

Auditor's Annual Report on Leicester City Council

2021/22

September 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 recommendations

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.

Auditors are required to report their commentary on the Authority'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. We stress that the focus of this report is required to be 2021-22. We recognise that this report has been delayed and the 2022-23 financial year has just finished. We will report separately upon 2022-23 later in 2023 but on page 5 we have sought to provide a high-level assessment and bridge to that future work and the work in this report.

The Authority continues to operate in a financially and operationally challenging environment. The Council has a strong record of financial and budgetary management. The Council finished 2021/22 with a £409,000 underspend on the General Fund. The Council was able to achieve this underspend outturn position with the support from one-off Covid grants which were made available by government to mitigate the covid pressures. However, as acknowledged by the Council in its 2023/24 budget report: 'it is clear that the future financial position is very serious.' Tough financial decisions will need to be made in the medium-term to manage this potentially precarious position and ensure financial sustainability. Transparently reporting progress against saving plans will be a key area. The Council have appropriate risk management procedures in place and the budget setting process continues to function effectively. The Council use performance information to assess and identify areas of improvement and partnership working continues to be a key priority. The Council has mitigated the risk inherent in the management of external companies by performing a self-assessment. The Council appears to have the supporting architecture in place to facilitate a smooth re-procurement of the waste PFI contract. The greatest risk is the current relationship with Biffa due to the ongoing legal proceedings which are set to progress during 2023.

Criteria	Risk assessment at planning	2020/21 Auditor Judgment	2021/22 Auditor Judgment	Direction of travel
Financial sustainability	No risks of significant weakness identified	No significant weaknesses in arrangements identified, but one improvement recommendation made	No significant weaknesses in arrangements identified, but two improvement recommendations have been made.	↔
Governance	No risks of significant weakness identified	No significant weaknesses in arrangements identified, but two improvement recommendations made	No significant weaknesses in arrangements identified and no improvement recommendations raised.	↑
Improving economy, efficiency and effectiveness	No risks of significant weakness identified	No significant weaknesses in arrangements identified, but one improvement recommendation made	No significant weaknesses in arrangements identified and no improvement recommendations raised.	↑

■ 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

The Authority continues to operate in a financially and operationally challenging environment. Our work has not identified any significant weaknesses in arrangements to secure financial sustainability at the authority, but we have identified two improvement recommendations.

The Council finished 2021/22 with a £409k underspend on the General Fund. The Council's reserves usage has increased in recent years, with £24.2m planned usage in 2022/23. The largest area of uncertainty of the Council's finances is the post 2022/23 world. Based on current predicted budget gaps and the Council's current level of managed reserves the Council will have depleted the managed reserves by 2024/2025 (Table 2, page 10), if further savings are not made. We do note that further to this report being issued, the unaudited reserves as at 31 March 2023 are higher than anticipated providing an additional £10m of headroom.



Improving economy, efficiency and effectiveness

Our work has not identified any significant weaknesses in the Council's arrangements to secure economy, efficiency & effectiveness. No improvement recommendations made. The Council have robust performance management arrangements in place, partnership working functions effectively and the Council respond to issues highlighted by other local authorities, as evidenced by the self-assessments with external companies. The Council's procurement function operates effectively and will facilitate the expiry and re-procurement of the new waste contract arrangements.



Governance

Our work has not identified any significant weaknesses in the Council's governance arrangements and their ability to support value for money. No improvement recommendations have been made. The Council have appropriate risk management procedures in place and the budget setting process continues to function effectively. Similarly, the Council addressed prior year recommendations regarding audit committee effectiveness and performing a self assessment for the CIPFA Financial Management Code.



2022/23 Developments

Our work on the VFM arrangements for 2021/22 concluded in January 2023. It is focussed on arrangements in place at the Council during 2021/22. However, we are conscious that some 16 months has elapsed since the end of 2021/22. This section therefore updates our previous work and looks to provide a bridge to our planned work as part of the 2022/23 audit. It therefore does not form part of our formal conclusions in respect of 2021/22.

2023/24 Budget

The Director of Finance submitted the Draft Revenue Budget 2023/24 in February 2023. The Council has budgeted to exceed its income in 2023/24 the budget is supported by managed reserves. Without savings 2024/25 will also need to be supported by managed reserves. However, unless savings are made, on current projections the Council believes this reserve would run out part way through 2024/25. Thus, the achievement of significant savings will be essential for the Council.

At Month 9 of 2022/23 the Council was reporting an overall overspend of £10.3m which was slightly lower than the £14.5m forecast at period 6. The final out-turn shows an overall overspend of £4.4m in 2022/23, albeit lower than the £10.3m forecast at period 9. The Council has reported that the overspend in 2022/23 has been caused by high inflation (including significantly increased energy costs and higher than budgeted pay awards), together with continuing – but reducing – pandemic related income shortfalls.

Inflation and cost pressures will hopefully ease (but not disappear) in the next 12-18 months and into 2023/24 and beyond. We concur with the Council that unfunded social care pressures present a severe challenge to its medium to long-term financial sustainability.

However, in addition to its general reserves, the Council also holds earmarked reserves which are set aside for specific purposes. These include ringfenced funds which are held by the Council but for which it has obligations to other partners or organisations; departmental reserves, which are held for specific services; and corporate reserves, which are held for purposes applicable to the organisation as a whole. As at 31 March 2022 these totalled £184.5m excluding ring-fenced and managed reserves strategy balances. This balance has increased slightly to £185.9m at 31 March 2023 in the Council's unaudited accounts. Whilst utilisation of these would significantly impact upon the delivery of the Council's strategic objective these and the Director of Finance's risk mitigations mean that we do not believe there are matters that require immediate reporting. Our risk assessment for the 2022/23 VFM audit will continue throughout the year but at this stage we have continued to identify financial sustainability as a risk of significant weakness and will continue to monitor this and follow up as part of our 2022-23 work.

Other Areas

In the Spring Budget the Government stated that it was minded to withdraw central support and transfer responsibility for local economic development from Local Enterprise Partnerships to local authorities by April 2024. The Department for Levelling Up, Housing and Communities, and the Department for Business and Trade will now consult on the proposals before confirming a decision. During 2022-23 the Leicester and Leicestershire Enterprise Partnership (LLEP) has been working with local partners on the proposed devolution of funding and powers. The Council is the Accountable Body for the LLEP and work remains ongoing to clarify future funding and delivery arrangements. We will review the arrangements in place as part of our planned 2022/23 VFM audit.

