

# Auditor's Annual Report on Leicester City Council

2020-21

21 February 2022



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

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



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

# 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 Authority has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. The auditor is no longer required to give a binary qualified / unqualified VFM conclusion. Instead, auditors report in more detail on the Authority's overall arrangements, as well as key recommendations on any significant weaknesses in arrangements identified during the audit.

Auditors are required to report their commentary on the Authority's arrangements under specified criteria. As part of our work, we considered whether there were any risks of significant weakness in the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources. We identified risks in respect of:

- Financial sustainability
- Governance
- Improving economy, efficiency and effectiveness

As noted below our work has not identified any significant weaknesses in arrangements in the Council's arrangements in these areas but we have noted five potential improvement areas.

We have not had to apply any of our formal auditor's powers. For information the powers we can deploy are set out at Appendix D.

	<p><b>Financial sustainability</b></p> <p>The Authority is operating in an increasingly uncertain financial environment. For the second successive year, the Comprehensive Spending Review was a single year spending review. Leicester, as with all local authorities, will need to continue to plan with little certainty over funding in the medium term.</p> <p>Despite this uncertainty, and the challenges posed by COVID-19, the Authority has maintained a good financial position, largely as a result of its managed reserves strategy. Having planned its budgets for future years well in advance will enable sensible phasing of proposals to minimise the impact of the financial climate on services to residents.</p>	<p><b>Conclusion</b></p> <p>Our work has not identified any significant weaknesses in arrangements to secure financial stability at the Authority, but we have identified one improvement recommendation.</p>
	<p><b>Governance</b></p> <p>Our work this year has focussed on developing a detailed understanding of the governance arrangements in place at the Authority and the changes instigated as a response to the pandemic.</p>	<p><b>Conclusion</b></p> <p>Our work on both business as usual governance and adapted structures has not identified any significant weaknesses in arrangements but we have identified two improvement recommendations.</p>
	<p><b>Improving economy, efficiency and effectiveness</b></p> <p>The Authority has demonstrated a clear understanding of its role in securing economy, efficiency and effectiveness in its use of resources.</p>	<p><b>Conclusion</b></p> <p>Our work has not identified any significant weaknesses in arrangements but we have identified one improvement recommendation.</p>

# Opinion on the financial statements



We have completed our audit of the Council's financial statements and issued an unqualified audit opinion on 15 October 2021.

## Other opinion/key findings

We did not identify any significant unadjusted findings in relation to other information produced by the Council, including the Narrative Report or the Annual Governance Statement.

## Audit Findings Report (AFR)

Our detailed audit findings can be found in our AFR, which was published and reported to the Council's Audit and Risk Committee on 29 September 2021. At this Committee meeting we reported that there were some outstanding items which were still a work in progress, including anticipated changes to the accounts. Subsequently, a final version of the Audit Findings Report was provided to management on 15 October 2021 concurrently with our signed audit opinion. A summary of the key changes to the draft financial statements presented for audit and adjustments identified are set out below:

### Adjusted misstatements

4 adjustments were made, none of which resulted in an adjustment to the Council's Comprehensive Income and Expenditure Statement, or impacted on the Council's usable reserves:

- 1) Derecognition of St Margaret's Bus Statement -£10.1m
- 2) Derecognition of the Waterside assets under construction £2.5m
- 3) Correction of capital expenditure which had been written off as not adding value in the Housing Revenue Account £2.4m
- 4) Update to pension accounting as a result of the revised IAS19 report

## Unadjusted Misstatements

There were 4 unadjusted misstatements reported, which management did not adjust for on the grounds of materiality:

- 1) Overstatement of the valuation of Braunstone Leisure Centre which had arisen as a result of applying an incorrect gross internal area of £1.2m.
- 2) Understatement of the valuation of Haymarket Car Park as a result of a transposition error of £1.6m.
- 2) Overstatement of Forest Lodge Education Centre as a result of a transposition error of £0.8m.
- 3) Overstatement of the valuation of Soar Valley College as a result of a transposition error of £0.7m.

These errors were considered immaterial both individually and in aggregate. The net impact on the Statement of Financial Position would have been to increase the value of Property, Plant & Equipment by £1.0m, had the adjustments been made.

## 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. We will complete our work on the Whole of Government Accounts consolidation pack in line with the national deadline, when it is announced.





# Commentary on the Council's arrangements to secure economy, efficiency and effectiveness in its 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. We have also summarised the Mayoral arrangements in Appendix B.

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

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

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



## Financial sustainability

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



## Governance

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



## Improving economy, efficiency and effectiveness

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



Our commentary on each of these three areas, as well as the impact of COVID-19, is set out on pages 6 to 20.

# Financial sustainability



## We considered how the Council:

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

## Background

In common with the local government sector the City Council is currently facing an unprecedented financial situation. Following on from the spending reductions the Government has imposed in the last 10 years, the coronavirus pandemic has put huge pressure on service spending and on income streams. There are also unavoidable, and continuing, underlying cost pressures, particularly in demand-led social care services.

## Financial position 2020/21

Against this backdrop, the Council has historically performed well, with a record of strong financial and budgetary management. That being said, it is in a challenging environment, and this is set to continue, as the impact of COVID-19 as well as pre-existing funding pressures persist. In 2020/21 the Council has maintained its level of general funds at £15m and has increased its level of earmarked reserves from £244m to £328m. Total useable reserves now stand at £572m.

