

# Final Auditor's Annual Report on Cheltenham Borough Council

2021/22 and 2022/23

11 October 2024



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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 [type of body] 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 [type of body]'s arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.



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 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 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. 2020/21 was the first year that we reported our findings in this way. The NAO have issued guidance to auditors which states that a commentary covering more than one financial year can be issued where it is more efficient and effective to do so. This report provides a combined commentary on the Council's arrangements for 2021/22 and 2022/23. We note that the financial audit for 2022/23 was not complete at the time of writing this report. 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. Our findings are broadly similar to those two years ago.

Criteria	Risk assessment	2020/21 Auditor Judgment	2021/22 and 2022/23 Auditor Judgment	Direction of travel
Financial sustainability	No risks of significant weakness identified	No significant weakness in arrangements identified, but improvement recommendations made	No significant weakness in arrangements identified but improvement recommendations made.	↔
Governance	No risks of significant weakness identified	No significant weakness in arrangements identified, but improvement recommendations made	No significant weakness in arrangements identified, but improvement recommendations made	↔
Improving economy, efficiency and effectiveness	No risks of significant weakness identified	No significant weakness in arrangements identified, but improvement recommendations made	No significant weakness in arrangements identified, but improvement recommendations made	↔

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

# Executive summary (continued)



## Financial sustainability

The Council underspent against its budget in 2021/22. In preparing the budget for 2022/23, the Council took deliberate steps to reduce its dependency on income streams which had not performed as expected in the preceding years. The General Fund budget for 2022/23 planned for savings and additional income of £1,507,000 and set the ambition for making a small contribution to reserves by the end of the year of £302,000. By the end of 2022/23 however, the Council had drawn down some £2,606,898 from general balances to balance the revenue account budget. Savings of £810,000 had been delivered. For future years, a detailed look back at the previous areas of overspend and non-delivery should feed into assumptions made at the budget setting stage. Our work in respect of both 2021/22 and 2022/23 has not identified evidence of significant weaknesses in this area.

The local government sector is operating with a significant degree of financial uncertainty, with recent announcements in the government's Autumn Statement 2023, and the local government finance settlement 2024/25 being viewed by the sector, as offering limited support to reduce immediate and ongoing financial pressures. In response the Council is embarking on an ambitious programme of regeneration and with these opportunities comes greater financial risk. It is imperative that the Council keep a sharp focus on financial resilience going forward.



## Governance

The Council's governance arrangements are generally satisfactory, but the late publication of the corporate risk register in 2022/23 undermined the Council's risk management and meant that the Internal Audit plan was built without being sited on key strategic risks. There is scope for strengthening arrangements around the Audit, Compliance and Governance Committee and the Oversight and Scrutiny Committee. The Constitution is due to be updated and we note that adequate resource should be directed at this. Our work in respect of both 2021/22 and 2022/23 has not identified evidence of significant weaknesses in this area.



## Improving economy, efficiency and effectiveness

While performance information was reported to management, there was no formal reporting of performance information to members during either 2021/22 or 2022/23 to allow members to understand areas of strong and weak performance. The Council also do not use benchmarking against other similar councils to identify best practise and possible opportunities for efficiencies. The Council works with a variety of partners but at present has no partnership policy or strategy. We note that the procurement policy also needs to be updated and that there is scope for strengthening arrangements around waivers. Our work in respect of both 2021/22 and 2022/23 has not identified evidence of significant weaknesses in this area.



## Financial Statements opinion

### 2021/22

We have completed our audit of your financial statements and issued an unqualified audit opinion on 3rd October 2023, following the Audit, Compliance and Governance Committee meeting on 26 September 2023. Our findings are set out in further detail on page 31.

### 2022/23

2022/23 is our final year as your appointed auditors. Our initial planning for the 2022/23 opinion audit was significantly delayed until the completion of the 2021/22 audit. Following national guidance and discussions with the Council, we are in agreement that the 2022/23 opinion audit should be subject the proposed backstop. More information is provided on page 31.



# Executive summary (continued)



## Recent Council decisions

This 2021/22 and 2022/23 Interim Auditors Annual Report comments on arrangements in place at the Council between April 2021 and March 2023. As set out in detail on page 10 of this report, a number of subsequent decisions by the Council will have a significant impact on the future success of the Council and its ability to achieve its aspirations going forward.

These decisions include, but are not limited to:

- deciding to proceed with bringing back in the remaining outsourced services currently provided by Publica Group Ltd to give it greater control over service provision going forward;
- deciding to transfer responsibility for the management of its housing stock from an arms-length management organisation (Cheltenham Borough Housing Ltd) to an in-house team;
- The high-profile sale of the Council's share of Gloucestershire Airport;
- Leading on the development of a cyber hub involving significant levels of borrowing to fund investment along with partners; and
- The sale of the Council's main municipal office building and relocating to a more suitable facility within the town.

Given the extent and level of ambition within this programme of change, it will be vital that the Council develops sufficiently robust risk management and project management systems to support new ways of working. Whilst these initiatives offer significant potential benefits they are also, to varying degrees, innovative - which invariably come with associated risks. The effectiveness of current budget monitoring arrangements and technical skills will also need to be considered as the Council scales-up its activities. Strong organisational and leadership capacity will be required to oversee the high-profile changes planned.

# Use of auditor's powers

We bring the following matters to your attention:

	2021/22	2022/23
<p><b>Statutory recommendations</b></p> <p>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</p>	We did not issue statutory recommendations during or in respect of the year under review.	We did not issue statutory recommendations during or in respect of the year under review.
<p><b>Public Interest Report</b></p> <p>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.</p>	We did not issue a public interest report during or in respect of the year under review.	We did not issue a public interest report during or in respect of the year under review.
<p><b>Application to the Court</b></p> <p>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.</p>	We did not apply to the Court during or in respect of the year under review.	We did not apply to the Court during or in respect of the year under review.
<p><b>Advisory notice</b></p> <p>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:</p> <ul style="list-style-type: none"> <li>• is about to make or has made a decision which involves or would involve the authority incurring unlawful expenditure,</li> <li>• 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</li> <li>• is about to enter an item of account, the entry of which is unlawful.</li> </ul>	We did not issue an advisory notice during or in respect of the year under review.	We did not issue an advisory notice during or in respect of the year under review.
<p><b>Judicial review</b></p> <p>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.</p>	We did not apply for judicial review during or in respect of the year under review.	We did not apply for judicial review during or in respect of the year under 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.

