

The background of the cover is a photograph of a modern building's interior, featuring a complex, multi-level structure with a prominent diamond-shaped glass and metal grid. The lighting is cool and blue, creating a sense of depth and architectural complexity. Two thick, vertical red bars are positioned on the left side of the cover, one near the top and one near the bottom.

# Essex County Council

Auditor's Annual Report: Year ended 31 March 2021

Report to the Audit, Governance and Standards Committee

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# Welcome

## Executive Summary

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This Auditor's Annual Report provides a summary of the key issues arising from our audit of Essex County Council (the 'Council') for the year ended 31 March 2021.

### Financial statements

Our audit of the financial statements is substantively complete. However, as at the date of this report being circulated the opinion has not been issued.

### Value for money

We have not identified any significant weaknesses in respect of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources having regard to the specified criteria in the Code.

### Other reporting

We did not consider it necessary to use our auditor powers or report on other matters.



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# Purpose and responsibilities

## Executive summary

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### **Purpose of the Auditor's Annual Report**

This Auditor's Annual Report summarises the key issues arising from the work that we have carried out in respect of the year ended 31 March 2021.

It is addressed to the Council but is also intended to communicate the key findings we have identified to key external stakeholders and members of the public.

### **Responsibilities of the Council**

It is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business and that public money is safeguarded and properly accounted for.

The Council is also responsible for preparing and publishing its financial statements, annual report and governance statement.

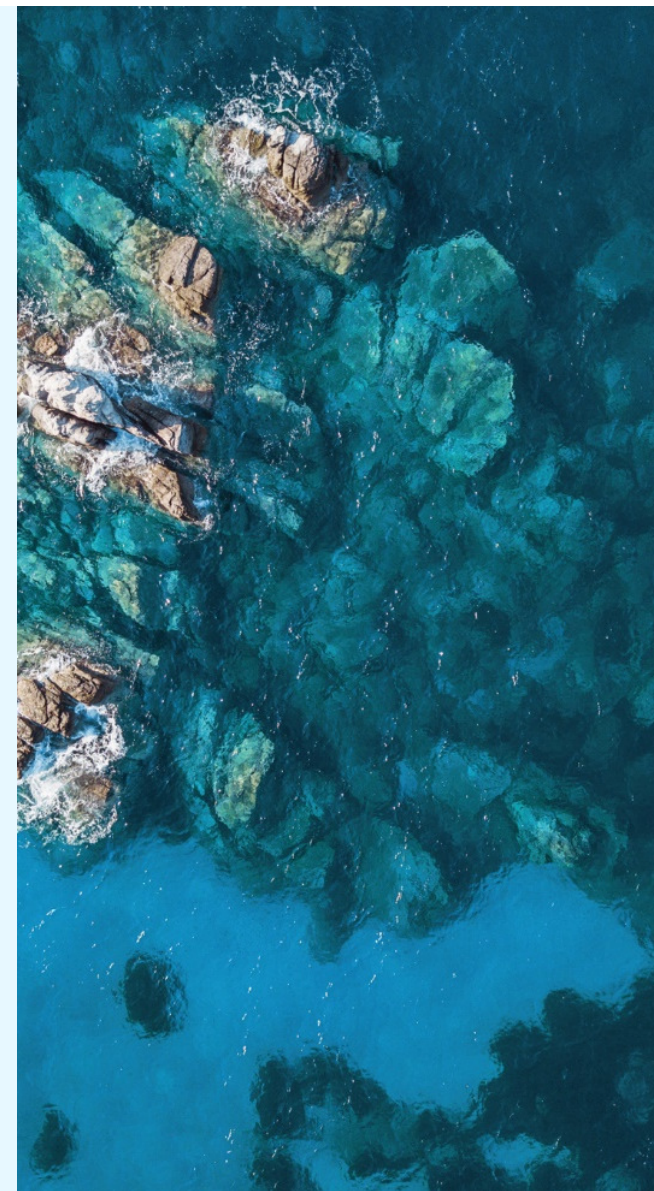
### **Responsibilities of auditors**

Our responsibility is to plan and carry out an audit that meets the requirements of the National Audit Office's (NAO's) Code of Audit Practice – April 2020 (the 'Code').

Under the Code, we are required to review and report on:

- Whether the financial statements give a true and fair view of the financial position of the Council and of its income and expenditure for the year and have been properly prepared in accordance with the relevant legislation;
- Whether the other information published together with the financial statements is consistent with the financial statements;

- Whether the governance statement complies with the guidance issued;
- Whether the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources; and
- Where appropriate, any use of statutory powers.



# Financial statements

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### **Audit conclusion**

We expect to issue an unqualified audit opinion on the financial statements in January 2024. However, as at the date of this report being circulated the opinion has not been issued.

An unqualified audit opinion means that we consider that the financial statements give a true and fair view of the financial position and its expenditure and income for the year.

We reported findings to the 25 January 2024 Audit, Governance and Standards Committee (alongside this draft report).

### **Significant deficiencies in controls**

We did not identify any significant control deficiencies during the audit of the financial statements.

### **Audit differences**

The audit identified no material misstatements.

We identified three audit adjustments (one brought forward from 2019/20 and two identified in 2020/21) that, if posted, would increase the surplus on the provision of services for the year by £10.081 million. Management did not adjust the financial statements for these items as the impact was not material.

# Value for Money

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### Scope

We are required to review and report on the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources. Where we identify significant weaknesses in these arrangements, we are required to report this in the auditor's report included in the financial statements and to make recommendations for improvement in the Auditor's Annual Report.

### Specified criteria

The NAO has issued guidance for auditors to report against three specified reporting criteria:

- Financial sustainability - planning and managing resources to ensure the Council can continue to deliver its services;
- Governance - informed decisions and properly managing risks; and
- Improving economy, efficiency and effectiveness - using information about costs and performance to improve the way the Council manages and delivers its services.

The NAO guidance also includes a number of further areas for review within each criteria to allow the auditor to assess those arrangements.

### Risk assessment

Our planning stage risk assessment identified two areas of potential significant weakness, as follows:

- Medium Term Financial Planning
- SELEP governance arrangements in connection with the Council's role as Accountable Body for the Partnership

These were the primary areas of more detailed consideration.

### Context of Covid-19

The Council's arrangements for 2020/21 were in the context of the response to the Covid-19 pandemic. To varying degrees of intensity, but for the whole period, the Council has been, as with other local authorities, at the 'front line' of the national response to the Covid-19 pandemic, requiring changes both to short term governance arrangements and medium-term planning, presenting significant financial and operational challenges.

### Audit conclusion

Against the risk areas considered above, and our review of other areas, ***we have not identified any significant weaknesses in respect of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources*** having regard to the specified criteria in the Code.

While we have not raised any recommendations, related to significant weaknesses, we have included as part of each section a summary of our views on the arrangements as they currently stand, being areas that may warrant focus in future periods.

We have also included three "other" recommendations for improvement related to SELEP governance arrangements.





