

Auditor's Annual Report on Leicestershire County Council

2022/23

January 2024

Contents

Section	Page
Executive summary	03
Use of auditor's powers	08
Securing economy, efficiency and effectiveness in its use of resources	09
The current LG landscape	10
Financial sustainability	12
Financial governance	20
Improvement recommendations	21
Governance	25
Improvement recommendations	30
Improving economy, efficiency and effectiveness	35
Improvement recommendations	47
Follow-up of previous recommendations	53
Opinion on the financial statements	57
Appendices	
Appendix A – Responsibilities of the Council	59
Appendix B – An explanatory note on recommendations	60



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

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



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

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Executive summary



Value for money arrangements and key recommendation(s)

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

Auditors are required to report their commentary on the Council’s arrangements under specified criteria and 2022/23 is the third year that we have reported our findings in this way. As part of our work, we considered whether there were any risks of significant weakness in the Council’s arrangements for securing economy, efficiency and effectiveness in its use of resources. Where we identify significant weaknesses in arrangements, we are required to make recommendations so that the Council may set out actions to make improvements. Our conclusions are summarised in the table below.

Criteria	2022/23 Audit Plan risk assessment	2022/23 Auditor judgement on arrangements		2021/22 Auditor judgement on arrangements		Direction of travel
Financial sustainability	We have identified a potential risk of significant weakness in respect of the Council’s financial sustainability (including its management of Special Educational Needs Expenditure and Dedicated School Grant Deficit).	A	No significant weaknesses in arrangements identified, but three improvement recommendation made.	A	No significant weaknesses in arrangements identified, but two improvement recommendations made.	↔
Governance	We identified a potential risk of significant weakness regarding governance related to the development of appropriate and effective governance arrangements for the East Midlands Freeport.	A	No significant weaknesses in arrangements identified, but four improvement recommendation made.	A	No significant weaknesses in arrangements identified, but three improvement recommendations made.	↔
Improving economy, efficiency and effectiveness	We have identified a potential risk of significant weakness within the Special Educational Needs Service with regard to Education, Health and Care Plans for children.	A	No significant weaknesses in arrangements identified, but five improvement recommendation made.	A	No significant weaknesses in arrangements identified, but two improvement recommendations made	↓

- G

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

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

Significant weaknesses in arrangements identified and key recommendations made.

Executive summary (continued)



Financial sustainability

Leicestershire County Council has a good track record of sound financial management. However; it faces significant financial challenges over the coming years and this is of concern. We have not reported a significant weakness in 2022/23 as we are satisfied that the Council has appropriate arrangements in place to manage the financial resilience risks it faces in the short to medium term.

While we note the relatively strong arrangements in place, given the uncertainty around the government's funding plans, increasing costs and the continued demand on services, the Council will need to ensure it maintains its robust and effective framework of financial governance.

A key area of concern is the Council's significant Dedicated Schools Grant (DSG) deficit which continues to increase each year. The cumulative deficit was £35.5 million at the end of 2022/23 financial year. In 2023/24 there is a funding gap of £13.3 million which will be carried forward as an overspend against the grant. The estimated cumulative deficit position of circa £90 million at the end of the 2026/27 financial year.

We note that Council has put in place measures to resolve the DSG deficit. The Transforming SEND in Leicestershire (TSIL) programme is mobilised and has been categorised into individual workstreams focusing on changes to the whole SEND system to ensure that children with special educational needs and disabilities have their needs met at the right time, in the right place and with the right support. In February 2023, the draft 2023/24 to 2026/27 MTFS reported that based on the current trajectory of growth; the TSIL programme is expected to deliver £32.1 million in financial benefits to 2028/29 with £21.5 million delivered over the period of the MTFS. The programme was forecast to deliver £3.1 million savings in 2023/24. However from review of oversight reporting we note that this was re-profiled in May 2023 and now plans to deliver £1.85 million in year 1.

We have not reported a significant weakness in this area as this is a national challenge and the Council is not an outlier in its position. We also note the programmes in place to reduce the deficit. However, the Council does need to ensure that the Transforming SEND and Inclusion in Leicestershire (TSIL) programme deliver the planned savings and that the deficit does not rise to the projected £90 million.

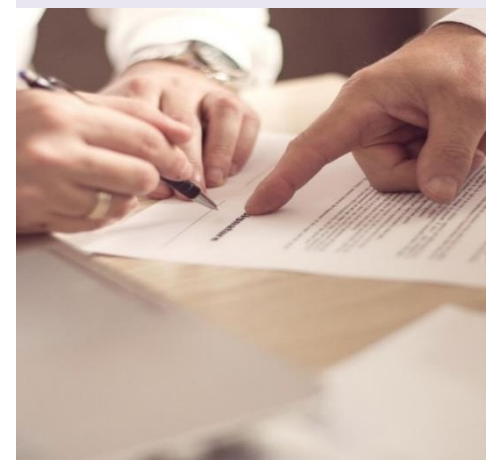
Summary

We have not reported any significant weaknesses with regard to the Council's financial sustainability. We have raised three improvement recommendations in respect of financial sustainability. These can be found on pages 20 - 22 of this report.



Financial Statements opinion

Our work on your financial statements is in progress. We anticipate issuing an unqualified audit opinion following receipt of outstanding evidence to support land and building valuations.



Executive summary (continued)



Governance

Leicestershire County Council has a governance framework in place which directs decision making processes and supports the management of risk.

Arrangements are in place to ensure that all relevant information is provided to decision makers before major decisions are made and for the challenge of key strategic decisions before they are taken. 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. 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.

The Council has a risk management framework in place that is adequately documented and supported by oversight from the Corporate Governance Committee (CGC). There are Departmental Risk Registers in place and a Corporate Risk Register (CRR) which contains the most significant risks which the Council is managing. These are owned by the Council's most Senior Officers, and include (but not limited to):

- Medium Term Financial Strategy risks
- ICT, Information Security risks
- Commissioning and Procurement risks and
- People risks

The arrangements in place ensure there is regular reporting and oversight by both the Corporate Management Team and Corporate Governance Committee to provide assurance that risks are being appropriately monitored and managed.

The Council have adequate arrangements in place to provide in house Internal Audit and Counter Fraud Services. Regular reporting is provided to the CGC with evidence of appropriate oversight and challenge.

Net Zero

Net Zero refers to the point at which carbon emissions being emitted into the atmosphere are balanced with their removal, meaning there is no overall addition to atmospheric levels. The Council declared a climate emergency in 2019 and has developed plans to achieve Net Zero in both its own operations and across Leicestershire. The Leicestershire County Council Strategic Plan 2022–26 has also been updated; it is based on five strategic outcomes that outline the Council's vision for Leicestershire. Amongst the five outcomes, is the Clean and Green outcome, to protect and enhance the environment and tackle climate change.

A Carbon Reduction Roadmap for the Council to achieve net zero emissions for its own operations by 2030 was initially approved by full Council in July 2020 and is being delivered through a programme of Council projects. In its report to Cabinet in April 2022, the Council reported that it had delivered a 74% reduction in its emissions by the end of 2020/21 and is on track to deliver by 2030.

Summary

We have not identified any areas of significant weakness in the Council's arrangements. We have raised four improvement recommendations to further enhance and strengthen those processes in place. These can be found on pages 27 – 30 of this report.

Executive summary (continued)



Improving economy, efficiency and effectiveness

Council wide performance monitoring

The Council has embedded processes in place to monitor and report upon its Strategic and Departmental performance. The Annual Delivery report sets out the projects and activities that have been undertaken against each of the priorities in the Council's Strategic Plan and is supported by the Performance Compendium. The compendium uses performance indicators to compare the performance of the Council over time against targets and with other Local Authorities.

The report documents that for 2021/22, Leicestershire County Council ranked 5th in performance terms compared to other counties and has the lowest core spending power per head. However, for 2022/23 it identifies that a larger proportion of indicators had deteriorated when compared with 2021/22 data. This is reported to be due to the low-funded position affecting the levels of service it could provide and that outcomes were likely to deteriorate further. 76 indicators recorded an improved position in 2022/23 when compared to 2021/22. However, 83 recorded a deteriorated position. Of particular note were those indicators related to Transport. 10 out of 18 indicators are displaying lower performance than the prior year. These include satisfaction with local bus services, cycle routes and facilities, rights of way, pavements & footpaths, traffic levels & congestion and road safety. Strong Economy, Transport and Infrastructure is a key priority within the Council's Strategic Plan.

Departmental performance

Departmental key performance measures are reported to Overview and Scrutiny Committee on a quarterly basis. The metrics of these reports are also aligned to the Council's Strategic Plan and include any mandatory reporting items. Performance is RAG rated and, where available, compared with national benchmarking data. Quarter 4 reporting for Childrens and Family Services records that of the 10 indicators with a national benchmark; three are in the top quartile, two are in the second quartile, four are in the third quartile, and one is in the fourth quartile. The KPI in the fourth quartile relates to the percentage of re-referrals to Children's Social Care within 12 months. This was 23.5% at the end of quarter 4 compared to 22.8% at the end of the previous quarter, with 347 children 're-referred' within Quarter 4. This is against a target of 22%. However the report does note that more recent analysis shows a decrease in the rate of re-referrals to 21.9% which exceeds the target.

Compliments and complaints

Processes such as receiving compliments and complaints also provide the Council with important information in respect of its departments and performance of its services. Statutory regulations allow up to 65 working days for complaints to be resolved. Complaints investigated within Childrens Social Care showed a worsening position overall for time taken in each category when compared to the previous year. Most notably there has been a 22% increase in the number of complaints responded to in excess of 65 working days. The Council has reported that Completion of Stage 2 investigations within the statutory guidelines has continued to be a challenge during the year with none of the 10 completed investigations achieving this.

Executive summary (continued)



Improving economy, efficiency and effectiveness

SEND

The Leicestershire local area was subject to a SEND re-inspection in November 2022. The purpose of the visit was to consider the progress made in addressing two previously reported significant weaknesses. The report concluded that there has been sufficient progress in addressing the Lack of a joint commissioning strategy but has not made sufficient progress in respect of the quality of Health and Care Plans (EHCP). To address the issues, an Accelerated Progress Plan (APP) has been developed which reflects the high-level actions that will be taken across the Leicestershire local area. The APP and on-going Transforming SEND in Leicestershire (TSIL) activity will be incorporated into a refreshed SEND and Inclusion Strategy 2023-26 which is planned to be published in 2023.

Procurement

Our review of procurement has noted a significant increase in contract exceptions and extensions year on year. We have concluded that while there are processes in place for granting and approving contract exceptions and extensions; there is a risk that the number of exceptions and extensions indicates inefficient or ineffective procurement and contract management processes. We have raised an improvement recommendation on this matter.

Commercial ventures and Partnerships

The Council has a number of commercial and collaborate partnership working arrangements in place. We have included some commentary in respect of the complexity of some of these arrangements (particularly with regard to the East Midlands Freeport) and have included a recommendation to ensure that appropriate governance arrangements are in place and that there is appropriate oversight and assurance in respect of any emerging risks to the Council.

Summary

We have not reported any areas of significant weakness in the Council's arrangements. We have raised five improvement recommendations to further enhance and strengthen those processes in place. These can be found on pages 44 – 48 of this report.



Acknowledgements

We would like to take this opportunity to record our appreciation for the assistance provided by Council officers, Council Members and external stakeholders with whom we have engaged during the course of our review.

Use of auditor's powers

We bring the following matters to your attention:

2022/23

Statutory recommendations

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

We did not make any written recommendations under Schedule 7 of the Local Audit and Accountability Act 2014.

Public Interest Report

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

We did not issue a public interest report.

Application to the Court

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

We did not make an application to the Court.

Advisory notice

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

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

We did not issue any advisory notices.

Judicial review

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

We did not make an application for judicial review.

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

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

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

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

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



Financial sustainability

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



Governance

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



Improving economy, efficiency and effectiveness

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

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

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



Our commentary on the Council's arrangements in each of these three areas, is set out on pages 10 to 48.

The current LG landscape



National context

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

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

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

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

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

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

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

The current LG landscape (continued)



Local context

Leicestershire is a predominantly rural County with 82% of Leicestershire's area classified as rural while 70% of the population live in its towns and urban areas.

Leicestershire comprises of seven Local Authority districts and covers an area of 208,000 hectares, with a population of around 713,000 people. Leicestershire has an aging population with over 26% aged 60 and over. The population has grown by 9.5% since the 2011 Census, which is faster than the national and regional growth rates. The County population is predicted to reach 860,000 by 2043, with particular growth among the over 70's.

Leicestershire is a relatively affluent County; however, some pockets of significant deprived areas fall into the 10% most deprived neighbourhoods in England. There is an eight-year difference in life expectancy at birth between males in the most deprived decile and least deprived decile of the population.

Leicestershire remains the lowest funded County Council in the country. The Council's financial position continues to be extremely challenging, with £250 million saved since 2010 and a further £150 million to save by 2026/27.

The Council has consolidated its priority outcomes into its Strategic Plan for 2022-26. The Strategic Plan sets out the Council's long-term vision for Leicestershire and its priorities over a four-year period. It is a key strategy which shapes how the Council plans and delivers services.

The Plan sets is vision around five strategic outcomes that are essential for good quality of life in Leicestershire. These set out aspirations for local people and places, describing the results it wants people to see and experience in their daily lives.



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 2022/23

The County Council is operating in an extremely challenging financial environment following a decade of austerity and spending pressures. The financial impacts of the pandemic are still ongoing and may take many years to unwind. Despite these pressures, the Council has continued to manage its financial position well.

The Council approved the 2022/23 to 2025/26 Medium Term Financial Strategy (MTFS) in February 2022. The provisional outturn position at 31st March 2023 was provided to Cabinet in May 2023 and reported a net underspending of £6.7 million against a total net revenue budget of £471.7 million, that is approximately -1.4% variance.

There were some significant variances to the budget with a total revenue budget overspend of £8.353 million, equivalent to 1.8%. This was offset by underspends across the Council, additional income and releasing the £8 million Risks Contingency as an underspend; leading to a net underspend outturn position overall.

Pressures on demand led services within Children and Family and Adults and Community Services continue; exacerbated by the needs and demands arising post Covid-19 and more recently by the current and on-going cost of living pressures.

We note that all variances are clearly set out within the budget outturn report and from review we can evidence where the Council has instigated further action or investigation in respect of significant variances; in particular overspends.

A summary of service area net under and overspend outturn position is shown opposite. Further details and some key areas to note are shown in the attached table opposite.