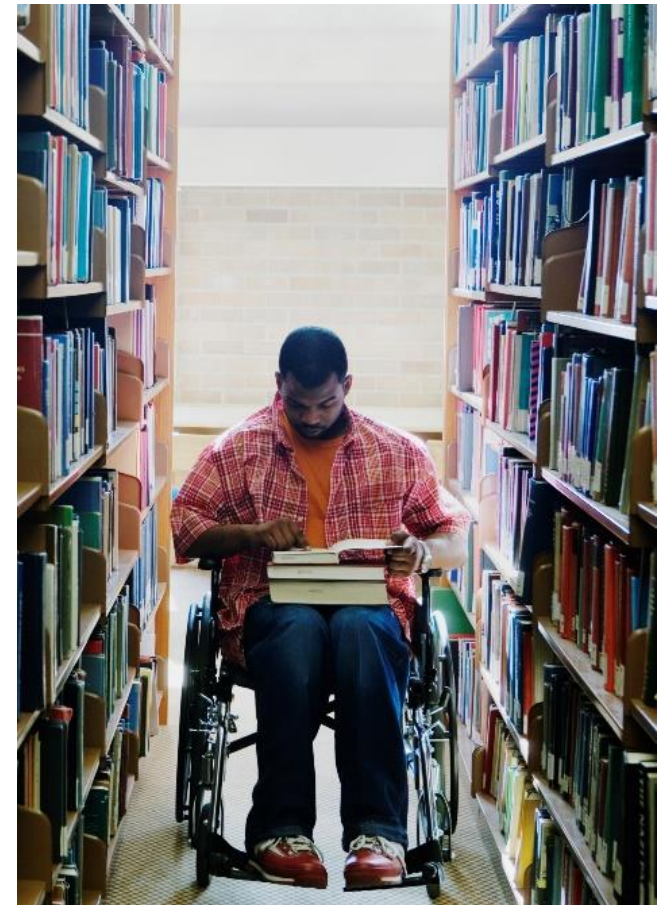


## Improving economy, efficiency and effectiveness

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 on pages 12 to 26. Further detail on how we approached our work is included in Appendix B.



# The current LG landscape



## National context

Local government in England continues to face significant challenges as a sector. These include a high level of uncertainty over future levels of government funding, alongside delays to the Government's plans for reform of the local government finance system, impacting on medium-term financial planning. This is also a time of generationally significant levels of inflation – the UK inflation rate was 7.8% in April 2022, rising to a 41-year high of 11.1% in October 2022, then reducing to 10.1% in March 2023. Inflation levels put pressure on councils' revenue and capital expenditure, as well as the associated cost of living crisis impacting on local communities and businesses, leading to an increase in demand for council services such as children with special education needs with associated transport costs, debt advice, housing needs, and mental health, as well as impacting on some areas of council income such as car parking and the collection rates of council tax, business rates and rents. This follows a significant period of funding reductions by Government (2012 to 2017) and the impacts of Brexit and the COVID-19 pandemic which, for example, have contributed to workforce shortages in a number of council service areas, as well creating supply chain fragility risks.

The local government finance settlement for 2023/24 was better than many in the sector anticipated demonstrating an understanding by Government of the financial challenges being faced by the sector. However, the Local Government Association, in July 2023, estimated that the costs to councils of delivering their services will exceed their core funding by £2bn in 2023/24 and by £900m in 2024/25. This includes underlying cost pressures that pre-date and have been increased by the pandemic, such as demographic pressures increasing the demand for services such as social care and homelessness.

Over the past decade many councils have sought to increase commercial activity as a way to generate new sources of income which has increased the nature of financial risk, as well as the need to ensure there is appropriate skills and capacity in place to manage such activities.

Local government is coming under an increased spotlight in terms of how the sector responds to these external challenges, including the Government establishing the Office for Local Government (Oflog) and there has been an increase in the number of councils who have laid a Section 114 Notice, or are commenting on the likelihood of such an action, as well as continued Government intervention at a number of councils.

There has also been an increase in the use of auditors using their statutory powers, such as public interest reporting and statutory recommendations. The use of such auditor powers typically derive from Value for Money audit work, where weaknesses in arrangements have been identified. These include:

- a failure to understand and manage the risks associated with commercial investments and council owned companies
- a failure to address and resolve relationship difficulties between senior officers and members
- significant challenges associated with financial capability and capacity
- a lack of compliance with procurement and contract management processes and procedures
- ineffective leadership and decision-making.

Value for Money audit has an important role in providing assurance and supporting improvement in the sector.



# The current LG landscape (continued)



## Local context

Cheltenham Borough Council was reformed on 1 April 1974 as part of a wider re-organisation of local government in England and is now one of six district Councils in Gloucestershire. The region covered by the Council is 47 square kilometres, with the Council providing district level services to 118,800 residents.

Cheltenham is a large spa town and borough in Gloucestershire, England, located on the edge of the Cotswolds' area of outstanding natural beauty. The town was awarded a market charter in 1226 and has been a health and holiday spa town resort since the discovery of mineral springs there in 1716. Cheltenham is also renowned for sporting and cultural events. It is the home of the flagship race of British steeplechase horse racing, the Gold Cup, the main event of the Cheltenham Festival held every March. The town hosts several festivals of culture, often featuring nationally and internationally famous contributors and attendees: Cheltenham Literature Festival, Cheltenham Jazz Festival, Cheltenham Science Festival, Cheltenham Music Festival and Cheltenham Food and Drink Festival. The head office of the British Government Communications Headquarters (GCHQ) is in Cheltenham.

The Council has 40 elected members representing 20 wards, with each ward electing two councillors. The current political makeup of the Council is 30 Liberal Democrats, 5 Conservatives, 2 People Against Bureaucracy, 2 Green and 1 non-aligned. The council has been under Liberal Democrat majority control since 2010. Elections are normally held in alternate years, with half the council (one councillor for each ward) being elected each time for a four-year term of office. Following work by the Local Government Boundary Commission for England with direct feedback from communities, Cheltenham Borough Council is set to have new boundaries for its council wards. This change requires the Council to conduct a whole borough council election in 2024. Subsequently, the council will revert to the existing system of 20 seats being up for election every two years.

During 2022/23 the Council refreshed its strategic planning and introduced a new Corporate Plan 2023-2027, which set out intended actions the Council would take to support five key priorities being:

- Enhance Cheltenham's reputation as the cyber capital of the UK;
- Working with residents, communities and businesses to help make Cheltenham net zero by 2030;
- Increasing the number of affordable homes through £180m housing investment plan;
- Ensuring residents, communities and businesses benefit from Cheltenham's future growth and prosperity; and
- Being a more modern, efficient and financially-sustainable council

The Council's Corporate Plan 2023-2027 sets an ambitious and far-reaching strategic agenda with significant flagship initiatives such as plans to make Cheltenham the cyber capital of the UK through the Golden Valley Development.

# Recent Council Decisions



## We considered the impact of recent decisions made by the Council

- bringing finance and human resource services previously provided by Publica Group Ltd back in-house between June 2021 and September 2023
- transferring responsibility for the management of housing stock and services from an arms-length management organisation to an in-house team (decision taken in October 2023. TUPE date July 2024)
- resolving to sell the Municipal Building (July 2023)
- informing the board of Gloucestershire Airport of an intention to sell the Council's 50% share (board informed in September 2023)
- agreeing to finance the National Cyber Innovation Centre to a capped cost of £95 million (agreed in September 2023).

## Recent Council Decisions

Cheltenham Borough Council has an ambitious programme of change. Finance business partnering was first bought in-house from Publica Group Ltd in June 2021. Since then, decisions during 2022/23 and (after the year-end) in September 2023, have allowed for remaining finance back-office functions and human resource functions to come back in house from Publica as well. The purpose of this change is to give the Council greater control over service provision.

The Council also decided in October 2023 to transfer responsibility for the management of its housing stock from an arms-length management organisation (Cheltenham Borough Housing Ltd) to an in-house team. By the time TUPE happens (expected date July 2024), the Council's substantive staff numbers will have risen from around 250 to around 450 i.e. nearly doubled.