In May 2023 there were all out elections across the City. Labour won 31 seats and has an eight-seat majority (reduced from 2019). Leicester's Conservatives will form the main opposition, with 17 seats. The Greens secured 3 seats and the Liberal Democrats also won 3 seats. The Mayor, Sir Peter Soulsby was re-elected.

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 have completed our audit of your financial statements and issued an unqualified audit opinion on 17 March 2023, following the Audit and Risk Committee meeting on 15 March 2023. Our findings are set out in further detail in the Audit Findings Report.

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 did not issue 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 did not issue a public interest report.

Application to the Court

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

We have not made any such application.

Advisory notice

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

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

We did not issue an advisory notice.

Judicial review

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

We have not made any such application.

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 6 to 18. 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.

2021/22 financial performance

The Council has a strong record of financial and budgetary management. The Council finished 2021/22 with a £409,000 underspend on the General Fund. The Council was able to achieve this underspend outturn position with the support from one-off Covid grants, which were made available by the government to mitigate covid pressures.

It is important to note that the 2021/22 budget was originally balanced using £17m of reserves. Despite planning to use £17m, the Council ended 2021/22 with a balance of £83.3m, due to grant being available for the pandemic as well as out-turning a level of underspend.

The Managed Reserves Strategy represents the balance available for the Council to draw on in order to bridge revenue budget gaps. The Council began 2021/22 with a Managed Reserves balance of £70.26m. During 2021/22, the Council used the planned £17.3m from reserves but transferred in £30.31m to arrive at the final year balance of £83.27m. The £30.31m inward transfer was predominantly comprised of £19.9m Covid grants, and a £9m net underspend on Adult Social Care (see Table 1). There are no further covid grants in 2022/23.

The Council's previous approach to achieving budget reductions was based on the building up of reserves in order to 'buy time' to avoid crisis cuts and manage the 'Spending Review Programme' which involved an in-depth review of discretionary service areas. The Council termed this the 'Managed Reserves Strategy.' The strategy served the Council well as it was able to deliver savings of nearly £50m between 2014 and 2020 leaving the Council with a relatively healthy level of reserves at the start of 2021/22 when compared to other similar authorities.

However, for 2021/22, it was recognised that 'a significant programme of savings could not be delivered.' Due to covid, the Council made a conscious decision not to pursue savings in 2020/21, which would otherwise have been reflected in the 2021/22 budget. It is worth noting that 2020/21 and 2021/22 were extremely challenging years due to the coronavirus pandemic. The pandemic impacted demand as well as organisational capacity, particularly in the Council's finance and senior management team, inevitably impacting on the delivery of change, including savings plans. Considering the lack of delivery of savings, the Council was heavily reliant on one-off covid grants and reserves usage to achieve the underspend reported outturn.

2022-23 financial planning

The impacts of COVID19 are still being felt (albeit much reduced in 2022/23) yet the corresponding funding to meet the costs has ceased. Add this to additional pressures and backlogged demand for adult social care, children's services, budget costs, inflation, interest rates, the long shadow of Brexit and supply chain issues, Councils across the nation are facing difficult financial decisions in order to maintain financial sustainability.

There have been detrimental changes to the medium-term forecast (impacts of the Ukraine war, economic recession, steep inflation and the cost of living crisis) which have impacted demand and cost levels for all local authorities. These pressures were not reasonably foreseeable and they highlight the more unpredictable national and global economic environment councils are needing to operate and plan within.

Financial sustainability

2021/22	Balance at 31st March 2021	Transfers In 2021/22	Transfers Out 2021/22	Balance at 31st March 2022
	£000	£000	£000	£000
Ring-fenced Reserves				
DSG not delegated to schools	1,433	-	(1,433)	-
School Balances	24,108	8,937	(2,950)	30,095
School Capital Fund	2,753	3	(265)	2,491
Education & Skills Funding Agency Learning Programmes	1,112	108	(249)	971
Arts Council National Portfolio Organisation Funding	845	-	(526)	319
NHS Joint Working Projects	9,420	15,866	(273)	25,013
Schools Buy Back	2,429	-	(514)	1,915
Business Support Grants	2,722	-	(2,722)	-
Covid-19 Collection Fund Compensation Grants*	25,720	14,752	(27,075)	13,397
Total Ring-fenced Reserves	70,542	39,666	(36,007)	74,201
Corporate Reserves				
Capital Programme Reserve	97,588	2,497	(1,251)	98,834
Managed Reserves Strategy	70,261	30,310	(17,301)	83,270
BSF Financing	8,638	1,457	(1,061)	9,034
Insurance Fund	10,608	887	-	11,495
Severance Fund	4,827	-	-	4,827
Service Transformation Fund	5,867	-	(672)	5,195
Welfare Reserve	3,429	428	(1,306)	2,551
Anti-Poverty Reserve	3,000	-	-	3,000
Other Corporate Reserves	973	-	(973)	-
Total Corporate Reserves	205,190	35,579	(22,563)	218,206
Earmarked Reserves Departmental				
Financial Services Reserve	3,670	2,815	(1,366)	5,119
ICT Development Fund	8,436	2,163	(119)	10,480
Delivery, Communications & Political Governance	3,477	323	(1,360)	2,440
Housing	2,358	723	(279)	2,802
City Development (Excl Housing)	11,302	3,432	(2,062)	12,672
Social Care Reserve	18,482	4,480	(12,964)	9,998
Health & Wellbeing Division	4,291	1,480	(140)	5,631
Other Departmental Reserves	464	-	-	464
Total Other Reserves	52,480	15,416	(18,290)	49,606
Total Earmarked Reserves	328,212	90,661	(76,860)	342,013

Table 1: Note 10 Movement in Earmarked Reserves
Source: Statement of Accounts 2021/22

The Council has balanced the 2022/23 budget by planning to use £24.2 million of reserves representing a 40% increase in planned reserves use from the prior year. The Council began 2022/23 with a reserves balance of £79.2m (the movement from £83.3m to £79.2m can be attributed to the Waste PFI Procurement and residual COVID costs).

