

**Deloitte.**



# Southend-on-Sea City Council

Auditor's Annual Report 2022/23

**October 2024**

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## Auditor's Annual Report

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# Key Messages

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## **Audit opinion on the financial statements**

We anticipate issuing a modified opinion on the Council's financial statements.

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## **The Councils arrangements to secure Value for Money**

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### **Financial sustainability**

*How the body plans and manages its resources to ensure it can continue to deliver its services*

The Council generated a deficit on the provision of services of £37.2m prior to adjustments (2021/22:£18.4m deficit). In common with other local authorities, cost increases were experienced across the board due to inflationary pressures. The overall net impact on the General Fund Revenue budget was an overspend of £6.8m, financed using earmarked reserves. Whilst reserves have been utilised in the last few years, the Authority recognises that continued reliance on reserves is not sustainable. At a national level, ongoing impacts from the covid pandemic, the war in Ukraine and the subsequent impact on inflation and prices rises have continued to impact the sector. Given these sector-wide challenges the Council delivered efficiency savings totalling £2.9m in 2022/23, representing 60% of the £4.8m target for the year. For 2023/24, the approved budget included £11.6m of savings and income generating initiatives.

At the time of reporting, the Council continues to be challenged by significant financial pressures. There has continued to be regular monitoring of the financial position and arrangements are in place to routinely update the Medium-Term Financial Plan. The Medium-Term Financial Strategy for 2023/24 to 2027/28 provided a financial forecast with an estimated budget gap of £29.8m by 2027/28. This has since been revised with the most recent MTFS for 2024/25 – forecasting a total budget gap of £24.5m by 2027/28 and £32.9m by 2028/29.

The Council has recognised that to remain financially viable, urgent action needs to be taken to modernise its operating model and find new ways of meeting the needs of its community in a cost-effective manner. Work has been underway to map out this Transformation and determine the council's budget plans for 2024/25 and across the medium-term as recognised in the most recent MTFS 2024/25 to 2028/29. This work began in 2022/23 when the Council worked with external advisors to develop a transformation blueprint. The Council has since sought external advisory support to further progress and identify specific opportunities for cost reduction, savings and income generation.

***The Councils ambitions will require detailed and robust plans, tight monitoring and control in addition to the engagement of Council staff to ensure clear political and operational ownership to address the recurrent financial challenge in the short, medium and long term.***

***We concluded that there were no significant weaknesses in the Council's arrangements.***

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# Key Messages (continued)

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## The Councils arrangements to secure Value for Money

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### **Governance**

*How the body ensures that it makes informed decisions and properly manages its risks*

The Council has a Risk Management Policy Statement and Strategy document in place which outlines the arrangements for identifying, recording and monitoring corporate risks. The Council's Head of Internal Audit Opinion for 2022/23 provided satisfactory assurance for the design of the Council's risk management services but partial assurance for the operation of the governance framework further detail surrounding the opinion is provided on page 20.

The Council received an LGA Peer Challenge in October 2022, which provided nine key recommendations across a broad range of areas including ensuring there is an organisational commitment to behaviour change to support more effective councillor /officer working relationships and considering changing the election cycle.

Since the LGA Peer review, there have been a number of changes in relation to political and corporate leadership and the Council remains in 'No Overall Control'. We noted that this instability and the concerns noted regarding effectiveness of councillor/officer working relationships may have impacted on the timeliness of decision making, including, the decision to go out to tender for a new waste contract and agreeing on the service specification to enable a smooth transition on contract expiry.

An LGA Peer Challenge follow-up visit in December 2023 noted that there is recognition within the Council that there is still more work to do and a clear commitment to continue this work.

Our review has also identified the need to ensure governance arrangements are strengthened over the monitoring and holding to account in respect of the implementation of OFSTED action plans and internal audit and counter fraud recommendations.

**Therefore, based on the procedures performed, we have concluded that for the period 2022-23, the arrangements in place surrounding leadership, governance and decision making indicated a significant weakness at the Authority. We note that the Council has acted to address many of these concerns during 2023/24 and there is a clear commitment to continue with this work (albeit recognising the limitations of the electoral cycle) going forward.**

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# Key Messages (continued)

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## The Councils arrangements to secure Value for Money

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### **Improving economy, efficiency and effectiveness**

*How the body uses information about its costs and performance to improve the way it manages and delivers its services*

The Council assesses its performance through quarterly Performance and Finance Monitoring Reports which are reported to Cabinet. There is also a Quarterly Budget Monitoring process in place which ensures that both revenue and capital net spending is controlled and reported through a rolling forecast that goes through scrutiny and Cabinet process. The Cabinet committee is also the basis for challenging management as well as identifying emerging risks.

Performance Management is aligned with the Council's financial reporting and risk management, with key performance indicators aligned to each of the Corporate Priorities.

The Council makes use of LG Futures benchmarking data for insights and comparator information. In addition, combined with service engagement and understanding user and staff experience, the Council has utilised benchmarking as part of its current state assessment to identify opportunities for improvement, cost savings and transformation.

The Better Queensway Project was being delivered as a joint venture between the Council and Swan Housing through a Limited Liability Partnership (LLP). Following the acquisition of Swan Housing, Sanctuary Housing took the decision to withdraw from the Project with the settlement agreement being concluded in November 2023 and the Council becoming sole owner of the LLP. ***Whilst there have been a number of developments in respect of the Better Queensway Project, there remains continued uncertainty regarding the planned delivery route for all phases of the project to be determined. The Council will need to continue to carefully consider the options available in respect of the Better Queensway Scheme as it seeks a way forward whilst ensuring that value for money risks are effectively recognised and managed.***

***We concluded that there were no significant weaknesses in the Council's arrangements.***

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# Purpose of this report

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Our Auditor's Annual Report sets out the key findings arising from the work we have carried out at Southend-on-Sea City Council ("the Council") for the year ended 31 March 2023.

This report is intended to bring together the results of our work over the year at the Council, including commentary on the Council's arrangements to secure economy, efficiency and effectiveness in the use of resources ("Value for Money", "VfM"). This report fulfils the requirements of the Accounts and Audit Regulations for an Annual Audit Letter.

In preparing this report, we have followed the National Audit Office's ("NAO") Code of Audit Practice and its Auditor Guidance Note ("AGN") 03, Value for Money, and AGN 07, Auditor Reporting. These are available from the NAO website.

A key element of this report is our commentary on the Council's arrangements to secure economy, efficiency and effectiveness in the use of resources ("Value for Money", "VfM"). Our work considering these arrangements is based on our assessment of the adequacy of the arrangements the Council has put in place, based on our risk assessment. The commentary does not consider the adequacy of every arrangement the Council has in place, nor does it provide positive assurance that the Council is delivering or represents value for money.