It will be important that the in-housing projects are managed effectively. Other Local Authority partners are involved in transferring services out of Publica Group Ltd as well, and it will be important that all partners involved share knowledge and learning together. An effective change management programme for the transfers from Publica and Cheltenham Borough Housing Ltd will be needed to avoid disruption to services; manage risk; and secure the benefits intended from these policy decisions.

The Council has other significant projects ongoing. The Council is planning to develop a cyber hub in the Golden Valley area. The decision to fund an innovation centre for up to £95 million was made in September 2023. The impact this will have on borrowings is unclear as capital receipts of between £30,000,000 and £50,000,000 are hoped for from planned sales of other sites and properties.

One high profile planned sale is the intended disposal of the Council's 50% share in Gloucestershire Airport. An exit strategy was first considered in 2020 but the need for runway works and the impact of covid delayed any formal decision. With the runway now fully functioning and the pandemic receded, a sale is hoped for in the second half of 2024. Another high-profile change will be the planned sale of the Municipal Building.

For all these initiatives, it will be vital that the Council develops sufficiently robust risk management and project management skills to support new ways of working. The effectiveness of current budget monitoring arrangements and technical skills will also need to be considered as the Council scales-up its activities.

Strong organisational and leadership capacity will be required to oversee these high-profile changes. **(Improvement Recommendation 1, Page 11).**



# Improvement recommendation



## Governance and Improving economy, efficiency and effectiveness

**Recommendation 1** The Council should build strong organisational and leadership capacity to oversee the high-profile changes it is currently managing. This will include building risk management and project management skills; learning from partners; engaging specialist technical support; reviewing arrangements for governance, oversight and budget monitoring; and capturing financial impacts in the medium-term financial plan.

Where the changes involve bringing new staff in-house to join the existing workforce, there will be other considerations as well. Arrangements for governance and oversight over teams; performance monitoring; skills, capacity and training will need to be aligned both during the transition and, on a permanent basis, afterwards.

**Audit year** 2021/22 and 2022/23 and future years.

**Why/impact** Cheltenham Borough Council is embarking on an ambitious programme of change. It will be important that strong mechanisms for governance, oversight, and risk and project management are put in place to secure the benefit from these policy decisions.

**Auditor judgement** Our work has enabled us to identify a weakness in arrangements which we do not consider to be significant, but we have raised a recommendation to support management in making appropriate improvements.

**Summary findings** Significant changes are planned. It will be important that strong processes are in place to secure the intended benefits from these decisions.

### Management comments

CBC will continue to develop a leadership and management team that embeds the consideration of risks and measures of mitigation as part of its business-as-usual activities and within any change/transformation projects. Consideration will also be given on what further training and support colleagues need to ensure that CBC continues to strengthen an organisational culture with an understanding of risk, governance, change/transformation and financial management at its core.

Key to this approach is the development of a Project Office to oversee CBC's portfolio of change, projects and programs from concept through to delivery. Organisational & portfolio performance will be monitored to ensure our objectives are achieved and a new performance management scheme is being introduced to ensure individuals skills and capabilities are managed effectively and are appropriate for the work to be undertaken.

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

# 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.

## Outturn against budget

### 2021/22

For 2021/22, Cheltenham Borough Council underspent against its General Fund budget by £229,116 and delivered a surplus against its Housing Revenue Account budget of £985,800. A modest programme of savings had been planned for the 2021/22 General Fund (£400,000) but the Council recognised, in its Outturn Report for 2021/22, that it had taken significant grant income and income compensation from central government through the pandemic to support the overall positive outturn achieved. We note that the support received during the pandemic was similar to that received by other Councils.

### 2022/23

In preparing the budget for 2022/23, the Council took deliberate steps to reduce its dependency on income streams which had not performed as expected through the pandemic. The General Fund budget for 2022/23 planned for savings and additional income of £1,507,000 and set the ambition for making a small contribution to reserves by the end of the year of £302,000.

By the end of 2022/23 however, far from contributing to reserves, the Council had in fact drawn down some £2,606,898 from general balances to balance the revenue account budget. The s151 officer had also revised the assessment of what the minimum general balance should be (restated to £3,256,000). Key variances on the revenue account that the increased minimum general balance was assessed as needing to cover surrounded not only pay awards, inflation and rising energy costs, but also continued falling customer demand for the Council's commercial services.

For the planned savings and additional income of £1,507,000, just some £810,000 was delivered. To mitigate the impact on reserves, a

£1,889,000 legal claim receipt was ringfenced to general balances during the year.

A more positive observation for 2022/23 is that the Housing Revenue Account continued to generate a surplus of £790,200. Nevertheless, difficulties with the General Fund revenue budget look set to continue in 2023/24.

The Council has savings and additional income plans in place for 2023/24 of £1,300,000 but by December 2023, some £353,000 of these were RAG rated RED. By February 2024, an overall overspend of £520,000 was being forecast for the year.

A recent LGA Peer Review highlighted the need for the Council to ensure there is discipline over savings and to build accountability. For future years, a detailed look back at the previous areas of overspend and non-delivery should feed into assumptions made at the budget setting stage (**Improvement Recommendation 2, Page 16**).

## Capital Programme

The Council's approach to the capital programme aligns with its approach to budget planning. The Council's capital programme budget and outturn reports are presented to Cabinet alongside General Fund revenue account budgets and outturn reports. The costs of financing the capital programme are reflected within the General Fund revenue account budget.

### 2021/22

For 2021/22, the Council budgeted for capital spend of £13,066,585 but saw a 36% negative variance – with final capital outturn being £8,184,414. The highest value individual areas of variance in 2021/22 surrounded runway repairs at Gloucester Airport; works on the Minister Innovation Exchange; and delayed spend on replacement waste vehicles with Ubico Ltd.

### 2022/23

For 2022/23, the Council budgeted for capital spend of £14,475,721 and saw a smaller 21% negative variance – with final capital outturn recorded

# Financial sustainability (continued)

as £11,417,721. Replacement vehicles and Minister Innovation Exchange works continued to be amongst the highest areas of negative variance. However, the long-term direction of travel for the capital programme appears to be positive. For 2023/24, capital spend of £13,904,000 has been planned. Data in December 2023 indicated that the capital programme remained broadly on track to achieve that spend in 2023/24.

## Investment Properties

Cheltenham Borough Council holds high value commercial investment properties (31 March 2023: £65,268,000). The annual s25 Assurance Statement and the s151 officer's annual calculation of minimum prudent general balances to hold takes the risk of volatility on commercial income from investment properties into account. Our Auditor's Annual Report for 2020/21 recommended that the Council share with Cabinet a detailed analysis of outcomes against financial and performance objectives for investment properties as part of year end outturn reporting. The Council has since adopted a new Asset Management Strategy which allows for oversight of performance of investment properties by a new asset management working group. This is an officer led group chaired by the Head of Property, Finance and Assets. The Council also now plans to add additional information on investment property performance to budget reports.

## Medium Term Financial Strategy

### 2021/22 and 2022/23

The Council prepares a four-year medium-term financial strategy annually, projecting its budget requirements for the next four years. During the years that we report on (2021/22 and 2022/23), the gaps that the Council was forecasting in its four-year projections grew bigger every year.