# Financial Sustainability

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### Auditor's commentary on arrangements

#### Areas reviewed

- *How the body ensures that it identifies all the significant financial pressures that are relevant to its short and medium-term plans and builds these into them*
- *How the body plans to bridge its funding gaps and identifies achievable savings*
- *How the body plans finances to support the sustainable delivery of services in accordance with strategic and statutory priorities*
- *How the body ensures that its financial plan is consistent with other plans such as workforce, capital, investment, and other operational planning which may include working with other local public bodies as part of a wider system*
- *How the body identifies and manages risks to financial resilience, e.g. unplanned changes in demand, including challenge of the assumptions underlying its plans*

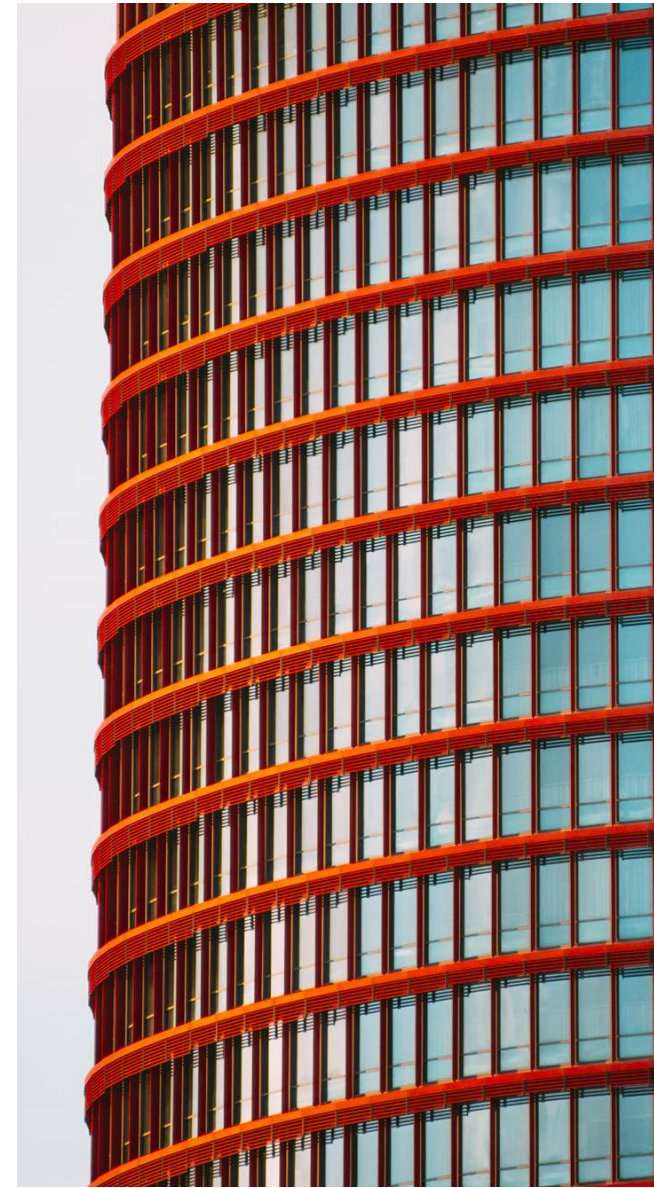
The Council has had the arrangements we would expect to see to enable it to plan and manage its resources to ensure that it can continue to deliver its statutory and strategic priorities in the medium term, including the integration of major capital projects into the medium-term planning arrangements.

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

Due to the Covid-19 pandemic, nationwide, local authorities experienced loss of income and increased costs resulting in unprecedented financial pressures. In recognition of the financial pressures, the Council received several grants from the Government.

Included in the Organisation Plan 2020/21 was the Financial Strategy for 2020/21 - 2023/24, Revenue Budget 2020/21, Capital Budget 2020/21 and level of Reserves. Recognising the challenging financial situation, the Financial Strategy was to ensure that the Council continued to live within its means but at the same time continued to deliver essential services to residents and keep council tax as low as possible.

The medium-term strategy assumed the continuation of the Revenue Support Grant (RSG) at the predicted 2020/21 level of £19m, and the continuation of the new social care grants. The strategy noted the uncertainty of the long-term funding position and the difficulty in planning longer term. In the Section 151 Officer's Report it was stated that the 2020/21 budget includes inflationary pressures (including National Living Wage) of £23m, other service pressures totalling £64m and one-off investment of £22m. This is offset by additional funding of £51m resulting in a net pressure of £58m. Bridging of the funding gap is discussed below.





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In their Budgetary Control and Financial Management Report 2020/21, Internal Audit (IA) noted that additional forward looks have already been presented to Corporate Leadership Team (CLT) on refreshing medium term scenario planning, and a Covid pressures forecast for 2021/22 and beyond has been completed and presented to CLT and Political Leadership Team (PLT) with corresponding recommendations. IA also noted that there has also been a requirement to report monthly to the (then) Ministry of Housing, Communities and Local Government (MHCLG) on the extent of the pressures and income losses faced by the Council as a result of Covid, including a forward forecast for 2021/22.

Whilst acknowledging the challenging financial situation, we have also seen that the Council has a positive approach to the challenge, stating that it is also an opportunity to question how services are currently provided and, where necessary, redesign.

**Against this risk, we have not identified any significant weaknesses.**

### ***2. How the body plans to bridge its funding gaps and identifies achievable savings***

Documented in the Section 151 Officer Report presented at the Full Council Meeting on 11 February 2020, the 2020/21 budget assumed £58m (6% of net budget) of savings and increased income to balance the 2020/21 budget. These included contract efficiencies, back-office savings through process efficiency, service redesign and use of technology, increasing

income from fees and charges and commercial activity and development of our fostering service to increase the use of internal foster carers to minimise dependence on the external market. The capital programme will also have elements which result in cash savings or reduced costs reducing the burden on taxpayers.

In their Meaningful Lives Matter (MLM) - Adult Social Care review 2020/21, IA noted that management and oversight of the agreed savings targets and the progress against these targets monthly is transparent with clear indication of changes between deliverable and undeliverable savings.

In the Financial Strategy for 2020/21 - 2023/24 it was stated that, based on the latest intelligence on demand for services, inflation, and likely funding levels, the Council forecast a budget gap of £14m in 2021/22 increasing to a significant gap of £71m in 2023/24. The Council identified the most significant driver of the gap to be inflation, followed by demographic growth, new burdens and other cost pressures, including financing of the capital programme.

Although it was stated that some progress had been made towards balancing the budget over the medium-term (in the form of identified savings in 2021/22, 2022/23 and 2023/24), as the Council itself has recognised, there is a significant challenge ahead and it is essential for the Council to continue to focus on financial sustainability and to identify and establish options for addressing the growing budget gap.





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From our review of meeting minutes, we have seen that the funding gap was included in the written questions by a Councillor to the Cabinet member of Finance at the Full Council Meeting on 13 October 2020 relating to what representations the ECC has made to government for more funding to meet the extra cost pressures. Included in the response it was stated that ECC has been updating MHCLG (referred to earlier) on its COVID-19 related financial impacts monthly in addition to responding to the Comprehensive Spending Review and the ECC has highlighted projected 2021/22 funding shortfalls and cost pressures to Essex MPs and civil servant.