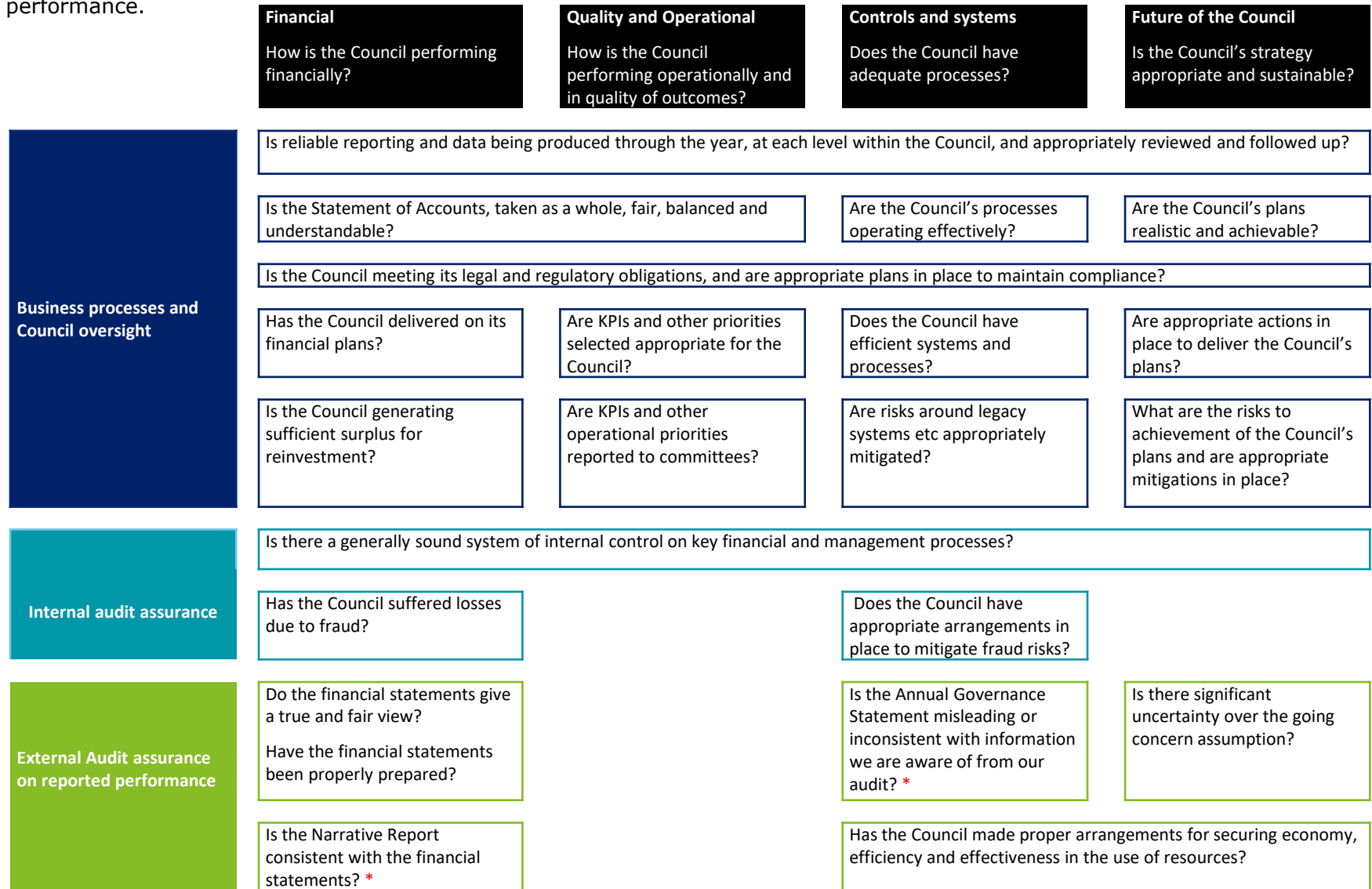
Where we find significant weaknesses in the Council's VFM arrangements or areas where arrangements could be further strengthened, we include recommendations setting out what the Council needs to do to strengthen its arrangements.

The significant weakness in the Council's VFM arrangements and related recommendations is set out in Appendix 1.

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# Assurance sources for the Council

The diagram below illustrates how the assurances provided by external audit around finance, quality, controls and systems and the future of the Council (in the green rows) fits with some of the other assurances available over the Council's position and performance.



# Opinion on the financial statements

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## **We provide an independent opinion whether the Council's financial statements:**

- Give a true and fair view of the financial position of the Council at 31 March 2023 and of the Council's income and expenditure for the year then ended;
  - Have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Council Accounting in the United Kingdom in 2022/23; and
  - the full opinion is included in the Council's Statement of Accounts, which can be obtained from the Council's website.
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We conduct our audit in accordance with the NAO's Code of Audit Practice, International Standards on Auditing (UK) ("ISAs (UK)") and applicable law.

We are independent of the Council in accordance with applicable ethical requirements, including the Financial Reporting Council's Ethical Standard.

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**Audit opinion on the financial statements:** We anticipate issuing a modified opinion on the Council's financial statements due to an exception in respect of the 'Use of Resources' as detailed in this report. We did not identify any matters where, in our opinion, proper practices had not been observed in the compilation of the financial statements.

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**Narrative Report:** We reported that the information given in the Narrative Report for the year ended 31 March 2023 is consistent with the financial statements.

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**Annual Governance Statement:** We did not identify any matters where, in our opinion, the Annual Governance Statement did not meet the disclosure requirements set out in the Code of Practice on Local Council Accounting, was misleading, or was inconsistent with information of which we are aware from our audit.

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**Reports in the public interest and duties as public auditor:** We did not exercise any of our additional reporting powers in respect of the year ended 31 March 2023.

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**Audit Certificate:** We are not able to certify completion of the audit until the Whole of Government Accounts requirements are published by the NAO and the audit procedures in relation to these are completed.

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# Our financial statement audit approach

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## **An overview of the scope of the audit**

Our audit was scoped by obtaining an understanding of the Council and the environment it operates in, including internal control, and assessing the risks of material misstatement to the financial statements. Our risk assessment procedures include considering the size, composition and qualitative factors relating to account balances, classes of transactions and disclosures. This enables us to determine the scope of further audit procedures to address identified risks of material misstatement.

Audit work to respond to the risks of material misstatement was performed directly by the audit engagement team, led by the audit director, Mohammed Ramzan. The audit team included integrated Deloitte specialists bringing specific skills and experience in property valuations and in relation to local government pension scheme.

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## **Materiality**

Our work is planned and performed to detect material misstatements. We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

Based on our professional judgement, we determined materiality for the Council to be £8.6m, on the basis of 2% of total cost of service expenditure.

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £0.43m as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

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## **Procedures for auditing the financial statements**

Our audit of the financial statements included:

- developing an understanding of the Council, including its systems, processes, risks, challenges and opportunities and then using this understanding to focus audit procedures on areas where we consider there to be a higher risk of misstatement in the financial statements;
  - performing sample tests on balances in the financial statements to supporting documentary evidence, as well as other analytical procedures, to test the validity, accuracy, completeness and existence of those balances; and
  - interviewing members of the Council's management team and reviewing documentation to test the design and implementation of the Council's internal controls in certain key areas relevant to the financial statements.
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## **Approach to audit risks**

We focused our work on areas where we considered there to be a higher risk of misstatement. We refer to these areas as significant audit risks.

We provided a detailed audit plan to the Council's Audit Committee setting out what we considered to be the significant audit risks for the Council, together with our planned approach to addressing those risks. We have provided a summary of each of the significant audit risks on the following pages.

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# Significant risks

## Valuation of property assets

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**Risk identified**

The Council is required to hold dwellings, other land and buildings within Property, Plant and Equipment and Investment Properties at valuation. The valuations are by nature significant estimates which are based on specialist and management assumptions, and which can be subject to material changes in value.

The Authority held £739m of property assets (land and buildings) at 31 March 2023 (£715m as of 31 March 2022) as per the revised accounts. This movement from the prior year is due to revaluation movements as a result of the revaluation exercise during 2022/23 and 2023/24 (i.e. 1 April 2022 & 1 April 2023), reclassifications from assets under construction and material additions and disposals during the year.

The Council updates the valuation of its properties using a rolling revaluation programme. The main assets which were revalued in the year at 1 April 2022 were Schools, Sports Pavilions, Park WCs, Park Messrooms, Day Centres, Marine Activity Centre, Lagoon WCs and at 1 April 2023 were Parks, pier assets, Southend adult community college, Council administrative & cemetery buildings, nursery schools.