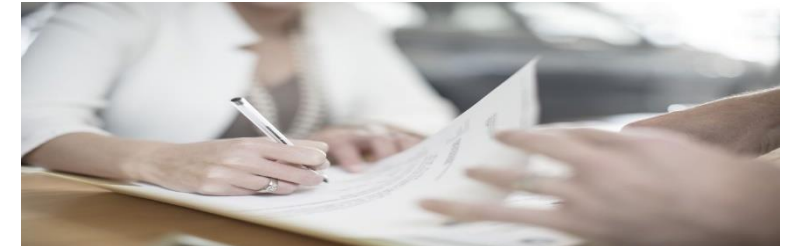
Medium Term Financial Strategy	Years of Forecast Budget Gap	Forecast budget gap £ million
2021/22 to 2024/25	2022/23 to 2024/25	3.082
2022/23 to 2025/26	2023/24 to 2025/26	3.532
2023/24 to 2026/27	2024/25 to 2026/27	5.130

### 2024

Despite the growing gap during the years we report on, by the time of writing this report (February 2024), the Council's latest medium-term estimates were that the budget gap would shortly begin to fall again. For 2024/25 to 2028/29, the Council has forecast that the gap will have fallen back to just £3,091,000. Factors driving the Council's estimate include an expected £850,000 growth in the Council Tax base for 2026/27; some £600,000 growth in Business Rates through the National Cyber Innovation Centre from 2027/28 onwards; and a £700,000 planned review of primary and secondary contributions to the pension scheme in 2026/27.

We note that the success of the National Cyber Innovation Centre and of housebuilding developments around it are critical to the Council's estimate around the reducing medium term financial gap. Strong risk management and project management will be essential if this success is to be achieved.

We also note that the local government sector is operating with a significant degree of financial uncertainty at a national level. Central government support to reduce immediate and ongoing financial pressures has been limited. The Council's ambitious programmes for change will bring opportunities in the medium term but they will also bring increased financial risk. It will be imperative that the Council keeps a sharp focus on financial resilience throughout the medium term.



# Financial sustainability (continued)

## Reserves

### 2021/22 and 2022/23

At the start of every year, the s151 Officer uses a risk-based approach to calculate the minimum level of general balances that Cheltenham Borough Council needs to hold. For both 2021/22 and 2022/23, actual general balances held by the Council at the end of the year had fallen below the level calculated as required. Taking the general fund and earmarked reserves together, we also note that total balances were declining year on year as well. This could potentially have made the Council's situation precarious. We note that the proposed budget for 2024/25 now includes a planned increase to general balances of some £600,000 to safeguard the Council from further shocks.

### 2024

Within the Medium-Term Financial Strategy for 2024/25 to 2028/29, the Council set out an ambition to return general balances to £1,663,034 by the end of 2024/25. The Council assessed that this would require savings of £2,741,000 to be delivered during the year – with 80% of that amount the minimum savings necessary to achieve. Whereas in previous years, sensitivity analysis or scenario modelling was not disclosed within the medium-term financial strategy, for 2024/25, the Council did include sensitivity analysis not only for savings and additional income performance but for possible changes in interest rates as well. Given the risks the Council faces and the scale of its planned changes, this was a welcome enhancement to transparency.

With savings having under-delivered in both 2022/23 and 2023/24 and with assumptions around the medium-term financial strategy depending heavily on the success of the National Cyber Innovation Centre and housebuilding/ population growth, it will be important that the Council stays focused on financial performance through the year 2024/25. Sharing sensitivity analysis is an important step towards achieving the accountability that the Council's LGA Peer Review recommended. Maintaining momentum around that will now be essential (**Improvement Recommendation 2, Page 16**).

Overall, in terms of financial resilience our work in respect of both 2021/22 and 2022/23 has not identified evidence of significant weaknesses in arrangements.

Minimum General Balance	Requirements at the start of the year £ million	Held at the end of the year £ million
2021-22	1.708	1.382
2022-23	1.486	1.398

Medium Term Financial Strategy	General Fund and earmarked reserves £ million
31 March 2022	12.126
31 March 2023	5.460
31 March 2024 (forecast)	4.796

	Target general balance 31 March 2025 £ million	Target savings 2024/25 (80% minimum) £ million	Forecast four-year budget gap to 2028/29 £million
Medium Term Financial Strategy 2024/25 to 2028/29	1.663	2.741	3.091

# Financial sustainability (continued) and Financial Governance

## Treasury Management

### 2021/22 and 2022/23

The Council's approach to treasury management aligns with its approach to budget planning. The Council sets a treasury management strategy annually as part of the budget setting process. The Council's treasury management activities are supported by external consultants. Treasury management outturn is reported annually to Cabinet.

The Council's strategy for treasury is to maintain borrowing and investments below their underlying levels (internal borrowing) to reduce risk and keep interest costs low. Short- and long-term borrowings held by the Council were very high in value in both 2021/22 and 2022/23. However, as we have seen, the Council also holds material investment properties and other investments. Overall, the Council's asset to debt ratio was strong in both 2021/22 (0.44) and 2022/23 (0.45).

Our understanding is that until February 2024, around £55 million of the Council's borrowings were not on fixed rates of interest – in part because the medium-term intention is to sell some of the land and buildings it finances. The Council fixed the interest rate for some £20 million of that borrowing in February 2024.

Minimum General Balance	Short Term Borrowing £ million	Long Term Borrowing £ million
31 March 2022	57.657	118.417
31 March 2023	65.195	114.931

## Alignment of financial and other corporate plans.

The Council's financial plans are aligned to the expectations set out in its other strategic plans. For both 2021/22 and 2022/23, the budgets included allocations for planned carbon neutral initiatives; housebuilding programmes; economic development initiatives; and new apprenticeships.

At the time of writing this report, the Council had no formal Workforce Strategy in place but the budgets for both 2021/22 and 2022/23 did factor in pay policies.

The Council created a small in-house human resources team in September 2023. At least 200 additional staff are expected to join the Council workforce when Cheltenham Borough Homes Ltd functions move back in house. We note recent budget reports identify 'vacant post' savings (variances) of £492,000. The majority of these vacancies are in the newly established Major Developments team (£204,000), with some planning vacancies filled by agency staff (£181,000) and the Director of Communities and Place who left the organisation in September 2023.

As the workforce expands again, careful planning will be required to avoid further variances. The Council should consider developing a formal workforce strategy (**Improvement Recommendation 3, Page 17**).

## Budget setting, monitoring and oversight

With the exception of observations already made around the need to strengthen sensitivity analysis and scenario testing, Cheltenham Borough Council had effective processes in place for setting and monitoring the budget in 2021/22 and 2022/23. Variances are regularly monitored by the Executive Leadership Team in liaison with directors, cost centre managers, the lead member for Finance and Assets and the wider Cabinet. Our Auditor's Annual Report for 2020/21 made four Improvement Recommendations around budgeting but we have no issues to report in respect of 2021/22 and 2022/23.

We note that separate project and budget monitoring may be required in future years as major projects progress.

# Improvement recommendation



## Financial sustainability

### Recommendation 2

Savings and additional income plans: For future years, a detailed look back at the previous areas of overspend and non-delivery should feed into assumptions made at the budget setting stage. Sensitivity analysis, both during budget setting and refreshed during the year, will be important for remaining mindful of the impact that any shortfall in savings plans could have.

### Audit year

2021/22 and 2022/23 and future years

### Why/impact

Savings and additional income plans under-delivered in 2021/22 and 2022/23. For 2024/25, Cheltenham Borough Council is relying on planned savings of £2,741,000 (80% achievement) to re-build its general balance. A recent LGA Peer Review noted the need for greater discipline and accountability over savings.

