

# Auditor's Annual Report

Gateshead Metropolitan Borough Council  
– year ended 31 March 2021

January 2022



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# 01

## Section 01: **Introduction**

# 1. Introduction

## Purpose of the Auditor's Annual Report

Our Auditor's Annual Report (AAR) summarises the work we have undertaken as the auditor for Gateshead Metropolitan Borough Council ('the Council') for the year ended 31 March 2021. Although this report is addressed to the Council, it is designed to be read by a wider audience including members of the public and other external stakeholders.

Our responsibilities are defined by the Local Audit and Accountability Act 2014 and the Code of Audit Practice ('the Code') issued by the National Audit Office ('the NAO'). The remaining sections of the AAR outline how we have discharged these responsibilities and the findings from our work. These are summarised below.



### Opinion on the financial statements

We issued our audit report on 28 October 2021. Our opinion on the financial statements was unqualified.

Our report included an 'emphasis of matter' paragraph drawing attention to the Council's disclosure in its statements of a material uncertainty in respect of the valuation of land and property and investment property due to the pandemic.



### Value for Money arrangements

In our audit report issued we reported that we had not completed our work on the Council's arrangements to secure economy, efficiency and effectiveness in its use of resources and had not identified any significant weaknesses in those arrangements at the time of reporting.

Section 3 confirms that we have now completed this work, with no significant weaknesses identified and provides our commentary on the Council's arrangements.



### Wider reporting responsibilities

At the time of preparing this report the group audit instructions have not been issued by the NAO.

As a result our whole of government accounts work has not been completed. We are unable to issue our audit certificate which will formally close the audit for the 2020/21 financial year until this work is complete.

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# 02

Section 02:

**Audit of the financial statements**

## 2. Audit of the financial statements

### The scope of our audit and the results of our opinion

Our audit was conducted in accordance with the requirements of the Code, and International Standards on Auditing (ISAs).

The purpose of our audit is to provide reasonable assurance to users that the financial statements are free from material error. We do this by expressing an opinion on whether the statements are prepared, in all material respects, in line with the financial reporting framework applicable to the Council and whether they give a true and fair view of the Council and Group's financial position as at 31 March 2021 and of its financial performance for the year then ended. Our audit report, issued on 28 October 2021 gave an unqualified opinion on the financial statements for the year ended 31 March 2021.

### Qualitative aspects of the Council's accounting practices

We reviewed the Council's accounting policies and disclosures and concluded they comply with the 2020/21 Code of Practice on Local Authority Accounting, appropriately tailored to the Council's circumstances.

Draft accounts were received from the Council on 30 June 2021, ahead of the revised statutory deadline and were of a good quality, supported by comprehensive working papers.

### Significant difficulties during the audit

During the course of the audit we did not encounter any significant difficulties and we have had the full co-operation of management.

Given the on-going impact of COVID-19 the audit was again completed remotely.

### Internal control recommendations

As part of our audit we considered the internal controls in place that are relevant to the preparation of the financial statements. We did this to design audit procedures that allow us to express our opinion on the financial statements, but this did not extend to us expressing an opinion on the effectiveness of internal controls. Our audit completion report, taken to the September 2021 Audit and Standards Committee, contained details of one medium-priority recommendation and one low-priority recommendation.

Our follow-up report, issued to Members upon completion of outstanding work, detailed one further medium-priority recommendation and also one high-priority recommendation, which is detailed below and overleaf.

#### Description of deficiency - **Valuations of property, plant and equipment (PPE) – level 1 (high priority) significant deficiency in internal controls**

In 2020/21, the sample size for our valuations testing was more than double than in the previous year, due to the full portfolio valuation. A number of errors were identified, including:

- incorrect use of data after the valuation date, offset by inclusion of a contingency allowance in certain valuations which should not have been included;
- one special school where an entire floor had been omitted;
- incorrect useful economic lives applied to PFI schools;
- a school which should have been brought back on balance sheet the prior year;
- significant unexplained changes in obsolescence factors used;
- various other errors, including a key report not correctly identifying impairment to be shown in the disclosure note and a valuation not correctly allocated across its components.

