

Auditor's Annual Report

Leicestershire County Council

2021/22

March 2023



Contents



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

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



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

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Executive summary



Value for money arrangements and key recommendation(s)

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

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

Criteria	Risk assessment	2020/21 Auditor Judgment	2021/22 Auditor Judgment	Direction of travel
Financial sustainability	Risk 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 made.	↓
Governance	No risks of significant weakness identified	No significant weaknesses in arrangements identified, but two improvement recommendation made	No significant weaknesses in arrangements identified, but three improvement recommendations made.	↔
Improving economy, efficiency and effectiveness	No risks of significant weakness identified	No significant weaknesses in arrangements identified, but five improvement recommendations made	No significant weaknesses in arrangements identified, but two improvement recommendations made	↑

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

Executive summary



Financial sustainability

Leicestershire County Council has a good track record of sound financial management. We are satisfied that the Council had appropriate arrangements in place to manage the financial resilience risks it faced with regard to budget setting and the medium term financial plan during 2021/22. We note that there remains uncertainty around the plans to mitigate the funding gaps in future years. The Council will need to ensure it can provide assurance of its ability to plan and deliver on its savings plans.

We also note that the Council has a significant Dedicated Schools Grant (DSG) deficit. The Council will need to ensure it takes appropriate actions to reduce its cumulative SEN deficit.



Governance

Leicestershire County Council has a clear governance framework in place which includes a documented Risk Management Strategy and robust budget setting and monitoring procedures. We have not identified any areas of significant weakness in the Council's arrangements with regard to managing risk, setting ethical standards, internal control and decision making. We have made some improvement recommendations to assist the Council in developing and embedding its arrangements.



Improving economy, efficiency and effectiveness

Leicestershire County Council has a well developed performance management framework in place which provides clear and succinct reporting to members. We have not identified any areas of significant weakness in arrangements with regard to improving economy, efficiency and effectiveness. We have made two improvement recommendations.

We have also provided information from our benchmarking exercise.



We have not yet completed our audit of your financial statements. We anticipate completing our audit in February 2023.



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. We anticipate issuing an unmodified opinion in March 2023.

Statutory recommendations

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

Provide brief details of what was issued and why.

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.

Provide brief details of what was issued and why.

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 apply to 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:

We did not issue an Advisory notice.

- 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.

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 apply for a judicial review.

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



Governance

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



Improving economy, efficiency and effectiveness

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



Our commentary on the Council's arrangements in each of these three areas, is set out on pages 7 to 31. 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.

Outturn 2021/22

The County Council is operating in an extremely challenging financial environment following a decade of austerity and spending pressures, particularly from social care and special education needs. The financial position in 2020/21 and 2021/22 has been severely affected by Covid-19 and the on-going financial impacts of the pandemic are still not fully understood. Despite these pressures, the Council has continued to manage its financial position and deliver a balanced outturn. The County Council approved the 2021/22 to 2024/25 Medium Term Financial Strategy (MTFS) in February 2021. The outturn position at 31st March 2022 is an underspend of £7.9 million against a total net revenue budget of £399 million, that is approximately -2% variance.

There were significant budget overspends within Adults and Communities in 2021/22, which were further exacerbated by the ongoing impact of Covid-19 on demand led commissioned:

- Residential Care and Nursing overspend £11.7 million. This comprises:
 - Residential Care expenditure: £10.4 million.
 - Residential Care Income reduction: £1.3 million.
- Homecare overspend £8.7 million.
- Supported Living overspend £5.7 million.

We noted that the ongoing impact of Covid-19 on demand led services is being validated and reviews of high-cost packages will continue to be undertaken.

Overspends within the total outturn were offset by additional grant funding and underspends across the Council. Children and Family Services Local authority budget reported an underspent position of net £3.7 million (net) which is equivalent to 4% on the revenue budget for 2021/22.

The £7.9 million underspend will be utilised in the following way:

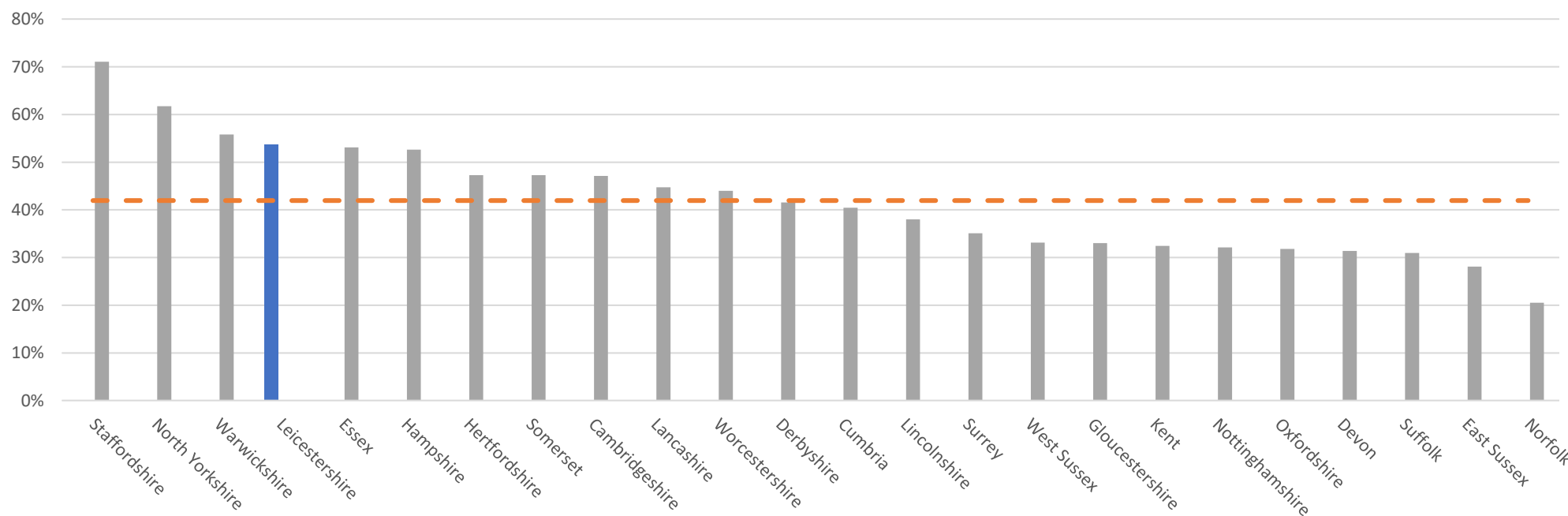
- Increasing the budget equalisation reserve for Early Years by £3.6 million
- Allocating additional £1.1 million to the Transformation fund and
- Providing an increased inflation risk provision of £3.224 million.

The General Fund Reserve stands at £18 million as at 31st March 2022, which represents 3.8% of the 2022/23 revenue budget, in line with the Council's earmarked funds policy and the MTFS approved in February 2022. The Council plans to increase the General Fund to £22 million by the end of 2025/26 to reflect increasing uncertainty and risks over the medium term and growth in the County Council's budget.

At 31st March 2022, the total level of General Fund and non schools earmarked reserves was £242.5 million. Using data from the 2021/22 statement of accounts, we have calculated the total level of General Fund and non-schools earmarked reserves to be 54% of net revenue budget. We have compared this data against other County Councils for information as shown in the table of the following page.

Financial Sustainability

General fund and non-schools earmarked general fund reserves as a percentage of net service revenue expenditure (%)



In providing this benchmarking data, it should be noted that the General Fund and non schools earmarked reserves total of £242.5 million includes committed reserves for example the capital financing (revenue) reserve at £111 million which is used to manage the timing of funds; slippage on capital schemes, the efficient management of maximising the use of other restricted capital funding, e.g. capital grants, s106s etc before applying revenue contributions to fund the capital programme. The fund is also used to hold one off balances that have been earmarked to fund, (and are included) against the approved four year capital programme (invest to save) to reduce and delay the need for borrowing.

Financial Sustainability

Medium Term Financial Strategy (MTFS)

The Council has a robust organisational approach to setting the annual budget, The MTFS is a rolling financial plan that is updated annually utilising the prior year budget assumptions and updating for known changes in expenditure and funding. This roll forward approach is a well-established methodology applied at the Council and across the sector.

There is good Member engagement during the budget setting process, with Member budget briefings and review of budget proposals by the Scrutiny Committees.

The financial planning undertaken demonstrates a prudent approach, with a recognition that future funding levels and demand remain uncertain. The Council therefore ensures that financial plans are constantly kept under review, with regular updates to Cabinet on its current position, emerging risks and forecast position.

Financial planning assumptions are set out and updated through the MTFS and considered by Members as part of the budget setting process. Assumptions include treatment of key expenditure drivers such as the pay award, inflation, and demographic and demand changes which are particularly acute in Adult's and Children's Services.

The MTFS clearly demonstrates its consideration of external pressures such as national funding changes, inflationary changes and service demand adjustments in addition to internal risks such as the achievement of savings.

The Council also has a well-established risk management strategy in place to identify financial and other risks. The MTFS is transparent and detailed on the risks facing the Council in both the short and medium term, as demonstrated in its reporting to Cabinet. Therefore members have a realistic picture of the pressures the Council is facing for future financial years.

In February 2022, Cabinet approved the Leicestershire County Council four year MTFS to 2024/25, which incorporates a revenue budget for 2022/23 totalling £471.7 million. The MTFS provided a balanced budget in 2022/23 based on a council tax increase of 2.99% and a savings requirement of £17.6 million.