### Auditor judgement

Our work has enabled us to identify a weakness in arrangements which we do not consider to be significant but we have raised a recommendation to support management in making appropriate improvements.

### Summary findings

Discipline over savings plans will be necessary to re-build the general balance.

### Management Comments

Savings programme established with savings identified in October 2023. This has been refreshed as part of the 2024/25 budget setting process in light of key decisions taken since the Autumn. Service managers have completed individual plans on how savings will be made. This was completed in July - October 2023 and used discretionary spend as a starting point. Leadership team and the Cabinet have been updated on the current position and have fed into the savings programme for 2024/25. In particular, Cabinet Report developed, presented and agreed in October 2023 on the future of housing services with an estimated £2m savings target identified across the general fund and HRA.

Work is ongoing to ensure that there is collective accountability across the organisation for budget and savings decisions. Where work has been successful in identifying savings, some have not been seen through to achievement and in some budget areas we are reporting overspends against base budgets which need to be owned and managed by service areas.



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



# Improvement recommendation



## Financial sustainability

<b>Recommendation 3</b>	The Council should consider developing a formal workforce strategy.
<b>Audit year</b>	2021/22 and 2022/23 and future years
<b>Why/impact</b>	At least 200 additional staff are expected to join the Council workforce when Cheltenham Borough Homes Ltd services move back in house. Careful planning will be required to avoid variances.
<b>Auditor judgement</b>	Our work has enabled us to identify a weakness in arrangements which we do not consider to be significant, but we have raised a recommendation to support management in making appropriate improvements.
<b>Summary findings</b>	Scope for strengthening workforce planning arrangements for better alignment with the budget.
<b>Management Comments</b>	Once the transfer of Cheltenham Borough Homes (CBH) employees has been undertaken and we have a stable HR operation, work will be undertaken on a longer term sustainable workforce strategy to meet future needs.



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.

## Risk management

There were weaknesses within arrangements for risk management in 2021/22 and 2022/23.

Our Auditor's Annual Report for 2020/21 recommended that the corporate risk register should be reviewed by members in a formal meeting, such as Cabinet or Audit, Compliance and Governance Committee on a regular basis throughout the year.

The Council's corporate risk register was not, however, reported to the Cabinet or any other Committee of the Council for the whole of 2021/22 and 2022/23. This undermined the Executive Leadership Team's accountability to Cabinet and Cabinet's ultimate accountability for the effectiveness of the Council's arrangements for managing risk.

The corporate risk register for 2022/23 was only shared with the Audit, Compliance and Governance Committee in September 2023. This meant that the Internal Audit team was unable to develop their Annual Audit Plan in a way that focused on the Council's key strategic risks.

As it stands, the corporate risk register does not include sufficient detail on how risks are assessed and mitigated. There is no 'Red, Amber, Green' (RAG) rating and there is little detail on the mitigations the Council has in place to reduce risk. On Page 29 of this report, we conclude that our recommendation from 2020/21 has been partially addressed (in that a copy of the register has now been shared with Committee) but that there is still work to do.

Given the scale of change the Council is planning, the Council should review its Risk Management Policy as well as the corporate risk register, to ensure that all corporate risks associated with new projects are captured on the register. Going forward, the register should be reviewed quarterly; RAG rated; have sufficiently senior risk owners named; and include details of mitigations.

Thinking more widely about risk management, we note the importance of an effective challenge function. Cheltenham Borough Council's Audit, Compliance and Governance Committee did not include an independent member during 2022/23 and 2023/24. We also note that the Internal Audit opinion fell in 2022/23 to 'Low Reasonable' which is lower than the 2021/22 'Low Substantial'. The decline was mainly because of issues relating to project management. This suggests the Council may lack critical skills to manage projects. **Improvement Recommendation 1 on Page 11** of this report notes that the Council needs to be mindful of risk management and project management as it undertakes change.

The Head of Internal Audit has noted that the internal audit service is not involved in any decisions likely to give rise to corporate risk. With the scale of changes planned, we recommend that the Council conducts a self-assessment exercise, in line with the Chartered Institute of Public Finance and Accounting (CIPFA), which will enable the Audit, Compliance and Governance Committee to evaluate its effectiveness and identify areas for improvement. We also recommend that the Council recruits at least two independent members of the Audit, Compliance and Governance Committee. **(Improvement Recommendation 4, Page 20).**

# Governance (continued)

## Internal Audit and Prevention and Detection of Fraud

The Council's Internal Audit service is provided by South-West Audit Partnership, a not-for-profit organisation wholly owned by 22 public sector partners. As previously noted, the Internal Audit Plan for 2022/23 was built without site of the corporate risk register. As arrangements around the corporate risk register improve, this is likely to change.

The Council has a shared service agreement with Forest of Dean District Council, West Oxfordshire District Council, Tewkesbury Borough Council, Cheltenham Borough Council and Publica Group Ltd, to operate a Counter Fraud and Enforcement Unit. The Unit investigates allegations of internal and external fraud and conducts proactive campaigns and interventions to minimise fraud, bribery and corruption. We have no observations to make in respect of the counter fraud function.

## Decision-making

Recent high profile Council decisions and the heightened focus on risk, project management and partnerships that they require have been highlighted on Page 10 of this report. We note that the Council has other ongoing complex infrastructure projects around the Reddings Housing Estate and Junction 10 of the M25 as well.

From our review of Committee meeting minutes, the Council's arrangements to ensure effective decision-making in 2021/22 and 2022/23 were generally robust. The Constitution and Annual Governance Statement set out how decisions are made, and the Council's governance processes are reviewed regularly.

An LGA Peer Review in July 2023 reported that member to member relationships are positive although it also highlighted scope for strengthening member induction arrangements and refreshing scrutiny training, to give Members confidence to add value and constructive challenge.

The Council has an Overview and Scrutiny Committee which meets regularly (9 times in 2021/22 and 8 times in 2022/23) to scrutinise decisions the Executive Leadership Team and Cabinet are planning to take, those they plan to implement, and those that have already been taken or implemented. From our review of papers, we noted that the Overview and Scrutiny Committee does not have a Forward Plan mirroring that of the Cabinet and does not make full use of its pre and post call in powers. This could undermine its ability to challenge the Cabinet (**Improvement Recommendation 5, Page 21**).

## Compliance and the Constitution

The Council's constitution requires revision and updating. A Constitution Working Group has been established, led by the Monitoring Officer. However, this is a complex and time-consuming task, and the Monitoring officer is only able to devote half of her working week to the Council, as her role is shared with another council.

We make an Improvement Recommendation that the Council should review and revise the Constitution to ensure it is fit for purpose and reflects current governance arrangements. The Council should obtain specialist advice and support to ensure that the Constitution is revised and updated in a timely way (**Improvement Recommendation 6, Page 22**).

We note that the statutory audit and accounts process was not complete at the time of writing this report (February 2024).

Overall, in respect of governance, our work in respect of both 2021/22 and 2022/23 has not identified evidence of significant weaknesses in arrangements.