Service Area Over / Underspends 2022/23:

Service Area	Net Over / Underspend (-) £000	% of budget
Schools	-1,826	-2.1
Early Years	1,026	2.8
High Needs	6,684	7.1
LA Budget:		
Children & Family Services	3,127	3.3
Adults & Communities	3,124	1.7
Environment & Transport	-1,846	-2
Chief Executives	-114	-0.7
Corporate Resources	1,626	4.1
Public Health (Grant Funded)	0	0
Contingency for Inflation	7,120	n/a
MTFS risks contingency	-8000	-100
Total LA Budget Overspend	5,036	1.2

Financial sustainability (continued)

Medium Term Financial Strategy (MTFS)

The Council has a robust organisational approach to financial planning and setting the annual budget.

The MTFS is a rolling financial plan that is updated annually. The Council has clear processes to recognise, assess and evaluate the impact of changes in expenditure drivers, for example unavoidable cost pressures such as inflation and pay uplifts, and reflect and document these in its planning.

In February 2023, Cabinet approved the Leicestershire County Council four year MTFS to 2026/27, which incorporates a revenue budget for 2023/24 totalling £512.1 million. The MTFS provides a balanced budget in 2023/24 based on a Council Tax increase of 4.99% (including the social care levy) and a savings requirement of £12.3 million.

Based on its assumptions around growth and demand; the MTFS has identified gaps in funding of £13 million in 2024/25 rising to £88 million in 2026/27. In addition, delivery of the MTFS requires a significant level of planned savings which is in excess of £37 million to be made between 2024/25 and 2026/27 as demonstrated in the table below.

This represents the significance of the financial challenge faced by the Council over the coming years. In September 2023 the Council reported to Cabinet on its continuing challenging financial outlook and provided an overview of its current financial position which, at period 4, was forecasting a projected net overspend of £8.9 million. There is a Risks Contingency of £10 million built into the MTFS and we note the Council's intention to utilise this along with appropriate earmarked reserves to close any overspend at the end of the financial year.

The Council has a robust approach to identifying savings with robust monitoring and reporting against its savings plan.

There is a good track record of delivering savings with monitoring and oversight through the Transformation Delivery Board; from our review of a sample of reports we confirmed clear and transparent reporting over delivery, which provides a RAG rated risk of delivery for each programme alongside the direction of travel since the last meeting – providing assurance and highlighting areas of risk.

From our review of monitoring and reporting records we note that, at period 5, the Council is forecasting to deliver 99% of its 2023/24 savings plan.

£million	2022/23	2023/24	2024/25	2025/26	2026/27
Savings Plan	17,750	12,330	23,440	30,525	37,165
MTFS Shortfall (Funding Gap)	0	0	12,968	49,763	88,063
TOTAL Savings Required (Excluding DSG)	17,750	12,330	36,408	80,288	125,228

Improvement recommendation 1.



Local Government Finance Settlement

The Government announced the Provisional Local Government Finance Settlement for 2023/24 in December 2022, with the Final Settlement confirmed in February 2023. The Settlement distributes a range of grants and business rate income allocations to local authorities, and these should be included in the annual budget.

The Final Settlement for 2023/24 distributed £17.1 billion of funding to Local Authorities, a 4.8% increase in cash terms from 2022/23.

The Settlement also provides the Core Spending Power for Local Authorities, which is the level of resources assumed available to fund the net budget. Core Spending Power includes the levels of government grant for the coming year, for example revenue support grant, new homes bonus and social care grants. It also includes assumed levels of business rate income.

Core Spending Power includes the assumption that local authorities will increase council tax up to the referendum limit, which for 2023/24 is 3% plus an additional 2% for upper tier authorities who provide adult social care services. District Councils can increase council tax by £5 or 3%, whichever is higher.

The Government will undertake Spending Reviews that set out government departmental budgets over a period of 3 years, including local government. These reviews are different to, but inform, the annual Local Government Finance Settlement.

Financial Sustainability (continued)

Financial Resilience

Adults and Communities

There is a net overspend of £3.1 million (1.7%) for the departmental revenue budget for 2022/23. The outturn report notes that there has been a continuing financial impact on Adult Social Care due to Covid-19 which includes additional costs for commissioned services and loss of service user income. The Council has reported that these now appear to be subsiding.

The main area of variance includes £6.6 million overspend in Residential Care and £6.5 million overspend in Homecare.

The 2023/24 period 4 monitoring report shows that the Council is forecasting an adverse outcome position at year end of £7.8 million.

Environment and Transport

The Environment and Transport budget has delivered a net underspend of £1.8 million (2.0%) overall; however does include some budget overspends, including:

Social Care Transport - External

An increase in taxis being commissioned for Social Care transport has resulted in a £1.8 million overspend equivalent to 77%. This increase is partly due to the reduction in the number of Fleet routes being operated due to unavailability of drivers and a greater demand for solo transport as a result of the Covid-19 pandemic. The overspend on ASC taxis is partially offset by an underspend on Passenger Fleet transport. A full review of all social care transport is currently underway to ensure that passengers are being transported in the most cost effective way and that fleet capacity is being fully utilised.

Inflation Contingency

The MTFS provides an estimated average pay award of 2% each year, with an allowance for higher increases in the lower grades to reflect the impact of the National Living Wage. The 2022/23 to 2025/26 MTFS also includes an inflation contingency of £1.63 million in 2022/23 rising to £3.63 million in future years; overall this provides £29 million for inflation in 2022/23 rising to £72 million by 2025/26.

The 2022/23 outturn reports that the contingency is overspent by £7.1 million. The majority of the overspend is related to the pay award for 2022/23 of £1,925 on each scale point, equating to an average increase of 6.4% - the cost in excess of the estimate in the inflation contingency (based on 3%) is around £7 million. Running costs have also been higher than anticipated, particularly regarding electricity contracts, where increases of around 100% have been incurred.

The 2023/24 to 2026/27 MTFS includes a £109 million provision for pay and price inflation. The draft MTFS assumes 10% inflation in 2023/24, 6% in 2024/25 and 3% per annum in 2025/26 and 2026/27.

The 2023/24 period 4 monitoring report shows that the Council is forecasting an adverse outcome position at year end of £4 million.



Adult Social Care

Single and upper tier Councils are responsible for providing adult social care (ASC) services to help adults of all ages who may need additional support to stay well, safe and where possible to live independently.

ASC represents a significant part of Council spending with £19 billion nationally being spent in 2021/22 with budgeted expenditure rising to £19.7 billion in 2022/23, reflecting growing demand.

There have been several reforms to ASC funding for Councils over recent years, including the introduction of the Better Care Fund and giving Councils the power to raise additional revenue locally through Council Tax (the social care precept). Despite these changes Councils are delivering ASC services within a challenging environment that is shaped by more people, particularly working-age adults, requesting support, an ageing population and increasing complexity of need. These factors are being managed by Councils alongside financial challenges such as the impact of inflation, acute workforce pressures, the sustainability of commissioned ASC providers and uncertainty around longer term ASC funding and reform.

Despite these pressures Councils will need to establish sufficient capacity to track and then transform service delivery to meet the challenges of evolving need and demand.

Financial Sustainability (continued)

Financial Resilience - continued

Children and Family Services

The Children and Family Services Local Authority budget is overspent by a net £3.1 million (3.3% overall), this includes overspends within the SEN service budget, unaccompanied asylum seeker children (UASC) budget, and a combination of children's social care pressures totalling £0.8 million:

Children's Social Care - Section 17/23 (Children in Need).

Increase in demand for support, impacted by cost of living pressures has resulted in an overspend position of £0.4 million which is a 104% adverse budget position. Section 17 of the Children Act 1989 imposes a general duty on local authorities to safeguard and promote the welfare of "children in need" in their area. To fulfil this duty, Section 17 gives local authorities the power to provide support, including accommodation and financial subsistence to families with "children in need". Such support is seen to be a preventative measure to prevent further escalation of support and costs. Further work has been commissioned internally to try to understand such pressures and will support future analysis and its likely subsequent financial impact on the MTFS.

Children's Asylum Seekers Budget

The rapid increase in Unaccompanied Asylum Seeker Children (UASC) in care and care leavers has required a greater resource requirement to meet their needs; contributing to an overspend position of £0.4 million which is a 27% adverse budget position. The different entry routes include both the National Transfer scheme, as well as spontaneous arrivals, but more recently through the hotel dispersal scheme where requests to accommodate people placed in Asylum Dispersal Hotels in Leicestershire are made, and whilst they have been deemed adults by the Home Office, subsequently claim to be children, and creates an additional pressure for the service to manage which is not fully funded. In addition, delays in asylum claim processes mean that the Council is often accommodating young people well past 18 and the Home Office funding drops significantly at 18 but the costs remain the same.

SEN Service Budget

The SEN service overspend is equivalent to 27% at £0.5 million and is as a result of increased service demand and complexity which has resulted in the need for additional service resource, some of which is having to be met from the agency market to ensure demand can be managed effectively.

The 2023/24 period 4 monitoring report shows that the Council is forecasting an adverse outcome position at year end of £7.9 million. The pressures on Children's Services are significant and this should be an area of focus by the Council.



Cost of Living Crisis

The rising costs of fuel, food and other essentials are combining with existing disadvantage and vulnerability and putting many households at greater risk of both immediate hardship and reduced opportunity and wellbeing.

Councils and local partners continue to do what they can to protect people against higher costs, targeting help at those facing the most complex challenges.

Councils' range of front-line services play a vital role in protecting residents from rising costs; preventing the most vulnerable from falling into destitution and helping to build households long-term financial resilience.

The dramatic increase in inflation alongside increases to the National Living Wage, have added £2.4 billion in extra costs onto the budgets of Councils in 2022/23. In 2023/24 Councils are facing a funding gap of 3.4 billion, with a funding gap of £4.5 billion the following year.

To support its most vulnerable residents through the cost-of-living crisis, Councils face additional cost-pressures which will need to be addressed to avoid further cuts to vital frontline services.

Financial Sustainability (continued)

Financial Resilience - continued

Dedicated Schools Grant (DSG)

The DSG is a ring fenced budget which is allocated in blocks; schools, early years and high needs. The DSG has continued to overspend and in 2022/23 the High Needs Block is showing an overspend on the grant received of a net £6.7 million although this is below the £8.9 million forecast included within the original 2022/23 to 2025/26 MTFS. This has increased the cumulative deficit to £35.5 million at the end of 2022/23 financial year.

In 2023/24 there is a funding gap of £13.3 million which will be carried forward as an overspend against the grant. The increasing deficit position is demonstrated in the chart opposite with an estimated cumulative deficit position of circa £80.6 million at the end of the 2026/27 financial year.

In February 2023 the Council reported that, this financial position is unsustainable and further actions need to be taken to address the position. Whilst some of the deficit relates to increasing cost, the significant element in the worsening position is the continued rate of growth in pupils.

A statutory override has been provided by the Government which currently allows the DSG deficit to be carried over as a negative reserve. This Instrument is however time-limited and was due to end in March 2023 but in recognition of the national challenge in relation to DSG deficits was extended for a further three years to March 2026. It is unclear if the statutory override will be extended beyond March 2026. The extension is to allow councils the short-term flexibility needed to implement changes to reduce the spend within the high needs block of the DSG to a financially sustainable position, so that the costs are contained and the deficit no longer increases.

Nationally, concern over the impact of Special Educational Needs and Disabilities (SEND) reform on High Needs expenditure, and the financial difficulties this exposes local authorities to, is growing. Whilst the recently released Green Paper and Improvement Plan are set to result in systemic changes to the national SEND system, such changes may take a number of years to deliver.

Councils with a DSG deficit are required by the Department for Education (DfE) to develop and agree a DSG deficit management plan with the Council's Schools Forum.

Leicestershire has been invited into the DfE Delivering Better Value (DBV) in SEND programme as a result of the deficit. Leicestershire has received £1 million to support the transformation of the SEND system.

The Transforming SEND in Leicestershire (TSIL) programme is mobilised. The programme has been categorised into individual workstreams focusing on changes to the whole SEND system to ensure that children with special educational needs and disabilities have their needs met at the right time, in the right place and with the right support.

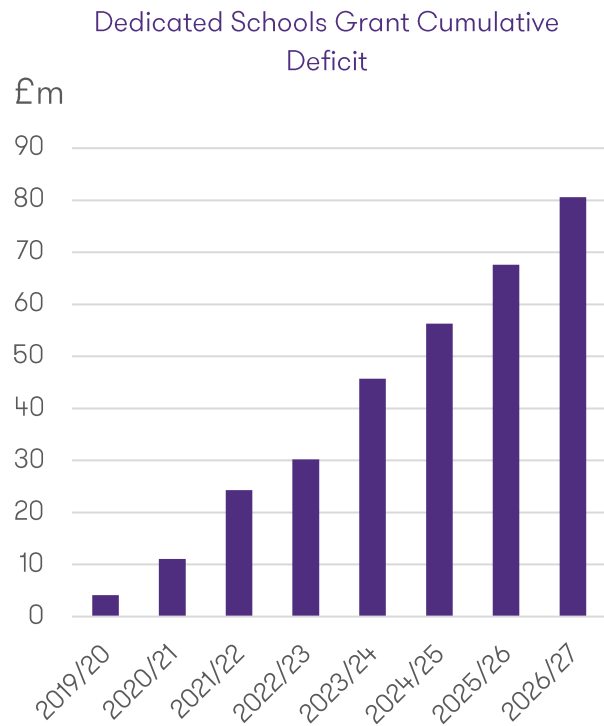
In February 2023, the draft 2023/24 to 2026/27 MTFS reported that based on the current trajectory of growth; the TSIL programme is expected to deliver £32.1 million in financial benefits to 2028/29 with £21.5 million delivered over the period of the MTFS.

The programme was forecast to deliver £3.1 million savings in 2023/24. However from review of oversight reporting we note that this was re-profiled in May 2023 and now plans to deliver £1.85 million in year 1.

We have included an improvement recommendation to ensure that the TSIL programme is supported by robust governance arrangements to ensure that its plans deliver.

Improvement recommendation 2.

If the statutory override is not extended or financial support forthcoming to reduce the financial deficit, the DSG deficit will place significant pressure on the Council's reserves and put at risk the Council's general fund unearmarked and earmarked reserves.



The figures shown in the above table are based on the estimated future funding gap documented within the 2023/24 – 2026/27 MTFS.

Financial Sustainability (continued)

Treasury Management and Annual Investment Strategy

The Treasury Management Strategy Statement and the Treasury Management Annual Investment Strategy are approved in advance of each financial year by the full Council.

The Council's Strategy aligns with the Corporate Asset Investment Fund (CAIF) strategy (now Investing in Leicestershire Programme (IILP) strategy), which sets out the Councils approach when considering the acquisition of investments and the Capital Strategy, which sets out the Councils approach to determining its medium term capital requirements. These documents form part of the MTFS.

