

Auditor's Annual Report on Sandwell Council (Interim)

2020-21

12 July 2022



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

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

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 each of these three areas, as well as the impact of Covid-19, is set out on pages 11 to 27. Further detail on how we approached our work is included in Appendix B.

Executive summary



Value for money arrangements

Introduction

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.

Under the Local Audit and Accountability Act 2014, in our role as appointed external auditor, we are required to be satisfied whether the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is done through our annual Value for Money (VfM) assessment, which focuses on three themes:

- Financial Sustainability
- Governance
- Economy, Efficiency and Effectiveness

This report sets out the findings of our VfM assessment for the financial year 2020/21.

Overview of our findings

We have now completed our VfM assessment for 2020/21. This comprised of our standard VfM work programme, covering the themes of financial sustainability, governance and the 3 E's (economy, efficiency and effectiveness). In addition, to support our 2020/21 VfM assessment and to address significant risks relating to governance identified at the planning stage, we undertook additional risk-based work in the autumn of 2021. The detailed results of this work were reported to you in December 2021 and should be read alongside this report. In this report, we summarise the findings and place them into the context of the wider VfM assessment. Our risk-based work on governance identified significant weaknesses in arrangements to deliver value for money in the use of Council resources, during 2020/21.

Our work on our wider VfM procedures did not identify any further significant weaknesses in arrangements across the three themes noted above. However, additional improvement recommendations have been made which we set out in this report.

Significant weaknesses in arrangements to secure VfM

Our Governance Review highlighted a number of areas that reflect significant weaknesses in the Council's arrangements to secure value for money in its use of resources. These issues are set out in summary in the following slides, and in detail in our Governance Review report. In relation to the three Value for Money themes that make up our assessment, the majority of the issues identified in the Review relate to Governance, however there are implications for other themes. We have summarised how the significant weaknesses reconcile to the VfM themes in the table below.

Significant weakness	Impacting Financial Sustainability	Impacting Governance	Impacting Economy, efficiency and effectiveness
Corporate performance management and grip		Yes	Yes
Procurement and commercial decision making			Yes
Contract management			Yes
Lack of longer-term planning		Yes	
Officer empowerment and decision making		Yes	
Capacity, experience and skills		Yes	
The impact of changes to senior officers and members		Yes	

Executive summary - conclusions under the VfM themes



Financial sustainability

There were weaknesses in the financial management arrangements in place during 2020/21 and 2021/22 that could have impacted on medium term financial sustainability. In particular, the Leadership Team had not been receiving regular monthly budget monitoring reports and were not effectively engaged in the budget setting process or medium-term financial planning.

Improvements have since been made and the 2022/23 process was significantly better. We also note that the Council's financial position continues to be robust.

On balance, we consider that potential significant risks have been sufficiently mitigated in the short to medium term. In the medium to long term, the Council will need to quickly implement its improvement plan, and other recommendations from external reviews, to avoid these weaknesses and wider performance issues impacting its financial sustainability. We note that steps are being taken by the new management team to further strengthen financial management arrangements.



Governance

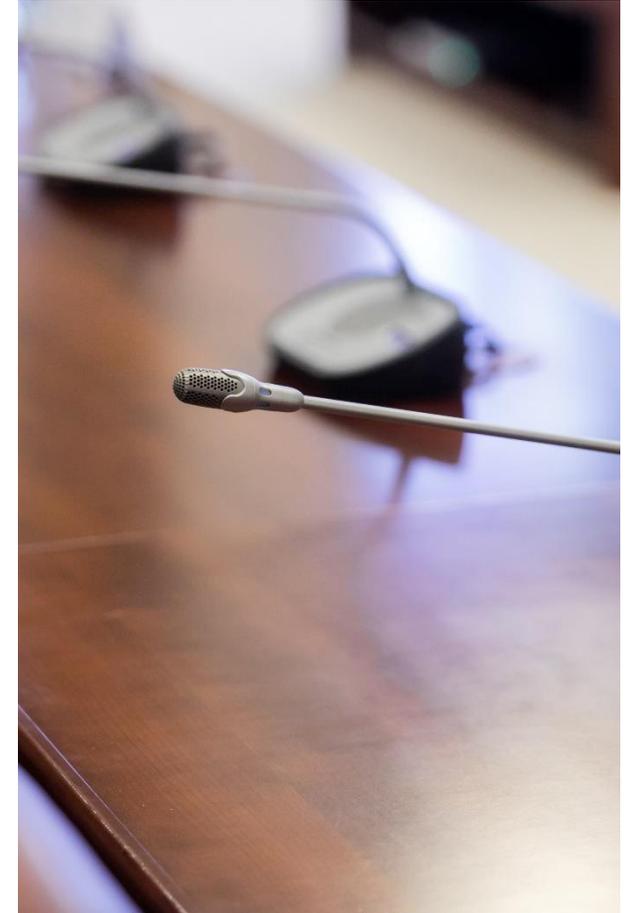
We identified significant weaknesses in the Governance of the Council during our Governance Review. These related to corporate performance monitoring and grip, lack of long term planning, officer empowerment and decision making, capacity, experience and skills and changes to senior officers and members. While recognising the weaknesses in the governance arrangements in place during 2020/21 we note that the Council have made a range of improvements to address these. The ongoing actions in the improvement plan are focussed on strengthening financial and governance arrangements but will take time to embed fully. These areas are summarised on pages 6 to 9. Outside of the Governance Review, we have identified further improvement recommendations.



Improving economy, efficiency and effectiveness

There were significant weaknesses during 2020/21 in relation to performance management and contract management. These include the management of Sandwell Leisure Trust (SLT), Serco, Inoapps and Sandwell Children's Trust (SCT). The Council now has plans in place for each of these areas and for improving contract management across the Council.

Also council services such as waste, leisure, and housing are not always performing at an appropriate level. Other services such as Adult and Children's services face a range of difficult challenges including workforce issues and increased demand. Despite this it is evident the Council now has ambitious plans in place to improve services. Further investment is needed to achieve this and better governance and management of services. The Council is aware of this and has an appropriate improvement plan in place. It is working closely with Government commissioners to ensure that this is achieved.



Executive Summary – Governance Review

Summary Findings of our Governance Review

Up to 2020/21 and the early part of 2021/22 the Council had seen deteriorating senior officer and senior member relationships over a number of years. This had resulted in a breakdown in trust, respect and confidence between those holding governance roles. This limited the Council's ability to look forward and manage the challenges and opportunities it faces. This breakdown in relationships between senior officers and senior members is central to the governance issues identified by this review.

There had been poor progress in resolving service and governance issues, with a significant amount of time being spent responding to internal allegations and complaints. There is evidence of reviews and issues being reopened. This has impacted on the Council's ability to focus on service improvement.

The Council has been insular and siloed. Its focus has been on responding to external service-based challenges as well as managing the fallout from previous decisions or investigations. Senior officers and senior members have historically been unable to make the changes required to move away from this organisational culture and focus.

We note that since the appointment of the interim Chief Executive in August 2021, working with the then new Leader of the Council, that many of these matters are being resolved. The Council's senior leadership team, the majority of whom are recent external appointments, recognise the challenges and issues set out in this report and are supporting the interim Chief Executive on an improvement journey.

These 'green shoots' are positive and we have tried to reflect the improvements in this report. Without these changes we would have had concerns with regard to the Council's ability to manage and govern itself, and intervention by the Government may have been necessary.

Inevitably these changes are not yet embedded, and the Council will need to manage the transition to a permanent Chief Executive well, alongside maintaining continuity and stability of the wider leadership team, so that the new Chief Executive, working with the leadership team, continues to support the service and cultural changes that are being put in place and that momentum is maintained.

Due to the issues identified we have determined that it is appropriate to raise the following statutory recommendations under Section 24 of the Local Audit and Accountability Act:

Statutory Recommendations

We have made a number of statutory and key recommendations which are set out page 12. Other improvement recommendations are made in the detailed findings of the Governance Review report.

Our statutory recommendations are:

- **It is imperative that senior officers and senior members take effective corporate grip of long-standing service issues highlighted by the findings in this report (including SLT, SCT, the waste service, the ERP system, and Lion Farm) and prioritise corporate effort in managing the issues identified, and embed the solutions into the Council.**
- **The Council must ensure that the learning in relation to commercial decisions, procurement and contract management highlighted in this report are understood through the organisation.**
- **Senior leadership, both officers and members, must demonstrate that they can continue to work together effectively, that they operate in line with the Council's values, codes, policies and procedures, and that there is zero tolerance to inappropriate behaviours. This includes changing the organisational culture in relation to complaints so that they restore balance and proportionality.**

Key recommendations

In addition to the Statutory Recommendations, we have identified a number of Key Recommendations that reflect other significant VfM weaknesses and will need to be addressed as a matter of urgency. These are summarised on the next page.

Other Improvement Recommendations

In addition to the above, we have made a number of other improvement recommendations in the Governance Review report that will also be important to implement.