A significant proportion of the increase in reserves (as well as a £44m increase to the Council's cash balances) is as a result of receiving many government grants ahead of need as part of the Government's response to the pandemic and therefore do not represent new funding to invest in services but to support losses in income and increased one-off costs as a result of the pandemic.

2020/21		General Fund Balance	Earmarked Reserves	General Fund Total	Housing Revenue Account	Major Repairs Reserve	Capital Receipts Reserve	Capital Grants Unapplied	Total Usable Reserves	Unusable Reserves	Total Authority Reserves
	Note	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
<b>Balance at 31st March 2020 brought forward</b>		<b>(15,000)</b>	<b>(244,434)</b>	<b>(259,434)</b>	<b>(32,825)</b>	<b>-</b>	<b>(110,441)</b>	<b>(66,628)</b>	<b>(469,328)</b>	<b>(1,317,779)</b>	<b>(1,787,107)</b>
Total Comprehensive Expenditure and Income		(40,856)		(40,856)	13,207				(27,649)	224,367	196,718
Adjustments between accounting basis & Funding basis under regulation	9	(42,922)		(42,922)	(16,139)		(6,357)	(9,403)	(74,821)	74,821	-
Transfers to/(from) Earmarked Reserves	10, 25	83,778	(83,778)	-					-		-
<b>Balance at 31st March 2021 carried forward</b>		<b>(15,000)</b>	<b>(328,212)</b>	<b>(343,212)</b>	<b>(35,757)</b>	<b>-</b>	<b>(116,798)</b>	<b>(76,031)</b>	<b>(571,798)</b>	<b>(1,018,591)</b>	<b>(1,590,389)</b>

Source: Movement in Reserves Statement from 2020-21 audited financial statements

## Savings

Significant work has been undertaken by the Authority to identify savings opportunities to balance the books, and the medium term financial planning undertaken demonstrates a prudent approach, with a recognition that future funding levels remain uncertain. There is no evidence that there are unrealistic plans in place.

There is some reliance on non-recurrent measures, but this is intentional, and inevitable, given the managed reserves strategy in place, which has seen the Council, since 2013, contributing money to reserves in the early years of the strategy, and drawing down reserves in later years. This has been done to create time to more fully consider how to make the substantial savings which have been necessary. However, the Council recognise that more savings need to be identified over the medium term in order to achieve recurrent sustainability, which is the driving force behind the Fundamental Budget Review now being undertaken.

Strategic Directors are aware that their budgets are reasonably tight but acknowledge the financial reality facing the sector and are working within the limits made available to them. The approach to the budget for 2021/22 was to roll forward existing budgets and not include inflation, but to absorb it from within existing budgets.

For instance, (when considering the different pressures felt by different services) the revenue budget noted that Adult Social Care is under particular pressure but there is no over reliance on unrealistic assumptions. Indeed, a prudent approach has been taken such that the aggregate cost of social care packages is expected to increase by 12% in 2021/22 and therefore the budget has been increased accordingly. This is wholly due to a higher level of demand coupled with higher costs (eg increase in national living wage, which directly impacts the cost of care). Along with an increase in demand there is also an increase in complexity of need. That this has been considered, disclosed and taken into account is appropriate.

The Council does not have a formal system of implementation reviews for each approved saving. The overall position is monitored through the revenue monitoring reports, which would identify any problems with the post review budget position. Scrutiny committees are engaged in scrutinising savings (on a self-directed basis).

It is therefore difficult to measure the extent to which particular savings scheme have been successful as they are taken out of the budget: if a service subsequently breaks even the assumption would be that the savings have been met, but this could mask underspends in other areas.

## Medium Term Financial Plan

The overall position is monitored through the revenue monitoring reports, which would identify any problems with the post-review budget position. These are presented to, and discussed at Overview Select Committee on a quarterly basis, from both a revenue and capital perspective. Aligned to the ongoing monitoring of the in-year budget there is also an emphasis on preparing for future, in an acknowledgement that the work needs to be started now.

As part of its planning process, when making proposals to reduce spending, the Council is required to consider the potential impact on those likely to be affected by any changes, particularly those which affect only certain protected groups. Its Public Sector Equality Duty requires it to identify likely negative impacts, any mitigating actions that could reduce those negative impacts, and crucially to ensure a protected group is not discriminated against.

Any online consultations (including savings) are held and retained online including the outcomes of any consultations via “We asked, you said, we did”.

The Fundamental Budget Review previously referred to is an opportunity to reset taking into account the New Ways of Working approach brought about by the pandemic. It is a strategy-driven approach, with four workstreams, each headed by a Strategic Director: support services, frontline services, social care and assets. At the time the 2020/21 budget was being developed, there was a forecast gap between spending and income of £40m in 2022/23, which required savings of £20m rising to £40m in 2023/24. In the interim, the availability of managed reserves means that time can be taken to ensure all relevant information has been gathered in order to make informed decisions and the Mayor/Executive members can ask for further information or review as necessary.

### Minimum Revenue Provision (MRP)

Under Regulation 27 of the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 (the 2003 Regulations) local authorities are normally required each year to set aside some of their revenues as provision for debt, known as the Minimum Revenue Provision (MRP).