Treasury management, arises from the organisation's cash flows or treasury risk management activity; this type of investment represents balances which are only held until the cash is required for use. Treasury investments may also arise from other treasury risk management activity which seeks to prudently manage the risks, costs or income relating to existing or forecast debt or treasury investments.

The Council's Investment Strategy documents that it aims to achieve an optimal return on its investments that is commensurate with proper level of security and liquidity. This is supported by its risk appetite which is considered as low in order to give priority to security of its investments.

Surplus monies are invested in low risk counterparties or instruments providing adequate liquidity initially before considering investment return.

The Treasury Management Strategy requires quarterly reports to be presented to the Corporate Governance Committee, to provide an update on any significant events in treasury management.

From our review of a sample of reports, we noted that the content provides a clear overview of the actions taken in respect of treasury management for the quarter to provide assurance to the CGC that the Council's Treasury Management arrangements are appropriate and regularly monitored.

The second main function of the Treasury Management service is the funding of the Council's capital plans. These provide a guide to the borrowing need of the Council, essentially the longer-term cash flow planning, to ensure that the Council can meet its capital spending obligations. This management of longer-term cash may involve arranging long or short-term loans or using longer-term cash flow surpluses.

Treasury risk management at the Council is conducted within the framework of CIPFA's Treasury Management Code of Practice.

The capital financing requirement (CFR) measures the Council's need to borrow for capital purposes. The total of non-current assets as at 31 March 2023 was £1.1 billion and the CFR was £208 million. Actual debt was £262 million as at 31 March 2023. The difference between the CFR and the actual debt is an overborrowed position of £54 million, pending the repayment of debt.

During 2022/23 no new external loans were raised.

Although the level of actual debt currently exceeds the CFR, the Council is forecasting an under borrowed position of £49 million by 2027, in its 2023/24 to 2026/27 MTFS.



Financial Sustainability (continued)

Capital Programme

The Council approved the 2022/23 to 2025/26 MTFS in February 2022. Over the period of the MTFS, a Capital Programme of £515 million is required of which £129 million was planned for 2022/23.

This includes investment for services, road and school infrastructure; which aligns to the vision and priorities set out within the Council's Strategic Plan 2022-26.

The programme documents that the Council recognises the need to fund long term investment and has set a capital programme that includes forward funding of capital infrastructure projects for highways of £33 million (£39 million cumulative).

Capital funding available totals £372 million with the balance of £143 million being temporarily funded from the Council's internal cash balances. This is due to the levels of internal cash balances and the interest return compared with the cost of raising new external debt it is more economical to temporarily utilise internal cash balances. The cost of raising external loans currently exceeds the cost of interest lost on cash balances by circa 1.5%.

The Council reports that, due to the strength of the County Council's balance sheet, it is possible to use internal balances (cash balances) to fund the capital programme on a temporary basis instead of raising new external loans. Levels of cash balances held by the Council comprise the amounts held for earmarked funds, provisions, the Minimum Revenue Provision (MRP) set aside for the repayment of debt and working capital of the Council.

The Council's level of external debt was £263m and not assumed to increase during the MTFS. The relative interest rates and cash balances would be kept under review to ensure that this is the right approach.

The four-year capital programme was reviewed in August 2022 and an updated programme approved by the Cabinet at its meeting on 16 September 2022.

The review led to an increase in expenditure over the four-year programme by £29 million, but a net overall reduction in discretionary funding of £9.3 million due to increased grants and additional capital receipts, totalling £38 million. These changes reduce the level of borrowing required for the capital programme to £134 million.

The updated 2022/23 budget planned delivery of £123.6 million; provisional outturn reported in May 2023 showed actual delivery of £94 million. Overall there has been a net variance of £29.6 million. This includes net slippage of £28.5 million and a net underspend of £1.1 million.

The net slippage will be carried forward to 2023/24 and future years to fund schemes that were not completed in 2022/23, with the net underspend added to the capital financing reserve.

The net underspend of £1.1m has been added to the capital financing reserve to reduce the level of internal borrowing required for the new MTFS capital programme. The net slippage of £28.5m has been carried forward to the capital programme 2023-27 to fund delayed projects.

We note that it is not unusual to see significant slippage in the capital programme during the year and note that the Council carries out a mid-year review of the capital programme during the summer in light of delays to project delivery and financial pressures on large capital projects due to increasing costs of raw materials and inflation. An updated capital programme is reported to the Cabinet in September each year.

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 2023/24 to 2026/27 four-year capital programme totals £509 million of which £127 million is planned for 2023/24. £123 million from internal cash balances will be used to fund the cash flow of the capital programme.

From review of the 2022/23 to 2025/26 MTFS we noted the assumption of funding of £8.7 million from capital receipts from sales. The 2022/23 draft accounts show the actual received was £1.1 million; a shortfall of £7.6 million when compared against the original forecast. We do note that the assumption was revised to £2.5 million in the September 2022 refresh, resulting in a shortfall of £1.4 million.

The 2023/24 to 2026/27 MTFS shows assumptions of capital receipts from sales amounting to £20.3 million over the four year period, with £13.4 million expected to be received in 2024/25.

The Council needs to ensure that the expectations and assumptions around asset sales are built on realistic and achievable forecasts.

Improvement recommendation 3.

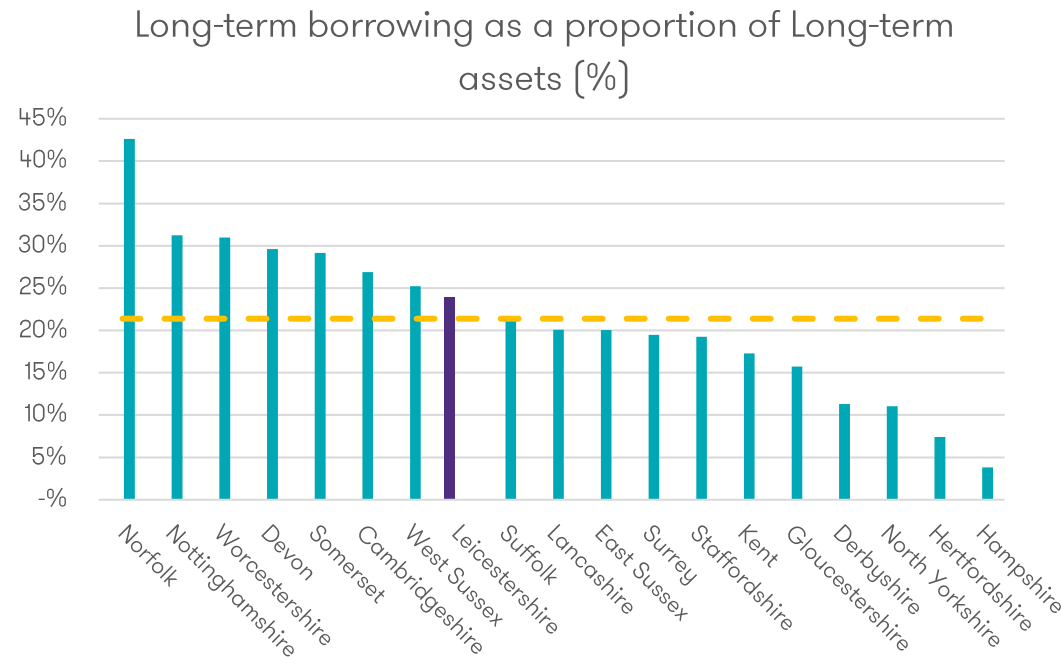


Financial Sustainability (continued)

Treasury Management and Annual Investment Strategy - continued

From our benchmarking carried out we noted that Leicestershire County Council, at 24%, is just above average in terms of borrowing as a proportion of long term assets, in comparison to other County Council peers as shown in the table below. From our review carried out in 2021/22 we noted the Council was just below average. The Average long term borrowing as a proportion of long-term assets is 23%:

The level of capital borrowing is within the Council’s 2022/23 Prudential Indicators that inform the Council whether its capital investment plans are affordable, prudent and sustainable.



Reserves

The purpose of the Council’s general fund reserve is to meet costs arising from any unplanned or emergency events such as unforeseen financial liabilities or natural disasters.

It also acts as a financial buffer to help mitigate against the financial risks the Council faces and can be used to a limited degree to ‘smooth’ expenditure on a one-off basis across years.

The uncommitted General Fund balance as at 31 March 2023 stands at £19 million (excluding schools’ delegated budgets). This represents 3.7% of the 2023/24 revenue budget.

The Council plans to increase the General Fund to £23 million by the end of 2026/27 to reflect increasing uncertainty and risks over the medium term, and to avoid a reduction in the percentage of the net budget covered.

In line with the Council’s earmarked reserves policy; based on an assessment of risk, the target level for the General Fund is within the range of 4% to 7% of net expenditure (excluding schools).

The forecast balance of £23 million (4.2%), by the end of the MTFS is within that range but towards the bottom reflecting the tighter financial pressures of the Council.

Earmarked reserves are set aside for specific purposes. The total level of earmarked reserves held as at 31 March 2023 total £194 million including schools and partnership funding.

This is a decrease of £6.2 million when compared with the start of the year balances.

From our benchmarking carried out we found that the General Fund and non-schools earmarked general fund reserves as a % of net service revenue % is calculated at 48% which is above the benchmarked average of 35%.

This suggests the Council has a good level of reserves to meet costs arising from any unplanned or emergency events .

Financial Governance

Annual budget setting

The Council has appropriate arrangements in place to work internally and externally when preparing the annual budget.

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

The 2022/23 budget was approved by Full Council in February 2022, following discussion, debate and oversight through Cabinet, Scrutiny Commission and following appropriate stakeholder consultation. The outcome of the public consultation and comments from Scrutiny are appended to the MTFS.

We also evidenced that an overview of all changes made to the initial draft budget in December 2021 and the final draft for approval in February 2022 were clearly documented.

The Council's Treasury Management Strategy is approved annually by the full Council with quarterly reports to the Corporate Governance Committee (CGC). CGC considered the 2022/23 Treasury Management Strategy Statement and Annual Investment Strategy at its meeting on 28 January 2022.

Annual budget setting arrangements are well developed. It is clear that the Council has developed a robust financial planning and governance framework which incorporates budget setting responsibilities at a departmental level supported by financial business partner expertise.

Budgetary control

The Council has embedded arrangements in place to ensure budgetary control and communicate timely management information.

There are embedded processes in place for budget monitoring and reporting throughout the year. Financial Monitoring reports are considered at both Departmental Management Team (DMT) and Corporate Management Team (CMT) meetings.

There is a financial reporting framework in place which ensures financial reporting to Scrutiny Commission and Cabinet also receive oversight reports of the MTFS position.




From our review of Cabinet and Scrutiny Commission papers we noted that budget monitoring reports were received in accordance with the framework and provided a clear outline the financial position faced by the County Council and the uncertainties that the Council continues to face.

In November 2022; the period 6 revenue budget monitoring exercise showed a net projected overspend of £8.5 million which was an improved position when compared to the period 4 monitoring report which projected a net overspend of £13.6 million.

We have considered the arrangements in place for the preparing, approving and monitoring of the 2022/23 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 demand, and have not identified any risks of significant weakness in this area.



Improvement recommendations

Recommendation 1	The Council needs to ensure it maintains a robust framework of financial governance to ensure risks to financial resilience and sustainability are adequately monitored and controlled.		
Improvement opportunity identified	Reducing spend and protecting reserves is important to ensure that the Council maintains financial sustainability in the longer term.		
Summary findings	<p>The MTFS provides a balanced budget in 2023/24; however rising costs and increasing demands on services means the MTFS has identified gaps in funding of £13 million in 2024/25 rising to £88 million in 2026/27.</p> <p>Delivery of the MTFS also requires a significant level of planned savings which is in excess of £37 million to be made between 2024/25 and 2026/27.</p>		
Criteria impacted by the finding	 Financial Sustainability	 Governance	 Improving economy, efficiency and effectiveness
Auditor judgement	Our work has enabled us to identify an area for improvement in arrangements which we do not consider to be significant, but have raised a recommendation to support management in making appropriate improvements.		
Management comments	<p>Options to balance the 2024/25 budget are currently being considered. An updated draft budget for 2024/25, along with provisional estimates for 25/26 to 27-28 (including details of planned savings programmes and other measures being taken to control future expenditure and maximise income), will be presented to the Cabinet in December 2023. Following this there will be a period of budget consultation leading to a final budget position being presented to Cabinet and Full Council in February 2024.</p> <p>Further savings options are being identified alongside implementation of stronger financial controls to ensure limited resources are focussed on delivering essential services.</p>		

Improvement recommendations

Recommendation 2

- The Council needs to ensure that the Transforming SEND and Inclusion in Leicestershire (TSIL) programme is supported by robust governance arrangements that encompass both its financial challenges and those arising from service delivery, including:
- Ensuring delivery of its planned savings.
 - Providing effective and appropriate challenge to ensure progress continues to be made in addressing the outstanding weaknesses from Ofsted and the Care Quality Commission inspections. This should include:
 - ensuring oversight and monitoring of the Accelerated Progress Plan (APP),
 - refreshing the SEND and Inclusion Strategy 2023-26 and
 - Ensuring progress continues to be made in respect of reducing the timescales of completing health and care plans (EHCP)

Improvement opportunity identified

To reduce the financial deficit, and risk to the Council’s reserves.

Summary findings

The DSG has continued to overspend and in 2022/23 the High Needs Block is showing an overspend of a net £6.7 million. This has increased the cumulative deficit to £35.5 million at the end of 2022/23 financial year.

In 2023/24 there is a funding gap of £13.3 million which will be carried forward as an overspend against the grant. The increasing deficit position is estimated to reach £90 million at the end of the 2026/27 financial year.

The TSIL programme was forecast to deliver £3.1 million savings in 2023/24. However this was re-profiled in May 2023 and now plans to deliver £1.85 million in year 1.

The governance arrangements in place to deliver the TSIL programme and APP are still in their infancy and may take time to embed.

Criteria impacted by the finding

	Financial Sustainability		Governance		Improving economy, efficiency and effectiveness
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Auditor judgement

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

Management comments

Overleaf

Improvement recommendations

Recommendation 2 - continued

The Council needs to ensure that the Transforming SEND and Inclusion in Leicestershire (TSIL) programme is supported by robust governance arrangements that encompass both its financial challenges and those arising from service delivery, including:

- Ensuring delivery of its planned savings.
- Providing effective and appropriate challenge to ensure progress continues to be made in addressing the outstanding weaknesses from Ofsted and the Care Quality Commission inspections. This should include:
 - ensuring oversight and monitoring of the Accelerated Progress Plan (APP),
 - refreshing the SEND and Inclusion Strategy 2023-26 and
 - ensuring progress continues to be made in respect of reducing the timescales of completing health and care plans (EHCP)

Management comments

TSIL Programme Governance is in place. Benefits monitoring is within the process where KPI's are established and monitored for all workstreams and consider both contract compliance and MTFS. This gives visibility and challenge to all financial metrics which are being built into services improvement cycles and also departmental and corporate financial monitoring.




