

# Auditor's Annual Report on Leicester City Council

2022/23

April 2024



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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.



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

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# Executive summary



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

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

Auditors are required to report their commentary on the Council’s arrangements under specified criteria and 2022/23 is the third 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. Where we identify significant weaknesses in arrangements, we are required to make recommendations so that the Council may set out actions to make improvements. Our conclusions are summarised in the table below.

Criteria	2021/22 Auditor judgement on arrangements	2022/23 Risk assessment at planning	2022/23 Auditor judgement on arrangements
Financial sustainability	<div></div> No significant weaknesses in arrangements identified, but two improvement recommendations made.	Risk of significant weakness identified.	<div></div> Significant weakness identified and one key recommendation raised.
Governance	<div></div> No significant weaknesses in arrangements identified or improvement recommendation made.	No risks of significant weakness identified	<div></div> No significant weaknesses in arrangements identified but three improvement recommendations raised.
Improving economy, efficiency and effectiveness	<div></div> No significant weaknesses in arrangements identified or improvement recommendation made.	No risks of significant weakness identified	<div></div> No significant weaknesses in arrangements identified, but one improvement recommendation made.

- G

No significant weaknesses in arrangements identified or improvement recommendation made.
- A

No significant weaknesses in arrangements identified, but improvement recommendations made.
- R

Significant weaknesses in arrangements identified and key recommendations made.

# Executive summary



## Financial sustainability

In February 2022, the Council set a net expenditure budget of £332m. The budget proposed a tax increase of 2.99% which is the maximum allowable without a referendum. The budget was balanced with the assumption that £24.2m of reserves would need to be used, specifically from the Managed Reserves Strategy. The Managed Reserves Strategy represents a reserves balance available for the Council to draw on to fund revenue budget gaps and pressures. The Council reported a £4.4m overspend in 2022/23 which was funded by an additional draw on the Managed Reserves Strategy.

The Q2 budget monitoring report (for April 2023 to September 2023) showed the Council to be forecasting a £10.2m net overspend position on the 2023/24 budget. Since then, the Council has produced the Q3 monitoring report (April 2023 to December 2023) which is showing a £2.1m net overspend though the Council acknowledges that 'this does not fairly represent the significant financial pressures the Council is facing.'

The draft 2024/25 budget shows the Council to be in a risky financial position. As stated in the report: "we have the real probability of not being able to balance our budget in 2025/26, necessitating a formal report under section 114 of the Local Government Finance Act 1988." The 2024/25 budget will exhaust the managed reserves strategy balance and begin the Council's drawing of its emergency reserves balance. The Mayor noted in his letter to the Department of Levelling Up, Housing and Communities that a Section 114 notice would be 'almost inevitable' before the 2025/26 budget.

Due to the significance of these matters, we have identified a significant weakness in the Council's arrangements with regard to its financial sustainability. We have raised a key recommendation which has been accepted by management. See page 8 for more detail.



## Governance

Our work has not identified any evidence which leads us to conclude that there are significant weaknesses present which require key recommendations to be raised. We raise three improvement recommendations.

Overall, the Council has appropriate risk management arrangements in place. The Council has made recent changes to strengthen the risk management processes which are proving to be comprehensive and robust. We raise an improvement recommendation in this area to further develop the presentation of the risk registers. There is an effective internal audit and counter fraud service in place.

There are effective audit committee arrangements in place. We raise an improvement recommendation for the Council to consider appointing an additional independent member to the committee.

The Council has generally appropriate budget setting and monitoring arrangements though we raise one improvement recommendation in this area to improve presentation of reporting.



## Improving economy, efficiency and effectiveness

Our work has not identified any evidence which leads us to conclude that there are significant weaknesses present which require key recommendations to be raised. We raise one improvement recommendation.

The Council has arrangements in place to use performance information to assess performance and identify areas for improvement. We raised an improvement recommendation to encourage greater public reporting on progress against each key performance indicator (KPI) linked to its key strategic priorities.

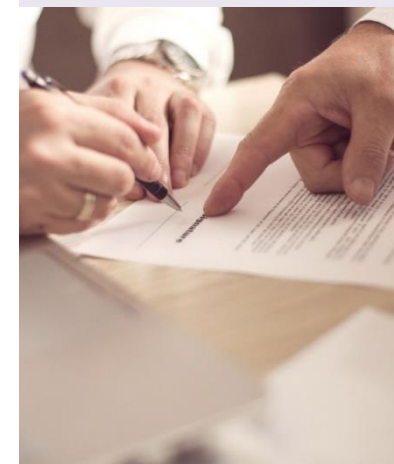
The Council takes a proactive approach to partnership working and identifying potential stakeholders to engage with.

There are appropriate procurement arrangements in place.



## Financial Statements opinion

We have substantially completed our audit of the Council's financial statements and currently propose to issue an unqualified audit opinion, following the Governance & Audit Committee meeting on 18 April 2024. Our summary findings are set out on pages 25 to 26.



# Use of auditor's powers

We bring the following matters to your attention:

2022/23

## 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 make any written recommendations under Schedule 7 of the Local Audit and Accountability Act 2014.

## 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 did not make an application to the Court.

## Advisory notice

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

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

We did not issue any advisory notices.

## Judicial review

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

We did not make an application for judicial review.

# Key recommendation

Key Recommendation 1

The Council should re-consider all aspects of service delivery in order to ensure financial sustainability with efforts being directed toward:

- The identification and delivery of savings that reduce the indicative budget gap in 2024/25 and in future years, along with supporting the replenishment of reserves. These savings should be realistic, evidence-based targets as opposed to unachievable or overly-optimistic.
- Reducing reliance on one-off measures to support the revenue budget (including non-recurrent savings, one-off grants and reserves)
- Rebuilding the reserves balance to ensure it can be maintained to provide financial security and cushioning in the future

Difficult decisions are likely to be required in future budgets. The Council should therefore ensure:

- that its financial planning demonstrates and reports a clear understanding of statutory versus discretionary areas of spend,
- that those discretionary areas can be managed within the available financial envelope, and
- If required, how the reduction or removal of services in its long term plan fits with its organisational strategy and the priorities of stakeholders.

Criteria impacted by the significant weakness



Financial sustainability

Auditor judgement

Based on the Council’s current financial projections the increasing budget gaps will need to be supported by the use of reserves with both managed and general fund working balance reserves will be exhausted by 2025/26. The Council is developing responses but currently there is no clear or robust plan to address this gap and we consider that the Council is therefore having to place an over-reliance on non-recurrent measures to reduce the financial shortfall. Based on the work undertaken, we are not satisfied that the Council has proper arrangements in place to secure economy, efficiency and effectiveness in its use of resources in 2022/23. We have therefore identified a significant weakness in arrangements.