Delivery of the MTFS requires total savings of £80 million to be made between 2022 and 2026. For 2023/24 the initial plan estimates a funding gap of £8 million after a savings requirement of £10.5 million, rising to a gap of £23.9 million in 2024/25 and £39.5 million gap in 2025/26.

In September 2022, the Council reported on its worsening short and medium term financial position in light of the economic climate and in particular rising rate of inflation. The MTFS anticipated a funding gap of £8 million in 2023/24 rising to £40 million by 2025/26, despite savings of £54 million being targeted. An initial review of the position in light of the emerging inflation levels suggested there was also a potential further funding gap of £3 million in 2022/23 and an increased gap of £28 million in 2023/24 rising to £71 million by 2025/26, as reported to Cabinet in June 2022.

The report highlighted that if Government support is not forthcoming the County Council's budget gap could even pass £135 million by 2026. It is inevitable that the £54 million of savings planned will have to increase significantly.

On 17th November 2022 the Chancellor of the Exchequer delivered the 2022 Autumn Statement. The draft Leicestershire County Council MTFS 2023/24 to 2025/26 was presented to Cabinet on 16th December. With increases in Council Tax and additional Government funding, the estimated £28 million funding gap in 2023/24 is now mitigated and the plan is presented with a balanced position, with a savings requirement of £13.3 million.

While the MTFS shows a balanced position for 2023/24, we note the ongoing challenging position the Council faces, with estimated shortfalls of £17 million in 2024/25 rising to £92m in 2026/27. There is a range of initiatives currently being developed by the Council aimed to bridge the gap. It is clear that significant additional savings will still be required on top of the £38.2 million that have been identified, £13.3 million of which are to be made in 2023/24. The Council is aware of this and a new MTFS including actions to address these shortfalls will be reported to Cabinet in February 2023.

The Council is not an outlier in its current position. However, Leicestershire remains the lowest funded county in the country which means that the Council's financial position continues to be extremely challenging. We have not reported a risk of significant weakness, the Council is well managed and has good arrangements in place for identifying current and future savings. However the MTFS funding gap in future years shows a significant increase, we have therefore included an improvement recommendation in recognition of the challenge the Council is facing.

See improvement recommendation 1.

Financial Sustainability

Medium Term Financial Strategy (MTFs)

As part of our planning work, we concluded there was a risk of significant weakness in arrangements for delivering financial sustainability:

- Identification of future savings: adequacy of the arrangements for identification of future savings to enable a balanced financial position to be delivered beyond 2022/23.
- Impact of pay and price inflation and demand pressures: the ability of the Council to adapt financial plans and secure savings required to counter the impact of price and pay inflation and demand pressures.

We have reviewed and considered the Council's arrangements in place during the year for monitoring and reporting on its short and medium term financial position. We noted that reporting has provided a clear and robust overview of its current and future position, including:

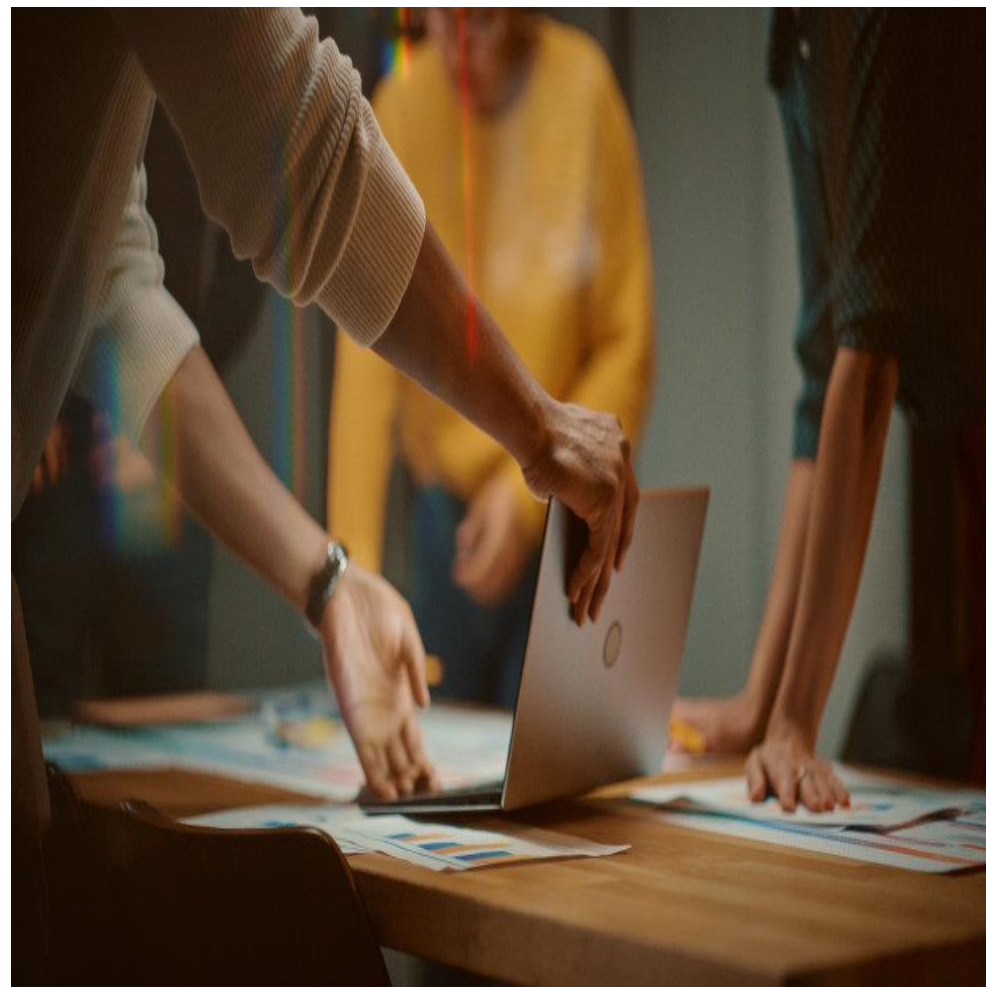
- the impact of the economic climate and in particular the rising rate of inflation;
- the arrangements and identification of future savings;
- plans for mitigating financial risk; and
- forecast outturn position and plans for delivering a balanced year end position.

At period 4, the Council was reporting a net forecast overspend of £13.6 million. The period 6 revenue budget monitoring exercise showed a net projected overspend of £8.5 million.

The 2022/23 outturn position is planned to be closed by the use of the MTFS Risks Contingency (£8m) and the balance being found from a combination of:

- review of reserves (including £3.1m set aside in the 2021/22 accounts towards inflation pressures);
- Introduction of spend controls; and
- restriction on inflation allocations to areas that could reduce the level of service provision

From our work carried out we have concluded that, in general, there are plans in place to address the funding gap for 2022/23 and beyond. We have therefore not reported a significant weakness within our report, in respect of those risks identified at the planning stage of our work.



Financial Sustainability

Dedicated schools grant

The overall DSG deficit is £24 million, an increase of £13 million from the start of the year. The main reason for the deficit is the significant pressures on SEND. The SEN High Needs Block budget remains under significant pressure, with an in year deficit of £11.2 million for 2021/22 against the budget of £82,805; a variance of 13.6%. The cumulative deficit at the end of 2021/22 was £29 million which is forecast to increase to £40 million by the end of 2022/23 and significantly more in later years. This is a major pressure for the County Council, and whilst the majority of Local Authorities are also in deficit, the pressure has been growing at a faster rate in Leicestershire than in many other areas. The increase in demand is also resulting in higher expenditure on the SEND home to school transport budget. The Authority is also experiencing an increasing number of appeals and complaints.

The Authority has been invited to join a Department for Education (DfE) initiative along with 54 other local authorities. The Delivering Better Value in SEND programme has been set up by the DfE to support authorities such as Leicestershire to reduce deficits. The DfE also run a 'safety valve' programme for those authorities with higher deficits.

Nationally there is significant concerns about the sustainability of SEND services, the DfE's intention is to address issues within the SEND Green Paper but this has seen significant delays and has yet to report on actions to be taken following its consultation.

The DfE's three tiered intervention programme for LA's with DSG Deficits chooses the authorities entering into them based upon the DSG deficit expressed as a percentage of the total DSG. The authorities with the highest deficits enter the Safety Valve Programme, a further 55 authorities have been invited into the second level of intervention actions through the Delivering Better Value in SEND Programme and Leicestershire is in Tranche 1 of the programme. The DfE had invited Leicestershire to Tranche 2 of the programme but following discussions it has been possible to accelerate involvement to the earlier Tranche.

Leicestershire engaged Newton Europe to undertake a Diagnostic view of the High Needs position in January 2022. Following this and a competitive tender process, they have been engaged as a Strategic partner to deliver an ambitious programme of SEND reform through the Transforming Special Needs and Inclusion in Leicestershire (TSIL) Programme.

The TSIL is a wide ranging and ambitious programme of reform which has been reported through Cabinet and Scrutiny, a programme update is due at Scrutiny in March 2023 and a highlight report is provided to each. It is subject to robust governance through a range of groups – Benefits Monitoring Group, Benefits Monitoring Board, Core Steering Group, Programme Delivery Board, Contract Monitoring Board and Strategic Investment and Direction Board. Boards are chaired by a wide range of officers including the Director of Children and Family Services and the Director of Resources. Highlight reports are also presented to the Transformation Delivery Board.