Oversight and monitoring of the APP takes place through a joint meeting with Health Colleagues, the DfE and the Local Authority. Regular performance updates are submitted to the DfE to monitor progress against the indicators in the APP. Scrutiny of work taking place to update the actions happens at the regular monitoring boards to agree actions and monitor progress.

A key component of the APP is improving the timeliness of EHCP completion. This work is monitored through the APP monitoring Boards as well as through the TSIL governance. Through robust data management and analysis, issues leading to lack of timeliness are now clear and actions to mitigate these challenges have been developed (particularly around educational Psychology availability). Improvements in timeliness are starting to show as a result of actions being taken to mitigate the issues identified.

The SEND and Inclusion Strategy is currently being reviewed and refreshed via the SEND and Inclusion Board. Timeframe for completion will be March 2024.

The Strategy is being refreshed using data gathered through the TSIL programme including pupil forecasting which links sufficiency planning and financial planning and the use of capital and links to capacity data from specialist provision.

Improvement recommendations

Recommendation 3	The Council needs to ensure that forecasting assumptions over income; in particular capital receipts from sales of assets should be realistic and deliverable to ensure financial sustainability is not impacted further.		
Improvement opportunity identified	To ensure that risks to Financial Sustainability are appropriately managed.		
Summary findings	In the 2022/23 to 2025/26 MTFS, there was an assumption of funding of £8.7 million from capital receipts from sales. This was revised to £2.5 million in the September 2022 refresh. The 2022/23 draft accounts show the actual received was £1.1 million; a shortfall of £1.4 million. The 2023/24 to 2026/27 MTFS shows assumptions of capital receipts from sales amounting to £20.3 million over the four year period, with £13.4 million expected to be received in 2024/25.		
Criteria impacted by the finding	 Financial Sustainability	 Governance	 Improving economy, efficiency and effectiveness
Auditor judgement	Our work has enabled us to identify an area for improvement in arrangements which we do not consider to be significant, but have raised a recommendation to support management in making appropriate improvements.		
Management comments	Capital receipts by their nature are uncertain in both timing and amount. Estimates are reviewed during the year and updated as part of the refresh of the MTFS and mid-year capital programme review. The budget amounts are based upon the sale of identified assets weighted for the risk of realisation.		

Governance



We considered how the Council:

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

Risk management and internal control

High level responsibilities for managing risk are documented within the Authority's Constitution, which delegates responsibility to the Corporate Governance Committee (CGC); stating that the Committee shall have responsibility for the promotion and maintenance of the Council's Code of Corporate Governance with an emphasis on ensuring that an adequate risk management framework and associated control environment is in place.

In line with good practice, "Audit Committees" should assess their effectiveness annually. This is often completed via anonymous self-assessment questionnaires to assess the arrangements in place and the understanding of all individuals in their role as part of the Committee. From our review of CGC papers, we did not evidence that this has been undertaken; although we do acknowledge that the requirement to do so is not specified within its TOR.

To provide assurance that the CGC is well functioning in discharging its duties, we have recommended that a review of effectiveness is undertaken on an annual basis, and any areas identified for improvement or learning are appropriately actioned.

Improvement recommendation 4.

Risk Management

The Council has a risk management framework in place that is adequately documented and supported by oversight from the Corporate Governance Committee.

Day to day operational management of risk is the responsibility of each department. Risk Champions have been nominated within each Department and are responsible for maintaining Departmental Risk Registers. The co-ordination of risk management activity is carried out by a Senior Auditor which provides support in the co-ordination of registers. Pre-Covid, Risk Champions met as part of a wider Risk Management Group which includes the Head of Internal Audit and a representative from Insurance. This group has now been re-instated; its first meeting took place in February 2023 and anything significant arising from the group is reported upwards firstly to CMT and where necessary CGC.

Ensuring there are appropriate arrangements in place is a key part of compliance with the Public Sector Internal Audit Standards (PSIAS). We note that narrative within the Annual Governance Statement (AGS) documents that "during 2022/23 the Committee (CGC) has provided assurance that an adequate risk management framework is in place". However, from discussion with key officers we noted that there had not been a review of the arrangements in place within the last five years however acknowledge there is a planned independent external assessment to be completed in 2023.

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 CGC. This is also provided as an appendix to support the MTFS.

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.

Governance (continued)

Risk Management – continued

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

Risk impact criteria is also clearly documented and includes domains such as reputation, people, operations and finance etc. In our 2021/22 Annual Review we reported that environmental impact was not included as an impact measurement criteria. Following discussion with key officers it was agreed that this would be included. However, we acknowledge that this was concluded after the 2023/24 Risk Management Strategy was approved; therefore we are recommending that this be included as an impact domain within the 2024/25 refresh of the Strategy but taken into consideration when scoring risks in the meantime.

Improvement Recommendation 5.

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

From review of the CRR we confirmed that it included those key risks we would expect to see identified within a County Council, for example MTFs demand and cost pressures, Children's Social Care and SEND. We noted clear referencing of both the Department/Function and a CRR reference number. We consider that the Council's arrangements can be further enhanced by aligning its corporate risks to the strategic plan outcomes; to identify those risks which may prevent the Council from achieving its long-term vision and priorities and to provide assurance in respect of the actions being taken to mitigate the risk. The Council's vision is based on five strategic outcomes which are shown in the diagram opposite.

Improvement Recommendation 5.

The Council has arrangements in place to report risks to the CGC; providing assurance that risks are being identified and appropriately managed.

CGC receives risk management updates accompanied by the CRR at each of its meetings. The Corporate Management Team (CMT) also has oversight of corporate risk. CMT is the Council's officer group, made up of the Chief Executive, Monitoring Officer, Director of Corporate Resources and all Directors. The CRR is presented quarterly prior to reporting through CGC.

The CRR is designed to capture those high/red strategic risks that apply either corporately or to specific departments. Our sample review of committee papers confirmed that the Risk Management Update Reports provide a good level of detail with an overview of changes, deletions and emerging risks.

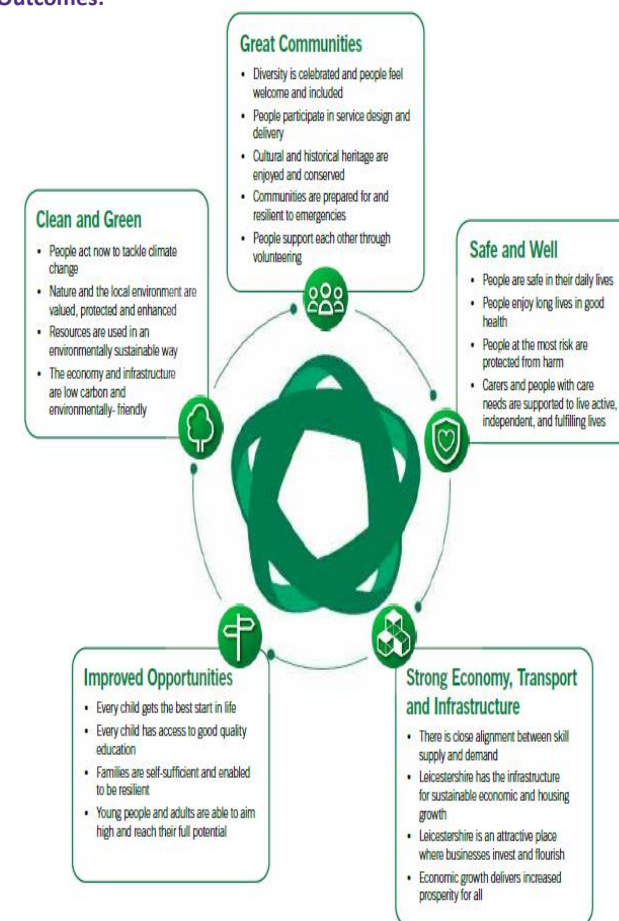
Following our review in 2021/22 we recommended that target scores be included within the CRR to enable the reader to gain assurance that the actions being taken to mitigate risks are appropriate and proportionate. We noted that target scores are now included within the CRR in addition to recording those embedded controls in place and any gaps or the requirement for further controls which have been identified.

There is a detailed update of the current position recorded against each risk, but it is not always clear what specific action is being taken, the responsible action owner or the date in which completion is expected. However, Departmental Risk registers hold more information on the mitigations, controls, action owners and timescales.

We noted that the requirement for actions to address any gaps should be clearly aligned and reference SMART principles is detailed in the Strategy.

Improvement Recommendation 5.

Leicestershire County Council Strategic Plan 2022-26 Outcomes:



Governance (continued)

The Council have adequate arrangements in place to provide Internal Audit and Counter Fraud Services. Regular reporting is provided to the CGC with evidence of appropriate oversight and challenge. However we have identified a weakness in planning arrangements and have raised an improvement recommendation to address this.

Internal Audit

The Council's Internal Audit and Counter Fraud Service are provided by Leicestershire County Council's in house Internal Audit Service. In June 2021, a report was presented to CGC outlining the methodology for developing the Internal Audit Plan for 2021/22; this documented a process to draw up a list of reviews to be completed in two six monthly periods ie April to September and October to March. This process was also followed in 2022/23. Following our 2021/22 review, we recommended that a full Annual Internal Audit Plan and Three Year Strategy, supported by an Internal Audit Charter should be provided for approval by the CGC on an annual basis. From review of CGC papers presented in May 2023 we noted that this has not been completed and a list of planned work covering the period April 2023 to September 2023 has been provided.

These arrangements are not compliant with the requirements of the PSIAS.

Improvement recommendation 6.

Progress against the plan is reported to each meeting of the CGC. Progress reports also provide information in respect of the implementation of high importance recommendations. Our review 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 at Nottingham City Council (NCCIA). During 2022/23 NCCIA was scheduled to conduct audits of payroll, accounts receivable, accounts payable, and IT – System Admin and access controls. However, from our review of CGC papers, we did not see evidence of assurance reporting against those reviews.

We also noted that the Council's draft AGS and Head of Internal Audit Opinion noted that the EMSS Head of Internal Audit Opinion was not complete. There is a risk that the Council's key governance reports are not representative of the full control environment as assurance in respect of its key financial systems was not included at the time or reporting.

Improvement recommendation 6.

To be compliant with PSIAS, all Public Sector Internal Audit Providers must be independently , externally assessed. The Internal Audit Service last had an external review in 2018. A report to CGC in January 2023 outlined the approach for completing the review with proposed reporting to CGC is May 2023. However at the time of our review we did not see evidence that an external assessment had been completed and reported to CGC.

Improvement recommendation 6.

Counter Fraud

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 team undertakes a biennial Fraud Risk Assessment which contains a two-year counter fraud action plan and directs the work of the team.

Improvement recommendation 6.

The Council also take part in the National Fraud Initiative on an annual basis; with the outcome being reported to CGC.

There are 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
- Anti-Bribery Policy Statement and Procedures
- Declaration of Interests & Gifts and Hospitality
- Code of Conducts for Staff and Members

The Council has reported as part of its AGS that “having considered all the principles of the CIPFA Code of Practice on Managing the Risk of Fraud and Corruption, we are satisfied that the Council has adopted a response that is appropriate for its fraud and corruption risks and commits to maintain its vigilance to tackle fraud”.

Governance (continued)

Informed Decision Making

Arrangements are in place to ensure that all relevant information is provided to decision makers before major decisions are made and for the challenge of key strategic decisions before they are taken.

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. 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.

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 and by the Monitoring Officer. A record of key decisions is maintained online.

Standards and Behaviour

The Council has arrangements in place to monitor standards, such as meeting legislative /regulatory requirements and standards in terms of officer or member behaviour.

From discussion with key officers, 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 key “advisors” to ensure decisions taken are lawful and comply with necessary requirements. Standard Committee Report Templates are in place to support the process and all officers responsible for producing reports undertake appropriate training.

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. We were informed that the Council encourages a culture of openness and is confident that staff are aware of the processes in place to discuss and raise any concerns should they arise.

Codes of conduct are in place for Members and Officers which are contained within the Constitution. An updated Members' Code of Conduct was adopted by the Council following the introduction of a model Code developed by the Local Government Association and subsequent training has been provided for members.

Members are required to declare all interests which are published publicly and the opportunity to declare interests in respect of specific agenda business is provided at the start of each meeting. Receipts of gifts and hospitality are also recorded. There are processes in place to investigate any potential breaches and the Council has in place a Member Conduct Panel which is responsible for considering complaints which have been referred by the Monitoring Officer. An annual report on the operation of the Members' Code of Conduct is provided for oversight by the CGC.

The Council has in place a number of policies and procedures which govern the way in which employees must behave and conduct their roles; these also include the requirements to declare any interests and receipts of gifts and hospitality etc. Declarations are currently made using manual forms and individual registers are maintained by departments. From discussion with key officers we were informed that this is currently being reviewed with a view to moving to an electronic solution linked to individual employee records.



Whistleblowing

With whistleblowing regulation on the rise, it is more important than ever that, not only does an organisation have a Whistleblowing Policy in place, but also understands how the effectiveness of the policy is being assured and how the Council are sighted on issues raised. Those charged with governance should ensure that:

- Whistleblowing arrangements are effective, accessible and inclusive to all staff groups.
- Staff know how to raise concerns and do not experience detriment as a result.
- There are arrangements in place to allow triangulation of whistleblowing concerns with wider performance and delivery of a service.
- The Council are sufficiently sighted on all whistleblowing concerns and the actions taken to investigate and respond.

As the National Audit Office has reported, concerns raised by staff can be an important source of information on which to base improvements. However, to raise concerns or ‘blow the whistle’ can make people vulnerable. Alongside clear, comprehensive and accessible policies to support and reassure staff at what is likely to be a stressful time, these policies must be backed up by a culture of transparency and openness, so that employees feel enabled to raise concerns.

Governance (continued)



Carbon reduction

The UK government has a target of 100% reduction in 1990 greenhouse gas emissions by 2050. Many of the carbon budgets set by the government are relevant to Local Authorities. By June 2022, more than 250 English Local Authorities in England had declared Climate Change Emergencies and set carbon reduction targets of their own.

To deliver value for money whilst also implementing carbon reduction, Local Authorities need strong processes. Carbon reduction costs need to be reflected within medium-term financial plans; funding needs to be consistent with other strategic priorities; costs need to be accurately recorded and monitored; and the relative costs of acting versus not acting need to be evaluated on an ongoing basis.

Climate change is often already reflected on Local Authority risk registers and where Local Authorities set themselves strategic goals around carbon reduction, effective processes for monitoring progress against those goals is needed. Training should be kept up to date both for executives and for members overseeing climate change and carbon reduction risk and performance. As legal requirements are evolving and new sources of funding and grants continue to come forward, horizon scanning for new duties and opportunities will also need to be vigilant.