Before 2008, the 2003 Regulations contained details of the method that local authorities were required to use when calculating MRP. This has been replaced by the current Regulation 28 of the 2003 Regulations, which gives local authorities flexibility in how they calculate MRP, providing the calculation is 'prudent'.

Before the start of each financial year a local authority should prepare a statement of its policy on making MRP in respect of that financial year and submit it to full Council for approval. For local authorities without a full Council the statement should be presented for approval at the closest equivalent level. The statement should describe how it is proposed to discharge the duty to make prudent MRP during that year.

During September 2021, Grant Thornton carried out a benchmarking exercise across its Local Government client base in order to identify organisations where the level of MRP provided for appeared to be low. We have RAG rated the Council's MRP both as a percentage of its capital financing requirement (CFR) and of its total debt and have applied a green rating to both indicators. The Council's MRP as a percentage of total debt is 4.44% (3.72% in 2019/20) and as a percentage of its CFR is 32% (32% in 2019/20).

Overall, we are therefore satisfied that the Council's current approach to MRP meets the prudential requirement.

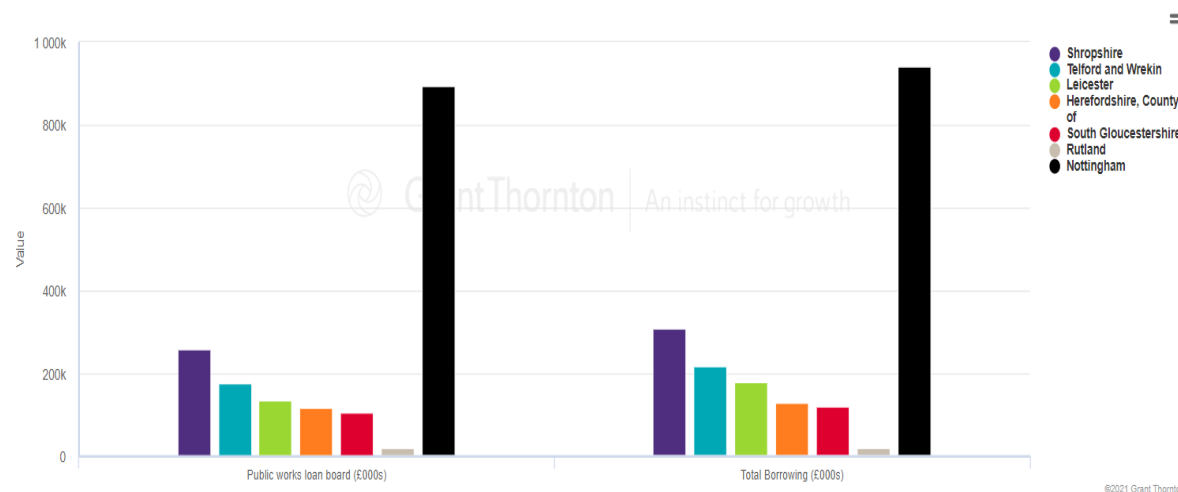
	<span style="color: green;">●</span>	<span style="color: orange;">●</span>	<span style="color: red;">●</span>
MRP/Total Debt	> 2%	1.25% > and < 2%	< 1.25%
Leicester City Council	✓		
Debt as % of CFR	< 60%	60% > and < 80%	> 80%
Leicester City Council	✓		

### Borrowings and cash

In comparison to its neighbours, the Council, has a relatively low level of borrowings as a percentage of its gross expenditure on services. The chart below shows a comparison from 2019/20.

The Council's cash and cash equivalents balance increased from £59m as at 31 March 2020 to £103m as at 31 March 2021. As noted in its 2020/21 Narrative Report this was as a result of receiving government grants ahead of need. The Treasury Management Outturn for 2020/21 notes that "after the emergence of coronavirus, the focus of treasury management changed initially to ensuring the ready availability of cash rather than maximising income. Nevertheless, income generated has exceeded budget despite record low interest rates mainly because the Council entered into a number of 2 year loans with other local authorities at the end of 2019/20 at good rates."

On these grounds we have not identified an inability of the Council to pay its liabilities as and when they fall due.



Source: CFO Insights: 2019/20 Borrowing Comparison

### Conclusion

Overall, we are satisfied the Council has appropriate arrangements in place to ensure it manages risks to its financial sustainability. We have not identified any risks of serious weaknesses. We have identified one opportunity for improvement. This is set out overleaf.



# Improvement recommendations



## Financial sustainability

<b>1 Recommendation</b>	Consideration should be given to more formal, explicit monitoring, at a Member level, of the extent to which proposed savings are realised.
<b>Why/impact</b>	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 reads 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.
<b>Auditor judgement</b>	The monitoring of specific savings programmes could be made clearer. Currently it is not apparent whether proposed savings are monitored and reported against.
<b>Summary findings</b>	No distinction is made in the Revenue Budget Monitoring Reports of the progress being made against the proposed savings as set out in the Annual Budget.
<b>Management comment</b>	Agreed, management will look at the best way of monitoring savings and reporting at Member level.



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

# Governance



## We considered how the Council:

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

## Leadership and committee effectiveness/decision making

Appropriate leadership is in place. The Council operates Mayoral executive arrangements (see Appendix B). In addition, there are a number of scrutiny committees which hold the decision makers to account.

