

Auditor's Annual Report on Elmbridge Borough Council

2021/22

Final Report

May 2023



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

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



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The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed for the purpose of completing our work under the NAO Code and related guidance. Our audit is not designed to test all arrangements in respect of value for money. However, where, as part of our testing, we identify significant weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose all irregularities, or to include all possible improvements in arrangements that a more extensive special examination might identify. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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Executive summary



Value for money arrangements and improvement 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.

Auditors are required to report their commentary on the Council’s arrangements under specified criteria and 2021/22 is the second year that we have reported our findings in this way. As part of our work, we considered whether there were any risks of significant weakness in the Council’s arrangements for securing economy, efficiency and effectiveness in its use of resources. Our conclusions are summarised in the table below.

Criteria	Conclusion	Commentary
Financial sustainability	No significant weaknesses in arrangements identified but two improvement recommendations made to further enhance performance	<p>Elmbridge Borough Council (the Council) continues to perform well with regard to financial sustainability, with a record of stable financial and budgetary management. Despite the challenging environment in which it continued to operate during 2021/22 the Council has maintained a good financial position and achieved a balanced budget. It has put forward plans to achieve balanced budgets for 2022/23 and 2023/24 however it still needs to fully formulate the necessary savings plans to achieve this and avoid utilising reserves.</p> <p>Our work has not identified any significant weaknesses in arrangements to secure financial stability but we have made an improvement recommendation relating to identification of further savings.</p>
Governance	No significant weaknesses in arrangements identified but two improvement recommendation made to further enhance performance	<p>Our work this year has focussed on further developing a detailed understanding of the governance arrangements in place at the Council. The Council has appropriate leadership and management structures in place and its risk and control systems are appropriate. It is open in dealing with complaints and ethical and legal matters. Our work has not identified any significant weaknesses in arrangements however, we did identify two improvement recommendations relating to identification of reasons for low level of whistleblowing reports and the production of an annual plan to proactively counter fraud.</p>
Improving economy, efficiency and effectiveness	No significant weaknesses in arrangements identified but two improvement recommendation made to further enhance performance	<p>The Council continues to demonstrate a good understanding of its role in securing economy, efficiency and effectiveness in its use of resources. It has a clear strategic plan and an appropriate performance system for monitoring progress. It is an ambitious council and has invested in the development of the local area. It continues to face challenges with regard to two of its subsidiary companies. It will be reviewing its asset portfolio and through benchmarking and external reviews has identified opportunities to transform aspects of its service delivery going forward.</p> <p>Our work has not identified any significant weaknesses. We have made one improvement recommendation relating to performance reporting.</p>

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

We bring the following matters to your attention:

Opinion on the financial statements

Auditors are required to express an opinion on the financial statements that states whether they : (i) present a true and fair view of the Council's financial position, and (ii) have been prepared in accordance with the CIPFA/LASAAC Code of practice on local authority accounting in the United Kingdom 2021/22

We have completed our audit of your financial statements and issued an unqualified audit opinion on 24 March 20223. Our findings are set out in further detail on page 19.

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

We did not issue any statutory recommendations

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 did not issue a public interest report

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 did not apply to the court

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 did not issue an advisory notice

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 did not apply for judicial review

Securing economy, efficiency and effectiveness in the Council's use of resources

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

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

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

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



Financial Sustainability

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



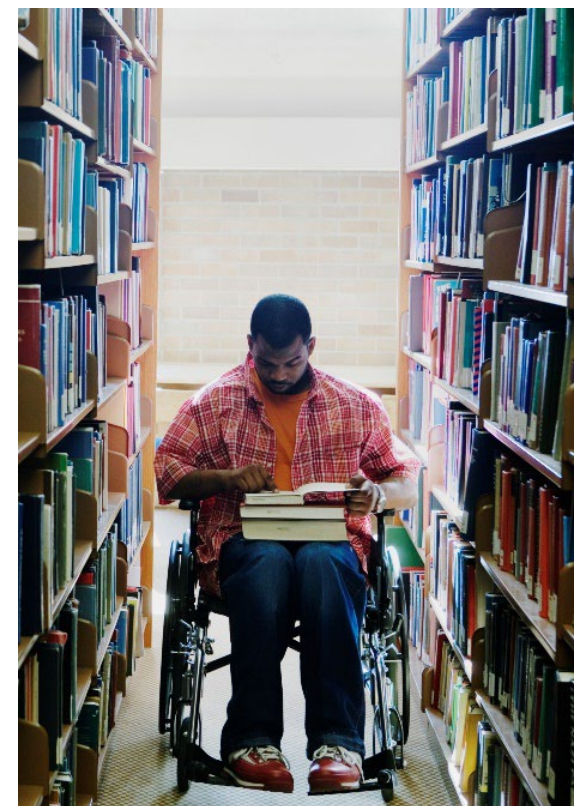
Governance

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



Improving economy, efficiency and effectiveness

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



Our commentary on the Council's arrangements in each of these three areas, is set out overleaf.