Net Zero

Net Zero refers to the point at which carbon emissions being emitted into the atmosphere are balanced with their removal, meaning there is no overall addition to atmospheric levels.

The Council declared a climate emergency and has developed its plans to achieve Net Zero in both its own operations and across Leicestershire. The Leicestershire County Council Strategic Plan 2022–26 has also been updated; it is based on five strategic outcomes that outline the Council’s vision for Leicestershire. Amongst the five outcomes, is the Clean and Green outcome, to protect and enhance the environment and tackle climate change.

Leicestershire County Council declared a climate emergency in 2019, and from this two key ambitions were agreed:

1. To achieve net zero carbon for its own operations by 2030.
2. To work with others to achieve net zero carbon in Leicestershire by 2045 (in line with UK 100’s campaign for Local Authorities to target net zero 5 years ahead of national policy).

A Carbon Reduction Roadmap for the Council to achieve net zero emissions for its own operations by 2030 was initially approved by full Council in July 2020 and is being delivered through a programme of Council projects. In its report to Cabinet in April 2022, the Council reported that it had delivered a 74% reduction in its emissions by the end of 2020/21 and is on track to deliver by 2030.

The Council updated its Environment Strategy 2018-30 to reflect the targets in the climate emergency and included an action to develop a Net Zero Roadmap for Leicestershire to illustrate the pathways to net zero for the County. The Net Zero Leicestershire 2045 Roadmap along with a supporting Strategy and Action Plan was approved by Cabinet in April 2022.




To obtain feedback on the Strategy, the Council developed a Net Zero ‘Have Your Say’ consultation program and undertook stakeholder mapping to ensure that the consultation had a wide reach and engaged relevant stakeholders. The consultation was undertaken over a 12 week period between May and July 2022, the outcome of which has helped inform the updated Net Zero Leicestershire Action Plan 2023-2027.

The action plan sets out how the Council will work in partnership with residents, businesses, public sector, voluntary and community organisations and other stakeholders to deliver a Net Zero Leicestershire and is split across six key areas. It outlines its short-term delivery plans (5 years) which will be reviewed annually with an end-of year progress report against the Plan being provided to the Forum, the Council’s Corporate Management Team, Cabinet Member for the environment and the green agenda, and the Environment and Climate Change Overview and Scrutiny Committee.




From review of the Plan, we note that the aim and objectives of each key theme are clearly set out. However; the supporting actions do not follow SMART methodology therefore it is not clear how success measures will be considered and assessed. We note that actions have been assessed in terms of their anticipated deliverability however, the Plan currently includes 163 actions, some with a very low deliverability score. There is a risk the Plan may lose focus or become too large to manage and report upon. There will need to be a robust Governance Framework in place supported by appropriate assurance and monitoring processes to ensure success. We note that the Plan includes a number of next steps and we have recommended some suggested actions to be taken in addition to these.

Improvement recommendation 7.

Improvement recommendations

Recommendation 4	To further enhance its Governance arrangements in place, the Council should consider completing a CGC review of effectiveness with any areas identified for improvement or learning to be appropriately actioned.		
Improvement opportunity identified	To further enhance and strengthen Governance arrangements in place.		
Summary findings	The Council has established good governance arrangements. Our findings and recommendation have been made to further enhance and strengthen these processes.		
Criteria impacted by the finding	 Financial Sustainability	 Governance	 Improving economy, efficiency and effectiveness
Auditor judgement	Our work has enabled us to identify an area for improvement in arrangements which we do not consider to be significant but have raised a recommendation to support management in making appropriate improvements.		
Management comments	<p>The work for this is already underway in conjunction with the Democratic Services team. Information will be discussed with members immediately following the January 2024 committee. The outcomes of the review of effectiveness are scheduled to be included within the Annual Report of the Committee to full Council in May 2024 and will be considered for the draft AGS improvement plan (scheduled for May 2024).</p> <p>Reference to an annual review will be considered for the CGC ToR.</p>		

Improvement recommendations

Recommendation 5	To further enhance and strengthen the risk management arrangements in place, the Council should ensure that: <ul style="list-style-type: none">When risks are scored, there is a consideration of whether there may be an environmental impact should the risk materialise. Environmental impact should therefore be included as a domain within the scoring methodology.Corporate risks are aligned to the Strategic Plan outcomes to identify those risks which may prevent the Council from achieving its long-term vision and priorities and to provide assurance in respect of the actions being taken to mitigate the risk.Actions identified are supported by SMART methodology to provide assurance to the Board that gaps in control or assurance are being appropriately addressed and to ensure actions being taken are adequate and proportionate to the risk and target score.The external independent review is completed as planned to provide assurance there are robust arrangements in place for managing risk.		
	To provide robust and timely assurance and to be fully sighted throughout the year on the strategic risks facing the Council and the actions being taken to manage these.		
Improvement opportunity identified	The Council has established good arrangements in place for managing risk. Our findings and recommendation have been made to further enhance and strengthen the processes.		
Summary findings			
Criteria impacted by the finding	 Financial Sustainability	 Governance	 Improving economy, efficiency and effectiveness
Auditor judgement	Our work has enabled us to identify an area for improvement in arrangements which we do not consider to be significant but have raised a recommendation to support management in making appropriate improvements.		
Management comments	<p>Environmental Impact now included within the Risk Scoring Criteria (as discussed with Environment team earlier in year) and will be published as part of the 2024 Strategy.</p> <p>The Council's Strategic Plan is referenced in the Strategy. The benefits of mapping it over into the CRR to show the outcome themes will be discussed as part of the Strategy review at CMT on 18th January 2024.</p> <p>The requirements for SMART actions are already detailed in the Strategy. Departmental risk champions will be reminded at the next CRMG meeting and compliance will be monitored thereafter. Specific actions are defined in the annual (May) report to the CGC.</p> <p>External Independent review – to be conducted at an appropriate time taking into consideration:</p> <ul style="list-style-type: none">A key priority is to conclude an external quality assessment of the Internal Audit Service.The Council's insurances are due for re-tender and so any conflicts of interest of the reviewer need to be considered.The Senior Auditor who leads on the co-ordination of risk management activity is scheduled to leave at the end of February 2024 and so replacement arrangements will need to be considered.		

Improvement recommendations

Recommendation 6

- To further enhance and strengthen the arrangements in place for providing Internal Audit and Local Counter Fraud Service, the Council should ensure:
- The Chief Internal Auditor provides for CGC 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.
 - There is liaison and agreement in place to ensure NCIA provides appropriate and timely reporting to provide third party assurance in respect of those key controls being operated on behalf of the Council and to enable the Council to provide accurate and timely governance reporting in respect of its control environment.
 - The independent external assessment of the Internal Audit Service is commissioned and completed as soon as possible to meet compliance requirements of the Public Sector Internal Audit Standards (PSIAS).
 - Follow up of Internal Audit recommendations, including reporting to Corporate Governance Committee, should also include low and medium priority recommendations to provide assurance of implementation.

Improvement opportunity identified

To be fully compliant with the PSIAS.

Summary findings

The Council has arrangements in place for providing Internal Audit and Local Counter Fraud Service. Our findings and recommendation have been made to further enhance and strengthen the processes.

Criteria impacted by the finding

 Financial Sustainability

 Governance

 Improving economy, efficiency and effectiveness

Auditor judgement

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

Management comments

Overleaf

Improvement recommendations

Recommendation 6 - continued

To further enhance and strengthen the arrangements in place for providing Internal Audit and Local Counter Fraud Service, the Council should ensure:

- The Chief Internal Auditor provides for CGC 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.
- There is liaison and agreement in place to ensure **NCIA provides appropriate and timely reporting** to provide third party assurance in respect of those key controls being operated on behalf of the Council and to enable the Council to provide accurate and timely governance reporting in respect of its control environment.
- The independent external assessment (EQA) of the Internal Audit Service is commissioned and completed as soon as possible to meet compliance requirements of the Public Sector Internal Audit Standards (PSIAS).
- Follow up of Internal Audit recommendations, including reporting to Corporate Governance Committee, should also include low and medium priority recommendations to provide assurance of implementation.

Management comments

Strategy, plan and Charter – the PSIAS state that, ‘the risk-based plan must take into account the requirement to produce an annual internal audit opinion and the assurance framework. It must incorporate or be linked to a strategic or high-level statement of how the internal audit service will be delivered and developed in accordance with the internal audit charter and how it links to the organisational objectives and priorities’. Whilst I accept the requirement for a strategy, comparisons with peers reveal they are for one-year only.

- A strategy will be developed along with a refreshed Charter will be reported to CGC.




The individual NCIA audit reports had been received by LCC but hadn’t been reflected in CGC reports due to awaiting the overall opinion (delayed by the absence of the NCIA HoIA) This can be rectified for future.

- Discussions are underway to ascertain if NCIA will be able to provide an overall opinion to CGC in January 2024.

The EQA has been commissioned and outcomes are scheduled for March/April 2024 which should enable reporting to CGC in May 2024.

Internal Audit has developed a model containing all recommendations but further consideration is required by the Director of Corporate Resources and CGC because of the impact on resources and the level of risk associated.

Improvement recommendations

Recommendation 7	The Council needs to ensure there is a robust Governance Framework in place to support delivery of its Net Zero Action Plan. The Council should ensure the number of actions is appropriate, deliverable and focussed. Actions should follow SMART methodology to ensure that outcomes can be appropriately monitored, measured and reported.		
	<ul style="list-style-type: none">• Specific,• Measurable,• Achievable,• Realistic, and• Timely.		
Improvement opportunity identified	To support the delivery of the Net Zero Action Plan.		
Summary findings	The Net Zero Plan actions do not follow SMART methodology therefore it is not clear how success measures will be considered and assessed.		
	The Plan currently includes 163 actions, some with a very low deliverability score. There is a risk the Plan may lose focus or become too large to manage and report upon. There will need to be a robust Governance Framework in place supported by appropriate assurance and monitoring processes to ensure success. We note that the Plan includes a number of next steps and we have recommended some suggested actions to be taken in addition to these.		
Criteria impacted by the finding	 Financial Sustainability	 Governance	 Improving economy, efficiency and effectiveness
Auditor judgement	Our work has enabled us to identify an area for improvement in arrangements which we do not consider to be significant, but have raised a recommendation to support management in making appropriate improvements.		
Management comments	Having completed the first year of action under the NZ strategy and Action Plan, and in light of the Council's wider financial position, any future review of the commitments in the NZ action plan will take account of the auditors recommendation. The E&T department will facilitate consideration of recommendations as part of future NZAP review.		

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.

Use of financial and performance information

The Council has embedded processes in place to monitor and report upon its Strategic and Departmental performance. We have made an improvement recommendations to further enhance and strengthen these processes.

In May 2022 the Council agreed a four-year Strategic Plan based on five key priorities. On an annual basis, the Council reports its progress against delivery of the priorities. The information outlined in the report provides performance data which is designed to help the Council and its partners to ensure services continue to meet standards, provide value for money, and that outcomes are being achieved for local people.

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.

The annual report compendium uses performance indicators to compare the performance of the Council over time against targets and with other Local Authorities. This comparison is used to place Leicestershire County Council's performance in context and to prompt further investigation for example into why other Council's may be performing differently or why other Councils are providing cheaper or more expensive services. The analysis draws on over 200 performance indicators across the Council's priorities and areas of service delivery.

The reports are provided for Cabinet oversight in November each year. From review of reporting in November 2023, the summary report records that initial analysis of 2022/23 data shows that out of 191 metrics, 80 improved, 37 showed no real change and 74 worsened. Due to the absence of previous data or changes to indicators, data was not presented in respect of 24 indicators. The report includes a narrative summary for each group of indicators providing an overview of the number that have increased and deteriorated etc. However, from our review of data we noted a number of differences when compared to the summary as stated above. We do not consider that this undermines the data available but have raised a recommendation on this matter.

Improvement recommendation 8

The report documents that for 2021/22, Leicestershire County Council ranked 5th in performance terms compared to other counties and has the lowest core spending power per head. Based on initial comparative analysis for 2022/23, out of 141 indicators - 45 are top quartile, 45 second quartile, 29 third quartile and 22 bottom quartile which is a similar position to that reported in 2021/22.

We have reviewed and compared the data for 2021/22 and 2022/23 which is set out in the table on the following page. Based on the figures provided in the narrative report, the data shows a slight decline overall in the numbers of indicators that have improved and those which have deteriorated.



Improving economy, efficiency and effectiveness (continued)

Assessing performance and identifying improvement

Figures taken from the narrative summary of the Performance Compendium reports for 2021/22 and 2022/23:

Priority	Service Area	Improved		Status	Declined		Status	No Change		Cannot be determined	
		2021/22	2022/23		2021/22	2022/23		2021/22	2022/23	2021/22	2022/23
Strong Economy, Transport & Infrastructure	Growth & Investment	6	6		5	4		1	4	2	-
	Employment and Skills	5	4		3	3		2	1	-	3
	Transport	7	3		9	10		1	5		
	Housing	3	4		2	1		1	2	1	
Improved Opportunities	Best Start in Life	5	7		5	4		1	1	2	1
	School & Academy Performance	3	3		1	7		1	2	5	2
Safe & Well	Health and Care	3	2		7	2		-	3		1
		4	2		5	5		6	6		4
	Public Health	12	5		6	8		3	2	4	5
	Mental Health	4	3		2	4		1	-		
	Safeguarding Children & Families	5	7		8	7		5	3	2	
	Safer Communities and Vulnerable Adults	5	3		6	3		1	2	1	4
	Police and Crime	-	2		5	6		5	2		
Clean and Green	Environment & Waste	14	12		3	7		3		3	5
Great Communities		10	9		2	5		4	2	2	
Enabling Services		2	4		7	7		6	5	1	
Total		88	76	↓	76	83	↓	41	40	23	25

Improving economy, efficiency and effectiveness (continued)

Assessing performance and identifying improvement - continued

The Council reports that the impact of the pandemic and cost of living crisis, as well as service and funding pressures has continued to be felt, affecting the outcomes in a number of areas. The Performance Compendium report provides a summary of progress on all of the indicators supported by data and dashboards. We noted some key areas as follows:

Housing

This dashboard covers the supply of new housing and affordable housing. 4 out of 7 indicators show an improvement which cover completion of new homes, housing affordability and energy efficiency ratings for existing homes. The indicator with lower performance relates to homelessness. Indicators and with little change are residents' perceptions that local housing meets local needs and energy efficiency ratings for new homes.

