment and fit with relevant national and local policies and strategies, the economic and financial case i.e. what would happen if the authority stood still and did nothing compared to if the project were to go ahead (this needs to include detailed estimated costings), the commercial case in regard to procurement arrangements and the management case which focuses on governance of the project.

In addition to this, any variations to the capital budget in year must be brought in front of the Cabinet for scrutiny and again, officers would be required to provide justification of how this aligns to corporate strategic priorities.

The Council have a HR Strategy 2018-2020 which is underpinned by 6 core principles, which are:

- 1) Attract and retain a 'can do' workforce (corporate values)
- 2) Develop leadership
- 3) Build workforce skills and capacity
- 4) Nurture employee engagement and wellbeing
- 5) Continuous review of terms and conditions and remuneration
- 6) Provide an excellent HR service.

Although the first three points have links to the financial plans of the organisation as they relate to recruitment, succession planning and team structures, the document does not include details on finances. We understand that the strategy informs the budgeting process and in particular those costs surrounding training.

Financial sustainability

Managing risks to financial resilience

The annual budget includes an appendix titled financial modelling assumptions, this sets out key risks to the delivery of the budget namely - loss of existing growth due to the business rates reset, the outcome of the fair funding review and significant changes to/ and possible end of the new homes bonus. The impact of these variables is illustrated in graph and table format showing the funding position of the Council per the budget and MTFP (current assumptions) and then analysis with both positive and negative outcomes from the risk areas.

Although all scenarios depict a reduction in funding in line with expectation, the negative outcome would see resources reduce by an estimated £4.6m between 2020/21 and 2023/24 while the positive outcome would result in a smaller decline of £3m and smoothed over the medium term.

This is also accompanied by a risk assessment review of corporate reserves. The table takes a reader from opening position, forecast contribution to/ from reserves over the MTFP and then on a line by line basis the impact of potential future risks is mapped. This shows a complete exhaustion of reserves however it is highly unlikely that all events would crystallise and within the relevant time period.

The monitoring of finances is fluid and where costs underspend, income over budget and one off benefits occur then management will make proposals to members of the Cabinet as to their use. This may be through re-profiling of other budgets, transfer to future budgets or as contributions to reserves. This is demonstrated through the quarterly reporting to Cabinet.

The primary measures in place to manage variances to planned outturns are the general fund revenue reserve and corporate reserves, namely the business rates equalisation reserve and budget stability reserve. The former was set up to manage the potential 'cliff edge' the Council and other local authorities will face when the proposed reset of business rates growth is implemented. Any growth above the baseline has historically been transferred to this reserve in order to smooth out this shock and per the MTFP this is forecast to stand at £8.2m by 31 March 2024. The budget stability reserve is similar in nature and assists the mitigation of volatility by allowing the Council to call upon it in years where budget overspends occur and conversely replenish it in years where favourable variances arise, this is forecast to stand at £3.5m by 31 March 2024.



Financial sustainability

The reserves of the Council that are available for use fall into two categories, these are:

- 1) Earmarked reserves - these funds are set aside for a specific purpose as determined by senior management and approved by the Cabinet. Where these are used through the life of the MTFP, there is no intention to build said reserves back where their intended purpose has been met.
- 2) General fund balances and other corporate reserves - this includes the general fund and reserves such as the business rates equalisation reserve and budget stability reserve which have a primary usage of smoothing out any unexpected or costs or areas of expenditure in excess of budget. Appendix 9 of the annual budget illustrates the contributions to/ from these reserves for the duration of the MTFP and all show healthy balances however this is balanced with a risk assessment of the potential draw down required of these funds which as noted previously, would lead to some being exhausted. Per discussions with management, the focus of the Council is currently on savings plans and therefore the budget does not include specific plans to build on these reserves other than those noted.

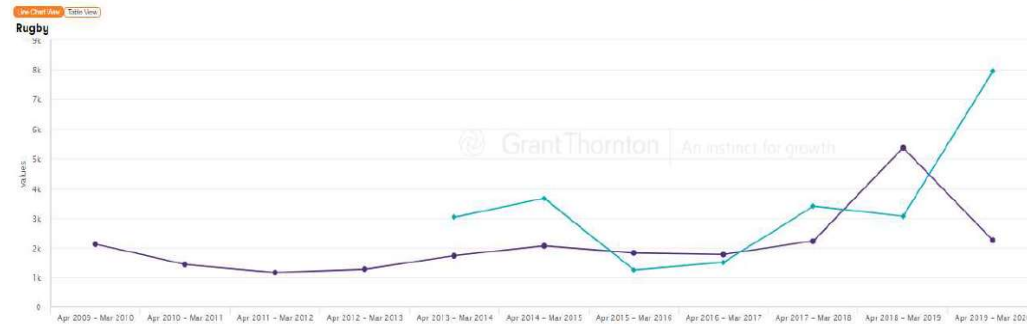
The graph below shows the reserves levels as at 31 March 2020, the Council are on the higher end of the scale compared to other Districts within Warwickshire for earmarked reserves.

Conclusion

We have identified one key recommendation which is included in the executive summary section and an opportunity for improvement, this is set out overleaf.

Reserve Levels ^

There may be a significant downward trend which showcases an increasingly lower level of reserves over time. The authority may need to replace reserves in order to mitigate financial risks and demonstrate ongoing financial sustainability.



Improvement recommendation



Financial Sustainability

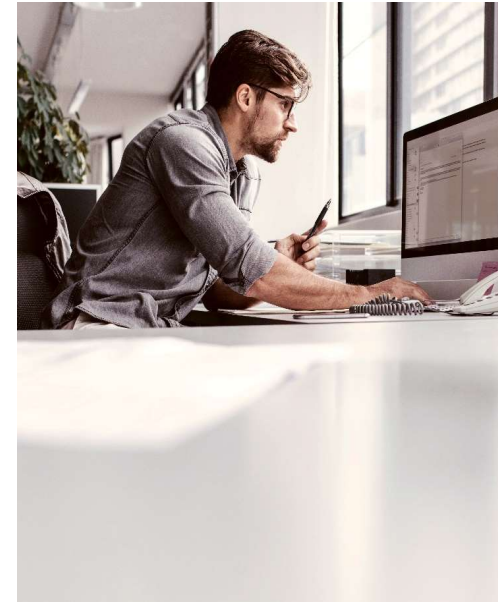
Recommendation Consideration should be given to performing a dedicated review of savings after implementation and assessing whether there has been any impact on the quality of services.

Why/impact This would help members and stakeholders to understand whether there has been any direct link between savings implemented or reduction in services and the quality of outcomes for residents.

Auditor judgement The assessment undertaken would provide benefit by informing the thinking in regard to future budget resolutions and MTFP planning.