The programme is supported by a Project Management Office provided through the Transformation Unit and resource with a wide range of officers from the Transformation Unit, Corporate Resources and Children and Family Services.

We acknowledge that there is an extensive work programme in place to address the deficit position, including regular contact and liaison with the DfE and DLUHC about SEN funding.

We have not raised a significant weakness in this area, but do consider this to be a risk to the future financial sustainability of the Council. The Council must ensure that the initiatives being undertaken are sufficient to address the scale of the issue and ensure that any proposed changes are implemented successfully.

See improvement recommendation 2.



Financial Sustainability

Efficiency Savings

We concluded that the Council has good arrangements in place for identifying current and future savings. Savings are worked through at both a directorate and executive level. “Savings Under Development” are included as an appendix to the MTFS which provides a full overview of potential savings schemes which may later be realised into actual savings plans. Savings Under Development are discussed through meetings between members and chief officers to assess their acceptability and whether these should be taken forward.

Oversight and monitoring of savings is provided by the Transformation Delivery Board (TDB). Our review of a sample of TDB papers confirmed the process in place with detailed information on the current and forecast position of the savings plan, in totality and broken down into individual schemes, with supporting narrative of any variance to plan.

The Council has a good track record of delivering savings. In February 2021, Cabinet approved the Leicestershire County Council four year MTFS to which incorporates a savings requirement of £9.4 million. For 2021/22 From review of the outturn savings plan we noted that the Council over-achieved on its savings plan for 2021/22 with a net outturn realisation of £10.2 million against the planned £9.4 million. For 2022/23 (as at period 7) the forecast at year end is an under delivery of £3m.

Delivery of the MTFS in future years is reliant on an increasingly challenging savings requirement. in addition to estimated funding gaps in place, the challenge facing the council is significant. The table below provides an overview of the worsening position in future years:

£million	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27
Source	2021/22 – 2024/5 MTFS	2022/23 – 2025/26 MTFS	Draft 2023/24 – 2026/27 MTFS			
Savings Plan	9.395	17.750	13.330	24.440	31.525	38.165
MTFS Shortfall (Funding Gap)	0	0	0	16.605	53.590	91.770
TOTAL Savings Required (Excluding DSG)	9.395	17.750	13.330	41.045	85.115	129.935

We have not reported a significant weakness in arrangements for 2021/22 as the savings plan was delivered. We have made an improvement recommendation to ensure savings plans continue to be robust in meeting the future funding challenges and will consider the risk again within our next review.

See improvement recommendation 1.

Financial Sustainability

Capital strategy and treasury management

In February 2021, the capital programme expenditure for 2021/22 proposed a total value of £125 million of works, maintaining a four year capital programme in the region of £450 million. The updated capital programme for 2021/22 totals £119m. This follows a review of the programme undertaken in July 2021 and approved by the Cabinet in September 2021.

The capital outturn for 2021/22 shows that overall there has been a net underspend of £36.4m compared with the updated budget. The most significant slippage being noted within the delivery of Environment and Transport schemes to the value of £20.3 million.

The net slippage will be carried forward to 2022/23 and future years to fund schemes that were not completed in 2021/22, with the net underspend added to the capital financing earmarked fund.

We note that it is not unusual to see significant slippage in the capital programme during the year and acknowledge that the Council plans to complete a review of the 2022-26 capital programme in light of delays to project delivery and emerging financial pressures (due to increasing costs of raw materials and inflation).

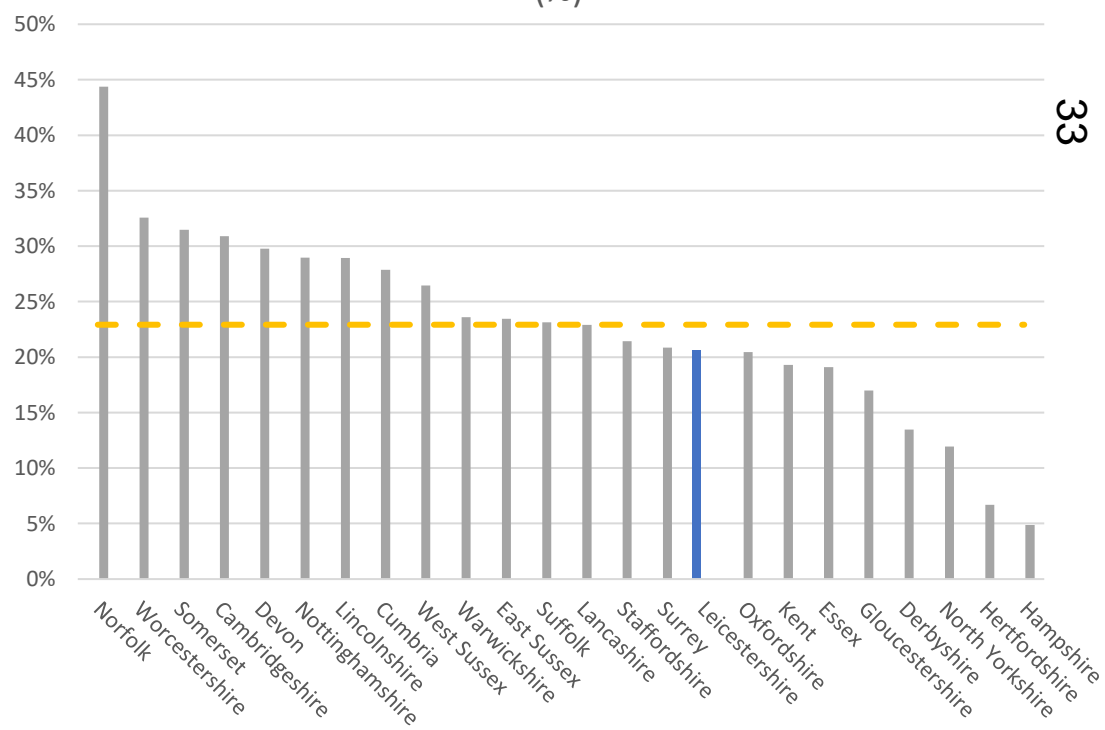
From our review of Committee papers, we can confirm there is regular and robust reporting and oversight of progress, position and emerging risks to the programme.

The capital financing requirement (CFR) measures the Authority's need to borrow for capital purposes. The total of non-current assets as at 31st March 2022 was £1.3 billion (as at 31st March 2021 £1.2 billion). The CFR was £214 million as at 31st March 2022 (£232 million as at 31st March 2021) and actual debt was £263 million as at 31st March 2022 (£263 million as at 31st March 2021). The difference between the CFR and the actual debt is a temporary overborrowed position, pending the repayment of debt. During 2021/22 no external loans were raised (£0 million 2020/21). We note that the overborrowed position is due to the Council not increasing its CFR for over a decade and changes in government policy to fund supported capital with grant payments, meaning that MRP is reducing the CFR and no additional borrowing by the Council. In addition the council has overpaid MRP voluntarily over the last decade by a total of over £60 million which has also reduced the CFR. The Council has also confirmed that due to the loan periods remaining that there are no meaningful opportunities to repay debt early.

We confirmed that the level of capital borrowing is within the Authority's 2021/22 Prudential Indicators that inform the Authority whether its capital investment plans are affordable, prudent and sustainable.

From our benchmarking carried out we noted that Leicestershire County Council, at 21%, is below average in terms of its levels of debt in comparison to other county council peers, ranking 16th out of 24 for borrowing as a proportion of long term assets. The Average long term borrowing as a proportion of long-term assets is 23%:

Long-term borrowing as a proportion of Long-term assets
(%)



Improvement recommendations



Financial sustainability

Improvement Recommendation 1

The Council should develop and implement:

- Mitigating actions to address the budget funding gaps identified in years 2024/25 to 2026/27.
- Robust savings plans which meet the future funding challenges.

Why/impact

Reducing spend and protecting reserves is important to ensure that the Council maintains financial sustainability in the longer term.

Summary findings

Revenue monitoring identifies significant pressures to the 2022/23 budget, the forecast overspend reported at period 6 was £6.1m which is expected to reduce further as the Council gets closer to year end and estimates are firmed up. Any remaining gap will be funded by the MTFS risks contingency, set aside at £8m.

While the draft 2023/24 – 2025/26 MTFS shows a balanced position for 2023/24, we note the ongoing challenging position the Council faces, with estimated shortfalls of £17 million in 2024/25 rising to £92m in 2026/27. It is clear that significant additional savings will still be required on top of the £38.2 million that have been identified, £13.3 million of which are to be made in 2023/24.

Management Comments

The budget for 2023/24 is balanced. The budget for later years is being updated post the Local Government settlement December 2022. This shows a slightly improved position, and will be reported to the Cabinet in February 2023. The new MTFS includes actions to address the remaining budget shortfalls.



Improvement recommendations



Financial sustainability

Improvement Recommendation 2

The Council should take appropriate actions to reduce its cumulative SEND deficit and ensure that the initiatives being undertaken are sufficient to address the scale of the issue and ensure that any proposed changes are implemented successfully.

Why/impact

Reducing spend is important to ensure that the Council maintains financial sustainability in the longer term.