Transport

The 10 indicators displaying lower performance include satisfaction with local bus services, cycle routes and facilities, rights of way, pavements & footpaths, traffic levels & congestion, and road safety. Also, casualties involving road users walking, cycling and motorcycling, numbers killed or seriously injured on the roads, and carbon emissions from transport. Measures covering road condition, overall satisfaction with highway condition and average vehicle speeds showed similar results.

Public Health

There are 8 declining indicators which cover life expectancy, healthy life expectancy (males), drug treatment, NHS health-checks and air quality.

Mental Health

3 indicators showed improvement including life satisfaction, happiness and excess mortality in adults with serious mental illness. The 4 declining indicators cover anxiety, suicide and timeliness of treatment for young people.

Health and Care: adult social care services including support for carers.

The 5 declining indicators cover requests for support which result in a service, users receiving self-directed support and direct payments, overall satisfaction with social care support and home care providers rated good or outstanding.

School and Academy Performance

Seven indicators are displaying lower performance; these cover secondary admissions, secondary schools assessed as good or outstanding, secondary persistent absence, attainment 8 score for pupils with free school meals, attainment 8 score for pupils with SEN statements/EHCPs, progress 8 (between ages 11 and 16) and % of Education, Health & Care Plans issued within 20 weeks. Key stage 2 attainment and the % of special schools rated as good or outstanding remained similar to the previous year.

Safeguarding Children & Families

The 7 declining indicators cover re-referrals to children's social care, timeliness of children's social care assessments, review of child protection cases, stability of looked after children's placements, looked after children's health checks, emotional health of looked after children and time to place with prospective adopters.

Continued overleaf ...



Improving economy, efficiency and effectiveness (continued)

Assessing performance and identifying improvement - continued

Clean and Green – Environment & Waste

The 7 indicators displaying lower performance cover household waste recycled, internal waste produced from Council sites, residents' perceptions that protecting the environment is important, renewable energy generated by the Council, carbon emissions per capita in county, Council greenhouse gas emissions and staff business mileage claimed.

Great Communities.

The 5 indicators showing lower performance cover community cohesion, willingness of residents to work together to improve their neighbourhood, volunteering by residents, satisfaction with local area as a place to live and perception of residents' ability to influence council decisions.

Enabling Services

There are 7 indicators showing lower performance which cover residents' perceptions of the Council doing a good job, trust in the Council, call answering by the Customer Service Centre, complaints and compliments received, health and safety incidents, and apprentices employed. The indicators showing similar results cover media ratings, staff satisfaction, staff turnover and gender pay gap.

It is evidence from the Cabinet paper; which includes views from the Scrutiny Commission, that the Council is reporting on its current and future position which identifies that a larger proportion of indicators had deteriorated in 2022/23 and due to the low-funded position, this is affecting the levels of service it could provide and outcomes were likely to deteriorate further.

However, we have included an improvement recommendation to further enhance reporting by annotating within the report where further action or investigation is being carried out to improve outcomes; particularly those which are currently presenting in the lowest quartile when compared to other Counties.

Improvement recommendation 8.

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. Performance is RAG rated and, where available, compared with national benchmarking data to show which quartile Leicestershire's performance falls into. The Council's quartile position provides insight into how it compares to other County Councils in England.

We reviewed a sample of performance reporting data for Adults and Communities, Children and Family Services and Highways and Transport. We confirm that these provide a comprehensive overview of services supported by detailed key performance indicator data. The overview reports provide a good level of detail to describe the drivers of the data and summary of position etc.

From our sample review it was evident that reporting styles within each department are different suggesting there is not currently a standard system in place for recording and reporting performance data. We also noted that the overview reports do not currently provide a summary of further action that may have been identified to be taken, particularly where targets are not currently in line with expectations. However it is acknowledged that there are several indicators where the Council does not have direct or little control over delivery.

Improvement recommendation 8.

Quarter 4 reporting for Childrens and Family Services records that of the 10 indicators with a national benchmark; three are in the top quartile, two are in the second quartile, four are in the third quartile, and one is in the fourth quartile. This relates to the percentage of re-referrals to Children's Social Care within 12 months. This was 23.5% at the end of quarter 4 compared to 22.8% at the end of the previous quarter, with 347 children 're-referred' within quarter 4. This is against a target of 22%. However the report does note that more recent analysis shows a decrease in the rate of re-referrals to 21.9% which exceeds the target.

Indicators presenting in the top quartile when compared to other Counties are as follows:

- Child Protection plans lasting two years or more.
- The percentage of Care Leavers in Suitable Accommodation.
- The percentage of Care Leavers in Education.



Improving economy, efficiency and effectiveness (continued)

Assessing performance and identifying improvement

SEND

In February 2020, Ofsted and the Care Quality Commission (CQC), conducted a joint inspection of the local area of Leicestershire to judge the effectiveness in implementing the disability and special educational needs reforms as set out in the Children and Families Act 2014. The inspection concluded two significant areas of weakness and reported that a Written Statement of Action (WSOA) was required. The Council's subsequent WSOA outlined a framework for addressing the key issues and areas for development.

The Leicestershire local area was subject to a SEND re-inspection in November 2022. The purpose of the visit was to consider the progress made on the two areas included within the WSOA. The report concluded that there has been sufficient progress in addressing one of the significant weaknesses (Lack of a joint commissioning strategy) but has not made sufficient progress in respect of weakness regarding the quality of the Health and Care Plans (EHCP).

The report highlights the progress that has been made but comments that whilst the education, EHCP are better and include the views of parents and carers, significant improvements still need to be made including the implementation and quality assurance of EHCPs.

To address the issues, an Accelerated Progress Plan (APP) has been developed by the local area and has been signed off by the Department for Education. The plan reflects the high-level actions that will be taken across the Leicestershire local area. It will be the responsibility of operational managers to deliver and report upon specific actions through a more detailed workplan. Oversight of progress will be provided through the Leicestershire SEND and Inclusion Board. The board is Co-Chaired between the Assistant Director for Education, SEND and Commissioning (LCC) and Assistant Director for Nursing and Personalisation (LLR ICB). The Board brings together all Local Area partners, including the Leicestershire SEND Hub. The Board meets on a six weekly basis and oversees the development and implementation of the wider SEND and Inclusion Strategy (2020-23). The current Strategy has five priority areas that incorporate all activities included within the Written Statement of Action.

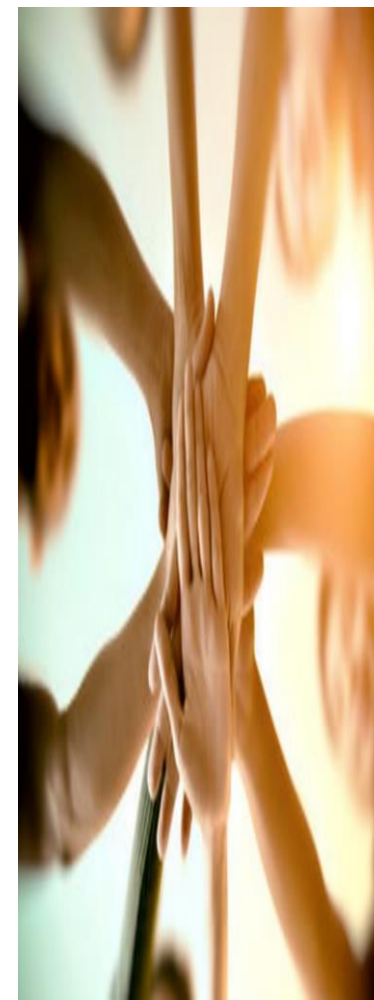
In parallel to the Local Area SEND and Inclusion Strategy, in early 2022, the Local Authority embarked upon a major transformation programme - Transforming SEND and Inclusion in Leicestershire (TSIL). Working closely with external change specialists, Newton Europe, TSIL is a programme of whole-system diagnostic review and development. The programme is being delivered in close partnership with the SEND Hub on behalf of parent/carers, health, education providers and other partners.

The Accelerated Progress Plan and on-going TSIL activity will be incorporated into a refreshed SEND and Inclusion Strategy 2023-26 which is planned to be published in October 2023.

From review of Council reporting, we noted that the current average timescale from start to completing an EHCP is 41 weeks – with all plans overdue; this is against a statutory timeframe of 20 weeks. The average duration peaked at 43 weeks in January 2023, and focussed effort since then has started to reverse the growing trend, as a result of investment in new resource and priority for bringing back within statutory timeframes.

While we note that improvements are still required to fully address the weakness raised; we acknowledge the work being undertaken at a partnership level to address the issues as part of the wider transformation programme. However, the arrangements and APP are still in their infancy and will take time to embed. The Council will need to ensure that the governance framework in place is robust and provides effective and appropriate challenge to ensure progress continues to be made in addressing the weaknesses outstanding.

Improvement recommendation 2.



Improving economy, efficiency and effectiveness (continued)

Assessing performance and identifying improvement - continued

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.

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. The team also, in liaison with the Director of Law and Governance, manage all complaints that are referred to the Local Government and Social Care Ombudsman (LGSCO).

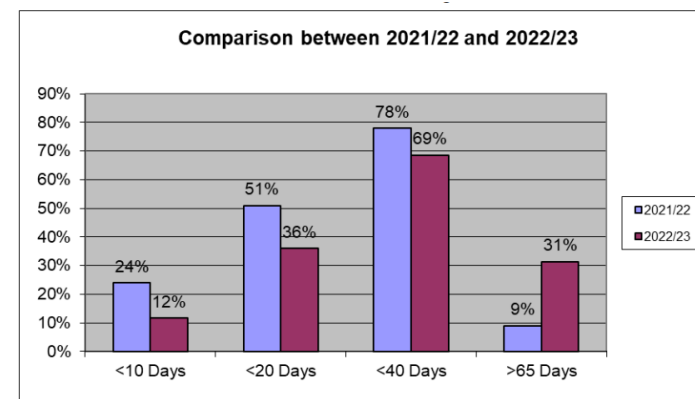
From review of the annual report we can see that the number of contacts has increased in total by 25% however, the number of complaints has also increased:

Contact Type	2021/22	2022/23	% Change
Enquiries, Comments, and Informal resolution	1531	2037	+33%
Corporate Complaints	610	781	+28%
Adult Social Care Statutory Complaints	210	204	-3%
Childrens Social Care Statutory Complaints	65	86	+32%
Ombudsman Investigations	50	80	+
Compliments	226	211	-7%
	2692	3399	+25%

The Council has in place an embedded processes for receiving, investigating and responding to complaints. However, within our 2021/22 review we made commentary in respect of the timeliness of investigating complaints and recommended that 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.

From our review of the annual reports, it is clear that this has remained a challenge during the year particularly within Childrens Social Care which is representative of the increase in number of complaints received overall.

Statutory regulations allow up to 65 working days for complaints to be resolved. From our review of complaints investigated within Childrens Social Care, the time taken showed a worsening position overall in each category when compared to the previous year. Most notably there has been a 22% increase in the number of complaints responded to in excess of 65 working days. The Council has reported that Completion of Stage 2 investigations within the statutory guidelines has continued to be a challenge during the year with none of the 10 completed investigations achieving this.



The report does document that The Ombudsman has indicated that providing the Local Authority is managing the expectations of a complainant and not unduly delaying resolution, there is unlikely to be criticism of not meeting this timescale. The Complaints Manager is satisfied that in all cases expectations were well managed by Independent Investigators.

However we have concluded that the Council needs to take action to fully understand the reasons for the worsening position and ensure appropriate action is being taken to mitigate any risk to the Council and improve its outcome in this area.

Improvement recommendation 9.

Improving economy, efficiency and effectiveness (continued)

Partnership working

The Council has a number of commercial and collaborate partnership working arrangements in place which are clearly documented in the Annual Governance Statement.

The Council's key arrangements include, but are not limited to:

- Integrated Care System (ICS) & Integrated Care Partnership (ICP) covering Leicester, Leicestershire and Rutland.
- East Midlands Shared Services (EMSS)
- Leicestershire Health and Wellbeing Board East Midlands Shared Service (EMSS)
- Local Pension Fund
- Local Government Pension Scheme (LGPS) - Central Pool.
- Active Together
- Leicester and Leicestershire Enterprise Partnership (LLEP)
- Enhanced Bus Partnership
- Eastern Shires Purchasing Organisation (ESPO)
- ESPO Trading Ltd
- Eduzone
- The Investing in Leicestershire Programme
- East Midlands Freeport
- East Midlands Development Company (DevCo)
- Environmental & Waste Collaborations

From our discussions with key officers and sample 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:

East Midlands Shared Services (EMSS)

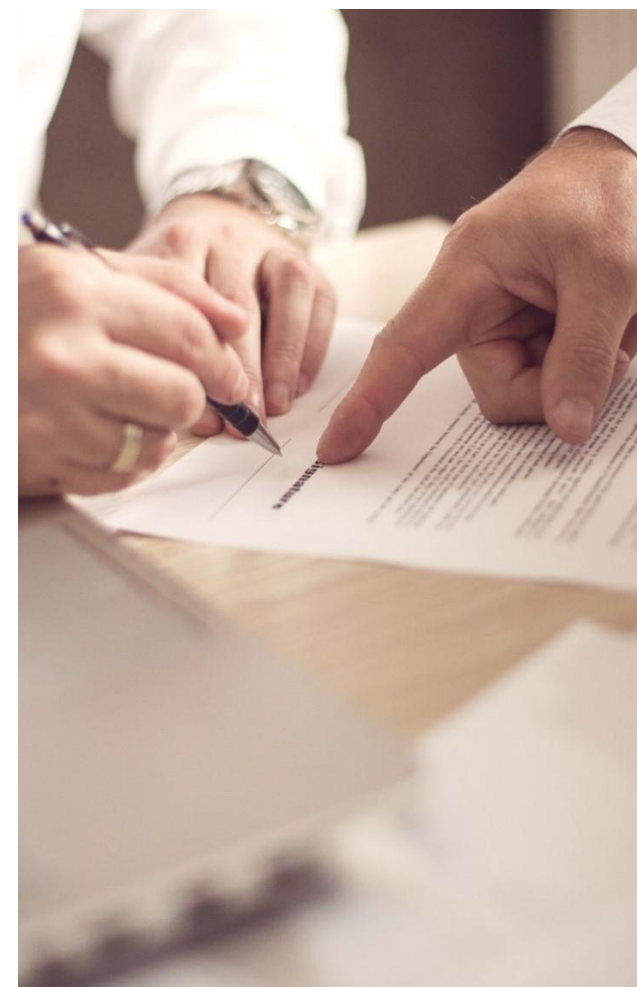
The Authority runs a joint operation with Nottingham City Council (NCC) to provide shared transactional finance, human resources and payroll services to both authorities which operates under a Joint Committee. Oversight which includes an annual report of performance is provided to the EMSS Joint Committee.