A significant amount of work was required as a result of the above errors to establish the nature of the errors and also fully quantify the errors in the relevant sub-populations.

- useful economic lives;
- whether the asset had been physically inspected or not;

## 2. Audit of the financial statements

### Valuations of property, plant and equipment (PPE) – level 1 (high priority) significant deficiency in internal controls

#### Description of deficiency (continued)

In 2020/21, the sample size for our valuations testing was more than double than in the previous year, due to the full portfolio valuation. A number of errors were identified, including:

- incorrect use of data after the valuation date, offset by inclusion of a contingency allowance in certain valuations which should not have been included;
- one special school where an entire floor had been omitted;
- incorrect useful economic lives applied to PFI schools;
- a school which should have been brought back on balance sheet the prior year;
- significant unexplained changes in obsolescence factors used;
- various other errors, including a key report not correctly identifying impairment to be shown in the disclosure note and a valuation not correctly allocated across its components.

A significant amount of work was required as a result of the above errors to establish the nature of the errors and also fully quantify the errors in the relevant sub-populations.

#### Delays

We acknowledge the considerable efforts and cooperation from the Valuer and Council; there were, however, delays in obtaining all the required information, which may have been partly avoided if there had been greater detail in the valuation report in respect of individual valuations – or if such information had been readily available upon request.

#### Adequacy of the Valuation Report

Whilst valuations are judgements, there should be sufficient detail to support individual valuations, to evidence key assumptions such as:

- useful economic lives;
- whether the asset had been physically inspected or not;
- obsolescence factors applied.

#### Description of deficiency (continued)

In addition, various omissions and errors were noted in the Valuation Report, including:

- missing beacon property data;
- omitted BCIS supporting data and omitted valuation calculations for several assets.

The format of the council houses beacon valuations was also difficult to follow.

#### Potential effects

Risk of material misstatement.

#### Recommendation

Consider the areas highlighted from the 2020/21 audit as part of reviewing valuation arrangements.

#### Management response

These will be considered as part of reviewing valuation arrangements for future years.

We have appointed new external Valuers for 2021/22 onwards and are working closely with them to consider the recommendations set out by the auditor.

# 03

Section 03:

**Commentary on VFM arrangements**



### 3. VFM arrangements – overall summary

#### Approach to Value for Money arrangements work

We are required to consider whether the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The National Audit Office (NAO) issues guidance to auditors that underpins the work we are required to carry out and sets out the reporting criteria that we are required to consider. The reporting criteria are:

- Financial sustainability - how the Council plans and manages its resources to ensure it can continue to deliver its services;
- Governance - how the Council ensures that it makes informed decisions and properly manages its risks; and
- Improving economy, efficiency and effectiveness - how the Council uses information about its costs and performance to improve the way it manages and delivers its services.

At the planning stage of the audit, we undertake work so we can understand the arrangements that the Council has in place under each of the reporting criteria; as part of this work we may identify risks of significant weaknesses in those arrangements. Where we identify significant risks, we design a programme of work (risk-based procedures) to enable us to decide whether there is a significant weakness in arrangements.

Although we describe this work as planning work, we keep our understanding of arrangements under review and update our risk assessment throughout the audit to reflect emerging issues that may suggest there are further risks of significant weaknesses. We outline the risk that we have identified and the work we have done to address those risks on page 10.

Where our risk-based procedures identify actual significant weaknesses in arrangements, we are required to report these and make recommendations for improvement. There are no significant weaknesses to report.

The table below summarises the outcomes of our work against each reporting criterion. On the following page we outline further detail of the work we have undertaken against each reporting criterion, including the judgements we have applied.

Reporting criteria	Commentary page reference	Risks of significant weaknesses in arrangements identified?	Actual significant weaknesses in arrangements identified?
Financial sustainability	10	Yes – see financial pressures risk on page 10	No
Governance	13	No	No
Improving economy, efficiency and effectiveness	15	No	No

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# 3. VFM arrangements – financial sustainability

## Overall commentary on the financial sustainability reporting criterion

### Risk of significant weaknesses in arrangements

We have outlined below the risk of significant weaknesses in arrangements that we have identified as part of our continuous planning procedures, and the work undertaken to respond to this risk.