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**Deloitte response and challenge**

We have completed the following procedures:

- We have reviewed the design and implementation of the controls in place in relation to property valuations;
- We have considered the work performed by the Council's valuer, including the adequacy of the scope of the work performed, their professional capabilities and the results of their work;
- We have engaged our valuation specialists to review and challenge the appropriateness of the assumptions used in the valuation of the Council's property assets;
- We sample tested key asset information used by the Council's valuers in performing their valuation, such as gross internal areas, back to supporting documentation;
- We have reviewed assets not subject to valuation in 2022/23 to confirm that the remaining asset base is not materially misstated;
- The property assets valued under the rolling valuation programme on 1 April 2022, have been updated to reflect the fair value as at 31 March 2023 to ensure these properties' valuations align to the most up to date information. We confirmed through inspection of updates to the valuation and the latest valuation report that there were no differences noted.
- For assets not revalued at 1 April 2022, we have performed an analysis of the indexation calculations applied to arrive at the valuation of property assets as at yearend to ensure the indexation adjustments were deemed reasonable; and

# Significant risks (continued)

## Valuation of property assets (continued)

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**Deloitte response and challenge (continued)**

- Upon receipt of the 1<sup>st</sup> April 2023 valuation, the Council has updated the latest financials to reflect the fair value of properties to the most up to date information. This has resulted in an overall decrease of £2.5m in PPE. We have assessed the basis for this adjustment and considered it within the reasonable range for valuation purposes.
- We have reviewed the presentation of revaluation movements, and the disclosures included in the Statement of Accounts.

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**Conclusion**

We have finalised our work on revaluation. We noted that the Cumberledge Centre value has been understated by £1.4m as at 31/03/2023 due to an incorrect valuation approach applied.

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## Significant risks (continued)

### Revenue expenditure incorrectly capitalised

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**Risk identified** As part of the Medium-Term Financial Strategy 2022/23 to 2026/27, the Council has a substantial capital programme of £176.9m over the next five years. The capital programme for 2022/23 had an actual spend of £52.1m.

Determining whether expenditure should be capitalised can involve judgement. There is also an incentive to inappropriately capitalise expenditure as the Council has greater flexibility over the use of revenue compared to capital resources. Given this incentive to capitalise costs that are not capital in nature, we specifically identified this area as a significant risk of material misstatement and a fraud risk.

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**Deloitte  
response and  
challenge**

We have tested the design and implementation of controls around the capitalisation of costs.

We have selected a sample of additions in the year to test whether they have been appropriately capitalised in accordance with the accounting requirements. This sample included Assets Under Construction.

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**Conclusion**

We have no matters to bring to the attention of the Audit Committee.

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# Significant risks (continued)

## Management override of controls

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**Risk identified**

Management is in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.

Although management is responsible for safeguarding the assets of the Council, we planned our audit so that we had a reasonable expectation of detecting material misstatements to the Statement of Accounts.

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**Deloitte response and challenge**

We have considered the overall sensitivity of judgements made in preparation of the Statement of Accounts, and note that:

- The Council's results throughout the year were projecting overspends in operational areas. This was closely monitored and whilst projecting overspends, the underlying reasons were well understood; and
- Senior management's remuneration is not tied to particular financial results.

We have considered these factors and other potential sensitivities in evaluating the judgements made in the preparation of the financial statements.

### Journals

- We have tested the design and implementation of controls in relation to journals.
- We have made inquiries of individuals involved in the financial reporting process about inappropriate or unusual activity relating to the processing of journal entries and other adjustments.
- We have used Spotlight data analytics tools to test a sample of journals, based upon identification of items of potential audit interest. Our analysis has covered all journals posted in the year.

### Significant transactions

- We did not identify any significant transactions outside the normal course of business or any transactions where the business rationale was not clear.
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# Significant risks (continued)

## Management override of controls (continued)

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**Deloitte response and challenge****Accounting estimates**

- We have performed design and implementation testing of the controls over key accounting estimates and judgements.
- The key judgements in the financial statements are those selected as significant audit risks and other areas of audit interest as discussed elsewhere in this report.
- We reviewed accounting estimates for biases that could result in material misstatements due to fraud. We note that overall, the changes to estimates in the period were balanced and did not indicate a bias to achieve a particular result.
- We tested accounting estimates and judgements, focusing on the areas of greatest judgement and value. Our procedures included comparing amounts recorded or inputs to estimates to relevant supporting information from third party sources.

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**Conclusion**

We have no matters to bring to the attention of the Audit Committee.

We have not identified any significant bias in the key judgements made by management, and we have not identified any instances of management override of controls in relation to the specific transactions tested as part of our audit.

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# Auditor's work on Value for Money (VfM) arrangements

The section 151 Officer and the Council are responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in the use of 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 section 151 Officer reports on the Council's arrangements, and the effectiveness with which the arrangements are operating as part of their Annual Governance Statement.

Under the Local Audit and Accountability Act 2014, we are required to be satisfied that proper arrangements have been made to secure economy, efficiency and effectiveness in the use of resources. Under the National Audit Office's Auditor Guidance Note 3, we are required to assess arrangements under three areas:

Area	Risk assessment	Findings
Financial Sustainability	One risk of significant weakness identified	No significant weakness identified
Governance	Two risks of significant weakness identified	One significant weakness identified
Improving economy, efficiency and effectiveness	No significant risks identified	No significant weakness identified

In this report, we set out the findings from the work we have undertaken. Where we have found significant weaknesses in arrangements, we are required to make recommendations so that the Council can consider them and set out how it plans to make improvements. The findings and recommendation for the significant weakness are included within the main report and summarised with management response in Appendix 1.

In planning and performing our work, we consider the arrangements that we expect bodies to have in place, and potential indicators of risks of significant weaknesses in those arrangements. Our assessment of potential indicators has been performed in the context of the economic climate and overall local government landscape during 2022/23.

In addition to our financial statement audit, we performed a range of procedures to inform our VfM commentary, including:



Interviews with key stakeholders, including Executive Director Finance and Resources, Monitoring Officer, Director of Strategy, Head of Procurement, Head of Internal Audit and Audit Committee Chair.



Review of Council and committee reports and attendance at Audit Committee meetings.



Reviewing reports from third parties including internal audit reports.



Considering the findings from our audit work on the financial statements.



Review of the Council's Annual Governance Statement and Narrative Report.

# VfM arrangements: Financial Sustainability

## Approach and considerations

## Commentary

We have considered how the Council plans and manages its resources to ensure it can continue to deliver its services, including:

- How the Council ensures it identifies all the significant financial pressures that are relevant to its short and medium-term plans and builds these into them;
- How the Council plans to bridge its funding gaps and identifies achievable savings;
- How the Council plans finances to support the sustainable delivery of services in accordance with strategic and statutory priorities;
- How the Council ensures that its financial plan is consistent with other plans such as workforce, capital, investment, and other operational planning; and
- How the Council identifies and manages risks to financial resilience, including challenge of the assumptions underlying its plans.

The Council reported a deficit on the provision of services of £37.2m for the year (2021/22:£18.4m) before adjustments between the accounting and funding basis.

In common with other local authorities, cost increases were experienced across the board due to inflationary pressures; which ONS figures show peaked at 11.1% in October 2022. The overall net impact on the General Fund Revenue budget was an overspend of £6.8m. This was financed using earmarked reserves previously set aside for service risks, in particular statutory social care pressures that were predicted following recovery from the pandemic. Whilst reserves have been utilised in the last few years, the Authority recognises that continued reliance on reserves is not sustainable.

At a national level, ongoing impacts from the covid pandemic, the war in Ukraine and the subsequent impact on inflation and price rises have continued to affect the sector. The covid pandemic and the cost-of-living crisis has also resulted in increased demand for social care and other services. In particular, the Council has seen a significant rise in the cost of placements for Children in Care, with residential placements in short supply across the country. This is particularly true in the case of complex needs and/or challenging behaviour.