Review of the 2022/23 annual report demonstrates that the Council measures and uses its financial and non-financial performance information in making future service delivery decisions:

Historically, the Employee Service Centre (ESC) has provided HR administration and payroll services to approximately 200 schools and academies. Following a detailed analysis of the service, involving EMSS, HR, Procurement, Finance and Legal colleagues, the Joint Committee determined in January 2023 that it was no longer viable and in the interests of the partner Councils to continue to provide the service.

The Joint Committee therefore requested that EMSS withdraw from the education sector market, allowing the ESC to concentrate on the service delivered to the partners. Notice was served to education customers in February 2023 and schools and academies will have all transitioned to alternative providers by September 2023.

The EMSS MTFP confirmed that it would carry out 'Best Value' reviews on its services in 2023-24 to determine whether the shared service still offered value for money to the partner Councils, or whether alternative delivery models should be considered, e.g., outsourcing. Work has commenced on the review of the Finance Service Centre, with the fundings due to be reported to the EMSS Joint Committee in March 2024.'



Improving economy, efficiency and effectiveness (continued)

Partnership working - continued

East Midlands Freeport

Freeports are a Government programme planned to bring 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.

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 2022 and full designation has been approved. The Cabinet approved the County Council becoming a member of the newly incorporated Freeport company, with the Cabinet Lead Member for Resources, as a nominated member to serve on the Board, and to continue the role of lead authority and accountable body for the Freeport.

In June 2022, a permanent non-executive Chair of Board was appointed. A Chief Executive started in post in March 2023 and has put together a small team to implement delivery of the Business Plan objectives of the EMF.

As part of our initial audit planning and risk assessment, we identified a potential risk of significant weakness regarding governance arrangements. From the work we have carried out we note that the arrangements are still being finalised. At its meeting of the Board in May 2023 it was documented that "In terms of wider governance issues, Board members were reminded of the need to sign a number of documents, including the Members' Agreement, the Retained Business Rate agreement, the appointment of directors and members and giving delegated authority to approve other governance documents. The aim was for these to be completed by 20 July 2023 to be presented to EMF Board in September 2023 following approval through their own governance structures.

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There has been a delay in the completion of the governance documents from the date originally envisaged as result of complexity relating to the application of the subsidy control rules which has involved developing a bespoke process by which a potential occupier is assessed to be eligible for business rates relief. This has been reliant upon a policy position from DLUHC which has only recently been provided.

We acknowledge that whilst the governance documents have not been formally executed, they have been approved by the Board and the Board has formally resolved in March 2023 to operate in accordance with the core governance documents

We have not reported a significant weaknesses in this area due to minimal activity taking place however, we have recommended that, as the Accountable Body, the Council takes a lead in ensuring that governance arrangements are approved and embedded within the EMF. In the meantime, any decisions should be fully documented and supported by appropriate approval

Improvement recommendation 10.

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, or a mayoral development corporation, for which there is provision in the Levelling Up and Regeneration Act. 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.

During 2022 the Council reported to Cabinet in light of concerns about the Company's management and government. Cabinet approved further actions and enquiries to be made to address the issues raised. In the meantime the Council paused its membership of the Board and did not approve the second of a planned three years funding contribution arrangements

Concerns have been formally raised with the Board and partner organisations and with DHLUC, since it is considered by the Council that some risk still remains. A further report was made to Cabinet in June 2023. The Cabinet agreed to reinstate membership on the DevCo Board, but not to provide third year funding. Reinstatement was subject to satisfactory answers from the DevCo regarding its management and governance which have not been forthcoming. The DevCo Board at its meeting in November 2023 considered options as to its future, including whether to disband or hibernate pending the combined authority election in May 2024.

This demonstrates risk to the Council is being considered as part of its wider partnering, commercial and collaboration arrangements.

However given the complexity and unusual nature of these arrangements we have included a recommendation to ensure the Council maintains oversight and provides assurance in respect of any emerging risks to the Council.

Improvement recommendation 11.



Improving economy, efficiency and effectiveness (continued)

Partnership working - continued

Integrated Care Partnership (ICP)

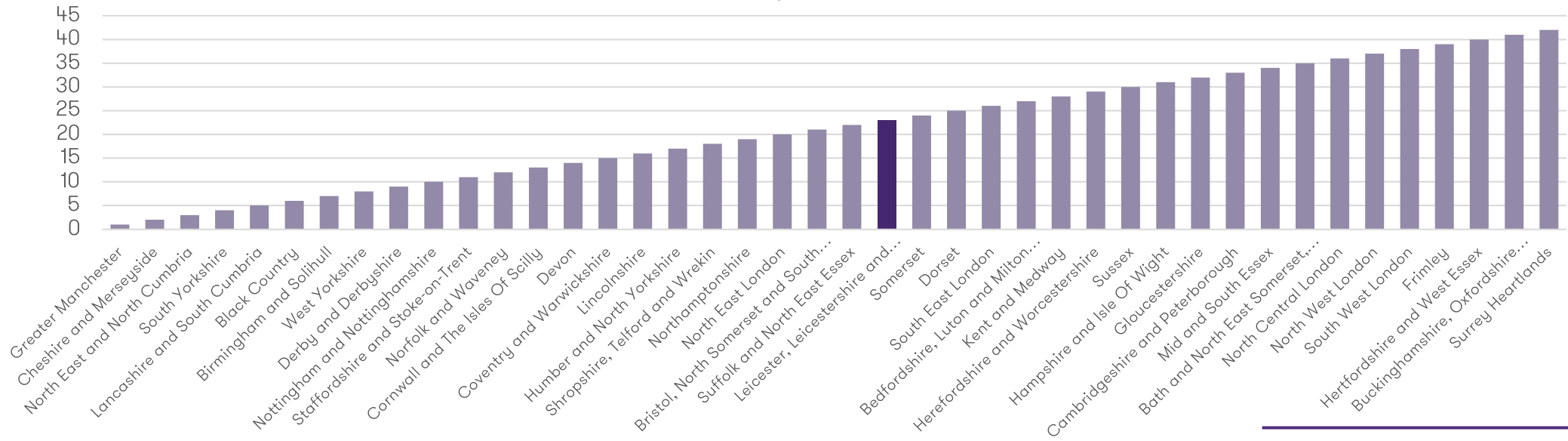
Leicester, Leicestershire, and Rutland (LLR) Integrated Care System (ICS) brings together NHS organisations and upper tier local authorities across the NHS footprint of the LLR area. The Integrated Care Partnership ICP is a statutory Committee jointly formed between the Integrated Care Board (ICB) and all upper-tier local authorities that fall within the ICS area. The ICB is a statutory body and is a successor to the 3 Clinical Commissioning Groups (CCGs). Leicestershire County Council membership includes the Lead member for Health and Wellbeing, the Director of Public Health, the Director of Adult Social Services and the Director of Children and Family Services.

The ICP is responsible for producing an integrated care strategy on how to meet the health and wellbeing needs of the population in the ICS area.

From our benchmarking of ICB data, we note that LLR ranks approximately midway out of 42 ICB's in terms of its health deprivation rank. This highlights the importance of partnership working in the wider health economy to tackle health in-equality. Working in partnership, the Council contributes to the wider health and wellbeing for the Leicester, Leicestershire and Rutland population. The ICB's strategic priorities and priorities across the ICS are consistent with those of the Joint Health and Wellbeing Strategies across Leicester, Leicestershire and Rutland. The focus of these strategies is on the specific challenges in each of the respective 'places' as identified through the respective Joint Strategic Needs Assessments (JSNA) and Joint Health and Wellbeing strategies.

291

ICB - Health Deprivation Rank



Improving economy, efficiency and effectiveness (continued)



Procurement

Local authorities in England spend around £82.4 billion a year on goods and services. More than a third of all UK government spending on goods and services is spent in the local government sector.

Allowing for capital spending as well, the UK public sector procures around £300 billion a year overall from commercial partners.

Within this, local authorities run local services and deliver high value capital projects every year, balancing the complicated requirements of the Procurement Act and the Social Value Act together, often under close review from electors and other stakeholders. Whole of Government Accounts show that local government spending on goods and services outweighs spending by any one other individual UK government sector.

Given the current focus on net zero, local growth, and efficiency, the opportunity for local authority procurement to make a difference to the wider government agenda has perhaps never been higher. The importance of maintaining good practice has also perhaps never been higher. Local authority members and officers, for the most part, already work well with the commercial partners they appoint. However, with so much public money at stake, there is always scope for continuous improvement and for learning from examples of procurements that did not work entirely as intended.

Commissioning and procurement

The Council's Strategic Plan 2022-2026 sets out the Council's long-term vision for Leicestershire and its priorities over a four-year period. The Council are currently developing a procurement policy and social value protocol which will align to the outcomes in the Plan; however this has been paused pending the requirements of the new national UK procurement rules which will also be incorporated.

The Council's Rules for procuring goods and services are set out in the Leicestershire County Council Constitution. **Part 4G - Contract Procedure Rules (CPR) clearly documents the rules governing the process including financial thresholds, delegated authority's and subject to meeting appropriate criteria, where exceptions to the rules may be applicable.**

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.

Our previous year's review noted that the CSU had carried out a number of tasks to ensure that CPR's were being consistently complied with across the Council, this included:

- Running reports of supplier invoices from the payments system (Oracle Fusion) with a cumulative value of above £25,000, which is the Council's threshold for requiring quotation / tenders and matching these against the contracts register (Pro-Contract) to ensure that the processes had been followed and where appropriate contracts were in place.
- Implementing controls within Oracle Fusion to "flag" payments in excess of £25,000 for checking and occasions where contracts are not on the system, and ensuring these are investigated further.
- Configuring the system to block any Purchase Orders being finalised prior to these checks being completed in advance of any payments made.

The reconciliation task and implementation of additional controls for blocking expenditure where a contract was not in place adversely affected the number of contract exceptions made. This is demonstrated in the tables on the following page which shows a dramatic increase in both the number and value of exceptions raised between 01 July 2021 and 30 June 2022. This suggests that a number were raised in retrospect as the expenditure had already been committed.

At the conclusion of our 2021/22 review the CSU were working with Departments and providing training to ensure processes became embedded. A process to provide reports of all contracts expiring within the next 12 months was also implemented to ensure timely tendering exercises are undertaken.

Despite the additional controls in place; from our review of data relating to contract exceptions during 01 July 2022 to 30 June 2023 shows little improvement. While it is expected that there will be a number of cases where procurement rules can be waived in exceptional circumstances; improved controls to mitigate those which do not fit the criteria or where it will provide efficiency or economic reasons to ensure a procurement exercise is undertaken should provide an overall decrease in the number and value of exceptions.

Improving economy, efficiency and effectiveness (continued)

Commissioning and procurement - continued

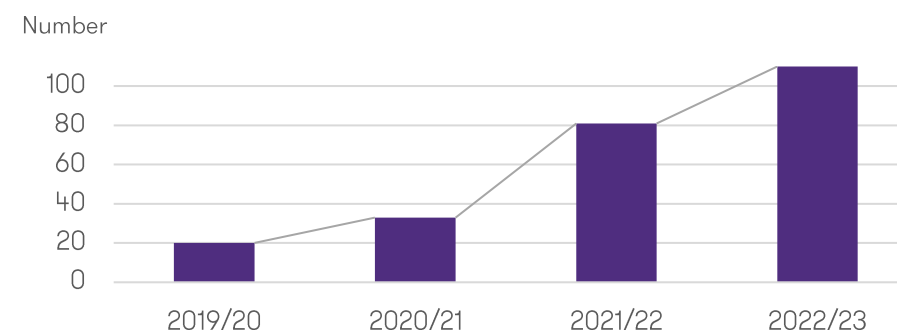
Contract exceptions:

The following tables demonstrate the increase in the number and value of contract exceptions that have been raised year on year. While the total value of exceptions has decreased in 2022/23 when compared to the previous year, overall the value has increased dramatically since 2019/20:

Contract Exceptions by number raised and total value:

Period	Number of Exceptions	Total Value of Exceptions
1 July 2022 to 30 June 2023	110	£18.9 million
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

Contract Exceptions by number raised:



The Council maintains a register of all contract exceptions and there are appropriate arrangements in place for ensuring all exceptions are authorised in line with the Constitution. **From our discussion with key officers, it was confirmed that the approval of contract exceptions in 2022/23 has been subject to appropriate review and approval in all cases and therefore none are considered to have breached CPRs.**

However, we did note through discussion that where expenditure is already committed, these waivers are approved. **This suggests retrospective approval is being awarded; which bypasses appropriate procurement rules.**

From further examination of the exceptions register, we noted that the majority of exceptions in 2022/23 (92 in total) have been approved under CPR rule 6(b)(i) which states “Other exceptions to these Rules may only be made within the relevant law and with the authority:- (i) of the appropriate Chief Officer in consultation with the relevant Commercial Specialist where the Estimated Value of the proposed contract is under £177,897. The appropriate Chief Officer shall maintain a record specifying the reason for all such departures”.

We noted that the rule for exception is recorded within the register however the actual reason and Supplier details are not included as part of the reporting documentation.

We have concluded that the rule is quite generic and vague in its design posing a risk that it may be used in some cases in preference to carrying out a procurement activity for expenditure estimated to be in the region of between £25,000 and £177,897. This presents a risk whereby works could be procured which have not demonstrated value for money and increases the risk of creating an environment where fraud could be committed and concealed.

Improving economy, efficiency and effectiveness (continued)

Commissioning and procurement - continued

Contract extensions:

In addition to reviewing contract exceptions we also reviewed the number of contract extensions that were undertaken during 2022/23. Further details can be found on the following page of this report.

Contract extensions, are those contracts that did not have an initial proposed contract extension period written into the original agreement but have been subsequently extended beyond their planned end date. While the number of extensions remains similar to the previous year; the value has increased dramatically:

Period	Number of Contract Extensions	Value of Contract Extensions
1 July 2022 to 30 June 2023	16	£81 million
1 July 2021 to 30 June 2022	13	£26 million

We concluded that while there are processes in place for granting and approving contract exceptions and extensions; there is a risk that weaknesses in their design may lead to it being a substitute for inefficient or ineffective procurement and contract management processes.

The Council should ensure there is a robust governance framework in place supported by appropriate accountability processes.

We have recommended that the Council reviews both its criteria for approving contract exceptions and extensions and also the financial thresholds for procurement activity to ensure these are proportionate and reflective of the current financial environment in which it is operating.

The Council should also consider carrying out cost benefit analysis of transformational change such as a central procurement unit or shared provision with neighbouring authorities.

Improvement recommendation 12.



Contract Management

In 2021, Local Government spent in excess of £71 billion on purchasing goods and services for England in one year - nearly one third of all English public sector revenue purchasing. Most Local Authorities have well established central functions supporting their initial procurements, but contracts can span decades and it can be after the procurement is complete that best value is sometimes delivered.