Risk of significant weakness in arrangements	Work undertaken and the results of our work
<p><b>1 Sustainable resource deployment – financial pressures</b></p> <p>The Council faces financial pressures from reduced funding and continues to identify plans to deliver future savings and improvements, including alternative models of service delivery.</p> <p>Without robust budgetary control and delivery of its action plans, the Council's financial resilience and service performance could deteriorate.</p>	<p><b>Work undertaken</b></p> <ul style="list-style-type: none"> <li>We reviewed budget monitoring and reporting.</li> <li>We also considered the adequacy of plans that are developed to deliver savings and improvements.</li> <li>We also considered the latest update of the Council's medium-term financial strategy.</li> </ul> <p><b>Results of our work</b></p> <p><b>Budget monitoring and reporting</b>            Quarterly reports are presented to the Cabinet throughout the year, underpinned by budget monitoring within each portfolio and service. The quarterly reports provide a clear summary of the projected outturn and the actuals, along with supporting narrative to explain any significant changes. The Council has a strong track record of delivering its budget over the last decade, despite the continued pressures of funding reductions and delivery of savings, reporting an underspend of £7.9m for 2020/21 (prior year £4.1m). The Council clearly highlights the continued financial pressures and the need for robust budget monitoring which is key to its financial sustainability.</p> <p><b>Adequacy of plans to deliver savings and improvements</b>            Savings of approximately £0.6m were built into the budget for 2020/21, of which £0.4m was not achieved; in the context of the net budget, this is not a significant amount and the Council is clear on these planned savings being carried forward to 2021/22. Various service reviews were also on-going during 2020/21, to deliver cost reductions, alongside building in reduction of prior year overspends for some services to the 2020/21 budget. For 2021/22, savings of £8.117m are planned and the Council plans to use its savings contingency to partly offset these.</p> <p><b>Medium-term financial strategy</b>            The Council's latest refresh of its medium-term financial strategy (MTFS) was presented to the Council in November 2021, setting out the forecast strategy for the next five years, from 2022/23 to 2026/27. The MTFS clearly set out the principles underpinning the strategy, such as direction of resources to the <i>Thrive</i> agenda and having a minimum general fund balance of 3% of the net budget. The strategy sets out the headline messages of an estimated financial gap of £63m across the five-year period, with required savings and efficiencies of £45m after applying planned use of earmarked reserves. A new three-year budget approach was reported to Cabinet in December 2021, as the scale of challenges set out in the MTFS requires a radically different approach.</p> <p><b>Based on the results of our work for the identified risk, we have not identified any significant weaknesses in arrangements. Further commentary on the Council's arrangements is set out overleaf.</b></p>

# 3. VFM arrangements – financial sustainability

## Overall commentary on the financial sustainability reporting criterion - continued

### How the Council identifies significant financial pressures that are relevant to its short and medium-term plans

The Medium-Term Financial Strategy (MTFS) includes financial projections analysis and context that supports the Council's new policy approach 'Making Gateshead a Place Where Everyone Thrives'. The key principles set out in the MTFS provides the financial planning framework to inform the allocation of resources within the capital programme.

The Council's capital investment plans are set out in the capital strategy and programme, with the latest approved programme covering the period between the 2021/22 and 2025/26 financial years.

Quarterly reports are presented to the Cabinet throughout the year, underpinned by budget monitoring within each portfolio and service and reporting to the Corporate Management Team. The quarterly reports provide a clear summary of the projected outturn and the actuals, along with supporting narrative to explain any significant changes. Implications of overspends and non-delivery of planned savings and efficiencies are set out in each report.

The Council has a strong track record of delivering its budget over the last decade, despite the continued pressures of funding reductions and delivery of savings, reporting an underspend of £7.9m for 2020/21 (prior year £4.1m), which was largely due to the timing of receipt of Covid funding. In the Council's quarterly reports, it clearly highlights the continued financial pressures and the need for robust budget monitoring which is crucial to its financial sustainability.

Based on our work, there is evidence of effective financial management arrangements despite the continued financial pressures, including the on-going pandemic.