Summary findings There is no obvious or specific assessment of the quality impact of savings although this may be inferred through service performance monitoring.

Management comment



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

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.

Monitoring and assessing risk

The authority have a long standing risk management strategy which is reviewed and refreshed periodically, the latest iterations being in 2019 and 2021. This sets the tone for identification of risks, their analysis, response by the authority and monitoring. This acknowledges that the Council must have an appetite for some level of risk in order to achieve its strategy and reap the benefit that risk can reward, but that this must be within an acceptable tolerance bearing in mind the Council's accountability to the public. The detail of the strategy is outlined in the section 'Risk Management Process' and goes on to illustrate links to other business areas and processes to demonstrate cohesion, information and communication and roles and responsibilities.

Risks are captured in the operational and strategic risk registers, the former being managed by individual risk owners and impacting the day to day operations of the Council, and the latter relating to higher level strategic risks which are monitored by those charged with governance and the senior management team. There are also specific project risk matrix for each project and a COVID register was introduced in the wake of the pandemic to specifically manage this situation as it unfolded.

As noted above, it is the responsibility of management to review and monitor operational day to day risks facing the authority. Those charged with governance are concerned with strategic risks and in order to provide scrutiny of these, the Audit and Ethics Committee are provided with periodic updates on the Strategic risk register. As this is at the highest level, risks are refined to key areas and therefore allowing members to focus their attention on those matters with the highest impact to the authority, rather than being waylaid in the minutiae.

There is also a Strategic Risk Management Group which includes the senior management team and representatives of corporate assurance (Internal Audit) who discuss organisational risk.

The strategic risk register documents a description of the risk alongside the following areas: opportunities, consequences, existing internal controls, further actions/ controls required, status e.g. being considered, in progress etc, responsible Officer, current and desired risk score, target completion date and review frequency. Risks are RAG rated based on their aggregated score of likelihood and impact. These range from remote to almost certain likelihood and minor to extreme impact.

The risk registers do not currently map risks to corporate objectives and therefore this has been reported as an improvement recommendation.

Governance

Internal Audit

As required by the Public Sector Internal Audit Standards (PSIAS), an annual Internal Audit Plan is prepared by the Corporate Assurance and Improvement Manager (CAIM) with input from the senior management team. This is reviewed and approved by the Audit and Ethics Committee. The plan is risk focused and culminates in the CAIM being able to provide an opinion on the effectiveness of the overall control environment at the Council.

Progress against the plan and the result of audits completed to date as well as relevant findings are reported to the Audit and Ethics Committee on a quarterly basis. This allows members to challenge management and feed into the development of responses to any deficiencies identified.

During the height of the COVID-19 pandemic, there was concern that Internal Audit would not have sufficient capacity to deliver the annual plan for 2020/21 in case staff needed to be redeployed however the CAIM was able to provide their annual opinion on the basis that sufficient work had been undertaken to allow them to do so. Based upon the work undertaken by Internal Audit during 2020/21, the overall opinion was that Substantial Assurance can be given that there is an adequate and effective governance, risk and control framework in place, designed to meet the organisation's objectives.

In addition to this, the internal audit service periodically subjects itself to external quality assessments to ensure compliance with PSIAS, at the last inspection in 2017/18 this identified no significant areas of non-compliance with only minor action points noted. The next inspection is due in 2022/23 however in the interim, self assessments are performed by the CAIM who is of the opinion that the service conforms to the expected standards.

Anti-fraud, bribery and corruption

The Council have an anti-fraud, bribery and corruption strategy, this sets the scene for the culture of the organisation and highlights the severity of fraud with particular regard to public monies. The strategy has been compiled in line with frameworks provided by CIPFA in relation to fighting fraud locally and managing the risk of fraud. Its constituent parts cover:

- 1) How the Council manages the risk of fraud and corruption
- 2) Identifying risks
- 3) Creating an anti-fraud culture
- 4) Resourcing the response to fraud
- 5) Taking action to tackle fraud and corruption; and
- 6) Defining success.

The primary supporting appendix to the strategy which is a principles based document, is the fraud response plan which goes into further detail on the mechanisms in place to report fraud and how this will be dealt with.

In terms of fraud risks, these are documented as part of the fraud risk review and captured in a tabular format covering service area, risk description, controls in place, risk score (RAG rating) and whether further action is required and who the responsible officer to take this action would be.

The Council also demonstrate that fraud is a key element of training in the organisation with workshops provided by the Corporate Assurance team, as well as quizzes and modules on the subject.

The Council's constitution includes a code of conduct for employees which outlines the behaviours expected of officers who work in a local government environment. This includes a section on whistleblowing which stipulates that should employees become aware of any illegal, improper, unethical or other behaviour which is inconsistent with the Code, they should report this.

Further, a separate code of conduct exists for members of the Council covering similar areas to those in the employee code but with additional consideration that come with being an elected member.

Budget Setting Process

The budget setting is an iterative process and starts for the forthcoming year in the Autumn. This is demonstrated by an initial review of the general fund budget, which was carried out in October 2019 for 2020/21 and considers latest intelligence on funding and expenditure. Following this, a detailed draft budget is presented to members of the Cabinet for comment in January and then the final budget is completed and reported in February.

Internally, the Council communicate through the finance function and provide budget guidelines to officers and provides information on the context for the budget, timetables and deadlines and instructions on completing revenue and capital appraisal forms.

The latter allow officers to submit budget proposals which include details on the nature of the proposal, financial implications (increase in expenditure, savings and income changes) and a risk assessment of the proposal.

The budget is then discussed between the relevant officer and member of the financial services team, at senior management team meetings and with elected members.

There is was no formal public engagement on the annual budget process in 2020/21 (although this was undertaken in 2021/22 and will be again 2023.24). Instead, this was covered as part of the wider engagement around the council's services through public consultations. These surveys and questions include specific finance elements where applicable.

Governance

The annual budget includes the net cost of borrowing and cash available for investment by the Local Authority. This links to the Capital Strategy which incorporates Investment and Treasury Management as appendices. This sets out how the Council intend to plan cash flow to ensure adequate liquidity at all times, invest surplus monies and finance large capital programmes.

Management undertake various risk and scenario planning as part of the budget setting process. The report to members includes an appendix titled financial modelling assumptions, this sets out key risks to the delivery of the budget namely - loss of existing growth due to the business rates reset, the outcome of the fair funding review and significant changes to/ and possible end of the new homes bonus. The impact of these variables is illustrated in graph and table format showing the funding position of the Council per the budget and MTFP (current assumptions) and then analysis with both positive and negative outcomes from the risk areas. Although all scenarios depict a reduction in funding in line with expectation, the negative outcome would see resources reduce by an estimated £4.6m between 2020/21 and 2023/24 while the positive outcome would result in a smaller decline of £3m and smoothed over the medium term.

