

# Auditor's Annual Report on City of Wolverhampton Council

2021/22

January 2023



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

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



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

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# Executive summary






## Value for money arrangements and key recommendation(s)

Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to consider whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

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

Overall, the conclusions we have made this year have stayed consistent within Financial Sustainability and improved within Governance. But our conclusion for Improving economy, efficiency and effectiveness has declined as we have made an improvement recommendation this year. A summary of our conclusions are available on page 4. We have marked four out of five of our 2020/21 improvement recommendations as completed.

Criteria	Risk assessment	2020/21 Auditor Judgment	2021/22 Auditor Judgment	Direction of travel
Financial sustainability	Risk identified in relation to the Council's financial resilience due to financial pressures the sector is facing over the medium-term.	No significant weaknesses in arrangements identified, but improvement recommendation made.	No significant weaknesses in arrangements identified, but improvement recommendation made.	↔
Governance	Risk identified in relation to group governance due to challenges seen at other local authorities.	No significant weaknesses in arrangements identified, but improvement recommendation made.	No significant weaknesses in arrangements identified.	↑
Improving economy, efficiency and effectiveness	Risk identified in relation to the arrangements to achieve value for money during the Civic Halls refurbishment due to the challenges it has faced and the overall cost of the project.	No significant weaknesses in arrangements identified.	No significant weaknesses in arrangements identified, but improvement recommendation made.	↓

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

# Executive summary



## Financial sustainability

2021/22 continued to be an highly unusual year for Local Government Finances with the continued strain of the COVID-19 pandemic being felt throughout. This coupled with new cost pressures arising, due to increasing inflation, has meant that the 2021/22 has ended with even greater uncertainty around the financial sustainability of the sector. Despite these challenges we concluded that the Council had maintained a strong financial position throughout 2021/22, however the medium-term position to 2025/26 remains challenging. We have raised three improvement recommendations in relation to the Council's ability to develop and monitor efficiency plans that can help to alleviate this challenging position on pages 11, 12 and 13. The ability to make savings and balance planned expenditure against the available funding will be vital for the Council to maintain financial sustainability over the medium term during what will be a renewed period of acute financial challenge. Further details are available on page 7 of the report.



## Governance

The Council has maintained effective governance arrangements during 2021/22. During 2021/22 there have been positive developments in relation to governance arrangements at the Council, with the renewed approach to scrutiny (discussed further on page 15). As part of our Annual Audit Plan we identified a potential risk of significant weakness in arrangements around group governance. Ultimately we have concluded that there is not a significant weakness in arrangements requiring key recommendations and the Council continues to have good procedures around risk monitoring, budget setting, scrutiny and overall governance arrangements. Further details are available on page 14 of the report.



## Improving economy, efficiency and effectiveness

Overall, the Council has effective arrangements in place in relation to delivering economy, efficiency and effectiveness in its services to local residents. The Council has good arrangements in relation to performance monitoring, procurement and partnership working. Progress has been made in relation to the weakness in arrangements in relation to Special Educational Needs and/ or Disabilities service identified in the joint report issued by the Care Quality Commission (CQC) and Department for Education (DfE) in September 2021. However, we have raised an improvement recommendation in relation to continuing this progress on page 21.

During our audit work we identified a risk of significant weakness in arrangements around the Civic Halls Refurbishment project. As such we performed additional focused risk based work over the timeline of the project from June 2018. Ultimately, we have concluded that there is not a significant weakness in arrangements requiring key recommendations but have raised two improvement recommendations. Further information is available on page 20 of this report.



We have completed our audit of your financial statements and anticipate to issue an unqualified audit opinion on 23<sup>rd</sup> January 2022, following the Audit Committee meeting on 23<sup>rd</sup> January 2022. Our findings are set out in further detail on pages 5 to 24.





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

We bring the following matters to your attention:

## Opinion on the financial statements

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

We anticipate that we will be able to issue an unqualified audit opinion following the audit and risk committee on 23 January 2023.

## Statutory recommendations

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

We have not issued any statutory recommendations.

## Public Interest Report

Under Schedule 7 of the Local Audit and Accountability Act 2014, auditors have the power to make a report if they consider a matter is sufficiently important to be brought to the attention of the audited body or the public as a matter of urgency, including matters which may already be known to the public, but where it is in the public interest for the auditor to publish their independent view.

We have not issued any public interest reports.

## Application to the Court

Under Section 28 of the Local Audit and Accountability Act 2014, if auditors think that an item of account is contrary to law, they may apply to the court for a declaration to that effect.

We have not made any applications to the court.

## Advisory notice

Under Section 29 of the Local Audit and Accountability Act 2014, auditors may issue an advisory notice if the auditor thinks that the authority or an officer of the authority:

- is about to make or has made a decision which involves or would involve the authority incurring unlawful expenditure,
- is about to take or has begun to take a course of action which, if followed to its conclusion, would be unlawful and likely to cause a loss or deficiency, or
- is about to enter an item of account, the entry of which is unlawful.

We have not issued any advisory notices.

## Judicial review

Under Section 31 of the Local Audit and Accountability Act 2014, auditors may make an application for judicial review of a decision of an authority, or of a failure by an authority to act, which it is reasonable to believe would have an effect on the accounts of that body.

We have not applied for any judicial reviews.

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

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

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

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

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



## Financial Sustainability

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



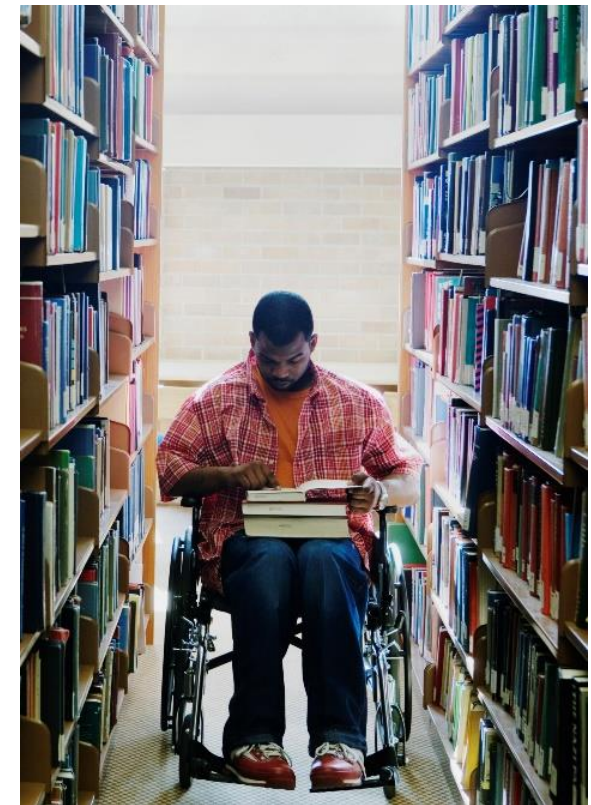
## Governance

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



## Improving economy, efficiency and effectiveness

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



Our commentary on the Council's arrangements in each of these three areas, is set out on pages 7 to 24. Further detail on how we approached our work is included in Appendix B.

# Financial sustainability



## We considered how the Council:

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

## Financial Outturn 2021/22

2021/22 continued to be a highly unusual year for the public sector with the continued strain of the COVID-19 pandemic being felt throughout. The Council has reported that during 2021/22 the ongoing financial implications of COVID-19 was £6.4m. Despite this challenging environment the Council has managed to achieve a £2m underspend in the year after net transfers to and from reserves, which highlights the Council's consistent strong financial management despite the challenges faced.

As at March 2022, the Council's general fund balance currently sit at £13.7m (5% of 2022/23 net budget). This is in line with recommended best practice. The Council's total general fund balance has decreased by £9.2m in the year.

	General Fund balance	General Fund Earmarked Reserves	Total General Fund balance	Housing Revenue Account	Major Repairs Reserve	Capital Receipts Reserve	Capital Grants Unapplied Account	Total Usable Reserves	Total Unusable Reserves	TOTAL (Council)
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Balance Brought Forward	(13.7)	(121.4)	(135.1)	(7.1)	(1.7)	(9.6)	(7.5)	(161.0)	332.4	171.5
Surplus/(Deficit) on Provision of Services	(37.8)	-	(37.8)	(36.9)	-	-	-	(74.7)	-	(74.7)
Other Comprehensive Income and Expenditure	-	-	-	-	-	-	-	-	(261.4)	(261.4)
Total Comprehensive Income and Expenditure	(37.8)	-	(37.8)	(36.9)	-	-	-	(74.7)	(261.4)	(336.1)
Net Decrease/(Increase) before Transfers & other Movements	(37.8)	-	(37.8)	(36.9)	-	-	-	(74.7)	(261.4)	(336.1)
Adjustments between Accounting Basis & Funding Basis under Regulations	47.0	-	47.0	36.9	(0.4)	(1.2)	6.2	88.6	(88.6)	-
Transfers to/from Earmarked Reserves	(9.2)	9.2	-	-	-	-	-	-	-	-
(Increase)/decrease for the Year	-	9.2	9.2	-	(0.4)	(1.2)	6.2	13.8	(350.0)	(336.1)
Balance Carried Forward	(13.7)	(112.2)	(125.8)	(7.1)	(2.1)	(10.8)	(1.3)	(147.2)	(17.6)	(164.7)

# Financial sustainability

## 2022/23 budget

The Cabinet approved a balanced budget in February 2022 for 2022/23, without the use of general fund reserves. There was strong internal and external engagement throughout the budget setting process with assumptions around demand and cost pressures being developed in partnership with Directorates. For 2022/23 the budget was developed around the priorities set in the Council's new "Our City: Our Plan" (discussed further on page 19). This has helped to ensure that Council's resources are aligned to its strategic objectives.

Scenario planning is utilized internally when developing the budget, this ensured that the assumptions presented to the Cabinet were balanced and not overly optimistic. At the time of drafting the assumptions around income, pay costs and inflation were in line with best knowledge. However, this has been an highly unusual year for the UK for inflation and other cost pressures, which now means that many of the assumptions are outdated. This was disclosed as a risk within the 2022/23 budget and the overall risk of delivering the medium-term financial strategy (MTFS) was flagged as red. We have reviewed the risks disclosed around both the 2022/23 budget and MTFS and are satisfied that there are no obvious omissions at the time of drafting.

### General Fund Budget Risks from the 2022/23 – 2025/26 MTFS

Medium Term Forecasting	Service Demands
Identification of Budget Reductions	Budget Management
Transformation Programme	Reduction in Income and Funding
Third Parties	Government Policy
Covid-19	

Due to the changes in inflation and the corresponding costs pressures inflation creates (such as pay awards), the Council is now projecting a overspend of £1.5m as at quarter two, which is a reduction from the £5.4m projected at quarter one. To balance the 2022/23 budget, they will need to either deliver additional in year savings or utilize the use of corporate reserves. The Council's forecasted corporate reserves from the 2022/23 to 2025/26 MTFS are:

Corporate Reserves	Forecast Balance as at 31 March 2022
Efficiency Reserve	£5.4m
Budget Strategy Reserve	£7.6m
Transformation Reserve	£2.6m
Budget Contingency Reserve	£7.1m
Future years budget strategy	£13.3m
<b>Total</b>	<b>£36m</b>

However, it is also important to note that there remains a high level of uncertainty around the projected outturn and this position may worsen as 2022/23 progresses. The Council is modelling the latest position when information becomes available to try and mitigate this uncertainty. Also, as shown in the table above, the Council currently has set aside sufficient corporate reserves to provide budgetary support.

## Medium term position

The updated MTFS was presented alongside the 2022/23 budget in February, which ensures there is not a short-term view of the Councils finances. We have assessed the assumptions used in the MTFS and do not consider them to be overly optimistic, with the Council showing an understanding of the key future cost pressures such as Adult Social Care and a reduction in some funding streams due to the impact of COVID-19. It should also be noted that the Council is still working with uncertainty in relation to funding streams due to the current Spending Review period.