### How the Council plans to bridge funding gaps and identifies achievable savings

The overarching MTFS includes the identification of savings and efficiencies over the period of the next five years, after taking into account estimated funding. The latest MTFS sets an estimated financial gap of £63m across the five-year period, with required savings and efficiencies of £45m after applying planned use of earmarked reserves.

consideration throughout the year to allocate resources to Services and consider consultation outcomes.

Savings of approximately £0.6m were built into the budget for 2020/21, of which £0.4m was not achieved; in the context of the net budget, this is not a significant amount and the Council is clear on these planned savings being carried forward to 2021/22. Various service reviews were also on-going during 2020/21, to deliver cost reductions, alongside building in reduction of prior year overspends for some services to the 2020/21 budget.

For 2021/22, savings of £8.117m are planned and the Council plans to use its savings contingency to partly offset these. This is not unreasonable, based on the lead-in time required to delivery some savings.

In addition, a three-year budget approach was set out in a report to Cabinet in December, as the scale of the challenge set out in the MTFS requires a radically different approach.

Our work did not identify any evidence to indicate a significant weakness in arrangements.

### How the Council plans finances to support the sustainable delivery of services in accordance with strategic and statutory priorities

The Council's MTFS provides a framework with the express objective of achieving a sustainable financial position over the medium-term and which is also aligned to its strategic *Thrive* priorities. The strategic approach of 'Making Gateshead a Place where Everybody Thrives' provides the framework for delivery of the Council's Thrive priorities and the Health and Wellbeing Strategy, using the three pillars of its strategic vision:

- Economic strategy;
- Housing Strategy; and
- Investment Strategy.

The Housing Revenue Account business plan has been subject to significant work over the past year, resulting in a revised 30 year business plan, as part of ensuring the sustainability of council housing in Gateshead.

# 3. VFM arrangements – financial sustainability

## Overall commentary on the financial sustainability reporting criterion - continued

### How the Council ensures that its financial plan is consistent with other plans

The Council's MTFS sets out the financial context for the Council's resource allocation process and budget setting. Given the on-going financial pressures, the Council recognises that its budget approach needs to be more clearly linked to the hierarchy of delivering on *Thrive* priorities through the Health and Wellbeing Strategy and the emerging Economic, Housing and Investment Strategies. The Council's new Performance Management Framework aims to support the Council's strategy by aligning performance with the overall approach to the budget to support financial sustainability and ensure that resources are deployed on the outcomes for making Gateshead a Place Where Everyone Thrives.

For example, as part of revising its Asset Management Strategy, we noted from our audit work that Council officers are critically reviewing what assets are currently held and what assets would ideally be required to deliver the Council's priorities most effectively.

As part of ensuring the consistency of the MTFS and annual budget with other plans, significant consultation is undertaken on the budget, both with internal and external stakeholders.

In addition, the Council's budget planning framework is supported by the development of integrated impact assessments (IIAs) for draft budget proposals.

### How the Council identifies and manages risks to financial resilience

As part of the annual budget report setting, the Council's s151 officer sets out his assessment of the adequacy of reserves and the robustness of budget estimates. Appropriate risk factors are considered as part of this assessment, including the level of reserves, prudential and treasury indicators and the robustness of inflationary estimates.

This is underpinned by the review of reserves set out in the annual update of the Council's MTFS, which includes an estimate of projected earmarked reserves.

Earmarked reserves as at 31 March 2021 were £87.8m, compared to £43.4m the prior year; the significant increase being due to the pandemic services impact reserve of £17.9m and the pandemic impact Collection

Fund reserve totalling £28.2m. The Collection Fund reserve will be largely used in 2021/22, to support the Collection Fund deficit arising from the pandemic, with the pandemic services impact reserve being forecast to be fully used by 31 March 2024. Overall, earmarked reserves (excluding the general fund balance and school reserves) are currently projected to reduce to £15.5m by 31 March 2027.

We would recommend that the Council more explicitly reports the level of earmarked reserves at the end of the MTFS five-year period as part of its annual update, to facilitate decision-making.

The Council also manages risks to its financial resilience via maintaining a general fund balance. The Council's policy for the level of this balance is set out in the MTFS annually, along with the s151 officer's assessment. For 2021/22 onwards, the Council plans to reduce its general fund balance from a minimum of 5% of its net revenue budget to a minimum of 3%; this represents a decrease from £13.9m to £8.0m.