It was anticipated that the planned reserves usage would diminish the Council's reserves balance to £27.9m as at 31 March 2023, meaning that the Council was planning to use 30% of its Managed Reserves balance in one year, excluding in-year savings. (Note that the actual (unaudited) reserves balance as at 31 March 2023 is £65.8m, which is greater than planned).

The February 2022 budget recognised that 'significant additional savings would be required beyond 2021/22 to ensure future financial sustainability.' Council working papers have shown that savings of £4m are currently being progressed for 2022/23. We issued an improvement recommendation in the prior year regarding the transparency of reporting on savings schemes, explicitly, at a Member level. Our review of documentation for this year has led us to conclude that the Council should persist in reviewing the best means of monitoring and reporting on savings at Member level and for this reason, we have re-issued this improvement recommendation.

The Council's month 9 budget monitoring report showed a £10.3 million overspend against budget predicted for 2022/23 (final out-turn is a £4.4m overspend). The overspend is mainly attributable to pandemic related income shortfalls and the much higher than expected pay inflation than was predicted at the time of budget preparation. The actual pay offer awarded was significantly higher than reasonably could have been foreseen at the time of preparation as it is being driven by cost-of-living increases. The Council included the pay award assumption in the 2022/23 plan at 2.5% when it ended up being around 6.4%, which has had significant cost implications. There are concerns regarding the other overspend drivers as they are likely to be pressures that will continue throughout the year and medium term. For example, the lower levels of uptake than predicted in catering and parking income, market traders operating at the local markets and rental income, increases in process/costs on departmental overheads and increased energy costs. While the £4m savings were included within the budget when it was approved, the predicted overspend can have knock-on impacts on the Council's ability to achieve savings on a recurrent basis and, if not mitigated, could result in further depletion of reserves.

The medium term

The Council is facing its most difficult and severe financial outlook since it became a unitary authority in 1997. Though the local government settlement has exceeded expectations for most councils, the counteracting impact of inflation has offset much of the grant and business rates increases, therefore the position remains difficult. The post pandemic cutbacks Councils are currently facing have effectively frozen the financial sustainability of the majority of councils and introduced the 'perfect storm' of cost pressures plus constrained funding.

Financial sustainability

A council's reserves balance and savings plans serve as layered security by which the risk of a financial threat becoming a reality is mitigated by the separate types of defences 'layered' behind each other. Lapses and weaknesses in one layer of defence do not allow risks to materialise since the other layer of defence exists, preventing a single point of failure.

The largest area of uncertainty of the Council's finances is the post 2022/23 world. Based on current predicted budget gaps and the Council's current level of managed reserves, (those highlighted in the table on the previous page), the Council will have depleted the managed reserves by 2024/2025 (Table 2), if further savings are not made. We do note that further to this report being issued, the unaudited reserves as at 31 March 2023 are higher than anticipated providing an additional £10m of headroom. The area of greatest uncertainty in the forecasts surrounds the amount of government funding available in 2025/26 which falls into the new planning period and warnings to expect a new period of austerity.

The Managed Reserves Strategy is the only balance set up with the express purpose of bridging revenue budget gaps. However, the Council do have a healthy capital reserve which, although it is set up to support the capital programme, is sourced from revenue and therefore the option of delaying the capital programme in order to boost reserves is available to the Council should the necessity to do so emerge. This capital reserve balance stands at £99m as at 31 March 2022. The Council also has the option of part funding the capital programme from prudential borrowing and further diverting from the capital reserve, though this would very much be a last resort.

The Council also have a minimum working balance of £15m of unallocated (unearmarked) reserves which are not included in the Managed Reserves Strategy. This minimum balance provides extra cushioning from which the Council

Council could draw on as a final course of action.

Furthermore, we gain further assurance from the Council's stated intention to review the earmarked reserves balances again at the end of 2022/23.

Further useable reserves may emerge from this review from which the Council can bridge revenue budget gap.

The Council's savings plan acts as the next layer of defence against financial failure. The Council acknowledge in the latest budget report that 'achievement of significant savings is essential to live within our means.' The Managed Reserves Strategy involved the Council generating and realising significant savings from 2013 to 2020 in order to build up a sufficient balance from which to draw down to use in times of crises. As part of this strategy, the Council generated £50 million in savings over a 6-year period from 2014 to 2020.

The Council has achieved £4m as part of the 2022/23 savings programme.

The Council's approach in respect of 2023/24 and onwards is via a Fundamental Budget Review which aims to achieve savings of £40 million per year with the 2022/23 budget report noting that the level of savings projected by 2024/25 (as shown in table 2) would be "unachievable" without change in Government policy.

The 2023/24 budget report shows that the Council has identified and is progressing the approved £6m recurrent savings across all departments. This is a consistent level of savings compared to previous years, but is still a greater challenge than was required in prior years.

It is not Leicester's approach to approve savings as part of

	Reserves (£'m)
Balance as at 31 March 2022	79.2
To be used in 2022/23	(23.3)
Predicted budget gap 2023/24	(34.1)
Balance of reserves as at 31 March 2024	21.8
Predicted budget gap 2024/25	(44.2)
Balance of reserves as at 31 March 2025	-
Predicted budget gap for 2025/26	(64.4)

Table 2: Planned Reserves Usage and Future Predicted Budget Gaps

Source: Final Budget Report 2023-24

the budget report. Making savings at the Council is the prerogative of the City Mayor rather than the full Council (whose role in law is to approve budget ceilings) and the ceilings officers ask the Council to approve reflect the savings already agreed by the Mayor (or by directors under delegated authority). The Council approves the budget which includes a reserves usage ceiling which represents the maximum level of reserves that the Council has authority to use in order to bridge the revenue budget gap for that particular year.

Financial sustainability

Savings are identified throughout the year as part of a continuous identification and action process and money is contributed to reserves when the savings are realised in-year.

The Council's approach to savings identification and delivery is to identify savings as part of the budget process; ensure involvement by directorates in making the decisions on these savings, which are then approved and removed from the budget.

This has benefits and drawbacks. There is an implicit expectation that the savings have been realised on commencement of the financial year, as they are simply not available in a directorate's budget to draw down against. However, if budgets begin to go off track and/or savings are not delivered at the pace required the lack of a succinct and clear audit trail setting out the specific savings that have gone into each budget means that it is difficult to identify lesson to be learnt or targeted areas for improvement or support. We acknowledge that there are quarterly monitoring reports throughout the year which report on the progress against budget, which has savings implicitly built into it, but nevertheless it means that ongoing financial sustainability is more difficult to judge until the year-end when the outturn is determined.