# Financial sustainability

At the time of drafting (February 2022), the Council was projecting a budget gap of £12.6m in 2023/24 which would rise to £25.8m by 2025/26. Significant work was performed during the year to reduce the 2023/24 gap, however due to the impact of costs pressures during the year the current budget gap (per the draft 2023/24 Budget and Medium-Term Financial Strategy reported in October 2022) is £7.1m in 2023/24 rising to £31.6m by 2025/26. We should note that these figures are pre the provisional local government finance settlement that was announced at the end of December 2022 and this position could have improved since.

The Council clearly explains assumptions as part of the budget setting process, however we have recommended that the Council should consider presenting different scenarios to highlight the potential movement of the deficit over the medium-term to show a best case or worst-case scenario depending on potential change in assumptions as part of the draft budget setting process. There are examples of the Council utilizing scenario analysis when presenting different options in relation to areas such as income levels, however there are not scenarios presented for the overall deficit position. We have set out this recommendation further on page 13.

Work is currently underway to identify efficiency targets to cover the current budget gap of £7.1m in 2023/24 and we note that the body currently has reserves to cover any short fall, however methods to cover the forecasted gap to 2025/26 represent a considerable unknown. The body does have a history of identifying efficiency targets in the prior iterations of the MTFs and delivering them. However, we have made an improvement recommendation on page 11, that the Council prioritises identifying recurrent efficiency targets to cover the forecasted gap to 2025/26.

As part of our 2021/22 Annual Audit Plan we highlighted a potential significant weakness in relation to medium term financial resilience. Since the publication of our plan the overall economic environment has worsened, which has made the medium-term position of the Council uncertain. As part of our risk based work, we have assessed:

- The assumptions utilized in the Councils forward planning;
- The Council's reserves balance;
- The Council's saving plans and governance arrangements around savings plans; and
- The Council's financial position in comparison to other similar local authorities;

We have concluded that there is not a significant weakness in arrangements in relation to financial sustainability of the Council based on the projected financial gap to 2023/24 and the current methods the Council has to meet that gap through either saving plans or the use of reserves. However, as mentioned earlier, the medium-term position of the Council to 2025/26 continues to be challenging and there is uncertainty around how any current projected gap will be covered. This will also be an area we will continue to monitor as part of our 2022/23 Value for Money procedures.

## Efficiency targets

To deliver a breakeven position in 2022/23 the Council has identified £11m of budget reductions, additional income generation and efficiency targets. It should be noted that a number of these efficiencies are one off in nature and will require future efficiencies to be identified in 2023/24 onwards to cover one-off use of reserves or grants.

Based on the current projected budget gap of £31.6m in 2025/26 it is essential that the Council further work to develop a recurrent savings scheme in the medium term. We have made a recommendation in relation to this point on page 11.

As at quarter 2, savings are mostly projected to be delivered in full. As part of 2020/21 Auditor's Annual Report we made a recommendation that consideration should be given to a more formal monitoring of saving targets, as the monitoring of specific savings programmes could be clearer. We do acknowledge the improvements made by the Council in the year in relation to the clear narrative on the monitoring of savings, as part of the appendix of budget monitoring reports, however it is still challenging for decision makers to, at a glance, quickly understand the position of savings targets. It would be useful for there to be a brief narrative in the body of the report, with a table to summarise the progress of savings to date. We have therefore brought forward our recommendation from 2020/21 on page 12.

# Financial sustainability

## Capital plans

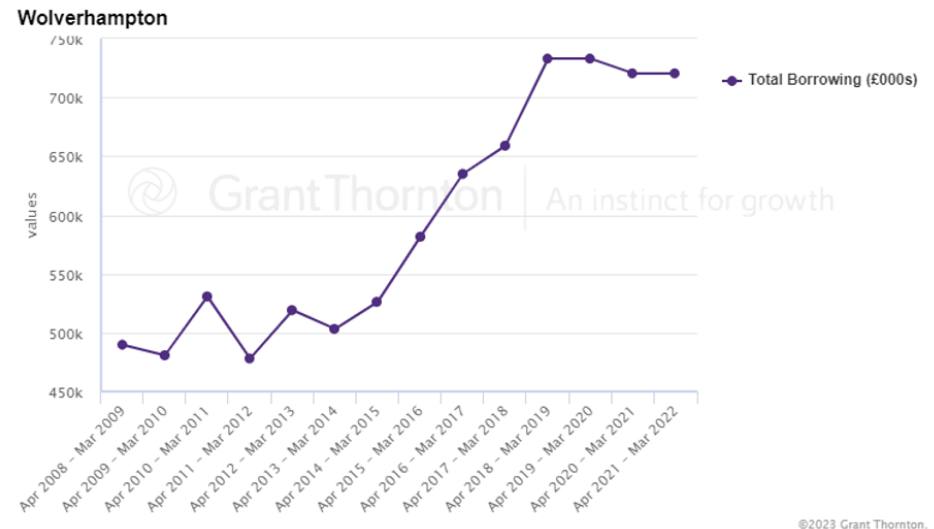
The Council has developed a Capital programme that aims to deliver the strategic priorities of their new Our City: Our Plan. In March 2021 the Council approved a £346.1m capital programme from 2021/22 to 2026/27, this has since increased to £367.7m. The Council is projected to deliver £82.5m (82%) of the planned capital project expenditure of £100.5m that was budgeted to be completed in 2021/22. Any changes to the capital programme are reported and approved as part of the quarterly monitoring reports that are presented to the Cabinet.

There are current risks around the delivery of the capital programme in 2022/23 due to the impact of inflation and other supply chain issues. The Council continues to monitor these risks and officers update the Cabinet accordingly. As per the 2022/23 quarter 2 monitoring report, key capital projects are still on track to be delivered.

## Borrowings

In order to fund the development of key projects the Council may be required to externally borrow funds. In comparison to its nearest neighbours, Wolverhampton has a reasonably high level of borrowings of £720.4m (as shown to the right). Whilst overall borrowing levels remain high, during 2021/22, the Council has not had to undertake any external borrowing.

The Council ensures that the level of borrowing in any one year does not exceed the authorised borrowing limit and that prudential and treasury management indicators are met, through the monitoring provided by the quarterly Treasury Management Activity reports.



## Conclusion

Although it has continued to be an extraordinary year for Local Authority finances, with the impact of COVID-19 being felt throughout, the Council has continued to perform strongly in terms of its financial planning. There are now emerging cost pressures, due to the impact of inflation, but the Council has put sufficient contingencies in place to cover any current year cost pressures. There is still much uncertainty around the medium-term funding and cost position of the Council, as such it is essential that the Council develops a recurrent savings plan to cover any projected shortfall. We have identified three opportunities for improvement, set out in the following pages.

# Improvement recommendations



## Financial sustainability

### Recommendation 1

The Council should prioritise developing a recurrent efficiency plan to cover the forecasted gap to 2025/26, making sure plans are fully developed and supported by robust quality impact assessments and that there is sufficient headroom in the plan to manage potential slippage.

### Why/impact

Failure to develop a recurrent savings could lead the Council to not be financial sustainable over the medium-term and lead to further service delivery pressures.

### Auditor judgement

Failure to develop a recurrent efficiency plan that will bridge the projected budget gap in 2025/26 in full is likely to be managed through use of reserves or one-off measures. This will lead to further financial pressures over the long term.

### Summary findings

The current projected budget gap for the Council is £7.1m in 2023/24 rising to £31.6m by 2025/26. Whilst the Council is in the process of developing a balanced financial plan for 2023/24, there is uncertainty on how it will bridge the budget gap to 2025/26.

### Management Comments

The council agrees. The council will prioritise development of a medium term financial strategy.



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

# Improvement recommendations



## Financial sustainability

### Recommendation 2

This recommendation has been carried forward from 2020/21:

Consideration should be given to more formal, explicit monitoring, at a Member level, of the extent to which proposed savings are realised.

### Why/impact

The Annual budget sets out proposed savings per service area and their impact on the budget. Reporting on the progress of these specific programmes would help Members (and other readers of the documents) to better understand the performance in each area which would inform decision making as to any additional spending which may be required.

### Auditor judgement

The monitoring of specific savings programmes could be made clearer. Currently it is not apparent whether proposed savings are monitored and reported against.

### Summary findings

We do acknowledge the improvements made by the Council in the year in relation to the clear narrative written around the monitoring of savings as part of the appendix of budget monitoring reports, however it is still challenging for decision makers to, at a glance, quickly understand the position of savings targets. It would be useful for there to be a brief narrative in the body of the report, with a table to summarise the progress of savings to date.

### Management Comments

**We will continue to build on the reporting of savings by introducing a brief narrative in the body of the report along with a summary table of savings.**



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



# Improvement recommendations



## Financial sustainability

### Recommendation 3

As part of the draft budget setting process, finance should consider adding a narrative section that sets out the best, worst and most likely case of the overall budget gap by the end of the MTFS. These cases should be supported with a brief narrative explaining the factors that would lead to each scenario.

### Why/impact

It is important that decision makers have an understanding of the potential scenarios that could occur over the life of the MTFS, to ensure that decisions are made with a clear understanding of the positive or negative financial position the Council could find itself in.

### Auditor judgement

There is currently an increased level of uncertainty around the Council's medium term position due to the unusual economic climate the country is facing. Its currently not clear how the projected £31.6m budget gap to 2025/26 could fluctuate depending on a change in assumptions.

### Summary findings

The Council clearly explains assumptions as part of the budget setting process. However, this year has shown that the medium-term projected budget gap can fluctuate rapidly due to a change in these assumptions (see page 9). It would be useful for decision makers, as part of the draft budget setting process, to gain an understanding of how a change in assumptions will change the overall projected budget gap.

### Management Comments

During 2022-2023 the council introduced reporting on scenarios in Budget report (July Cabinet) and continue to build on this during the budget setting process for 2023-2024.



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

# Governance



## We considered how the Council:

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

## Risk monitoring and effectiveness of internal controls

The Council has robust processes around risk monitoring. Specific risks continue to be monitored through directorate, programme, project and partnership risk registers. With risks considered as part of decision and policy making. There is also a Strategic Risk Register that is presented to the SEB and Audit and Risk Committee on a quarterly basis. This risk register documents the key strategic risks that could cause the Council to not meet their corporate objectives. The Strategic Risk Register is updated on an ongoing basis and has risks for current challenges such as financial wellbeing and resilience. In our prior year Auditor's Annual Report we made a recommendation that the Strategic Risk Register should explicitly link risks to which corporate objective is at threat. The latest risk register has been strengthened and shows clear links between risks and the corresponding corporate objective from the Council's new Our City: Our Plan.

The Council also receives assurance on internal control and risk management processes from its Internal Audit function. In 2021/22, Internal Audit completed 29 pieces of work:

Substantial Assurance	Satisfactory Assurance	Limited Assurance
11	15	3

However, a small number of audits had to be deferred to 2022/23 due to mitigating circumstances. Despite this, Internal Audit have given an opinion of reasonable assurance that the Council has adequate and effective governance, risk management and internal processes in 2021/22. Agreed recommendations from Internal Audit's work are tracked and followed up appropriately. The majority of Internal Audits prior period recommendations have been actioned by the agreed implementation date and any that have not been, have been reported back to the Audit and Risk Committee. This ensures there is proper scrutiny on managements progress.

## Budget Setting Process and monitoring

The budget for 2022/23 was presented at the February 2022 Cabinet meeting alongside other relevant financial strategies such as the annual Treasury Management and Capital Budget Strategies. There is evidence that Cabinet is heavily involved in the budget setting process and there is scrutiny of proposals. We can see that the budget is informed by the Medium-Term Financial Strategy (MTFS) and is updated throughout the year based on the Council's financial position. During the budget process, there is adequate arrangements for internal and external stakeholder engagement throughout.

# Governance

Stakeholder engagement has been further strengthened in the year by relaunching the “Budget Simulator” in January 2022. The online simulator allows respondents to set their own draft budgets.

As discussed in the financial sustainability section, the 2022/23 budget has been built around the priorities set in Our City: Our Plan, by taking this approach the Council has continued to ensure that its resources are directed and balanced to meet its corporate objectives.