Summary findings

The DSG reserve has a deficit of £24 million as at 31st March 2022, an increase of £13 million since the start of the year. This is due to an increase in the SEND costs as part of the high needs block within the DSG reserve. The SEND budget remains under significant pressure with an in year deficit of £11 million for 2021/22 and a cumulative deficit of £29 million which is forecast to increase significantly in later years.

Management Comments

Leicestershire engaged Newton Europe to undertake a Diagnostic view of the High Needs position in January 2022. Following this and a competitive tender process they have been engaged as a Strategic partner to deliver an ambitious programme of SEND reform through the Transforming Special Needs and Inclusion in Leicestershire (TSIL) Programme.



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

High level responsibilities for managing risk are documented within the Authority's Constitution, which delegates responsibility to the Corporate Governance Committee (CGC) to ensure "that an adequate risk management framework and associated control environment is in place".

Oversight and day to day operational management is provided by the Internal Audit Team. Ensuring there are appropriate arrangements in place is a key part of compliance with the Public Sector Internal Audit Standards, however from discussion with key officers we noted that there had not been a review of the Risk Management Framework undertaken in the last three years. We did note that there has been a recent recruitment to the team who will be responsible for leading on risk in addition to carrying out Internal Audit duties. Initially it was planned for the officer to complete an Internal Audit review of the arrangements in place for managing risk, however, the council will need to ensure that this review is carried out by an independent officer not involved with the process.

See improvement recommendation 3

The operational arrangements for managing risks are underpinned by a Risk Management Policy Statement and Strategy which clearly documents roles and responsibilities for managing risk across the Council. The Strategy is reviewed on an annual basis and approved by Corporate Governance Committee. This is also provided as an appendix to support the MTFP.

Our review of the Strategy did not identify any gaps in arrangements, we found that it includes the key elements for a robust approach to managing risk at all levels across the Authority, including:

- Risk Management Policy Statement, signed by the Chief Executive.
- Risk Appetite, which is currently defined as "Open" which means that the Council is prepared to consider all delivery options and select those with the highest probability of productive outcomes even where there are elevated levels of associated risk. (supported by caveats of specific circumstances where this may not be appropriate).
- Risk Management Approach and Process,
- Monitoring & Reporting requirements, and
- Escalation of risk.

The Strategy is supported by a standard scoring methodology, with visual flowcharts and appendices to provide further procedural guidance.

Risk impact domains include reputation, people, operations and finance etc however, we did note that environmental impact is not currently included as an impact measurement criteria, although climate change risks have been identified and included within the Corporate Risk Register. Given the importance of the environmental agenda the Council should consider including Environmental Impact within the risk impact measurement criteria.

See improvement recommendation 4

Governance

Risk Management - continued

Risk Champions have been nominated within each Department and are responsible for maintaining the departmental risk register. The Head of Internal Audit provides oversight; meeting with each champion and discussing any update to those risks registered within the Corporate Risk Register for upward reporting. Corporate Management Team has oversight of corporate risks and upwards assurance reporting is provided through Corporate Governance Committee.

There is also wider Risk Management Group that includes the Head of Internal Audit, representative from Insurance and Risk Champions for each of the six departments. However we were informed that this group has not met since pre-covid and will be re-started once the new risk lead is post.

See improvement recommendation 4

Risk Reporting

Risk Management Update reports are presented at each meeting of the CGC enabling the Committee to discharge its duties for ensuring that the Council has effective risk management arrangements in place. Our review of a sample of reports confirmed that they include a good level of detail with an overview of changes since the last update. The update is complimented by the Corporate Risk Register (CRR).

Risk Registers

The Council maintains Departmental Risk Registers and (CRR). These registers contain the most significant risks which the Council is managing, and which are 'owned' by Directors and Assistant Directors.

From our review of the CRR we noted that risks are clearly articulated, the current score is recorded and any updates or notes arising from discussions with departmental risk champions as part of the oversight and monitoring process. The register also includes a predicted direction of travel over the next 12 months. The report indicates that this is based on the residual risk score. However the report does not document what the target score of the risk; target scores, linked to the Council's Risk appetite, enable the reader to gain assurance that the actions being taken to mitigate the risk are appropriate.

See improvement recommendation 4

We also noted that, although there is an update of actions being taken, the register does not identify what controls are in place to mitigate risks, the assurances received or required and any gaps that need addressing. Actions to address any gaps should be clearly aligned and reference SMART principles. We do acknowledge that on an annual basis, the Corporate Governance Committee receive a full copy of a combined register extracted from department registers containing the information.

See improvement recommendation 4.

Departmental Risk Registers are also maintained. On the whole these are spreadsheet based, however we noted that one Department - Environment and Transport adopted the Pentana Risk system. There has been an attempt to roll out and embed the system further however this has not been supported by all Departments due to the costs involved and resource requirements in building and maintaining the system. This has led to an inconsistent approach to managing risk at a departmental level.

Manual spreadsheets carry a greater risk of loss of data or error. In addition to greater security, the system provides improved reporting and monitoring opportunities, with the ability to report across themes and departments, identifying and reporting on high risks while providing a view of the risk profile across the whole Council.



Governance

Internal Audit & Counter Fraud

The Council's Internal Audit and Counter Fraud Service are provided by Leicestershire County Council's in house Internal Audit Service. From discussion with the Head of Internal Audit (HOIA), Monitoring Officer and Chair of the Audit Committee, all are satisfied there is an effective Internal Audit Service in place.

In June 2021, a report was presented to CGC outlining the methodology for developing the Internal Audit Plan for 2021-22. Following the impact of the pandemic and the need to be more flexible, the decision was taken to implement the plan to cover two six monthly periods during the year. The list of planned internal audit reviews April – September 2021 was approved by CGC in July 2021 and September to March 2022 in November 2021. However, while narrative of the plan was included within the committee overview report, A full Plan and Three Year Strategy, support by its Internal Audit Charter was not included.

See improvement recommendation 5

Progress against the plan is reported to each meeting of the CGC. The update is supported by an overview of the plan with detail of the current status of each review and the outcome or opinion.

The progress reports also provides information in respect of the implementation of High Importance recommendations. Our review of this information confirmed that the Council are generally robust in implementing actions, and where needed ensuring there are revised due dates in place.

The Council's financial systems are provided by the East Midlands Shared Service (EMSS). Internal audit activity for EMSS is the responsibility of the Head of Internal Audit (HOIA) at Nottingham City Council. During the year the Council receives third party assurance in respect of payroll, accounts receivable, accounts payable, and IT – System Admin and access controls. We noted that the Council has received reduced levels of assurance for 2021/22 which has been largely due to issues with the IT system implementation. However we did note that the Council has requested a further review of the service and oversight is reported through the EMSS Joint Committee.

The HOIA Annual report was presented to CGC in May 2022. The report notes that three audits returned partial assurance ratings, and there were some minor fraud investigations, but management accepted and responded to recommendations. Overall, reasonable assurance is given that the Council's control environment has remained adequate and effective.

Counter Fraud is also provided as part of the Internal Audit Provision. The team includes an auditor who leads on fraud.

Progress reports of Fraud Activity are provided to the CGC as part of the Internal Audit Progress reports.

The Council has a suite of policies in place to manage and mitigate the risk of fraud, these are reviewed and updated on a biennial basis, including, but not limited to:

- Anti Fraud & Corruption Strategy
- Anti Money Laundering Policy
- Whistleblowing Policy and Procedure
- Anti-Bribery Policy Statement and Procedures
- Gifts and Hospitality
- Declaration of Interests
- Prevention of the Facilitation of Tax Evasion
- Code of Conducts for Staff and Members

The team also undertakes a biennial Fraud Risk Assessment which directs the work programme of the team and also take part in the National Fraud Initiative on an annual basis.

Governance

Budget Setting and Monitoring

The Council's Constitution includes that the responsibility for approving the budget sits with full Council. It includes a Budget and Policy Framework Rules which provides an overview of the approval and consultation process.

We have reviewed and considered the arrangements in place for the preparing, approving and monitoring of the 2021/22 budget during what was another difficult year to accurately forecast costs and income due to the ongoing effects of the pandemic, increases in inflation and incremental announcements of government funding. Our review has not identified any risks of significant weakness in the 2021/2022 year

Annual budget setting arrangements are well developed. It is clear that the Council has developed a robust financial planning framework which involves budget monitoring throughout the year to expose pressures, and these are used to help refresh plans.

There is regular dialogue at Department Management Team (DMT) and Corporate Management Team (CMT) with robust oversight and input from members via Scrutiny and Cabinet. There is also clear consideration of the Council's policies including Treasury Management, Capital and Investment Strategies.

Informed decision making and compliance with regulatory standards

The Council has in place a Leader / Cabinet model of Governance. The Constitution includes the principles of decision making and the rules, codes and protocols that govern how the Council operates, including Financial Regulations and the Scheme of Delegation. The Constitution also sets out the functions of the statutory posts of Head of Paid Service, Monitoring Officer, Chief Finance Officer and designated Scrutiny Officer.

We confirmed that processes are in place to ensure Cabinet and Executive decisions are appropriate and comply with relevant legal, statutory, regulatory and budgetary requirements. The Council has in place Legal, Democratic Services and Finance teams which are the key "advisors" to ensure decisions taken comply with all necessary statutory requirements and are lawful. All Committee / Cabinet meetings are scheduled well in advance and have in place forward plans to ensure all items of business are included at the right time for meeting any statutory deadlines. Draft papers are received in advance to enable these to be checked by both the Legal and Democratic Teams along with checking by the Monitoring Officer. Specialist reports are discussed with report owners.