The financial impact of COVID-19 in 2020/21 has been closely managed and monitored throughout the year. The overall impact of COVID-19 has been managed through the receipt of specific COVID-19 grant and allocations of emergency funding. It is expected the impact will continue to be felt in medium term financial planning and that this will be significantly more challenging than would have been the case prior to the emergence of the virus.

In line with good practice, the Council prepares and takes a formal report to the Audit and Standards Committee on whether the 'going concern' assumption is appropriate; this report was taken to the September 2021 Audit and Standards Committee. In this report, the Council clearly sets out:

*"that it will be difficult to continue to deliver substantial savings without significant changes in the way we deliver services and therefore reserves have been maintained to assist transition and mitigate future risk. Reserve levels and use will be kept under review and reported to Cabinet"*.

**Based on the above considerations we are satisfied there is not a significant weakness in the Council's arrangements in relation to financial sustainability.**

# 3. VFM arrangements – governance

## Overall commentary on the governance reporting criterion

### How the Council monitors and assesses risk and how the Council gains assurance over the effective operation of internal controls, including arrangements to prevent and detect fraud

The Council has approved and adopted a code of corporate governance.

The Council continually reviews and improves its Governance Framework and during 2020/21, it has been updated to take account of changes to the Council's performance management framework which was being reviewed during the year and will be implemented in 2021/22.

Risk management is embedded in the Council through a Corporate Risk Management Policy which includes the requirement to identify strategic and operational risks. The Audit and Standards Committee receives quarterly reports on risk management and takes appropriate action to ensure that corporate business risks are being actively managed; the Committee also receives the annual corporate risk management report and agrees the effectiveness of the Council's risk management arrangements.

We confirmed that the Audit and Standards Committee received regular updates on the Audit Plan. Internal Audit reviews highlight weaknesses and recommends actions when required to strengthen processes or procedures. These are regularly reported to Audit Committee which holds management to account where weaknesses are identified. The Audit Committee monitors management actions in response to recommendations and this is reported on a regular basis. The Audit Committee challenges management if recommendations are not implemented within the agreed timeframe.

The Chief Internal Auditor provides an independent opinion on the adequacy and effectiveness of the system of internal control, risk management and governance arrangements which was incorporated in the Annual Internal Audit Report to the Audit and Standards Committee on 21 June 2021. This opinion is based on 50 audit reviews undertaken during the year which found all systems reviewed to be operating well or satisfactorily, except in eight cases where significant weaknesses were identified.

The Annual Risk Management Report was presented to the Audit and Standards Committee on 21 June 2021 which concluded that risk management arrangements are effective.

The Annual Report on Counter Fraud Arrangements was presented to the Audit and Standards Committee on 21 June 2021 which concluded that counter fraud arrangements are effective. We observed that the Council has a counter fraud response and strategy which includes fraud governance and arrangements to prevent, detect and pursue fraud.

As part of our audit procedures we considered the Council's Annual Governance Statement. This included consideration of the Statement and our cumulative audit knowledge.

We identified no matters indicating a significant weakness in arrangements.

### How the Council approaches and carries out its annual budget setting process

The Council's MTFS arrangement includes the identification and evaluation of risks to the Council's finances.

We have reviewed the budget setting arrangements through observation and discussions with officers. No matters have been identified indicating a significant weakness in arrangements. Overall, the Council is aware of the financial pressure it faces. We confirmed that scenario plans are in place to identify the potential financial impact of risks occurring.

### How the Council ensures it makes properly informed decisions, supported by appropriate evidence and allowing for challenge and transparency

We have reviewed Council reports and minutes throughout year and have not identified any evidence of a weakness in arrangements. The reports we reviewed support informed decision-making and were clear in the decision or recommendation Members were asked to make.

The Council publishes on its website a notice of key decisions. This includes officer decisions under the Officer Scheme of Delegations.

Overview and Scrutiny meetings provide an opportunity to challenge decisions. The Corporate Resources Overview and Scrutiny Committee is in place to oversee and coordinate the work and our work identified no matters that indicate a significant weakness in arrangements.