This is also accompanied by a risk assessment review of corporate reserves. The table takes a reader from opening position, forecast contribution to/ from reserves over the MTFP and then on a line by line basis the impact of potential future risks is mapped. This shows a complete exhaustion of reserves however it is highly unlikely that all events would crystallise and within the relevant time period.

Overall, the annual budget and medium term financial strategy go hand in hand. The detailed budget document as noted above includes an appendix which at a high level provides the current year budget and then projects this across the medium term to 2023/24, this means the MTFP is always rolling.

Budgetary control

The Chief Financial Officer meets monthly with the senior management team to discuss financial performance in the context of the financial dashboard. This shows the current budget against actuals and then analyses variances to budget between employees, running costs, income, pending supplementary or virements and any reserves requests. Officers are expected to provide reason for significant variances where these exist and this feeds into the above quarterly monitoring.

Financial monitoring reports are reported to Cabinet on a quarterly basis. Our review of the minutes of the meetings of Cabinet demonstrates that monitoring of finances is completed to an appropriate standard. There are no significant unexpected or unexplained budget variances from our review of key documents. This is reported at a high level initially through narrative and summary tables and then drills into further detail by revenue outturn in each service area, savings plans delivery, reserves position and capital programme delivery. A number of appendices are presented alongside the executive summary for further scrutiny by members.

Non-financial information is not directly factored into financial reports presented to the Cabinet on a quarterly basis, these are presented separately but alongside each other and non-financial information is given equal prominence.

Treasury management considers the cash available to the Council be it through borrowing or other means such as reserves. Any borrowing must be set within statutory limits and investments are based on a prudent approach to risk which prioritises safety of investments as opposed to high risk/ high return strategies.

The progress of treasury management activity is monitored by the Audit and Ethics Committee bi-annually through the mid year report and outturn report. This comments on performance against the strategy and presents a suite of standard indicators, essentially KPIs for members scrutiny and oversight.

The Council's 'one to one' system includes performance reviews however it is not apparent whether these include specific goals related to financial performance for senior managers and therefore an improvement recommendation has been reported in regard to this.

Finance function

As a result of our observations, there is no significant lack of capacity in the finance team and staff are deemed to possess an adequate level of competency and experience. This has been demonstrated through the ability to deliver to deadlines and to a reasonable quality standard. This is notwithstanding the Covid-19 pandemic which has in general caused delays across the sector which are not necessarily systemic to Rugby.

It is acknowledged however that there is a risk in regard to the reliance placed on the Finance Manager who is responsible for preparing the financial statements and much of the supporting workings. In 2020/21 this role was filled by an interim and prior to that, the now s151 Officer. Internally there is currently no one in the team with equivalent experience/ skills and the external market is limited. Therefore, succession planning and resilience is critical to ensuring a continuity in the ability to deliver. This has been reported as an improvement recommendation accordingly.

Governance

Leadership and committee effectiveness/decision making

All reports presented by the Council set out a report Director (overall responsibility based on portfolio) and contact officer (individual responsible for preparing the detail).

The relevant Director reviews reports prepared and will sign these off prior to being considered by the Council and/ or the Cabinet and applicable sub-committee for scrutiny and challenge. Our review of reports confirms that these are comprehensive in detail and follow a standard format which includes cover sheet and detailed appendices. The cover sheet has standard sections on financial implications, risk management implications, environmental implications, legal implications and equality and diversity for decision makers to consider.

No significant changes to services have been noted in the 2020/21 financial year that would require service user feedback. The Council have a consultations page on their website which allows members of the public to comment and provide feedback on any open consultations, currently for example there are consultations open on the Hinckley National Rail Freight Interchange and attitudes to climate change. Therefore, we are satisfied that arrangements are in place to gather and analyse service user feedback where necessary.

There is no evidence of engagement with stakeholders regarding the annual budget setting process and MTFP and therefore this has been reported as an improvement recommendation.

Attendance at Audit and Ethics Committee demonstrates that members provide sufficient challenge and scrutiny of officers. There has not been a high turnover of those charged with governance, periodic changes are made to the makeup of the committee where there are movements in councillors as a result of elections or membership of other committees. The independent chair of the Audit and Ethics Committee has remained in post for a number of years. Overall attendance statistics are generally strong.



Governance

Monitoring and ensuring appropriate standards

The Council have a legal team headed by the Monitoring Officer who ensures the organisation meet legislative and regulatory requirements.

The monitoring officer will attend relevant meetings of the full Council, Cabinet and other committees such as Audit and Ethics to advise on legal and regulatory matters. They have direct access to senior management and chair persons of relevant committees and a budget which allows them to seek external legal counsel, if necessary.

The Council have both an officer and member code of conduct. The former is set out in the Council constitution which all employees should be familiar with and the latter is determined periodically with reference to good practice.

The MyCompliance system is used to communicate updates in laws and regulations to staff and acts as an online portal for all policies and e-learning courses. The portal can be monitored for compliance with training needs.

The Council have a gifts and hospitality policy which was last updated in January 2021 and therefore deemed to be recent. The policy author is the Monitoring Officer and highlights the importance of the procedures outlined in the context of maintaining the confidence of the public in decision making of the Council. The document goes on to identify examples of gifts or payments and categorises these between A (do not accept), B (can be accepted but will normally be raffled or shared), C (can be accepted and kept by the individual) and D (Christmas whereby lower value gifts can be accepted). Accordingly, the nature of gifts will depend on what category they fall under.

Similarly for hospitality, where attendance is for business purposes or to represent the Council, this is generally acceptable but must be recorded. Hospitality for other means such as socialising/ networking where business is a secondary purpose must be declined.

All declarations are made on the gifts and hospitality declaration form which includes details on date, type of gift/ hospitality, circumstances under which the offer was made, estimated value and whether it was accepted or not. The completed forms are sent to the democratic services team for assessment.

The policy stipulates that any breaches will be treated as a disciplinary matter.

A set out in the code of conduct for both employees and members, all business and pecuniary interests must be declared and an exercise to collate a register of such interests is undertaken annually.

The form used to document interests is comprehensive and covers interests in other employments, grants and sponsorship, contracts, membership of external organisations, land and property and companies/ securities. The form also considers the interests of close family members and whether the individual making the declaration is a councillor or member, holds a politically restricted post or is involved in the letter of contracts on behalf of the Council.

Conclusion

Overall, we are satisfied the Council has appropriate arrangements in place to manage risks and provide ample scrutiny, oversight an governance of key decisions. We have identified some opportunities for improvement. These are set out overleaf.