Management comments

Work has commenced on a sustainable plan to reduce growth pressures in social care and homelessness budgets and identifying savings options to balance 2025/26 budget including capital options. This work is expected to continue to identify options for a sustainable future.

Progressing the actions management has identified to address the recommendations made will support the Council in addressing the weaknesses identified from our work. We consider that the timescales provided by management are appropriate and encourage the Audit Committee to monitor progress of implementation to gain assurance over the arrangements in place.

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

# 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.

**In addition to our financial statements audit work, we perform a range of procedures to inform our value for money commentary:**

- Review of Council, Cabinet and committee reports
- Regular meetings with senior officers
- Interviews with other members and management
- Attendance at Audit Committee
- Considering the work of internal audit
- Reviewing reports from third parties including Ofsted
- Reviewing the Council's Annual Governance Statement and other publications



Our commentary on the Council's arrangements in each of these three areas, is set out on pages 10 to 23.

# The current local government landscape



## National context

Local government in England continues to face significant challenges as a sector. These include a high level of uncertainty over future levels of government funding, alongside delays to the Government's plans for reform of the local government finance system, impacting on medium-term financial planning. This is also a time of generationally significant levels of inflation – the UK inflation rate was 7.8% in April 2022, rising to a 41-year high of 11.1% in October 2022, then reducing to 10.1% in March 2023. Inflation levels put pressure on councils' revenue and capital expenditure, as well as the associated cost of living crisis impacting on local communities and businesses, leading to an increase in demand for council services such as children with special education needs with associated transport costs, debt advice, housing needs, and mental health, as well as impacting on some areas of council income such as car parking and the collection rates of council tax, business rates and rents. This follows a significant period of funding reductions by Government (2012 to 2017) and the impacts of Brexit and the COVID-19 pandemic which, for example, have contributed to workforce shortages in a number of council service areas, as well as creating supply chain fragility risks.

The local government finance settlement for 2023/24 was better than many in the sector anticipated demonstrating an understanding by Government of the financial challenges being faced by the sector. However, the Local Government Association, in July 2023, estimated that the costs to councils of delivering their services will exceed their core funding by £2bn in 2023/24 and by £900m in 2024/25. This includes underlying cost pressures that pre-date and have been increased by the pandemic, such as demographic pressures increasing the demand for services such as social care and homelessness.

Over the past decade many councils have sought to increase commercial activity as a way to generate new sources of income which has increased the nature of financial risk, as well as the need to ensure there is appropriate skills and capacity in place to manage such activities.

Local government is coming under an increased spotlight in terms of how the sector responds to these external challenges, including the Government establishing the Office for Local Government (Oflog) and there has been an increase in the number of councils who have laid a Section 114 Notice, or are commenting on the likelihood of such an action, as well as continued Government intervention at a number of councils.

There has also been an increase in the use of auditors using their statutory powers, such as public interest reporting and statutory recommendations. The use of such auditor powers typically derive from Value for Money audit work, where weaknesses in arrangements have been identified. These include:

- a failure to understand and manage the risks associated with commercial investments and council owned companies
- a failure to address and resolve relationship difficulties between senior officers and members
- significant challenges associated with financial capability and capacity
- a lack of compliance with procurement and contract management processes and procedures
- ineffective leadership and decision-making.

Value for Money audit has an important role in providing assurance and supporting improvement in the sector.

# The current local government landscape



## Local context

Leicester City Council is a unitary authority in the East Midlands, consisting of 54 councillors, representing 21 wards in the city, overseen by a directly elected mayor. It is currently controlled by the Labour Party and has been led by mayor Sir Peter Soulsby since 2011 (Appendix A1 summarises the Mayoral model). The council also appoints a ceremonial Lord Mayor who chairs council meetings; the directly elected mayor is termed the City Mayor to distinguish the post from the Lord Mayor. As a unitary authority, the council is responsible for running nearly all local services in Leicester with the exception of the Leicestershire Fire and Rescue Service and Leicestershire Constabulary. These are run by joint boards of the city council with Leicestershire County Council and Rutland County Council.

The Council traces its roots to the Corporation of Leicester, it was reformed to a municipal borough in 1836. The borough was then led by a corporate body formally called the "mayor, aldermen and burgesses of the borough of Leicester", which was generally known as the corporation or town council. In 1919 Leicester was awarded city status, after which the corporation was formally called the "mayor, aldermen and citizens of the city of Leicester", also known as the city council. In 1928 the council was given the right to appoint a Lord Mayor. The Corporation was replaced in 1974 under the Local Government Act 1972, with the modern Leicester City Council, a non-metropolitan district. This was a lower tier district-level authority, with county-level services being provided to the city by Leicestershire County Council for the first time. Leicester regained its independence from the county council in 1997 when it was made a unitary authority as part of the 1990s UK local government reforms.

Leicester is the largest city in the East Midlands. Leicester City Council employs more than 11,000 staff, who are responsible for delivering services to a diverse range of customers. The greater Leicester urban area had a population of 559,017 in 2021, making it the 11th most populous in England, and the 13th most populous in the United Kingdom. In 2023, Leicester was named as the best place to live and work in the East Midlands.

# 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.

## 2022/23 financial performance

In 2022/23, the Council was still feeling the impacts of COVID-19 whilst the funding from government to meet these additional costs ceased. We note that there were additional pressures in budget costs with inflation levels not seen in over 20 years, interest rates at pre banking crash levels, Brexit and supply chain issues. It is clear that councils were facing a difficult national backdrop against which to make decisions to ensure future financial sustainability.

In February 2022, the Council set a net expenditure budget of £332m. The budget proposed a tax increase of 2.99% which is the maximum allowable without a referendum.

The budget was balanced with the assumption that £24.2m of reserves would need to be used, specifically from the Managed Reserves Strategy. The Managed Reserves Strategy represents a reserves balance available for the Council to draw on to fund revenue budget gaps and pressures.

The Council reported a £4.4m overspend in 2022/23 which was funded by an additional draw on the Managed Reserves Strategy.

The overspend was primarily driven by high inflation, significantly increased energy costs, higher than budgeted pay awards and continuing, but reducing, pandemic related income shortfalls. On the other hand, rising interest rates meant that investment income increased beyond what was budgeted. Overall, the forecast overspend reduced during the year and the final overspend position of £4.4m was lower than the £10.3m forecast at period 9. This reduction was mainly due to vacancies and the receipt of one-off grant funding.

Children's services continues to experience pressure in the budget for children's placement due to the number of children in need of care and the level of support required. Significant cost pressures continue to be experienced in procuring home to school transport for children with special educational needs.

The Council started 2022/23 with £83.3m in Managed Reserves and ended the year with £65.8m (use of £17.5m reduction).