That being said the Council's savings approach should provide assurance of deliverability as the savings mentioned in the budget report are identified and being progressed. Greater assurance on the overall deliverability of savings is provided by the fact that our review of the savings mentioned in the budget report has shown that the savings are predominantly operational savings that can be delivered as part of business-as-usual within the individual directorates. This provides a layer of comfort as the Council is not required to create any additional arrangements to ensure deliverability of this savings balance beyond the pre-existing monitoring regime.

There is also a continuous new savings (i.e. not in original budget) identification approach running through the year which will have the complementary effect of reducing the requirement for in-year use of reserves to balance the budget and increasing the level of reserves available for future years and reducing future predicted budget gaps. Furthermore, the more significant savings plans appear to be supported with the necessary governance and infrastructure to support their achievement though it is too soon to tell as these are still in their infancy. For example, one of the most significant savings schemes currently in progress at Leicester is known as their Ways Of Working (WOW) programme.

The programme aims to achieve savings through reduced use of office space and buildings. The programme is overseen by a Programme Board which is chaired by the Director of Delivery, Communications and Political Governance and meets fortnightly to monitor progress. Furthermore, we did not identify any concerns with regard to Member appetite for making tough financial decisions which are in the inevitable future of the Council given the challenging financial future.

Conclusion

As acknowledged by the Council in its 2023/24 budget report: 'it is clear that the future financial position is very serious.' The Council finished 2021/22 with an underspend on the General Fund, predominantly as a result of unused one-off central government-supplied Covid grants and drawing on its managed reserves. As set out on page 10, the Council will deplete its useable reserves balance by 2025/26 if it does not take prompt action.

2021/22 financial performance was cushioned by one-off Covid-19 grants, enabling the Council to finish with an underspend. However, 2022/23 is a difficult year and there will be greater challenges going forward. Unlike in previous years, it is unlikely that the Council will be able to continue to recoup overspends. Tough financial decisions will need to be made in the medium-term to manage this potentially precarious position and ensure financial sustainability. The Council's monitoring and reporting of savings continues to be an area of improvement.

Improvement recommendations



Financial sustainability

Recommendation 1

Use of Reserves

The Council should:

- revisit financial plans with the sustainability of reserves in mind to ensure medium term financial plans demonstrate a realistic plan for maintaining reserves at sustainable levels where one-off use is expected to cover budget gaps;

Why/impact

The Council's financial position is becoming significantly more challenging. This is largely due to the impact of increased service demand, the impact of inflation/cost of living increases, withdrawal of Covid-19 financial support where costs are still in place (noting that they are now much reduced) and supply chain/staffing pressures. The Council finished 2021/22 with an underspend on the General Fund, predominantly as a result of one-off central government-supplied Covid grants and planned draw down on reserves. The greatest risk is the potential that the Council will be unable to smooth its deficit with reserves in the medium term where larger deficits currently forecast are not bridged. Further one-off central government support is unlikely and reserves are also a one-off resource, so a plan needs to be in place to replenish these reserves or the Council could quickly be forced to a position where some non-statutory activities need to be reduced or even ceased. Although currently the Council does not appear to be in imminent danger of needing to issue a Section 114 notice, these are being more regularly issued where councils find themselves with insufficient reserves to continue normal operations.

Management Comments

The Council recognises the importance of setting a balanced budget without the use of reserves and is working on realistic plans to enable this. We are however going to be unlikely to be able to replenish reserves currently.



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

Improvement recommendations



Financial sustainability

Recommendation 2

Savings

We recommend that

- the Council continues to ensure its focus is on making credible savings plans and strengthening the supporting monitoring and reporting arrangements around delivery of those plans so that they are sufficiently robust to support the realisation and accountability for the large-scale savings necessary to bridge the forecast budget gap
- focuses its financial planning on reducing reliance on one-off measures and attain a balanced budget position without the need for using reserves as soon as possible, including properly considering opportunities to review service delivery, particularly the prioritisation of statutory versus discretionary spend.

Why/impact

The Council is witnessing increasing costs due to rising demand, skills shortages and inflation. In order to maintain financial stability the Council is likely going to need to make some very difficult financial decisions in the near future. Larger and more complex savings plans are likely to be needed which will need to be delivered within tight timelines. Being able to quickly identify where savings plans are not being delivered so that remedial action can be taken will be a key determinant for success.

Management Comments

The Council recognises the importance of having realistic savings plans to ensure the Council achieves a balanced budget and understands the need to ensure decisions continue to be taken transparently.



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 management

Risk management at the Council is governed by the Risk Management and Business Continuity Policy Statement. An updated version was presented at Audit & Risk Committee in March 2022. The Risk Management Strategy and Policy 2022, and the Business Continuity Policy and Strategy 2022 provided an effective framework for managing risk, setting out the Council's attitude to risk, the approach to be adopted to manage the challenges and opportunities facing officers. The Business Continuity Policy Statement and Strategy set out the Council's attitude, perception and approach towards implementing business continuity practices.

SUMMARY OF THE COUNCIL'S GOVERNANCE ARRANGEMENTS			
<p>Mayor, Executive and Council</p> <ul style="list-style-type: none"> • Provide leadership, develop and set policy • Key risks are considered by the Executive quarterly 	<p>Decision making</p> <ul style="list-style-type: none"> • Decisions are recorded on the Council's website • There is a period of grace in which decisions are open to review 	<p>Risk management</p> <ul style="list-style-type: none"> • Risk registers identify both operational and strategic risks • Key risks are considered by Corporate Management Team quarterly 	
<p>Scrutiny and review</p> <ul style="list-style-type: none"> • 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 	<p>Corporate Management Team (CMT)</p> <ul style="list-style-type: none"> • 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 		

Table 3: Summary of the Council's governance arrangements

Source: Annual Governance Report 2021/22. [It is noted that during 2022/23 the role of s151 officer moved from the Chief Operating Officer to the newly appointed Director of Finance from November 2022.]