For 2020/21, the Council reported a provisional outturn of £11.482m (1.3%) underspend against its balanced budget. Balanced budgets were set for 2021/22 and 2022/23 with £46m (4% of net budget) and £36m (3% of net budget) of savings respectively. For 2021/22 and 2022/23, the Council has reported provisional outturns of £15.622m (1.7%) underspend and £11.742m (1.2%) underspend respectively.

A balanced budget was also set for 2023/24, and a balanced budget is proposed for 2024/25.

**Against the overall risk of bridging funding gaps, we have not identified any significant weaknesses.**

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

The Section 151 Officer Report presented at the Full Council Meeting on 11 February 2020, explains that the budget is a financial plan of the Organisation Strategy and forms part of the annual Organisation Plan.

From our review we have seen that the Organisation Plan and Budget 2020/21 presented to the Full Council at the February 2020 meeting for approval sets out ECC's four Strategic Aims. Under the "Resources" section is the Financial Strategy 2020/21 to 2023/24 which states that the budget sets out the financial resources available to deliver the Council's statutory requirements, political priorities and the Organisation Plan and therefore achieve the Organisation Strategy.

Also included is the 2020/21 Revenue Budget and Capital Programme, both of which are further categorised by each Strategic Aim and then by Councillor portfolio. This clearly demonstrates that the Council plans finances to support the sustainable delivery of services in accordance with strategic and statutory priorities.

**Against this risk, we have not identified any significant weaknesses**





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### *4. How the body ensures that its financial plan is consistent with other plans such as workforce, capital, investment, and other operational planning which may include working with other local public bodies as part of a wider system*

The Capital Programme is included in the Organisation Plan 2020/21 presented to the Full Council for approval (mentioned above), discussed in the S151 Officer Report, together with a Capital and Treasury Management Strategy. The Capital Programme for 2020/21 is apportioned into three investment types namely: Invest to Maintain, Invest to Save/Generate Return and Invest to Grow.

We note that during 2020/21, IA performed a Strategic Workforce Planning Review which obtained a "Good" Assurance opinion, the highest level of assurance achievable.

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

In terms of identification and management of risks to financial resilience, we have seen that risks associated with the 2020/21 budget were highlighted in the Section 151 Officer Report. These risks included the extent and management of social care demand, National Living Wage inflationary pressure and the assumption of the full delivery of £58m budget proposals. It was noted that Officers carry out a delivery risk assessment before the budget is set to test the readiness to deliver the savings.

The Council has considered other measures such as slowing down or stopping spending, increasing income elsewhere or moving funds around the organisation to reduce the financial effect of the risks.

The Section 151 Officer Report also states that Reserves play an important part in the Council's financial strategy being an important part of risk management and resilience. The Council has specific reserves as well as a General Balance, which is an un-ringfenced reserve set aside to allow the Council to deal with unexpected events or costs at short notice.

The creation of four new earmarked reserves was approved by Cabinet on 19 January 2021. One of these new reserves was the Covid Equalisation Reserve, the purpose of which is to set aside funding received from government for exceptional one-off costs related to the COVID-19 pandemic. Funding will be placed here until decisions are made on its utilisation. This reserve will also be used for where funding is returned to reserves where COVID-19 costs have been lower than originally anticipated for decisions taken.

Another arrangement is the management of financial sustainability impacting risks included in the Risk Register (e.g. Resurgence of Covid-19 and Market Collapse) which are managed through the risk management processes described further under the Governance section.





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### Financial Sustainability - Conclusion

**We have not identified any significant weaknesses in this area.**

The Council has demonstrated arrangements to plan and manage resources, especially in difficult and uncertain times. However, we would highlight the trending increase of the budget gap forecast to a significant gap of £119m forecast for 2025/26 included in the Annual Plan 2022/23.

We note that the Financial Strategy 2023/24 - 2026/27 included in the Annual Plan 2023/24 reflects a budget gap forecast of £75m in 2026/27. Although this indicates the gap is starting to reduce, the gap is still considered significant and financial challenges continue to exist.

We will, therefore, continue to monitor the Council's financial position and financial sustainability to ensure it remains able to set a balanced budget, manage its financial resources and deliver services as expected.





# Governance

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### Auditor’s commentary on arrangements

#### Areas reviewed

- *How the body monitors and assesses risk, and gains assurance over the effective operation of internal controls, including arrangements to prevent and detect fraud*
- *How the body approaches and carries out its annual budget setting process*
- *How the body ensures effective processes and systems are in place to ensure budgetary control; to communicate relevant, accurate and timely management information; supports its statutory financial reporting requirements; and ensures corrective action is taken where needed*
- *How the body ensures it makes properly informed decisions, supported by appropriate evidence and allowing for challenge and transparency*
- *How the body monitors and ensures appropriate standards, such as meeting legislative/regulatory requirements and standards in terms of officer or member behaviour*

For 2020/21, the Council has had the arrangements we would expect to see to enable it to make informed decisions and properly manage its risks.

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

As expected, the purpose of the Council’s Audit, Governance and Standards (AGS) Committee includes responsibilities around corporate governance and risk management, internal audit and approval and monitoring the effectiveness of strategies for anti-fraud and corruption.

Internal Audit (IA) performed a Risk Management review during 2020/21. The purpose of the review was to provide reasonable assurance as to the adequacy and effectiveness of the key controls relating to the Council’s risk management methodology. The fieldwork also sought to consider the impact of Covid-19 on these arrangements. A “Satisfactory” Assurance opinion was issued.

Arrangements in place, as noted by IA, included a Risk Management Strategy and supporting Risk Management Toolkit which closely align to the Council’s Organisation Strategy, clearly defined roles and responsibilities for risk management, processes embedded to facilitate review, challenge, approval and reporting of risk registers at various levels of management, including Political/Corporate Leadership Teams (PLT/CLT), Functional Leadership Teams (FLT) and Senior Management Team (SMT) levels.

It was also noted that a specific Covid-19 risk register was compiled and subject to regular management review and monitoring.





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The Council's IA function is a key element of the Council's assurance framework and reports functionally to the AGS Committee. In March 2020, the 2020/21 risk-based IA and Counter Fraud Plan was reviewed and agreed in principle by the AGS Committee. However due to the Covid-19 pandemic, in July 2020 a revised plan, deferring, removing or adding reviews (e.g. Remote Working Resilience was added), was presented and approved by the AGS Committee, to ensure appropriate focus of IA and counter fraud activity.

IA's overall Annual Opinion for 2020/21 is "Satisfactory" meaning *"Although there are some weaknesses which may put the individual system, process or service objectives at risk of achievement, there is an overall satisfactory system of internal control, appropriately designed to meet the Council's objectives; and controls are generally being applied consistently."* While this is the same opinion as the previous year, the number of "Limited" Assurance opinions for individual reviews has increased. In agreement with IA, we consider this an area for close monitoring to ensure the control environment is not weakening.