In terms of savings, directors at the Council work to identify savings throughout the course of the financial year to help reduce the scale of future deficits. Where savings are made as part of a service review, decisions are taken through a decision report. Where savings are incidental or can be made through management action, the Council seek approval to budget adjustments through routine budget monitoring reports. The Council reported savings in the monitoring reports in 2022/23 of period 3, 6 and 9. In the period 9 report, the Council noted £414k of savings.

## 2023/24 financial performance

The Local Government Finance Settlement 2023/24 was challenging but more generous than most authorities were expecting. The Spending Review total for local government increased by £1.6 billion in 2022/23 and in 2023/24 the Review stated that this would be the same 'cash' level as 2022/23. Though the impact of COVID-19 on Council finances has reduced significantly, the current predicted high inflation rates and cost of living crisis has increased pressure on Council budgets. Inflation, in particular, is presenting as a considerable cost pressure in 2023/24 budgets, impacting Council costs.

# Financial sustainability

The Council set a net expenditure budget in February 2023 of £382.7m, a 15% increase from the previous year. The budget proposed a 4.99% council tax increase, which is the maximum amount allowable without a referendum.

The budget assumed £34.1m would need to be used from Managed Reserves to balance the 2023/24 position.

The Q2 budget monitoring report (for April 2023 to September 2023) showed the Council to be forecasting a £10.2m net overspend position on the 2023/24 budget. Since then, the Council has produced the Q3 monitoring report (April 2023 to December 2023) which is showing a £2.1m net overspend though the Council acknowledges that ‘this does not fairly represent the significant financial pressures the Council is facing.’ The Council is experiencing significant cost pressures totalling £21.1m. These are largely offset by £15.4m of underspends and additional income and the use of £3.6m of contingencies.

In total, savings identified since the budget was set have reduced expected spend by £3.5m in the current year. This will allow the call on managed reserves this year to be reduced from the budgeted amount, originally £34.1m. However, it is important to note that the overspend position offsets the impact of the savings on the call on reserves. Table 1 below shows the Council’s forecast medium term gap as at budget setting in February 2023. Table 2 on the page overleaf is from the final 2024/25 budget and shows the increase in the budget gap since 2023/24 budget setting to £61m for 2024/25. As is evident from both tables, the Council’s Managed Reserves balance is insufficient to meet the growing budget gap should it need to be served by this balance.

	2023/24	2024/25	2025/26
	£m	£m	£m
Total Expenditure	382.7	414.2	442.0
Total Income	(348.6)	(370.0)	(377.6)
Budget Gap	34.1	44.2	64.4

Table 1: The medium term budget gap

Source: Revenue Budget 2023/24, 21 February 2023

## 2024/25 and the medium term

The Council has acknowledged in its Medium-Term Financial Plan (MTFP) that the outlook beyond 2023/24 remains uncertain. In an atmosphere of political and international uncertainty, economic challenges such as inflation, increased interest rates, lack of clarity on future finance settlements and the long-term impact of greater service demand, authorities are tasked with the difficult task of demonstrating a resilient and sustainable position from which to weather shocks.

In the 2023/24 budget, the Council noted: “the medium term financial outlook is the most severe we have known, in our twenty six years as a unitary authority.”

The 2024/25 budget shows the Council to be in a financially risky position. As stated in the report: “we have the real probability of not being able to balance our budget in 2025/26, necessitating a formal report under section 114 of the Local Government Finance Act 1988.”

The 2024/25 budget will exhaust the managed reserves strategy balance and begin the Council’s drawing of its emergency reserves balance. As shown in Table 2 overleaf, the Council are forecasting the need to use £7.1m of its emergency reserves which stood at £15m as at 31st March 2023. The Council are then forecasting a gap in 2025/26 which vastly exceeds its Managed Reserves balance – increasing the likelihood of setting an unlawful budget for that year (where expenditure exceeds income to an unsustainable degree). The Council states in the 2023/24 budget report: “we do not have enough money – we estimate reserves will run out part way through 2024/25.”

On 24 October 2023, City Mayor Peter Soulsby wrote to the Secretary of State for Levelling Up, Housing and Communities to inform him of the serious budgetary pressures facing the council. The Mayor noted a Section 114 notice would be ‘almost inevitable’ before the 2025/26 budget.

# Financial sustainability

Managed Reserves Strategy	£m
As at 31 <sup>st</sup> March 2021	70.26
Contributed in 2021/22	+13.01
As at 31 <sup>st</sup> March 2022	83.27
Required for 2022/23 budget	(17.47)
Forecast 31 <sup>st</sup> March 2023	65.80
Additional funding identified	+8.50
Required for 2023/24 budget	(30.70)
Forecast 31 <sup>st</sup> March 2024	43.60
Required for 2024/25 budget	(61.0)
Shortfall to be funded from Emergency Balance	(7.1)

Table 2: The Managed Reserves Balance

Source: The 2024-25 budget

## Short-term risk management

There is evidence of the Council managing financial risks in the short term to seek to relieve these revenue pressures. This is an unsustainable position.

The Council has supported the revenue budget in recent years by drawing substantially from reserves. Running down reserves has been identified by CIPFA as an indicator of an authority in financial stress. As acknowledged by both the Council and CIPFA, using reserves to finance a deficit only provides temporary relief but is not sustainable in the long term. The underlying cost pressures will continue into the future unless further action is taken. The Council acknowledged in our prior year report that it is currently not in a position to be able to replenish the reserves balance. The Council's saving plans also depend on a significant sum of one-off resources (including deleting posts).

The Council has introduced spending and workforce controls during 2023/24 in an attempt to manage the current forecast overspend.

- In November 2023, the Council introduced spending control measures designed to help manage the in-year budget pressures currently being experienced and to ensure the proper administration of financial affairs. As of 1 November 2023, prior approval by the Director of Finance, or a delegated officer, will be required for all spend on goods, works, and services of more than £5,000 (excluding VAT) (with a few exclusions). Consideration for approval will only be given to essential expenditure that is supported by the head of service. A short business case written by the officer making the spending request will be needed for projects up to £30,000. All above £30,000 will go to Strategic Procurement Panel. A purchase requisition must not be submitted on the financial system until approval has been received by the Director of Finance, or a delegated officer.
- The Council has also introduced workforce controls. All requests to recruit substantive and agency workers include additional scrutiny through the Approval to Recruit Board. Overtime Business Cases are to be approved for all above grade 7 overtime, Horaria (new requests and extensions) and job evaluations all require additional scrutiny.

These financial and workforce controls represent short term, unsustainable solutions to the greater issue surrounding the financial sustainability of the Council.