Executive Summary – Governance Review

The following key findings were set out in detail in our Governance Review report and are summarised here. These findings underpin the Statutory Recommendations and reflect significant weaknesses in arrangements in the context of the VFM assessment.

Corporate performance management and grip

Understandably COVID-19 has significantly impacted the leadership and organisational focus of all local authorities over the past eighteen months. Even taking account of this impact we consider that until recently the Council has failed to take an effective corporate grip on key issues facing the Council.

We note that it is hindered in taking a corporate grip by the lack of a clear performance management framework and agreed key corporate indicators, although we note recent progress has been made on this. This has impacted on the ability of the Leadership Team and Cabinet to have a single line of sight and single version of the truth. This has contributed to a culture of silo working, resulting in a lack of corporate ownership and accountability. This has, in turn, resulted in a lack of ownership and grip on key challenges and issues and an absence of intervention and decision making.

In failing to take ownership and seeking resolution, lessons have not been learned. This has resulted in a number of instances whereby the Council has repeated actions leading to similar outcomes. For example, the Wragge report continues to be an area of mistrust between members and between officers and members.

Procurement and commercial decision making

Our review has identified repeated instances where commercial decisions or procurement decisions have contributed to a number of key legacy challenges facing the Council, which have not been resolved.

These included legacy property related decisions such as those relating to Lion Farm, Providence Place and Sandwell Land and Property Company where there was either a lack of appropriate expertise and advice or failure to consider all appropriate options.

There are also more recent examples of poor procurement decisions relating to waste management and recycling, the Council's enterprise and resource planning (ERP) system and SEND Transport. In each case the procurements have either been poorly specified, did not provide adequate timescales, or those responsible for decision making have not been fully aware of the context and detail.

These property transactions and procurement decisions have created future service or delivery challenges. In some cases, they have impacted negatively on the Council's reputation. In each instance, until recently, the decisions have not had effective corporate ownership to allow appropriate management or resolution.

Contract management

Our review identified a number of key contracts having been impacted by either poor specification during procurement, a lack of clear contract management responsibility, or poorly defined approaches to contract management. These related to Sandwell Leisure Trust (SLT), Serco, Inoapps and Sandwell Children's Trust (SCT) and we note that the interim Chief Executive has recently commenced more effective engagement with these key suppliers and partners.

At varying times relationships between the Council and these key partners have been fraught with the lack of senior leadership grip significantly contributing to a deterioration of these relationships. A lack of clear corporate ownership has meant that issues with these contracts have not been resolved in a timely manner. This is particularly the case for SLT, Serco and Inoapps.

We also note that some key contracts such as SLT and SCT, have not previously had key performance indicators reviewed since the contracts were let, whilst others have not had appropriate focus on service quality (such as SEND Transport) or outcomes (such as SLT and Serco).

Executive Summary – Governance Review

The following issues were also highlighted in the Governance Review as key themes, and they also constitute significant weaknesses in arrangements in the context of the VfM assessment.

Lack of longer-term planning

The insularity and short-term focus previously noted has meant that the Council has not had the necessary time and space to consider the long-term. Recent changes to the Council's leadership have seen a re-emphasis on longer-term planning, with time invested in a refresh of the Corporate Plan, which has now been approved by full Council.

However, as mentioned earlier, the lack of a corporate performance framework has meant that the Council has not received management information on key corporate indicators. We also note that the Leadership Team had not been receiving regular monthly budget monitoring reports and have not been effectively engaged in the budget setting process or medium-term financial planning. We understand that processes are being put in place to resolve these issues.

Officer empowerment and decision making

The scheme of delegation and the involvement of senior members in key decision making has resulted in a lack of empowerment of officers in decision making and the agility of the Council to make, where necessary, prompt decisions. An example of which is the delay to taking a decision in relation to the rescheduled MADE Festival, which had been due to take place in August 2021. We consider that this reflects the lack of trust between senior members and senior officers at the time.

Capacity, experience and skills

The prevalence of interim and acting up arrangements in senior officer roles has in some places not seen effective back-fill arrangements put in place, resulting in capacity challenges for some key officers and teams such as Finance. These temporary arrangements have contributed to confusion over some key roles and responsibilities, such as those in relation to SLT and Oracle Fusion, impacting on effective contract management.

More generally, the lack of corporate ownership, again already discussed, has left some officers exposed in managing key service challenges and relationships without appropriate senior officer support and direction.

The impact of changes to senior officers and members

The Council has been through a period of significant change to its leadership, both in terms of senior officers and senior members. Following the local elections in May 2021 a new Leader was elected, who appointed a new Cabinet with effect from June 2021. Many of these Cabinet members had not previously held a Cabinet role, and some were fairly new to the role of councillor. There was a further change to the Council Leader in late November 2021, as we were finalising this report.

An interim Chief Executive has been in role since August 2021 and there has been significant changes to chief officers over the past year, with vacancies being filled by either external interims, or Council officers in acting up roles. These changes were driven in large part by a senior management review which concluded in October 2020, although we note that some chief officer departures were caused by unrelated circumstances.

Other than the Chief Executive there are currently ten chief officer roles, of these four are recent external appointments, and two other external appointments have been made with these officers starting in November 2021. Three officers remain from the previous leadership team, two in the same role and one appointed to one of the new roles created by the review.

At the time of our review, two roles remained vacant: the Chief Executive and the Deputy Chief Executive, with the recruitment of the former recently initiated. The Council has decided to not recruit the Deputy Chief Executive and to review the need for this role. In addition there is a Director of HR, which is not a permanent role and is being held by an external interim.

The impact of this recent period of change has been instability and uncertainty for the organisation. Whilst external interims are recognised positively for the experience they bring from working with other councils and having a “fresh pair of eyes” on some of the service challenges being faced, the wider organisation considers the use of interims as maintaining a holding pattern before permanent chief officers join. The Council will reach the position of having all roles filled by a permanent officers during November 2021, other than the two vacancies noted above.

The changes to key senior roles have led to a loss of corporate knowledge and history among senior officers and senior members. This has contributed to historic issues resurfacing and senior members making the initial decision to progress a major project or initiative not being the same group of members taking further decisions during the project's implementation, such as the SEND Transport procurement.

Statutory and Key recommendations

#	Recommendation
Statutory recommendations	
1.	It is imperative that senior officers and senior members take effective corporate grip of long-standing service issues highlighted by the findings in this report: (including SLT, SCT, the waste service, the ERP system, and Lion Farm) and prioritise corporate effort in managing the issues identified, and embed the solutions into the Council.
2.	The Council must ensure that the learning in relation to commercial decisions, procurement and contract management highlighted in this report are understood through the organisation.
3.	Senior leadership, both officers and members, must demonstrate that they can continue to work together effectively, that they operate in line with the Council's values, codes, policies and procedures, and that there is zero tolerance to inappropriate behaviours. This includes changing the organisational culture in relation to complaints so that they restore balance and proportionality.
Key recommendations	
4.	The Council's leadership needs be relentless in its focus in delivering and embedding sustainable change, and use its past history as a reference point when focusing on improvement.
5.	Critical to embedding the transformation and change required will be the appointment of the right permanent Chief Executive. The Council must ensure an effective recruitment process, including attracting a pool of appropriate candidates.
6.	The Council should ensure that a corporate performance framework is agreed so that the implementation of the Corporate Plan can be effectively monitored, and there is collective corporate responsibility rather than silo working.
7.	Members in key statutory roles, in particular in relation to Cabinet, scrutiny, standards and audit, need to be provided with effective induction and ongoing development, training and support. The member development programme should be reviewed to ensure corporate governance forms part of the training for members with governance roles.
8.	The Council should develop and agree an action plan in relation to the statutory, key and improvement recommendations included in this report, ensuring that they are specific, measurable, attainable, realistic and time-bound.

Use of formal auditor's powers

We bring the following matters to your attention:

Statutory recommendations

Under Schedule 7 of the Local Audit and Accountability Act 2014, auditors can make written recommendations to the audited body which need to be considered by the body and responded to publicly

As part of our Governance Review which was presented to the Council on 3rd December 2021, we made a number of statutory and key 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 for a declaration.

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.

Financial sustainability



We considered how the Council:

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

Financial outturn

Revenue 2020/21

The Council set a net revenue budget for 2020/21 of £226m at its meeting on 10 March 2020. The budget was subsequently impacted by the COVID pandemic. The impacts included: reduced expenditure due to service reductions, loss of income, redeployment of staff and resources, and additional Covid related grant funding to manage additional costs and income reductions. The overall net service outturn variance, excluding the HRA, was an under spend of £23m due to the level of grant funding.

This placed the Council in a strong position regarding its reserves and earmarked reserves increased by over £40m to £99m. Most of the increase relates to S31 Business Rate Relief (£34.4m) and Covid Emergency Funding (£7.9m). Both of these reserves are temporary Covid related funding and not available for general service expenditure.

During 2020/21 capital expenditure totalled £131.730m in comparison to a budget of £152m. Given the impact of the pandemic on capital projects this is a positive delivery.