The work of the Council's committees is governed by the constitution. This constitution is regularly reviewed and updated, including very recently, in order to ensure that any changes in processes occurring as a result of COVID-19 were constitution-compliant. The Annual Governance Statement needs to be read alongside the Council's constitution, which sets out how the Council operates, how decisions are made and the policies which are followed to ensure that these are efficient, transparent and accountable to local people.

There is a good suite of policies in place, covering anti-fraud and corruption, and the Council has an established antifraud culture.

## Monitoring and assessing risk

Risk registers are used to monitor risks: these exist at different levels i.e. strategic, departmental and project. Risks can change over time and the Council is aware of the need for them to be monitored closely to make sure proper controls remain in place. The leadership team and the Audit and Risk Committee receive quarterly reports on the Strategic Risk Register. This gives them assurance that risks are being reviewed and something is being done to reduce or mitigate against them. Such reporting also provides a chance to identify and discuss new and developing areas of risk.

The Strategic Risk Register is updated on an ongoing basis: as at the time of our review it comprised 15 risks, which is more than we typically see, but some are to reflect the recovery that needs to take place in a post-pandemic world and to ensure business continuity should it happen again.

The register is informed by the departmental and project registers, which are also updated on an ongoing basis, and follow a similar format with a RAG rating of risks based on an assessment of their impact/likelihood.

The Council considers risks as part of its decision making role on corporate policies, including the annual budget setting processes, major policy decisions and major projects. The Council's Corporate Management Team also reviews these corporate risks through quarterly monitoring reports.

There is a good audit and investigations function operating at the Council. Internal Audit has demonstrated itself to be a dynamic service capable of reacting and responding to changing circumstances. It proved to be sufficiently agile to change its plan in order to certify a number of COVID-19 grants, providing assurance over the grants process itself as well as delivering a sufficient number of audits in order to give a Head of Internal Audit Opinion. At the latest Audit and Risk Committee, it was reported that there are still elements of the 2020/21 plan that remain undelivered but a catch up plan is in place.

Progress against delivery of actions to address high priority recommendations are reported to the Audit and Risk Committee for information and discussion. Similarly, the Counter Fraud Specialists undertake a programme of work to support the Audit and Risk Committee, including a mix of proactive and investigatory work. Findings are reported appropriately. There have been only minor instances of fraud identified as being perpetrated in 2020/21.

## Budgetary Setting Process

The budget-setting process is multi-layered and thorough, with several stages, including stakeholder consultation. The draft budget is then presented for review in December, with additional papers presented to Council to approve the budget in February. There is also a quarterly review of budget to outturn position by Overview Select Committee (OSC). The budget and MTFs are considered concurrently. There is not a separate, stand alone MTFs, but the longer-term projections and any risks to the medium term are incorporated into the reports accompanying the budgetary information considered by OSC quarterly.

This high level of scrutiny together with the Council's track record of achieving its planned savings and balancing its budget confirm the strength and validity of the budget setting processes in place.

## Budgetary control

There are good systems in place for oversight of the budget. As well as quarterly budget reports to OSC, budget holders have access to real time information via self-service budget reports. These can be viewed either at a summary (high) level or at a detailed level. The quarterly budget monitoring reports detail variances by department (and service lines within departments) demonstrating a regular identification of in-year variances. Actions being taken or to be taken by departments in response to such variances are set out.



## 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.

Local authorities were required to apply the requirements of CIPFA's Financial Management Code (FM Code) with effect from 1 April 2020. We have considered the requirements and do not consider that the Council has demonstrated significant failures in compliance in any areas, but would recommend that the Council undertake its own self-assessment of compliance against the FM Code. We note that the Annual Governance Statement confirms that the Council is in compliance, but a reported self-assessment would create a base line from which the Council can identify improvement opportunities.

Audit committees are an important source of assurance about an organisation's arrangements for managing risk, maintaining an effective control environment and reporting on financial and other performance. Audit committees in local authorities are also necessary to satisfy the wider requirements for sound financial management and internal control. Good practice shows that co-option of independent members is beneficial to the audit committee.

We attend all of the Council's Audit & Risk Committees and are satisfied it receives appropriate assurance and provides challenge. However, the complex nature of the Council and financial reporting alongside the natural turnover of members through electoral cycles means that maintaining the knowledge, skills and expertise of members can be challenging. The injection of an external view can often bring a new approach to committee discussions. Some authorities have therefore chosen to recruit independent members, some of the reasons being:

- to bring additional knowledge and expertise to the committee
- to reinforce the political neutrality and independence of the committee
- to maintain continuity of committee membership where membership is affected by the electoral cycle

We would therefore suggest that the Council undertake a skills and knowledge assessment of the Audit and Risk Committee and consider if the appointment of an independent member would add value.