Improvement recommendation



Governance

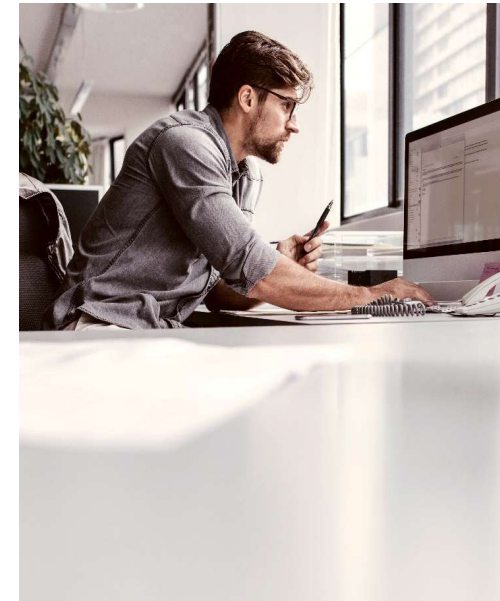
Recommendation Risks included in the risk register should be mapped to corporate objectives to ensure cohesion of strategies

Why/impact Linking the corporate objectives of the Council to its risks will serve to make them as relevant as possible and identify those controls/ actions which are critical to achieving these objectives, and which one add less value.

Auditor judgement Where risks are linked to corporate objectives of an organisation this provides a clear understanding of potential barriers to success in achieving said objectives.

Summary findings The Council maintain a number of risk registers at both strategic and operational levels, these analyse risks comprehensively but could be enhanced through mapping to corporate objectives of the Council.

Management comment



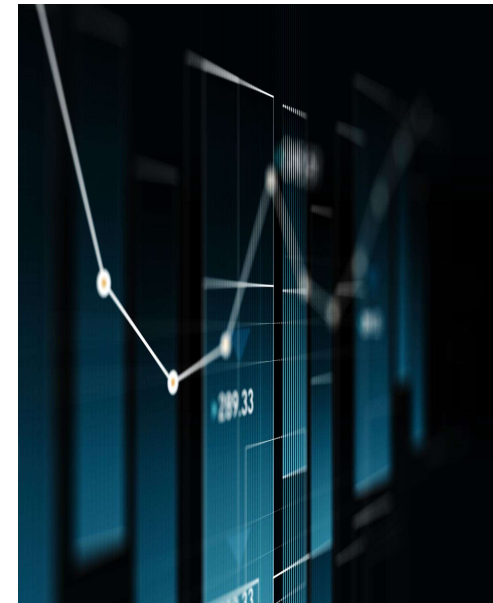
The range of recommendations that external auditors can make is explained in Appendix C.

Improvement recommendation



Governance

Recommendation	A review/ refresh of anti-fraud, bribery and corruption policies and strategies should be performed periodically.
Why/impact	Officers and members alike should be provided with up to date policies and procedures to follow in their respective duties.
Auditor judgement	Timely review and update of policies will ensure that these are in line with current best practice in the industry.
Summary findings	The general age of the anti-fraud and bribery strategy and supporting documentation as well as other documents such as employee code of conducted documents range from 2016 to 2018 and therefore are considered fairly dated. In best practice
Management comment	



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

Improvement recommendation



Governance

Recommendation The Council should consider including specific goals in relation to financial performance into senior management's annual appraisal.

Why/impact A specific goal in relation to financial performance sustainability of the Council will ensure accountability for this critical objective throughout the Council.

Auditor judgement This goal is particularly important in times of significant economic challenge.

Summary findings The Council's 'one to one' system includes performance reviews however it is not apparent whether these include specific goals related to financial performance for senior managers

Management comment



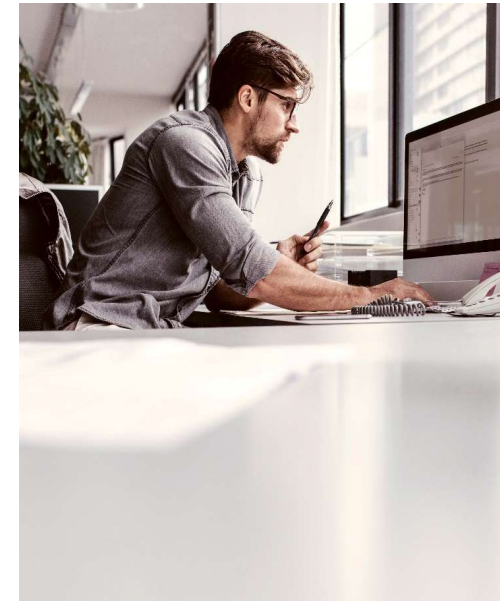
The range of recommendations that external auditors can make is explained in Appendix C.

Improvement recommendation



Governance

Recommendation	A strategy should be developed to ensure a clear succession plan and build capacity and resilience in what is a key function.
Why/impact	A robust, experienced and well resourced finance team will ensure the Council can discharge its responsibilities and produce a high quality, compliant set of financial statements for audit.
Auditor judgement	The demands placed on finance teams are increasing, with challenging expectations around preparation of the financial statements to national deadlines and ever more complex accounting standards. Our experience shows that authorities with strength in depth within finance teams are able to meet these demands better.
Summary findings	The Council do not currently have a clear strategy for succession planning within the finance function and this is evident from the use of interim staff and reliance on agency.
Management comment	



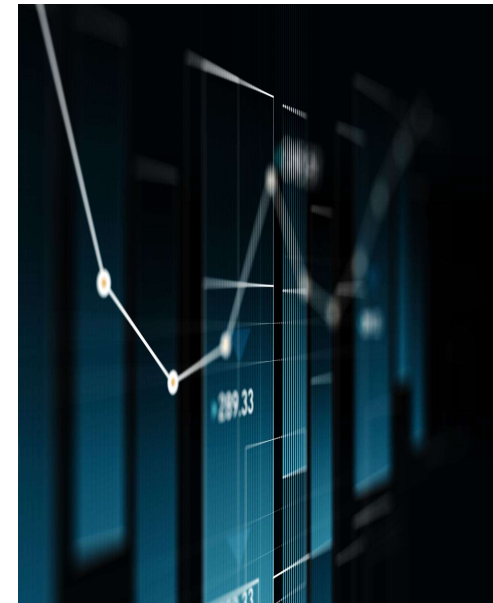
The range of recommendations that external auditors can make is explained in Appendix C.