Revenue 2021/22

The Council set a net revenue budget of £267m for the 2021/22 financial year at its meeting on 2 March 2021. After the use of balances (c. £53.8m) forecast expenditure was £213.3m. Balances used included £7.9m from General reserves, £4.7m from service c/fwds and £5.8m from earmarked reserves.

The financial monitoring outturn for the year (as reported to Cabinet in July 2022) shows that services spent £248.3m. An underspend of £18.7m before contribution to reserves (£10.5m). The outturn includes the financial impact of Covid, most significantly a loss of income due to suspended or significantly reduced services.

Most services underspent. The most significant of these were Adult Social care £6.7m (due to additional NHS and Grant funding and in house services running below capacity) and Regeneration and Growth £3.4m (due to vacancies, reduce office building costs, additional premises hire income, and slippage on property maintenance projects.).

At the 31 March 2022 the Council had £154.9m in reserves, an increase of £5.8m from the prior year.

Capital Expenditure on the Council's capital programme was £137.8m compared to the budget of £150.4m. This is not unanticipated given the impact of COVID on capital programmes.

Revenue 2022/23

The draft budget proposals were considered by the Budget and Corporate Scrutiny Board on 8th February 2022 and approved by the Council on 2 March. A net revenue budget of £237m was set. This assumes the use of £14m of earmarked reserves.

The Council is experiencing demand and inflationary pressures in Adult Social Care and spend pressures of over £6m have been included in the budget for 2022/23. The Council has flagged additional risks re Children's Social Care.

The level of reserves is estimated to reduce significantly between 2021-22 to £85m, although this is in part due to use of Covid funding to meet continued related costs and the use of the S31 grant held in reserves to deal with the timing differences between accounting for various COVID relief grants and the government grant being received.

The Council remains in a robust financial position.

Financial sustainability

Financial planning

The Council has a good track record of managing its financial position, benefitting from a comparatively strong historic base funding position and healthy levels of reserves prior to the COVID-19 pandemic. It has therefore been able to adopt a relatively short-term approach to financial planning with no major savings or transformation programme being put in place in 2020/21 or 2021/22. Any shortfall in funding has been met from reserves or small scale efficiencies.

The 2020/21 and 2021/22 Budget and MTFS were published in February 2020 and March 2021 respectively. The budgets were presented to Cabinet initially and then to full Council. As reported in our governance report, there were weaknesses in the financial management arrangements in place during 2020/21 and 2021/22 that could have impacted on medium term financial sustainability. In particular, the Leadership Team were not effectively engaged in the budget setting process or medium-term financial planning. Improvements have since been made and the 2022/23 process was significantly better and we note that the Council's financial position continues to be robust.

For example, net budget pressures for 2021/22 of £13.8m were closed in the budget by the use of short term measures, specifically £5.8m of COVID grant and £8.0m of Earmarked reserves. The reason given for this approach was the temporary risk of reduced income and the inability to address budget pressures over the last year.

The Council's new management team have recognised the need to move away from a reliance on short term one off measures. We are pleased to note that the Council has significantly strengthened its approach and was able to identify £14.6m of savings for the 2022/23 budget without relying on use of reserves and other one off measures.

In 2021/22 the Council continued to participate in the 100% Business Rates Retention pilot as part of the West Midlands Combined Authority pool and assumed that 100% retention would remain in future years of the MTFS, however it recognised a risk that a return to 75% retention would result in additional cost pressure. We note that for 2022/23 the Council has revised this assumption and revising its MTFS to assume crystallisation of this risk, which we regard as sensible based on the latest direction of travel from government.

The most recent iteration of the MTFS was refreshed at high level and published in February 2022. This presented a balanced budget for 2022/23 and projects a deficit position of £14.1m in 2023/24 and £13.0m in 2024/25. A new rebased MTFS is currently being developed, alongside a sustainable financial transformation plan. While this presents a challenging medium term financial position, the Council should be able to close the gap providing it sustains focus and momentum in the delivery of sustainable savings and transformation in the current year.

In response to the projected deficits for 2022/23 and 2023/24 the Leadership Team has developed a draft Transformation Savings Programme, which has identified cross-cutting, transformational projects that will deliver service improvements and either reduce costs or generate more external income.

The updated 2022/23 to 2024/25 MTFS adequately references pressures associated group entities such as the Children's Trust.

The Council has used key economic and demographic projections to support the MTFS (e.g. social care demand and population growth) and we note assumptions around pay inflation. However, CIPFA highlighted in their report on the Council's performance against their Financial Management Model, that the Council needed to make better use of comparative data, benchmarking, and demand management techniques in an increased number of service areas to support building the medium term financial plan.

We are satisfied that a potential weakness around robust forward financial planning has now been recognised and addressed.

Financial sustainability

Addressing identified budget gaps

There were no significant savings or service transformation programme in place during 2020/21. The Council was able to set a balanced budget through the use of reserves and COVID grant.

The MTFS 2021-22 to 2023/24, prepared in February 2021, highlighted projected funding deficits of £8.9m in 2022/23 and £6.8m in 2023/24 and the need for a savings programme to be developed. We note that the revised 2022/23 MTFS, presented February 2022, was able to balance the budget for 2022/23 while also achieving a net contribution to reserves (excluding the use of temporary reserves accumulated from COVID-19 grants). This was achieved primarily through £14.6m of savings and additional income.

We note that the financial planning agenda in for both 2020/21 and 2021/22 years was significantly influenced by the funding and delivery of services under COVID conditions. As such we would not have anticipated significant savings programmes.

The revised high level MTFS projections indicate increased deficits of £14.1m in 2023/24 and £13.0m in 2024/25. A new rebased MTFS is currently being developed, alongside a sustainable financial transformation plan which may result in a further adjustment to the projected funding gap. For the revised 2022/23 to 2024/25 MTFS, a new savings programme is also being developed.

The Council retains comparatively high levels of reserves and this provides the main contingency against slippage on future savings plans. We note that a new Financial Planning earmarked reserve of £2.5m has been created in 2022/23 to help manage any slippage during the year and any in-year cost pressures, particularly in relation to inflation.

Overall, following the implementation of a strengthened process for 2022/23 we are satisfied that the Council understands its potential funding gaps, and has put in place plans to further improve their understanding and mitigate the identified gaps in the medium term.

Alignment of financial plans with strategic goals

The Corporate Plan and budget for 2021/22 were presented to Cabinet in tandem in February 2021, which provides a relatively strong mechanism for reconciling budget decisions to strategy. For both 2020/21 and 2021/22 the budget and both revenue and capital investments broadly align to the corporate priorities in a coherent way. The narrative also sets out the response to COVID and how this has impacted on delivery of the strategy.

The 2020/21, 2021/22 and 2022/23 budget papers clearly set out the rationale for new investment and this is broadly in line with the delivery of corporate priorities or responding to COVID emergency measures and pressures. Additional revenue investment was relatively modest in 2020/21 and 2021/22 and was primarily concerned with covering the cost of pay and utilities cost inflation and other adjustments to core assumptions. The main area of new investment was to provide additional funding to the Children's Care Trust to support the cost of increasing unit costs. The explanations provided in the supporting papers, and the focus on managing the COVID crisis rather than more ambitious levels of investment in services, is entirely in keeping with the challenges faced. Also in the context of Sandwell's financial position, which has been relatively secure, the investments proposed are reasonable and affordable.

The key published financial planning information such as the MTFS and budget for 2020/21 and 2021/22 does not make a distinction between discretionary and statutory areas of spend. This has not been a primary consideration in the planning process. There are examples of discretionary investment in services to support priorities - for example, under the extended financial support offer to care leavers under the priority "Best start in life for Children and Young People" .

In developing the savings programme for the MTFS period 2022/23 to 2024/25, the Council should consider incorporating an analysis of discretionary and statutory spend to help members consider and approve savings schemes. This should include benchmarking, for example, unit cost analysis against similar Councils.

Our Governance Review highlighted a general lack of engagement of Directors and Portfolio Holders - in 2020/21 and early in 2021/22 - in budget setting discussions and the MTFS development process. We note that this improved for the 2022/23 budget and savings proposals were subject to some limited consultation with third party stakeholders who would be impacted, in addition to detailed review and scrutiny by members. For example, there was consultation with 3rd sector partners in receipt of Council grants. However, wider consultation with service users and the public has not taken place - this is explored further in our governance section.

Financial sustainability

Capital investment

In 2020/21 we note that overall, the Council underspent on its original planned capital budget of £152.9m, eventually delivering £131.7m in year (in line with its revised capital budget). In the context of delivering under COVID-19 conditions, this reflects reasonable performance. We note that in regard to two of the largest projects from the core programme (Rowley Regis Adult Social Care facility and the Sandwell Aquatic Centre) delivery was ahead of schedule, which compensated for slippage on a number of smaller projects.

The Council's 2021/22 to 2025/26 Capital Strategy includes clear linkages to the Council's corporate strategy. The 5 year capital programme was revised in February 2021 alongside the revised Capital strategy. The resources committed by the Council for capital programme investment is significant, but not unusually ambitious when compared to other Councils. In the period 2020/21 to 2024/25 total capital resources invested over 5 years were planned at around £345m with a further £140.6m of grants and externally generated funding. The primary areas of investment are around Regeneration and Growth, with smaller amounts invested in Borough Economy and Adult Social Care, which match to corporate priority areas.