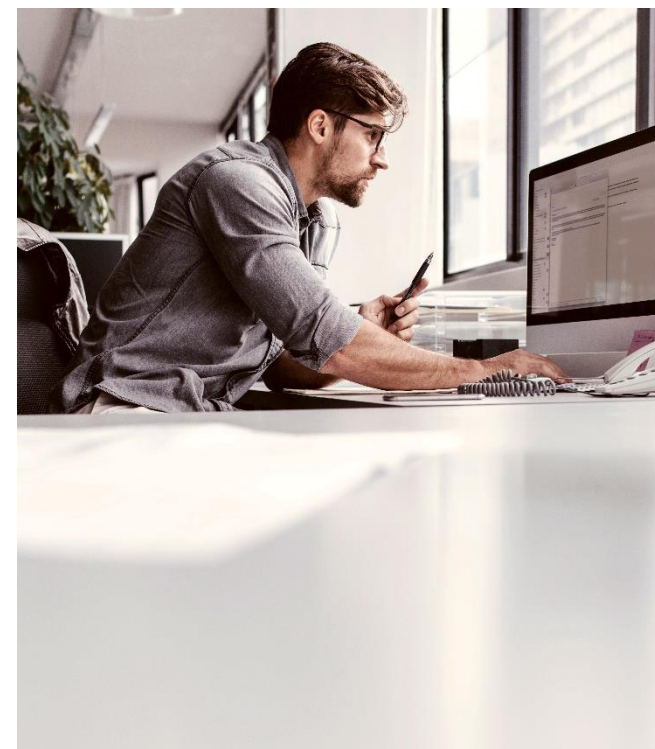
## Conclusion

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. We have identified two opportunities for improvement, set out overleaf.

# Improvement recommendations

## Governance

<b>2 Recommendation</b>	In considering its compliance with CIPFA's Financial Management Code, the Council should prepare a self-assessment for consideration by the Audit and Risk Committee, so any improvement opportunities can be readily identified and progress monitored and reported.
<b>Why/impact</b>	Other than a statement confirming compliance in the Annual Governance Statement, there is not a transparent report provided to members, to give them assurance over how the Council monitors itself and ensures ongoing compliance.
<b>Auditor judgement</b>	It is important for the Audit and Risk Committee, with its remit of risk, internal control and governance arrangements, has oversight of the work done by the Council to ensure compliance with the Code.
<b>Summary findings</b>	We recommend that the Council undertake its own self-assessment of compliance against the code and report it to Audit and Risk Committee such, that a base line is created from which improvement opportunities can be identified.
<b>Management comment</b>	Agreed, a report will be taken to Audit and Risk Committee.

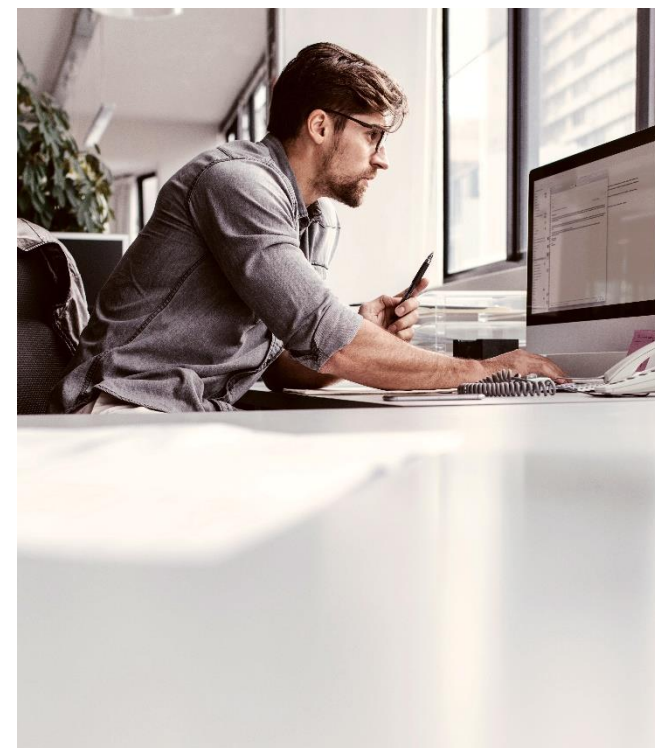


The range of recommendations that external auditors can make is explained in Appendix D.

# Improvement recommendations

## Governance

<b>3 Recommendation</b>	We recommend that the Council undertake a skills and knowledge assessment of the Audit and Risk Committee and consider if the appointment of an independent member would add value.
<b>Why/impact</b>	<p>CIPFA endorse the approach of mandating the inclusion of a lay or independent member and recommends that authorities that are not required under statute to have independent members actively explore the appointment of an independent member to Audit Committees.</p> <p>The injection of an external view can often bring a new approach to committee discussions. Authorities that have chosen to recruit independent members have done so for a number of reasons:</p> <ul style="list-style-type: none"> <li>• to bring additional knowledge and expertise to the committee</li> <li>• to reinforce the political neutrality and independence of the committee</li> <li>• to maintain continuity of committee membership where membership is affected by the electoral cycle</li> </ul>
<b>Auditor judgement</b>	It is important for the Audit and Risk Committee, with its remit of risk, internal control and governance arrangements, to ensure it has the requisite skills and knowledge to fulfil its role. An independent member may enhance the Committee's skillset and give continuity across election periods, when otherwise the membership of the Committee could be subject to change.
<b>Summary findings</b>	In considering the effectiveness of its Audit and Risk Committee, the Council should review its existing structure, skills and knowledge to determine if an independent member would add value.
<b>Management comment</b>	Agreed this will be considered during 2022/23.



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



# Improving economy, efficiency and effectiveness



## We considered how the Council:

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

We have reviewed arrangements at the Council for improving services and the way in which they are delivered.