The financial position of the Council is monitored through quarterly Performance and Budget monitoring reports that go to the Cabinet. The inclusion of both performance and budget data within the reports ensures that decision makers receive a rounded view of the ongoing performance of the Council. Any variances from the expected budgeted position are clearly explained and actions being taken by the relevant department are set out.

Overall, the Council has satisfactory arrangements in place for budget setting and monitoring.

## Decision Making and committee effectiveness

The work of the Council’s committees is governed by the Constitution. The Constitution is a reviewed regularly, with the most recent review being presented to the Council in May 2022. Relevant information is provided to decision makers before major decisions are made to ensure there is appropriate challenge. There have been wider pieces of work completed in the year to revise the Councils approach to scrutiny. This was done to ensure that Scrutiny is more focussed on the Council’s performance against Our City: Our Plan and that there is a greater link between performance and finance. Whilst there are benefits to this new approach, there are still barriers in creating a consistent approach across all service areas due to the differing levels of data quality available.

The Council continues to seek user feedback as part of the “Citizen Space” consultation hub. As part of our prior year Annual Audit Report we made an improvement recommendation in relation to the consultation hub. Specifically, we recommended that the Council consider including a section in its consultation pages setting out details of the questions asked, the response received and what was done as a result. The Council has initially actioned this recommendation in relation to a number of consultations in the year, with work being undertaken to imbed this process across all consultations moving forward.

## Monitoring and ensuring appropriate standards

The Annual Governance Statement is compliant with the CIPFA code. An appropriate level of care is taken to ensure the Council’s policies and procedures comply with all relevant codes and legislative frameworks. The Council has driven improvements within the Annual Governance Statement in the year by expanding the narrative around group entities.

The Council has Codes of Conduct for Councillors and employees to ensure appropriate standards are met. This includes in relation to gifts and hospitality.

## Group Governance

The Council currently either owns or has potential liability for the following group entities:

- Wolverhampton Homes
- City of Wolverhampton Housing Company Limited (WV Living)
- Yoo Recruit Limited
- Help to Own

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# Governance

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As part of our 2021/22 Annual Audit Plan we highlighted a risk of significant weakness in relation to group governance, due to challenges and failings that have been seen at other Local Authorities. We have reviewed the governance arrangements around group entities and have not identified any significant issues. There are appropriate agreements in place and coinciding monitoring arrangements for all group entities. For Help to Own, the new partnership the Council entered into in the year with West Midlands Combined Authority, this includes monthly management board meetings, quarterly partnership meetings which are reported to the Council's Strategic Executive Board and an update that is presented to the Cabinet on a six monthly basis.

The Council undertook a review of the arrangements in place for WV Living in 2020/21, which has resulted in a number of changes to how the Council and WV Living interact in the year. This includes the appointment of a non-executive director to the board of WV Living with relevant sector experience to ensure that the correct expertise is on the Board. This is in line with a recommendation we made as part of our 2020/21 Auditor's Annual Report. A review of the approach the Council takes with Yoo Recruit Limited has also taken place in the year, with any recommended actions to be reported back to the Resources and Equalities Panel during 2022/23.

When establishing Help to Own, the Council obtained external advice to ensure that arrangements were fit for purpose and would deliver the proposed outcomes for the partnership. The Council is in the process of undertaking a detailed review of Wolverhampton Homes as there is a break in the contract in 2023, to ensure the arrangements remain fit for purpose. As part of the Code of Practice for the Governance of the Council's interests in companies, the Council have also committed to undertaking a detailed review of each linked body at least every 3 years. We consider this to be a proactive approach to managing group entities.

To increase transparency and ensure that Committee members understand the issues other Local Authorities have experienced around group entities, there have been presentations during the year to the Resources and relevant Scrutiny committees around the governance arrangements in place for the Council's group entities and what issues have arisen at other Local Authorities. The Council has also expanded the narrative within the Annual Governance Statement regarding its group entities and has made links to group entities within its MTFS.

## Conclusion

**Overall, we found no evidence of significant weaknesses in the Council's arrangements for ensuring that it makes informed decisions and properly manages its risks.**



# Improving economy, efficiency and effectiveness



## We considered how the Council:

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

## Performance monitoring

The Council monitored performance against the Relighting Our City priorities during 2021/22. In 2022/23 performance will be monitored by key indicators set out in Our City: Our Plan. As mentioned earlier, performance is reported on a quarterly basis as part of the quarterly Performance and Budget monitoring reports. The final monitoring report for 2021/22 indicated that over 29 indicators, 18 showed improvement, 10 showed similar performance and 1 showed a decrease over the year.

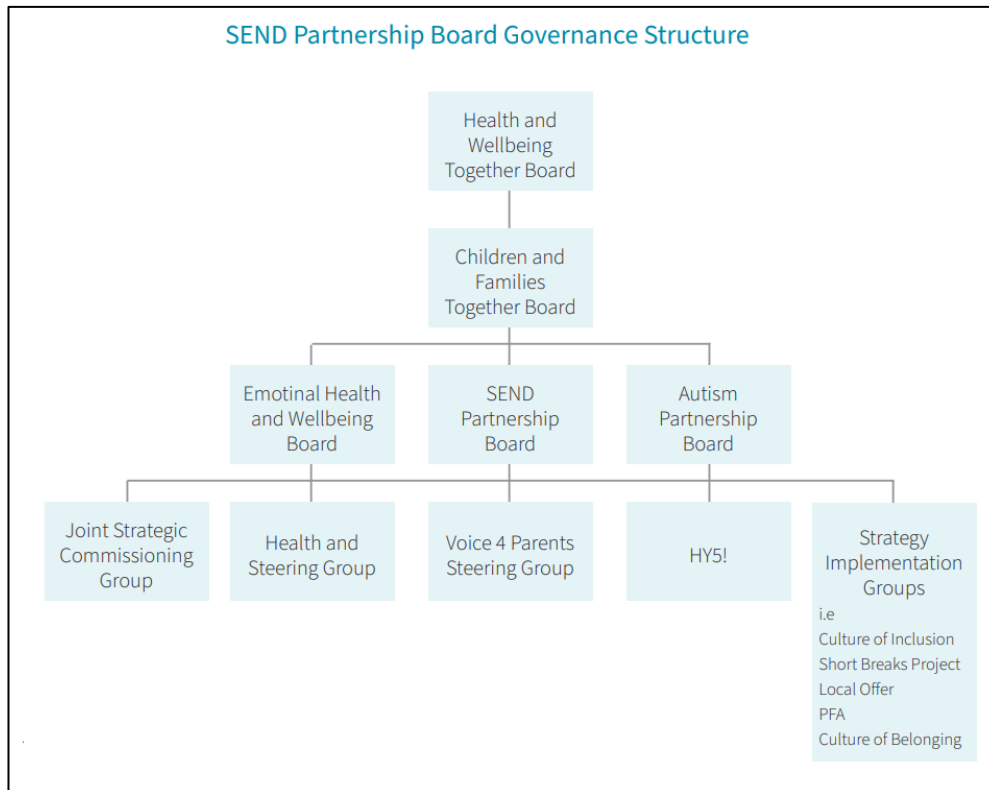
The Council utilizes a variety of benchmarking and data insights to monitor performance. This includes CIPFA nearest neighbours, regional comparators and national comparators. The Council also receives feedback on its performance through external regulatory reviews.

In September 2021 DfE and the CQC carried out a joint inspection of the local area of Wolverhampton to judge the effectiveness of the area in implementing the disability and special needs (SEND) reforms. The report published in November 2021 highlighted a number of significant weaknesses which required the Council to develop a Written Statement of Action (WSOA) which puts a plan in place on how the local area will improve the areas of significant weakness identified.

The WSoA was approved in February 2022 and sets out how the local area will deliver the required improvements to the Services. A clear governance structure (see page 18 for a graphic taken from the WSoA), which has a wide variety of stakeholder input, has been set up to ensure that progress against actions is monitored. With a new cross party sub scrutiny review group being created at the Council to monitor arrangements and progress.

The WSoA is also externally monitored by NHS England and DfE through a four monthly meeting. The latest meeting, of June 2022, highlighted the positive progress that has taken place and that Wolverhampton has effective strategic leadership, partnership working and co-production to support the WSoA. We have reviewed the September 2022 WSoA highlight report and note that progress is being made and individual actions are being monitored as a RAG rating. However, there are some challenges being faced which have resulted in some extensions to original timelines being proposed. We have therefore made a recommendation on page 21, that the Council should continue to monitor the progress that is being made in relation to the WSoA and ensure that continuous further progress is made.

# Improving economy, efficiency and effectiveness



## Procurement and contract management

There have been positive developments in the year in relation to procurement and contract management. Such as the publication of the procurement pipeline, the establishment of the Contract Framework and Toolkit and the rolling out of contract management training across the Council. One key area to highlight is the Select Committee for the Wolverhampton Pound that took place in 2021/22.

The Council initiated a Select Committee during 2021/22 in relation to the Wolverhampton Pound to consider the following lines of enquiry:

‘How do we engage with local businesses and the community and voluntary sector in relation to procurement, contract management and commissioning and how do we ensure inclusivity, equality and value for money in these approaches?’

‘How do we engage with partners, local businesses and the community and voluntary sector to make the City a catalyst for change by ensuring that all contracts reflect our values in areas such as climate change, equality, diversity and inclusion, retaining and growing local wealth and having a real presence in the City?’

It was a cross party group that was brought together to create Council wide engagement in relation to the outcomes that the Wolverhampton Pound can deliver. The Wolverhampton Pound is a partnership approach to Community Wealth Building, that will leverage the spending power of it’s partners to deliver growth and wellbeing improvements for Wolverhampton as a whole. The Council’s initiation of a Select Committee, really highlights a proactive approach to political engagement and ensuring procurement delivers the planned benefits. The recommendations from the report have been built into an action plan that are currently being monitored and implemented.

# Improving economy, efficiency and effectiveness

The Council has also made progress in ensuring it is ready for the proposed changes that will occur from the implementation of the new Procurement Bill. Overall, there are satisfactory arrangements in place for procurement and contract management at the Council and the Council has plans in place to develop key areas.

## Partnership working

Throughout this report we have highlighted areas of good partnership work currently being undertaken by the Council in relation to service improvement, service delivery and procurement. The Council takes a proactive approach to partnership working and identifying potential stakeholders to work with. We have seen the evidence of the monitoring of arrangements being reported to the Cabinet or other relevant committees.

One area of partnership working that should be highlighted in the year is the Council's work in relation to the Black Country Plan. The Black Country Plan was the statutory Local Plan that would replace the 2011 Black Country Core Strategy. It was a joint plan between Dudley, Sandwell, Walsall and Wolverhampton. The production of the plan has been ongoing since 2016 and has included the use of resources and consultations taking place. The plan was to be considered by the Cabinet in October 2022 but unfortunately Dudley withdrew from the plan in the same month, with there not being a clear direction forward. In order to ensure that the Council meets its statutory responsibilities and not to waste the resources already expended. Following consultation with the remaining partners, the Council has developed its own Local Plan. This is a positive outcome considering the changes that occurred, but this process also highlights a potential opportunity for the Council to consider any learning points that they can bring forward into future partnership working.

## Council Plans

The Council has developed a new overarching strategy in 2021/22 due to the significant changes that have occurred since the drafting of the previous plan in 2019. Such as COVID-19, Levelling Up, climate change priorities and external uncertainty to name a few. Our City: Our Plan was approved in March 2022 and builds on the priorities within the Council's Relighting Our City recovery plan. When developing the Plan, the Council has ensured that strategic priorities and areas of focus were supported and guided by appropriate evidence and stakeholder engagement.

The plan sets out six overarching priorities that will help 'Wulfrunians live longer, healthier lives'. These six priorities are underpinned three cost cutting principles.



# Improving economy, efficiency and effectiveness

The plan focusses on each of the six overarching priorities and sets out objectives for operational delivery and performance. As discussed earlier the Council's performance framework has been redeveloped to monitor the progress against these objectives.