The Council's Capital strategy emphasises the leveraging of grant and 3rd party contributions to supplement investment from the Council. CIPFA's review of financial management arrangements stated that in their view, the authority has lacked ambition and did not previously seek to invest in major regeneration initiatives. However it noted that this situation was changing. We note that a number of Towns Fund projects are in progress with final business cases submitted at the end of March 2022. We note that the Capital Programme only covers a period of 5 years, where as capital investment programmes are often delivered over a longer period. The Council should consider a longer planning horizon for its published capital strategy.

Our benchmarking analysis (based on draft 2020/21 draft accounts), indicates that Sandwell had relatively low exposure to borrowing risk in 2020/21 compared to other similar Councils, with a lower than average ratio of long term borrowing in proportion to the income available to repay.

Financial management arrangements

We note that the Council's financial management arrangements were subject to a detailed review by CIPFA during 2021 that covered financial systems, capacity and capability, the budget process and aspects of financial culture. CIPFA scored the Council as a 'progressive' 2 stars out of 4 overall, indicating that CIPFA felt the Council had an outdated financial management culture, lacked clear engagement and leadership from members on budgeting, and has some poor processes in place, particularly around contract management. They noted that the finance function's culture needs to be addressed, especially in the area of business partnering, and there are a few immediate structural steps that can be taken to improve what is a substantial but underperforming team. CIPFA acknowledged that these issues were being addressed and improvements were underway - including a new finance team structure and a greater focus on business partnering.

The CIPFA resilience index indicate that the authority at present is financially stable and CIPFA acknowledged that in recent years the Council had been able to contribute towards reserves through achieving a balanced budget or an underspend.

The Annual Internal Audit Report for 2020/21 concludes that there is reasonable assurance that the council has adequate and effective governance, risk management and internal control processes.

In our view, despite the identified weaknesses, the Council's arrangements have proved adequate to ensure financial sustainability in the medium term. However, in order to be able to meet the significant financial challenges outlined in the current MTFs and avoid the depletion of reserves, the Council will need to complete the current programme of improvements in line with CIPFA's recommendations.

Financial sustainability

Managing financial risks

The Council manages risk through its Corporate Risk Strategy and the Audit and Risk Assurance Committee provides oversight of the process. Service directors undertake an Equality Impact Assessment on all identified service changes and policy amendments.

The 2020/21 MTFS lacks sufficient detail as to how risk management arrangements have fed through into the development of financial assumptions. This improved for 2021/22 and the Budget and MTFS paper (Feb 2021) sets out the Council's approach to financial risks and how these are incorporated into the budget. In particular, it considers some key financial uncertainties such as the continuation of the COVID-19 pandemic and uncertainty over government funding in terms of future settlement income, the fair funding review and business rate retention. However, the narrative and analysis is not particularly comprehensive, and was in need of improvement.

We note that under the new Chief Finance Officer, the risk narrative in the budget and MTFS papers for 2022/23 (Feb 2022) is significantly more comprehensive than in the prior year. It includes an analysis of specific financial risks, such as a resurgence of COVID, assesses the likelihood and impact, and then sets out mitigation or options to manage the risk through reserves. This reflects an improved process to better enable Cabinet to discuss how financial risk is being managed and reflected in the MTFS.

The focus of Cabinet and Leadership team for 2022/23 was to ensure the identified budget gap for 2022/23 could be closed in a sustainable way whilst protecting frontline services as much as possible. This is being followed by a fundamental review of the MTFS in Spring 2022, to be reported to Cabinet in the September 2022, so the Council is well placed to develop robust budget proposals for 2023/24 and future years of the MTFS.

As was also noted by CIPFA in their review of financial management, improvement was needed in the MTFS development process so that the Council could move away from short term financial planning horizon. We are encouraged by the Council's direction of travel in this regard and will continue to monitor progress towards a robust medium term plan.

We are satisfied that the Council's relatively healthy levels of usable reserves and relatively positive financial outturn up to the end of 2021/22 mitigate the risk to financial sustainability in the short term, while the new MTFS is developed.

Alignment with other strategies

The CIPFA Financial Management Review comments on the need for better integration between the MTFS and corporate strategies. For example, there is no overarching workforce strategy but workforce related pressures such as adult services and pay awards impact significantly on the MTFS.

As noted, the 2021/22 budget did not encompass significant savings and transformation programmes and did not reflect significant investment in improvement and development priorities. In the absence of major service development programmes and new services provision, the need for alignment is limited. As the Council's ambitions increase it will need to ensure that service strategies clearly align with the budget.

Some strategies already align. For example, the 2021/22 to 2025/26 Capital strategy sets out the Council's arrangements for recognising the revenue implications of the capital programme. The Council has a consolidated revenue and capital budget setting process and the Cabinet receives all reports and information about the council's revenue and capital strategies and expenditure plans. The current MTFS revision process, should include an improvement to the way that the revenue costs associated with the Capital strategy are analysed and disclosed in the MTFS.

Similarly, the Council has a Treasury Management Strategy in place that clearly sets out policies around the contribution of treasury management as part of its financial plan, and the balance between mitigating risk and optimising the contribution that borrowing and investment. The Treasury Management Strategy is reviewed and approved on an annual basis alongside the budget and MTFS.

Conclusion

Overall, although there were some weaknesses in the financial management arrangements in place during 2020/21 improved processes are now in place and potential significant risks have been sufficiently mitigated in the short to medium term. In the medium to long term, the Council will need to implement its improvement plan to avoid these performance issues impacting on its financial sustainability.

We note steps are being taken by the new management team to further strengthen financial management arrangements. Conscious of this, we have consolidated our findings into a single improvement recommendation.

Improvement recommendations

Financial sustainability

1 Recommendation	<p>In the context of the ongoing work to revise the medium term financial strategy and strengthen the Council's financial management arrangements, we recommend that the following improvement areas be addressed as part of this process:</p> <ul style="list-style-type: none"> • Improve coverage of commercial investment performance and group entities in the MTFS narrative and analysis. • Develop and provide narrative on the use of savings plan headroom and budgeted contingencies, to provide further flexibility to manage slippage. • Consider incorporating an analysis of discretionary and statutory spend to help members consider and approve savings schemes. • Develop a longer planning horizon for its published capital programme. • Complete the programme of improvement in financial management arrangements, to address the weaknesses identified in the CIPFA FM report. • Improve the way that the revenue costs associated with the capital strategy are analysed and disclosed in the MTFS. • Incorporate the use of scenario planning to convey financial risk to members in the MTFS.
Why/impact	The Council's future financial sustainability in the medium term will depend on the successful embedding of the new financial management arrangements.
Auditor judgement	Improvement Recommendation.
Summary findings	We noted a number of areas for improvement in the Council's arrangements to secure financial sustainability, however we are also aware of the Council's financial management restructure, the revised budget process and the on-going work to implement the recommendations of the Governance Review and the CIPFA Financial Management Review. This recommendation is therefore intended to compliment this work.
Management comment	<p>The improvement recommendations in relation to the Council's MTFS and Capital Strategy will be implemented as part of the refreshed MTFS due to be reported to Cabinet in September.</p> <p>The Finance Improvement Plan, which is a key component of the Council's Corporate Improvement Plan, also includes actions which covers these recommendations.</p>

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

Governance



We considered how the Council:

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

Monitoring and assessing risk

The Council have in place a risk management framework which includes the Strategic Risk Register (SRR) which is used to manage the Council's longest standing risks. During the 20-21 financial year the Council also had in place a specific Covid-19 Register. In 2021/22 these registers have been merged as the Covid waves subsided.

The registers are collated from an underlying template which is sent to each directorate to update quarterly from their own risks an areas, before risks are collated by the Risk Management & Assurance team (sitting under the Head of Internal Audit) and input into the SRR. Whilst there are directorate risk registers in place, the use of these is more ad hoc and has not been an area of focus previously. A clear risk management approach at directorate level has not been fully embedded, although it is evident this takes place at the strategic level. There is the potential that specific directorate focussed risks could be overlooked and lead to issues not being mitigated before they become strategic level risks to the organisation. As of March 2022 the risk management framework is being updated. It would also be beneficial for a review of all directorate risk registers to take place to ensure with the development of the new framework that risk management is fully embedded among each of the directorates.

The SRR is presented to the Audit Committee on a quarterly basis and details each risk along with an associated action plan. There were no significant gaps noted, the register is sufficiently detailed and outlines the mitigating actions that have been developed to counteract the risks to the Council. There were clear links to the Corporate Plan and the direction of the risk score, although risk owners were not always named for each risk. The Audit Committee have also invited risk owners to attend in order to explain further how specific risks are being managed, as well as deep dives taking place into particular areas of concern.