## Performance review, monitoring and assessment

From conducting our own benchmarking analysis against other authorities, Leicester has an employment rate of circa 65% for individuals who are able to work aged 16-64, which is in line with other unitary authorities. It has a relatively large population compared to near neighbours and has significantly higher earmarked reserves towards public health services compared to other unitary authorities we have monitored, which is expected due to Leicester's larger population. We noted that total unit costs for education services and adult social care expenditure per head is high, although we acknowledge that this is consistent with the Council's priorities of raising attainment and assisting the vulnerable.

Leicester	2020/2021 (£000s)	Unit	Unit Cost (£)	Unit Cost Score
Total Education Services £/aged 0-18	278,249	88,643	3,138.98	Very High
Total highways roads and transport services £/head	17,477	354,224	49.34	High
Total Children's Social Care £/aged 0-17	75,193	84,082	894.28	Average
Total Adult Social Care £/aged 18+	131,149	270,142	485.48	Very High
Total cultural and related services £/head	12,653	354,224	35.72	Average
Total planning and development services £/head	2,268	354,224	6.40	Very Low
Total housing services £/head	10,294	354,224	29.06	High
Total environmental and regulatory services £/head	29,437	354,224	83.10	Low
Total central services £/head	12,698	354,224	35.85	Low
Total public health £/head	27,562	354,224	77.81	High
Total other services £/head	2,365	354,224	6.68	High
Total service expenditure £/head	599,345	354,224	1,691.99	Very High

Source: CFO Insights – we note that unit costs may not compare directly year to year due to the impact of COVID-19.

We have seen evidence which demonstrates that both adult social care and education services are proactive in benchmarking their unit costs, and have a good understanding of their performance journey, via means of department goals and commitments, supported by divisional strategies, balanced scorecards and quarterly performance reports.

A monitoring Special Education Needs and Disability (SEND) visit was undertaken by OFSTED, as a follow up to the significant weaknesses which had been identified in a June 2018 visit. The follow up report notes that sufficient progress has been made in addressing four of the five significant weaknesses identified at the initial inspection but not in addressing one significant weakness, which is in relation to a lack of joint commissioning of services to support young people's health needs post-19. We note that this outcome in relation to the fifth, was not unexpected as the Council work to address this had not gathered pace as of the time of the visit. Actions are now in place to accelerate this progress.

While outside of the year under review, we note OFSTED have reviewed Children's Services in September and returned a 'Good' opinion, which is to be commended. In particular it notes that "the use of performance data shows that the local authority knows itself well."

The Council shows that it reviews and challenges strategic priorities and cost-effectiveness of existing activities, to identify where they do not contribute sufficient value: the Mayor's manifesto priorities are supported by relevant strategies and the Strategic Directors (responsible for departmental budgets and delivering the strategies) meet very regularly with Finance (usually the Chief Operating Officer as s151 officer) where there is challenge over the way services are delivered and not just whether costs should be cut, but whether there are opportunities to invest in these activities to bring about better/more efficient service delivery.

### Partnership Working

The need to work with others in partnership is an implicit part of the remit of each Strategic Director and the Mayor. A positive legacy of COVID-19 identified by officers, is that it has brought people together into a much stronger joint working culture, where teams now naturally think to talk to one another as part of their business-as-usual activities.

The Council is proactive in identifying its stakeholders and ensuring each is appropriately informed and/or consulted as appropriate including workforce, businesses, other public sector entities, communities, and members. The Council's 8-step vision is supported by Key Strategy Documents, all of which feature and stress the importance of Partnership working, and significant partners are referred to transparently in the documents themselves.

The quarterly monitoring cycle of each plan is done via Commission or Sub-Committee, which comprise partners as well as Council members, and is therefore indicative of collaboration.

However, the key strategic documents are not explicit in setting how the Council works with partners and which aims and objectives are being delivered wholly by or in conjunction with partners.

In terms of the governance arrangements around its partnership working, the Council has been responsive in addressing the findings from recent public interest reports issued in respect of other local authorities, by identifying and reviewing the companies/organisations in which the Council has an interest, considering the Council's explicit involvement and any exposure to risk.

Some next steps were identified by management, in order to ensure that such cross-organisational working is appropriately risk-managed, (especially to ensure that when officers or councillors are acting as directors and/or trustees, they make decisions in the best interests of the board/committee they are sitting on and any conflicts of interest are managed).

This is considered good practice, and we would endorse it being presented to the Audit and Risk Committee on an annual basis. Additionally, we would recommend that it includes, as part of its governance oversight review, how the Council ensures that the performance of its partners (and significant contracts) is measured and monitored and taken into account as part of the governance arrangements.

### Procurement

The Council has a detailed procurement strategy, which is complemented by a Guide to Sustainable Procurement, setting out how the Council, in its procurement activity, can help to protect the environment, ensure high ethical standards and support the local economy and community. It is a "how-to" guide for staff, and therefore is a key document in being able to achieve an element of the Economic Recovery, which recognises the need to shorten supply chains and "support local production and provenance through procurement".

There are no Key Performance Indicators (KPIs) in the procurement strategy or in the procurement element of the Economic Recovery Plan, which may make it difficult for stakeholders to measure success against the proposed plan and actions.

As at the time of writing, we understand the Economic Recovery Plan is due to be updated in 2022 and this would provide opportunities to add quantifiable performance indicators to the Council's aims and objectives.