The Council implemented measures to ensure that services could continue despite the restrictions arising during the COVID-19 pandemic. The arrangements included live streaming to allow the public to observe Council meetings.

# 3. VFM arrangements – governance

## Overall commentary on the governance reporting criterion - continued

### How the Council monitors and ensures appropriate standards are maintained

The Council’s Constitution is reviewed at least annually and sets out how the Council operates, how decisions are made and the rules and procedures which are followed to ensure that these are efficient and transparent to local people. Supporting the Constitution are codes of conduct for Members and officers. Registers of gifts and hospitality and registers of interest are maintained for Members and officers and are available on the Council website. The Statement of Accounts records material related party transactions as well of senior officer pay and Member allowances. We considered these disclosures and compared them with the interests declared. While we identified areas of improvement we are satisfied they do not indicate a significant weakness in arrangements.

We confirmed that contract procedure rules are in place and require procurement decisions to comply with appropriate standards. Contract registers are available on the Council website. The contract procurement strategy has been recently revised.

There is regular reporting of treasury management activity that details the Council’s investments, cash and borrowing positions. The Treasury Management Strategy was approved ahead of the 2020/21 financial year and sets out the Council’s measures against which treasury management can be assessed. The measures include those designed to mitigate risk to the Council’s finances and we identified no evidence to indicate a weakness in arrangements.

The Audit and Standards Committee is responsible for promote and maintain high standards of conduct by councillors and co-opted members, as well as monitoring the operation of the Members’ Code of Conduct. Full Council approved, in January 2021, the appointment of three independent Members to the Audit and Standards Committee.

**Based on the above considerations we are satisfied there is not a significant weakness in the Council’s arrangements in relation to governance.**

# 3. VFM arrangements – improving economy, efficiency and effectiveness

## Overall commentary on the improving economy, efficiency and effectiveness reporting criterion

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

The Council has a corporate suite of strategic performance indicators to enable effective monitoring of the Council's strategic approach through which quality of service is measured via strategic outcome indicators. The Senior Management Group Services and Performance plays a key role in monitoring the Performance Framework before reports are presented to Overview and Scrutiny Committees and Cabinet on a six monthly basis.

During 2020, the Council began development of a new Performance Management and Improvement Framework (PMIF), including consultation with stakeholders. A key message has been how every employee and Councillor contributes to the *Thrive* agenda and, therefore, this framework.

The new framework, as set out earlier in this report, aims to support the Council's strategy by aligning performance with the overall approach to the budget to support financial sustainability and ensure that resources are deployed on the outcomes for making Gateshead a Place Where Everyone Thrives.

The new PMIF is based on the six policy objectives of the Health and Wellbeing Strategy and a Balanced Scorecard that demonstrates performance against 'organisational health'. It is informed by qualitative and quantitative assessment to inform policy and resource decisions.

During 2021, the Council has developed the framework, including setting measures, culminating in the first balanced scorecard being taken to the Corporate Overview and Scrutiny Committee in January 2022.

The Council recognises the framework is an area of on-going development; in particular, recognising the need to align the PMIF to the budget approach. This is good practice; linking financial and performance management is, however, a significant task to do well.

The Council recognises the impact of the pandemic on performance, not just disruption to services in 2020/21, but also the ability of services to collect and assess performance the six-month stage. The Council has, under its Business Impact Assessment and Continuity Plan framework, prioritised critical services to ensure delivery. The impact of the pandemic itself may influence and inform future priorities of the Council which would then inform the performance content of the framework.

### How the Council evaluates the services it provides to assess performance and identify areas for improvement

Alongside the performance framework in place, the Council considers the output from regulators to evaluation performance and identify areas for improvement. It is noted that the new PMIF includes a useful summary of external assessments, which includes the Care and Quality Commission, Ofsted, the Regulator of Social Housing and also external partners.