From our review and attendance at AGS Committee meetings we have also seen that the AGS Committee receives IA and Counter Fraud Progress Reports and there is also a clear focus on tracking of IA recommendations.

In terms of arrangements to prevent and detect fraud, we have seen that the Council has a Counter Fraud Team who work alongside IA. The Counter Fraud Team are responsible for detecting and investigating a range of fraud matters that impact the Council including those committed by residents, staff and contractors.

The counter fraud activities also include a programme of data analysis and data matching work. In March 2020, ECC subscribed to the National Fraud Initiative (NFI) Fraud Hub to enhance the national data matching in place at the time and the mandatory NFI data matching exercise was completed in October 2020. During the year the Counter Fraud team saw the addition of a Data and Intelligence Specialist.

Due to the Covid-19 pandemic, the Counter Fraud team has seen an increase in the number of suspicious grant claims and has worked with the Council's procurement team in this area.

Other arrangements we have seen is the Counter Fraud and Corruption Strategy, which was reviewed during the year following the publication of a new national strategy entitled 'Fighting Fraud and Corruption Locally, and the Whistleblowing Policy. During 2020/21, IA performed a Whistleblowing audit to review the effectiveness of the Council's whistleblowing policies, procedures and associated control frameworks. A "Satisfactory" Assurance opinion was issued with 3 moderate and 2 low priority issues identified. However, we have noted that one of the medium priority issues related to lack of ease locating the policy on the Council's website at the time and as at the date of review, this appears to be an existing issue i.e. performing a search for "whistleblowing" returned one result for "Modern slavery and human trafficking statement". We support IA's recommendation to improve ease of locating this policy.

**Against this risk, we have not identified any significant weaknesses.**





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### *7. How the body approaches and carries out its annual budget setting process*

As stated in the Constitution, the Council decides the overall policies and sets the budget for each year by setting the Budget and the Policy Framework within which all executive decisions are made. The functions of the Full Council include, approve or adopt the Policy Framework and the Budget. The Budget and Policy Framework Procedure Rules are detailed in the Constitution.

As per the Terms of Reference (TOR) the Cabinet is responsible for exercising all Executive Functions, which specifically include leading the preparation of the Council's policies, statutory plans, strategies and budget. Cabinet Procedure Rules included in Part 4 of the Constitution state that all reports to the Cabinet from any Member of the Cabinet or an officer on proposals relating to the Budget and the Policy Framework, must contain details of the nature and extent of consultation with stakeholders and relevant Overview and Scrutiny Committees, and the outcome of that consultation.

The Council is required to set a balanced budget. Our review of meeting minutes and papers evidenced that at the Full Council meeting on 11th February 2020, the Council received the Report on the Budget 2020/21 that was in two parts:

- Part 1 - the Section 151 Officer's report: Set out the Section 151 (S151) Officer's statement on the adequacy of reserves, robustness of the 2020/21 revenue budget, as well as the Financial Strategy and the Capital and Treasury Management Strategy (discussed earlier under

the Financial Sustainability section)

- Part 2 - the Organisational Plan and Budget 2020/21: To present information to enable Full Council to consider and approve the Organisation Plan and Budget 2020/21 including the revenue budget, capital programme, financial strategy and the Council's council tax precept. This included recommendations from the Cabinet and changes since the Cabinet meeting.

A balanced budget was set for 2020/21. A budget consultation process had also taken place, where the consultation was opened to the public in November 2019 and closed in December 2019 and the key messages, together with the full report of the budget consultation were provided.

Equality implications had been assessed as part of the budget setting process and included in the papers provided.

Various motions were put forward and voting took place. It was resolved that the Section 151 Officer's statement be noted, the Organisation Plan be approved, and various budgets set such as the net revenue budget requirement to be set at £913.6m.

**Against this risk, we have not identified any significant weaknesses.**





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### *8. How the body ensures effective processes and systems are in place to ensure budgetary control; to communicate relevant, accurate and timely management information; supports its statutory financial reporting requirements; and ensures corrective action is taken where needed*

IA performed a Budgetary Control and Financial Management Review as part of the 2020/21 Annual Plan. The purpose of the review was to assess the robustness of the Council's budgetary control and financial management and provide assurance over the timeliness and effectiveness of recovery plans and change control on benefits, savings plans and income, especially considering Covid-19. A "Good" Assurance opinion (the highest level of assurance) was issued.

IA noted that the Council had maximised central government aid and continued to provide monthly financial performance information (including additional fortnightly reporting on the latest Covid financial position) during the year to senior management and Members. In addition, the IA report noted that prior to Covid-19, an initial gap analysis was undertaken on compliance with the CIPFA Financial Management Code when the service provided a test-run of the draft requirements for CIPFA. This had identified some areas of non-compliance, but they were not deemed material. IA raised a low-risk recommendation to complete and monitor the action plan to evidence compliance with the CIPFA Financial Management Code from the 2021/22 financial year.

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

The Council has a Constitution which is available on the website, the purpose of which is to provide a framework which, amongst other things, enables decisions to be taken efficiently and effectively in line with the Council's Budget and Policy Framework and creates a powerful and effective means of holding decision-makers to public account. Article 5 of the Constitution details decision making responsibilities, principles such as "due consultation and the taking of professional advice from officers", decision types, decision making by the Full Council, Cabinet, Overview and Scrutiny Committees, other Committees and Sub-Committees, and Council bodies acting as Tribunals.

The Council has four Overview and Scrutiny Committees, as follows:

- Corporate Policy and Scrutiny Committee (CPSC)
- Health Overview Policy and Scrutiny Committee (HOPSC)
- People and Families Policy and Scrutiny Committee (PAFPSC)
- Place Services and Economic Growth Policy and Scrutiny Committee (PSEG)





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These committees have a dual role covering policy development of the Council and the Cabinet, as well as the review of the Council’s and Cabinet’s decisions and can “call-in” decisions by a Cabinet member. Members of the public are welcome to attend any scrutiny committee public meeting.

We have seen that the Annual Overview & Scrutiny Report 2020/21 by the Scrutiny Board Chairman was presented at the Full Council meeting on 25 May 2021 and outlined each committee’s work performed during the year and provided examples of the work carried out to deliver the ECC’s four strategic aims.

The CPSC reviews the overall strategic direction, policies and priorities of the Cabinet and Council including the budget strategy, financial resources, equality and diversity issues, procurement and the Council’s transformation programme. From our review of the CPSC meeting minutes we noted that “Questions from the public” was an agenda item, financial overviews were received during the year, procurement related items were discussed, members were invited to ask questions and key points were raised e.g. with respect to the 2021/22 Budget, Members noted that, in future, it would be preferable for the budget to come to scrutiny earlier in the process. We did not come across any “call-in” decisions.

In 2020/21, it was resolved at the AGS Committee meeting to appoint an independent

member of the AGS Committee in line with best practice recommended by Sir Tony Redmond in his report ‘Independent review into the oversight of local audit and the transparency of local authority financial reporting’.