Standard Committee Report Templates are in place and all officers responsible for producing reports for Committee undertake training which includes specific governance and decision making training. This is commissioned through an external shared specialised training provider.

There is evidence of an appropriate "tone from the top" being set in respect of decision making and ethical behaviour from Senior Officers and Members. Codes of conduct are in place for both Members and officers which are contained within the constitution. All Members are required to declare any interests which are recorded along with a register of any gifts and hospitality which are reviewed regularly.

The Council has in place a Member Conduct Panel which is responsible for considering complaints which have been referred by the Monitoring Officer relating to alleged breaches of the County Council's Members' Code of Conduct.



Improvement recommendations



Governance

Improvement Recommendation 3

To be fully compliant with the Public Sector Internal Audit Standards, the Council should provide assurance on an annual basis that there are robust arrangements in place for managing risk.

The Council must ensure there is an independent and objective review carried out by somebody not involved with the day to day process.

Why/impact

Demonstrating there are appropriate arrangements in place for managing risk is a key part of compliance with the Public Sector Internal Audit Standards.

Summary findings

There has not been an Internal Audit Review or the arrangements in place for managing risk undertaken in the last three years.

We note there has been a recent recruitment to the Internal Audit team who will be responsible for leading on risk in addition to carrying out Internal Audit duties. Initially it was planned for the officer to complete an Internal Audit review of the arrangements in place prior to commencing in the role of managing risk.

Management Comments

There will be an overall review of the application of the framework either by an auditor (not involved in the day to day process) or an external body.



40

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

Improvement recommendations



Governance

Improvement Recommendation 4

To further improve and enhance the risk management framework in place, we recommend the Council:

1. Includes Environmental Impact within the risk impact measurement criteria as part of the risk scoring methodology for all risks.
2. Re-commence the Risk Management Group meetings as soon as possible.
3. Includes target risk scores on the Corporate Risk Register.
4. Documents the controls in place to mitigate risks, the assurances received or required and any gaps that need addressing. Actions to address any gaps should be clearly aligned and reference SMART principles.
5. Considers the roll out of the use of the Pentana system across all Departments

Why/impact

To ensure there is robust and consistent approach to managing risk across the Council.

Summary findings

The Council has good arrangements in place for managing risk. Our findings and recommendation have been made to further enhance and strengthen the processes.

Management Comments

1. Agreed and will be actioned
2. Agreed and actioned.
3. Agreed but will be referred to as residual risk scores.
4. Agreed: a. Arrange a combined register for the late spring committee. b. Ensure the agreement to 'once a year' combined register with full information is written into the revised strategy.
5. Partly agreed: will consider looking at a corporate wide solution based on a valid business case.



Improvement recommendations



Governance

Improvement Recommendation 5

The chief internal auditor should provide for approval, a Three Year Internal Audit Strategy and Annual Internal Audit Plan documenting its Internal Audit Charter, which outlines the purpose, authority and responsibility of the internal audit activity. This should be provided in a timely basis.

Why/impact

To be fully compliant with the Public Sector Internal Audit Standards.

Summary findings

A comprehensive Internal Audit Plan documenting its Internal Audit Charter was not presented to the CGC for approval.

The internal audit activity for the period April 2021 – September 2021 was not presented to CGC until July 2021.

Management Comments

Agreed: A Strategy will be devised and Charter will be reviewed and revised where appropriate.



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 management

Leicestershire County Council's Strategic Plan 2018 - 2022 describes the Council's overall policy framework and approach. It outlines the Council's vision and priorities for the county and the organisation. It also includes a high-level overview of a number of strategies which provide the detail on how it plans to deliver positive change for Leicestershire in line with these high-level commitments.

Following the outcome of the elections in May 2021, the Council have been working on the new Strategic Plan. The 2022-2026 Plan was launched in February 2022. The Plan sets out the Council's long-term vision and priorities for the next four years, which is based on five strategic outcomes:

- Clean and Green
- Great Communities
- Safe and Well
- Strong Economy, Transport and Infrastructure
- Improved Opportunities

The Council's progress and performance in delivering this Plan is monitored by Outcome Boards. Council Departments are required, through their annual service planning processes, to identify actions for each forthcoming year which will help to achieve the aims set out in the Plan. The Outcome Boards monitor progress in the delivery of these actions, as well as other actions already set out in this Plan.

Outcome Boards provide 6-monthly highlight reports to the Corporate Management Team in order to inform strategic decision-making and resource allocation.

The Council's Overview and Scrutiny Committees receive quarterly updates and Annual Reporting is provided for Cabinet and Full Council within the Annual Delivery Report.

The Annual Delivery report sets out the projects and activities that have been undertaken against each of the priorities in the strategy and is supported by the Performance Compendium.

Departmental key performance measures are reported to Overview and Scrutiny Committee on a quarterly basis. The metrics of the report are aligned to the Council's Strategic Plan and include any mandatory reporting items. We confirmed that these provide a comprehensive overview of services and allow for robust challenge and discussion. They also identify any potential quality or effectiveness risks and provide an overview of where further action may be required. We reviewed a sample of the reports and noted the following:

Adult Social Care and Communities

During 2021/22, there were 28,500 new adult social care contacts, an increase of 11% on the previous year. This notable increase is due to a lower number of new contacts during the previous year when the pandemic first materialised.

The KPI information shows that on the whole there have been a number of positive outcomes during the year, for example reablement services, despite falling slightly short of targets, there is high-level use of personal budgets and direct payments.

However, findings from the carers survey have resulted in some areas which have fallen below expectations for example, the % of carers who had as much social contact as they would like had decreased from 30% to 24.7%, against a target of 33%. We note that the Council is looking at the national context and will take action accordingly.

Higher levels of permanent care admissions to residential and nursing homes have also been identified as an area to seek improvement in the coming 12 months.

Improving economy, efficiency and effectiveness

Performance management

Children and Family Services

Our review of Children and Family Services performance reporting in Quarter 4 noted that, from 23 measures, six have improved but 12 have declined. (Five indicators are provided for information only). From 10 measures that have a national benchmark, one is in the top quartile, six are in the second quartile, one is in the third quartile and two are in the fourth quartile.

Two indicators have been reported with a RAG status of “RED”. Our review noted there is supporting narrative to confirm the position and any action being taken to address:

- The percentage of Child Protection cases reviewed within timescales was 86.3% at the end of Quarter 4, a decline on the Quarter 3 figure (94.2%). This places Leicestershire in the fourth quartile of all local authorities by published benchmarks. This may reflect the implementation of additional standards to underpin the Child Protection process and more specifically some of the staffing pressures experienced in Quarter 4 across both Independent Reviewing Officer (IRO) teams and Locality teams.
- The percentage of children becoming subject to a Child Protection Plan for a second or subsequent time decreased to 28.0% at the end of Quarter 4. In this period 60 children began a second or subsequent plan, an increase from 47 reported in the preceding quarter. Leicestershire remains in the fourth quartile of local authorities compared to most recent national results published for 2020/21. This is an area of focus for the service and regular audits are completed, to understand any themes around the circumstances leading to repeat periods of child protection planning and to inform actions in response. Most recent findings suggest that Domestic Abuse remains a factor in some repeat plans and the implementation of the Domestic Abuse toolkit aims to strengthen exit planning. Consideration has been given to the timescales for a repeat plan starting and this has shown that for the majority, there has been a gap in excess of two years.

We noted that the indicators relating to school OFSTED inspections were rated as Amber:

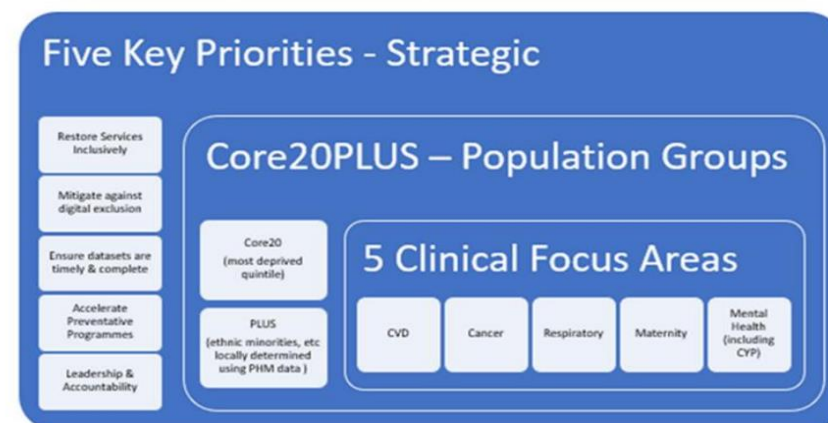
- The percentage of primary schools rated Good or Outstanding was 91.5% at the end of Quarter 4. This is 0.4% higher than the Quarter 3 figure (90.6%). This figure is within the second quartile of local authorities.
- The percentage of secondary schools rated Good or Outstanding was 75.6% at the end of Quarter 4. This is unchanged since Quarter 2, 2022. This figure is within the third quartile of local authorities and below the Most recent Statistical Neighbour average of 81.6%.