Governance

The Council has procedures in place to record and assess risk. Risk registers are used to monitor risks at strategic, departmental and project levels. A Strategic Risk Register (SRR) is used to record and score risk based on a matrix of impact and likelihood with risks with a score from 15 to 25 scored as 'high' risks and rated RED meaning 'immediate management action.' Medium risks range from 9 to 12 and are rated YELLOW which is 'Plan for Change' and low risks (1-8) are rated GREEN meaning 'Manage'. There is evidence that the Council periodically review the scores ascribed to risks on the risk register. For example, 'Compliance with Regulation, Policies & Procedures' was initially scored RED from 31 January to 31 May 2021, this score was de-escalated to AMBER on 26 July 2021 following the successful completion of actions. The demotion of this risk is evidence that the Council critically assesses the scores ascribed to risks on the register and reassesses their relevance in the face of new information.

The Council has arrangements in place to report risks to the Corporate Management Team (CMT), providing assurance that risks are being identified and appropriately managed. The leadership team and Audit & Risk Committee receive quarterly reports on the Strategic Risk Register. The Terms of Reference of the Audit & Risk Committee outline its responsibilities with regard to providing assurance to Those Charged With Governance on the adequacy of the risk management framework and control environment. In November 2021, 20 risks were amended on the Operational Risk Register (ORR), 2 were deleted and 3 new risks were added during this period. The reduction in the number of risks reported from the previous period allows time for focus on the risks which require the attention of the Divisional Management Teams (DMT).

Effective internal audit arrangements continue to be provided by Leicestershire County Council for the year 2021/22. Whilst COVID19, staff absences and unplanned vacancies (along with corresponding difficulty to recruit) caused some disruption to resources, internal audit considered that there was sufficient coverage across the control environment to be able to award a reasonable assurance opinion, meaning the Council's overall control environment remained adequate and effective. A number of audits returned partial assurance ratings but these were accepted by management and responses to recommendations received.

The Council has adequate arrangements in place in respect of the prevention and detection of fraud. The Council performed a review of the Member Code of Conduct in 2022. This produced proposed changes and amendments to the Code.

This demonstrates that the organisation not only has arrangements in place in respect of the prevention and detection of fraud but also in respect of reviewing those arrangements. There is also Whistleblowing Policy and Procedure in place to ensure that staff are adhering to the required behavioural standards.

Budget setting process

There is a strict division between the role of the Council and the role of the Mayor (as the Executive). As established by *Buck vs Doncaster Metropolitan Borough Council*, the role of the Council is to set budget ceilings which permit the Mayor to provide services within those budget amounts. The role of the Mayor is to decide the means of provision of services within the amounts provided for by the Council's ceilings. The Mayor need not spend the whole amount granted. The Council also gives the Mayor authority to change the budget after it has been set (within limits).

The role of budget setting, as iterated in the Council's February 2022 budget document, is for the Council to determine (a) the level of council tax and (b) the limits on the amount the City Mayor is entitled to spend on any service ('budget ceilings'). The Full Council approved a Band D tax increase of 3% for 2022/23 from the 2021/22 figure at £1,745.74, therefore fulfilling obligation (a). The February 2022 report fulfils obligation (b) in Appendix One where the proposed budget ceilings are set out.

The draft budget is presented to scrutiny committees for challenge ahead of Full Council receiving the full budget and council tax setting proposals in February of each year. Overview Select Committee (OSC) review the budget to outturn position quarterly. Finance monitoring reports are taken to OSC quarterly and contain commentary on Council performance against budget, including reasons for variances from plan and plans being actioned to offset overspends. The month 9 Revenue Budget Monitoring Report showed a £10.3 million overspend which was slightly lower than the £14.5m forecast for Month 6 (with final out-turn being a £4.4m overspend). The overspend is mainly due to the much higher levels of cost (including significantly increased energy costs) and pay inflation being experienced since the budget was prepared, together with continuing pandemic related income shortfalls.

This report emphasised to members that 'the future financial outlook for the Council is bleak'. Budget holders also have access to real time information in the form of self-service budget reports.

Governance

There is evidence of adequate internal and external engagement in setting the annual budget. Internal and external stakeholders include the relevant Directors, the Executive Team (Deputy and Assistant Mayors), the Scrutiny Commissions and Overview Select Committee. Such stakeholders engage in consultations and discussion when preparing the annual budget before this is sent to the Council for final approval.

Committee effectiveness

All Councils are obligated to comply with the CIPFA 'Delivering Good Governance in Local Government' (CIPFA/Solace, 2016) and demonstrate this compliance through its Annual Governance Statement. As stated in the framework, Councils should ensure assurance and effective accountability through the work of the audit committee. A robust internal audit service and audit committee are important lines of defense in a Council's control environment. This committee should provide assurance on the arrangements in place over governance, risk management and the overall control environment, as well as review the financial and non-financial performance at the Council.

The Audit & Risk Committee at Leicester is comprised of 9 members: 8 non-executive elected Councillors and 1 independent persons. At least 3 Councillors are required at all meetings with the independent member non-voting. Meetings are held quarterly. The Council responded to our prior year improvement recommendation to consider the appointment of an independent member to the audit committee and in September 2022, the Committee welcomed such a member.

The Council similarly responded to our improvement recommendation regarding a skills and knowledge assessment of the Audit & Risk Committee. At the July 2022 Audit & Risk Committee, item 9 highlights that training was scheduled for committee members throughout the year to enhance the skills and knowledge of the members. A diversity of skills and experience can enhance the effectiveness of the committee as members offer differing viewpoints and challenge from varying perspectives. There is evidence that members of the committee at the council possess this diversity as professional backgrounds range from psychology to drama to engineering to banking.

There is also evidence that the Council questions the effectiveness of its committee functions. At the July 2022 Audit & Risk Committee, internal audit was questioned on how the effectiveness of A&R was measured and whether it required its own audit. The Head of Internal Audit informed the meeting that there was an increased focus on the effectiveness of Audit Committees and in terms of working with the regional audit committee chairs, there was further work ongoing in the form of an East Midlands Regional Audit Forum. The work of this forum could produce training recommendations for Councils and the anticipated new Audit Committee guidance from CIPFA may also increase the self-assessment demands of audit committees.