Ongoing contract management is often devolved to service lines. This works well with the right support, but risks increase if roles and responsibilities of service line contract managers are not clear; technical knowledge is not kept up to date for the whole life of a contract; and performance indicators within the contract are either unclear or not rigorously monitored.

Sometimes it can be very simple steps that help protect value. Most Local Authorities set up contract registers, but vigilance is needed in keeping these up to date. Planning future procurements effectively relies on knowing current contracts well. This means having the resources in place to register, monitor and record current progress over the whole life of contracts, not just at the beginning.

Improvement recommendations

Recommendation 8

- To further enhance and improve the arrangements for reporting on performance, the Council should:
- Strengthen its processes for ensuring the quality and accuracy of data in its reporting & consider implementing Kite Marking processes to provide assurance.
 - Consider adopting a consistent approach to performance recording and reporting at a departmental level.
 - Record where further actions have been identified to be taken, particularly in respect of those targets that are not meeting expectations.

Improvement opportunity identified

To improve performance reporting.

Summary findings

Performance reporting styles within each department are different suggesting there is not currently a standard system in place for recording and reporting performance data.

Overview reports do not currently provide a summary of further action that may have been identified to be taken, particularly where targets are not currently in line with expectations.

Criteria impacted by the finding

 Financial Sustainability

 Governance

 Improving economy, efficiency and effectiveness

Auditor judgement

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

Management comments

Overleaf

Improvement recommendations

Recommendation 8 - continued

To further enhance and improve the arrangements for reporting on performance, the Council should:

- Strengthen its processes for ensuring the quality and accuracy of data in its reporting & consider implementing Kite Marking processes to provide assurance.
- Consider adopting a consistent approach to performance recording and reporting at a departmental level.
- Record where further actions have been identified to be taken, particularly in respect of those targets that are not meeting expectations.

Management comments

The Council is working with Gartner Consulting to develop a data strategy for the organisation. It is anticipated that this will cover leadership and data culture, organisational structures, data architecture, data lifecycle, systems and tools, skills, governance and compliance.

- As part of the data strategy work the Council will review the data quality processes for performance reporting. The Council will also look at developing a quality standard for the content of performance reports.

The Council's current performance reports cover the key elements of a good performance report. However, the look and feel of these have in some cases been adapted in response to comments from DMTs and elected members to better meet their needs.




- The Council's Business Intelligence Service is currently undergoing training on better data visualisation from a recognised expert in the field. Following this training, a corporate review will be undertaken of the approach to performance reporting at departmental/scrutiny level, in order to adopt a more consistent reporting style and approach.

The current performance reports are designed to prompt discussion at DMTs/CMT and at scrutiny committees around issues that require further attention and action. The discussions and proposed actions are then typically recorded in the minutes of those meetings. Current actions underway are sometimes included in reports, where known.




The Council's Strategic Plan, including supporting outcomes/measures, is due to be reviewed shortly. This will allow for a sharper focus on deliverability, in the light of the current budget pressures, and further tighten target setting and performance reporting.

- As part of the review of performance reporting at departmental level, the Council will consider further actions that might be taken including adding actions discussed at DMT to reports to scrutiny committees.




Improvement recommendations

Recommendation 9	The Council needs to take action to fully understand the reasons for the worsening position in the time being taken to investigate and resolve complaints within Childrens Social Care, and ensure appropriate action is being taken to mitigate any risk to the Council and improve its outcome in this area.		
Improvement opportunity identified	To improve performance.		
Summary findings	Most notably there has been a 22% increase in the number of complaints responded to in excess of 65 working days. The Council has reported that Completion of Stage 2 investigations within the statutory guidelines has continued to be a challenge during the year with none of the 10 completed investigations achieving this.		
Criteria impacted by the finding	 Financial Sustainability	 Governance	 Improving economy, efficiency and effectiveness
Auditor judgement	Our work has enabled us to identify a weakness in arrangements which we do not consider to be significant, but have raised a recommendation to support management in making appropriate improvements.		
Management comments	<p>During 2022/23 the Council encountered significant challenges with respect to commissioning of Independent Stage 2 investigations. This followed an unexpected change to the provider following an IR35 assessment.</p> <p>The Council has now recruited an in-house investigator and this will see improvements to the timescales for completion of investigations during 2023-24 reporting year.</p>		




Improvement recommendations

Recommendation 10	The Council should maintain oversight of the operating activity’s and governance arrangements in place within the East Midlands Development Company and provide assurance in respect of any emerging risks to the Council.			
Improvement opportunity identified	To mitigate the risk of inappropriate decisions being made.			
Summary findings	During 2022 the Council 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.			
Criteria impacted by the finding	 Financial Sustainability	 Governance	 Improving economy, efficiency and effectiveness	
Auditor judgement	Our work has enabled us to identify a weakness in arrangements which we do not consider to be significant, but have raised a recommendation to support management in making appropriate improvements.			
Management comments	<p>The Council has appointed the Assistant Chief Executive to the Board of the East Midlands Development Company (DevCo) and the governance arrangements are kept under continuous review by the Chief Executive and Director of Law and Governance demonstrating senior corporate oversight of the council’s engagement with DevCo.</p> <p>A report on any significant issues in the operation of external bodies including the DevCo is presented annually to the Corporate Governance Committee.</p> <p>Reports are produced regularly to Cabinet on the operation of the Devco and it is intended that this will continue to be the case.</p> <p>The Council’s approach to the funding demonstrates the rigorous approach to the principles of economy, efficiency and effectiveness.</p>			

Improvement recommendations

Recommendation 11	As the Accountable Body, the Council needs to take a lead in ensuring that governance arrangements are approved and embedded within the East Midlands Freeport. In the meantime, any decisions should be fully documented and supported by appropriate approval.		
Improvement opportunity identified	To mitigate the risk of inappropriate decisions being made and potential financial loss to the organisation.		
Summary findings	The East Midlands Freeport is now fully operational; however the governance arrangements have yet to be finalised and approved.		
Criteria impacted by the finding	 Financial Sustainability	 Governance	 Improving economy, efficiency and effectiveness
Auditor judgement	Our work has enabled us to identify a weakness in arrangements which we do not consider to be significant, but have raised a recommendation to support management in making appropriate improvements.		
Management comments	<p>There has been a delay in the completion of the governance documents as a result of complexity relating to the application of the subsidy control rules which has involved developing a bespoke process by which a potential occupier is assessed to be eligible for business rates relief. This has been reliant upon advice from the DLUHC which has only recently been provided. Whilst the delay is regrettable, it is purposeful and necessary.</p> <p>The Council is leading on ensuring that the governance arrangements are approved and embedded. It is important to note that the Freeport Board has since March 2023 resolved to operate in accordance with the approved Members' Agreement and Articles of Association which address all of the important governance arrangements for the Freeport and its Board as well as the role of the Council as Accountable body.</p>		

Improvement recommendations

Recommendation 12	The Council should ensure there is a robust governance framework in place. This should include, but not limited to:		
	<ul style="list-style-type: none">Contract exceptions should not be approved retrospectively.Where contract exceptions or extensions do not meet with appropriate approval processes these must be recorded and reported as a breach of procurement rules for example retrospective exceptions.Internal reporting processes should provide the full reason for an exception or extension along with the suppliers / contractors details to ensure full transparency and openness.The Council should review both its criteria for approving contract exceptions and extensions to ensure that these cannot be used in preference to carrying out an appropriate procurement activity or used in place of poor contract management processes.The Council should review its financial thresholds for procurement activity to ensure these are proportionate and reflective of the current financial environment in which it is operating.The Council should ensure that any cultural or historical practise which does not promote or provide for robust, economical or effective processes is identified and rectified. <p>The Council should also consider carrying out cost benefit analysis of transformational change such as a central procurement unit or shared provision with neighbouring authorities</p>		
Improvement opportunity identified	To ensure there are efficient and economic procurement and contract management arrangements and mitigates the risk of creating an environment where fraud and / or collusion could be committed and concealed		
Summary findings	The number of contract exceptions and extensions has significantly increased year on year. While we acknowledge the documented approval processes in place, we concluded that the rule for approving exceptions for expenditure between £25,000 and £177,897 is quite generic and vague in its design posing a risk that it may be used in some cases in preference to carrying out a procurement activity.		
Criteria impacted by the finding	 Financial Sustainability	 Governance	 Improving economy, efficiency and effectiveness
Auditor judgement	Our work has enabled us to identify a weakness in arrangements which we do not consider to be significant, but have raised a recommendation to support management in making appropriate improvements.		
Management comments	Agreed, actions already in progress. CMT and subsequent DMTs have been attended regarding improvements around exceptions and governance. Contract Procedure Rules are being re written around exceptions, extensions and modifications with additional controls added in at £100k. Target Operating Model for Procurement and Contract Management is being reviewed.		

Follow-up of previous recommendations

Recommendation	Type of recommendation	Date raised	Progress to date	Addressed?	Further action?
1 Follow up all Internal Audit recommendations, including lower priority recommendations, through the use of the recommendation tracker.	Improvement	June 2021	<p>September 2022:</p> <p>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.</p> <p>September 2023:</p> <p>From review of reports to Corporate Governance Committee, it is evident that reporting focusses on high importance recommendations.</p>	No	<p>Yes</p> <p>Improvement recommendation 6.</p>
2 Embed a corporate approach to procurement and contract management within each department structure.	Improvement	June 2021	<p>September 2022:</p> <p>Further work is being completed to refresh guidance and updated documentation in the form of a Procurement Strategy and Toolkit.</p> <p>This is being progressed through the CSU Target Operating Model work.</p> <p>September 2023:</p> <p>It is evident that the CSU continue to implement controls to ensure a consistent and effective approach. However our fieldwork has indicated further improvement is required.</p>	Not fully	<p>Yes</p> <p>Improvement recommendation 12.</p>
3 Provide annual refresher training for all staff charged with management of contracts.	Improvement	June 2021	<p>September 2022:</p> <p>Refresher training is planned for all Contract Managers, with the added element of a checklist for compliance.</p> <p>This is being progressed through the CSU Target Operating Model work.</p> <p>September 2023: See above.</p>	Not fully	<p>Yes</p> <p>Improvement recommendation 12.</p>

Follow-up of previous recommendations

Recommendation	Type of recommendation	Date raised	Progress to date	Addressed?	Further action?
4 Update the list of business critical suppliers on a regular basis.	Improvement	June 2021	<p>September 2022: Business Continuity, Contract Managers and Commissioning Support Unit are working together to develop and keep updated the list of business critical suppliers.</p> <p>This is being progressed through the CSU Target Operating Model work.</p> <p>September 2023: See above</p>	Not fully	<p>Yes</p> <p>Improvement recommendation 12.</p>
5 The Council should develop and implement: <ul style="list-style-type: none"> 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. 	Improvement	September 2022	<p>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.</p> <p>September 2023: This is an ongoing risk.</p>	Yes for 2023/24	<p>Yes</p> <p>Improvement recommendation 1.</p>
6 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.	Improvement	September 2022	<p>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.</p> <p>September 2023: This is an ongoing risk.</p>	Yes for 2023/24	<p>Yes</p> <p>Improvement recommendation 2.</p>

Follow-up of previous recommendations

Recommendation	Type of recommendation	Date raised	Progress to date	Addressed?	Further action?
<p>7 To be fully compliant with the Public Sector Internal Audit Standards (PSIAS), the Council should provide assurance on an annual basis that there are robust arrangements in place for managing risk.</p> <p>The Council must ensure there is an independent and objective review carried out by somebody not involved with the day to day process.</p>	Improvement	September 2022	An independent risk management maturity health check was undertaken during 2018 by the Council's Insurance Brokers and is planned to be completed again in 2023.	No	<p>Yes</p> <p>The Council to ensure the external independent review is completed as planned to provide assurance there are robust arrangements in place for managing risk.</p> <p>Improvement Recommendation 5.</p>
<p>8 To further improve and enhance the risk management framework in place, we recommend the Council:</p> <ol style="list-style-type: none"> Includes Environmental Impact within the risk impact measurement criteria as part of the risk scoring methodology for all risks. Re-commence the Risk Management Group meetings as soon as possible. Includes target risk scores on the Corporate Risk Register. 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. Considers the roll out of the use of the Pentana system across all Departments 	Improvement	September 2022	<ol style="list-style-type: none"> Agreed. Agreed and actioned. Agreed and actioned. 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. Partly agreed: will consider looking at a corporate wide solution based on a valid business case. 	Not fully	<p>Yes</p> <p>Actions identified should be supported by SMART methodology.</p> <p>Improvement Recommendation 5.</p>

Follow-up of previous recommendations

Recommendation	Type of recommendation	Date raised	Progress to date	Addressed?	Further action?
9 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.	Improvement	September 2022	Agreed: A Strategy will be devised and Charter will be reviewed and revised where appropriate.	No	Yes. Improvement Recommendation 6.
10 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.	Improvement	September 2022	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.	Yes	No
11 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.	Improvement	September 2022	From our review of the annual reports, it is clear that this has remained a challenge during the year particularly within Childrens Social Care which is representative of the increase in number of complaints received overall.	Partly	Yes, The Council needs to take action to fully understand the reasons for the worsening position and ensure appropriate action is being taken to mitigate any risk to the Council and improve its outcome in this area. Improvement Recommendation 9.

Opinion on the financial statements



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

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

We conducted our audit in accordance with:

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

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

Audit opinion on the Council's financial statements

Our work on the financial statements is ongoing. We have experienced delays in receiving the necessary evidence to support the Council's land and buildings valuations. Our progress to date will be presented in an Interim Audit Findings Report, which is due to be submitted to the Corporate Governance Committee in January 2024. Once we receive the remaining evidence, we will complete our audit procedures and provide updated reporting to those charged with governance.

Audit opinion on the Pension Fund's financial statements

Our work on the financial statements is ongoing. We plan to complete our work in January 2024 and will report to the Corporate Governance Committee following this.



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:

An explanatory note on recommendations

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

Type of recommendation	Background	Raised within this report	Page reference(s)
Statutory	Written recommendations to the Council under Section 24 (Schedule 7) of the Local Audit and Accountability Act 2014.	No	N/A
Key	The NAO Code of Audit Practice requires that where auditors identify significant weaknesses as part of the Council’s arrangements to secure value for money they should make recommendations setting out the actions that should be taken by the Council. We have defined these recommendations as ‘key recommendations’.	No	N/A
Improvement	These recommendations, if implemented, should improve the arrangements in place at the Council, but are not a result of identifying significant weaknesses in the Council’s arrangements.	Yes	Financial Sustainability: Pages 21 – 24 Governance: Pages 30 – 34 3E’s: Pages 47 - 52

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