Internal Audit

The Council's Head of Internal Audit manages Internal Audit, Counter-Fraud and the Risk Management & Assurance Team at Sandwell Council. The team have an Internal Audit Charter and provide an Internal Audit Plan to the Audit Committee on an annual basis for their approval. The plan is built on a risk-based approach.

Recommendations are all RAG rated - Red, Amber and Green and highlight those areas which require improvements.

The Head of Audit produces an Annual Report each year. For 2020/21 Sandwell Council was provided with reasonable assurance on the adequacy and effectiveness of internal audit and risk management. Limited assurance was provided on some areas however, it was noted the recommendations in these areas were implemented and improvements were made in a timely manner as a result.

The Council also has in place a specific Counter Fraud Team who also provide regular updates to the Audit Committee on the progress of their work. Pre-pandemic the team ran regular training sessions, although these have not taken place virtually. This is an area going forward which the Council should focus on re-introducing, with the move to hybrid working.

Governance

Budget Setting Process

Historically, there have been a number of issues in relation to the approach taken to budget setting. There has not been a comprehensive understanding across services of the make up and profile of individual budgets and director and service line engagement in the process has previously been limited. However, the Council have been focussed on improving their approach to budget setting with wider engagement, to ensure that alternative proposals and scenarios are considered before the final budget is presented to Cabinet.

Through planned engagement work on the refresh of the Corporate Plan, members and other stakeholders were asked to consider a wide range of options around budget savings. Outcomes from these workshops fed into the future Corporate Plan and budget proposals.

The Council adopt a two-way process for budget setting where each of the directorates are encouraged to flag their priorities to highlight those areas where budgets are changing. These flow into the Corporate Centre and the Executive Management Team (EMT) level so that they can be adapted into the corporate level modelling. This allows the corporate centre to understand what the overall financial gap is likely to be. The size of that gap is then communicated back to directorates with suggestions and requests for a review of priorities to make savings and close the funding gap. Despite this, the recent LGA Peer Review highlighted that there is a desire within the organisation for managers and budget holders to be even more fully involved in budget setting. It must also be noted that for 2020/21 there were no corporate level savings plans identified, any shortfall was expected to be filled through use of reserves.

The Council have recently introduced benchmarking analysis as part of the budget setting process but do not currently complete sensitivity analysis to help understand and solve key challenges. The Council may want to introduce sensitivity analysis into their budget setting process in order to ensure a clearer understanding the likelihood of potential funding gaps.

In relation to external stakeholders, the Council have not completed a consultation process with residents for a number of years. It would be beneficial to adopt a sustained and strategic approach to consultations. Residents are more equipped than ever to participate. Increasingly, they expect to be informed and consulted about how services will be delivered, and how their money is going to be raised and spent. Nevertheless, there remain significant inequalities in the public's capacity to engage and these will need to be considered as part of any consultation strategy. The Council should embed consultation with residents into the budget setting process for future years.

Additionally, member engagement in the budget setting process has been historically lacking. This has been acknowledged by the Council and several budget workshops have now taken place to encourage improvements in this area. Improvements in member training to encourage engagement in the budget setting process have been set out in the Council's Improvement Plan.

Budgetary Control

The Council have in place Finance Business Partners who work with the directorates to review financial performance and identify variances on a monthly basis. This is an area where arrangements need to be developed and improved, and the Council are addressing through a new finance structure which should provide a greater focus on business partnering.

Whilst budget holders are expected to manage their budgets and operate within allocated resources, currently, there isn't a self-service option in place, with all reports produced by finance in consultation with budget holders. This places a lot of reliance on staff within finance, which can prevent finance from really taking on that 'critical friend' role to allow for appropriate strategic challenge. The Council may want to consider moving towards more of a self-service approach to budget monitoring, so that budget holders have access to all the information they need on a real time basis. This could be incorporated as part of the move to the new financial system.

Monthly finance reports are also produced at the directorate level and presented to each Directorate Management Team. It is in these forums that budget holders are held to account for any variances, and development of appropriate mitigating actions. Although, there is no regular updated training for budget holders to help manage their resources.

An updated training programme should be developed to help ensure budget holders fully understand all elements of their role and to embed accountability across the organisation.

Governance

Budgetary Control (continued)

At the Committee level, budget monitoring is presented to the Budget & Corporate Scrutiny Management Board, the Audit Committee and Cabinet on a quarterly basis. This provides a high level overview of outturn for the period with explanation for any significant variances compared to budget. Finance reports are sufficiently comprehensive with a high level and detailed level analysis of costs. Additionally during the pandemic, any issues directly related to Covid-19 pressures were also identified.

One area of concern is in relation to the lack of monitoring which was provided to the Council's leadership team during 2020/21 and previous years. With the introduction of the new leadership team, these are now being provided on a monthly basis.

Policies

The Council have a number of policies which are out of date and require updating. Including the Procurement Strategy which was last updated in 2010, and the Equality Policy last reviewed in 2016. Additionally some of the links on the Council website to policy documents are broken, such as that to the Code of Corporate Governance.

The Council should ensure there is a process in place to review and update policies on a timely basis, and ensure these are added to the external and internal webpages as appropriate. This will help to prevent policies from becoming redundant or no longer following regulatory guidelines or recommended best practice.

Leadership and Committee effectiveness

As identified as part of our Governance Review, the Council's Scrutiny Boards and Audit & Risk Assurance Committee were viewed as needing improvement in order to effectively hold decision makers to account. As a result, the Council are working with the LGA to develop an updated member training programme with a focus on scrutiny and audit roles. There is also opportunity for strengthening of the scrutiny function through the planned review of the Constitution.

Additionally there is a need to ensure that members of the scrutiny and audit committees are aware of their governance roles including how to interrogate reports and ask the right questions. We would also encourage these committees to invite officers to attend the committees to present on key internal audit responses, particularly where there may be successive delays in implementation, to fully understand key risks and stimulate responsive action.

There were a number of findings identified in Council's recent LGA Peer Review which highlighted that the organisation currently struggles with clear communication and there is a real opportunity for the Council to become a learning organisation who look outward more and actively listen and learn from service user feedback. The Council need to focus on regular updates to key stakeholders and sharing information on future plans, emerging projects and collective ambitions of the Council. Upcoming opportunities include the Borough's Commonwealth Games, the comprehensive staff survey and introduction of the Resident's Panel.

The Council don't run public consultations regularly and haven't had a budget consultation in a number of years. Therefore the LGA Peer Review's recommendation for a regular resident's survey is appropriate.

As a result of the historical issues and behaviour, the decision-making is underpinned by a cautious approach and risk averse culture. Whilst it is clear there are in place arrangements for decisions to be challenged before being taken, the process of escalation for relatively minor actions, is hindering the Council in its decision making. This has resulted in a lack of empowerment of officers in decision making and the agility of the Council to make prompt decisions. Such as with the delay in relation to the rescheduled MADE Festival, which had been due to take place in August 2021.

The Council's change in leadership and review of the Constitution should help to engender the necessary changes needed. The Council are aware this will require considerable time, investment and collaboration to embed sustainably, and there is a clear desire to make the improvements required.

Conclusion

We have identified a number of significant weaknesses in this area during our Governance Review relating to corporate performance monitoring and grip, lack of long term planning, officer empowerment and decision making, capacity, experience and skills and changes to senior officers and members. The Council have made a range of improvements to address these. The ongoing actions in the improvement plan are focussed on strengthening financial and governance arrangements, but will take time to embed fully. Outside of the Governance Review, we have identified a number of further improvement recommendations.

Improvement recommendations



Governance

2 Recommendation	<p>In the context of the ongoing improvement plan actions, we recommend that the following improvement areas be addressed as part of this process:</p> <ul style="list-style-type: none"> • Improve the level of benchmarking and sensitivity analysis used to support the MTFs assumptions • The Council should embed consultation with residents into the budget setting process for future years • Introduce counter-fraud training and awareness sessions for staff and members • Undertake a review of all directorate risk registers to ensure that risk management is fully embedded among each of the directorates • Ensure there is a system in place for the timely review of Council policies and procedures to prevent policies becoming redundant or no longer following regulatory guidelines or recommended best practice
Why/impact	
Auditor judgement	Improvement Recommendation.
Summary findings	We noted a number of areas for improvement in the Council's governance arrangements, however we are also aware of the Council's financial management restructure, the revised budget process and the on-going work to implement the recommendations of the Governance Review, the CIPFA Financial Management Review and the LGA Peer Review. This recommendation is therefore intended to compliment this work.
Management comment	These recommendations are covered in the Council's Corporate Improvement Plan and there are specific actions in place to move the improvements forward. A budget consultation is due to be launched in July for the 2023/24 budget process. The Council is also exploring options for a Performance Management System which will facilitate monitoring of policies, procedures and risk registers.

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

Improving economy, efficiency and effectiveness



We considered how the Council:

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

Performance review, monitoring and assessment

Our Governance Review in December 2021 highlighted that the Council's lack of a performance management framework was a key area of weakness. Whilst prior to the pandemic the Council had begun to set up performance boards on a monthly basis and key measures were being discussed, no specific detail was pulled together before the pandemic hit. This meant performance management was not the priority as the focus shifted to the pandemic response.