Health

On 1st July 2022 the Leicester, Leicestershire and Rutland (LLR) Clinical Commissioning Groups become an Integrated Care Partnership working with system partners for improved care and outcomes. As (see Appendix 1) with a focus on addressing the five priorities in the part of the ICS development there have been governance changes bringing quality and performance improvement conversations into a newly formed ICS System Quality Group. This has health and care representatives alongside local authority, health inequalities and patient colleagues. The purpose of the group is to provide a strategic forum to facilitate engagement, intelligence-sharing, learning and quality improvement across the ICS and it will report into a Quality, Safety and Assurance Committee separating the operational and assurance functions. This also fits with the requirements of the National Quality Boards and ensures the LLR ICS is compliant with their statutory duties and obligations.

Reducing health inequalities is a core priority for the LLR Integrated Care System (ICS) and a programme of work to reduce health inequalities will be guided by the 12 principles within the LLR Health Inequalities Framework 021/22 and 2022/23 NHS Operational Planning Guidance and the Core20Plus5 approach:

Health Inequalities Improvement Programme Prioritisation - Core20PLUS5



Improving economy, efficiency and effectiveness

Benchmarking

Benchmarking is an effective tool that enables an organisation to compare and analyse its performance with others. It can provide a basis for collaboration and identify areas for improvement.

In addition to reporting its own data, the Council also benchmark this information nationally against all County Councils to ensure it remains one of the best performing Councils in the country, despite its low funding position.

We concluded that there is clear evidence that performance reporting and the use of data and insights are used to track performance at all levels of the Council, which helps identify any areas and actions for improvement. It was clear from our review that cost monitoring and performance are closely aligned and considered together across different service lines.

We have completed a benchmarking exercise using our management tool 'CFO Insights'. This compares the unit costs for a range of services and identifies areas where the unit costs were very high or very low in comparison to other county councils.

Analysis is based on the latest available data, which is the approved budgeted spend (RA data for 2022/23) per "Service Line". We have then associated a unit to the service line to calculate a unit cost, for example for Children's Social Care this is based on population aged 0-17, or for Adult Social Care this is population aged 18+. The unit score analysis then benchmarks against the comparator group eg other County Councils. A "Very High" score would place the Council in the top 20%, with "Very Low" placing in the bottom 20%.

We have provided, for information, the outcome of our analysis. The table opposite provides an overview of a sample of those Directorates where the unit cost is assessed as very high or very low. Currently there is one directorate within this category. The table on the following page of this report provides an overview of the Council's cost per unit of all Directorates when compared to nine County Council's.

Overall, Leicestershire is a "Very Low" spending county per head of population when compared to other county councils considered as nearest neighbours. This data aligns with the Council's own benchmarking data which reports that Leicestershire has the lowest core spending power per head of 32 county councils nationally. The Council recognises that this poses a risk to service delivery going forwards and continues to raise the issue of fair funding with Central Government.

Service	Total Budget Cost 22/23 £000	Units	Unit Costs £	Unit Cost Score
TOTAL PLANNING AND DEVELOPMENT SERVICES (RA) £/head	6,217.00	713,085.00	8.72	Very High
TOTAL EDUCATION SERVICES (RA) £/aged 0-18	275,323.00	151,256.00	1,820.25	Very Low
TOTAL CHILDRENS SOCIAL CARE (RA) £/aged 0-17	101,102.00	143,343.00	705.32	Very Low
TOTAL ADULT SOCIAL CARE (RA) £/aged 18+	216,615.00	569,742.00	380.20	Very Low
TOTAL SERVICE EXPENDITURE (RA) £/head	730,013.00	598,070.00	1,023.74	Very Low

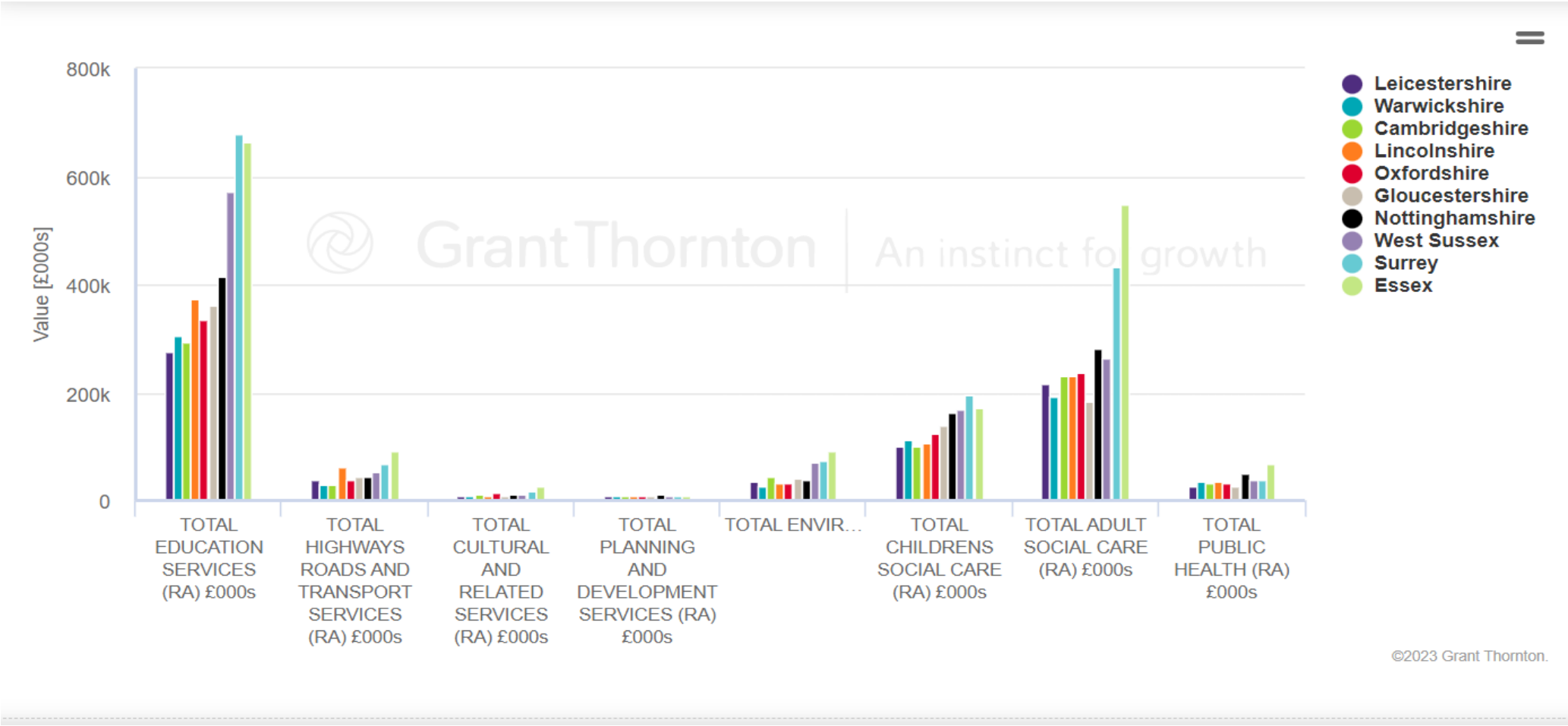
Source: RA Returns 2022/23

Comparator County Council group data:

- Nottinghamshire
- Lincolnshire
- West Sussex
- Essex
- Surrey
- Cambridgeshire
- Oxfordshire
- Warwickshire
- Gloucestershire

Improving economy, efficiency and effectiveness

Benchmarking



Improving economy, efficiency and effectiveness

Service User Feedback

When the council is considering how best to improve policies, services, or assets, or decide what the future direction of the organisation might be, ideas are typically invited from members of the public within a process known as 'engagement'. In some cases, there is a statutory obligation to get feedback from service users and interested parties; in other cases, talking to people is just the best way to get good information on how the council can improve. But as well providing valuable insight and data, engagement enables strong relationships to arise between the council and local communities.

The Council has developed Consultation & Engagement Principles that describes the current way that the council engages with residents and businesses, and the vision for future engagement. It also sets out the key principles, tools and methods that will enable the council to realise this vision.

The primary forum for getting feedback from officers across the Council was the Engagement Hub, which meets every other month. This is an informal group of officers from all departments who are involved in public engagement activity. The function of the Hub is to ensure that Council engagement initiatives are joined-up and efficient, for officers to get advice and support, and to reinforce the Council's standards of best practice. Drafts of the Principles document were shared with the group for comment, and detailed suggestions were received that served to refine the Principles, and to ensure that the document reflected our existing high standards of activity across different areas of work.

The outcome of all engagement exercises is published on the website using a "You Said, We Did" approach. Our review of a sample of completed engagements confirmed the process in place and provided evidence of good engagement and participation.

The Council's comments and complaints process allows for any learning to be developed and embedded into operational processes. The Council's website is clear in providing guidance of how this can be completed. The Council's vision is to "Listen, Respond and Improve".

A Corporate Complaints & Compliments Report is produced on an annual basis. The report demonstrates how some of the learning from complaints and compliments has been used to shape future service delivery and improve the overall customer experience.

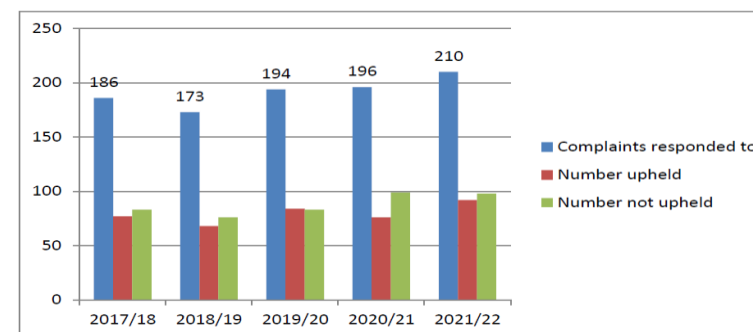
Complaints are managed by three separate systems - those which are a statutory process ie Adult Social Care and Children's Social Care and Corporate Complaints relating to all other services provided by the Council.