Compliance

The Council complies with the CIPFA/SOLACE 'Delivering Good Governance Framework' (2016). The Council has an approved Local Code of Corporate Governance and various codes and procedures regulating governance arrangements at the authority including:

- Constitution
- Financial Procedure Rules
- Code of Conduct for Members
- Code of Conduct for Employees
- Anti-fraud, Bribery and Corruption Policy
- Whistleblowing Policy
- Information Governance & Risk Policy

The Council performed a review of processes to identify any areas of potential weakness in controls, governance or risk management and concluded that the Council's financial management arrangements conform to CIPFA's Statement on the Role of the Chief Financial Officer in Local Government. This view is supported by the internal audit opinion which provided reasonable assurance in the adequacy and effectiveness of the Council's control environment.

The Council has self-determined its compliance with the new CIPFA Financial Management Code as stated in the Annual Governance Statement. FM Standard reference G states:

'The authority understands its prospects for financial sustainability in the longer term and has reported this clearly to members.'

We consider that our improvement recommendation no page 13, if acted upon, will allow the Council to more transparently report this to members.

Governance

The improvement recommendation raised in the prior year Annual Auditor's Report asked the Council to consider more formal, explicit monitoring, at Member level, of the extent to which proposed savings are realised. Our improvement recommendation surrounding the reporting of savings plans and progress against plans in the current year report touches on the previously mentioned difficulties in ascertaining savings progress from an external perspective. Though the Council has fulfilled the requirements of the improvement recommendation raised last year with respect to performing a self-assessment of compliance we continue to raise a recommendation in relation to improving the transparency and visibility of setting, monitoring and delivering savings schemes for stakeholders.

Decision Making

During 2021/22 we received questions from residents and members in respect of the Council's decision-making arrangements under its constitution. We therefore reviewed two decisions made during the year in respect of the purchase of the Haymarket Centre and a decision not to invest in social housing. The case studies are shown opposite. From our work we have not identified any non-compliance with the decision-making process required under the Constitution and are satisfied the Council considers value for money as part of its arrangements.

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. The Council has appropriate risk management procedures in place and the budget setting process continues to function effectively. Similarly, the Council addressed prior year recommendations regarding Audit & Risk Committee effectiveness and perform a self assessment for the CIPFA Financial Management Code. The Council must consider whether any recommendations arising from the external audit would have any impact on its ability to fully comply with the FM Code.

Case Study 1 - Haymarket Purchase

In November 2021 the City Mayor made the decision to purchase the Haymarket Centre. The freehold acquisition cost was £9.5m with stamp duty of £0.465m to make a total acquisition cost of £9.965m. In addition, from survey evidence an estimated total of £2.468m of maintenance works were required which equates to a total overall cost of £12.443m.

The City Council was already a major occupier who contributed 19% of net revenue to the asset, and strategically the shopping centre was interlinked to its wider regeneration priorities for the city. The Council was also of the view that as the city centre continued to be a focus in order to support the post Covid recovery the acquisition offered the ability to support small start-up businesses and the Highstreet through flexible lease arrangements.

The Council obtained an independent valuation for the freehold and also undertook a technical (maintenance) review alongside a review potential rents. The funding proposal was £10m of monies set aside at outturn 2020/21 for capital investment purpose and £2.442m from the future capital programme. The Constitution permits the Mayor to vary capital budgets by £10m and the future capital programme was already in existence. We are therefore satisfied that this would meet the criteria of an executive decision reserved for the Mayor. As the decision maker the Constitution also had the delegated authority to determine that call in would not be required. This decision was based upon the urgency and exclusivity nature of the proposed transaction.

From the above we are satisfied that the Council has taken appropriate advice and the decision-making arrangements were consistent with its Constitution.

Case Study 2 – Social Housing Investment

In October 2021 the Council was presented with opportunity to purchase in the region of 370 properties across the City from a local developer. The potential cost at the time was estimated to be in the region of £25m and the Council was hopeful it would be able to utilise pooled capital receipts before a change in regulations to restrict the purchase of existing properties in order to encourage 'new build' going forward.

The Council obtained a valuation for the possible portfolio in order to inform its decision-making.

Information subsequently came to light that led the Council to revisit its decision on the grounds that it no longer believed that the opportunity would present value for money.

We document this here as an example of the Council revisiting its plans and proposals in an iterative manner to ensure that decision-making is as informed as possible.

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 has arrangements in place to use performance information to assess performance to identify areas of improvement. The Scrutiny Committees hold the Executive and Partners to account, especially to develop policy, generate ideas, review, and scrutinise the performance of the Council in relation to its policy objectives, performance targets and/or particular service areas. The Committees also question the City Mayor, members of the Executive and Directors about their decisions and performance, whether generally in comparison with service plans and targets over a period of time or in relation to initiatives or projects.

The Leicester, Leicestershire & Rutland Carers Strategy, a joint partnership which includes all local authorities and ICBs across the region, is a good example of when KPIs are provided to Committee to identify areas of improvement. The joint strategy was presented to the Adult Social Care Scrutiny Commission at the June 2022 meeting. The report contained the summary findings from family carers that live or care for someone in the city of Leicester. The purpose of the exercise was to ensure carer voice was heard and to use that voice to drive the strategy which would tackle areas of improvement.

Partnership working

The Mayor's vision stresses the importance Leicester places on working alongside partners in delivering services for the city. As iterated in the vision, 'Leicester is the most successful city economy in the East Midlands, further proof that our... work with partners works.' As documented in the prior year, the Council has appropriate arrangements in place to support partnership working.

The Council has shown proactivity with regard to responding to the concerns highlighted in public interest reports (PIRs) at other local authorities, as is demonstrated by the review of third party arrangements. The Council is able to articulate who its key partners are and the work of partnership arrangements is fed back to the Executive in order to maintain overall decision-making responsibility for matters affecting the Council. The Leicester, Leicestershire, and Rutland Carers Strategy 2022-25 is an example of this.

In October 2022, Leicester launched the UK's longest electric circular bus route, connecting key sites around the city. The Orbital service is the product of a partnership arrangement with operators Centrebus and is the fifth new service to be launched using new council-owned electric buses. The buses and charging depot have been partially funded by the Dept for Transport's Zero Emission Bus Regional Areas (ZEBRA) scheme and is the first ZEBRA funded project to be delivered in the country. The network helps to connect and integrate services within the Leicester Bus Partnership which was launched in April 2022. The Council has worked with bus operators to bring forward the project. The director of Centrebus, David Brookes, spoke of the partnership: 'we have worked closely with our colleagues at the Council to introduce these state of the art electric buses...They're the first electric buses in the country to hit the road funded through the Government ZEBRA scheme which is testament to the speed at which the city council and our fellow partners have delivered this project.'