Improvement recommendation



Governance

Recommendation	The Council should consider channels by which they can seek external engagement on the annual budget and medium term financial strategy.
Why/impact	External feedback on the medium-to long-term financial strategy, current financial position and likely financial challenges can generate ideas or proposals to bridge the financial gap.
Auditor judgement	Service user feedback is a valuable tool in making informed decisions on the use of resources over the short and medium term.
Summary findings	There is no evidence of engagement with stakeholders regarding the annual budget setting process and MTFP and therefore this will be reported as an improvement recommendation.
Management comment	



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

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

Key performance indicators are reported to the Cabinet on a quarterly basis as part of the budget monitoring process. These are included as an appendix to the relevant reports. Data is collected and analysed in regard to each of the Council's service areas, namely:

- 1) Communities & Homes
- 2) Corporate Resources
- 3) Environment and Public Realm
- 4) Executive Director's Office; and
- 5) Growth and Investment

The detailed sub-sections of the appendix assess each performance indicator and RAG rate current performance and compare to previous quarters to present a trend where applicable. Reporting is accompanied by narrative notes to explain the position and graphs and other pictorial analysis where this is helpful in illustrating performance.

Where services are reporting a downward trend in their performance, this can be challenged by members or senior management who have the authority to request a review into the activity to understand the root cause of this and determine whether a remedial plan is required. Similarly, if it is identified that services are significantly under or over spending their budgets, then the financial services team would intervene to undertake an assessment of the driving force behind these instances of under performance in existing activities. Examples of the initial reviews undertaken by the finance team include:

- a) Understanding whether the service could enter into more contracts with their suppliers which could save them money. Internal audits include a review of processes and where wasteful or inefficient processes are identified these are highlighted in the report, along with appropriate recommendations.
- b) Understanding whether fees and charges can be increased to more sufficiently cover the expenditure of the service line i.e. if this is demand focused, these costs could be passed on to the consumer.
- c) Whether invest to save options are applicable e.g. Invest in a piece of equipment so we are not paying third parties or outsource some of the activities to save on employee costs and maintenance costs.
- d) Whether the service is required to be provided by statute or if not, whether this adds sufficient value and could it be completely outsourced or not provided by the authority.
- e) Finally, is there scope to think about a Joint Venture or Limited Company in order to have more opportunities to increase the income of this

Improving economy, efficiency and effectiveness

All officers and members have access to the performance monitoring dashboard and training is provided on the use of this system by the Corporate Assurance and Improvement team. All performance information as reported in the quarterly budget monitoring report is reviewed by the senior management team prior to being presented to the Cabinet and this is signified by the inclusion of the relevant report Director in all papers.

In addition to this, the budget monitoring process is subject to internal audit review as part of the annual plan periodically, with the next review due in 2021/22.

Benchmarking and evaluation

We are aware that the Council are part of a number of networks, both in the region of Warwickshire and through wider Local Government groups. The authority also have access to various CIPFA publications and access to the financial resilience index in order to review performance information data. The Council also have links to other bodies in the region and we are aware that meetings are held between the Warwickshire finance officers whereby pertinent issues in regard to performance and other matters are discussed. No LGA peer reviews have been carried out in recent years with the next one scheduled for September 2022.

We will recommend that the Council implement measures to create tangible outputs from their use of Local Government networks and other tools at their disposal in order to incorporate this into performance reporting noted above. This will provide another dimension to scrutiny of economy, efficiency and effectiveness as the Council will not only be reviewing its own performance, but benchmarking themselves against other similar organisations.

We have obtained benchmarking reports produced by CFO Insights and reviewed the canvas for indications of potential Value For Money significant weaknesses, we have summarised these as follows and the graphs are included overleaf for reference:

Budgeted expenditure vs actual expenditure

This shows a close correlation between the lines and therefore provides comfort that management forecasting is accurate within reasonable proximity.

Total service expense per head

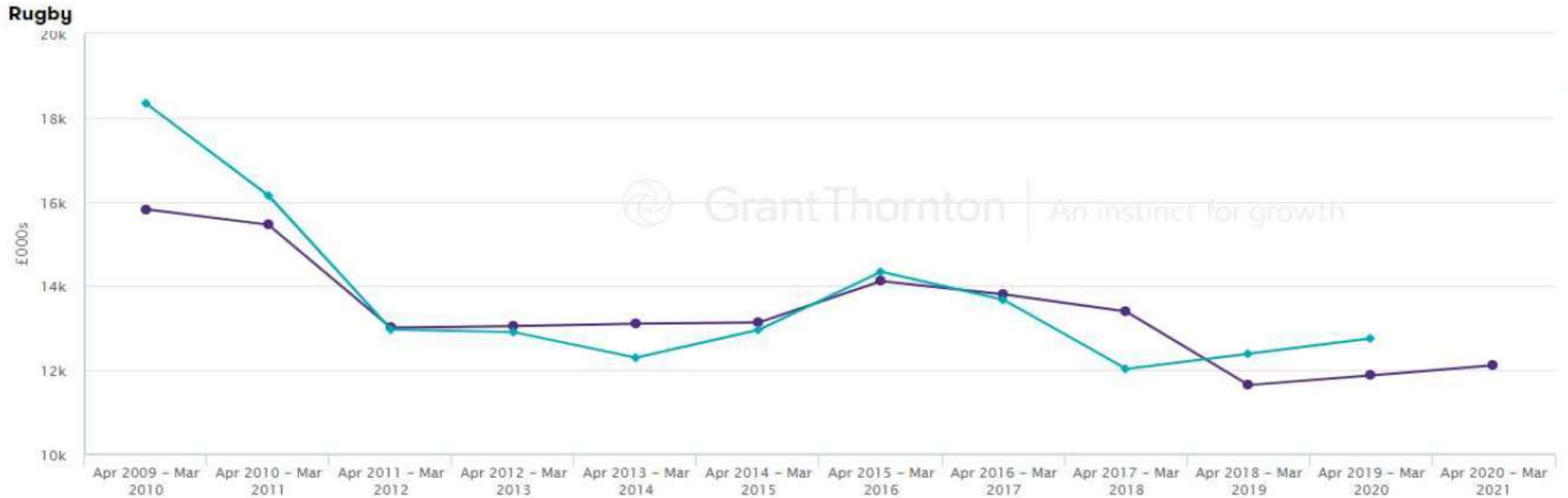
This puts Rugby in the 'very low' unit cost score in comparison with other Warwickshire Districts. This is a culmination of average to low to very low scores across the detailed service areas with only highways roads and transport services scoring as very high.



Improving economy, efficiency and effectiveness

Budget vs Actual Service Expenditure ^
 Have budgets been accurate in recent years at the local authority?

● TOTAL SERVICE EXPENDITURE (RA) £000s
 ◆ TOTAL NET EXPENSE (RO) £000s



In relation to the lines plotted, RA relates to budgeted expenditure and RO relates to actual expenditure.