During the pandemic, we saw meetings continued but were conducted remotely such as those for the AGS Committee, Full Council, Cabinet and CPSC.

**Against this risk we have not identified any significant weaknesses.**

***10. How the body monitors and ensures appropriate standards, such as meeting legislative/regulatory requirements and standards in terms of officer or member behaviour***

As stated in the Constitution, the Council has adopted the Nolan Principles - The seven principles of public life to be applied by all Members namely: Selflessness, Integrity, Objectivity, Accountability, Openness, Honesty, and Leadership.

We have seen that the Council has a Member’s Code of Conduct and an Officer’s Code of Conduct in place. Both adopt the Nolan principles. The Monitoring Officer has a statutory responsibility for the implementation of the Code of Conduct and has a specific delegation to receive and manage the determination of complaints of failure by Members to comply with the Code of Conduct.





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At the AGS Committee meeting on 22 March 2021, the Council's Monitoring Officer presented a paper to the Committee regarding the Local Government Association (LGA) model of code of conduct, regulating the standards of behaviour expected of councillors, which was published in 2020.

The Monitoring Officer informed the members that the paragraphs relating to the Declarations of Interest were not workable and most councils were not proposing to adopt it unless their current code was worse. It was resolved that the Committee would continue to monitor the evolving picture but did not recommend adoption of the LGA code at that time.

We have seen that registers of interests and Gifts and Hospitality are published on the Council's website under individual Councillor profiles. Also, from our review of meeting minutes we found declarations of interest were included as an agenda item for meetings of the AGS Committee, Full Council, Cabinet and CPSC and the AGS Committee received the annual review of the Member Gifts and Hospitality register April 2020 - May 2021 at the June 2021 meeting.

**Against this risk, we have not identified any significant weaknesses.**

### Governance - Conclusion

We have not identified any significant weaknesses in this area and seen that the Council adapted to conducting meetings remotely during the height of the pandemic.

We have noted that the number of "Limited Assurance" IA opinions should be closely monitored to ensure the control environment is not weakening.





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### *Risk-based work in respect of SELEP governance arrangements*

Various concerns relating to the governance of the South East London Local Enterprise Partnership (SELEP) have been brought to our attention by individuals outside of the Council, in particular in relation to the use of funding in East Sussex. As Essex County Council is the Accountable Body for this partnership, there is a risk that the Council may not have put in place adequate overall governance arrangements, within the remit as Accountable Body, to support effective decision making by SELEP.

### *Work performed*

We carried out the following planned audit procedures:

- Reviewed the Council's responses to Freedom of Information requests and complaints in relation to SELEP
- Reviewed Internal Audit's reports on SELEP
- Reviewed documentation on SELEP's website and further documentation provided in response to our queries
- Reviewed the business cases, audit declarations from East Sussex County Council (ESCC) and reporting for a sample of three East Sussex projects (North Bexhill Access Road, Queensway Gateway Road, Priory Quarter phase 3 - Havelock Place)
- Held discussions with the external auditor of East Sussex County Council to align our understanding of the arrangements in place between the two councils
- Met with officers from the Department for Levelling Up, Housing and Communities (DLUHC) who requested a meeting with us.

### *Results*

The SELEP Assurance Framework, updated in June 2022, sets out its overall objectives, governance structure, roles and responsibilities and how it makes its decisions and manages its programmes. A diagram of the key elements of the governance structure has been extracted from the Assurance Framework and is shown on the following page.

Key accountabilities within this framework are:

- Strategic Board of Directors of SELEP Ltd - overseeing the outcomes of the programme of projects
- Joint Committee or Accountability Board, represented by three County Councils (including Essex County Council) and three unitary authorities in the SELEP area - approving investments, ensuring that due process has taken place before any investments are made and overseeing the delivery of projects (underpinned by an Accountability Board Agreement)
- Accountable Body, Essex County Council - overseeing governance arrangements; providing the finance function to SELEP Ltd; receiving, holding and distributing public funds (as grants or loans); providing technical legal and financial advice
- Investment panel - prioritisation of projects, based on assessments by Independent Technical Evaluators, and finalisation of business cases for funding approvals by the Accountability Board
- Federated Boards for each of the six authorities - recommending prioritised projects and overseeing projects in their area.

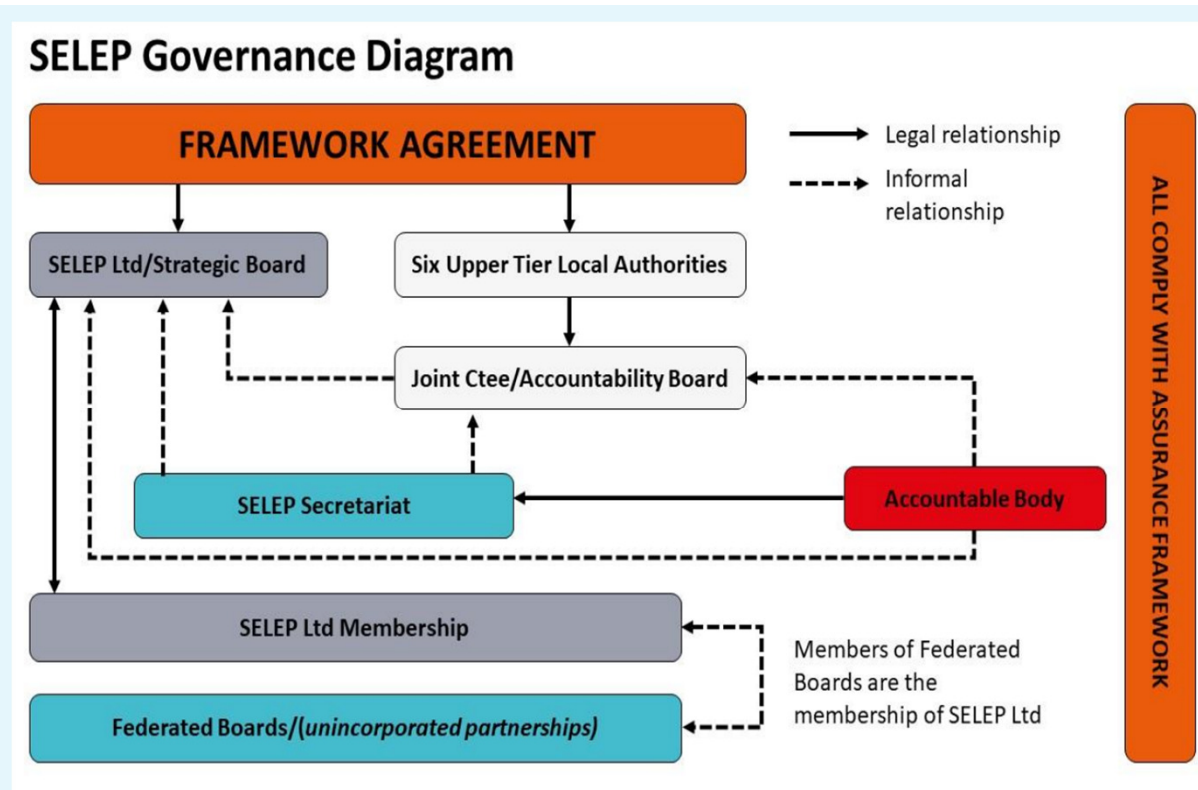




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We are satisfied that the above governance framework accords with the requirements of the Government's National Local Growth Assurance Framework, published in January 2019 and updated in September 2021.





