

# Auditor's Annual Report on Leeds City Council

2021-22

8 March 2023



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

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



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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# 1. Executive summary



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

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

Auditors are required to report their commentary on the Council's arrangements under specified criteria and 2021-22 is the second year that we have reported our findings in this way. As part of our work, we considered whether there were any risks of significant weakness in the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources. Our conclusions are summarised in the table below and we have not identified any significant weaknesses in the Council's 2021-22 arrangements.

We reported our 2020-21 VFM arrangements review findings in our Auditor's Annual Report dated 26 September 2022. As such, our 2021-22 VFM review has focused on key developments in the Council's arrangements across the three themes below that have occurred since September 2022.

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



Our audit of your 2021-22 financial statements is currently ongoing and is targeted to be substantially completed by the end of April 2023, with sign off taking place at the Corporate Governance and Audit Committee in June 2023. Our key findings from our 2021-22 audit work will be included in our ISA260 Report and this is due to be presented to the CGAC in June 2023.



## Financial sustainability

The 2021-22 outturn report presented to Executive Board in June 2022 reported an outturn underspend of £1.5m for the year. However, the Council is operating in an increasingly uncertain financial environment. Leeds City Council, as with all local authorities, will need to continue to plan with little certainty over funding in the medium term. This situation has been exacerbated by the recent increased levels of inflation and interest rates placing greater pressures on the Council's finances in 2022-23 and beyond.

A balanced budget was set for 2022-23 but, as at 31 December 2022, an overspend of around £13.4m was being forecast. This is likely to be charged to the Strategic Contingency Reserve, which is projected to stand at £32.235m at 31 March 2023, before the impact of the £13.4m overspend.

Moving into 2023-24, a balanced budget has been proposed, but pay, price and demand pressures mean that the Council will need to deliver nearly £54m of savings (now confirmed as £58.6m at Final Budget). This represents a significant challenge, but the target has reduced from a budget gap of £63.6m reported in the MTFS after account is taken of additional resources announced in the Local Government Settlement for 2023-24, and the ongoing review of pressures and savings assumptions.

Our work has not identified any significant weaknesses in arrangements to secure financial sustainability at the Council. However, due to the Council's relatively low levels of reserves compared to peer authorities and the savings requirement going forward, the improvement recommendations we raised in our 2020-21 Auditor's Annual Report in the financial sustainability theme remain of relevance to the Council. The matters we identified on savings, the budget gap and level of reserves and borrowing should continue to be areas of focus for officers and Members alike. The Council will need to keep its financial position under review and continue to closely monitor the delivery of savings schemes.



## Governance

Building on our 2020-21 review, which we reported in September 2022, to develop a detailed understanding of the Council's governance arrangements, we found the risk management processes at the Council to be good, and that management are well supported by internal audit.

Arrangements for budget setting and ongoing oversight of the budget are good. The Council has a good set of policies and procedures in place to ensure the Council maintains appropriate legislative and regulatory standards.

In the last two years, we have raised a number of recommendations on the Council's arrangements for producing its annual accounts, supporting working papers and engagement in the audit process. We note the actions the Council has put in place for the 2021-22 accounts and audit process, which has commenced, and we will report our findings in this area in our 2021-22 ISA260 Report due to be presented to the Corporate Governance and Audit Committee in June 2023.



## Improving economy, efficiency and effectiveness

The Council has demonstrated a good understanding of its role in securing economy, efficiency and effectiveness in its use of resources. The Council's key strategy objectives have been refreshed and included in the Best City Ambition, to drive the Council's activities. The three pillars, namely Health and Wellbeing, Inclusive Growth and Zero Carbon, are high profile and referred to throughout the key strategic documents and reports presented to members, including the budget and MTFS.

Overall, we are satisfied the Council has appropriate arrangements in place to ensure it manages risks to its oversight in ensuring economy, efficiency and effectiveness in its use of resources.

# 2. Opinion on the financial statements and use of auditor's powers

We bring the following matters to your attention:

## Opinion on the financial statements

Auditors are required to express an opinion on the financial statements that states whether they : (i) present a true and fair view of the Council's financial position, and (ii) have been prepared in accordance with the CIPFA/LASAAC Code of practice on local authority accounting in the United Kingdom 2021/22

Our audit of your 2021-22 financial statements is currently ongoing and is targeted to be completed by the end of April 2023, with sign off taking place at the Corporate Governance and Audit Committee in June 2023. Our key findings from our 2021-22 audit work will be included in our ISA260 Report and this is due to be presented to the CGAC in June 2023.