There are clear links between this new strategy the other strategies developed by the Council. An example of one of these strategies is "Wolves at Work 18-24". Wolverhampton has historically struggled with youth unemployment, which has been exacerbated by the Covid-19 pandemic and is likely to be affected by current economic instability within the country. The Council is taking a "One City" approach to tackling the issue and providing £3m in funding for the "Wolves at Work 18-24" programme through the use of partnership working.

## Civic Halls Refurbishment programme

We identified a potential risk of significant weakness in the Council's arrangements for securing economy, efficiency and effectiveness in relation to the Civic Halls Refurbishment programme. Based on this we undertook further risk-based work to review the programme from June 2018 to date.

We reviewed documentation relating to the Civic Halls Refurbishment and spoke to the key officers involved in the project and reviewed the programme through ten lenses; procurement of principal contractor to replace Shaylor Group, contract in place between the Council and Willmott Dixon, contract management of the contract between the Council and Willmott Dixon, use of consultants and advisors, governance arrangements of the Civic Halls Refurbishment programme, process followed in the appointment of an operator for the Civic Halls, risk management of the Civic Halls Refurbishment programme, response of the Council to the 'Civic Halls Refurbishment – Lessons Learnt' report published by Internal Audit in 2018 and Civic Halls Refurbishment budget.

Based on our review we have concluded that, although the project has been a significant challenge for the Council, that we do not consider there to be any significant weaknesses in the Council's value for money arrangements associated with the delivery of this project. We have identified two improvement recommendations for the Council to consider in relation to this project. A copy of our full report can be found at Appendix D of this report.

## Conclusion

Overall, we are satisfied that the Council has appropriate arrangements in place to ensure it can deliver economy, efficiency and effectiveness with good processes in place for performance monitoring, procurement and contract management and partnership working. There has been good process in relation to recommendations made by external regulators, however it is important that the Council continues the pace of change within these areas to meet their initial timescales. We have also highlighted two improvement recommendations in relation to the Civic Halls Refurbishment project.



# Improvement recommendations



Improving economy, efficiency and effectiveness

## Recommendation 5

The Council needs to continue to monitor the progress of the Written Statement of Action that is in place due to the significant concerns raised by CQC and DfE in their September 2021 report. The Council should ensure that progress continues to be made and that any improvements are realising the expected benefits.

## Why/impact

Although progress has been made and good processes put in place to monitor the Written Statement of Action, there is a risk that conflicting priorities may cause the Council to lose momentum. This will have a significant impact on the service user and the Council's reputation.

## Auditor judgement

As the report raises significant concerns, the Council, with its partners must focus on providing a service which meets the needs of its clients and will demonstrate that the remedial actions as outlined in the written statement of actions have been implemented.

## Summary findings

In September 2021, CQC and DfE performed a joint inspection of the effectiveness of the SEND arrangements in the local area. The inspection identified some weaknesses in areas. There has been good progress in the year, as discussed on page 17, however this is an ongoing change programme that won't be fully reassessed by CQC and DfE until 2023.

## Management Comments

**The Council will continue to monitor and ensure progress continues to be made and that any improvements are realising the expected benefits.**



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

# Improvement recommendations



Improving economy, efficiency and effectiveness

## Recommendation 6

The Council should ensure that the lessons learnt from the Civic Halls refurbishment are applied and embedded into future capital programmes delivered by the Council.

## Why/impact

The Internal Audit report published in 2018 detailing the lessons learnt from the Civic Halls Refurbishment identified a number of failings of the Council and a number of lessons to be learnt from this. The Council embedded those lessons learnt into the refreshed Civic Halls Refurbishment and, for those that will be applicable to future capital projects, the Council should ensure that they are applied and mistakes made are not repeated.

## Auditor judgement

The lessons learnt identified by Internal Audit will be crucial in maximising the potential for success in future capital projects and therefore should be robustly applied by the Council.

## Summary findings

Following a number of issues with the Civic Halls Refurbishment programme prior to 2018, Internal Audit were commissioned by the Managing Director to undertake a lessons learnt review of the project. This review identified 32 separate lessons learnt for the Council to consider, both on the ongoing Civic Halls Refurbishment and for future capital projects.

## Management Comments

The Council continues to ensure that the lessons learnt from the Civic Halls Refurbishment are applied and embedded into future capital projects. A report detailing the way in which this is taking place and will take place in the future will be coming to the Audit and Risk Committee in March 2023.



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

# Improvement recommendations



Improving economy, efficiency and effectiveness

## Recommendation 7

The Council should continue to closely monitor the position with Willmott Dixon on the outcome of the pain/gain mechanism between the two parties. The Council should also ensure that it reports on the expected outcome of this reconciliation and the recovery of pain/gain payments to Willmott Dixon at the earliest possible moment.

## Why/impact

The Council approved a temporary supplementary budget of £10m on the basis of professional advice from Faithful & Gould with regards to the pain/gain mechanism in the contract with Willmott Dixon. The Council expects to receive these payments back in full but is awaiting the outcome of reconciliation. Therefore, there remains a risk that the Council should monitor and manage as appropriate.

## Auditor judgement

The outcome of the reconciliation of the pain/gain mechanism is yet to be determined and it is important that the Council continue to monitor this closely and report any emerging risks as and when required.

## Summary findings

The contract between Willmott Dixon and the Council includes a pain/gain mechanism that requires the Council to make payments to Willmott Dixon with the money then recovered, in full, upon reconciliation. Given the challenges the Council has had in the relationship with Willmott Dixon then it is important that the Council continue to monitor the outcomes and risks closely.

## Management Comments

The Council continues to closely monitor the pain/gain position, and will ensure this is reported on as per the recommendations.



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

# West Midlands Pension Fund

## Financial sustainability

The operation of the Fund and how resources will be used is captured in the Corporate Plan. The primary resources of the pension fund can be categorised broadly into two areas, contributions received from active members and returns on investments (interest, dividends, profit on disposal etc).

In line with regulations, the fund is required to be formally valued every three years (triennial valuation) by a qualified actuary. As part of this exercise, the actuary will undertake an in-depth review of the fund based on its current funding plans i.e. the level of assets required to meet future benefit payments, the time period over which it aims to achieve this and then determines the contribution rate at which employer bodies must contribute for the following three years. This also outlines that for major employers, rates may be paid in advance to the fund to cover the three year period. This should be considered in line with the funding strategy statement.

The investment activity of the fund is dictated by the investment strategy statement which sets out the type of investments that pension fund money should be invested, indicative allocations and expected returns and volatilities. The performance of these investments is then monitored by the Pensions Committee and the Pensions Board.

## Governance

The operation of the pension fund is overseen and scrutinised by a number of committees including the Pensions Committee and the Pensions Board.

All of the above meet a number of times during the financial period. Review of the minutes of meetings demonstrates that members can discharge their responsibilities and make informed decisions based on sufficient and appropriate information.

There is also a risk register which is updated regularly to map out potential risks against likelihood and the impact they will have.

## Improving economy, efficiency and effectiveness

The Pensions Committee monitor investment performance on a quarterly basis in arrears in line with the reporting provided by fund managers. The Local Pensions Board are provided with a high-level commentary on the portfolio of assets held by the fund. The report provides members with information on valuation, sensitivity and benchmarking in order for them to ascertain potential improvements in investment activity.

The fund produce quarterly reports to update the Pensions Committee and the Pensions Board on the key developments affecting pensions administration and the performance of the Pensions Administration Service. This covers a suite of KPIs and measure of performance against these indicators, therefore identifying areas for improvement. The report also monitors workloads, breaches of policy and other projects ongoing to improve the service.

The output of the performance of the fund in the year is captured in the pension fund annual report.

## Conclusion

**Overall, we are satisfied that there are process and procedures in place to ensure the West Midlands Pension Fund manages its resources to ensure it can continue to deliver its services, has processes in place to make informed decisions and manage its risks, and has procedures in place to monitor its performance effectively.**

# Follow-up of previous recommendations

	<b>Recommendation</b>	<b>Type of recommendation</b>	<b>Date raised</b>	<b>Progress to date</b>	<b>Addressed?</b>	<b>Further action?</b>
1	Consideration should be given to more formal, explicit monitoring, at a Member level, of the extent to which proposed savings are realised.	Improvement	January 2022	Progress has been made, with there being narrative within the appendix of budget monitoring reports. However we have carried this recommendation forward based on our conclusions on page 12.	Partly	Yes
2	The Medium Term Financial Strategy should be expanded to explicitly consider group entities, particularly those which are considered sufficiently significant to be consolidated into the group accounts; namely City of Wolverhampton Housing Company Limited and Wolverhampton Homes.	Improvement	January 2022	There is now a section within the MTFS that makes links to group entities.	Yes	No
3	When documenting a strategic risk, the Council should be explicit in linking it to which of the corporate objectives is at risk, as well as clearly setting out details of the controls and assurance already in place, such that gaps can be easily identified.	Improvement	January 2022	The latest risk register has been strengthened and shows clear links between risks and the corresponding corporate objective from the Councils new Our City: Our Plan.	Yes	No



# Follow-up of previous recommendations

4	Recommendation	Type of recommendation	Date raised	Progress to date	Addressed?	Further action?
4	The Council has a consultation hub, which invites thoughts and comments from the public when changes are planned. We recommend that the Council consider including a section in its consultation pages setting out details of the questions asked, the responses received, and what was done as a result.	Improvement	January 2022	The Council has initially actioned this recommendation in relation to a number of consultations in the year, with work being undertaken to imbed this process across all consultations moving forward.	Yes	No
5	We recognise the improvements made by the Council in partnership with City of Wolverhampton Housing Company Limited in terms of it having relevant sector expertise on the Board. We recommend that the a skills and knowledge assessment is undertaken to inform the consideration of whether further additional expertise would add value to the Board.	Improvement	January 2022	The skills and knowledge assessment has been undertaken for WV Living in the year.	Yes	No

# Opinion on the financial statements



## Audit opinion on the financial statements

We anticipate that we will issue an unqualified opinion on the financial statements following the audit and risk committee on the 23 January 2023.

## Audit Findings Report

More detailed findings can be found in our Audit Findings Report, which was published and reported to the Council's Audit and Risk Committee on 23 January 2023.

## Whole of Government Accounts

To support the audit of the Whole of Government Accounts (WGA), we are required to review and report on the WGA return prepared by the Council. This work includes performing specified procedures under group audit instructions issued by the National Audit Office.

These instructions have not yet been issued and therefore our work in this area is not yet complete.

## Preparation of the accounts

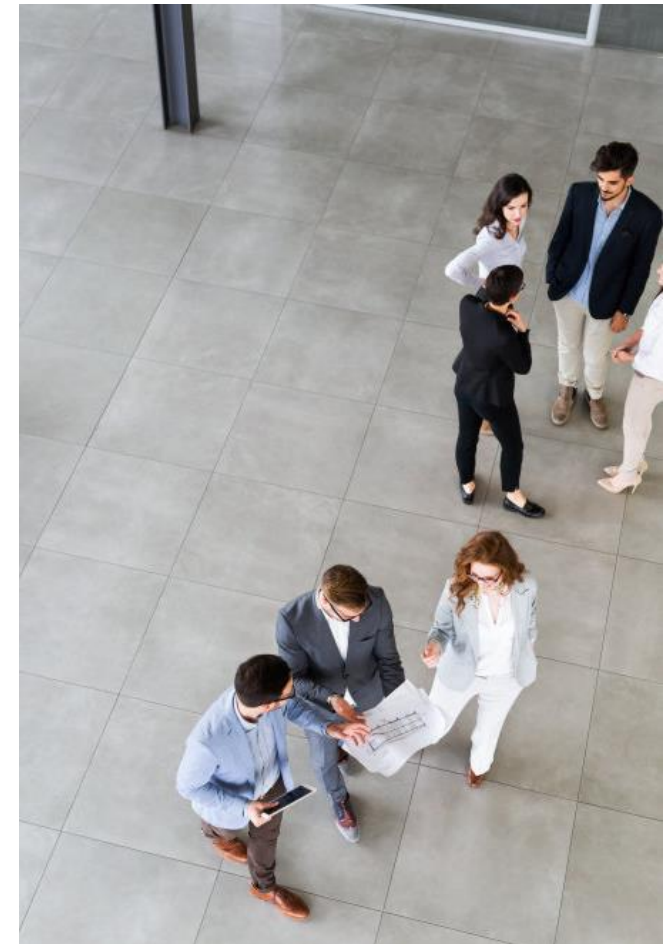
The Council provided draft accounts in line with the national deadline and provided a good set of working papers to support it.