Improving economy, efficiency and effectiveness

Budgeted vs Actual Expenditure

Commercial in confidence

Each Service line is shown in comparison to all other Warwickshire Districts

Rugby		2020/2021 (£000s)	Unit	Unit Cost (£)	Unit Cost Score
+	TOTAL EDUCATION SERVICES (RA) £/aged 0-18	0.00	25,787.00	0.00	-
+	TOTAL HIGHWAYS ROADS AND TRANSPORT SERVICES (RA) £/head	117.00	108,935.00	1.07	Very High
+	TOTAL CHILDREN'S SOCIAL CARE (RA) £/aged 0-17	0.00	24,568.00	0.00	Very Low
+	TOTAL ADULT SOCIAL CARE (RA) £/aged 18+	0.00	84,367.00	0.00	Very Low
+	TOTAL CULTURAL AND RELATED SERVICES (RA) £/head	2,180.00	108,935.00	20.01	Average
+	TOTAL PLANNING AND DEVELOPMENT SERVICES (RA) £/head	1,297.00	108,935.00	11.91	Low
+	TOTAL HOUSING SERVICES (GFRA only) (RA) £/head	1,553.00	108,935.00	14.62	Average
+	TOTAL ENVIRONMENTAL AND REGULATORY SERVICES (RA) £/head	4,335.00	108,935.00	39.79	Low
+	TOTAL CENTRAL SERVICES (RA) £/head	3,564.00	108,935.00	32.17	Low
+	TOTAL PUBLIC HEALTH (RA) £/head	0.00	108,935.00	0.00	Very Low
+	TOTAL OTHER SERVICES (RA) £/head	(908.00)	108,935.00	(8.34)	Very Low
	TOTAL SERVICE EXPENDITURE (RA) £/head	12,118.00	108,935.00	111.24	Very Low

Improving economy, efficiency and effectiveness

Partnership working and engaging with stakeholders

At a high level, the Council are part of a procurement shared service in partnership with other local authorities in the Warwickshire and West Midlands region. CSW-JETS is the sub-regional e-tendering portal run by In-tend. Since February 2010, Coventry, Solihull, Warwickshire, Nuneaton and Bedworth and Rugby Councils have been working together as a shared procurement serviced together through the collaborative E-Tendering portal. CSW-Jets enables the Council to advertise opportunities individually or in partnership with the other councils on the same system. This means that there is a single point of contact for procurement in the region.

The Council works in partnership with many organisations across all sectors - private, public and voluntary, and this spans all services and directorates of the Council. The most notable of these partnerships are:

- Rainsbrook Crematorium, which is a joint project between Rugby Borough Council and West Northamptonshire Council. The crematorium is operated by Rugby Borough Council's bereavement services team on behalf of a joint committee which represents both authorities.
- Sherbourne Recycling Limited, has been established to deliver recycling facilities to Rugby Borough Council and the other seven participating local authorities. The new company is fully owned by these partner authorities and the Council are classed as a director of the board and therefore hold influence over the service provision.
- Property development company, the Council are currently in the process of developing a joint venture arrangement with a private sector partner to support the strategy of providing affordable housing to the local community on a commercial basis.

In regard to the latter property development company, the structure of the arrangement being established will see a holding company at the top which will report to the Shareholders committee, including the Council, and this body will have responsibility for overseeing decision making and governance for the group.

Progress on partnerships is reported to Cabinet and Council when decisions need to be made. The Audit and Ethics committee can also "call in" officers to present updates on the decision making for the groups. In addition to this, the Corporate Assurance team have the ability to include work on partnerships as part of their annual audit plan if this deemed to present a risk to the Council or as part of their rolling review of all major functions.

The Council engage with the public, their main stakeholder, through consultations. This is facilitated through the 'Have your say' area of the Council website and covers areas such as attitudes to climate change, refurbishment of local play areas and cashless payments in Council operated car parks. This is structured in a survey/questionnaire format. Stakeholders are also able to start petitions in order to influence local priorities for the use of resources, petitions submitted to the Council are required to include a clear and concise statement covering the subject of the petition and what action the petitioners would like the council to take.

Procurement, commissioning and project management

The Council have a Procurement Strategy which is produced in conjunction with Nuneaton and Bedworth Borough Council as part of their shared service agreement. The purpose of this strategy is to meet the recommendations of the National Procurement Strategy, deliver significant efficiency savings and raise procurement to a strategic level. The core values of the strategy are:

- 1) Provide Good Value Services
- 2) Manage Procurement which identifies best practice and challenges current methods
- 3) Carry out Socially responsible / Environmentally Sustainable procurement
- 4) Deliver efficiency savings
- 5) Be open to and seek opportunities for partnership or collaborative work with other authorities; and
- 6) Ensure Procurement is conducted within EU / UK legislation and is compliant

Consideration should be given to the review and renewal of the procurement strategy as this covered the period to 2016 and is therefore now deemed to be significantly aged.

Responsibility for contract management lies with the individual budget manager who will liaise with the Financial Services Team in regard to costs and performance of contractors. The Council provide training for officers in contract monitoring through 'The way we manage' modules. This outlines contract management responsibilities in key areas such as budgeting, payments, legislation and compliance, record keeping and contract specification. These modules can also be tailored and adapted into bespoke training for specific service areas.

Terms and Conditions provided in contracts are reviewed by Legal Services before the contract is signed/sealed to ensure poor performance can be challenged and corrected.

All capital projects are assigned a dedicated officer who is required to review the financial position of the project periodically in line with the budget monitoring timetable. Information on the particular project is then fed back to the financial services team who factor this into quarterly reporting that is scrutinised by the Cabinet. The capital programme is assessed in part 5 of the budget monitoring report and detailed in appendix 1 which includes review of spend to budget and key reasons for any variances.

Our review of the contracts register has not identified any evidence of repeated commissioning without due consideration of the market place.

Improving economy, efficiency and effectiveness

Given that using temporary resource can be a costly option, the general presumption is that agency staff and consultants should not be used as a long-term fix but may be suitable for short term increases in demand and special projects of where there is a need for technical expertise that is not required on a full time basis or where it is not cost effective to recruit. Staff are encouraged to demonstrate how using the service adds value to the organisation and the best price is obtained.

Rugby Borough Council have a contract with Comensura to provide a managed agency service. This is the first point of call for Consultants or interim staff. Alternatively, the Council can access many frameworks for Professional Services (such as ESPO, Procurement Hub, CCS) and can run a mini competition or direct award on many of these frameworks for specialist advice.

Commercialisation

As stated on the previous page, the Council is currently undertaking significant commercial ventures, and also notable public sector projects.

The arrangements in place at the Council are such that where commercialisation or similar ventures are being considered, a business plan is drafted which would include appraisal of the risks and rewards of undertaking a particular course of action. This would be presented to the Cabinet and Council for scrutiny and they would have overall authority for accepting officer recommendations or proposing amendments/ rejecting the proposal.