Financial sustainability



We considered how the Council:

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

2021/22 Outturn

The Council continues to have appropriate arrangements in place for budget setting and delivery. The strong processes underpinning financial management and planning has allowed the Council to consistently identify significant financial pressures and build these into short and medium term plans. Strategically the Council has recognised the need to reduce its dependency on Government revenue funding, increase Council Tax base, effectively use its assets, and increase income such as from commercial property investment and fees and charges.

Despite the challenging environment in which it operated during 2021/22 with the continued impacts of Covid-19 and increasing inflationary pressures, the Council delivered its services within the approved budget after allowing for the impact of Covid-19 and planned use of reserves. The 2021/22 Budget incorporated savings of £2.2 million which were achieved.

Key variations in outturn to budget for 2021/22 were reductions in income of £2.29m including £0.9m from car parking and £0.9m from the suspension of Green Waste collections. This reduced income was partially offset by increased income from Covid related grants of £1.1m and £0.2m increase in rent. The net effect of these variances was a £0.8m increase in expenditure compared to the original budget which was offset through the use the Council's Covid Mitigation Reserve (established for this purpose at 31 March 2021, with £1 million set aside).

Budget proposals for 2022/23 were reported to Members through various Cabinet meetings, Overview and Scrutiny Committees, Performance and Finance Panels and full Council between September 2021 and February 2022, with the final budget being approved in February 2022.

The 2022/23 Budget includes £1.8 million of planned savings (approx. 10% of net revenue spend). The Council achieved similar savings in 2021/22 and a Transformation programme has been established to deliver these savings.

Capital Programme

The capital outturn for 2021/22 was £1.8m against a budget of £4.3m. There was a £10m provision for regeneration projects. The underspend represents a deferment of expenditure and together with the £10m provision for regeneration this has been carried forward for 2022/23.

Major items of capital expenditure in 2021/22 related to local community infrastructure improvements through the use of the Community Infrastructure Levy and the Elmbridge Civic Improvement fund (£1.846m). For 2022/23 the Council intends to spend £0.5m improving its ICT infrastructure.

The Council has a Capital Strategy which limits the use of capital receipts to approximately £750,000 per annum and that the balance of capital receipts shall be not less than £5 million and held as a contingency against unforeseen capital expenditure.

The total capital receipts received in the year were £1.8m. This in the main represents monies received as a result of an agreement between the Council and the Elmbridge Housing Trust which required that a proportion of the proceeds derived from the sale of the council houses transferred to the Trust under Right to Buy arrangements would in future years be passed to Elmbridge Borough Council. The income can only be used to finance capital expenditure, or repay debt, and was therefore transferred to the Council's Capital Receipts Reserve.

Borrowing and Treasury Management

The Council has £53.6m of borrowing outstanding at 31 March 2022 (£54.7m– 31 March 2021) from the Public Works Loan Board (PWLb), with £1.1 million being repaid during 2021/22. No new borrowing was undertaken in 2021-22 however the Council may borrow £10m in 2022/23 to fund further Regeneration & Housing development proposals.

Financial sustainability

The current level of borrowing is well within the Council's approved authorised limit for external debt in 2021/22 which was £100 million. There was no significant change in cash and cash equivalents at 31 March 2022 compared with the previous year.

Medium Term Financial Strategy

The Medium Term Financial Strategy (MTFS) for 2023/24 to 2027/28 approved in February 2022 identified that the Council will need to find savings of approximately £4.5 million in order to balance the budget over the medium term. In 2018 the Council embarked on a five year programme which aimed to help address then forecast funding gap to put the Council on a sustainable financial footing. The long term aim of that programme was to achieve a balanced revenue budget with only planned use of reserves and balances at the same time as rebuilding the general fund reserves. The Council still has work to do in this respect and has formulated a new transformation programme with the aim to make the Council financially sustainable, coinciding with the development of a new vision for the borough for 2030.