## Issues arising from the accounts:

The key issues are set out in our Audit Findings Report

## Grant Thornton provides an independent opinion on whether the accounts are:

- True and fair
- Prepared in accordance with relevant accounting standards
- Prepared in accordance with relevant UK legislation



# Appendices

# Appendix A – Responsibilities of the Council

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

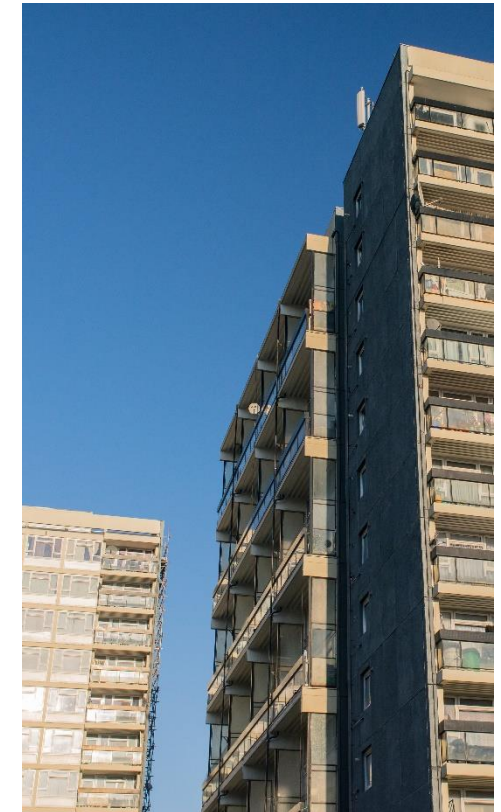
Financial statements are the main way in which local public bodies account for how they use their resources. Local public bodies are required to prepare and publish financial statements setting out their financial performance for the year. To do this, bodies need to maintain proper accounting records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

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

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

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

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



# Appendix B – Risks of significant weaknesses, our procedures and findings

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

Risk of significant weakness	Procedures undertaken	Findings	Outcome
Financial sustainability – We identified a risk of significant weakness in relation to the Council's financial resilience over the medium-term due to financial pressures the sector is facing over the medium-term.	We have completed the following procedures in relation to this risk: <ul style="list-style-type: none"> <li>- Held meetings with senior management;</li> <li>- Reviewed and critically assessed the Council's financial strategies and supporting documentation;</li> <li>- Reviewed and critically assessed the budget setting and budget monitoring processes; and</li> <li>- Benchmarked the Council's key financial indicators against other Local Authorities;</li> </ul>	We have concluded that there is not a significant risk in relation to financial sustainability of the Council based on the projected financial gap to 2023/24 and the current methods the Council has to meet that gap through either saving plans or the use of reserves. Further information is on page 9.	Appropriate arrangements in place, however we have raised two improvement recommendations.
Group Governance – We identified a risk of significant weakness in relation to group governance due to challenges seen at other local authorities.	We have completed the following procedures in relation to this risk: <ul style="list-style-type: none"> <li>- Held meetings with senior management;</li> <li>- Reviewed and critically assessed current group governance arrangements; and</li> <li>- Compared the Council's governance arrangements against recent failures that have occurred in other Local Authorities and assessed how they mitigate or minimise the potential risk of failure.</li> </ul>	We have reviewed the governance arrangements around group entities and have not identified any significant issues. There are appropriate agreements in place and coinciding monitoring arrangements for all group entities. Further information is on page 15.	Appropriate arrangements in place, however we have raised one improvement recommendation.
Civic Halls refurbishment – We identified a risk of significant weakness in relation to the arrangements to achieve value for money during the Civic Halls refurbishment due to the challenges it has faced and the overall cost of the project.	We have completed the following procedures in relation to this risk: <ul style="list-style-type: none"> <li>- Held meetings with senior management;</li> <li>- Reviewed documentation in relation to the Civic Hall Refurbishment</li> </ul>	We have reviewed the arrangements in place with regards to the Civic Halls Refurbishment since June 2018 across ten different lenses. The detailed report can be found in Appendix D of this document.	Appropriate arrangements in place two improvement recommendations raised.



# Appendix C – An explanatory note on recommendations

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

Type of recommendation	Background	Raised within this report	Page reference
Statutory	Written recommendations to the Council under Section 24 (Schedule 7) of the Local Audit and Accountability Act 2014.	No	N/A
Key	The NAO Code of Audit Practice requires that where auditors identify significant weaknesses as part of their arrangements to secure value for money they should make recommendations setting out the actions that should be taken by the Council. We have defined these recommendations as ‘key recommendations’.	No	N/A
Improvement	These recommendations, if implemented should improve the arrangements in place at the Council, but are not a result of identifying significant weaknesses in the Council’s arrangements.	Yes	11, 12, 13, 21, 22 and 23

# Appendix D – Civic Halls Refurbishment – Additional Value for Money work

## Introduction

The Civic Halls refurbishment project has been reviewed as part of our 2021/22 Value for Money (‘VfM’) work for City of Wolverhampton Council. Given the high-profile nature of the project, the challenges it has faced and the cost of the programme we have identified a risk of significant weakness. This report sets out the findings of our additional work on assessing whether or not there is a significant weakness in relation to the Civic Halls Refurbishment.

On 11 June 2018, the Council’s Internal Auditors issued a report titled ‘Internal Audit Report: Civic Halls Refurbishment – Lessons Learnt (2017-2018)’. This report reviewed the Civic Halls Refurbishment project up until January 2018 and set out 32 lessons learnt from the project up to that date.

Following the publication of the internal audit report we considered the deficiencies identified in relation to the Civic Halls refurbishment as part of our 2017/18 VfM conclusion. At this point we noted that the deficiencies appeared to be significant but acknowledged that the final outcome of the project was not clear at that point and the majority of costs would fall into 2018/19. Therefore, we reported that we would consider the Civic Halls Refurbishment project as part of our 2018/19 VfM conclusion. In our 2018/19 VfM conclusion work we reviewed the report from internal audit and assessed the progress being made against the lessons learnt identified in the report.

The findings from our review and detailed in our 2018/19 VfM conclusion were as follows;

*“This has been a difficult and complex project for the Council. We note that it has sought suitable advice at all stages of the project. It has also been unfortunate in that some of the advice it has been given by its advisors and contractors appears to be inadequate.*

*We also note that the timeline and decision making have been driven by the Council’s desire to maintain the Civic Halls as a cultural centre for Wolverhampton and to secure the wider economic benefit for the City. We also note that it has enabled the Council to secure significant grant funding for the project and has kept the venue open for the use of the public. It also avoided any additional costs from cancelling planned events.*

We consider, taking the above comments into account, that there are a number of areas where the Council’s management arrangements have not proven to be adequate. This has resulted in significant delay and increased cost to the Council. We have detailed these below:

- *Cost – the Council’s decision making focused on keeping the cost within the original budget. This is not unreasonable when taken in isolation. However, this focus has resulted in several re-tenders of the scheme and significant delays. It has also resulted in the scheme being ‘value engineered’ to a point where it significantly changed from the envisaged scheme. The current full refurbishment is significantly different to the original and revised improvement schemes. As such it is not reasonable to state that the costs have risen from £10.4m to £38m. While we note that there have been areas that have had a significant impact on the project it is clear that:*
  - *The original budget for the scheme was undeliverable and that, based on costs scoped out of the scheme, that the original budget should have been significantly higher*
  - *Additional costs have been incurred by the Council due to the rescoping of the scheme, additional tendering costs, and scheme redesign*

- *Viability – the rescoping and changes in legislation made the improvement scheme unviable. For example, with reliance on re-use of end-of-life mechanical and electrical systems, and backlog maintenance issues not being addressed. We note, that under the current full refurbishment scheme, the items value engineered out of the scheme have now been added back in.*
- *Project Management – the Council has taken appropriate professional advice at stage of the project and has endeavored to avoid interruption to the Civic Hall business throughout the scheme. However, project management of the scheme was not to the standard that would normally be expected. In particular:*
  - *While surveys were undertaken they were either insufficiently detailed or took longer than anticipated. Only in July 2017 were sufficiently detailed surveys undertaken to sufficiently understand the work needed*
  - *Similarly, designs have needed to be updated or changed as the costs of the scheme and building issues were identified*
  - *On procurement it is also concerning that, in their view, Corporate Procurement’s advice was not always followed during the project and that the competency of individuals have been questioned*
  - *We also note that Internal Audit highlighted non-compliance with the Council’s Contract Procedures Rules regarding engagement of externally provided project management services, and insufficient client-side project management arrangements and resources*

*On this basis we have concluded that the management arrangements for the Civic Halls were not adequate and therefore a qualified “except for” value for money conclusion will be given.”*

Following these findings, we identified the Civic Halls Refurbishment as a risk of significant weakness in our 2019/20 VfM work. We reviewed the progress being made from a project management and budgetary perspective, along with an assessment of how lessons learnt have been applied. Our conclusion in 2019/20 was that the risk had been sufficiently mitigated by the Council and proper arrangements were in place. We did identify that risks remained in relation to value engineering of the project and continued monitoring of the project to be agile in response to problems arising. In 2020/21 we reviewed the management arrangements of the Civic Halls Refurbishment and concluded that the project was being given appropriate management attention with proactive measures being taken to mitigate the Council’s exposure to risk.

This follow-up review for the 2021/22 VfM conclusion will focus on the Civic Halls Refurbishment project subsequent to the Internal Audit report and our 2018/19 VfM conclusion, acknowledging the findings made in 2019/20 and 2020/21. Issues relating to the project and the way in which the Council managed the project during this period are well documented across these reports. Therefore, we will only be considering the stages of the project since June 2018 to inform our VfM conclusion for 2021/22.

# Appendix D – Civic Halls Refurbishment – Additional Value for Money work

## Timeline

The refurbishment of the Civic Hall began in 2014 and is currently nearing the end of the project as the Council prepares to hand over to the appointed operator. Below sets out the timeline and the key stages of the project from January 2018, as the point when the revised business case for full refurbishment was approved by Full Council, through to December 2022, and the handover of the Civic Halls to AEG as chosen operator.