# Financial sustainability

## Other stress areas

Another area of budgetary stress is the statutory override currently providing relief for the Council's Dedicated Schools Grant (DSG) deficit. The override applies nationally and allows councils to keep deficits on spending for children with special educational needs and disabilities (SEND) off their balance sheets. The override is due to expire on 31 March 2026.

The Council is forecasting the DSG deficit to be £12.9m by the end of 2023/24. The statutory override only provides temporary relief for councils to manage their DSG deficits. When the statutory override expires, unless further government funding is provided then councils will be expected to cover the cost of their DSG deficits themselves. This would likely have to be met from unringfenced general reserves. The risk arises when many councils consider that their general reserves balance may be close to or less than the amount required to fund their DSG deficit. Many councils across the country have now become dependent upon the statutory override to continue functioning. With the statutory override set to expire in 2025/26, there is intense pressure for councils to devise a plan to manage the DSG deficit to mitigate the risk of funding the deficit from reserves and risk fully depleting general reserves balances.

The Council's DSG budget recorded a £3m overspend in 2022/23 resulting from unavoidable overspends driven by demand. The cumulative balance on the DSG reserve is now £6.6m. The Council have developed a deficit recovery plan as all local authorities are required to do, however, this still shows there to be intense pressure on the budget and the Council note the situation to be 'irretrievable without further government support.'

Another CIPFA indicator of financial stress is unplanned overspends. The Council has overspent against its budget for 2022/23 and is forecasting a significant overspend in 2023/24. The Council's previously strong budget management avoided habitual overspends but the authority is no longer able to manage its spend within its financial envelope.

## Exploring options

The Council has considered what other usable reserves could be made available to help bridge the shortfall and have identified an earmarked revenue reserve known as the "capital fund". This holds a balance of £99m and comprises set aside revenue monies to fund capital projects.

It could potentially be repurposed to support the revenue budget, but this would be predicated on having a robust asset disposals strategy in place, such that the Council could rely on capital receipts for its capital budget rather than these previously set aside monies.

It is also worth noting that these considerations are in their infancy: work has not been progressed (in respect of producing detailed plans for how this capital fund could be used, for example), beyond identifying the reserve as a potential source of funding. The Council are currently considering asset disposals as part of the set of actions being taken to manage the 2024/25 budget. The Council are in the process of performing an asset review to determine which capital receipts could fund the capital programme gap or could be released for revenue funding. A review of all assets is being undertaken to assess which can and should be sold (and estimate the potential sale price). This will likely lead to a revitalized asset disposal programme. The review will not be limited to buildings & land but will include heritage assets. The Council will interrogate options for all assets and systematically work through options for disposals in multiples of £10m up to (but not limited to) £100m on an agreed priority basis and then create a timeline for disposals. The generated capital receipts can then support the capital programme and revenue budget if necessary.

## Conclusion

The Council finished 2022/23 with a £4m overspend that was serviced by the Managed Reserves balance. The Council is presently forecasting a £10m overspend in 2023/24 which is also set to be serviced by reserves. The Council is forecasting to run out of reserves specifically identified to support the budget part way through 2024/25 and has contemplated the probability that it will be unlikely to set a lawful budget for 2025/26 unless solutions are found. The City Mayor has written to the Secretary of State for the Department of Levelling Up, Housing & Communities seeking support. The Council is undoubtedly in financial difficulty, further demonstrated by the commencement of an asset disposals review to consider the sale of assets to service the revenue budget through release of revenue reserves previously set aside for capital projects.

The running down of reserves without a plan to replenish, the introduction of spending and workforce controls, unplanned overspends, the dependency on the statutory override to manage the DSG deficit and consideration of asset disposals to fund revenue budget pressures demonstrate that the Council is in a financially perilous position. This is most greatly demonstrated by the Mayor's letter to the Secretary of State. These factors have led us to conclude that there is a significant weakness in the Council's arrangements to secure financial sustainability in the medium term and have raised a key recommendation.

# 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
- monitors and ensures appropriate standards, such as meeting legislative/regulatory requirements and standards in terms of staff and member behaviour (such as gifts and hospitality or declaration of interests) and where it procures and commissions services.

## Risk management and internal controls

In March 2023, the Council presented the Risk Management Statement and Strategy to the Governance & Audit Committee. This forms an important part of the council's governance arrangements by providing an effective framework for Leicester City Council (LCC) to manage and respond to key risks facing its services and to support the delivery strategic priorities and objectives.

The Corporate Risk Management Policy Statement and Strategy sets out the council's attitude to risk, the approach to be adopted to manage the challenges and opportunities facing officers. The Council's Risk Management Policy and Strategy are reviewed and updated annually. To date, improvements have been made in strengthening risk management arrangements within the Council's diverse business units. In line with the agreed corporate approach, a review of the Risk Policy and Strategy has taken place to reflect any developments made in the industry and to support internal risk procedures/processes. There have been no major developments that would affect the Council's risk management process. However, an internal development has been made to the Strategic Risk Register (SRR) and the way strategic risks are captured.

The Risk Management Policy Statement and Strategy 2023 outlines the risk management process from risk identification, assessment, management, recording, monitoring, reviewing and communicating/consulting. Risks are assessed using an impact and likelihood scoring. Risks higher than 15 require immediate management action.

At the 22 November 2023 Governance & Audit Committee, the Council presented both the Strategic and Operational Risk Registers.

The Strategic Risk Register (SRR) provides a summary of the strategic risks facing the council which may affect achievement of the strategic objectives of the council. The Operational Risk Register (ORR) provides a high-level summary of the operational risks, which may affect day-to-day divisional and operational service delivery. The operational risk register are those risks identified and assessed by Divisional Directors as having a risk score of 15 or above. The PESTLE approach, a mnemonic which stands for 'Political, Economic, Social, Technological, Legal and Environmental', has been implemented for the SRR as a framework for considering the wider context and environment, and the risks that this gives rise to.

The November SRR contained 15 risks which we consider to be an appropriate number of risks.

The new approach to risk management has seen the Council change the presentation of the risk registers. Each strategic risk is mapped to a category of PESTLE. A summary of the SRR in relation to each theme is set out. Individual risk owners for the SRR are strategic directors and/or those with statutory roles e.g. Monitoring Officer or Section 151 (this is to ensure robust strategic ownership and oversight of the most significant risks facing the organisation). Each risk in the summary is supported by a more detailed risk control action plan capturing existing risk controls and proposed further actions/controls (unless the risk strategy is to tolerate the risk without further controls).

Risks have a reference number, summary description, risk score with existing controls, a RAG rating, a risk response, risk owner, risk score at 31 May 2023, the variance since the last cycle, the total number of high risks (from the operational risk register) and the ORR risk reference.