The transformation programme aims to deliver substantial savings, including £1.5 million from discretionary services (community Support and Leisure Services) over the next two years. A strategic review and benchmarking exercise was undertaken by Ignite which has identified possible further opportunities to reduce net expenditure in these areas by better aligning expenditure to assessed need. This programme is discussed in more detail on page 14 of this report.

The Council plans to use a total of £2.5m reserves in the period 2023/24 to 2026/27. This assumes that the Council will achieve the necessary savings of £4.6m in the 3 years to 2025/26. So far the Council has only identified £2.1m of those required savings. The Council is committed to increasing reserves back to pre-pandemic levels by 2030 which may be a challenge given the planned use of reserves through to 31 March 2027. An improvement recommendation has been made in this respect.

The MTFS also assumes cost pressures of £6m in total. Those cost pressures are mainly inflationary pressures including energy prices and contract inflation. The Council has made prudent estimates in developing the MTFS but this will need careful monitoring throughout the life of the MTFS.

In March 2021 the general fund balance stood at £66.3m a growth in year of approximately £27m largely driven by unutilised government Covid-19 grants. As at March 2022 this balance had decreased to £55m. This £11m decrease was as a result of the utilisation of government Covid 19 grants (£7.9m) and earmarked reserves of £3.5m.

The Council undertakes sensitivity analysis for budgetary assumptions by building in various scenarios for pay awards, contract variations and energy inflation into the budgeting process. The Council models different scenarios when drafting budgets but could benefit from reporting those scenarios to members as part of the budget setting process. There is implicit reference to this analysis in the Section 151 Officer's risk statement however a clearer statement might benefit members when making budget decisions. We have made an improvement recommendation in this respect.

Conclusion

Overall, we are satisfied the Council has appropriate arrangements in place to ensure it manages risks to its financial sustainability. The Council remains financially resilient given its historical position but we do note the continued plan use of reserves. The Council also needs to deliver a challenging savings plan for the next three years with majority of that target not yet identifiable. Additionally, the proposal to build reserves back to pre-pandemic levels by 2030 is not supported by any specific plans on how this will be achieved especially when reserves are planned to be used up to March 2027. Overall, we found no evidence of significant weaknesses in the Council's arrangements achieving financial sustainability. We have identified one opportunity for improvement, set out on pages 8.

Improvement recommendations



Financial sustainability – Recommendation 1

Auditor judgement

The Council plans to use a total of £2.5m reserves in the period 2023/24 to 2026/27. This assumes that the Council will achieve the necessary savings of £4.6m in the 3 years to 2025/26. So far the Council has only identified £2.1m of those required savings and thus has not identified all necessary savings to ensure a balanced budget for the life of the current MTFS.

Additionally, the Council as part of the 2030 vision intends to rebuild reserves to pre-pandemic levels by 2030. However there is no clear plan for how this will occur and reserves drawdown is projected to be required until March 2027 leaving only a small window to achieve this aim.

Summary Recommendation

The Council needs to clearly identify how it will make the additional savings required to avoid further use of reserves to meet the funding gap identified in the latest MTFS and how it plans to meet its target of rebuilding reserves to pre-pandemic levels by 2030.

Management response

The Administration are committed to the Transformation programme and confident that the required savings will be delivered over the MTFS period. The MTFS considered by Cabinet in February 2023 already includes a planned addition to reserves.



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

Governance



We considered how the Council:

- monitors and assesses risk and gains assurance over the effective operation of internal controls, including arrangements to prevent and detect fraud
- approaches and carries out its annual budget setting process
- ensures effective processes and systems are in place to ensure budgetary control; communicate relevant, accurate and timely management information (including non-financial information); supports its statutory financial reporting; and ensures corrective action is taken where needed, including in relation to significant partnerships
- ensures it makes properly informed decisions, supported by appropriate evidence and allowing for challenge and transparency. This includes arrangements for effective challenge from those charged with governance/audit committee
- monitors and ensures appropriate standards, such as meeting legislative/regulatory requirements and standards in terms of staff and board member behaviour (such as gifts and hospitality or declaration/conflicts of interests) and where it procures and commissions services.

Leadership and committee effectiveness/decision making

The Council's decision-making processes are open and transparent, and we have no evidence that reactive or unlawful decisions have been made. Council and Cabinet are attended by the Chief Executive and relevant Directors and Assistant Directors to help provide sufficient support and explanation to the members in discharge of their function.