Date	Detail	Approved Capital Budget
31 January 2018	Full Council agree revised business case for the full refurbishment of Civic Halls. Increases agreed capital budget by £23.7m to deliver new scope.  Also agreed by Full Council was delegation of authority to Cabinet Member for City Economy, in consultation with the Strategic Director for Place, to agree contract variation with Shaylor Group.	£38.1m
25 June 2018	Audit and Risk Committee presented with 'Civic Halls Refurbishment – Lessons Learnt' report setting out an overview of the Civic Halls programme, associated lessons learnt and action plan that the Council is committed to deliver against. 32 lessons learnt identified with each allocated a responsible individual, proposed action to be taken and a target date.	£38.1m
6 November 2018	Cabinet (Resources) Panel approve the award for Project Management and Design for the Civic Halls Restoration to Faithful and Gould on a three month contract from 12 November 2018 to 31 January 2019 with maximum contract value of £290,000	£38.1m
10 December 2018	Audit and Risk Committee presented with 'Capital Projects Lessons Learnt – Progress Update' setting out progress made against the lessons learnt identified for the Civic Halls Refurbishment.  Governance arrangements around projects and programmes had been strengthened with the establishment of a Members Reference Group, allowing Councillors to keep apprised of all major capital projects and programmes.	£38.1m
5 March 2019	Cabinet (Resources) Panel presented with a Civic Halls Improvement and Restoration Programme Update. Approval given to commence Phase 2 Refurbishment (Construction) Works to the Civic Halls.  Authority was also delegated to the Cabinet Member for City Economy, in consultation with Strategic Director for Place, to approve any new contracts or variations to existing contracts necessary for the completion of the Civic Halls Improvement and Restoration Programme within the agreed budget of £38.1m.	£38.1m
17 June 2019	Shaylor Group, principle contractor for the Civic Halls Refurbishment Programme, enters administration and the contract is terminated.  The Council became principle contractor upon repossession of the Civic Halls.	£38.1m
16 July 2019	Internal Briefing Note produced titled 'CIVIC HALLS – Procurement of Contractor for Phase 2' outlining the options available to the Council following termination of the Shaylor's contract.  Recommendation made that, given the advantages of time and the ability to collaboratively work towards an agreed price, is to utilize a compliant Framework (Scape Framework) via a Single Supplier process for a new contractor.	£38.1m

# Appendix D – Civic Halls Refurbishment – Additional Value for Money work

Date	Detail	Approved Capital Budget
3 September 2019	<p>Cabinet (Resources) Panel presented with an update on the procurement process for a new principle contractor for Civic Halls Refurbishment.</p> <p>Outcome of options appraisal was preferred approach of a direct award from the Scape Procure Major Works UK Framework under an NEC Target cost contract with pain/gain mechanism applying to under or over spend. As a potential alternative solution the Scape Procure Major Works England and Northern Ireland Framework was being considered by the evaluation team.</p> <p>Approval was given for delegated authority to the Cabinet Member for City Economy, in consultation with the Director for Regeneration, to approve the award of a contract for the refurbishment of the Civic Halls when the evaluation process is complete.</p>	£38.1m
26 September 2019	The Civic Halls Restoration Programme Board agree that the preferred contractor to enter into a Pre-Construction Services Agreement are Willmott Dixon.	£38.1m
16 October 2019	<p>Future Operating Model for Civic Halls report presented to Cabinet, considering the options for running the Civic Halls once improvement works and full restoration completed and site fully operational.</p> <p>IPW (specialist sports, venues, entertainment and business events consultancy) were commissioned to consider the options. 5 options identified for consideration on operating model for Civic Halls. Preferred option identified as a private sector operator with a lease agreement (Option 3). Report includes an assessment of the advantages and disadvantages of the different operating models, along with a proposed budget to assess the financial position of the preferred operating model.</p> <p>Cabinet approved option three and approved the commencement of competitive dialogue, the appointment of external advisors to progress this and to receive a full business case once details of procurement outcomes are known.</p>	£38.1m
2 December 2019	Pre-Construction Service Delivery Agreement and an Enabling Works Delivery Agreement (NEC Short Contract) signed with Willmott Dixon	£38.1m
January 2020	IPW procured to run a competitive dialogue procurement process which would result in identifying a preferred bidder to operate the refurbished Civic Halls.	£38.1m
February 2020	DWF Law appointed to provide legal expertise to support the competitive dialogue process for a preferred operator of the refurbished Civic Halls.	£38.1m
March 2020	COVID-19 pandemic hits and work is suspended on site for a period of 12 weeks.	£38.1m
23 June 2020	<p>Cabinet presented with 'Covid 19 – Impact on the capital programme' report detailing the impact the pandemic has placed on major development projects in Wolverhampton.</p> <p>The report detailed that there is the potential risk of additional Covid- related costs beyond the existing budget contingency, requiring an increase in the overall budget to £5m to take it to £43.1m.</p> <p>The increase of £5m is based on a review of the risks that could impact site works as a direct result of the pandemic. This review was conducted in conjunction with Equib, specialist risk consultants and determined that potential risks associated with Covid could be up to the value of £5m.</p> <p>This was approved by Cabinet with a Covid contingency of £5m for the Civic Halls Refurbishment and then approved as a special urgency decision on behalf of Council in the light of Covid restrictions.</p>	£43.1m

# Appendix D – Civic Halls Refurbishment – Additional Value for Money work

Date	Detail	Approved Capital Budget
8 July 2020	Approval to award the Civic Halls refurbishment NEC Option C Target Cost construction contract to Willmott Dixon given. IEDN approved by Director of Regeneration and Cabinet Member for City Economy Stephen Simkins.	£43.1m
28 July 2020	Main contract between the Council and Willmott Dixon signed. Contract between Council and Willmott Dixon is an NEC3 Option C (Target Cost) Contract which is subject to a pain/gain mechanism by reference to an agreed Target Cost. The Target Cost of £19.1m.	£43.1m
17 February 2021	Cabinet presented with report detailing 'Outcome of the Procurement Process to Appoint an External Operator for the Civic Halls'. Four bidders were invited to tender based on an initial selection questionnaire with AEG appointed as the preferred bidder on basis of having strongest bid against award criteria.	£43.1m
June 2021	Trowers and Hamlins instructed by the Council to provide legal advice on the construction contract with Willmott Dixon and associated matters. The driver for this was the delay in the projects and the vast number of Compensation Events.	£43.1m
5 November 2021	Agreement for Lease contract entered into between the Council and AEG Presents for a period of 25 years. Council must ensure that completion of refurbishment in addition to handover conditions occur before the Handover Longstop Date of 19 February 2023 otherwise AEG could terminate the Agreement for Lease.	£43.1m
6 December 2021	Audit and Risk Committee presented with a Civic Halls Programme Update detailing a planned completion date of 29 April 2022 and estimated costs attributable to COVID-19 of £2.7m.	£43.1m
15 August 2022	Individual Executive Decision Notice approval for temporary supplementary budget of up to £10m to facilitate payments to Willmott Dixon in order to comply with the Price for Work Done to Date mechanism in the contract.  As Willmott Dixon will be required to repay the Council at the completion of the contract this temporary supplementary budget only provides authority for payments on the basis it does not increase the budget as expenditure is matched by additional income.	£43.1m (with additional £10m temporary supplementary budget)
7 September 2022	Cabinet presented with an 'Amendment to Capital Programme' report detailing the emerging pressures across the Civic Halls Refurbishment project due to changes in circumstances with both AEG's scope of fitout and building condition issues.  Cabinet approved the following: <ul style="list-style-type: none"> <li>- The Council to enter into a Deed of Variation with AEG Presents to incorporate a limited package of works transferred from Willmott Dixon.</li> <li>- The use of the Covid contingency (£2.7m remaining of £5m contingency) for general project purposes.</li> <li>- Virement from the Capital Corporate Provision for Future Programmes to the Civic Halls Refurbishment programme</li> </ul>	£48.1m (with additional £10m temporary supplementary budget)
6 December 2022	AEG take control of Civic Halls	£48.1m (with additional £10m temporary supplementary budget)



# Appendix D – Civic Halls Refurbishment – Additional Value for Money work

Based on the timeline of the Civic Halls Refurbishment Programme we have identified some key themes that we have explored in further detail to consider the adequacy of the Council's overall arrangements for economy, efficiency and effectiveness.

## Procurement of principal contractor to replace Shaylor Group

### Background

On 17<sup>th</sup> June 2019 Shaylor Group, the principal contractor for the Civic Halls Refurbishment Programme, entered administration, terminating the contract and bringing the site back under Council control. In order to complete the Civic Halls Phase 2 Refurbishment works there was a need to appoint a new contractor to deliver these works.

On 16<sup>th</sup> July 2019 the Programme Director issued an internal Briefing Note setting out the proposed procurement route, timeline and contractual arrangement for the appointment of a new contractor to complete the refurbishment work. The Briefing Note details the three potential options available to the Council, the advantages and disadvantages of these approaches, the risks and proposed mitigations, a procurement timeline, proposed contract form, suitable framework and proposed due diligence checks. The recommendation from the Briefing Note was that, given the advantages of time and the ability to collaboratively work towards an agreed price, a new supplier should be procured using the Scape Framework via a Single Supplier process. This Briefing Note detailed the available options to the Council, the advantages and disadvantages of each option and the risks along with appropriate mitigations. The Scape Framework is a compliant framework for this approach and already in use by the Council.

On 18<sup>th</sup> July 2019 the Civic Halls Programme Board approved the recommended procurement of contractor route with two possible frameworks identified on Scape; Major Works UK and Major Works England and Northern Ireland. From these frameworks two potential suppliers were identified, Wates and Willmott Dixon. Utilizing support from advisors Faithful and Gould the Council agreed a selection process that covered the following:

1. Interview of both contractors
2. Review of the proposed Delivery Structures from both Contractors
3. Review of the proposed construction programme from both contractors
4. Review of the Overhead and Preliminaries rates for the two frameworks
5. Review of the appointed information to the Frameworks
6. Review of the ongoing Scape monitoring procedures of the Framework Contractors
7. Review of Audited Accounts
8. Credit Checks
9. Conformation of no serious litigation against contractors
10. Letter of reassurance from the Board

Following the completion of these steps the recommendation from Faithful and Gould, in conjunction with the Council, was to engage with Willmott Dixon via the Major Works England and Northern Ireland Single Supplier process.

This recommendation was subsequently approved by the Civic Halls Programme Board on 26 September 2019. Prior to the completion of the evaluation of potential suppliers Cabinet (Resources) Panel had given delegated authority to the Cabinet Member for City Economy, in consultation with the Director for Regeneration, to approve the award of a contract for the refurbishment of the Civic Halls when the evaluation process is complete.

On 2 December 2019 the Pre-Construction Service Delivery Agreement and Enabling Works Delivery Agreement (NEC Short Contract) was signed between the Council and Willmott Dixon. On 28 July 2020 the main contract between the Council and Willmott Dixon was signed on an NEC3 Option C (Target Cost) Contract with an agreed Target Cost of £19.1m and a pain/gain mechanism to deal with under/over spends against the agreed Target Cost.

### Auditor comment

Following the administration of Shaylor Group, the Council was in a position where it wanted to rapidly appoint a new principal contractor to avoid any undue delays to the Civic Hall Refurbishment Project. There is a need for local authorities to balance the speed of procurement in this situation with ensuring that a robust procurement process is followed. In this situation the Council utilized consultant support from Faithful and Gould, along with demonstrating engagement with the Council's internal Procurement function, to identify appropriate frameworks for the procurement and to evaluate potential contractors. The Scape framework used by the Council for this procurement is an approved one that has been used previously by the Council and was identified as the most appropriate framework for moving at the Council's desired pace for a project of this scale.

Due to the requirement for a new principal contractor emerging from the Shaylor Group entering administration the Council, along with Faithful and Gould, included due diligence checks of proposed suppliers. The outcome of these checks was detailed in the report produced by Faithful and Gould recommending a preferred supplier. With regards to the administration of Shaylor Group we concluded in our 2018/19 VfM work that the Council had taken appropriate action to inform decision making by conducting due diligence on Shaylor Group in January 2019. This due diligence was conducted following 'industry rumours' about financial sustainability of Shaylor Group and there were no indications to suggest the company was at risk of administration at this point.

From our review of the process undertaken by the Council in appointing Willmott Dixon as the principal contractor for the Civic Halls Refurbishment Programme we have not identified any areas of significant weakness with regards to arrangements for ensuring value for money. The Council has undertaken an appropriate review of the options available, utilized appropriate professional support, appointed via a suitable framework and undertaken appropriate evaluation of suppliers proposals. In terms of governance, we have not identified any issues with the governance of the decisions made in relation to appointment of Willmott Dixon and have not identified any issues with how well informed Members and key stakeholders were during the appointment process.

# Appendix D – Civic Halls Refurbishment – Additional Value for Money work

## Contract in place between the Council and Willmott Dixon

### Background

The contract between the Council and Willmott Dixon is an NEC Option C Target Cost contract. The Council determined that this would be the most suitable contract to procure the work under due to the ability to work collaboratively between the client team and the contractor to achieve the target cost. The target cost for this contract is £19.1m, reflecting the scale of the remaining works following the administration of Shaylor Group. An NEC Option C Target Cost contract enables the Council and the contractor to evaluate packages of work that build up to the target cost. The contract also has a pain/gain mechanism which allows any over/under spends to be shared between the Council and the contractor, managing the risks associated with the project.