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Our walkthrough of the governance arrangements in respect of three projects confirmed the following key processes/controls to be in place:

*Local Growth Fund (LGF) - North Bexhill Access Road project (NBAR) and the Queensway Gateway Road project (QGR):*

- Comprehensive business cases in place for each of these two projects
- Independent technical evaluations provided by Steer (trading as Steer Davis Gleave at the time) before the investments were approved
- Service Level Agreements (SLAs) in place between the Council and ESCC for each project, that include clear expectations in relation to the information required from scheme partners and delivery agents, ownership of responsibilities and provisions for the protection of public funds (e.g. arrangements to suspend or claw back funding in the event of non-delivery or mismanagement)
- Contracts in place between ESCC and third-party delivery agents (e.g. SeaChange Sussex), that include the provisions in the SLAs between the Council and ESCC, including arrangements for withholding or suspending of funding in the event of non-delivery.
- ESCC provides quarterly delivery reports
- Progress on project delivery reported to each meeting of the Accountability Board (which is based on the reporting from ESCC for these projects)
- Year end declarations received from ESCC's S151 officer, for each relevant year, to confirm that appropriate checks and investigations have

been carried out and the Local Growth Fund spent by ESCC complies with the LGF Grant Determination Letter from central Government and the SLA between ESCC and the Council, with details of amounts spent.

*Growing Places Fund (GPF) - Priory Quarter phase 3 - Havelock Place):*

- Comprehensive business cases in place
- The GPF was originally allocated in 2012, before the publication of the first National Assurance Framework, and therefore the due diligence processes for GPF were to be determined locally between accountable bodies and LEPs.
- For SELEP GPF projects, the sponsoring upper tier authority was required to fund an appraisal of the business case and for Priory Quarter this was undertaken by Genecon; this appraisal was then reviewed by Shared Intelligence on behalf of SELEP
- The GPF was awarded under a Credit Agreement rather than an SLA
- The project is complete and the output delivered; the loan has been fully repaid and the Loan Register reflects this.

We note that in February 2022, Internal audit reported an assurance level of 'Good' from its review of the robustness of SELEP's governance over decision making, project delivery and financial / risk management processes in 2021/22. This followed previous assurance ratings of 'Good' from their reviews of SELEP arrangements in 2020/21 and 2019/20 and 'Adequate' assurance ratings for 2018/20 and 2017/18.





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Our review of the governance arrangements has not identified any significant weaknesses although we have identified scope for improvement in the following areas:

### *Due diligence procedures*

One of the key elements of the independent technical evaluation or business case appraisal process is consideration of the commercial case. This relates to how the preferred option will result in a viable procurement and well-structured deal, including contractual terms and risk transfer. However, from our review of the documentation received for the sampled business cases, it is not clear what due diligence processes over suppliers have been carried out, including conflicts of interest checks.

The Council, as Accountable Body, obtains this assurance from ESCC's s151 officer's sign-off of the business case. However, in our view the Council should also ensure that there is sufficient information on the due diligence checks in the documentation reviewed by the Investment Panel and the Accountability Board, to support the audit trail underpinning the Board's decision making.

### *Delivery reporting to the Accountability Board*

Our review of the agendas and papers from the Accountability Board meetings shows that thorough updates on the progress of projects are reported. However, we noted that the reports are very detailed and there is a risk that areas of major concern (e.g. significant delays in completing some projects) may be lost in the detail. This may undermine the Accountability Board's ability to focus on and challenge the key issues arising.

### *Measurement of project outputs*

We note that the business cases for the sample

projects reviewed included projections on the number of jobs expected to be generated from the project. Reports to the Accountability Board in November 2021 indicated a number of significant shortfalls, for example:

- North Queensgate Road - No jobs delivered against 865 in business case - Whilst the project for the new road junction was delivered, the job creation was dependent on the development of an expected business park that the new junction would open up, and delays in this meant that the relevant data was not available.
- Bexhill Business Mall - 98 jobs delivered against 299 in business case - Whilst the project for the new building was delivered, the building was sold and it was not possible to obtain data regarding job creation by the business mall.

Where job creation is a prominent feature of project business cases (as is the case for the sample projects we reviewed), the Council (as the Accountable Body) should ensure that the business cases clearly set out the basis for the assumptions made, mechanisms by which jobs will be created (as direct outputs from the project or indirect outputs that are dependent on further activities outside of the SELEP project) and how delivery will be measured.

### *Conclusion*

Overall, based on the work carried out, we are satisfied that there are adequate arrangements in place for the Council, as the Accountable Body for SELEP, to exercise its role of legal accountability for the funding streams and responsibility for overseeing the proper administration of financial affairs relating to the public funds.





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## Auditor's commentary on arrangements

### Areas reviewed

- *How financial and performance information has been used to assess performance to identify areas for improvement*
- *How the body evaluates the services it provides to assess performance and identify areas for improvement*
- *How the body ensures it delivers its role within significant partnerships, engages with stakeholders it has identified, monitors performance against expectations, and ensures action is taken where necessary to improve*
- *How the body ensures that the commission or procurement of services is done in accordance with relevant legislation, professional standards and internal policies, and how the body assesses whether it is realising the expected benefits*

For 2020/21, the Council has had the arrangements we would expect to see to enable it to make informed decisions and properly manage its risks.

The 'Which Councils are Best?' 2019 report published by Impower on 13th November 2019 examined outcome productivity - the value that councils achieve for every pound that they invest. ECC was ranked in the Top 10 Most Productive Councils in England 2018 and 2019, indicating the Council has a good track record of spending their money most effectively, based on the Impower Index.

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

The ECC Organisation Plan 2020/21, presented to the Full Council at the Council Meeting on 11th February 2020, outlines for each sub-category of each Strategic Aim, The Challenge, Major achievements in the year i.e. 2019/20, Key areas of focus for the Council over the next year i.e. 2020/21. For example, a key focus area for 2020/21 under the Strategic Aim Transform the Council to achieve more with less was to deliver £58m of savings and efficiencies (mentioned under Financial Sustainability). This focus area relates to the Sub-category: Limit cost and drive growth in revenue; Develop the capability, performance and engagement of our people; Re-imagine how residents' needs can be met in a digital world.

We have seen that the Essex County Council Organisation Plan 2020/21, also provides detail on how the Council intends to measure the progress it makes towards the achievement of the strategic aims. For each of the four strategic aims it sets out the key measures and milestones on which the Council will focus attention and on which assessments of progress, performance and impact will be based.