#### Children's Services

The Council had an Ofsted focused visit for Children's Services in October 2021. This visit evaluated the quality of help and protection provided to vulnerable children and their families in the front door integrated referral team (IRT) and in the assessment and intervention team as well as appraisal of the quality and impact of the local authority's performance management and audit arrangements. As this was a focused visit, there is no overall rating provided. The Ofsted letter of October 2021 was very positive, highlighting a few areas for improvement alongside setting out examples of good practice:

*"The Director of Children's Services has an accurate view of the service she leads and shows exceptionally strong, stable leadership and commitment to continued improvement, working adroitly to progress the small number of areas for improvement that remain. There is no complacency. For example, despite the unprecedented challenges posed by the pandemic, a strong culture of outward-looking, continuous learning and accountability meant that Gateshead continued to innovate, and appoint more staff to take forward the new initiatives".*

#### Adult social care and restructuring

A report was taken to the January 2022 Cabinet proposing the current Children, Adults and Families Group is split to establish two new service groups:

- Integrated Adults' and Social Care Services; and
- Children's Social Care and Lifelong Learning.

The separation of the Strategic Director post into two strategic roles will reflect the criticality of adult social care and support the inspection regime which will be in place in 2023 in respect of adult care. Unlike children's services, this area has not been subject to external inspection for the past eleven years; however, such external scrutiny will be introduced to reflect that in place in Children's Services.

# 3. VFM arrangements – improving economy, efficiency and effectiveness

## Overall commentary on the improving economy, efficiency and effectiveness reporting criterion - continued

### Housing

Following consultation and review of housing services provided by The Gateshead Housing Company, housing services were brought back in-house from 1 April 2021.

The Regulator of Social Housing issued a notice to the Council that it had breached the Home Standard in April 2019, due to weaknesses in key areas such as fire risk assessments, asbestos and electrical safety. The Council and The Gateshead Housing Company worked closely with the Regulator to address weaknesses identified. In addition, an independent compliance review was commissioned by the Council which reported in July 2021, highlighting clear areas of progress, but also areas where further work was required, such as data assurance for non-domestic assets. The on-going development of the IT system, Northgate, is a key part of improving assurance.

The Regulator of Social Housing withdrew its formal notice of a breach of the Home Standard in December 2021; this follows a period of intensive activity to address weaknesses identified. Some of these have a longer timescale for completion, however, the withdrawal by the Regulator demonstrates progress is being made.

Whilst progress has clearly been made in respect of housing arrangements, this is also an area for on-going work. It is important that close monitoring continues in respect of outstanding Internal Audit recommendations and that the Audit and Standards Committee continues to be informed of progress.

**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**

A Corporate Partnership Register is maintained which is updated by Strategic/Service Directors on at least an annual basis.

Examples of partnerships on the register include the Gateshead Health and Care System, Gateshead Safeguarding Children Partnership, Health and Wellbeing Board and the South Tyne & Wear Waste Management Partnership. A risk assessment model has been developed to assess the strength of each partnership arrangement in respect of governance, financial arrangements, reputation and delivery. The most significant partnerships to the Council have been identified from the Partnership Register and risk assessments have been completed by the relevant Strategic/Service Director for each of these.

In 2019/20 the Council entered into a Limited Liability Partnership (LLP) with Public Sector plc (PSP) to operate a portfolio of tenanted, non-residential properties for a period of seven years. This partnership finished in December 2021, with the portfolio returned to the Council.

### Integrated Care System

A significant new partnership in the North East will be formally established, subject to the legislation being passed, from 1 April 2022; this is the North East and North Cumbria Integrated Care System (NENC). The Integrated Care Systems (ICS) recognises that public health in this region is amongst the worst in the country and has an ambition to change that.

ICS have been set-up across the country, with an aim of delivering on the NHS Long Term Plan and bringing together, in a partnership, the NHS, councils, combined authorities, voluntary and partner organisations to look at new and different ways of working to improve overall health and wellbeing.

It is noted that, due to pressures in the NHS, the statutory commissioning functions will remain with the local Clinical Commissioning Groups until at least 1 July 2022, however, development of the ICS is continuing and this is a vital partnership for the Council.

The Council has a joint Overview and Scrutiny Committee for this key partnership which last met in October 2021. The ICS presents both opportunities as well as challenges. The challenges include maintaining a focus on the local Gateshead area, whilst working as part of a much larger partnership; this is an area which the ICS is developing, recognising that effective arrangements for focusing on each 'place' need to be in place.