At 31 March 2023, the Council had net assets of £858.5m (31 March 2022: £641.9m) and cash of £44.7m (31 March 2022: £53.7m). At 31 March 2023, the total reserves balance of £858m included usable reserves of £197m (Total reserves £641m and usable reserves £200m in the prior year).

In the context of national and local challenges, as noted above, the Council delivered efficiency savings totalling £2.9m in 2022/23, representing 60% of the £4.8m target for the year. For 2023/24, the approved budget included £11.6m of savings and income generating initiatives. The Council provides breakdown of savings and income generation proposals within its Medium-Term Financial Forecast. **To ensure an ongoing focus on underlying financial sustainability, the Council could look to regularly report on cost reductions achieved against target, providing a breakdown by recurrent and non-recurrent schemes within its regular financial monitoring reports.**

The deficit position (prior to adjustments), overspends in social care and shortfall in achieved savings initiative targets during 2022/23 all contributed to the identification of a **risk of significant weakness** for financial sustainability as part of our planning processes.



# VfM arrangements: Financial Sustainability (continued)

## Approach and considerations

We have considered how the Council plans and manages its resources to ensure it can continue to deliver its services, including:

- How the Council ensures it identifies all the significant financial pressures that are relevant to its short and medium-term plans and builds these into them;
- How the Council plans to bridge its funding gaps and identifies achievable savings;
- How the Council plans finances to support the sustainable delivery of services in accordance with strategic and statutory priorities;
- How the Council ensures that its financial plan is consistent with other plans such as workforce, capital, investment, and other operational planning; and
- How the Council identifies and manages risks to financial resilience, including challenge of the assumptions underlying its plans.

## Commentary

The Council continues to be challenged by significant financial pressures. There is regular monitoring of the financial position and arrangements are in place to routinely update the Medium-Term Financial Plan. The Medium-Term Financial Strategy for 2023/24 to 2027/28 provided a financial forecast with an estimated budget gap of £29.8m by 2027/28. This has since been revised within the M6 Finance and Performance Report to show an estimated budget gap of £39.1m by 2027/28 and the most recent MTFs for 2024/25 – forecasts for a total budget gap of £24.5m by 2027/28 and £32.9m by 2028/29.

**The Council has recognised that to remain financially viable, urgent action needs to be taken to modernise its operating model and find new ways of meeting the needs of its community in a cost-effective manner. Work has been underway to map out this Transformation and determine the Council's budget plans for 2024/25 and across the medium-term as recognised in the most recent MTFs 2024/25 to 2028/29.**

This began in 2022/23 when the Council worked with external advisors to develop a transformation blueprint. The Council has since sought external advisory support to further progress and identify specific opportunities for cost reduction, savings and income generation. Recent outputs from this work (reported in November 2023) include: finalising the Transformation Design Principles; a Current State Assessment informed by leadership, member and service engagement, performance and data analysis and capturing resident and staff experience; and, completion of scoping exercises across five cross-cutting themes (Front Door; Social Care Demand Management; Commissioning, Procurement & Contract Management; Estates Optimisation; and Shared Services) each of which map out the next steps in the journey.

Two new posts of Executive Director of Strategy and a Change & Transformation Director were appointed to in October 2023. Prior to this there were no specific resources assigned to transformation, with each of the services working in silo and to differing standards. Work is now underway to develop a dedicated Corporate Programme Management Office (PMO) with the support of a centralised Project Management resource aligned to the priorities for change, and a Service Design function to progress the design and delivery of the services.

The Corporate Leadership Team have also endorsed the establishment of a new Transformation Board with appropriate senior ownership and oversight. This was formally established in November 2023.

***The Councils ambitions will require detailed and robust plans, tight monitoring and control in addition to the engagement of Council staff to ensure clear political and operational ownership to address the recurrent financial challenge in the short, medium and long term.***

# VfM arrangements: Financial Sustainability (continued)

## Approach and considerations

## Commentary

We have considered how the Council plans and manages its resources to ensure it can continue to deliver its services, including:

- How the Council ensures it identifies all the significant financial pressures that are relevant to its short and medium-term plans and builds these into them;
- How the Council plans to bridge its funding gaps and identifies achievable savings;
- How the Council plans finances to support the sustainable delivery of services in accordance with strategic and statutory priorities;
- How the Council ensures that its financial plan is consistent with other plans such as workforce, capital, investment, and other operational planning; and
- How the Council identifies and manages risks to financial resilience, including challenge of the assumptions underlying its plans.

Childrens Services and Adult Social Care services remain significant financial challenges for the Council and are a major contributor to the overall financial pressures being faced over the short and medium term. Overspends in 2022/23 (across the broader 'Adult Social Care and Health Integration' and 'Children and Learning and Inclusion' portfolio's amounted to £8.3m (2022/23 Annual Report).

**The Council's inability to reduce significant overspends in Childrens and Adults social care and not having delivered recurrent savings to date has resulted in a reliance on reserves. This combination contributes to an increased risk with regards to financial sustainability for the Council and remains a threat to its future viability.**

Based on our work, it is evident that the Authority is affected by a number of external factors impacting Local Authorities nationally, these include inflationary pressures, significant increase in social care demands alongside a reduction in the supply of residential placements leading to significantly higher costs. Many of the challenges faced by the Authority are common across the sector and the Council has recognised that to remain financially viable, it must transform its operating model and work has been underway in this area for the last 18 months. Action is also being taken to strengthen governance arrangements in place to monitor and provide assurance over its delivery. As such, **we have concluded that this is not a significant weakness in arrangements at this point. However, The Council should ensure that communications and engagement to secure buy-in to delivering transformation and cost savings continues. This includes getting buy-in from officers, members and other stakeholders (including constituents) to ensure that the difficult decisions which may have the biggest overall impact on the Councils financial sustainability can be made in an efficient and timely manner. In addition, implementation of action plans must be closely managed and subject to detailed challenge and scrutiny to ensure it delivers the improvements necessary to address the significant financial sustainability challenges faced by the Authority.**

# VfM arrangements: Governance

## Approach and considerations

## Commentary

We have considered how the Council ensures that it makes informed decisions and properly manages its risks, including:

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

The Council received an LGA Corporate Peer Challenge in October 2022. This highlighted that the 'approach to leadership, governance and decision making is stifling the Council's capacity to progress as a city'. This was identified as a **risk of significant weakness** as part of our planning.

There were nine key recommendations from the review including: completing and implementing the Council's constitutional review and ensuring there is an organisational commitment to behaviour change to support more effective councillor /officer working relationships; considering changing the election cycle; re-engaging partners across public, private and voluntary sectors on Southend 2050 to provide more clarity between strategic priorities and delivery; modernising the council operating model; systems and processes; addressing inequalities and disparities across the city; and strengthening the Council's voice and influence in the wider regional agenda.

Since the LGA Peer review, there have been a number of changes in relation to political and corporate leadership. The Council remains in 'No Overall Control' having had three different leaders in as many years.

Following the departure of the Chief Executive and Monitoring Officer in July 2023, an interim CEO and Monitoring Officer were appointed. The interim Monitoring Officer (an experienced CEO and previous Director of Governance and Law at other Councils) has focused on implementing the requirements and recommendations of the LGA Peer Review. Including work and training around decision making processes; report writing and meeting deadlines; and member conduct and improving debate in the chamber. These findings are also corroborated by concerns noted during our review in respect of relations between members and officers being impacted and not being conducive to effective decision making.

A backlog of councillor complaints has been cleared with oversight from the interim Monitoring Officer. New templates and flowcharts have been developed and an open remedial approach has been adopted as the preferred model for resolving issues.