Improving economy, efficiency and effectiveness

The launch of the bus service was also lauded by University Hospitals of Leicester (UHL) Director of Estates as an opportunity to work with partners and co-founder of Zenobe, the electric vehicle fleet and battery storage firm involved in the project as a proud example of collaboration.

The Orbital is a good example of partnership arrangements resulting in tangible, meaningful actions which have actually been delivered by the Council and its associated partners. Furthermore, the fact that it is an environmentally sustainable project directly addresses the Council's declaration of a climate emergency in 2019 and puts the Council one step closer to achieving its ambitious carbon neutral by 2030 target. The Council first launched its Leicester Climate Emergency Action Plan in 2020 and the Orbital service should be seen as a manifestation of that commitment to tackling climate change. The project therefore serves as an example of a strategy developed at partnership level resulting in meaningful actions that are actually delivered.

External companies

Recent public interest reports (PIRs) performed at councils across the country have unveiled well-publicised significant concerns surrounding the governance of wholly or partly owned companies. Where companies are council owned, councils are ultimately responsible for the financial risks and benefits of those companies. In response to this increased spotlight, in March 2021, Leicester performed an exercise to ensure the Council had a comprehensive understanding of the third parties in which the Council had formal involvement e.g. shareholder, trustee, director, member of a board or nomination officer. The report aimed to identify the Council involvement and potential exposure to risk and then offer assurance that the Council has appropriate governance arrangements in place to manage its involvement. Overall, the Council has interests in 26 organisations, involving the City Mayor, 5 elected members, 12 Senior officers and a voluntary advisor. At the time of writing, almost all companies wholly or partly owned by the Council are mostly dormant which means they are not trading. There is only a small number of organisations that present a direct but limited financial risk. The overall conclusion of the review is that the Council has very limited risk, especially in comparison to the exposure of other councils facing these issues. The main area of concern beyond financial exposure, is in relation to potential reputational risk or the expectation the Council would step in financially if an organisation runs into difficulties (morally if not legally).

It is therefore important that the Council carefully considers the nature of the relationships with these organisations and ensures appropriate monitoring and governance arrangements are in place. The review concludes that the Council has no significant financial risks in its involvement with third parties.

Procurement

The Council has a procurement strategy that forms part of the Constitution. In addition, there is also a guide to sustainable procurement. There is no evidence of the Council failing to operate a fair procurement exercise for a significant contract.

The Audit & Risk Committee receive and note the annual report setting out the Council's performance against the Procurement Plan and compliance with the Contract Procedure Rules (including data on waivers). The Committee must also seek assurance that the Council has appropriate arrangements in place to identify and manage risks, ensure good governance and obtain assurance on compliance in its procurement activity.

The 2021/22 Procurement Annual Report presented to September 2022 Audit & Risk Committee shows that there were 62 waivers in the year with a total value of £38.8 million. This represents a significant increase from the 2020/21 annual report where 45 waivers were awarded with a value of £12.9 million. The increase in value as stated by the Council 'is largely Covid related, and to avoid delays to large programmes such as the SALIX Decarbonisation schemes account for over £21m, and the Social Housing Decarbonisation Fund (SHDF) Wave 1 project accounts for an additional £6m of the total figure.'

The Council considers the risks and rewards when embarking on procurement activity. For example, in June 2022, the Council considered the option of an in-house taxi fleet to support the transport of the 1,500 children and young people with disabilities that the Council currently take from home to school within its taxi framework. When considering the procurement of the taxi company, the Council considered an in-house taxi fleet but determined that there were too many legal issues and logistical issues with downtime that it was ruled out as a financially unsustainable option. This serves as an example of when the Council considered risk and reward of potentially in-sourcing a service and determined the risks to be too much such that the in-house option was dismissed.

Improving economy, efficiency and effectiveness

Where the Council is involved in, or about to enter into complex or unusual activities, it obtains expert advice or knowledge. The Council commissioned the expertise of global consultancy Ricardo Energy and Environment in assessing the steps the Council needs to take to reach net zero carbon in the next 8 years. The report suggests Leicester will require significant ramping up of scale and space in buildings, transport and energy in order to achieve its ambitious carbon targets. The Council plans to use the roadmap report study to inform preparations for its second Climate Emergency Action Plan planned to start in 2023. The Council also plans to use the report as backing to secure additional investment from central government to support the city in its climate change strategy. The services of Ricardo Energy and Environment consulting firm shows that the Council is ready to procure expert advice in order to fully understand the scale of the challenge with regard to climate change and then design its strategy in light of that understanding.

Waste PFI contract

In 2003, the Council entered into a 25 year contract valued in excess of £300m with Biffa Leicester Ltd under the PFI scheme. The arrangement, which became operational in 2004, covers the collection, treatment and disposal of city residents' waste. Biffa Leicester is responsible for the collection, treatment and disposal of Leicester City's household waste, including a weekly recycling collection to the city's 120,000 households as well as managing the two recycling centres and the many recycling banks across the city. The waste PFI contract reaches its end in 2028 and re-procurement is a significant, complex and costly exercise.

The re-procurement of the waste contract is supported by the Council's procurement strategy which forms part of its Constitution. The contract is in the very early stages of re-procurement. The Council has outlined its plan of action, which begins with the delivery of a new Waste Strategy which will then facilitate the re-procurement of the current 'Integrated waste management PFI contract' (the current contract) and managing the expiry of the current contract. The Council has acknowledged that while it is not mandatory for a unitary authority to have a 'Waste Strategy', the Council's current strategy is defined by its PFI contract specification which was drafted in the early 2000s based on government guidance from the 1990s and is now outdated. The new strategy will inform the market testing of the promotion of the new supplier opportunity.

The Council is involved in, or about to enter, complex or unusual activity so has obtained appropriate expert advice.