Currently work is underway to develop performance management arrangements. A reporting framework to monitor the Council's improvement plan actions, was approved in January 2022. This has resulted in monthly reports to the Leadership Team and quarterly reports to Cabinet.

One of the key actions within the improvement plan is the development of the performance management framework, focussing on building up four elements of Customer Experience, Organisational Health, Improvement and Finance. There are currently monthly sessions to the Leadership Team and directorate level plans are under development to feed into achievement of the key aims of the Corporate Plan. Additionally the Strategic Lead for Service Improvement has been working on the service planning framework which will sit under the Corporate Plan and working with service directorates to discuss business plans. This is a move in the right direction, and our conversations with officers have highlighted that effective performance management is a key focus going forward for the leadership team, which has been communicated across the organisation.

Despite this the Council have a lot of work to do to ensure robust performance management arrangements are embedded across the organisation. In particular, there is still work to be completed in relation to the mapping and accuracy of the Council's data. The CIPFA Financial Management Review highlighted the current reliance on "information which is contained within disparate and outdated systems". The Council has restarted the process of upgrading the ERP system which should help provide more reliable information to finance team and budget holders across the Council on financial performance. We comment in our VfM Governance review on the issues with the implementation of the ERP project.

In relation to operational performance, the Council use a mixture of tools with the majority of performance data concentrated within Business Software. Time is being invested in developing use of Power BI which council officers already have access to. However, there is no one corporate management system currently in place. This is an option the Council are hoping to explore in the next 12-18 months, and as detailed on the Improvement Plan.

In relation to data mapping and data quality the Council recognise that they have a lot of work to do, and that this needs a corporate approach. It would be beneficial for the Council to develop a Corporate Data Strategy which outlines how data should be captured and stored across the organisation, as well as guidance on technology and information governance.

It is clear that performance management and data quality has not been a key focus for Sandwell Council during 20-21, and whilst management are taking actions to improve this position, this is likely to take a number of years before being fully embedded.

Improving economy, efficiency and effectiveness

Benchmarking

As highlighted in our Governance Review the Council have not regularly engaged in corporate level benchmarking in order to understand how the organisation performs in relation to other local authorities. Whilst there is some evidence this takes place at directorate levels, it is ad hoc and there has been no consistent approach.

In response the Director of Finance has introduced financial benchmarking which should be sustained going forwards. Our conversations with officers highlighted that the Council are also considering making use of a number of benchmarking analytics available through sources such as LG Futures, LG Inform and CIPFA. This is with the hope to include these as part of performance management and analysis in future.

It must also be noted that during the 2021/22 financial year the Council asked CIPFA to complete a review of financial management and engaged in the LGA Peer Review in order to understand performance in comparison to others. This has identified that improvements can be made throughout the organisation. Officers have been engaged throughout the process and our interviews have highlighted a Council that is willing to make progress against the improvement plan actions and learn from other local authorities.

Partnership working

Our Governance review highlighted that the Council had been insular and siloed. Its focus being on responding to external service-based challenges and the management of fallout from previous decisions or investigations. We noted that senior officers and senior members had not worked closely with local partners.

The recent LGA Peer Review noted that the Council have been an absent partner for many of their partnerships. However, the LGA Peer Review also highlighted that local operational relationships feel better developed and these have been strengthened during the pandemic.

The Council's partnership with the Children's Trust has improved, with regular communication at all levels and robust governance arrangements now in place.

Relationships with schools and other partners will be key to tackle complex cases and growing demand in a post pandemic landscape across all areas of social care. Arrangements with health partners will be key. The recent LGA review highlighted the need for simplification of the partnership arrangements across both adults' and children's, a review of these would be useful in streamlining arrangements.

Our conversations with officers highlighted that whilst at directorate level partnership arrangements are in place, with Partnership Boards and sharing of best practice, this has been historically lacking at the corporate level, particularly on a regional basis. Whilst regional level partnership arrangements are in place, such as the Black Country Local Enterprise Partnership, the Council have not always taken full advantage of arrangements, having been described as an "absent partner". With the changes in leadership team and the clear engagement and enthusiasm for change throughout the organisation, there is a real opportunity for Sandwell to become a more engaged partner.

Procurement and Contract Management

Significant weaknesses were identified in procurement and contracting arrangements by our Governance Review. We have raised both statutory and improvement recommendations in relation to these areas, which are outlined in the Executive Summary of this report. Many of these relate to outsourced contracts and cover a number of areas including procurement and contract management.

There are two distinct procurement teams at the Council:

- Corporate Procurement Service
- Adult Social Care Contracts Team.

There is also ad hoc procurement which is undertaken at the service level within directorates below the £50k threshold, making use of the In-Tend procurement system.

One of the key weaknesses with the current procurement processes are in relation to the delay. Any awards above £250k require Cabinet approval. This can be a lengthy process and if completed towards the end of the procurement process can lead to lengthy delays of 7-8 week, due to committee reporting deadlines. The Council are aware this is an area for improvement and similar issues were highlighted in the LGA Peer Review in relation to decisions taking a longer time than strictly necessary.

Improving economy, efficiency and effectiveness

Procurement and Contract Management (cont.)

To address this, the Council are in the process of conducting a governance review of which the use of delegated authorities and procurement thresholds, will be included. Focus is currently on benchmarking against best practice models to ensure a robust process is adopted.

This should allow for awards to be delegated at the outset by Cabinet, so whilst they will still have full visibility it should prevent the delay, whilst achieving the same goal of a clean and transparent procurement process. Additionally the Council are refreshing key procurement documents such as the Procurement Strategy (dated 2010), the Contract Procedure Rules and the Project Management framework.

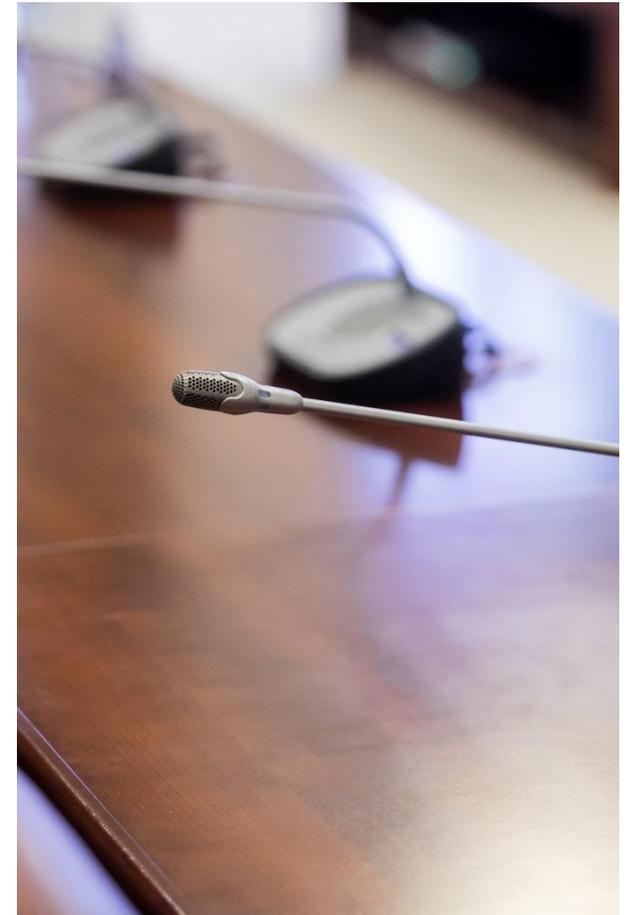
In order to ensure the procurement strategy does not become out of date, we consider that the Council should embed a regular review process of all corporate governance documents. We would recommend every 2-3 years as a minimum.

The Councils current procurement monitoring makes use of IN-TEND. However tracking of direct awards and pipelines currently makes use of spreadsheets which poses difficulties to track and update without risk of errors. It also makes it difficult to accurately gain oversight of future pipelines of work. Ideally pipelines should look ahead three to five years to be truly effective, and should be a live tool, updated at each major change, in a timely manner.

As part of the review of procurement practices, the Council should consider alternative tools for reliable, accurate procurement pipelines.

Contract management takes place within the service areas rather than directly through the procurement team. As part of the initial procurement process the contract manager is identified and KPIs set, so that these can be managed and monitored throughout the life of the contract. Despite this, there been a range of issues which have caused both reputational and financial impacts to the Council, due to performance issues with outsourced contracts to SCT, SLT and SERCO.

These have been well documented as part of our Governance Review, presented to the Council in December 2021. The Council are in the process of developing a corporate approach to project management to address these findings, which will also apply to management of capital projects and align with the Council's Corporate Asset Management Strategy once developed.



Improving economy, efficiency and effectiveness – Adult Social Care

Areas of high spend

As part of our review we made use of the Grant Thornton data analytics platform CFO Insights to benchmark Sandwell Council against other local authorities in relation to spend per head.