The LGA Peer Challenge also recommended changing the election cycle from the election of one third of councillors every year for three years with no elections in the 4<sup>th</sup> year, to full elections every four years. A consultation on changing the election cycle was undertaken from November 2023 to January 2024 which resulted in no overall consensus. Whilst the election cycle is a political decision and not within the control of officers to implement, this instability may have contributed to other important decisions not being made in a timely manner and in turn having an impact on the value for money achieved by the Council. These include the lead-up process to going out to tender for a new waste contract and agreeing on the service specification. Further detail relating to this and wider procurement arrangements can be found in the EEE section on page 31.

# VfM arrangements: Governance (continued)

## Approach and considerations

## Commentary

We have considered how the Council ensures that it makes informed decisions and properly manages its risks, including:

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

An LGA Peer Challenge follow-up visit took place in December 2023. This reported that progress had been made against all areas, ways of working are improving and there is a positive direction of travel. **It was also noted that there is recognition within the Council that there is still more work to do and a clear commitment to continue this work. There are a number of consistent messages from the review which include the need to maintain focus on the delivery of savings and medium-term financial resilience; and the need to ensure a smooth transition to the new substantive Chief Executive who joined the Council in February 2024.**

**Based on the procedures performed, we have concluded that for the period 2022-23 the arrangements in place surrounding leadership, governance and decision making indicated a significant weakness at the Authority. We note that the Council has acted to address many of these concerns during 2023/24 and there is a clear commitment to continue with this work (albeit recognising the limitations of the electoral cycle) going forward.**

***Recommendation: The Council must continue to fully implement and embed the actions from the LGA Peer Review and manage risks surrounding leadership, governance and decision making.***

The Audit Committee reviews the adequacy of risk management arrangements and has oversight of the Council's system of internal control, including arrangements to prevent and detect fraud. The Council has a series of policies covering internal controls, including a whistleblowing and anti-money laundering policy. These policies are readily available for all staff to review on the Council's website. The Audit Committee approves the annual Internal Audit Plan and receives updates at committee meetings through the year.

The Council has a Risk Management Policy Statement and Strategy document in place which outlines the arrangements for identifying, recording and monitoring corporate risks. The Council's Head of Internal Audit Opinion for 2022/23 provided satisfactory assurance for the design of the Council's risk management services but partial assurance for the operation of the governance framework. Work is underway surrounding the governance framework and is being led by the Monitoring Officer as part of the response to the LGA Corporate Peer Review.

The Head of Internal Audit Opinion highlights that whilst the Risk Management Policy Statement and Strategy was reviewed and refreshed during 2022/23, it remains to be formally adopted. It also identified the need for further embedding of risk management operations to deliver the Council's corporate and service plans going into 2023/24. In particular, the need to capture the conversations about risks that are happening, to provide increased visibility, transparency and accountability for decision making around the risks below those on the corporate risk register. There were no internal audits which received minimal assurance. Where follow-up audits were undertaken, the Council has demonstrated progress in implementing recommendations.

# VfM arrangements: Governance (continued)

## Approach and considerations

## Commentary

We have considered how the Council ensures that it makes informed decisions and properly manages its risks, including:

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

Discussions with the Head of Internal Audit and the latest update to the January 2024 Audit Committee meeting confirm that risk management improvements across the Council are ongoing. Service plans have been re-introduced for 2023/24 each of which include risks to the delivery of service objectives for the period. Directorate Risk Registers (DRR) are currently under development. The DRR will include risks in respect of services, programmes or projects and holding companies that are within the remit of the directorate. Directorate level risks will be identified, assessed, monitored and reviewed by the Directorate Leadership Team on a bi-monthly basis.

In addition, the format of the Corporate Risk Register has been updated to provide improved analysis surrounding risks and the direction of travel of mitigations.

Further work is being undertaken on updating the risk management policy statement and strategy as part of the review of governance arrangements, this will include the responsibility of risk management moving from the Internal Audit Service to the Strategy and Change Directorate. This will be further informed and supported via the Councils' insurers to undertake a risk management health check and provide targeted risk management training.

Based on the work undertaken to date and planned going forward, it is evident the Council is making changes to improve risk management arrangements at both a corporate and directorate level. As such, this is not deemed to be a risk of significant weakness.

***The Council should ensure that there is a smooth handover of responsibility of risk management to the Strategy and Change Directorate and that a formal risk management improvement plan is implemented and monitored going forwards.***

The Council has a Counter Fraud and Investigations Team (CFIT) that has a work plan to enhance awareness of the risk of fraud, to prevent and detect fraud and that also receives and investigates allegations of fraud or impropriety. The Counter Fraud and Investigation Team reports into each Audit Committee as well as producing an Annual Report. Feedback from those interviewed along with quarterly and annual CFIT performance reports suggest that the CFIT are effective and play a positive role surrounding value for money.

We understand that whilst the Team is fully resourced to current establishment levels, demand is currently outstripping capacity. The national fraud guidance for local authorities is placing an increased emphasis on proactive fraud prevention initiatives. However, due to the continuing high volume of internal enquiries that the team is dealing with, reactive investigation work is taking priority over preventative work. ***The Council should undertake a review of capacity within the CFIT team to ensure it is appropriately resourced to effectively deliver the preventative and reactive work plans.***

# VfM arrangements: Governance (continued)

## Approach and considerations

## Commentary

We have considered how the Council ensures that it makes informed decisions and properly manages its risks, including:

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

The Council has seen an increase in fraud queries (particularly with the impact of remote working) post covid. CFIT are currently contributing to the revision of a number of policies and procedures aimed at making them fit to deal with modern working practices and address any potential gaps which may put the Council at risk from fraud and misconduct.

We identified opportunities for improving the arrangements being in place for presenting and monitoring the delivery of counter fraud recommendations highlighted as part of the CFIT work and investigations at either Audit Committee or Corporate Leadership Team. Internal Audit undertake follow-up reviews in areas that have received 'minimal' or 'partial assurance'. It is also understood that prior to the pandemic, all recommendations from Internal Audit reviews were formally recorded and tracked via the Pentana system, however, we understand that this was discontinued during the pandemic due to a redeployment of resources to address the significant challenges posed to the City and Council in responding to the pandemic and had not been reinitiated during 2022/23.

***The Authority should ensure arrangements are in place to provide assurance surrounding the detail on CFIT recommendations, alongside management responses and action plans. Management should be held to account over the delivery of all internal audit and counter fraud action plans with all recommendations dating back to the pandemic period to be uploaded onto the Pentana system. Progress and delivery should in turn be tracked through formal reporting to ensure that all recommendations raised have been actioned and embedded to further enhance the work that Internal Audit already undertake surrounding 'partial' and 'minimal' assurance reviews.***

The Council undertakes detailed budget monitoring on a monthly basis and reports to both Cabinet and Corporate Leadership Team four times per year. These reports include a review of the forecast outturn position against the budget, and details any significant variances. The report also includes non-financial information and reports on how the Authority is performing against the Councils strategic objectives.

National and local guidance is assessed and used to form the basis of a number of assumptions in the budget. Current year performance is evaluated with notable variances explained to determine any ongoing impact. The budget seeks to explain year on year movements and any pressures are identified. There is a clear process in place to set the annual budget and update the medium-term financial strategy and this is approved by the Council on a timely basis. Due to the current forecast budget gap across the next 4 years being circa £30m and increasing (when reported to Cabinet in November 2023), early work had been undertaken in setting the budget for 2024/25. This work had included identifying proposals (cost avoidance, savings in base budget and reduction in service expenditure) to assist with savings being achieved in the short to medium term in addition to longer-term fundamental re-design of Council service delivery.