**Based on the above considerations we are satisfied there is not a significant weakness in the Council's arrangements in relation to improving economy, efficiency and effectiveness.**



# 04

Section 04:

**Other reporting responsibilities and  
our fees**

# 4. Other reporting responsibilities and our fees

## Matters we report by exception

The Local Audit and Accountability Act 2014 provides auditors with specific powers where matters come to their attention that, in their judgement, require specific reporting action to be taken. Auditors have the power to:

- issue a report in the public interest;
- make statutory recommendations that must be considered and responded to publicly;
- apply to the court for a declaration that an item of account is contrary to the law; and
- issue an advisory notice.

We have not exercised any of these statutory reporting powers.

The 2014 Act also gives rights to local electors and other parties, such as the right to ask questions of the auditor and the right to make an objection to an item of account. We did not receive any such objections or questions.

## Reporting to the NAO in respect of Whole of Government Accounts consolidation data

The National Audit Office (NAO), as group auditor, requires us to complete the WGA Assurance Statement in respect of its consolidation data and to carry out certain tests on the data. At the time of issuing this report, the NAO guidance to auditors has not been received, therefore, we are unable to carry out this work. Until this work is concluded we cannot issue our audit certificate.

## 4. Other reporting responsibilities and our fees

### Fees for work as the Council's auditor

We reported our proposed fees for the delivery of our work under the Code of Audit Practice in our Audit Strategy Memorandum presented to the Audit and Standards Committee in April 2021. For the 2020/21 financial year, our fees are as follows, noting that additional fees are subject to review and approval by Public Sector Audit Appointments Limited (PSAA):

Area of work	2019/20 fees	2020/21 fees
Fee in respect of our work under the Code of Audit Practice	£100,329	£100,329
Recurrent scope changes: additional fees in respect of group financial statements and consolidation adjustments	£9,711	£9,711
Recurrent scope changes: additional fees in respect of property, plant and equipment valuations due to increased regulatory requirements	£13,014	£15,049
Recurrent scope changes: additional fees in respect of pensions due to increased regulatory requirements	£7,520	£8,026
In-year scope change: additional testing as a result of the implementation of new auditing standards: ISA 540 (revised) auditing accounting estimates and related disclosures; ISA 570 (revised) going concern Range set by PSAA for a metropolitan borough council being up to £4,300.	£0	£1,500
<i>Additional requirements for Gateshead MBC: additional work in respect of completeness of liabilities</i>	£2,048	£0
<i>Additional requirements for Gateshead MBC: significant additional property, plant and equipment (PPE) valuations testing due to valuation of the entire portfolio of assets in 2020/21, as well as restatement of the financial statements for a material prior period error.</i>	£0	£8,026
<i>Additional requirements for Gateshead MBC: PFI shared waste facility expert valuation review</i>	£1,888	£1,275
<i>Additional requirements for Gateshead MBC: revised pensions report</i>	£0	£2,007
<b>Value for money:</b> implementation of the new approach on VFM arising from the change to the Code of Audit Practice. Range set by PSAA for a metropolitan borough council being £10,000 - £19,000.	£0	£14,046
<b>Total</b>	<b>£134,510</b>	<b>£159,969</b>

# 4. Other reporting responsibilities and our fees

## Fees for other work

We carried out the following work for the Council in the year:

Area of work	2019/20 fees	2020/21 fees
Teachers' Pensions 2020/21 return	£4,000	£4,205
Housing Benefits Subsidy 2020/21 return*	£10,000	£10,600
Pooling of Housing Capital Receipts 2020/21 return*	£2,450	TBC**

\*Housing Benefits work is being completed at the time of writing this report; any additional work required will be charged at our daily rate set out in our engagement letter

\*\* Pooling of Housing Capital Receipts work is due to carried out in February 2022.

## Mazars

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Mazars is an internationally integrated partnership, specialising in audit, accountancy, advisory, tax and legal services\*. Operating in over 90 countries and territories around the world, we draw on the expertise of 40,400 professionals – 24,400 in Mazars' integrated partnership and 16,000 via the Mazars North America Alliance – to assist clients of all sizes at every stage in their development.

\*where permitted under applicable country laws.