### Auditor Comment

The NEC Option C Target Cost contract is a contract that the Council has used previously when it was used for the refurbishment of the Civic Centre and the Council felt that it was successful in achieving the aims of the project. When determining the most appropriate contractual mechanism there was a focus from the Council in ensuring that the project remained within the £38.1m budget. Therefore, the target cost element of this contract enabled the Council to focus on a contract that delivered within the £19.1m target cost identified for the remainder of the project. The risk share element of the contract minimizes the Council having to take on the full risk of the project, which would have been disproportionately expensive for the Council.

From our review of the contract mechanism used by the Council we have not identified any areas of significant weakness in arrangements for ensuring value for money. The contract was one that had been successfully used by the Council previously and met the needs of the Council in relation to the project budget and risk sharing.

## Contract management of the contract between the Council and Willmott Dixon

### Background

Willmott Dixon was appointed as principal contractor for the Civic Hall Refurbishment programme in September 2019 to replace Shaylor Group, who had entered administration. This appointment was made following a procurement exercise completed using the Scape framework. A pre-construction contract was signed between the Council and Willmott Dixon in December 2019 with the full, NEC3 Option C (Target Cost) contract signed in July 2020. At the onset of construction work by Willmott Dixon in January 2020 the target handover date of the refurbished Civic Halls was October 2021. The actual completion date for Willmott Dixon was 6 December 2022 when AEG took control of the Civic Halls as the appointed operator. The project was beset by delays during this period with a range of construction issues, a global pandemic and slippage of completion date by Willmott Dixon.

Early in the relationship there were concerns were expressed at the Programme Board with Willmott Dixon missing deadlines for returning work packages to the Council. From our review of the Programme Board minutes the commercial relationship with Willmott Dixon was regularly discussed and, where required, issues were escalated by the Programme Board to senior officers at Willmott Dixon to resolve emerging issues. There is also evidence from the Programme Board minutes that the Council continued to keep its options under review on how best to manage this relationship whilst continuing to focus on delivering the refurbishment programme.

From our review of the Programme Board minutes we identified that the proposed handover date of the refurbished Civic Halls from Willmott Dixon changed no fewer than 8 times. From the minutes of the Programme Board there is evidence that the Council and Faithful and Gould, acting as advisors to the Council, continued to challenge Willmott Dixon on these delays to handover dates. The changes to handover dates we identified from our review of the Programme Board minutes were:

Date	Proposed Handover Date
January 2020	October 2021
March 2021	January 2022
July 2021	April 2022
November 2021	May 2022
February 2022	August 2022
April 2022	September 2022
May 2022	October 2022
August 2022	6 December 2022 – Confirmed as actual handover date

The contract between the Council and Willmott Dixon was based on a target cost of £19.1m and has a 'Compensation Events' mechanism to recognize changes to the original contract scope and thereby the contract value. During the refurbishment of the Civic Halls Willmott Dixon has submitted a significant number of Compensation Events recognizing where they believe there to be work outside of the original contract scope. Throughout the process the Council have used the professional advice of Faithful and Gould to assess the validity of these Compensation Events and the Council has challenged where it has been deemed appropriate and the additional spend sought by Willmott Dixon is not considered legitimate. This process of challenge of Compensation Events is ongoing with some of them resolved between the two parties but where there has not been an agreement there could be a need for an adjudication process. The Council is currently engaging legal advice to assist with the Compensation Events and this remains a live issue. The final position on Compensation Events and the impact this has on the budget is yet to be resolved and we will continue to monitor this from a value for money perspective.

# Appendix D – Civic Halls Refurbishment – Additional Value for Money work

## Auditor Comment

From our review of the documentation it is clear that there has been a difficult working relationship between the Council and Willmott Dixon. The Civic Halls Refurbishment programme has experienced a number of issues that have led to delays in completion dates and unforeseen construction issues that have impacted upon this relationship.

From a value for money perspective there is evidence that the Council has continued to challenge Willmott Dixon and escalate issues as required, including exploring other options for completing the work in as timely manner as possible. This led to the Council taking the decision to remove works from Willmott Dixon and including in the AEG contract with the aim of speeding up completion of the works. With regards to the cost implications of the relationship between the Council and Willmott Dixon, the Council has continued to utilize the professional expertise of Faithful & Gould to challenge Willmott Dixon and has supplemented this with legal expertise to challenge the Compensation Events. This remains a live issues and we will continue to monitor the outcome from a value for money perspective but it provides evidence that the Council have taken appropriate action to protect their interests.

Overall we have not identified any significant weaknesses from a value for money arrangements perspective. Although there have been significant challenges in the relationship between the Council and Willmott Dixon during the refurbishment programme the Council has demonstrated a proactive approach to seeking to resolve the issues whilst remaining focused on the overall aim of completing the refurbishment of the Civic Halls. We will continue to monitor the outcome of the Compensation Events that are currently in process.

## **Use of consultants and advisors**

### Background

As at the point of this report, the Council has spent over £5.5m in professional fees to support with the direct delivery of the Civic Halls Refurbishment programme.

The majority of these professional fees have been spent with Faithful and Gould who have acted as Project Manager on the project. Faithful and Gould are a global multi-disciplinary construction and property consultancy with public sector experience, along with experience of hospitality, arts and leisure projects in a heritage and conversation context. Faithful and Gould has provided the Council with professional advice across the whole of the refurbishment project to enable the Council to make the required decisions around areas such as; appointing a primary contractor, forecast budgets and overall strategic direction.

All other professional advisors used by the Council to support with the Civic Halls Refurbishment programme are reputable and experienced firms with appropriate expertise to support with this programme. For example, IPW is a specialist sport, venues, entertainment and business events consultancy that were used to assess the options for an operating model for the Civic Halls.

## Auditor Comment

When a local authority is delivering a capital programme of the scale of the Civic Halls Refurbishment we would expect them to utilize professional expertise where required to support the delivery of the project. The Council has done this with the appointment of Faithful and Gould and, where appropriate, other professional advisors. The Council has also demonstrated a willingness to challenge professional advice where appropriate to ensure that the political context of the project is managed appropriately. Based on this we do not see any significant weaknesses with regards to value for money arrangements in the way in which the Council have used professional advisors.

## **Governance arrangements of the Civic Halls Refurbishment programme**

### Background

Governance arrangements for the Civic Halls Refurbishment programme are structured as follows:

- Civic Halls Programme Board – The roles and responsibilities of the Civic Halls Programme Board are set out in detail in the Terms of Reference documents. The Board is responsible for driving the programme forward and delivering the programme outcomes and benefits in line with the project mandate given by Full Council on 31 January 2018. The Board is required to report the decisions reached through to the Strategic Executive Board and up through the Council's political governance structure as required. Membership of the Programme Board is; Chief Executive, Section 151 Officer, Chief Operating Officer and Senior Responsible Officer from the Council. They are joined by the Project Director and Risk Advisor from external advisors to the Council. Other key stakeholders are invited to attend the Board as required. Meeting of the Programme Board has recently been stepped down to monthly, having previously been fortnightly. This step down in frequency has been in response to the Willmott Dixon work nearing completion. The SRO has advised that these meetings could be stepped up to fortnightly again if required. All meetings of the Civic Halls Programme Board are minuted and these minutes have been reviewed as part of our work.
- Technical Operations Group – Technical group that is led by Faithful and Gould as Project Manager for the refurbishment of the Civic Halls. This group assesses the technical details of the programme and escalates decisions to the Programme Board as required and meets weekly to discuss technical issues. It is expected to continue meeting until June 2023.
- Operator Operations Group – Established as a group to assess requirements in relation to the operator for the refurbished Civic Halls and is led by AEG. As with the Technical Operations Group decisions are escalated to the Project Board as required and the group meets weekly.

In addition to these formal governance arrangements for the Civic Halls Refurbishment programme there has been informal weekly meetings between the key senior officers from the Council to discuss the programme. The purpose of these meetings is to ensure that the project remains on track and that the Programme Board has appropriate time and resources resolve emerging issues.

# Appendix D – Civic Halls Refurbishment – Additional Value for Money work

## Auditor Comment

The Council has demonstrated that there are strong governance arrangements in place with regards to the Civic Halls Refurbishment programme with the Programme Board represented appropriately by specialist advisors and senior Council officers. The Terms of Reference document clearly sets out the roles and responsibilities of the Programme Board, along with the governance structure. Our review of the documentation and interviews with officers concluded that senior Council officers have been heavily involved with the Civic Halls Refurbishment programme and they have attended the Programme Board regularly to keep abreast of the development of the programme, given its significant to Wolverhampton. This provides evidence that there is appropriate senior management engagement with the programme and that decisions are appropriately escalated through a robust governance structure to Cabinet and therefore we have not identified any significant weaknesses in the project governance arrangements from a value for money perspective.

## **Process followed in the appointment of an operator for the Civic Halls**

### Background

On 16 October 2019 Cabinet was presented with a report titled 'Future Operating Model for Civic Hall' setting out the options for the future operating model of the venue once the refurbishment works had been completed. The report set out the findings of the options appraisal commissioned by the Council and completed by IPW, a specialist sports, venues, entertainment and business events consultancy.

The report identified five primary models for venue operation and set out the advantages and disadvantages of each of the models. Based on the options appraisal, and accompanying market testing of potential operators, it was recommended that the preferred option to be progressed was an external operator under an operating lease agreement. Cabinet approved the preferred option whilst also approving the start of competitive dialogue to appoint an operator, advised by IPW.

In early 2020 the competitive dialogue process commenced, supported by IPW and focused around six core Council objectives for the operator contract. The procurement exercise was a two stage competition with an initial selection questionnaire followed by four bidders invited to participate in dialogue. In November 2020 three bidders submitted bids and these were evaluated by IPW against pre-agreed criteria. All three bidders were invited to participate in a second stage of tender competition with final submissions received in January 2021. All submissions were again evaluated against pre-established criteria and the final results were presented to the Civic Halls Programme Board on 22 January 2021. Based on this it was agreed to progress the recommendation to Cabinet to approve AEG as the preferred bidder.

On 17 February 2021 Cabinet approved the recommendation of AEG as the preferred operator for the Civic Halls and delegated authority to Cabinet Member for City Economy and Cabinet Member for Resources, in consultation with the Director of Regeneration and Director of Finance, to approve the details of an agreement for lease and any other agreements between the Council and the operator.

On 5 November 2021 an Agreement for Lease contract was entered into between the Council and AEG, covering a period of 25 years. The terms of the Agreement for Lease between the Council and AEG will see a guaranteed rental income for the Council, along with a share of any surplus generated from the operation of the Civic Halls.

AEG took possession of the refurbished Civic Halls on 6 December 2022 and are currently in the process of final fit-out of bar areas.

### Auditor Comment

From our review of documentation and interviews with Council officers it is clear that a robust options appraisal was undertaken to identify a preferred operating model for the Civic Halls. This was followed by a robust procurement exercise that has led to the appointment of AEG as operator. Throughout this process the Council utilized the professional expertise of IPW as a specialist consultant.

Our overall assessment of the process undertaken by the Council to appoint an operator for the Civic Halls is that there are no significant weaknesses. With regards to the ongoing lease between the Council and AEG and the financial return to the Council, we will continue to monitor this as part of our ongoing value for money work in future financial years.

## **Risk management of the Civic Halls Refurbishment programme**

### Background

The 'Civic Halls Refurbishment – Lessons Learnt' report published by Internal Audit in June 2018 included a specific recommendation that the Civic Halls refurbishment project should be a standalone, specific risk on the Council's Strategic Risk Register. Prior to 2018 the refurbishment was not a standalone risk on the Strategic Risk Register. This was addressed and the Civic Halls refurbishment project was added as a risk on the Strategic Risk Register where it is continually reviewed as part of the risk reporting the Audit and Risk Committee.

From a project perspective the Civic Halls Programme Board maintains a specific risk report as part of the wider Verto project management highlight report for the Civic Halls Refurbishment programme. This report details the risks, risk likelihood, risk impact, mitigating action and risk owner. These risks are regularly discussed at the Programme Board meetings.