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For example, for the Strategic Aim: Transform the Council to achieve more with less, measures include:

- Income generated from sales, fees and charges - Target for 2020/21: £39.2m
- Social value achieved through procurement and workforce practices - Target for 2020/21: To be set in Summer 2020
- Workforce productivity - based on indices that quantify the effectiveness and efficiency of our workforce - Target 2020/21: To be set in July 2020. It was also proposed to develop this measure further within 2020/21 to include measures of supplier productivity.

We note that some of the targets had not been set at the time and were noted to be set later during the year e.g. July 2020.

We have seen that in their 2020/21 Meaningful Lives Matter (MLM) - Adult Social Care (ASC) review, IA noted that in November 2018, ALT agreed a three-year transformation programme (MLM) following a review which identified ASC costs were higher than comparator local authorities and did not fully meet or measure people's desired outcomes and future expectations.

As stated in their report, the MLM programme is a key contributor in delivering the Council's strategic priorities of helping people get the best start and age well and transforming the Council to achieve more with less.

The purpose of the IA review was to assess whether there is effective oversight of the delivery of the MLM workstreams, and in particular where required savings / outcomes / intended benefits in 2020/21 can still be achieved in light of the Covid 19 pandemic and where unable to be achieved, the mitigating actions are adequate. A "Satisfactory" Assurance opinion was given with IA determining that arrangements, including those related to management information (focussing on six agreed outcomes), were found to be effectively designed with good oversight, accountability, and frequent and timely reporting to the relevant Group/ Board.

Although a specific Management Information / Key Performance Indicators review was included in the IA Annual Audit Plan for 2020/21, it was delayed due to Covid-19. It was however noted in the status that the Business Intelligence specialist was providing support in this area to Adult Social Care.

**Against this risk, we have not identified any significant weaknesses.**





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### *12. How the body evaluates the services it provides to assess performance and identify areas for improvement*

The Council has a Complaints process in place which we consider key to an organisation's arrangements for assessing performance and identifying areas of improvement. A citizen's right, as set out in the Constitution, is the ability to make complaints. We have seen that the Council has a "Complaints and compliments" section on the website with links to provide feedback, complaints, compliments and ask a question. The Complaints and Representations Policy is also published on the website and sets out the definitions for complaints, comments and compliments, the procedures to be followed and how these representations will be handled.

From the LGSC Ombudsman Annual Letter 2021, we note that ECC is performing below the average for similar authorities for the % "Complaints upheld" and % "Satisfactory remedies provided by the authority". Also, ECC scored 98% "Compliance with Ombudsman Recommendations", with the Ombudsman stating it is rare to score below 100% and those complaints where it failed to comply, should be scrutinised and learning identified. We therefore consider this an area for improvement on which the Council should focus.

During 2020/21, we have seen that IA performed a Quality Assurance Framework (QAF) Review. The purpose of this review was to independently evaluate the robustness and effectiveness of the QAF in meeting its aims and objectives and in

supporting Adult Social Care (ASC) to continuously improve. An overall "Satisfactory" Assurance opinion was issued. IA noted that the audit highlighted several areas where the service was performing well, for example, the QAF is fit for purpose, clearly defined, well communicated and consistently applied and results of the quality audits are reported consistently and regularly. Arrangements identified by IA included outcomes of quality audits are recorded and captured in monthly reports distributed to quadrants and quarterly reports submitted to the Adult Leadership Team (ALT). IA identified a moderate rated issue to enhance these reports. IA also noted that the QAF was evolving over time and that the QAF and associated tools are being redesigned to meet the longer-term vision.

Following a joint inspection in 2019 conducted by the CQC and OFSTED to judge the effectiveness of the Essex area in implementing the disability and special educational needs reforms as set out in the Children and Families Act 2014, a Written Statement of Action was required because of areas of weakness in the local area's practice.

The local authority and the area's CCG groups, with joint responsibility, submitted the statement to Ofsted. In April 2020 the CQC and Ofsted responded that the statement of action was deemed to be fit for purpose in setting out how the area will tackle the significant areas of weakness identified and noted, amongst other things, that activities and milestones were spread out appropriately over the next two years, particularly in relation to joint commissioning.





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The People and Families Policy and Scrutiny Committee (PFPSC) exercises the scrutiny function on matters relating to children and young people, families, education, adult social care, special needs and safeguarding. During 2020/21 we have seen updates on the actions for improvement have been provided to the PFPSC demonstrating arrangements in place to ensure improvements are made. The Ofsted/CQC re-visit inspection performed in May 2022 determined that sufficient progress had been made in addressing all the significant weaknesses identified at the initial inspection.

**Against this risk, we have not identified any significant weaknesses.**

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

The South East Local Enterprise Partnership (SELEP) is one of 38 LEPs across the country. It was formed in 2011 as a partnership between businesses, local authorities and the education sector. Its aim is to enable economic growth and job creation in the local area and covers an area encompassing the local authority areas of East Sussex, Essex, Kent, Medway, Southend and Thurrock. Essex County Council is the Accountable Body for SELEP.

As part of the IA activity during 2020/21, IA performed a review of the SELEP, the purpose of which was to assess the robustness of governance over decision making, project delivery and

financial/risk management processes. A "Good" Assurance opinion was issued. Per IA's review, the SELEP Assurance Framework set out the governance systems and processes necessary to effectively manage the delegated funding from HM Government and ensure SELEP's business is conducted transparently. In addition, Governance arrangements were in line with national requirements and that decision-making remained transparent within 2020/21. The audit concluded that the Council's and SELEP's processes to record and reconcile spend were satisfactory.

The previous section set out the context, focus, findings and conclusions of some additional risk-based work in respect of SELEP governance arrangements put in place by the Council in its role as Accountable Body for the Partnership.

The Better Care Fund (BCF) programme supports local systems to deliver the integration of health and social care in a way that supports person-centred care, sustainability and better outcomes. During 2020/21, IA also performed a BCF review. The purpose of this review was to evaluate the arrangements in place to help prevent or manage to reasonable levels, the risk events and consequences of the Council's accountable body role in delivering the Essex BCF Plan for 2020/21. A "Good" Assurance opinion was issued, and no recommendations were raised. IA noted that as a direct impact of Covid-19, there had been a justifiable need to vary some of the standard operational practices in relation to the BCF and that the Council also had to agree to some deeds of variation to the BCF to reflect urgent Covid-19 funding.





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Essex Countywide Traveller Unit (ECTU) is an Essex County Council (ECC) Partnership arrangement between other local Councils, Essex Fire and Rescue Service and Essex Police, who each pay an annual contribution to ECC. During 2020/21, IA performed an ECTU review, the purpose of which was to assess whether the ECTU Service is effectively managing traveller sites across Essex and achieving wider service outcomes. A "Limited" Assurance opinion was issued with 2 major and 5 moderate issues raised. Along with our comment concerning the number of IA "Limited" Assurance opinions, this is considered an area for improvement and continued monitoring.