## Examples of recent high-profile decisions

- bringing finance and human resource services previously provided by Publica back in-house between June 2021 and September 2023
- transferring responsibility for the management of housing stock and services from an Arms-Length Management Organisation to an in-house team (decision taken in October 2023. TUPE date July 2024)
- resolving to sell the Municipal Building (July 2023)
- informing the board of Gloucestershire Airport of an intention to sell the Council's 50% share (board informed in September 2023)
- agreeing to finance the National Cyber Innovation Centre to a capped cost of £95 million (agreed in September 2023).

## Other high-profile infrastructure projects ongoing

- Reddings housing development
- Junction 10 of the M25

# Improvement recommendation



## Governance

### Recommendation 4

The Audit, Compliance and Governance Committee is effective. The Council should ensure its continued effectiveness by conducting a self-assessment exercise, in line with the Chartered Institute of Public Finance and Accounting's (CIPFA) methodology, which will enable the Committee to evaluate its effectiveness and identify areas for improvement and any unmet training needs. We also recommend that the Council recruits at least two appropriately qualified, independent members of the Committee.

### Audit year

2021/22 and 2022/23 and future years

### Why/impact

Our work has enabled us to identify a weakness in arrangements which we do not consider to be significant, but we have raised a recommendation to support management in making appropriate improvements.

### Auditor judgement

The Audit, Compliance and Governance Committee is effective. It could safeguard its current effectiveness by a self-assessment exercise; the provision of any necessary training; and the recruitment of two independent members.

### Summary findings

For the Audit, Compliance and Governance Committee, the Council should consider a self-assessment exercise; the provision of any necessary training; and the recruitment of two independent members.

### Management Comments

Working with our internal auditor (South West Audit Partnership), Cheltenham Borough Council have now started a review of the effectiveness of the committee. This will include consideration as to whether the Council wishes to appoint independent members.



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

# Improvement recommendation



## Governance

### Recommendation 5

The Council should take a more strategic approach to the work of the Overview and Scrutiny Committee (OSC), including developing an OSC Forward Plan which aligns with the Cabinet's Forward Plan. The Committee should also make full use of its pre- and post-decision call-in powers to strengthen its ability to act as critical friend to the Cabinet.

### Audit year

2021/22 and 2022/23 and future years

### Why/impact

The OSC performs an essential function by holding the Cabinet to account and acting as a critical friend to improve the quality of decision-making in the Council. The Committee's powers to call-in decisions for detailed review, both before and after they are made, provides a vital safeguard against poor decision-making.

### Auditor judgement

Our work has enabled us to identify a weakness in arrangements which we do not consider to be significant, but we have raised a recommendation to support management in making appropriate improvements.

### Summary findings

The OSC does not perform its function of holding the Cabinet to account as well as it could because it does not have a Forward Plan that mirrors that of the Cabinet, which undermines its ability to challenge the Cabinet. There is evidence that it does not make the best use of its call-in powers.

### Management Comments

Since the Audit, OSC have exercised their power of call-in demonstrating the vital role that scrutiny plays in our decision making processes. Whilst the OSC do have a work plan and do review the Executive forward plan, it is acknowledged that forward plans are not aligned. A review of the OSC work plan will take place following the Council elections in May 2024.



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

# Improvement recommendation



## Governance

### Recommendation 6

The Council should review and revise its Constitution to ensure it is fit for purpose and reflects current governance arrangements. The Council should obtain specialist advice and support to ensure that the Constitution is revised and updated in a timely way.

### Audit year

2021/22 and 2022/23 and future years

### Why/impact

The Council's Constitution provides a key part of the legal and governance framework within which it operates. The Constitution also sets standards for members and officers and regulates the way in which the Council manages its business. There is no evidence of significant non-compliance with the Constitution and arrangements are satisfactory. However, the Constitution requires significant revision and updating. A Constitution Working Group has been established, led by the Monitoring Officer. However, there is evidence of a lack of capacity to complete what is a complex and time-consuming task in a timely way.

### Auditor judgement

Our work has enabled us to identify a weakness in arrangements which we do not consider to be significant, but we have raised a recommendation to support management in making appropriate improvements.

### Summary findings

Constitution requires updating and appropriate resource mix will be important.

### Management Comments

As acknowledged in the report a constitution working group has been set up, led by the Monitoring Officer, and a significant amount of work on updating the constitution has now been undertaken, including a complete review of appendices, updates to the scheme of delegation, revised financial procedure rules and the introduction of a council budget meeting protocol. Work is also progressing on moving the document into a format which is gender neutral and accessibility compliant. Work continues, at pace, on the review and revision and we are satisfied with the progress being made.



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.

## Managing Performance and Benchmarking

Our Auditor's Annual Report for 2020/21 recommended that the Council develop its performance management systems; introduce benchmarking; and adopt a data quality policy.

At the time of writing this report (February 2024), the Council had no performance management policy in place, although it was developing a performance framework which will be introduced later in 2024 and supported by training throughout the Council.

At present, quarterly performance reports are presented to the internal leadership team (Chief Executive, s151, deputy s151, executive directors, Monitoring Officer and Head of Performance, Projects and Risk). Individual programmes and projects also have their own targets and performance expectations and are reported via the programme/project boards as required. However, corporate key performance indicator data was not formally shared with Cabinet or the Overview and Scrutiny Committee or any other Committee during 2021/22 or 2022/23.

Our understanding is that work to develop a system for reporting against targets was delayed by a system provider ceasing to trade. Arrangements for benchmarking performance against other Councils have not yet been introduced.

The Council adopted a data quality policy in May 2023. However, while the Council seeks to replace the system provider that stopped trading, it is currently using spreadsheets for monitoring performance. A business case for a new performance monitoring system was presented to the leadership in October 2023.

On Page 30 of this report, we conclude that although the recommended data quality policy has been adopted, work is still

required to implement the performance management and benchmarking improvement recommendations we made in respect of 2020/21.

We note that we have seen no significant deterioration in substantive performance in the last two years. Whilst there is scope for improving the systems for monitoring performance, this report does not include observations on the performance itself.

## Partnerships

The Council considers its subsidiaries and shared services to be its key partners. However, we note that some services with two major partners (Publica Group Ltd – Finance and Human Resources; and Cheltenham Borough Homes Ltd – housing management services) are in the process of being brought in house. We have already highlighted in Improvement Recommendation 1 the importance of bringing learning and knowledge over from partners at the same time as staff and functions.

Other significant services that remain with external partners through the current period of change include operational commissioning (still with Publica Group Ltd); house building (with Cheltenham Borough Home Services Ltd); leisure (with the Cheltenham Trust); internal audit and counter fraud (with the South-West Audit Partnership and the shared Counter Fraud Audit Unit); and environmental services (with Ubico Ltd).

The Council has a significant Net Zero agenda and a population that is expected to grow by up to 5,300 households between now and 2029. Decisions made about commissioning from Ubico in the coming years are likely to be critical both to future savings plans

# Improving economy, efficiency and effectiveness (continued)

and to the Council's ability to reach net zero targets. We note that the Council's recent LGA Peer Review recommended that it refine its measures of what good looks like for net zero programmes. The Council has a good working relationship with Ubico and arrangements for annually reviewing Ubico's business plans and performance, which will be important.

As the council progresses work with the National Cyber Innovation Centre and associated housing developments around it, new commercial partners are likely to become more important as well. The Council does not at present have a partnership policy or register of its key partners. The Council is in the process of identifying how key partners contribute to corporate objectives as they develop performance management. The Council should consider adopting a new partnership strategy and register (**Improvement Recommendation 7, Page 25**).