Adults Social Care and Children's Social Care also provide annually the key messages of which are summarised into the Corporate Report. However we did not see evidence that the Children's Social Care Annual Report had been presented to Children and Families Overview and Scrutiny Committee. See improvement recommendation 7.

During 2021/22 the Council received 2691 contacts, of these 8% related to ASC:

Contact Type	2020/1	2021/22	% Change
Enquiries, Comments, and Informal resolution	1364	1531	+13%
Corporate Complaints	527	610	+16%
Adult Social Care Statutory Complaints	184	210	+14%
Childrens Social Care Statutory Complaints	63	65	+3%
Ombudsman Investigations	38	49	+29%
Compliments	215	226	+5%
	2391	2691	+13%

We reviewed the data supporting the ASC information and found that while the total number of social care complaints increased in year, and over the long term, it presents as a relatively stable picture:



Statutory regulations allow up to 65 working days for complaints to be resolved, a key expectation of the public is that their concerns are dealt with promptly. 11 ASC complaints (6%) were responded to outside of the statutory maximum, for Corporate Complaints this was 8% and Children's' Social Care .

See improvement recommendation 8.

Improving economy, efficiency and effectiveness

Commercial & Partnerships

The Council has a number of commercial and partnership working arrangements in place both sub-regionally and regionally. Collaborate working arrangements are also in place across the health, voluntary and private sectors. An overview of the arrangements and actions is included within the Council's Annual Governance Statement. We noted some of the key arrangements include but are not limited to:

Eastern Shires Purchasing Organisation (ESPO)

ESPO is a local authority purchasing consortium made up six local authorities. Its role is to provide its members and other client bodies with a comprehensive, cost effective contracting and procurement service through a diverse range of commodities, products and services. Oversight is provided through its Management Board and Audit Committee. Finance & Activity Performance is reported and monitored along with its Risk Register.

Leicester, Leicestershire and Rutland Combined Fire Authority

The Authority is a constituent member of Leicester, Leicestershire and Rutland Combined Fire Authority.

East Midlands Freeport

Freeports are a flagship Government programme that will play an important part in the UK's post-Covid economic recovery and contribute to realising the levelling up agenda, bringing jobs, investment, and prosperity to some of the most deprived communities, with targeted and effective support. The East Midlands Freeport (EMF) is the UK's only inland Freeport and features three main 'tax sites' straddling three East Midlands counties. The EMF brings together a mix of industries, businesses and other collaborating partners, combining public and private sector expertise.

Work to develop a Business Case began in 2021 and tax site designation was awarded by HM Treasury in March 2022. The Full Business Case was submitted to Government in mid-April and full designation is expected soon on legislative timetables. The Cabinet approved the County Council becoming a member of the newly incorporated Freeport Company, with the Leader as a nominated member to serve on the Board, and to continue the role of lead authority and accountable body for the Freeport.

Leicestershire Health and Wellbeing Board

Health and Wellbeing Boards act as a forum in which key leaders from the local health and care system work together to improve the health and wellbeing of the local population and plan how to tackle inequalities in health.

Leicester and Leicestershire Enterprise Partnership (LLEP)

LEPs are non-statutory bodies and as such require an Accountable Body to manage funding from Government. Leicester City Council is the Accountable Body to the LLEP and hence takes the ultimate legal and financial responsibility for the LLEP's activities.

Environmental & Waste Collaborations

The Council, through the Environment and Transport Department is partner in a number of environment and waste collaborations and acts as Key Partner.

East Midlands Development Company (DevCo)

The Council is a Board member of the DevCo, a company limited by guarantee from April 2021. Its ambition is to be a locally led urban development corporation, for which there is provision in the Levelling Up and Regeneration Bill published in May 2022. Nottinghamshire County Council is the Host Authority to DevCo but regard that ultimate responsibility for legal and financial activities etc lies with the DevCo as a company.

Active Together

Active Together, is an active partnership working collaboratively with a range of partners across Leicestershire, Leicester and Rutland, to help communities realise the benefits of a more physically active life. Active Together is funded from different sources including Leicestershire County Council (LCC) and Sport England. LCC is the host Authority and Active Together accounts form a part of the overall Public Health budget.

East Midlands Shared Services

The Authority runs a joint operation with Nottingham City Council (NCC) to provide shared transactional finance, human resources and payroll services to both authorities under the name of East Midlands Shared Services (EMSS). EMSS operates under a Joint Committee

Improving economy, efficiency and effectiveness

Commercial & Partnerships

From our discussions with key officers and review of Committee papers we can evidence that the Council has procedures in place for monitoring its commercial and partnership arrangements in place and challenging financial and non-financial performance.

We noted that a Value for Money review was instigated following concerns being raised in respect of the performance of the EMSS. We noted the action being taken as a result and that to meet the objectives of the Strategic Plan and improve service delivery, a Transformation programme has been developed to ensure that focus and momentum is maintained on delivering continuous improvement and efficiencies – ultimately to deliver ‘value for money’ for partners. The Programme has two main strands:

- Organisational Priorities – to address issues and challenges that are EMSS-wide. These will focus on activities to improve well-being and engagement as well as embedding good cultural practises in every team.
- Service Priorities – improvement activity that is focused on specific services or teams and will include the work to stabilise the Oracle platform.

In another example the Council has reported to Cabinet to challenge the Governance arrangements in place regarding the Council’s membership of the East Midlands Development Company in light of concerns about the Company’s management and governance. Cabinet have approved further actions and enquiries to be made to address the issues raised.

Investment Property

The Council owns and manages property and other investments, some of which are held for income generation purposes, through the Corporate Asset Investment Fund. The Council has in place a Corporate Asset Investment Fund Strategy 2020-2024 with the focus on increasing revenue in a transparent and secure way. This is an integral part of the Council's MTFS and linked with the Corporate Asset Management Plan, the Treasury Management Strategy and the Annual Investment Strategy.

The Board assesses investment proposals and monitors individual projects and the overall performance of the Fund. Financial performance is also monitored by officers and members through regular reporting to the Cabinet and Scrutiny Commission, as well as an Annual Report on investment activity throughout the year.

Firs Farm, Husbands Bosworth is owned by the Council as part of the County Farms Estate. During the winter of 2018 the Council’s Trading Standards Service became aware of some irregularities in animal movement monitoring relating to the farm and a reported issue of illegal disposal of livestock carcasses. Subsequent inspections and monitoring suggested that there were other possible issues.

The Tenant has since absconded and it became apparent that criminal activity relating to illegal waste disposal was occurring on the farm. The Council will shortly be undertaking a tendering exercise for the removal and proper disposal of the waste on the farm and reinstatement of the farmland.

We note that the Council has been open and transparent in its reporting of these issues, including reporting as a Significant Governance Issue in its 2021/22 Annual Governance Statement.

While the Council could not have foreseen these issues arising, it does highlight the important of ensuring proper due diligence is undertaken, supported by ongoing monitoring and inspection processes.



Improving economy, efficiency and effectiveness

Procurement

The Council do not currently have a procurement strategy in place. Following the move towards five corporate plan outcomes, the strategy was deleted as it was no longer aligned and repeated information in various places. However, the Council are currently developing an updated sustainable procurement policy and a renewed Social Value protocol which will align to the outcomes in the Corporate Plan and the requirements of the new national UK procurement rules which will be released in the new year.

We did note that the Council has clear and robust Contract Procedure Rules (CPRs) in place which are included as part of the Council's Constitution and documented within the council's website. This is supported by toolkit pages of guidance internally and externally which are maintained and published to provide information on "how to do business with the Council".

Procurement and subsequent contract monitoring and management is carried out at Departmental level. The Council do not have a centralised procurement function, however there is a Commissioning Support Unit (CSU) to provide support, advice and guidance when required.

However, from discussion, we note that oversight of contract monitoring and performance could be improved. Contract management, including performance and outcomes monitoring is overseen by departments, there are currently no arrangements in place for regular oversight or exception reporting to provide assurance of compliance with Key Performance Indicators (KPIs) for example.

We did note that the Council will be completing a review of its arrangements in place following the roll out of the new guidance, to ensure the current model is fit for purpose and continues to provide a robust and consistent approach.

Contracts are recorded within the Council's electronic system – Oracle Fusion. This is also available publicly within the Council's website. Departments are responsible for updating their own information with the CSU maintaining oversight. The CSU have implemented a number of processes and checks to improve controls, and ensure compliance with CPRs for example:

- Ad-hoc reports of supplier invoices with a cumulative value of above £25, 000, which is the Council's threshold for requiring quotation comparison, are run and matched against the register to ensure there are contracts in place.
- The system has been set up to automatically "flag" payments in excess of £25, 000,, occasions where contracts are not on the system are investigated further.
- The system has now also been configured to block any Purchase Orders being finalised prior to these checks being completed in advance of any payments made.
- The CSU also run a report of all contracts expiring within the next 12 months to ensure timely tendering exercises are undertaken.