The Council has proposed sourcing the new strategy with consultancy support. The re-procurement is also supported by robust governance arrangements in the form of a programme board and draft programme which covers the waste strategy, re-procurement of the new project and management of the expiry of the current contract. The 'Waste Strategy & Re-Procurement Programme Board' is sponsored by the Director for Neighbourhoods & Environmental Services (and also previously jointly with the Deputy Director of Finance). Below the Programme Board sits three project boards. The Council is currently on track to publish the strategy by September 2023. It is evident from programme board minutes that the Council appropriately considers risk and reward when undertaking significant commercial ventures as is indicated by their emphasis on the importance of considering the option of insourcing. Though it would be unusual for local authorities to operate a treatment facility, the Council still considered the option of insourcing demonstrating due regard to achieving economy, efficiency and effectiveness in extraordinary circumstances.

In February 2022, Biffa brought legal proceedings against the Council with the HMCTS. The Audit & Risk Committee in September 2022 noted that the waste collection and disposal PFI contract was substantial. The legal claim has undoubtedly had an impact on the Council's ability to manage relations with Biffa. The Council must continue to carefully monitor the contract during the dispute resolution process to ensure the legal case does not significantly impact the performance of the contract or the ability to realise the benefits. The legal proceedings are still ongoing, therefore it is too soon to conclude on the potential value for money implications of the case.

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. The Council use performance information to assess and identify areas of improvement. Partnership working is a key priority as demonstrated through the materialisation of the Orbital bus service which is the product of the Council's partnership with Centrebus. The Council has mitigated the risk inherent in the management of external companies by performing a self-assessment. The Council appears to have the supporting architecture in place to facilitate a smooth re-procurement of the waste PFI contract, and while working relationships are positive, there are ongoing legal proceedings which are set to progress during 2023.

Follow-up of previous recommendations

	Recommendation	Type of recommendation	Date raised	Progress to date (management responses)	Addressed?	Further action?
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	Nearly all savings to date have not been major projects, and the route to achievement is obvious (e.g. deleting vacant posts, increasing charges). These savings have not required formal monitoring. Where formal management is required (e.g. the "Ways of Working" project) more formal monitoring has been put in place. More major projects are likely as we pursue more ambitious savings targets, and formal monitoring will be put in place for these. The COO will also meet regularly with directors to hold them to account for delivery.	Partially	Improvement recommendation raised
2	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.	Improvement	January 2022	This was included in a financial update report taken to Audit and Risk Committee on 16th March 2022. See para 6.4 and Appendix A, in the report. https://cabinet.leicester.gov.uk/documents/s129674/AR%20Financial%20Update%20Report%20Final.pdf	Yes	No

Follow-up of previous recommendations

	Recommendation	Type of recommendation	Date raised	Progress to date (management responses)	Addressed?	Further action?
3	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.	Improvement	January 2022	<p>As noted in the below updates to the Audit and Risk Committee, an independent member was recommended and has been appointed to sit on the committee [see below links]. The independent member has started attending committee meetings from September 2022 onwards.</p> <p>https://cabinet.leicester.gov.uk/documents/s129674/AR%20Financial%20Update%20Report%20Final.pdf</p> <p>https://cabinet.leicester.gov.uk/documents/s135593/AR%20Financial%20Update%20Report%20-%20Final%20Report%20Sept%202022%20FINAL.pdf</p> <p>In regards to the knowledge and skills of the Audit and Risk Committee, the Chair of the Audit and Risk Committee is also the Chair of the East Midlands Regional Audit Chairs' Forum and presided over an all-day workshop in November 2022. This all-day workshop included presentations by CIPFA and an external auditor around Audit Committee best practice. The Audit and Risk Committee has also received an evening training session in November, again facilitated by CIPFA. Officers were also in attendance at both.</p> <p>Following the recent work above, we will also be conducting a skills and knowledge assessment and we will be reviewing the Audit and Risk Committee terms of reference, to continue to build up the knowledge and skills of its members.</p>	Yes	No
4	In its refresh of the Economic Recovery Pan, 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.	Improvement	January 2022	This is agreed and it will be incorporated when the refresh of the economic recovery plan or superseding plans take place.	Yes	No

Opinion on the financial statements



Audit opinion on the financial statements

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

We gave an unqualified opinion on the Council's financial statements on 17 March 2023.

Audit Findings Report (AFR)

More detailed findings can be found in our AFR, which was published and reported to the Council's Audit and Risk Committee on 15 March 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.

The Council did not breach the threshold required for work to be undertaken this year. We submitted the relevant assurance statement confirming this, to the National Audit Office on 27 March 2023.

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:

We reported that there were two adjustments to the financial statements, which resulted in a £3.413m adjustment to the Council's Comprehensive Income and Expenditure Statement: one is as a result of an incorrect formulae leading to incomplete processing of asset revaluations in respect of one asset and another is due to a spreadsheet error leading to an asset's value being overstated by £5.2m.

We also reported that we had identified that the Council has not been applying the 'instant build approach' required by the CIPFA Code when valuing assets on a depreciated replacement cost basis (effectively meaning that that one should not see finance costs within a DRC valuation). The Council has subsequently revisited its valuations and has also made an adjustment to the prior year figures to remove the effect in the comparative year. These adjustments are material but do not impact the balances in the general fund. The impact of this adjustment, as well as others noted later in this report have meant that the total value of Property, Plant and Equipment has increased by £51.3m. The comparative figure is an increase of £20.5m.

We reported that audit firms, practitioners, DLUHC and CIPFA had been in consultation with regard to the national, sector-side issue of accounting of infrastructure assets, and a statutory instrument came into force as of 25 December 2022.

Until the Statutory Instrument (SI) was released we were not therefore in a position to conclude what further work will be necessary to satisfy ourselves over the accuracy of the Council's infrastructure assets. The SI has been finalised and released and our work is now concluded. The Council has revised its approach to accounting for such assets which has resulted in an increased depreciation charge as at 31 March 2022 of £2,584k.

We identified omissions from the Council's financial instruments disclosure at Note 18 in respect of long-term creditors and short-term or long-term debtors, as well as incorrect entries in the cashflow statement pertaining to the purchase and proceeds of short and long-term investments. These have been amended and comparative information also updated accordingly.

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 - No risk identified	No further procedures necessary	See findings on pages 6-11	Appropriate arrangements in place, two improvement recommendations raised.
Governance - No risk identified	No further procedures necessary	See findings on pages 12-15	Appropriate arrangements in place no further action taken.
Improving economy, efficiency and effectiveness - No risk identified	No further procedures necessary	See findings on pages 16-18	Appropriate arrangements in place no further action taken.

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	10-11