## Procurement and Contract Management

Our Auditor's Annual Report for 2020/21 recommended that the Council address skills and capacity weaknesses within its procurement service, including ensuring it has a current and relevant procurement policy. The Council's operational procurement support is provided by Publica Group Ltd but at the time of writing this report (February 2024), the Council had still not updated its Procurement Policy (last updated: 2015).

We note that there were a relatively high number of waivers in 2021/22, and some in 2022/23. Although all were authorised by appropriate budget holders (and, where necessary, the s151 officer) and had reasons provided, we saw no evidence of them having been reported to Committees. Furthermore, nine out of the 23 waivers in 2021/22 were described as needed for "urgent works" and 3/10 of the waivers in 2022/23 were described in the same way (urgent works).

The Council should review and revise contract management arrangements around renewals and waivers to ensure that appropriate lead times reduce the instances of urgency. Where waivers do occur, they should be reported to the Audit, Compliance and Governance Committee to allow oversight over compliance with legal requirements. With new procurement legislation having recently been introduced, this is important. (**Improvement Recommendation 8, Page 26**).

Our work in respect of improving economy, efficiency and effectiveness for both 2021/22 and 2022/23 has not identified evidence of significant weaknesses in arrangements.



## Procurement and Contract Management

In 2021, Local Government spent more than £71 billion on purchasing goods and services for England in one year - nearly one third of all English public sector revenue purchasing. Most Local Authorities have well established central functions supporting their initial procurements, but contracts can span decades and it can be after the procurement is complete that best value is sometimes delivered.

Contract management is often devolved to service lines. This works well with the right support, but risks increase if roles and responsibilities of service line contract managers are not clear; technical knowledge is not kept up to date for the whole life of a contract; and performance indicators within the contract are either unclear or not rigorously monitored.

Sometimes it can be very simple steps that help protect value. Most Local Authorities set up contract registers, but vigilance is needed in keeping these up to date. Planning future procurements effectively relies on knowing current contracts well. This means having the resources in place to register, monitor and record current progress over the whole life of contracts, not just at the beginning.



# Improvement recommendation



Improving economy, efficiency and effectiveness

## Recommendation 7

The Council should develop and approve a partnership strategy and partnership register which includes:

- A central record of Council's partnership activity, including partnership governance arrangements.
- An assessment of partnership risks and subsequent mitigations through the inclusion of a partnership risk register.
- Best practice information for officers in respect of partnership management.

## Audit year

2021/22 and 2022/23 and future years

## Why/impact

The introduction of a partnership strategy and register would help ensure partnership working is considered in decision-making processes, help support partnership management within the Council, enhance transparency of partnership arrangements, and further strengthen the Council's wider governance arrangements.

## Auditor judgement

Our work has enabled us to identify a weakness in arrangements which we do not consider to be significant, but we have raised a recommendation to support management in making appropriate improvements.

## Summary findings

The Council does not have a partnership policy or a register of its key partners. The Council is in the process of identifying how key partners contribute to corporate objectives as they develop performance management.

## Management Comments

The Council recently appointed a full time Director with responsibility for Governance who also acts as the Council's Monitoring Officer, as such partnership governance arrangements and activity will be overseen and coordinated through this postholder.

Partnership risks are currently captured on CBC's corporate risk register but these could be categorised and pulled out for a separate register in the future. Different partners require a differing approach from the client managers but we can consider incorporating some suitable training on the best approach as long it is specific to that partner.



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

# Improvement recommendation



## Improving economy, efficiency and effectiveness

### Recommendation 8

Consideration should be given to reporting waivers to an appropriate committee on at least an annual basis.

The report should include the number of waivers compared to recent years, the services procured and the reason why the waiver was approved.

### Audit year

2021/22 and 2022/23 and future years

### Why/impact

Reporting waivers to members will ensure there is adequate accountability and transparency. Frequent use of “urgency” reasons suggest insufficient lead times allowed for effective contract renewal.

### Auditor judgement

Our work has enabled us to identify a weakness in arrangements which we do not consider to be significant, but we have raised a recommendation to support management in making appropriate improvements.

### Summary findings

23 waivers were issued in 2021/22 and 10 in 2022/23. All were appropriately authorised and included full descriptions of services required and reasons for the waiver. No evidence that these waivers are overseen by members. Urgency was often cited as a reason for waiver.

### Management Comments

All waivers that are authorised on the grounds of ‘urgency’ are reported to the next available Cabinet meeting, and all contracts are published by way of a formal decision notice.

The Council will review the mechanisms available through our new performance management software to capture the number of waivers compared to recent years, the services procured and the reason why the waiver was approved. Once agreed the Council will determine which committee this information should be formally reported to.



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

# Follow-up of previous recommendations

Recommendation	Type of recommendation	Date raised	Progress to date	Addressed?	Further action?
1 The Council should consider whether there would be benefit in producing and publishing budget books as a single accessible source of detailed budget information for Members, officers and the public.	Improvement	December 2021	The Council confirmed its ERP system provides real time information on budgets and Members regularly interrogate this information, particularly the Lead Cabinet Members who review the financial information for their portfolio.	Yes	No
2 MRP, interest payable, interest income, and income and expenditure from investment properties should be reported separately to Members on revenue budget summaries.	Improvement	December 2021	The Council confirmed that MRP is subject to a separate policy and is reported annually to Full Council through the budget setting process. With the launch of the revised Asset Management Strategy, the Council reports the performance of the investment property portfolio to the asset management working group. The Treasury Management Panel also exists to review the interest income and expenditure. This is reviewed and recommendations are made bi-annually to Full Council.	Yes	No
3 A more detailed analysis of outcomes against financial and performance objectives for investment properties should be provided during the year and as part of outturn reporting to Cabinet.	Improvement	December 2021	The Council has since adopted a new Asset Management Strategy which allows for oversight of performance of investment properties by a new asset management working group. This is an officer led group chaired by the Head of Property, Finance and Assets. The Council also now plans to add additional information on investment property performance to budget reports.	Yes	No

# Follow-up of previous recommendations

Recommendation	Type of recommendation	Date raised	Progress to date	Addressed?	Further action?
4 The Council should ensure that estimates of council tax growth reflect local factors and are achievable in the context of the significant additional tax base growth already factored into the MTFS for West and NW Cheltenham and North Place. The Council should also consider potential corresponding additional service costs where significant increases in income from housing is forecast.	Improvement	December 2021	The Council confirmed to us that extensive modelling has been undertaken for West and North-West Cheltenham and factored into the medium-term financial strategy. The new rounds of waste and recycling collections launched in 2017 included capacity for approximately 5000 new homes during the next seven years. The models run since then in 2020 have included property growth of up to 5,300 up until 2029 assuming no boundary changes which would result in CBC taking in more properties. The Ubico fleet currently has capacity to deal with the housing growth planning between now and the service change in 2024/25.	Yes	No
5 The Council should introduce standard budget monitoring templates for both general fund and HRA capital programmes which include original and revised budget, spend to date and slippage, supported by reasons for variances.	Improvement	December 2021	The Council confirmed that the resource available to support the Council's capital programme monitoring was reviewed with the purpose of increasing the scrutiny and reporting of spend against plans. We have no further observations to make.	Yes	No
6 The Council should review its business continuity plans to understand why they were not referred to or applied during the pandemic. Following this review the business continuity plans should be refreshed for the lessons learnt during the pandemic and training provided as necessary.	Improvement	December 2021	Management confirmed that business continuity arrangements were established with the creation of a tactical group, which had an agenda and objectives. Business continuity actions were communicated in writing to all service areas. Due to the unique challenge of the pandemic there needed to be a degree of 'dynamic' business continuity response. Services were maintained and supported by a health and safety working group. The Council won Silver in a national award for its Covid-19 response.	Yes	No