### Conclusion

**Overall, we are satisfied the Council has appropriate arrangements in place to ensure it manages risks to its oversight in ensuring economy, efficiency and effectiveness in its use of resources. We have identified two opportunities for improvement, set out on the following pages.**

# Improvement recommendations



## Improving economy, efficiency and effectiveness

<b>4 Recommendation</b>	In its refresh of the Economic Recovery Plan, the Council should consider adding quantifiable indicators to its aims and objectives along with an analysis setting out its starting position, from which improvement can be measured.
<b>Why/impact</b>	Currently it is not apparent whether or not a resident would easily access and understand what actions the Council is taking to achieve these objectives, and how progress is being measured.
<b>Auditor judgement</b>	Performance reporting could indicate areas for improvement not immediately identified and allow the Council to more easily demonstrate achievement of its objectives to taxpayers.
<b>Summary findings</b>	Any performance measures which the Authority is using in order to meet its aims and objectives are not immediately clear. Adding context setting out how these aims and objectives are to be achieved would help a reader to understand the route to achieving meaningful change.
<b>Management comment</b>	Agreed, this will be incorporated into the refresh of the Economic Recovery Plan.



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

# COVID-19 arrangements



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

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

## Financial sustainability

The Council has adapted arrangements to respond to the new risks being faced from 2020-21 onwards in respect of COVID-19 and has arrangements in place to identify and monitor additional costs arising from responding to the COVID-19 pandemic.

From a financial perspective the additional costs have been tracked through the normal monitoring process and through regular returns to Central Government: costs which are non-operational (i.e. of a nature which the service has only incurred because of the pandemic) were charged to a separate cost centre controlled by Finance, which meant that no budget changes were needed to reflect these costs. Most of the individual items of expenditure incurred because of COVID-19 come into this category (e.g. food hubs, accommodating the homeless, community mobilisation fund, and one-off IT costs).

Costs which are of an operational nature, but which have increased because of the pandemic, were charged to service budgets.

This is a sensible approach as it recognises the difference between what are likely to be one-off costs from potentially recurring costs, which may continue to impact on a service's budget due to longer term changes in demand and need.

Monitoring reports were received by Overview Select Committee along with regular verbal updates from a range of Officers, both at OSC as well as other sub committees, where members were kept abreast on how each service area was responding to the need of its users as a result of the pandemic.

## Governance

While the Council generally maintained a business-as-usual approach to its governance arrangements during the pandemic, some adjustments were required. As a result of the lockdown restrictions announced on the 16<sup>th</sup> March 2020, the Council adjusted some of its internal control processes to support effective governance throughout the pandemic. As soon as these were lawful, the Council started holding members' meetings online.

The governance model of the Council (ie Mayor as opposed to Cabinet) lends itself to decisions being made in an agile way. An agile decision-making process has been key and is reliant on relationships between the City Mayor, Executive Members, and other Members as required. Largely the governance arrangements are regimented in terms of formal decision making, ie through traditional route of Executive powers and through electoral mayoral

system: there is a route to getting before the decision maker, through lead directors and department and then through scrutiny as appropriate. This has continued through the pandemic, though for decisions where a swift response was required, the Council set up working groups through which the relevant officers would meet frequently to be sighted on latest events, issues and matters.

To ensure informed decision making and governance arrangements, the following arrangements were put in place, all of which could be stepped up or down as the demands of the pandemic response required:

- Corporate business continuity group
- All member briefings
- Weekly briefing with the Executive and Senior Management and key officer
- Senior Officer meetings (daily at the peak and reduced to twice weekly, now incorporated into fortnightly corporate management team meetings)
- Incident management team meetings
- Local Resilience Forum meetings

The breadth of this response ensured that the views and input of all relevant stakeholders were taken into account and the approach being taken was joined up.

# COVID-19 arrangements

The Council recognises that it has had to act promptly to carry out central government requests, but to ensure that Governance arrangements were adequate, post implementation audits were commissioned from the Council's internal audit service, such as to consider contract arrangements during COVID-19, as well as how the distribution and allocation of grants was managed, for which substantial assurance opinions were given, meaning that internal audit considered that adequate controls are in place. Grant schemes reviewed were :

- Self Isolation Payment Scheme (Phase 1 & 2) - February 2020
- Supplier Payments - July 2020
- Business Grant Funding - September 2020
- Lockdown Business Support Grant - December 2020
- Winter Grant - March 2021

We note based on the timing of the reports that internal audit reviews were sought on a timely basis to ensure that any lessons learned could be applied to future grant-making activities.

The Council is clearly showing itself to be self-aware and welcoming of this type of overview and assurance gathering.

## Improving economy, efficiency and effectiveness

To recognise its ongoing impact, COVID-19 continues to feature on the Council's strategic risk register, both as separate discrete risks, but also as part of other risks, where the existence of it is seen as a risk to the Council of achieving other overarching objectives, eg financial sustainability.

As noted in the Governance section of this report, risk management is well embedded and therefore that, COVID-19 continues to be included in risk discussions, ensures it is kept on everyone's radar and has become part and parcel of the business as usual activities.

The Council has been mindful of the impact on the pandemic on its most important resource, its staff. Actions have been put in place to support staff wellbeing and supporting staff remains a key priority for the Council.

## Conclusion

**Our review has not identified any significant weaknesses in the Authority's VFM arrangements for responding to the COVID-19 pandemic.**

We have not identified any improvement recommendations.