The results of this showcased that the Council were ‘Very High Spenders’ (i.e. in the top 20% of all metropolitan boroughs) in Adult Social Care, using 2020/21 outturn data and 2021/2022 budgeted figures. Our analysis identified ‘Very High Spend’ across a range of areas including, Commissioning and service delivery, Learning disability support, Physical Support, Sensory Support and Support with memory and cognition.

Adult Social Care

Sandwell’s social care responsibilities are also a significant budgetary cost, with budgeted net expenditure of £90m for 20.21. Additionally, like many local authorities, Sandwell faced pressures within the service directly as a result of the pandemic, due to increased demand and staffing constraints. Despite this Adults Services attained a £12m underspend during the 2020/21 financial year, although this was significantly supported by Covid-19 funding. Whilst the Council has had significant cost pressures in terms of residential and care home costs, this plateaued throughout the year. However, there will continue to be pressures on future budgets driven by the fair cost of care and the cost of care cap.

Whilst the Council have some Council run care homes, they like many local authorities they also rely on the private provider market which can be expensive. In order to drive more evidence-based decision making as part of utilising these services the Council is making use of digital tools such as Care Cubed.

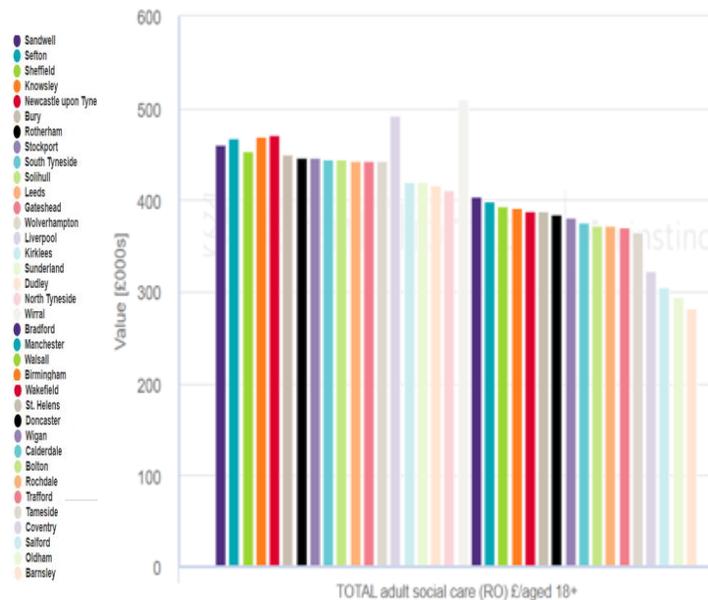
Workforce continues to be a key concern, and the directorate continue to have recruitment problems, which has resulted in a reliance on agency staff. In order to ensure adequate workforce planning, the Council are planning to conduct a benchmarking analysis to provide the evidence and data to underpin a sustainable workforce plan which can be built into the MTFs. This is due to be completed by September 2022, and to be agreed at Cabinet.

Externally adult social care services appear to be performing well, with all CQC reports ranking services as Good. However internally, performance management, has not been a key focus and is only now being developed and embedded in the directorate through the Adult Social Care Outcomes Framework in order to really understand performance.

Although these programmes of work are still in their infancy, it is clear that the Directorate are aware of the challenges they face and are now under the direction of the new leadership team developing responsive action. There is a degree of urgency needed to ensure that sufficient progress against plans is being made. It is essential that this is clearly communicated to members and will continue to be monitored in 2021/2022.

There continue to be a number of challenges within the directorate which are driving high costs. These include costs relating to transitions between the Children’s Social Care Services across to Adults. The Council are therefore beginning to explore work which looks at the whole model of care and to ensure there is no void in between the transfer from Children’s to Adults.

There are also concerns around the complexity of cases, and the level and intensity of packages which are currently delivered. The Directorate is therefore shifting the focus to look at what can be provided to families to help them meet their own needs or for options for needs to be met by wider community initiatives and reablement models which make use of digital tools.



Improving economy, efficiency and effectiveness – Children’s Social Care

Children’s Social Care

Within Children's Social Care there are a range of governance arrangements now in place. These cover both the operation of Sandwell's Children's Trust (SCT) and those services which sit outside of the Trust's remit.

In relation to the Trust specifically there are now much more robust governance arrangements in place, due to the direction from DfE. This includes an Operational Partnership Board (OPB) led by the Trust. This is used to provide updates in order to give a clear overall picture of operations through a performance scorecard report. The scorecard includes a range of KPIs which have been set out in the contract, covering performance, financial issues and workforce development. The KPIs are currently under review as part of the actions in the Improvement Plan, expected to be reviewed and finalised in Summer 2022 following review of the SCT contract.

The Partnership Board is made up of Trust Board members and Council staff including finance and commissioning colleagues who meet on a monthly basis. In addition, there is a pre-meeting of Officers before the OPB to discuss any key issues and to ensure that no areas of concern are missed. This prevents surprises and provides a high level of oversight to Council officers.

Additionally the Council have focussed on opening the lines of communication, through a closely fostered relationship between the Director of Children’s Services and the Trust Chief Executive who meet on a weekly basis. The appointed member is also provided with an update on a monthly basis. At a corporate level, performance is also reported to the Sandwell Performance Board, chaired by the Chief Executive on a quarterly basis.

In line with the Council's improvement plan the Trust have undertaken a realignment of social care teams and introduced a locality model across 3 distinct areas, each managed by a separate Head of Service. The aim is to strengthen partnership working, to provide a better alignment of services and a greater focus on prevention.

Ofsted conducted an inspection of the Fostering Agency in August 2021, followed by a monitoring visit to the Trust in November 2021. The former highlighted some areas of improved practice such as good partnership working with Education & Health, visible leaders and robust safeguarding processes. Recommendations were also raised including increased training for foster carers and the joint panel, as well as a recruitment strategy for foster carers.

The November visit emphasised that they could "see tangible progress... however, there remains a lot more to do to secure permanence for many children in care". Despite the progress being made, such as improved tracking arrangements and effective working with partnerships, Ofsted found that experiences of children were inconsistent. Whilst quality assurance has improved, further work is still required to embed this, and a key focus is needed to stabilise and strengthen the workforce, as the turnover of staff and use of agency workers continues to be high.

As with many other Council's across the UK, there are significant workforce challenges within Children's Social Care, leading to reliance on expensive agency staff. The Trust carried out a market analysis of social worker pay, presented to Cabinet in March 2022, which found that some salaries were not competitive within the region. The Council recognises the risk this poses with fewer permanent staff applying for jobs and current staff leaving for higher salaries elsewhere, leading to a further reliance on agency workers and increased costs, as well as compromising outcomes for children.

In response the Council agreed to introduce a Market Supplement for case holding social workers at an annual cost of £582k, of which £150k is within the Contract Sum resulting in a maximum additional sum of £432k to the Council. This is being funded through an earmarked reserve built from the additional Social Care Grant received by the Council.

The Trust have also been focussed on developing a comprehensive plan for recruitment and retention, set out in the public document '12 reasons to work for Sandwell'. These include focus on reward packages, career progressions and visible leadership.

A key area of high spend and strategic challenge for the Council is in relation to special educational needs and disabilities (SEND) provision. Sandwell are facing increased demand and more complex needs, coupled with a lack of capacity in specialist settings. As a result, the Council are continuously making use of independent special school places, which have associated financial implications. Whilst Funding is provided to the local authority, through the High Needs Block of the Dedicated Schools Grant, this will balance at the end of 2021/22 leading to an increasing deficit position in future years. The Council have set up multi-agency partnership Boards to monitor and review SEND arrangements and progress, these will need to be continually monitored through these forums.

Whilst it is clear the Council have been making improvements, they are in the infancy of this journey and there are a number of key challenges, which they will need to work to overcome. The governance arrangements that have now been put in place, should support the directorate to make the necessary changes in future years.

Improving economy, efficiency and effectiveness - Housing

Housing

Sandwell Council has undergone a recent restructuring which has moved the Housing Directorate out of Neighbourhoods and Communities to condense the housing functions into one area. As part of this transformation the Council have engaged Savills to conduct a review of the directorate, to help highlight improvements and to ensure preparedness for changes to regulatory frameworks. The Council are in the process of setting up a Housing & Transformation Board to review the reports and action issues raised. This will be reviewed as part of future value for money reviews.

One of the Council's strategic outcomes is focussed on producing 'Quality Homes in thriving neighbourhoods' which is underpinned by the aim to have 8,000 more new homes in the Borough by 2030 and to improve the quality of existing accommodation. The Housing Directorate have their own distinct 3 year business plan which outlines how this is to be achieved and includes a well-established set of KPIs and governance structures.

However the Council's 30 year HRA Business Plan should be regularly reviewed and by the Directorate. This should be used as a tool for long-term strategic planning, incorporating revenue and capital spend, along with income over the medium to long term, to provide the informed direction of travel for the housing service. This should provide a focus on delivering affordable quality homes whilst maintaining standards of existing stock.

The Council should ensure there is a robust HRA 30 year Business Plan in place, which includes narratives to explain forecast projections contained in the excel spreadsheets. We note that this exercise is underway and is being supported by external consultants.