# VfM arrangements: Governance (continued)

## Approach and considerations

## Commentary

We have considered how the Council ensures that it makes informed decisions and properly manages its risks, including:

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

Discussions with Members identified that some savings initiatives identified by the Council had already been factored into savings plans/targets prior to appropriate consultation and/or market testing and have subsequently not been deemed to be deliverable.

***Whilst recognising the circumstances and challenges when planning was undertaken during 2021/22, where possible the Council should identify savings above and beyond the target in order to mitigate for schemes that do not deliver or transpire to be unviable following the necessary consultation and market testing. In addition, consultation and market testing should be undertaken as early as possible in the development process.***

The Authority has an approved decision-making methodology for investment and divestment decisions, which includes approval by the Investment Board and Council. Where necessary, decisions will be reviewed by Cabinet for comment and to determine if the proposal should be approved. Business cases with supporting information are submitted to the relevant committee for approval, allowing for challenge, transparency and if necessary further information before decisions are approved.

There are templates in place for business cases and post implementation evaluation. Work is ongoing to develop a comprehensive business case log for capital projects. Additional work is currently underway to support future capital projects and programme delivery. This includes implementation of overarching minimum standards; establishing 'Communities of Best Practice'; development of project templates for outline business cases and full business cases; and clarity over the governance structure. With regards to governance structure; it has been recognised by the Council that there has been a degree of uncertainty regarding the correct route for projects and spending to take to achieve approval, which has also been evident through our discussion with officers and Members. Working with internal governance teams this is to be clarified and subsequently promoted through the Community of Best Practice, project templates and minimum standards.

The Authority has confirmed within the Annual Governance Statement that no significant control weaknesses were identified which is consistent with our work performed.

The Council has a number of staff policies in place including a code of conduct. These are all contained within the Constitution and are readily available for all staff. Declarations of interest are maintained for all senior members of staff and decision-making officers.

The Council's most recent full Inspection of Local Authority Children's Services (ILACS) was undertaken in July 2019 for which it received an OFSTED judgement of Requires Improvement. Given that this has continued to be an area of ongoing challenge, we identified a ***risk of significant weakness in this area.***

# VfM arrangements: Governance (continued)

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## Approach and considerations

## Commentary

We have considered how the Council ensures that it makes informed decisions and properly manages its risks, including:

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

Since the initial July 2019 inspection, there have been further focused visits in March 2022 and May 2023. The key priority areas for improvement identified from the inspection and focused visits fall under the areas of: Quality of Practice; Workforce and Development; Leadership and Management; and Strategic Partnerships.

The May 2023 visit focused on the arrangements for children in need or subject to a protection plan. In its letter dated 28 June 2023, Ofsted recognised progress being made by the Council, stating that *“Leaders in Southend are firmly centred on delivering strengthened social work practice and creating the culture and environment for effective child-focused services. This has led to some significant improvements in the areas considered by the visit.”* In addition, a number of areas for improvement were identified within the report and are being taken forward by the Childrens Services Improvement Board.

The Childrens Services Improvement Board has the purpose of providing strategic challenge and oversight to the Children’s Improvement Programme and for the service to provide consistently good or better outcomes to children and young people through systemic good or better practice. Arrangements were strengthened in 2022/23 with the appointment of an independent chair of the Improvement Board. The most recent Childrens Improvement plan covers the period 2023 to 2025. This is a live document that is updated to show progress and updates to take into account the findings and necessary improvements from the most recent inspection and focused visits in 2019, 2022 and 2023. Each action has been assigned an associated outcome. Progress updates are in turn reported as improvements in outcomes rather than solely tracking the completion of tasks.

It is recognised that progress will have been impacted by external factors including the pandemic and its wide-ranging impact on children’s social care. Outcome updates to the Improvement Board during 2022-23 and beyond show detailed summaries on progress and next steps against each of the objectives. The March 2023 Improvement plan includes due dates for completion against each of the objectives/outcomes - all of which, with the exception of one, fell between April 2023 and October 2023. The plans reviewed from October 2023 onwards no longer contain any specific due dates. Instead projected timescales for each outcome moving from amber to green are outlined within the covering report and revisions made where projected timescales are missed. As at June 2024, the Council is reporting that of the 32 areas for improvement in practice identified within the 2019, 2022 and 2023 inspections and focused visits, 14 of these remain a work in progress (RAG rated as amber) and 18 have improved and practice is now deemed to be consistently good (RAG rated as green).



# VfM arrangements: Governance (continued)

## Approach and considerations

## Commentary

We have considered how the Council ensures that it makes informed decisions and properly manages its risks, including:

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

**Based on the procedures performed, we note that during the period under consideration, OFSTED have recognised that there is commitment to improving outcomes for children and that the Council had made some significant improvements with measures in place to address findings from the inspections undertaken. As such we have concluded that this is not a significant weakness for the period 2022/23. Based on the latest position (June 24), there remain to be a number of actions (and associated outcomes) that continue to be in progress. The Council must ensure that planned improvements for Children's Services continue to be developed and embedded at pace. This is of particular importance given the financial challenges that are being faced by the Directorate. The Council should also ensure that the Improvement Plan sets realistic due dates for the achievement of objectives and outcomes and these are closely tracked through governance processes to completion.**

The Council continues to play a central role as part of South Essex Councils SEC (formerly Association of South Essex Local Authorities (ASELA)). SEC has an established Joint Committee, a forum for making partnership decisions and allocating joint resources. The SEC is committed to creating a new Greater Essex Combined Authority subject to a level 2 devolution deal, consultation and statutory processes. In the meantime, the SEC is looking to develop any opportunities from working collaboratively through the development of a South Essex Economic Growth Action Plan with an aim to maximise opportunities for economic growth.

The Council has continued to be an active partner in the South East Local Enterprise Partnership (SELEP), with representation by the Deputy Leader at the main (Strategic) Board and Accountability Board, and by the Portfolio Holder or Deputy Leader at the South Essex sub-board Opportunity South Essex.

The Council operates through a range of delivery vehicles and has a number of wholly owned subsidiaries and joint ventures. The Shareholder Board is responsible for representing the Council's interests and providing assurance that the Council's Companies are following the strategic direction and objectives which have been agreed. Further information on these subsidiaries and joint ventures can be within the Improving Economy, Efficiency & Effectiveness section on page 30.

# VfM arrangements: Governance (continued)

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## Approach and considerations

## Commentary

We have considered how the Council ensures that it makes informed decisions and properly manages its risks, including:

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

The Council has been impacted by the national issue with Reinforced Autoclaved Aerated Concrete (RAAC). Due to the heightened concerns over the use of RAAC, the Property and Estate Management Team completed an overview of the operational estate in relation to the presence of RAAC, including sports and leisure centres operated by Fusion Leisure and theatres operated by the Trafalgar Group. This assessment comprised of a desk top review of drawings and other documentation, then if required, a visual onsite inspection and/or an intrusive inspection.

This identified the presence of RAAC within the Dixon Studio at the Palace Theatre and £40k has been vired from the Priority Works capital budget to facilitate investigation and short-term mediation works. Structural engineers are assessing options for the long term. This assessment is being undertaken in accordance with the latest guidance issued by the Institution of Structural Engineers.

# VfM arrangements: Improving economy, efficiency and effectiveness

## Approach and considerations

## Commentary

We have considered how the body uses information about its costs and performance to improve the way it manages and delivers its services, including:

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

The Cabinet and Corporate Leadership Team assess the Council's performance through Performance and Finance Monitoring Reports which are reported four times per year. There is also a Budget Monitoring process in place which ensures that both revenue and capital net spending is controlled and reported through a rolling forecast that goes through scrutiny and Cabinet process. The Cabinet committee is also the basis for challenging management as well as identifying emerging risks.