# Appendices

# Appendix A - Responsibilities of the Council



## Role of the Chief Financial Officer (or equivalent):

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

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

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

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

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

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

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



# Appendix B – Mayoral Arrangements

The Council is led by a City Mayor elected directly by the people of Leicester for a fixed four year term. How the Council operates is set out in its constitution which can be found here <https://www.leicester.gov.uk/media/ud2pyqg5/our-constitution-july-2021.pdf>.

## The City Mayor, Mayoral Team and the Executive

The City Mayor appoints a Statutory Deputy City Mayor and between one and eight Deputy/Assistant City Mayors from the 54 Councillors, to work with him. Together they are described in this Constitution as the Executive.

## Full Council

Full Council comprises all 54 Councillors elected every 4 years who represent the 22 wards of the City. The overriding duty of Councillors is to the whole community, but they have a special responsibility to the constituents of their ward. All Councillors and the City Mayor meet together as the Full Council. These meetings are open to the public and the press but sometimes the Council considers personal or confidential matters and it can choose to do so in private if appropriate.

The Full Council sets the broad Policy and Budget Framework within which the Council including the City Mayor and his Executive operates. The Full Council is chaired by the Right Worshipful the Lord Mayor of Leicester. This role is a ceremonial and civic one.

## How decisions are made

Decisions are taken either by Full Council, the City Mayor, members of the Executive (either individually or collectively with the City Mayor), committees, or officers, according to rules set out in the Constitution.

The City Mayor is personally responsible for taking major decisions about many aspects of what the Council does. He can either take these decisions himself, delegate these to other Councillors on the Executive or to officers or take them collectively with Executive colleagues.

Certain business considered by the Executive is defined as a 'Key Decision'. These key decisions are included on the Forward Plan which is a document that is published every month with details of the decisions to be taken over the next four months. The Constitution sets out a specific definition of what are key decisions. In summary these are decisions where the Council will incur significant expenditure/savings, or which have a significant impact on communities in two or more wards in the City. Some decisions, due to legislation, or as a matter of local choice, can only be taken by Full Council. In some cases, Full Council can delegate these decisions to committees of Councillors or specified officers.

## How the Council is scrutinised

Councillors who are not on the Executive are responsible for keeping an overview of Council business including scrutinising areas of particular interest or concern, holding the Executive to account for the decisions that are made, and assisting in the development and review of Council policy. This role is undertaken by Scrutiny Committees/Commissions. The Council has appointed one Overview Select Committee and seven Scrutiny Commissions to carry out the scrutiny function.

The Scrutiny Committee/Commissions have the right to scrutinise decisions as they are being formulated, after they have been taken and can ask for decisions to be reconsidered. This is known as "Call-In" and requires the Executive to consider further comments raised by a scrutiny committee or full Council before they are implemented. There is a Scrutiny Handbook that sets out in more detail the work of the scrutiny function.

## Council Staff

The Council employs officers to give professional advice to the Executive and Councillors, to implement decisions taken and to manage the day to delivery of services. The Head of Paid Service (Chief Operating Officer) is a statutory role that every Council must have. This person has responsibility for managing all Council staff and decides how the City Mayor, Executive and Councillors should be supported by staff. There are other statutory posts including, the Chief Officer responsible for Children's Services (Director of Children's Services), an officer responsible for the Council's Adult Social Services functions (Director of Adult Social Care), an officer to ensure the Council makes financially proper decisions (Chief Finance Officer) and an officer who ensures the Council acts within the law (Monitoring Officer).

### SUMMARY OF THE COUNCIL'S GOVERNANCE ARRANGEMENTS

#### Mayor, Executive and Council

- Provide leadership, develop and set policy
- Key risks are considered by the Executive quarterly

#### Decision making

- Decisions are recorded on the Council's website
- There is a period of grace in which decisions are open to review

#### Risk management

- Risk registers identify both operational and strategic risks
- Key risks are considered by Corporate Management Team quarterly

#### Scrutiny and review

- Scrutiny committees review Council policy and can challenge decisions
- Audit and Risk Committee approves the annual accounts and reviews policies & procedures that ensure good governance of the Council. It also approves the Internal Audit Annual Report and opinion

#### Corporate Management Team (CMT)

- Provides service level management and interface with the political leadership
- Head of Paid Service is the Chief Operating Officer, who is responsible for all Council staff and for leading an effective CMT
- Chief Operating Officer is the s.151 Officer and is responsible for safeguarding the Council's financial position and ensuring value for money
- Monitoring Officer is the City Barrister & Head of Standards who is responsible for ensuring legality and promoting high standards of public conduct
- CMT includes all strategic and divisional directors

# Appendix C - An explanatory note on recommendations

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

Type of recommendation	Background	Raised within this report	Page reference
Statutory	Written recommendations to the Council under Section 24 (Schedule 7) of the Local Audit and Accountability Act 2014. A recommendation under schedule 7 requires the Council to discuss and respond publicly to the report.	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	Financial sustainability – page 9 Governance – pages 12 and 13 Improving economy, efficiency and effectiveness – page 17

# Appendix D - Use of formal auditor's powers

## 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 made any such 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 a public interest report, nor do we consider that the issuance of such a report is necessary from the results of our review.

## Application to the Court

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

We did not apply for such a declaration.

## Advisory notice

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

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

We have not issued an advisory notice.

## Judicial review

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

We have made no application for a judicial review.