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

Covid-19 did impact on many organisation's ability to make decisions in line with existing delegations, however we have not identified any indication that existing Council arrangements were overridden at the expense of appropriate scrutiny and challenge.

The work of the Council's committees is governed by the Constitution which is periodically updated (last in September 2022) and is openly available on the Council's website. The Annual Governance Statement (AGS) needs to be read alongside the Council's Constitution, which sets out how the Council operates, how decisions are made and the policies which are followed to ensure that these are efficient, transparent and accountable to local people. The constitution and AGS are appropriate.

Standards and complaints

The Council's Ethics Committee is responsible for considering matters relevant to ethical governance of the Council, its members or employees. The committee comprises five councillors and four independent persons. The Ethics Committee met twice during 2021/22 to consider one investigation report into alleged breach of the members Code of Conduct. No breach was found to have occurred. A further four complaints had no further action following initial consideration by the Council's Monitoring Officer.

There were three complaints about member behaviour in 2021/22, this is comparable to previous years. Two of these were dismissed as having no foundation and one led to local action with additional training required. The Council adopted the Local Government Association (LGA) model code of conduct in June 2022. Training was provided to members on the updated code. An update to the Council's planning code of conduct is planned for May 2023.

Annual reminders are sent to members and officers regarding declarations of conflicts of interest. Some members updated their declarations following the training on the new code which gives confidence that the register is up to date. The Council's Monitoring Officer has received a number of enquiries from members asking for advice regarding declarations.

There were no significant ombudsman reports during the year. We have reviewed complaints made to the Ombudsman-against the Council which shows 10 complaints were made between 1 April 2021 and 31 March 2022 (a 100% increase from 2020-21). All 10 complaints made against the Council however were closed by the Ombudsman after initial enquiry and did not warrant further investigation.

Governance

Monitoring and assessing risk

The Council has an appropriate Risk Management Strategy which defines processes for identifying, assessing, managing and monitoring financial and operational risks. The Council's Risk Strategy is updated every year and presented to the November Audit and Standards Committee

The Council's Corporate Risk Register is reported to the Audit and Standards Committee and Cabinet. Council minutes show there is detailed discussions of risks, the causes of risk and the Council approaches to mitigate those risks and not just debate around risk scores. As at December 2021 there were 14 strategic risks identified on the strategic risk register. Two of those risks had a risk score of 20 or greater and a further 4 had a score of 15-20 which places them as high risk.

In our 2020-21 Annual Audit Report (AAR) we recommended improvements to the format of the Corporate Risk Register to include a target score to provide an indication of what level of risk is tolerable and show how far the existing arrangements are from achieving this. Furthermore, we recommended that the Corporate Risk Register would benefit from identifying future actions to support the management/mitigation of each risk. It is still not clear from the risk register what actions have been agreed to bring risk scores down or what the acceptable target risk score is. We note the Council did not accept the prior year recommendation.

Internal audit

The Internal Audit plan for 2021/22 and 2022/23 totalled 300 days per year and is resourced through a mixture of in-house staff and resource commissioned from Surrey County Council. There were 20 planned audits and the team completed 14 of the 20 by 31 March 2022 with a further two in progress. Four audits were deferred to 2022/23 as the team also completed five pre and post payment assurance work required for the government funded Covid-19 grant schemes. Of the 14 completed audits, eight were rated as substantial assurance and six were rated reasonable assurance. The Head of Internal Audit was able to provide the Annual Assurance to the Audit and Procurement Committee on 28 June 2022 with an overall internal audit opinion of 'substantial assurance'.

Internal audit services for public sector bodies are monitored by the Public Sector Internal Audit Standards (PSIAS). The last PSIAS inspection at the Council took place in 2018. The Council needs to invite PSIAS for a compliance assessment which should be completed every 5 years. An External Quality Assessment (EQA) is planned for autumn 2023. The Council self-assessed its internal audit arrangements as well as the effectiveness of the Audit and Standards Committee.

Counter Fraud and Bribery and Corruption

The Council's audit team also provide counter fraud services to the Council which includes employee fraud as well as fraud by members of the public. No whistleblowing notifications of employee fraud were received in 2021/22. The lack of whistleblowing reports is low when compared to other similar Councils. We have noted that the Counter Fraud and Whistleblowing policies are due to be refreshed in 2023 at which point further mandatory training will be rolled out. As part of a refresh of the whistleblowing policy the Council would benefit from establishing whether there are any barriers to whistleblowing such as a lack of awareness of the process or fear or reprisal. This understanding might inform policy changes and/or specific training needs. An improvement recommendation has been made in this respect.