Rule 6 of the CPRs provides exceptions to the process, where contracts may be placed by direct negotiation or where extensions can be granted subject to meeting criteria. We noted that all exceptions are reported to Corporate Governance Committee on an basis for oversight. Our review noted that the number and value of exceptions has increased significantly over the last two of years:

Period	Number of Approved Exceptions	Total Value of Approved Exception
1 July 2021 to 30 June 2022	81	£21.6 million
1 July 2020 to 30 June 2021	33	£11.4 million
1 July 2019 to 30 June 2020	20	£1.9 million

From our discussions with officers, we noted that while the pandemic has had some impact, the implementation of controls for blocking expenditure where a contract was not in place have adversely affected the number of waivers in place, suggesting these have been raised in retrospect. The CSU are currently working with Departments to ensure processes become further embedded with a view to reducing the number and value of exceptions. Our review of Corporate Governance Committee minutes provided confirmation of robust challenge, with the Committee requesting further information within its reporting.

Improvement recommendations



Improving economy, efficiency and effectiveness

Improvement Recommendation 6

The Council should ensure that the Children's' Social Care Annual Compliments and Complaints Report is presented to Children and Families Overview and Scrutiny Committee information and oversight.

Why/impact

To provide assurance internally and externally of how the Council is progressing in meeting its priorities for the County.

Summary findings

We did not see evidence that the Children's' Social Care Annual Compliments and Complaints Report has been presented to Children and Families Overview and Scrutiny Committee.

Management Comments

Agreed:
A separate report will be presented to the Children's & Family overview and scrutiny committee from September 2023. An overarching report which summarises all complaints is taken to the Scrutiny Commission each year, but noted these should also go to the individual C&FS scrutiny committee.



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

Improvement recommendations



Improving economy, efficiency and effectiveness

Improvement Recommendation 7	The Council should ensure that its performance monitoring processes identify instances which may breach the statutory target of responding to complaints, with a view to increasing compliance.
Why/impact	Statutory regulations allow up to 65 working days for complaints to be resolved.
Summary findings	6% of ASC complaints and 8% of Corporate complaints responded to outside of the statutory target.
Management Comments	Agreed: A reporting framework will be developed to provide early warning of cases that risk breaching the statutory timescales.



Opinion on the financial statements

Independent opinion

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.



Audit opinion on the financial statements

Our audit work was completed remotely during July 2022 to March 2023. The accounts presented for audit were supported by appropriate workings papers and officers worked constructively with us throughout the audit.

We identified a number of significant issues in our 2021/22 audit which have led to the need for adjustments to the draft financial statements. These include two material misstatements and one non material misstatements in the financial statements. The impact of these is:

- Write-off of academy land valuation - £211m reduction in asset values at 31 March 2022, and the need for a Prior Period Adjustment.
- Incorrect netting off of debtor and creditor balances - £43m increase in debtor and creditors
- Incorrect valuation of school buildings - £5.3m increase in asset values at 31 March 2022.

Further issues identified for which adjustments have not been made to the financial statements are:

- Understatement of pension assets at 31 March 2022 (due to timing differences in valuation)– resulting in the overstatement of the pension liability by £2.3m
- Potential understatement of the debtors credit loss allowance, resulting in a projected estimated overstatement of debtors by £2.0m
- Derecognition of academy schools derecognised in the incorrect financial year - £8.4m overstatement of asset values at 31 March 2021. These schools were derecognised in 2021/22 but should have been in the prior year, resulting in an understatement to the loss on disposal recorded in 2020/21 and an overstatement of loss on disposal in 2021/21.
- Movement on valuations on assets not revalued in 2021/22 – resulting in an estimated understatement of asset values of £2.8m.
- Potential overstatements of debtors balances at 31 March 2022 due to subsequent issue of credit notes – extrapolated figure of £1.6m.

We note that the adjustment to credit loss allowances and the extrapolated error re income would reduce the useable reserves available to the Council.

We issued an unmodified audit opinion in March 2023.

Pension Fund Arrangements

The Pension Fund



Overall responsibility for administration and governance of the Leicestershire Pension Fund lies with Leicestershire County Council as the administering authority.

In order to discharge these responsibilities the Council has established:

- a Local Pension Committee which is responsible for management of the fund. Membership of this Committee is made up of members of the County Council and of admitted bodies within Leicestershire, and also includes a number of non-voting staff representatives. The Committee met quarterly throughout 2021/22 and held an annual meeting in order to discharge its responsibilities to oversee investment management strategy and governance.
- an Investment Subcommittee which is made up of members of the Local Pension Committee and which deals with more detailed management of the investments, such as the appointment of investment managers and asset allocation changes.
- a Local Pension Board under Regulation 106 of the Local Government Pension Scheme Regulations 2013 (as amended) which operates independently of the Local Pension Committee, and whose role is to assist the County Council as the Administering Authority and Scheme Manager in ensuring the effective and efficient governance and administration of the Local Government Pension Scheme. The Board met quarterly throughout 2021/22 and publishes the Pension Fund Annual Report.

The Pension Fund publishes an annual Governance Compliance Statement which is included in the Pension Fund Annual Report and sets out how the fund has complied with its governance and investment management responsibilities.

From the work undertaken, we have not identified any significant weaknesses in the governance arrangements for the Pension Fund.

Follow-up of previous recommendations

	Recommendation	Type of recommendation	Date raised	Progress to date	Addressed?	Further action?
1	Consider making a clear distinction between statutory and discretionary spending in the budgetary information provided to members and published online.	Improvement	June 2021	The Council will look to include an indicator as part of the compilation on the next MTFS 2023-27.	Yes	No
2	Follow up all Internal Audit recommendations, including lower priority recommendations, through the use of the recommendation tracker.	Improvement	June 2021	Use of the case management system tracker is not yet fully developed but in order to meet the recommendation a workaround system has been devised and is due for roll out.	In progress	Yes
3	Review the level of resource dedicated to Internal Audit.	Improvement	June 2021	The auditor's review occurred before a decision was finalised to withdraw from academies provision which will return more resource to the Internal Audit service. Additionally, approval was given for replacements to vacant posts and a new apprentice post. The service has used (and will continue to use) agency and other resource and retains a small "specialist's" budget.	Yes	No
4	Consider whether the Template Business Cases are aligned with best practise Treasury Better Business Case templates and are supported by a prescribed corporate approach for risk and reward analysis.	Improvement	June 2021	The procurement approach is a consideration of the current business case, but we will go back to the Treasury Business Case Template and review as recommended.	Yes	No

Follow-up of previous recommendations

	Recommendation	Type of recommendation	Date raised	Progress to date	Addressed?	Further action?
4	Consider introducing the triage approach operated by the CSU for property Contract Awards to other departments.	Improvement	June 2021	The introduction of a triage approach has been successful within property contracts and consideration is being given to other areas of the organisation that would benefit from this approach such as contracts that are high value, high risk or business critical.	Yes	No
5	Embed a corporate approach to procurement and contract management within each department structure.	Improvement	June 2021	Further work is being completed to refresh guidance and updated documentation in the form of a Procurement Strategy and Toolkit. This is being progressed through the CSU Target Operating Model work.	In progress	Yes
6	Provide annual refresher training for all staff charged with management of contracts.	Improvement	June 2021	Refresher training is planned for all Contract Managers, with the added element of a checklist for compliance. This is being progressed through the CSU Target Operating Model work.	In progress	Yes
7	Update the list of business critical suppliers on a regular basis.	Improvement	June 2021	Business Continuity, Contract Managers and Commissioning Support Unit are working together to develop and keep updated the list of business critical suppliers. This is being progressed through the CSU Target Operating Model work.	In progress	Yes

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 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
<p>Financial sustainability was identified as a potential significant weakness:</p> <ul style="list-style-type: none"> <u>Identification of future savings</u>: adequacy of the arrangements for identification of future savings to enable a balanced financial position to be delivered beyond 2022/23. <u>Impact of pay and price inflation and demand pressures</u>: the ability of the Council to adapt financial plans and secure savings required to counter the impact of price and pay inflation and demand pressures. <p>see 10 for more details.</p>	<p>We have reviewed and considered the Council's arrangements in place during the year for monitoring and reporting on its short and medium term financial position, including:</p> <ul style="list-style-type: none"> the impact of the economic climate and in particular the rising rate of inflation. the arrangements for the identification of future savings. plans for mitigating financial risk. forecast outturn position and plans for delivering a balanced year end position. <p>The SEN budget remains under significant pressure with an in year deficit of £11m for 2021/22 and a cumulative deficit of £37m which is forecast to increase significantly in later years.</p>	<p>From our work carried out we have concluded that, in general, there are plans in place to address the funding gap for 2022/23 and beyond.</p> <p>This includes the identification of savings, savings in development and contingency arrangements for delivering a balanced outturn.</p> <p>We have therefore not reported a significant weakness within our report, however, an improvement recommendation has been made that the Council should continue to develop and implement mitigating actions to address the significant budget deficit forecast for 2022/23.</p> <p>With regard to the SEN budget deficit we consider that this represents a significant weakness and have raised a key recommendation on this matter.</p>	<p>Appropriate arrangements are generally in place. However, we are concerned at the size of the SEN budget deficit and have raised a key recommendation on this matter and consider it to be a significant weakness in the Council's arrangement. We have also raised an improvement recommendation with regard to the Council's financial sustainability.</p>

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	14-15, 20-22 & 31-32



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