Examples of this include the partnership with other local authorities in relation to the Sherbourne recycling facility and the development of the local authority trading company for property development and investment with private partner, Norse.

In terms of the latter, the business plan highlights the risk assessment undertaken and the five key risks to the authority such as investment failure, cost of finance and lack of relevant skills at board level.

Likewise, the business case for the recycling facility also includes a dedicated risk management section and sensitivities are undertaken based on crystallisation of these risks showing the impact on the Council and its partner authorities.

Conclusion

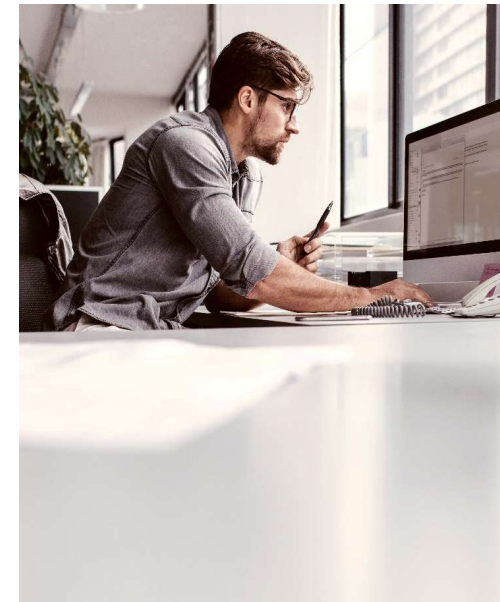
Overall, we are satisfied the Council has appropriate arrangements in place to ensure it manages risks to its oversight in ensuring economy, efficiency and effectiveness in its use of resources. We have identified some opportunities for improvement, these are set out overleaf.

Improvement recommendation



Improving economy, efficiency and effectiveness

Recommendation	The Council should implement measures to create tangible outputs from their use of Local Government networks and other tools at their disposal and incorporate this into performance reporting.
Why/impact	This will provide another dimension to scrutiny of economy, efficiency and effectiveness as the Council will not only be reviewing its own performance, but benchmarking themselves against other similar organisations.
Auditor judgement	The use of comparative information in review of an organisations performance, both financial and non-financial, is invaluable in understanding how effective services are and where the Council are outliers or leaders in particular areas.
Summary findings	The Council are part of a number of networks, both in the region of Warwickshire and through wider Local Government groups. The authority also have access to various CIPFA publications and access to the financial resilience index in order to review performance information data. While we do not dispute that these interactions and information is useful to the Council, it is not evident in our review of performance reporting that this is utilised to compare Rugby to peers and use this to identify areas for improvement.
Management comment	



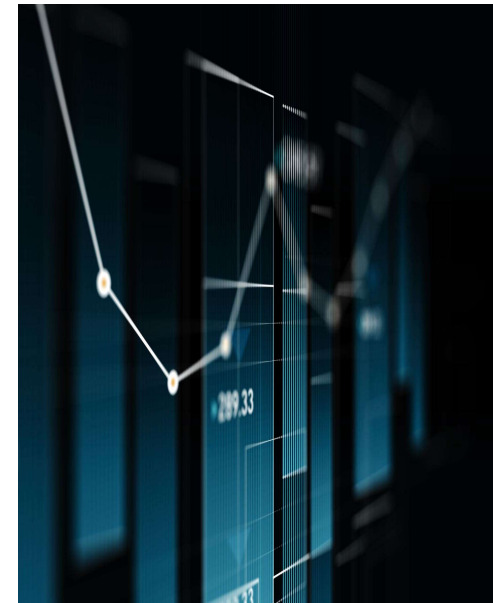
The range of recommendations that external auditors can make is explained in Appendix C.

Improvement recommendation



Improving economy, efficiency and effectiveness

Recommendation	Consideration should be given to the review and renewal of the procurement strategy as this covered the period to 2016 and is therefore now significantly aged.
Why/impact	The current strategy is dated having expired in 2016 and therefore may not take into account the latest national procurement requirements.
Auditor judgement	Timely review and update of policies will ensure that these are in line with current best practice in the industry.
Summary findings	The Council have a Procurement Strategy which is produced in conjunction with Nuneaton and Bedworth Borough Council as part of their shared service agreement. The purpose of this strategy is to meet the recommendations of the National Procurement Strategy, deliver significant efficiency savings and raise procurement to a strategic level. The strategy covers the period 2012 to 2016.
Management comment	



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

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.

Financial sustainability

An additional budget consideration for Covid-19 recovery was incorporated into the annual budget for 2020/21 and also forms part of the overall Medium Term Financial Plan (MTFP). This notes key decisions in relation to the pandemic such as contribution from reserves to ease the pressures created by the pandemic and the formation of the Covid-19 recovery fund in 2021/22 of £1.1m.

Performance against this budget was reported on a quarterly basis as part of the general fund revenue budget monitoring and documented the specific sources of funding received to support the Council through the pandemic and additional cost pressures/ loss of income which had been caused to date.

As a means of ensuring costs were recorded accurately and could be monitored separately, individual cost centres were created for each portfolio area and this was communicated to budget holders to enable them to code the relevant expenditure to these cost centres.

Controls in place meant that only senior management were able to approve costs to these cost centres. Expenditure was monitored on a monthly basis through the above means and inquiries were made of managers to ascertain whether all relevant costs had been captured and their estimation of how long these would be incurred for in order to feed into the bigger picture of the MTFP.

In line with the rest of the sector, monthly returns were also made to the Department for Levelling Up, Housing and Communities (formerly Ministry of Housing, Communities & Local Government or MHCLG). The data collection was designed to assist Central Government understanding the impact of the pandemic on the economy.

Monthly Covid-19 briefings were held between senior management whereby reviews undertaken by lower management of Covid-19 specific cost centres were scrutinised. The review in question was of the above submissions made to Central Government and facilitated the challenge of any costs which appeared inappropriate.

Key changes in the expenditure profile were communicated to Senior Management Team and those charged with governance through briefing notes.

The pandemic brought into focus some key areas of control as follows and the Council equipped themselves to deal with potential issues:

- 1) Accounts payable - a creditors action plan was set up to ensure suppliers are paid on a timely basis and without disruption. This plan was updated as the Pandemic evolved.
- 2) Grant funding - the council used established systems such as Civica, which are already applied in the distribution of housing benefits and similar reliefs, in order to assess and pay grant funding. All funding was subject to sign off by the s151 officer prior to remittance.
- 3) Procurement - in common with others in the sector, the Council use an e-procurement system which was active prior to the pandemic and allows tenders for essential goods and services to be undertaken in compliance with relevant guidelines and frameworks on a remote basis.