The Council's asset management and maintenance programme has come under pressure due to the pandemic with a significant backlog and reliance on contractors. In January 2022 there was a BBC article focussed on the recent refurbishment of Alfred Gunn House which highlighted the poor living conditions of a number of tenants. As a result the Council conducted a lessons learned review which highlighted that whilst governance arrangements were in place, they focussed on the contract and completion of the project with no single designated Project Manager. These roles are now being put in place with regular reports being sent to the Directorate Management Team on a monthly basis. In addition Council projects will now also be supported by a Tenant Communication Plan focussed on communication and impact on tenants. The new governance structure will be rolled out when the next refurbishments begin in June 2022.

As highlighted in the financial sustainability section of this report, Sandwell Council have not previously been focussed on maximisation of income generation or savings plans. In Housing this has meant that the rental charges for garages have not been increased for a number of years. When compared with neighbouring Local Authorities, 2020/21 garage rents in Sandwell were significantly lower (we note that these have been increased for 2022/23. Increases to the rental prices are now under consideration by Cabinet.

It is clear that the Council's overall transformation and the introduction of the new leadership team has ignited enthusiasm to bring about changes throughout the organisation. There is a clear momentum to enact change in the way services are run and monitored, with improved performance management practices and large scale reviews, such as that being carried out by Savills within Housing, but also more widely through the LGA Peer Review and CIPFA FM Review.

Conclusion

Although there were some weaknesses in the arrangements in place during 2020/21 for achieving economy, efficiency and effectiveness, the Council have made a range of improvements to address these. We have identified a number of improvement recommendations in these areas, to complement the work already ongoing.

There were key weaknesses during 2020/21 in relation to performance management and contract management for which the Council are making steps to improve through the actions detailed in the Improvement Plan. Whilst the Council have not regularly engaged in benchmarking exercises, the engagement with CIPFA and the LGA for recent reviews have shown a keen willingness to learn from best practice and to make far-reaching changes across the organisation.

Adult and Children's services in particular face a range of difficult challenges including workforce issues and increased demand. The Council are aware of these issues and are working towards addressing these at the Directorate level, but also with engagement across the organisation via the Leadership Team. It is evident the Council has ambitious plans in place to improve services and appropriate investment will be required to realise these. It is clear the Council have developed increasing self-awareness and an appetite for change, which has been reflected in the current plans for improvement and the engagement from officers with the recent reviews. It is recognised that this will be a journey for the Council, and this will be kept under review.

Improvement recommendations

Financial sustainability

1 Recommendation	<p>In the context of the ongoing improvement plan actions, we recommend that the following improvement areas be addressed as part of this process:</p> <ul style="list-style-type: none"> • It would be beneficial for the Council to develop a Corporate Data Strategy which outlines how data should be captured and stored across the organisation, as well as guidance on technology and information governance. • Use of national and regional benchmarking should be used when available and appropriate, as part of the performance management arrangements to help the Council understand their position in relation to other local authorities • Council should continue to develop and engage with partners, particularly at the corporate and regional level • Update the Procurement Strategy, which was last updated in 2010 • As part of the review of procurement practices, the Council should consider alternative tools for reliable, accurate procurement pipelines.
Why/impact	There are a number of specific areas that will help the Council to strengthen its grip on the performance of services, and deliver reform and improvement over time.
Auditor judgement	Improvement Recommendation.
Summary findings	We noted a number of areas for improvement in the Councils governance arrangements, however we are also aware of the Council's financial management restructure, the revised budget process and the on-going work to implement the recommendations of the Governance Review, the CIPFA Financial Management Review and the LGA Peer Review. This recommendation is therefore intended to compliment this work.
Management comment	The Corporate Data Strategy is within the Business Strategy and Change Business Plan for 2022/23 and resources have been set aside for this. The other recommendations are covered in the Council's Corporate Improvement Plan with specific actions over the next 12 months.

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

COVID-19 arrangements



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

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

Financial sustainability

The Council managed its financial position reasonably well in 2020/21 in the context of the COVID-19 pandemic. The Council was in receipt of significant emergency support funding from government which was used to balance the budget in 2021/22 and provide general fund reserves, which were used to manage COVID related cost and income pressures in both 2020/21 and 2021/22. This has enabled the Council to protect its usable general fund reserves at a healthy level into financial year 2022/23.

We note that the Council implemented a COVID Reset and Recovery plan and board that included a workstream to understand the financial impact, which was presented to members in September 2020. The Council was also able to track one off COVID pressures, and separate these from underlying pressures reasonably well.

The Council was not able to address its projected budget deficit in 2021/22 through savings and instead, using COVID emergency funding and one off measures to balance the budget. While it is expected that the pandemic would affect the ability of to deliver planned savings in full, many Councils were able to deliver a proportion of savings. Had the Council had a more robust financial management process in 2020/21, this should have been achievable, as was shown in the delivery of £14.6m of savings in the 2022/23 budget.

Governance

The Council had to adapt its governance arrangements to continue to address the challenges posed by the Covid-19 pandemic. In order to manage these pressures, the Council made use of delegated decision-making arrangements and virtual committee meetings following enactment of the Coronavirus Act 2020.,

The Council set up the Emergency Committee which acted as the primary decision-making body throughout the first lockdown and the Sandwell Strategic Incident Management Team who oversaw the day to day Covid-19 response.

In relation to risk management the Council set up a separate Covid-19 risk register which was regularly presented to the Audit & Risk Assurance Committee. By completing 2 separate risk registers, the Committee were able to have oversight of the pandemic related risks, without losing sight of the other strategic level risks which continued to pose challenge to the Council throughout this time period. These have now been merged as the risks posed by the pandemic have continued to decrease.

In our view, effective arrangements were introduced to monitor the operational impact of Covid-19 on services and these arrangements enabled timely and responsive action to be taken.

Improving economy, efficiency and effectiveness

The Council response to the pandemic was driven by the Local Outbreak Plan, which focussed on a system-wide response and was predicated on existing major incident plans the Council already had in place. This was monitored through the Sandwell Strategic Incident Management Team which included Council directors and partner representatives from NHS, police and voluntary sectors.

The Plan focussed heavily on working together and defining clear roles and responsibilities across the local systems, making use of multi-agency risk assessments.

Integrated situation reports were compiled regularly to present at SIMT meetings with versions shared among workforce, stakeholder groups and members. Abridged version were also added to the Council website to keep the public informed.

Case studies and lessons learned from the Council's response to the pandemic have been collated and used for future learning throughout the system. This has been clearly articulated within the Council's updated COVID-19 Local Outbreak Management Plan published in April 2021.

Opinion on the financial statements



Independent opinion

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.

Audit opinion on the financial statements

Our audit of the 2020/21 financial statements is ongoing. We anticipate issuing our audit opinion in August 2022.



Appendices

Appendix A - Responsibilities of the Council



Role of the Chief Financial Officer (or equivalent):

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

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

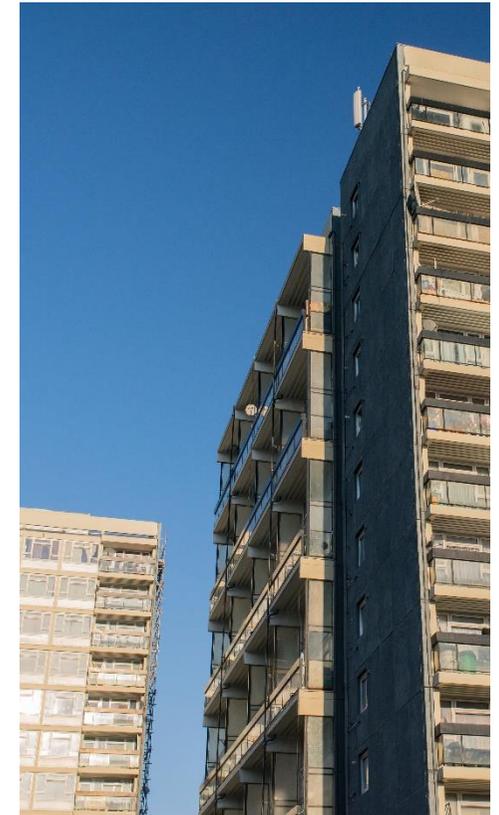
Financial statements are the main way in which local public bodies account for how they use their resources. Local public bodies are required to prepare and publish financial statements setting out their financial performance for the year. To do this, bodies need to maintain proper accounting records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

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

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

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

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



Appendix B - Risks of significant weaknesses - our procedures and findings

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

Risk of significant weakness	Procedures undertaken	Findings	Outcome
Governance was identified as a potential significant weakness.	Additional procedures – Governance Review	See summary findings in this report	Significant Weakness identified.

Appendix C - An explanatory note on recommendations

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

Type of recommendation	Background	Raised within this report	Page reference
Statutory	Written recommendations to the Council under Section 24 (Schedule 7) of the Local Audit and Accountability Act 2014. A recommendation under schedule 7 requires the Council to discuss and respond publicly to the report.	Yes or 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'.		
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.		



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