We raise an improvement recommendation for the Council to set out the key relevant controls and sources of assurance for each risk in the SRR. These are not currently set out in the latest presentation of the risk registers.

# Governance

## Internal audit and counter fraud

The Council's internal audit function was delegated to Leicestershire County Council in 2017. The Council had an adequate internal audit service in place during 2022/23. Internal audit delivered a sufficient amount of its annual plan, delivering 95% of planned audits. Internal audit concluded a reasonable assurance audit opinion for 2022/23 demonstrating that there are no significant gaps of assurance in the Council's framework for internal controls.

The Head of Internal Audit Service (HoIAS) prepares a risk based internal audit plan to determine the priorities of the internal audit activity, consistent with the Council's goals. The 2023/24 Internal Audit Plan was presented to the September 2023 Governance & Audit Committee.

The Governance & Audit Committee considered the Internal Audit annual plans and monitored delivery and outcomes during the year. The Committee also received the Internal Audit annual reports and opinion on the adequacy and effectiveness of the Council's framework of governance, risk management and control. The Committee reserves the right to summon relevant officers to attend its meetings to discuss in more depth specific issues raised by Internal Audit reports. This has helped to maintain the profile of the Committee and its role in promoting adherence to procedures and improved internal control.

Through discussion with internal audit, we learnt that the last time they had been externally assessed for compliance with Public Sector Internal Audit Standards (PSIAS) was five years ago.

The service is in the process of organising to be externally assessed again soon.

The Council has adequate arrangements in place in respect of the prevention and detection of fraud. The Council have an Anti-Fraud, Bribery and Corruption Policy 2022-25 in place. This was reviewed in November 2022 alongside the Whistleblowing Policy. The Council also introduced an Anti-Money Laundering Policy during 2022. The Governance & Audit Committee received the Counter Fraud Annual Report for 2022/23 and 2023/24 Mid Year Update at the 22 November 2023 meeting. The report informs the Committee of the work carried out by the Corporate Investigations Team during 2022/23 and 2023/24 half year April 2023 to September 2023. The work of the Corporate Investigations Team includes proactive data matching (such as Right to Buy applications) and reactive referrals received relating to suspected financial irregularities. These two work types cover the majority of activity. The Council continues to benefit from membership of the National Anti-Fraud Network (NAFN), which alerts member authorities to the latest phishing emails and frauds. These alerts are shared across the Council to ensure awareness is raised and efforts to prevent attempted fraud are enhanced. They are a useful fraud prevention tool as they help to ensure new emerging risks nationally are highlighted.

## Audit committee effectiveness

The purpose of the Governance & Audit Committee is to provide an independent and high-level focus on the adequacy of governance, risk and control arrangements at the authority. The committee's role in ensuring that there is sufficient assurance over governance, risk and control gives greater confidence to those charged with governance that those arrangements are effective.

We recognise that since the May 2023 elections the make-up of the Committee has changed. We make these comments irrespective of specific make-up and rather of the Governance & Audit Committee in theory.

In terms of reporting arrangements, CIPFA guidance *Audit Committees: Practical Guidance for Local Authorities and Police* (CIPFA, 2022) recommends that the Audit Committee report to full Council: 'the audit committee is an advisory committee on behalf of those charged with governance. As a result, the committee should report to the full council, fire authority or other local government governing body. It is not appropriate to be a sub-committee of the cabinet, scrutiny or policy and resources committee.'

The Terms of Reference of the Governance & Audit Committee for Leicester City Council state that the Committee reports to full Council, therefore complying with CIPFA's good practice recommendation.

To discharge its responsibilities effectively, CIPFA guidance recommends the committee meet at least four times a year. Leicester City Council's Governance & Audit Committee echoes this by including this requirement in its Terms of Reference agreed on 19 July 2023.

In 2022/23, the Committee met 5 times. As stated in the Audit & Risk Committee annual report, the meetings were properly constituted and quorate. The Director of Finance or the Deputy Director of Finance and Leicestershire County Council's Head of Internal Audit and Assurance Service attended meetings of the Committee. In addition, and in the interests of providing the full range of legal, constitutional and financial advice and expertise, the Committee was supported by the City Barrister & Head of Standards or their representatives.

# Governance

CIPFA guidance recommends that an authority reports annually on how the Audit Committee has complied with the position statement, discharged its responsibilities and include an assessment of its performance.

In the Terms of Reference, the Governance & Audit Committee states that it will undertake an annual review of its effectiveness and report this to full Council, in line with the guidance. This is also recommended in the Redmond Review (2020).

There is currently one independent member of the Governance & Audit Committee. The new external independent member has attended meetings since September 2022. While this is certainly positive and takes on the Redmond Review (2020) recommendation of including one independent member, CIPFA guidance (2022) recommend the committee includes two co-opted independent members. We raise an improvement recommendation that the Council considers the merits of appointing an additional appropriately qualified independent member to the Governance & Audit Committee.

As per the CIPFA (2022) guidance, the Council 'should establish a programme of support that involves induction training, regular briefings and updates as well as formal training programmes.' As stated in the Governance & Audit Committee Annual Report, arrangements continue to be made for members for training on relevant topics. Members received a bespoke training in November facilitated by a specialist from CIPFA.

## Budget setting and monitoring

The Council has appropriate budget setting arrangements. A local authority's budget provides the financial basis for the allocation of resources, the delivery of services and the management of the organisation over the period of one financial year.

Authorities are required by statute to set and agree an income and expenditure prior to the beginning of the financial year to which the budget relates.

The Council sets a three-year medium term plan every year with the Council Tax resolution being approved by Full Council in the February prior to the start of the financial year. The MTFP is updated annually.

The 2023/24 budget was approved by Full Council in February 2023.

By law, the role of budget setting is for the Council to determine:

- a) The level of council tax;
- b) The limits on the amount the City Mayor is entitled to spend on any service ("budget ceilings");

Budget ceilings are prepared for each service, calculated as follows:

- a) The starting point is last year's budget, subject to any changes made since then which are permitted by the constitution (e.g. virement);
- b) An allowance for non-pay inflation is added to the budgets for independent sector adult social care (2%), foster care (2%) and the waste PFI contract (RPI, in line with contract terms). Apart from these areas, no allowance was made in the 2022/23 budget for non-pay inflation. Should the levels of inflation outstrip the budget, the contingency was available if required;

- c) Unavoidable growth is built into the budget. This includes provision for the increase in employers' national insurance rates which the Government has announced, to pay for social care reform;
- d) Where savings are achievable through management action, these are deducted.

The role of the Council is to determine the financial envelopes within which the City Mayor has authority to act. Notwithstanding the way the budget has been constructed, the law does not enable the Council to determine how the City Mayor provides services within these envelopes: this is within their discretion.