Regarding the above grant funding, internal audit were also engaged during the pandemic to provide assurance over the payment of grant income to recipients was appropriate and in line with the terms and conditions of the funding. In all cases, pre-payment checks of individuals were undertaken and only one potential instance of fraud has been identified out of a total of 6,477 grant payments made.



COVID-19 arrangements

Governance

The Council transitioned to an agile working model with relative ease and this was due to the fact that many of the business processes and control activities in place are operational electronically and therefore can be executed remotely. This included the finance team who used virtual platforms such as Microsoft teams which replaced normal processes undertaken in the preparation of the financial statements i.e. meetings to discuss technical issues or accounts presentation.

The Annual Governance Statement for the period to 31 March 2021 demonstrates that substantial assurance is able to be taken that the control environment remained effective throughout the height of the pandemic, this is supported by the work of internal audit and the Head of Internal Audit's annual report

The Council created a Coronavirus tactical group when the onset of the pandemic began in March 2020. The remit of this group was to discuss the evolving nature of the pandemic with a focus on risks presented and safeguards to be put in place.

This specific group was complemented by weekly Leadership Team meetings throughout the pandemic and consideration of the risks by the Strategic risk management group as captured in the Covid-19 risk register. The format of the Covid-19 risk register sets out the risk, opportunities, consequences, internal controls to combat the risk and then a RAG rating with a trajectory of the direction of the risk.

Local authorities were permitted to hold virtual meetings from 4 April 2020, when regulations came into force. These are the Local Authorities and Police and Crime Panels (Coronavirus) (Flexibility of Local Authority and Police and Crime Panel Meetings) (England and Wales) Regulations 2020 (SI 2020/392), made under section 78 of the Coronavirus Act 2020.

These regulations applied to all local authorities in England and Wales, including parish, town, and community councils. They specify that a 'meeting' of a local authority can lawfully take place online, with members 'in remote attendance' who can hear and be heard by, and if possible see and be seen by, other members. Therefore, from April onwards the Council held all meetings virtually and these were streamed live and recorded for later consumption. It should be noted that while these arrangements were put in place, a small number of meetings were postponed however this is not outside of our expectation and is consistent with other local authorities.

As section 78 of the Coronavirus Act 2020 only permitted regulations to apply to council meetings that take place before 7 May 2021, from this point onwards the Council returned to meetings in person in order to effect the governance regime in place.

Internal Audit supported with controls advice during the response phase and as part of their annual report, reference the COVID decision log as a source of evidence for demonstrating continuity of compliance with governance arrangements during the pandemic. The annual report of Internal Audit also notes that the service were engaged during the period to certify a number of grant claims, including ones in relation to COVID payments and the team provided consultancy on the controls over funding received for COVID Purposes. Despite these additional pressures, overall, Internal Audit were able to sufficiently deliver their internal audit plan in order for the Head of Internal Audit to be able to issue an opinion on the control environment.

Improving economy, efficiency and effectiveness

The Council website includes a comprehensive and easily accessible suite of information in regard to the coronavirus which is available to service users. This provides useful guidance and links with the National Health Service and Central Government guidelines. The importance of this information should not be down played in the overall response to the pandemic and ability to provide the wider community with the tools they require to obtain support and combat ill health, thus reducing pressure on services.

As noted in the body of the report, the Council have embraced the use of digital and technology to transform the way in which officers work and members provide oversight and scrutiny. The flexible working arrangements adopted during the pandemic will be taken forward and are evolving into a hybrid of remote working and on site work to aid in collaboration. There is also scope to build on the success of services which have been provided online with minimal impact on quality.

Conclusion

Our review has not identified any significant weaknesses in the Council's VFM arrangements for responding to the Covid-19 pandemic. We have identified an opportunity for improvement, these is set out overleaf.

Opinion on the financial statements



Audit opinion on the financial statements

We have completed our audit of the Council's financial statements and issued an unqualified audit opinion following the meeting of the Council on 15 December 2021.

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

More detailed findings can be found in our Audit Findings Report, which was published and reported to the Council's Audit and Ethics Standards Committee on 14 December 2021.

Issues arising from the accounts

All adjusted and unadjusted misstatements identified for the Council's 2020/21 financial statements are disclosed in the 2020/21 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 on the whole 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.

As the Council does not exceed the specified group reporting threshold, no detailed procedures are required and therefore we will submit our assurance statement to the NAO in line with the group deadline when instructions are confirmed.

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 Strategic Director for Resources:

- 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.

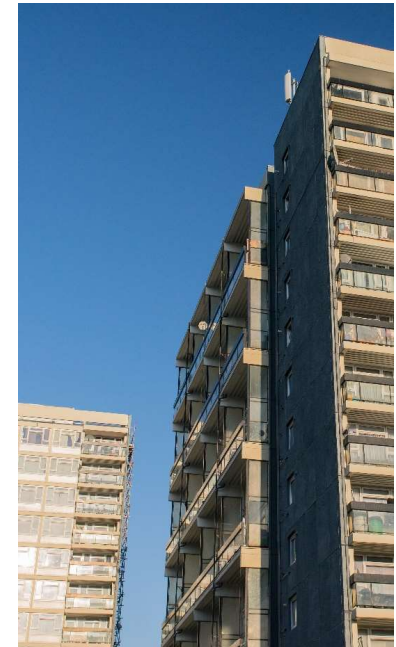
Financial statements are the main way in which local public bodies account for how they use their resources. Local public bodies are required to prepare and publish financial statements setting out their financial performance for the year. To do this, bodies need to maintain proper accounting records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

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

Risk of significant weakness	Procedures undertaken	Findings	Outcome
Financial sustainability was identified as a potential significant weakness in our audit plan.	<p>We have reviewed the MTFS, MTFP, annual budget and other supporting documents and strategies to understand:</p> <ul style="list-style-type: none"> • how the Council ensures that it identifies all the significant financial pressures that are relevant to its short and medium term plans • how the Council plans to bridge its funding gaps and identifies achievable savings • how the Council plans finances to support sustainable delivery of services • how the Council ensures its financial plan is consistent with other plans; and • how the Council identifies and manages risks to financial resilience 	<p>Significant weakness identified in relation to unidentified savings/ funding gaps in financial planning that would substantially threaten the delivery of the MTFP and services that the Council provide.</p> <p>In addition to this, our review of the s25 statement has noted that the Council are reliant on the use of corporate reserves in order to maintain a minimum general fund balance. This is paired with the use of other reserves throughout the life of the MTFP and therefore compounds an already challenging financial position.</p>	<p>Appropriate arrangements not in place, one key recommendation raised and one improvement recommendations raised.</p>

Appendix C - 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'.	Yes	6
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 14 Governance 20-24 3Es 31-32 Covid-19 35



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