## Statutory recommendations

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

We have not issued any statutory recommendations at the Council.

## Public Interest Report

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

We have not issued any Public Interest Report at the Council.

## Application to the Court

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

We have not applied to the Court for any purpose relating to the Council.

## Advisory notice

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

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

We have not issued any advisory notices to the Council.

## Judicial review

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

We have not made an application to court for a judicial review.

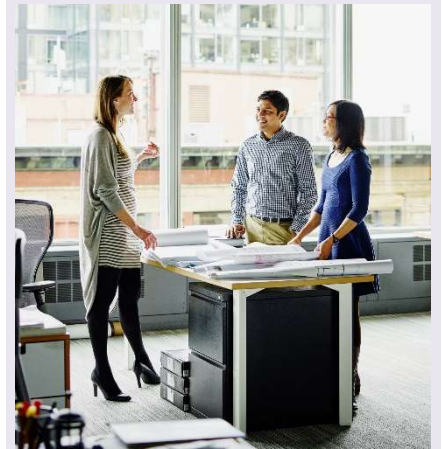
# 3. Key recommendations



The NAO Code of Audit Practice requires that where auditors identify significant weaknesses as part of their arrangements to secure value for money they should make recommendations setting out the actions that should be taken by the Council. We have defined these recommendations as 'key recommendations'.

Our work has not identified any significant weaknesses in arrangements and therefore we have not made any key recommendations.

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



# 4. 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 at Appendix A.

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

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

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



## Financial Sustainability

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



## Governance

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



## Improving economy, efficiency and effectiveness

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



Our commentary on the Council's arrangements in each of these three areas, is set out on pages 8 to 23. Further detail on how we approached our work is included at Appendix B.

# 5. 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.

## Background

During 2020-21, the Council applied for a capitalisation order to allow it to manage its financial position over a longer period. This request was subsequently withdrawn and, as a result of the actions taken by the Council, the Council reported an underspend of £1.1m.

Moving into 2021-22, the Council was able to present a balanced budget for 2021-22 subject to delivering £87.5m of proposals, be these realising assumed increases in funding, delivering budgeted reductions in costs or implementing agreed savings. In addition, there was a further budget gap of around £100m for 2022-23 and 2023-24, so this was a significant challenge for the Council.

## Summary of arrangements

The Council has established budget setting processes in place which incorporate all available information, including the outcome of the annual funding settlement (if available) which is used to develop a draft budget which is presented to members. The budget, which is based upon the figures included in the medium term financial strategy from the year before, incorporates various assumptions in a number of areas including on council tax and business rate growth.

The Council also has in place a five year Medium Term Financial Strategy (MTFS) which it normally updates and presents to the Executive Board in September each year following approval of the annual budget in February. For 2021-22 this was updated in September 2020 covering the period 2021-22 to 2025-26, and is updated each year to reflect the most up to date information allowing the Council to plan ahead, but also inform the next annual budget setting cycle.

The position is further updated in December each year when the proposed budget for the following year and the provisional budgets for the following two years are presented to the Executive Board.

The Council has processes in place which detail the responsibilities of Council members and senior management for planning and managing the Council's finances. These are set out in the Council's Constitution (Part 4 - Rules of Procedure). There is no evidence of the Council not complying with these processes.

Financial performance is monitored and routinely reported to the Executive Board through the Financial Health Monitoring Reports with monthly management reporting also taking place through senior management team meetings within individual Council directorates.

The reports to Executive Board set out key financial information, such as actual and forecast outturn performance against budget together with a financial dashboard and a budget action plan for each directorate. These reports are sent out in advance of meetings which enables sufficient time for members to consider the content, and formulate questions for discussion and scrutiny allowing appropriate challenge to take place.

Overall, the Council has established budget setting arrangements in place which incorporate all available information. As well as setting its annual financial budget each year, the Council plans ahead through its Medium Term Financial Strategy which ensures it is able to manage expected changes more effectively and in a planned manner.