Performance Management is aligned with the Council's financial reporting and risk management, with key performance indicators aligned to each of the Corporate Priorities.

The Council re-introduced a Corporate Plan in 2022, having for the period relied on direction from Southend 2050 Ambition, with the Council's contributions articulated through the Southend 2050 themes and Roadmap. This operating model enabled the vision for Southend to be clearly articulated. However, Southend 2050 focused on Southend as a place and community, as opposed to setting out how the council needs to operate and prioritise in order to deliver and contribute to the Ambition. Following feedback from the LGA Peer Corporate Peer Challenge in October 2022, the Council refreshed the Corporate Plan for the period 2023-27.

The Corporate Plan Performance reported to Cabinet aligns to the four refreshed priorities: 1. A growing city with a strong and prosperous community 2. A safe city with a good quality of life for all 3. A clean city with a resilient environment 4. A transforming council delivering efficient, cost-effective services. Relevant corporate risks are noted underneath each applicable Key Performance Indicator (KPI). Where applicable, data is RAG rated against targets and current position compared to the previous period and the previous year. In addition, where possible, the Council benchmarks performance against its peers/national performance.

The Council makes use of LG Futures benchmarking data for insights and comparator information. Reports considered during the period, which take into account performance as a Council overall and at individual services areas include sales, fees & charges, unit costs, and central Government funding allocations. In addition, combined with service engagement and understanding user and staff experience, the Council has utilised benchmarking as part of its current state assessment to identify opportunities for improvement, cost savings and transformation.

The Council delivers its role through partnership working and through wider engagement with other stakeholders. This includes commercial partnership arrangements with the private sector for the delivery and discharging its responsibilities in areas such as Housing, Health and Wellbeing with other public bodies, including the third sector. Funding is awarded via SLAs with agreed outcomes monitored on a quarterly basis to Cabinet.

# VfM arrangements: Improving economy, efficiency and effectiveness (continued)

Approach and considerations	Commentary
<p>We have considered how the body uses information about its costs and performance to improve the way it manages and delivers its services, including:</p> <ul style="list-style-type: none"><li>• How financial and performance information has been used to assess performance to identify areas for improvement;</li><li>• How the Council evaluates the services it provides to assess performance and identify areas for improvement;</li><li>• How the Council ensures it delivers its role within significant partnerships, engages with stakeholders it has identified, monitors performance against expectations, and ensures action is taken where necessary to improve; and</li><li>• Where the Council commissions or procures services, how the Council ensures that this is done in accordance with relevant legislation, professional standards and internal policies, and how the body assesses whether it is realising the expected benefits.</li></ul>	<p>The Council was awarded £4.2m Getting Building Funding (GBF) from SELEP to support delivery of the Better Queensway Project in November 2020, along with successfully securing £15m of Housing Infrastructure Fund funding. The Project was being delivered as a joint venture between Southend-on-Sea City Council and Swan Housing through a Limited Liability Partnership (LLP). Swan Housing was acquired by Sanctuary Housing Association. Following the acquisition, Sanctuary Housing took the decision to withdraw from the Project, with the Council subsequently becoming the sole owners of the LLP. Southend Housing Ltd was appointed as a member of the LLP in June 2024.</p> <p>The Council continues to complete quarterly monitoring returns to Homes England (HE) in addition to regular meetings. Consideration is currently underway with regards to HE approving an extension to the funding availability period to allow for a full delivery options appraisal to be undertaken.</p> <p><b><i>Whilst there have been a number of developments in respect of the Better Queensway Project, there remains continued uncertainty regarding the planned delivery route for all phases of the project to be determined. The Council will need to continue to carefully consider the options available in respect of the Better Queensway Scheme as it seeks a way forward whilst ensuring that value for money risks are effectively recognised and managed.</i></b></p> <p>The Council owns a portfolio of trading companies. The Council commissioned an independent review of the two of these companies, Southend Care Ltd and Vecteo to build upon its own internal reviews undertaken in 2022, and to evaluate whether they are viable entities, capable of providing a financial return to SCC and delivering quality services. Both reviews assessed the companies on the grounds of financial, stakeholder, cost benchmarking and governance &amp; management.</p> <p>Southend Care Ltd is a company wholly owned by SCC set up in April 2017 to deliver care and support services. In 2022, a 10 year Partnership Agreement and contract was put in place between the Council and Southend Care Ltd in order to formalise the existing arrangements in place.</p>

# VfM arrangements: Improving economy, efficiency and effectiveness (continued)

## Approach and considerations

## Commentary

We have considered how the body uses information about its costs and performance to improve the way it manages and delivers its services, including:

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

Vecteo was formed as a joint venture between the Council and London Hire Community Services (LHSC) and commenced trading in 2020. The company provides transport services for children and adults with special educational needs and disabilities (including route planning). During this period a number of issues were experienced with service delivery. Therefore, in May 2023 the Council took over ownership of the company and disbanded the Joint Venture with LHCS. SCC now wholly owns the Company.

The Council commissioned external reviews which reported in December 2023 providing a series of recommendations in order to change the governance, strategy and operating models of the companies. It also recommended reviewing back-office functions to support each of the Council's companies and adopting (Vecteo) and maximising the benefits (Southend Care Ltd) of Teckal Company status.

***The Council should take forward the findings and recommendations from the external Company reviews and where relevant and appropriate, consider implementing similar changes to other Council companies.***

The Council has procurement procedures and policies to ensure that the Council operates in an open and transparent manner, achieves value for money and sustainable quality through a proactive commercial approach to procurement and commissioning for the communities of Southend.

The Procurement Plan and Contract Procedure Rules are reviewed annually by Cabinet with the most recent review in September 2023. The Procurement and Contract Management Strategy 2023-2026 sets out the steps the council will take to 'Ensure the very best for the Southend £' whilst complimenting the Medium-Term Financial Strategy; Getting to Know Your Business programme; Delivery of the Transformational Blueprint; the 2022-2026 Corporate Plan; and Carbon Zero 2030.

# VfM arrangements: Improving economy, efficiency and effectiveness (continued)

## Approach and considerations

## Commentary

We have considered how the body uses information about its costs and performance to improve the way it manages and delivers its services, including:

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

Discussions with the Head of Procurement identified that contract managers have been appointed within services to monitor and report on key aspects of their contracts, Childrens Services had been the least developed in this area but a contract manager was put in place in early 2023/24.

The Council is procuring a new contract for waste collection and street cleansing with an extension of the current contract for an additional year being put in place whilst this is completed. Other options were considered but were ruled out as too disruptive and potentially more expensive than an extension to the current arrangements. The service provider initially offered an extension price which equated to an additional £3.3m p.a. The Council team negotiated with the Provider to understand where cost could be reduced and where risks sit within the contract. This resulted in an improved offer from the Provider of £1.4m extra p.a. The Council will take some additional risks during the extension, particularly for recycle prices (income) but we understand this has been mitigated by linking this to published market prices. The procurement process is currently underway, throughout this process, the Council's Internal Audit Team have provided independent review and comments via their Procurement and Contract Audit Consultant to the procurement team with a view to ensure that each stage of the tender process has been undertaken in a proper and consistent manner.

The procurement team have also started using functionality within Business World to create spend alerts for lower-level transactions e.g. below £10k but that are regular areas of spend. This highlighted £1.7m of un-tested spend. Based on this data the Council plans to develop frameworks to enable mini comps for regular areas of spend as opposed to the service direct awarding off-contract.



# Appendices

# Appendix 1:

## Significant weaknesses in VfM arrangements

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### **Nature of the significant weakness identified**

We have concluded that there is a significant weakness in relation to the governance VfM criteria, specifically with regards to the Council's leadership, governance and decision making which was also noted in the LGA Corporate Peer Challenge in October 2022.