# Follow-up of previous recommendations

Recommendation	Type of recommendation	Date raised	Progress to date	Addressed	Further action?
7 The corporate risk register should be reviewed by members in a formal meeting, such as Cabinet or Audit, Compliance and Governance Committee on a regular basis throughout the year.	Improvement	December 2021	<p>A copy of the Corporate Risk Register was shared with the Audit, Compliance and Governance Committee in September 2023. We note that no copy had been shared with Cabinet or the Audit, Compliance and Governance Committee in 2021/22 or 2022/23.</p> <p>The version that was shared in September 2023 was too late to inform the Internal Audit Plan for 2022/23 and did not include clear RAG rating; mitigations; or senior risk owners.</p>	Partial	Yes The Corporate Risk Register process should be quarterly and should inform the Internal Audit Plan. RAG rating, senior risk owners and mitigations should be included. In addition, the Risk Management Policy should be reviewed to ensure that all corporate risks are being captured.
8 The Council's whistle-blowing policy should be reviewed and updated.	Improvement	December 2021	The Council's whistle-blowing policy was updated in January 2022.	Yes	No
9 The Overview and Scrutiny Committee should regularly review progress against the COVID-19 recovery strategy.	Improvement	December 2021	Separate recommendation now raised around the effectiveness of the Overview and Scrutiny Committee.	NA	Yes

# Follow-up of previous recommendations

Recommendation	Type of recommendation	Date raised	Progress to date	Addressed?	Further action?
10 The Council should continue to develop its performance management arrangements and introduce a performance management framework that sets out how the Council's strategic objectives will be monitored. This should include key performance indicators against which progress will be assessed on a regular basis by senior officers and members. This framework should include the significant partnerships which contribute to the corporate objectives.	Improvement	December 2021	This work is in progress. The Council is developing a performance framework which will be introduced later in 2024 and supported by training throughout the Council.	In progress	Yes – action to implement our recommendation is ongoing.
11 The Council should consider if the introduction of benchmarking would be beneficial and explore the very high unit costs identified for: Culture and other service - review this area of discretionary spend as to whether the high spend aligns with the Council's corporate priorities Planning and other services – review the cost and service provided and consider whether savings and efficiencies could be achieved.	Improvement	December 2021	Not yet implemented.	No	Yes – the introduction of benchmarking should be considered when the new performance framework is introduced.
12 The Council should adopt a data quality policy.	Improvement	December 2021	The Council adopted a Data Quality Policy in May 2023.	Yes	No
13 The Council should address weaknesses within its procurement service, including ensuring it has a current and relevant procurement policy.	Improvement	December 2021	Procurement Policy not yet updated.	No	Yes The procurement policy should be updated. We make a new recommendation around waivers on Page 26 of this report.

# Opinion on the financial statements for 2021/22 and 2022/23



## 2021/22

We have completed our audit of your 2021/22 financial statements and issued an unqualified audit opinion on 3<sup>rd</sup> October 2023, following the Audit, Compliance and Governance Committee meeting on 26 September 2023.

Our work commenced in July 2022 but was not conclude until October 2023 due, in the main, to delays with the group consolidated accounts and queries relating to council dwelling valuations.

## 2022/23

2022/23 is our final year as your appointed auditors. We undertook our initial planning for the 2022/23 was significantly delayed until the completion of the 2021/22 audit.

As you will aware, following discussion between the Department for Levelling Up, Housing and Communities (DLUHC), the Financial Reporting Council (the FRC) and the National Audit Office (NAO), DLUHC is now proposing a backstop date for all unaudited accounts up to and including 2022/23 of 30 September 2024. We understand this proposal has been approved by the Minister, Simon Hoare.

DLUHC have now issued their consultation on these proposals with the deadline for responses of the 7 March 2024. Consultation is expected to be followed by a change in legislation, in the form of an amendment to the Accounts

We have discussed the Council's audit opinion for 31 March 2023 with officers. In our view, it is not possible to complete the audit of your 2022/23 accounts by the 30 September 2024, and, under the current proposals, these accounts would need to be disclaimed.

Where accounts are disclaimed the auditor is required by auditing standards to undertake an opening balances audit. Assuming your 2022/23 accounts are disclaimed, your new auditors will undertake an opening balances audit on the 2023/24 financial statements. This will reduce the level of qualification of the 2023/24 opinion.

The use of the backstop for 2022/23 will allow your new auditors to make a timely start on the 2023/24 audit once draft accounts have been made available. The deadline for production of your 2023/24 draft accounts is 31 May 2024.



# 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.

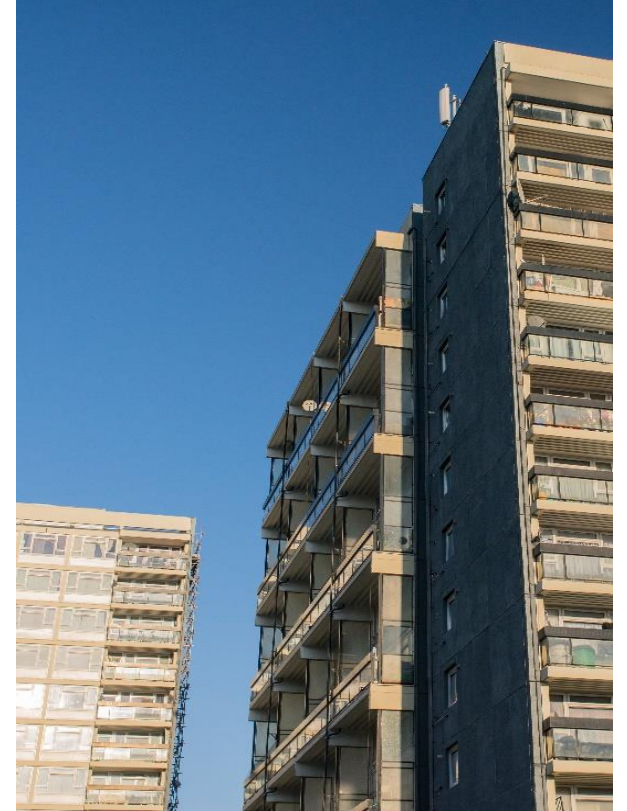
Financial statements are the main way in which local public bodies account for how they use their resources. Local public bodies are required to prepare and publish financial statements setting out their financial performance for the year. To do this, bodies need to maintain proper accounting records 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 [type of body]'s auditors as follows:

Type of recommendation	Background	Raised within this report	Page reference
Statutory	Written recommendations to the [type of body] under Section 24 (Schedule 7) of the Local Audit and Accountability Act 2014.	No	Not applicable
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 [type of body]. We have defined these recommendations as 'key recommendations'.	No	Not applicable
Improvement	These recommendations, if implemented should improve the arrangements in place at the [type of body], but are not a result of identifying significant weaknesses in the [type of body]'s arrangements.	Yes	11, 16, 17, 20, 21, 22, 25, 26