There is adequate internal and external engagement in the budget setting process. The Council send out consultations to key partners in the budget setting process. The responses are highlighted in Appendix 6 of the budget. For example, Leicester Primary Partnership commented on the 2022/23 budget that it supported the plan for a lobbying effort to central government and suggested utilising comparisons with similar authorities to identify any lessons learnt. Financial plans for the year are reviewed and approved by budget holders and by the senior leadership team.

The Council continuously reviewed budgets throughout the year and took savings once identified which helped reduce the scale of expected future deficits. Though there are generally appropriate arrangements in place, we could not find evidence of scenario modelling. We raise an improvement recommendation encouraging the Council to include within its regular in-year and outturn reports to the Overview Select Committee and/or Governance & Audit Committee a clear forecast for the year-end outturn with scenarios at a best, worst and most likely.

## Conclusion


We are satisfied with the Council's governance arrangements. We have raised three improvement recommendations relating to risk management, Governance & Audit committee arrangements and budget setting.

# Improvement recommendations

Improvement Recommendation 1	We raise an improvement recommendation to improve the presentation of the Strategic Risk Register by including the key relevant controls and assurance and setting these out for each strategic risk reported to Governance & Audit.
Criteria impacted	 Governance
Auditor judgement	Our work has enabled us to identify a weakness in arrangements which we do not consider to be significant, but have raised a recommendation to support management in making appropriate improvements.
Management comments	Accepted, and the presentation of future reports will be adapted to included key relevant controls & assurance for strategic risks.


Progressing the actions management has identified to address the recommendations made will support the Council in addressing the improvements identified from our work. We consider that the timescales provided by management are appropriate and encourage the Audit Committee to monitor progress of implementation to gain assurance over the arrangements in place. The range of recommendations that external auditors can make is explained in Appendix B.

# Improvement recommendations

Improvement Recommendation 2	We recommend that the Council consider the merits of appointing an additional independent member to the Governance & Audit Committee as per the CIPFA (2022) guidance Audit Committees: Practical Guidance for Local Authorities and Police.
Criteria impacted	 Governance
Auditor judgement	Our work has enabled us to identify a weakness in arrangements which we do not consider to be significant, but have raised a recommendation to support management in making appropriate improvements.
Management comments	This recommendation will be considered.

Progressing the actions management has identified to address the recommendations made will support the Council in addressing the improvements identified from our work. We consider that the timescales provided by management are appropriate and encourage the Audit Committee to monitor progress of implementation to gain assurance over the arrangements in place. The range of recommendations that external auditors can make is explained in Appendix B.

# Improvement recommendations

Improvement Recommendation 3	We raise an improvement recommendation encouraging the Council to include within its regular in-year reports to the Overview Select Committee and/or Audit Committee, alongside its year-end forecast outturn, consideration of best and worst-case outturn scenarios in relation to the Council’s key financial risks/mitigations.
Criteria impacted	 Governance
Auditor judgement	Our work has enabled us to identify a weakness in arrangements which we do not consider to be significant, but have raised a recommendation to support management in making appropriate improvements.
Management comments	This recommendation will be considered.

Progressing the actions management has identified to address the recommendations made will support the Council in addressing the improvements identified from our work. We consider that the timescales provided by management are appropriate and encourage the Audit Committee to monitor progress of implementation to gain assurance over the arrangements in place. The range of recommendations that external auditors can make is explained in Appendix B.

# 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

The Council has arrangements in place to use performance information to assess performance and identify areas for improvement.

As per the Constitution, it is the role of Scrutiny Committees to hold Members to account by reviewing and scrutinising policy and practices. This includes reviewing and scrutinising the decisions made by and the performance of the City Mayor, Executive, Committees and Council officers. Scrutiny Committees also 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 and question the City Mayor, members of the Executive, committees 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 Council defines outcomes in terms of sustainable economic, social and environmental benefits through the City Mayor's strategic vision which contain a number of key pledges and which have been regularly scrutinised:

- A Fair City
- Homes for All
- Connecting Leicester
- Sustainable Leicester
- Health & Care
- Lifelong Learning
- A City to Enjoy
- A Safe and Inclusive Leicester

In February 2023, the Overview Scrutiny Committee (OSC) received a report titled 'Key Strategic Priorities' which asked the Committee to comment on progress in relation to the Council's progress against the key strategic priorities and commitments of the Council. The report showed a summary of progress against the key strategic priorities based on each theme for 2019 to 2023. Of the 96 original commitments, 76% had been classed as completed and 19% were still in progress, 5 of the commitments were no longer appropriate. The commitments were broken down into 9 theme areas.

Some of the key outcomes from the Mayor's pledges in 2022/23 have been: investment in regeneration schemes, including three significant levelling up schemes, investment in council housing, work with local businesses and residents to support them through the cost of living crisis.

While the Council has performed well against its strategic priorities for 2022/23, we raise an improvement recommendation. We note that the Council do not currently publicly report on progress against each key performance indicator (KPI) linked to its key strategic priorities. At present, the performance reporting provides an overall summary of progress, informing users of the percentage of commitments achieved versus not achieved. Users therefore do not gain an understanding of which of the commitments the Council is performing well in versus those it is performing less well in. We recommend including, in the least as an appendix, greater detail on the individual performance indicators. The Council clearly have a suite of key performance indicators against which they measure performance. These are presumably aligned to its strategic objectives. These are known internally but are not currently shared publicly/externally.

# Improving economy, efficiency and effectiveness

We now recommend that the Council:

- publicly explain how these indicators are derived (e.g. statutory obligation);
- for each KPI, outline a performance target which meets the service quality the Council wishes to deliver;
- for each KPI, state performance against this target, how the performance has changed over time and consider benchmarking against near neighbours (NNs) as appropriate.

## Partnership working

The Council takes a proactive approach to partnership working and identifying potential stakeholders to engage with.

Integrated Care Systems (ICS) were created as part of the Health and Care Act 2022 and became statutory from July 2022. Upper tier and unitary Local Authorities are required to be members of ICSs as key partners. NHS Leicester, Leicestershire and Rutland (LLR) is the Integrated Care Board (ICB) for LLR. The ICB began operating on 1 July and replaced the Leicester City, East Leicestershire and Rutland and West Leicestershire clinical commissioning groups. The role of the ICB is to develop a plan to meet the health needs of the population and to arrange and manage the budget for the provision of NHS services in LLR. The Council works alongside ICB partners to support the vision for a healthier place with healthier people and healthier futures.