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### **Evidence on which our judgement is based**

The Council received an LGA Peer Challenge in October 2022, which provided nine key recommendations including: completing and implementing the Council's constitutional review and ensuring there is an organisational commitment to behaviour change to support more effective councillor /officer working relationships; considering changing the election cycle; re-engaging partners across public, private and voluntary sectors on Southend 2050 to provide more clarity between strategic priorities and delivery; modernising the council operating model; systems and processes; addressing inequalities and disparities across the city; and strengthening the Council's voice and influence in the wider regional agenda.

Since the LGA Peer review, there have been a number of changes in relation to political and corporate leadership. The Council remains in No Overall Control with a number of changes in leadership in quick succession. Our work has identified that this instability and the concerns noted regarding effectiveness of councillor/officer working relationships may have contributed to other important decisions not being made in a timely manner, in particular, the decision to go out to tender for the original waste contract and agreeing on the service specification. It should be noted that whilst a number of options were put forward with regards to the waste contract, a change in political control and subsequent revisiting of the service specification resulted in the original contract not being put out to tender within sufficient timescales to ensure a seamless transition to a new provider prior to the existing contract coming to an end. The original contract was extended and a new contract let during the extension period to facilitate the transition to a new provider.

An LGA Peer Challenge follow-up visit in December 2023 noted mixed views about the degree of impact the changes may have had on organisational culture and behaviours to date, all agreed that progress is being made, ways of working are improving and the direction of travel is positive. It was also noted that there is recognition within the Council that there is still more work to do and a clear commitment to continue this work.

Our review has also identified the need to ensure governance arrangements are strengthened over the monitoring and holding to account in respect of the implementation of OFSTED action plans and internal audit and counter fraud recommendations.

Therefore, based on the procedures performed, we have concluded that for the period 2022-23, the arrangements in place surrounding leadership, governance and decision making indicated a significant weakness at the Authority. We note that the Council has acted to address many of these concerns during 2023/24 and there is a clear commitment to continue with this work (albeit recognising the limitations of the electoral cycle) going forward.

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# Appendix 1:

## Significant weaknesses in VfM arrangements (continued)

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### **Recommendation**

The Council must continue to fully implement and embed the actions from the LGA Peer Review, including improving the effectiveness of Councillor/Officer working relations, timeliness of decision making and ensuring governance processes exercise appropriate scrutiny and holding to account in respect of recommendations and action plans in the areas highlighted above.

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### **Management response**

The Council will continue to fully implement and embed all the actions from the LGA Peer Review that are within the control of management to implement. The LGA Corporate Peer Challenge only took place in October 2022, and following receipt of the report in early 2023, Cabinet accepted the nine recommendations and agreed the steps to address them at its meeting on 21 February 2023. The reality of the timing of the visit and report resulted in only a matter of weeks during the rest of 2022/23 to respond to the concerns raised and to formulate appropriate actions to address them. This is the reason why our response and implementation programme predominantly took place during 2023/24. Peers returned on 7th December 2023, as per their standard procedure, to review progress and provide ongoing support for improvement. The LGA's report acknowledged good progress across all the recommendations with particular emphasis on building a more engaging leadership style through strengthened communications and engagement alongside greater cross-party workings. A lot of work has been done to improve officer/member relationships and this work will continue. The democratic requirements to move to 'all-out' local elections every four years is also a political decision. The change requires time to consult and requires a 2/3rd's majority in favour from all Council Members to introduce. This change is not within the control of management to implement.

A revised approach to the recording of Internal Audit and Counter Fraud Investigation Team recommendations using the Pentana system is being developed with the system administrators, so that the system functionality can be used to provide increased oversight on progress, and reporting, of the implementation of recommendations.

The Council is committed to ensuring that planned improvements for Children's Services continue to be developed and embedded at pace. Self-assessment of improvement has continued and progress has been regularly reported to the Improvement Board. The Service believe that the arrangements that are currently in place are the strongest they have been since the 'Requires Improvement' judgement was originally issued. The formal Ofsted Inspection of Children's Services is currently underway and the Council will await the outcome of this and respond accordingly to any recommendations for further improvements.

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# Appendix 2: Purpose of our report and responsibility statement

## What we report

Our report fulfils our obligations under the Code of Audit Practice to issue an Auditor's Annual Report that brings together all of our work over the year, including our commentary on arrangements to secure value for money, and recommendations in respect of identified significant weaknesses in the Council's arrangements.

## What we don't report

Our audit was not designed to identify all matters that may be relevant to the Audit Committee.

Also, there will be further information you need to discharge your governance responsibilities, such as matters reported on by management or by other specialist advisers.

Finally, our views on internal controls and business risk assessment should not be taken as comprehensive or as an opinion on effectiveness since they have been based solely on the audit procedures performed in the audit of the financial statements and work under the Code of Audit Practice in respect of Value for Money arrangements.

## The scope of our work

Our observations are developed in the context of our audit of the financial statements.

We described the scope of our work in our audit plan.

## Use of this report

This report has been prepared for the Council, as a body, and we therefore accept responsibility to you alone for its contents. We accept no duty, responsibility or liability to any other parties, since this report has not been prepared, and is not intended, for any other purpose.

**Deloitte LLP**

Birmingham, October 2024

# Appendix 3: Council's responsibilities

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**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 section 151 Officer of the Council, is responsible for the preparation of the Council's Statement of Accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Council Accounting.

In preparing the Statement of Accounts the section 151 Officer is required to select suitable accounting policies and make judgements and estimates that are reasonable and prudent. The section 151 Officer is required to confirm that the Statement of Accounts, taken as a whole, is fair, balanced, and understandable, and provides the information necessary for Council Tax payers, regulators and stakeholders to assess the Council's performance, business model and strategy.

The section 151 Officer is required to comply with the CIPFA Code of Practice and prepare the financial statements on a going concern basis, unless the Council is informed of the intention for dissolution without transfer of services or function to another entity. In applying the going concern basis of accounting, the section 151 Officer has applied the 'continuing provision of services' approach set out in the CIPFA code of practice as it is anticipated that the services the Council provides will continue into the future.

The section 151 Officer and Council are responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in the use of the Council's resources, for ensuring that the use of public funds complies with the relevant legislation, delegated authorities and guidance, for safeguarding the assets of the Council, and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

# Appendix 4: Auditor's responsibilities

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## **Auditor's responsibilities for the audit of the financial statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditor's report.

## **Auditor's responsibilities relating to the Council's arrangements for securing economy, efficiency and effectiveness in the use of resources**

We are required under the Code of Audit Practice and 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.

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.

We undertake our work in accordance with the Code of Audit Practice, having regard to the guidance, published by the Comptroller & Auditor General, as to whether the Council has proper arrangements for securing economy, efficiency and effectiveness in the use of resources against the specified criteria of financial sustainability, governance, and improving economy, efficiency and effectiveness.

The Comptroller & Auditor General has determined that under the Code of Audit Practice, we discharge this responsibility by reporting by exception if we have reported to the Council a significant weakness in arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2023. Other findings from our work, including our commentary on the Council's arrangements, are reported in our Auditor's Annual Report.

## **Auditor's other responsibilities**

We are also required to report to you if we exercise any of our additional reporting powers under the Local Audit and Accountability Act 2014 to:

- make a written recommendation to the Council, copied to the Secretary of State;
- make a referral to the Secretary of State if we believe that the Council or an officer of the Council is:
  - about to make, or has made, a decision which involves or would involve the Council incurring unlawful expenditure; or
  - about to take, or has begun to take a course of action which, if pursued to its conclusion, would be unlawful and likely to cause a loss or deficiency; and
- consider whether to issue a report in the public interest.



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