Arrangements surrounding stakeholder engagement include the "Consultations in Essex" portal also known as Citizen Space e.g. the budget consultation process discussed under budget setting. In addition, other arrangements include the Communications and Marketing Strategy posted on the website, and a Petitions process. Our review of meeting minutes evidenced "Receipt of petitions" as an Agenda item at Full Council Meetings. Questions from the public are also addressed at both Full Council and Cabinet meetings. These arrangements demonstrate clear engagement of the public as a key stakeholder.

**Against this risk, we have not identified any significant weaknesses.**

***14. How the body ensures that the commission or procurement of services is done in accordance with relevant legislation, professional standards and internal policies, and how the body assesses whether it is realising the expected benefits***

Article 12 of the Council's Constitution states that all those undertaking procurement activity for or on behalf of the Council are required to act in the best interests of the Council and with high standards of probity. In addition, all contracts being entered into by the Council must comply with the Council's Procurement Rules.

We have seen that IA provide assurance over procurement arrangements with IA Annual Plans featuring procurement related reviews. During 2020/21, IA reviews included Procurement - Request for Quotes Process ("Satisfactory" Assurance opinion issued), a Highways Contract Review (High level assurance piece of work) and Supplier Resilience Review.

A Contract Management Review was also included in the IA Annual Plan 2020/21 but due to services emergency Covid response, was carried forward to 2021/22. We confirmed that this review was performed in 2021/22 where a "Satisfactory" Assurance opinion was issued.





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Also, early in the year the Cabinet approved the establishment of a four-year Provider Framework for Supported Living Care for Adults with Disabilities. The paper presented to the Cabinet noted that at that time the Council had different arrangements for each Supported Living scheme, which had caused issues around consistency of hourly paid rates, quality selection criteria and performance management.

Notable points from the paper, which we consider key to the arrangements included:

- The framework would amongst other things, ensure quality of providers;
- All providers will need a CQC rating of 'Good' or 'Outstanding' at the time of the tender or subsequent re-opening. Providers already on the framework that receive a CQC rating below this level will be obliged to complete an action plan before any further framework placement can be made with them;
- Through the life of the framework the providers will be required to provide key performance indicators that will allow the Council to review their performance against the terms of the contract; and
- Providers on the Framework would have to meet the Council's quality standards and application requirements through KPIs and performance monitoring, thus improving outcomes for Adults.

### Improving economy, efficiency and effectiveness - Overall conclusion

During 2020/21, the Council has been actioning the required improvements in respect of SEND arrangements. Given the timing of our review, we note that a CQC/Ofsted re-visit inspection was performed in May 2022, which determined that sufficient progress had been made in addressing all the notable weaknesses identified.

The Council has demonstrated that it has arrangements in place to ensure that it effectively uses information about its costs and performance to improve the way it manages and delivers its services.

We consider the arrangements around the complaints process and Essex Countywide Traveller Unit (ECTU) as areas of focus for improvement and continued monitoring.



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We have concluded throughout the report that the Council has appropriate arrangements in place and that we have not identified any significant weaknesses in relation to arrangements in any of the 3 criteria, Financial sustainability, Governance and Improving economy, efficiency and effectiveness. As such, we do not have any formal recommendations to raise.

However, we have noted a number of recommendations for improvement of certain arrangements.

Issue	Recommendation	Management response	Responsibility	Due date
<p><i>SELEP: Due diligence procedures</i></p> <p>One of the key elements of the independent technical evaluation or business case appraisal process is consideration of the commercial case. This relates to how the preferred option will result in a viable procurement and well-structured deal, including contractual terms and risk transfer. However, from our review of the documentation received for the sampled business cases, it is not clear what due diligence processes over suppliers have been carried out in the evaluation, including conflicts of interest checks.</p>	<p>The Council, as Accountable Body, should ensure that there is sufficient information on the due diligence checks in the documentation reviewed by the Investment Panel and the Accountability Board, to support the audit trail underpinning the Board's decision making.</p>	<p>Due diligence checks over suppliers used to deliver business cases is the responsibility of the Upper Tier Local Authority that is sponsoring the business case and receiving any respective funding allocations. The Section 151 officer of the Local Authority is required to sign-off any business case that is submitted to ensure accuracy of the information presented and the Accountabilities to assure that funding is applied in line with the agreed business case, including financial due diligence, is transferred within the respective funding agreements in place - this position continues to be monitored by ECC in its Accountable Body role through the requirement for reporting and annual s151 sign-off received from the Section 151 officer from the respective Local Authority.</p>	N/A	N/A

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Issue	Recommendation	Management response	Responsibility	Due date
<p><b>SELEP: Delivery reporting to the Accountability Board</b></p> <p>Our review of the agendas and papers from the Accountability Board meetings shows that thorough updates on the progress of projects are reported. However, we noted that the reports are very detailed and there is a risk that areas of major concern (e.g. significant delays in completing some projects) may be lost in the detail. This may undermine the Accountability Board's ability to focus on and challenge the key issues arising.</p>	<p>The Council should consider alternative report formats, in conjunction with their target audience, that more clearly highlight key/critical issues.</p>	<p>The current update reports to the Board do incorporate a clear risk assessment and progress since the previous meeting.</p> <p>Additionally, high risk projects are reported on separately to ensure that they receive appropriate time and focus at the respective Board meetings.</p> <p>The Board papers are supported at the meetings by a presentation to highlight the key delivery updates and risks; often these presentations to the Board include an update both from the Sponsoring upper tier local authority with responsibility for assuring delivery and by SELEP.</p> <p>All meetings are also supported by a representative of the Section 151 and Monitoring Officer of the Accountable Body who can also highlight any additional areas of concern where required.</p>	N/A	N/A

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Issue	Recommendation	Management response	Responsibility	Due date
<p><i>SELEP: Measurement of project outputs</i></p> <p>We note that the business cases for the sample projects reviewed included projections on the number of jobs expected to be generated from the project.</p> <p>However, the ability to track delivery against these projections was unclear.</p>	<p>Where job creation is a prominent feature of project business cases, the Council (as the Accountable Body) should ensure that the business cases clearly set out the basis for the assumptions made, mechanisms by which jobs will be created and how delivery will be measured.</p>	<p>All recent business cases include a requirement for the completion of a monitoring and evaluation plan and baseline report; where there has been data gaps in some of the much older projects, the Council (as the Accountable Body) has ensured that the SELEP team have worked with partners to establish the baseline reports; monitoring and evaluation reporting is a requirement in the funding agreements for completion in line with the Process set out in the SELEP Assurance Framework - this information is reported to the SELEP Accountability Boards, including where there may be gaps in the reporting to ensure that this is also being monitored.</p> <p>As the SELEP is planning to close, final position statements re monitoring and evaluation are planned to be presented to the February 2024 meeting of the Accountability Board, to support the transition of this requirement to the Upper Tier Local Authority Partners with expected oversight from DLUHC from April 2024.</p>	N/A	N/A

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The matters raised in our report prepared in connection with the audit are those we believe should be brought to your attention. They do not purport to be a complete record of all matters arising. This report is prepared solely for the use of the company and may not be quoted nor copied without our prior written consent. No responsibility to any third party is accepted.

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