The Council continues to participate in the Surrey Counter Fraud Partnership (SCFP), chaired by the Head of Internal Audit and Counter Fraud. The partnership recently met and considered the impact of Covid-19 on workload and the emerging fraud threats. The Council undertakes proactive and reactive counter fraud work and has an agreed fraud strategy covering all of these areas however the Council does not formulate a specific counter fraud annual plan. A specific counter fraud plan would further enhance work in this area by helping to ensure that appropriate resources are allocated to counter fraud work and to establish a means for monitoring how successful proactive work is in creating an environment where fraud is understood and countered.

Budget Setting and Monitoring

Budget managers have access to finance system and can review budgets at any time. All budget holders in the Council have a specific named service accountant that supports their specific service area. The budget holders meet with their service accountants to discuss variances to budget. Variances are highlighted and mitigation plans are created where applicable. Budgets are reviewed at every Cabinet meetings and review of minutes indicates variances are adequately identified.

Budget management arrangements are robust and we have found no areas of concern during our work.

Conclusion

Overall, we found no evidence of significant weaknesses in the Council's arrangements for ensuring that it makes informed decisions and properly manages its risks. We have identified two opportunities for improvement, set out on pages 11-12.

Improvement recommendations



Governance – Recommendation 2

Auditor judgement

The Council has a low level of whistleblowing reports. No whistleblowing notifications of employee fraud were received in 2021/22. The lack of whistleblowing reports appears low when compared to other similar Councils.

Summary Recommendation

As part of a refresh of the whistleblowing policy the Council would benefit from establishing whether there are any barriers to whistleblowing such as a lack of awareness of the process or fear or reprisal. This understanding might inform policy changes and/or specific training needs.

Management response

Noted. We have a visible and active counter fraud resource who are regularly approached for advice and support, indicating that staff and management are confident raising concerns initially without the need to resort to whistleblowing.



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

Improvement recommendations



Governance – Recommendation 3

Auditor judgement

The Council undertakes proactive and reactive counter fraud work and has an agreed fraud strategy covering all of these areas however the Council does not formulate a specific counter fraud annual plan.

Summary Recommendation

The Council should formulate an annual plan for counter fraud work. A specific counter fraud plan would further enhance work in this area by helping to ensure that appropriate resources are allocated to counter fraud work and to establish a means for monitoring how successful proactive work is in creating an environment where fraud is understood and countered.

Management response

A refreshed counter fraud strategy is due to be presented to the audit committee in July 2023. All staff and team specific awareness sessions are planned to launch the refreshed strategy and confidential reporting will be included as part of this. The Internal Audit and Counter Fraud team allocate fraud resources to need identified through a fraud risk assessment. Going forward, the Annual Audit Plan can include more detailed fraud resource allocation and planned proactive work to reflect this.



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

Improving economy, efficiency and effectiveness



We considered how the Council:

- uses financial and performance information to assess performance to identify areas for improvement
- evaluates the services it provides to assess performance and identify areas for improvement
- ensures it delivers its role within significant partnerships and engages with stakeholders it has identified, in order to assess whether it is meeting its objectives
- where it commissions or procures services assesses whether it is realising the expected benefits.

Performance review and benchmarking:

The Council has a corporate plan which outlines the Council's vision and priorities as well as providing a focus for service delivery and performance. Performance against the plan is presented quarterly to Cabinet as well as to the members of the Performance and Finance Standing Panel and to the officers Council Management Board (CMB).

Financial monitoring reports are reported separately to the same forums. The Performance report presented to Cabinet does not contain any narrative to explain reasons for underperformance or what actions are being undertaken to address these. For example: the objective to Install more electric car charging points in the borough is rated as red in the quarter 4 performance report with 0% completion. There is no explanation for how this measure has been calculated or what is being done to address the issue.

There is no clear link between performance against KPIs and corresponding financial performance. The above example would impact the budget in this area if the planned for charging points had not been installed. This is not made clear in the performance report presented to Cabinet.

There is also no link between performance and strategic risks. For example the strategic risk register contains a risk of fluctuations in the property market affecting rental income generated from the Council's property portfolio. A key control is listed as the management of void properties. There are no performance indicators relating to void properties reported to Cabinet. An improvement recommendation has been made regarding performance reporting.