Community Safety Partnerships were introduced by Section 6 of the Crime and Disorder Act 1998 and bring together local partners to formulate and deliver strategies to tackle crime and disorder in their communities. Responsible authorities that make up a Community Safety Partnership are the Police, Fire and Rescue Authority, Local Authorities, Health Partners, and Probation Services. They work on the principle that no single agency can address all drivers of crime and antisocial behaviour, and that effective partnership working is vital to ensuring safer communities. Leicester's Community Safety Partnership renewed its Community Safety Plan for 2021 to 2024. This plan sets out the partnership's strategic priorities and delivery themes and how the partnership brings together people, agencies and resources to make Leicester a safer place to live, work and visit.

One of the strategies pursued by the Community Safety Partnership surrounds the issue of safer night time economies for women. This was discussed in the 'Enhancing Women's Safety in Leicester' report presented to the March 2022 Overview Select Committee. The partnership has been supporting a safer Leicester for women and girls over a number of years. It has been through the work of the Safer Leicester Partnership that Leicester City Council for example, achieved purple flag status in 2019/20.

The Council also manage funds for the Combined Fire Authority and the Leicester & Leicestershire Enterprise Partnership. Reporting on the management of these funds is via the Treasury Management reports and updates which are taken to Overview Select Committee twice a year. It is important to note that as of 1 April 2024, central government has ceased funding for LEPs, leading to their abolishment.

## Procurement

The Council has Contract Procedure Rules which govern the making of contracts for and on behalf of the Council. The CPRs form part of the Council's Constitution and is reviewed regularly.

There is also a Sustainable Procurement guide to aid procurement and contract management.

The Council's Contract Procedure Rules require an annual report after each financial year to the Executive and to the Governance and Audit & Committee with certain information on the procurement processes undertaken in that financial year. The report informs Committee members on the activity of the procurement function of the council (which comprises three specialist procurement teams: Procurement Services, DDaT and ASC Procurement) over the previous financial year and evidence compliance with the requirements of the Contract Procedure Rules.

The revised Contract Procedure Rules were approved on 19th March 2020. As per the Council's Contract Procedure Rules, approved in 2020, the Procurement Plan is published on the Council's Open Data website for all to view and updated regularly rather than being published only annually. It is also wider in scope, including contracts from £5,000 upwards and looking two years ahead where possible. The Contract Procedure Rules require the Head of Procurement to report a summary of waivers (not exemptions) of the Rules to the Executive and Audit & Risk Committee. The increase over the last few years due have been Covid related and have reduced now this has settled down. The decrease is also because of a more robust challenge to all waivers and exemptions submitted.

# Improving economy, efficiency and effectiveness

Waivers in 2021/22 were 62 and valued at total £39m and in 2022/23 this has decreased to 40 waivers with total value £6m.

The Governance & Audit Committee also have responsibilities with regard to procurement. The Committee must receive and note the annual report setting out the Council's performance against the Procurement Plan and compliance with Contract Procedure Rules (including data on waivers), the Committee considers any proposals for changes to the rules to be made to full Council and review any changes to the rules made by the City Barrister or any changes to thresholders and seeks assurance that the Council has appropriate arrangements to identify and manage risks, ensure good governance, and obtain assurance on compliance in its procurement activity. This is outlined in the Governance & Audit Committee's Terms of Reference.

## Conclusion

We are satisfied with the Council's arrangements to secure economy, efficiency and effectiveness. We raise one improvement recommendation relating to performance information and using information to improve.

The Council has appropriate arrangements in place for performance monitoring. Partnership working continues to be operating effectively. The procurement function also appear to be functioning adequately.



# Improvement recommendations

Improvement  
Recommendation 4

We note that the Council do not currently publicly report on progress against each key performance indicator (KPI) linked to its key strategic priorities. At present, the performance reporting provides an overall summary of progress, informing users of the percentage of commitments achieved versus not achieved. Users, therefore, do not necessarily gain an understanding of which of the commitments the Council is performing well in versus those it is performing less well in. We recommend including, in the least as an appendix, greater detail on the individual performance indicators. The Council clearly have a suite of key performance indicators against which they measure performance. These should be aligned to its strategic objectives. These are known internally but are not currently shared publicly/externally. We now recommend that the Council:

- publicly explain how these indicators are derived (e.g. statutory obligation);
- for each KPI, outline a performance target which meets the service quality the Council wishes to deliver;
- for each KPI, state performance against this target, how the performance has changed over time and consider benchmarking against near neighbours (NNs) as appropriate.

Criteria impacted



Improving economy, efficiency and effectiveness

Auditor judgement

Our work has enabled us to identify a weakness in arrangements which we do not consider to be significant but have raised a recommendation to support management in making appropriate improvements.

Management comments

Agreed the Council will review reporting of KPIs in relation to the Corporate Delivery Plan.

Progressing the actions management has identified to address the recommendations made will support the Council in addressing the improvements identified from our work. We consider that the timescales provided by management are appropriate and encourage the Audit Committee to monitor progress of implementation to gain assurance over the arrangements in place. The range of recommendations that external auditors can make is explained in Appendix B.

# Follow-up of previous recommendations

Recommendation	Type of recommendation	Date raised	Progress to date (information provided by the client)	Addressed?	Further action?
<b>Outstanding from 2020/21 Auditor's Annual Report</b>					
1 Consideration should be given to more formal, explicit monitoring, at a Member level, of the extent to which proposed savings are realised.	Improvement	March 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 for these. The COO will meet regularly with directors to hold them to account for service delivery.	No	The recommendation is outstanding.
<b>From 2021/22 Auditor's Annual Report</b>					
1 <b>Use of reserves</b> 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.	Improvement	September 2023	We recognise the importance of setting balanced budgets. Plans are currently being reconsidered in light of the significant deterioration experienced in our financial position.	No	Key recommendation 1 raised in 2022/23 report. The key recommendation now supersedes this improvement recommendation.
2 <b>Savings</b> 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.	Improvement	September 2023	We recognise the importance of setting balanced budgets. Plans are currently being reconsidered in light of the significant deterioration experienced in our financial position.	No	Key recommendation 1 raised in 2022/23 report. The key recommendation now supersedes this improvement recommendation.

# Opinion on the financial statements



## Grant Thornton provides an independent opinion on whether the Council's financial statements:

- give a true and fair view of the financial position of the Council as at 31 March 2023 and of its expenditure and income for the year then ended, and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of practice on local authority accounting in the United Kingdom 2022/23
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

We conducted our audit in accordance with:

- International Standards on Auditing (UK)
- the Code of Audit Practice (2020) published by the National Audit Office, and
- applicable law

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

## Audit opinion on the financial statements

We are currently in the process of completing our audit of your financial statements. We anticipate being able to issue our opinion in April 2024. From our work completed to date we anticipate issuing an unqualified audit opinion. We report our detailed findings in our final Audit Findings Report (AFR). We took a draft AFR to the Governance & Audit Committee on 22 November 2023 and propose to take a final AFR to the 18 April 2024 meeting and summarise our conclusions in a final version of this report once our work is complete.