### Auditor Comment

The Council has addressed the recommendation to include the Civic Halls refurbishment as a specific item on the Strategic Risk Register and the risk is regularly considered and reported on at a Programme Board level. Therefore, we have not identified any significant weaknesses with regards to the way in which risk has been considered and managed in relation to the Civic Halls refurbishment.



# Appendix D – Civic Halls Refurbishment – Additional Value for Money work

## Response of the Council to the ‘Civic Halls Refurbishment – Lessons Learnt’ report published by Internal Audit in 2018

### Background

In January 2018 Audit Services were commissioned to undertake a lessons learnt review of the Civic Hall Refurbishment following a series of delays and budget increases. This review was completed and presented to the Audit and Risk Committee in June 2018. The report detailed a total of 32 separate lessons learnt from the Civic Halls Refurbishment project, along with allocation of a responsible officer, proposed actions to be taken and a target date for implementation.

Subsequent to the initial report there have been two updates issued to Audit and Risk Committee on the progress against the lessons learnt identified. The first update was issued in December 2018 with a follow-up update issued in November 2022. We have reviewed the reports to assess the progress made by the Council in addressing the lessons learnt and have identified the following:

- The Council has addressed all of the lessons learnt identified by Internal Audit in the report
- There are a number of lessons learnt from the Civic Halls Refurbishment for the Council to implement for future large scale capital programmes. The Council has placed a number of new approaches to capital construction projects as a result of the findings of the report. These changes are not applicable to the Civic Halls Refurbishment programmes and will only apply to future projects.
- Lessons learnt that are applicable to the Civic Hall Refurbishment have been addressed with the Council making alterations to the governance processes in line with the findings from Internal Audit.

### Auditor Comment

Upon review of the update issued to Audit and Risk Committee in November 2022 it is clear that the Council has made significant strides in addressing the findings of the lessons learnt report issued in June 2018. As some of these lessons learnt will apply to future capital programmes rather than directly to the Civic Halls Refurbishment we will continue to monitor these as part of our value for money work in future financial years. Where lessons learnt apply directly to the Civic Halls Refurbishment there is evidence from minutes of the Programme Board that these have been addressed and therefore we have not identified any risk of significant weakness in relation to value for money arrangements.

We recommend that the Council ensures that all lessons learnt from the Civic Halls Refurbishment are applied and embedded to future capital programmes that the Council delivers.

### Civic Halls Refurbishment Budget

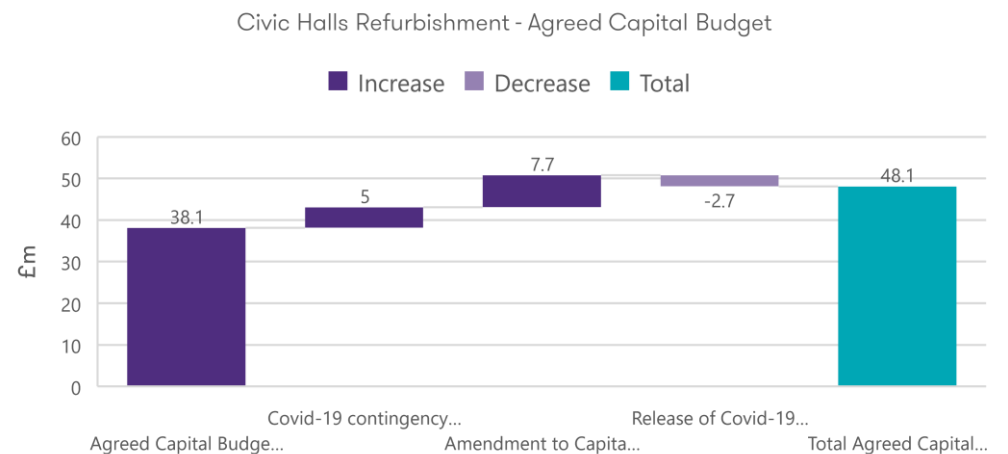
As the Civic Halls Refurbishment has developed the budget has had to develop with it to ensure that the Council continues to act within its authorized levels for spending. As at the point of this report the agreed Capital Budget for the project stood at £48.1m, an increase of £10m (26.2%) from the Capital budget for the full refurbishment approved by Council in January 2018.

There have been two occasions that have required the Council to increase the budget and the project team to seek Council approval to do this. The development of the agreed capital budget since January 2018 is shown in the waterfall chart below.

The first occasion emerged from the COVID-19 pandemic, which presented a risk to the project that it may incur additional costs on the basis of requirements to work in a COVID-compliant manner. Based on advice from Equib, the Council’s independent specialist risk advisors, the Council required an increase in its budget provision of £5m to cover the potential risk of COVID-related costs. Approval for this budget provision was given by the Cabinet on 23 June 2020, increasing the overall project budget from £38.1m to £43.1m.

The second occasion that required the Council to increase the capital budget was in September 2022 when the proposal was made to transfer a limited package of works from Willmott Dixon to AEG, as the appointed operator of the Civic Halls. This work relates to the fit out of catering kitchens and all of the bar area and has a current estimated cost of £2.2m. The Council made the decision to transfer this work from Willmott Dixon to AEG.

Faithful and Gould have undertaken a detailed analysis of these costs and determined that they are aligned with current market rates. In addition to this, Faithful and Gould have reviewed the current forecast cost from Willmott Dixon from submitted Compensation Events (any events that entitle the Contractor to additional time and costs as they could not be reasonably foreseen at the time of letting the contract) along with associated project fees creates an overall budget pressure of c.£2m, in addition to the sum payable to AEG and full utilization of the Covid Contingency of £5m. At this point Compensation Events totalling £2.3m had been identified as attributable to COVID, leaving a residual balance of £2.7m to be released from the COVID Contingency for general project purposes. The Council is continuing to challenge Compensation Events but the increase was deemed necessary to ensure that the budget provision is adequate to cover the potential additional costs.



# Appendix D – Civic Halls Refurbishment – Additional Value for Money work

In addition to this, a temporary supplementary budget of up to £10m was approved through an Individual Executive Decision Notice on 15 August 2022 to facilitate payments to Willmott Dixon in order to comply with the Price for Work Done to Date mechanism in the contract. As Willmott Dixon will be required to repay the Council at the completion of the contract, this temporary supplementary budget only provides authority for payments on the basis it does not increase the net budget as expenditure is matched by additional income. The requirement for this budget is a result of the pain/gain mechanism in the contract with Willmott Dixon with the Council having to make the initial payment with it then being reclaimed once reconciled. This decision was made by the Council on the basis of the professional advice from Faithful & Gould and to ensure that the Council was acting within its appropriate approvals at all times. The final outcome of this is yet to be determined as discussions are ongoing and subject to legal proceedings. We will continue to monitor the outcome of this in our value for money work.

## Auditor Comment

There has been a 26.2% increase in the approved Capital budget for the Civic Halls Refurbishment programme from initial agreement in January 2018 to the point of this report. The global pandemic was an unforeseen global event that impacted upon the programme and has had additional financial costs that were unforeseen at the point of the contract award. In addition, the increase in the capital budget in September 2022 was driven by a combination of factors including a desire to see the project to its most effective conclusion by transferring works to AEG along with emerging Compensation Events that were not foreseeable at the point the contract was awarded to Willmott Dixon. A number of these items were as a result of the issues with the project prior to January 2018 where the intrusive surveys required to identify the issues had not been completed, for example the lamination of steelworks and poor ground conditions in the foundations. Also, Shaylor Group did not complete all of the expected surveys prior to entering administration and issues were only picked up once Willmott Dixon had commenced their work.

Although some of these issues that have led to delays and additional costs are unprecedented and unforeseen there is potential that some elements could have been mitigated through more robust and detailed surveys at the onset of the programme. This finding is consistent with the findings of the Internal Audit lessons learnt report and the recommendations made in that report should continue to be considered by the Council.

Following the decision to proceed with the full refurbishment of the Civic Halls the stated purpose of the project was to deliver the best facility possible and a facility that was appropriately future-proofed. This purpose has been core to the redevelopment and decisions to increase the budget have been made to support the achievement of this outcome. Throughout the process the Council has engaged with Faithful & Gould to ensure that any increases in the budget were based on appropriate cost estimates and has challenged increased costs with Willmott Dixon.

Considering the Council's overall approach to the budget for the Civic Halls Refurbishment programme, we do not consider there to be any significant weaknesses from a value for money perspective. Although there have been increases to the budget above the initial agreed budget the rationale for these increases has been clearly set out by the Council and, evidenced through the current legal position with regards to Compensation Events, the Council continue to seek delivery of the project for best value for money within the agreed budget.

With regards to the temporary supplementary budget the need for this is due to the pain/gain mechanism within the contract and the Council have acted on the advice of professional advisors. We recommend that the Council continues to monitor the position with Willmott Dixon and, at the earliest possible time, reports on the expected outcome of the reconciliation and the recovery of payments to Willmott Dixon.

## Value for Money Conclusion

This report was completed due to the identification of a risk of significant weakness in the Council's Value for Money arrangements in relation to the Civic Halls Refurbishment. Auditor Guidance Note 03 ('AGN03') published by the National Audit Office identifies that a weakness may be said to be significant if it;

- Exposes – or could reasonable be expected to expose – the body to significant financial loss or risk
- Leads to – or could reasonably be expected to lead to – significant impact on the quality or effectiveness of service or on the body's reputation
- Leads to – or could reasonably be expected to lead to – unlawful actions
- Identifies a failure to take action to address a previously identified significant weakness, such as failure to implement or achieve planned progress on action/improvement plan

Our consideration of significant weaknesses in relation to the Civic Hall Refurbishment has focused around the definitions set out in AGN03 and we have considered a range of areas in detail and have reached the conclusion that, for the 2021/22 Value for Money work, we do not consider there to be any significant weaknesses in the Council's arrangements associated with the delivery of this project.

There is no doubting that the Civic Halls Refurbishment project has been a significant challenge to the Council. The budget for the project has increased from £38.1m and currently sits at £48.1m. There have been a number of delays to the completion date for the refurbishment with the handover to AEG being completed on 6 December 2022, over 12 months later than the initial handover date at the point of contract award to Willmott Dixon. These budget increases and delays have been driven by a multitude of factors from the global pandemic and the original contractor going into administration through to a number of construction related issues that emerged during the refurbishment. Increases in the budget have been driven by the desired outcome of the Council to deliver the best possible facility and the Council has utilized professional expertise from Faithful & Gould to ensure the appropriateness of increased costs.

The Civic Halls project can be split into two distinct phases that are bookmarked by the approval from Full Council in January 2018 to proceed with a full refurbishment of the Civic Halls rather than the partial refurbishment that was planned when the Civic Halls first closed back in 2014. The shortcomings of the project and the way in which the Council managed it at the outset have been well documented through our qualification of our 2018/19 Value for Money conclusion and the findings of the lessons learnt report issued by Internal Audit in June 2018. This report does not revisit these findings but instead focuses on the period since January 2018 and the delivery of a fully refurbished Civic Halls.



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# Appendix D – Civic Halls Refurbishment – Additional Value for Money work

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What is clear from our review of the Civic Halls Refurbishment project is that the Council took extensive steps to address issues raised in the lessons learnt report from Internal Audit and applied these to the full refurbishment. Our review of documentation and interviews with senior officers has identified robust project governance through the Programme Board and openness in transparency in reporting of progress to Members. The project has continued to face challenges in areas such as the relationship between the Council and Willmott Dixon but the Council has sought to protect its interests through these challenges with the use of professional expertise from Faithful and Gould, along with legal expertise with the ongoing consideration of Compensation Events.

As the Civic Halls Refurbishment project nears completion and events are planned to start from June 2023, the Council will begin to look at the next phase of the Civic Halls as an operational asset. It is crucial that the Council take lessons learnt from the Civic Halls refurbishment project to future capital projects that it delivers. There is also ongoing legal activity around Compensation Events that may take some time to resolve and impact upon the final cost of the Civic Halls refurbishment, and we will continue to monitor the outcome of through our Value for Money work.