The Council has recently approved a major transformation project which aims to deliver the Council's vision for 2030. So far nine projects have been agreed across four themes: Sustainable Elmbridge; Putting People First; Thriving and Resilient Elmbridge, and Opportunity. This project is a key element of the Council being able to deliver efficiency, economy and effectiveness.

The Council's current Key Performance Indicators (KPIs) have developed over time often following a specific request from an individual member. There are examples of detailed operational data which are not KPIs that helps assess overall performance of that particular service.

The Council is revising its KPI reporting to align to its new vision. In developing KPIs it will be helpful for the Council to sense check existing KPIs and consider what critical information is required for members to make effective decisions as opposed to that which might be of interest to individual members. A further improvement recommendation has been made in this respect.

There is also a transition period where progress with the transformation project will be reported separately to the Overview and Scrutiny Committee. It is therefore vital that the Council also considers how this project links in with the 'Business as Usual' KPIs and financial monitoring reports and risk reports presented to Cabinet.

We have benchmarked expenditure per head of the Council with similar councils. Areas of high spend include Community Services and Leisure. The Council has undertaken its own benchmarking through a recent report by Ignite and has identified some areas where efficiencies can be made. Those savings have been included as a key element of the Council's MTFS as reported under the Financial Sustainability section of this report on page 7.

Annual Operational Performance Clinics are undertaken for all operational teams. This notable practice involve the heads of service and service managers discussing team performance with the CMB. The discussion considers performance against service plans and also includes compliance with mandatory training requirements, staff sickness, and cost of agency workers. Remedial actions and any necessary changes to the service plan are agreed by CMB and / or cabinet. There were no significant changes to service plans arising in 2021/22.

Improving economy, efficiency and effectiveness

Individual officer personal actions plans have at least one link to a service plan KPI or objective and these form part of the annual appraisal system. There is also a link between the personal action plans and how they have been delivered in accordance with The Council's stated values. Discussions around personal development and succession planning are also included in staff appraisals.

Procurement

As we reported last year, the Council has a Procurement Strategy covering the period 2018-2023. The Council has adopted the National Procurement Strategy for Local Government in England 2018. The National Procurement Strategy also provides a toolkit for the Council to assess its progress against the themes and objectives within the strategy. There is no evidence of the Council failing to operate a fair procurement exercise for significant contracts in 2021/22.

Procurement and purchasing decisions are key to delivering value for money not just in terms of cost but also to deliver social value and meeting the Council's drive to improve local skills and growth. The contracts register show that of the 46 registered contracts all but one is Small Medium Size (SME) business friendly. This is an important aspect of the Council's social value measures of its procurement activity.

The Council will also need to prepare for the forthcoming Procurement Bill which will impact Public Contract Regulations, which in turn will impact the Council's Procurement Strategy and Contract Procedure Rules.

A new Leisure Services contract was due to commence in September 2021 however the tendering process was impacted by Covid-19. The new contract was awarded in September 2022 and is due to commence in April 2023. There was an ongoing cost to the Council of £22k per month which related to the Council agreeing a support plan with the previous contract holder in order to maintain services during the pandemic. The new contract is projected to return £1.4m to the Council over its lifetime of 10 years. These benefits arise from a profit share element to the new contract.

The new leisure services contract will be monitored through a new balanced scorecard which is being developed to consider not just financial performance but also the delivery of broader health and wellbeing benefits to residents as well as new energy efficiency measures including new boilers. The Council is working with its energy provider and utilising £3m funding from Sport England to bring in these improvements. Under the contract the service provider has also committed to £6m capital investment to improve facilities including a new spa, climbing wall and fitness studio. This should help increase revenue as well as providing additional health and well being benefits to the local community.

A Leisure Members Working Group has been established to consider the feasibility of refurbishment of Hurst Pool and any proposals for improvements will be considered as part of the Council's capital programme.

Commercial ventures

The Council has a 25% stake in a Building Control Staff Mutual company (The Mutual). It was never anticipated that the company would return a significant dividend to any of its shareholders including the Council as initially the mutual was established to maintain delivery of the Council's statutory building control duties at a reasonable price. The lack of dividend is not therefore a significant weakness. The remit of the Mutual is due to be extended with the mutual contracted to provide a similar service for a neighbouring Council from April 2023.