# Opinion on the financial statements

## 2022/23

### Audit opinion on the financial statements

As noted on the previous page, we have substantially completed our audit of your financial statements and propose to issue an unqualified audit opinion, following the Governance & Audit Committee meeting on 18 April 2024.

### Other opinion/key findings

We anticipate issuing unmodified opinions in respect of other information.

We do not anticipate reporting any matters by exception.

### Audit Findings Report (AFR)

We took a draft AFR to the Governance & Audit Committee on 22 November 2023 and propose to take a final AFR to the 18 April 2024 meeting. The key findings to date are summarised below.

### 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 is below the threshold requiring detailed audit procedures. We propose to issue our assurance statement to the NAO alongside our audit opinion on 18 April 2024.

### Preparation of the accounts

The Council published draft accounts on 2 June 2023, very slightly after the national deadline of 31 May.

We started our audit in line with our agreed timeline with the Council. As noted opposite we have continued to encounter significant difficulties in our audit of the Council's Property, Plant & Equipment valuations, specifically its other land and buildings, which are valued by the Council's internal valuation team. This year we have also identified a number of errors in our sampling which has led to additional work. This has extended the overall timeline of the audit but we have continued to work constructively with the Council to bring the audit to a conclusion.

### Issues arising from the accounts:

At the time of writing, the impact of the audit adjustments on the statement of financial position is £27.8m. There will be an impact on the Council's reported net expenditure position but, through the way that the local government statutory accounting framework works, not on the general fund (and hence not on resources available for services).

There are also misstatements we have identified from our work, primarily in the areas of recording income in the incorrect year, PP&E revaluations and valuations, capital additions and school balances, that the Council are not minded to amend the accounts for, which have a net impact on the comprehensive income and expenditure statement of £6,327k.

In our previous Audit Findings Report, we noted that there had been delays to the completion of the audit with queries that were still outstanding, most notably in respect of Property, Plant and Equipment (PP&E). This work has now been completed, however we have been reporting issues in the valuation process since 2019/20, recommending each year that the Council improve in this area and it is disappointing to have such findings recur. This was due to several factors, but particularly a change in personnel, coupled with a lack of documentation, has led to the valuations team redoing an element of the valuation work, as the previous work could not be supported.

Additionally, the identification of a number of errors in our sampling, has led to additional work, and in some cases, extended testing in the areas of valuation of council dwellings, grants, debtors, additions, expenditure completeness, FTE data and journals.

To date there are no matters of which we are aware that would require modification of our audit opinion, subject to review of the final version of the accounts and consideration of the total unadjusted misstatements in line with our materiality threshold.

We have concluded that the other information to be published with the financial statements, is consistent with our knowledge of your organisation and the financial statements we have audited.

# 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.

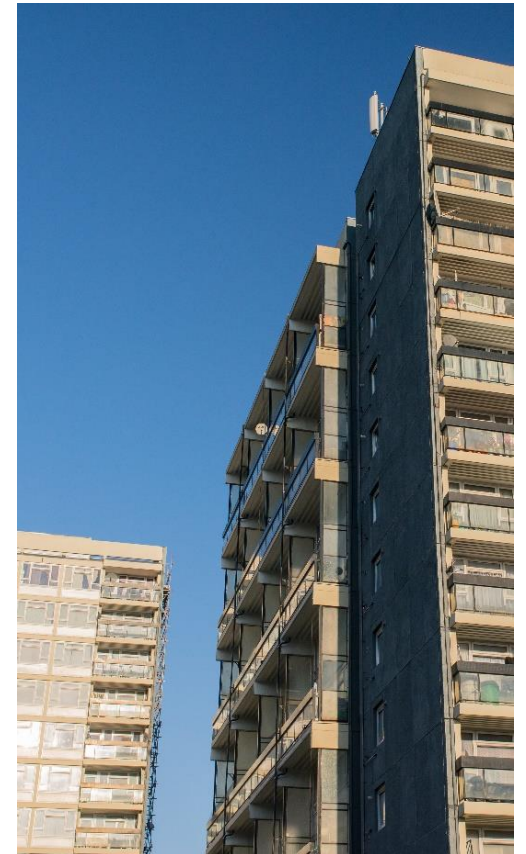
Financial statements are the main way in which local public bodies account for how they use their resources. Local public bodies are required to prepare and publish financial statements setting out their financial performance for the year. To do this, bodies need to maintain proper accounting records 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) 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 A1

# 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 [Our constitution \(leicester.gov.uk\)](https://leicester.gov.uk).

### 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 21 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.

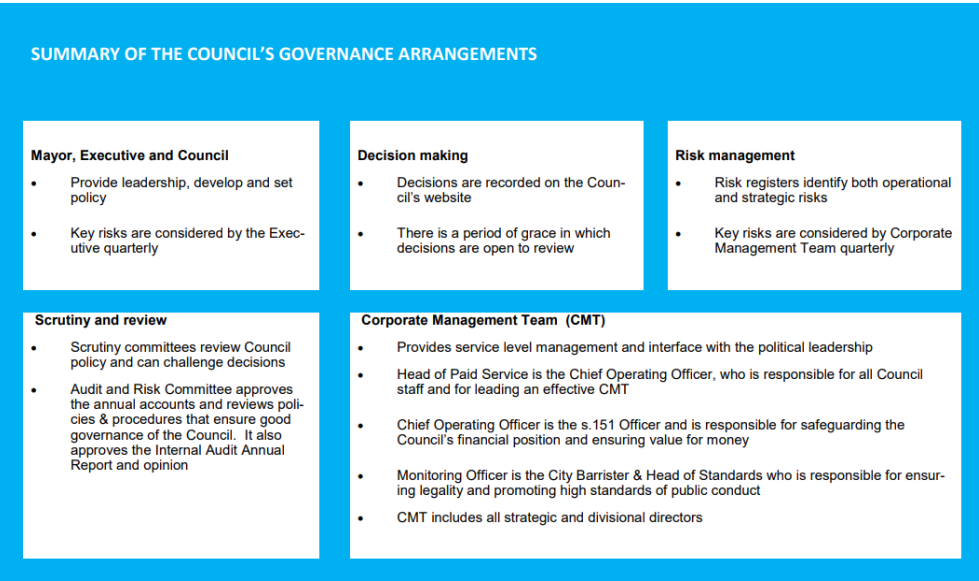
### How the Council is scrutinised

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 six 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).



# Appendix B:

# 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(s)
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 the Council’s 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’.	Yes	6
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.	No	17 to 19, 23