There are approximately four years to run on the existing contract with Elmbridge Council after which the market will again be tested to see if there are other options available.

The Council also established a wholly owned company EBC Homes Ltd in 2018. The company was originally established to manage residential properties which it leases from the Council. At the time the Council was looking to develop a number of additional sites in Elmbridge however restrictions on planning has meant those additional developments have never been taken forward and there is no realistic prospect of this happening in the near future. There are currently insufficient properties for EBC Homes Ltd to be profitable and this is likely to continue. The Council is looking to make a decision later this year as to whether EBC Homes Ltd should be dissolved and we will continue to monitor this position.

The Council generates income through an Investment Property Portfolio (IPP). The IPP contains 14 investment properties with 78 commercial leases associated. The value of those properties is just under £90m and the leases generate approximately £4m income each year, a yield of approximately 5%. This is a good rate of return on the investment. Approximately 50% of that income is generated from just five leases and two of those leases are due for renewal over the next two years. This represents a risk to the Council if there is a significant gap between leases. Members have been made fully aware of this risk and the Council holds a £0.9m rent risk reserve which helps mitigate some of this risk. The Council is also reviewing its Asset Management Strategy as part of its transformation project arising from the recommendations from the recent Ignite review.

Conclusion

Overall, we found no evidence of significant weaknesses in the Council's arrangements for improving economy, efficiency and effectiveness. We have identified one opportunities for improvement (p15).

Improvement recommendations



Improving economy, efficiency and effectiveness – Recommendation 4

Auditor judgement

The Council's current Key Performance Indicators (KPIs) have developed over time and there are examples of detailed operational data which are not KPIs that helps assess overall performance of that particular service. Conversely there is no link between KPIs reported to cabinet and key controls identified in the strategic risk register.

Summary Recommendation

The Council is revising its KPI reporting to align to its new vision. In developing those new KPIs it will be helpful for the Council to sense check existing KPIs and consider what critical information is required for members to make effective decisions and manage strategic risks.

Management response

The KPI's will be reviewed annually and new ones added and others deleted if not relevant and constantly reviewed during the year.



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

Follow-up of previous recommendations

	Recommendation	Type of recommendation	Progress to date	Addressed?	Further action?
1	Once actions are identified from the Ignite Strategic review the Council should ensure there is a clear timetable in place that sets how saving gaps are going to identified over the next three years to reduce the risk of a need to draw down reserves in excess of the levels already planned.	Improvement	The Council has developed a transformation plan with clear deliverables however not all required savings have been identified	No	A further improvement recommendation has been made [See page 8]
2	We recommend the current Workforce Strategy is updated and aligned to Council's corporate plans. This will help align the Council's strategic visions to workforce plans and allow action plans to be identifiable for tracking and monitoring.	Improvement	The Council has developed a transformation project which will consider future organisational size and structure	Yes	No
3	The Council will need to consider whether its existing strategies take into account changes in risk relating to investment properties and the differing ways of working and providing services and whether it therefore is holding the right type of operational assets.	Improvement	An Asset Management Review is planned as part of the Council's broader Transformation project.	Yes	No
4	<p>The Council should consider the following additions to the format of its Corporate Risk Register:</p> <ul style="list-style-type: none"> • Include a target score and • For each risk identify future actions to support the management/mitigation. All actions identified should be SMART (specific, measurable, achievable, realistic, and timely). 	Improvement	The Council does not intend to implement this recommendation	No	No further action. The Council did not accept the recommendation in the prior year

Opinion on the financial statements



Audit opinion on the financial statements

We gave an unqualified opinion or we qualified the opinion on the Council's financial statements on 24 March 2023.

Audit Findings Report

More detailed findings can be found in our AFR, which was published and reported to the Council's Audit Committee in November 2022.

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.

Preparation of the accounts

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

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

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 – An explanatory note on recommendations

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

Type of recommendation	Background	Raised within this report	Page reference
Statutory	Written recommendations to the Council under Section 24 (Schedule 7) of the Local Audit and Accountability Act 2014.	No	
Key	The NAO Code of Audit Practice requires that where auditors identify significant weaknesses as part of their arrangements to secure value for money they should make recommendations setting out the actions that should be taken by the Council. We have defined these recommendations as 'key recommendations'.	No	
Improvement	These recommendations, if implemented should improve the arrangements in place at the Council, but are not a result of identifying significant weaknesses in the Council's arrangements.	Yes	Pages 8-9, 12-13. 16 and 17