# Financial sustainability

However, the Council continues to face significant financial pressures. The MTFS for 2022-23 to 2026-27, presented to Executive Board in September 2021, identified an estimated budget gap of £146.5m for the five years of the MTFS of which £65.4m related to 2022-23. Notwithstanding this, a balanced budget was set for 2022-23. As a result of increased levels of inflation particularly in relation to energy costs and higher pay awards than budgeted for, the Council is currently (at month 9) forecasting an overspend of £13.4m for 2022-23. Reserves will have to be used to cover any overspend at year end.

Moving into 2023-24, pay, price and demand pressures mean that the Council will need to deliver £58.6m of savings and a further £71.7m in total for 2024-25 and 2025-26. Recognising the need for cross-council working to address this, the senior officer group first established in 2020 to provide support and ensure a co-ordinated, consistent approach continues to meet.

The report to Full Council in February 2023 setting out the revenue savings proposals for 2023-24 and the following two years, noted that the 2023-24 budget was balanced through the identification of savings of £42.8m from 'business as usual' i.e. not requiring a service review, and £15.8m from service reviews of the pressures (and the funding of these) within the MTFS.

This looks to be a very challenging programme and therefore the Council needs to continue to keep its financial position under review and continue to closely monitor the delivery of savings schemes.

## 2021-22 revenue outturn

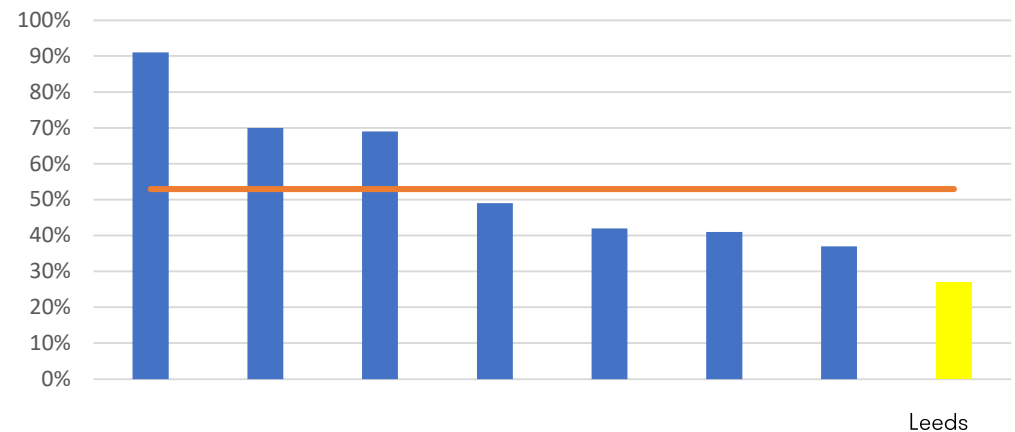
The 2021-22 budget was presented to both the Executive board and Council in February 2021. The net revenue budget for 2021-22 totalled £435.3m with an increase in council tax of 1.99% together with a further 2.99% in respect of the Adult Social Care precept. These increases were partly balanced out by a decrease in the council tax base, due to an increase in the number of Council Tax Support claimants. To achieve this position, savings of £56.1m were required, of which 94% was recurrent. Savings of £56.7m were actually achieved, which represented a good achievement for the Council. The recurrent/non-recurrent split of actual savings delivered isn't readily available and therefore we have raised an improvement recommendation on this issue, given any savings delivered non-recurrently remain a potential challenge for future years.

Covid-19 continued to impact on the Council's financial position in 2021-22. As a result, The Council received £24.3m of Government funding towards the costs of Covid-19 and a £3m Government contribution to lost income from sales, fees and charges. Overall, this resulted in a Covid-19 overspend of £1.8m, which when combined with a non-Covid underspend of £3.3m resulted in a £1.5m underspend position at year-end.

Total General Fund and General Fund Earmarked Reserves decreased from £223.6m at 31 March 2021 to £220.0m at 31 March 2022. Our comparison of the level of the Council's reserves as a proportion of net service revenue expenditure (%) for 2021-22 with other core cities indicates that the Council's reserves are the lowest of all core cities at 31 March 2022 and significantly below the core cities average.

However, the Council is planning to increase the general reserve over the period of the MTFS i.e. up to 31 March 2028. In 2023-24 £3m of resources will be contributed from the Strategic Contingency Reserve to the General Reserve. In fact, a £3m increase in the General Reserve is assumed in each year of the MTFS, giving a projected General Reserves position of £48.2m at 31st March 2028.

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



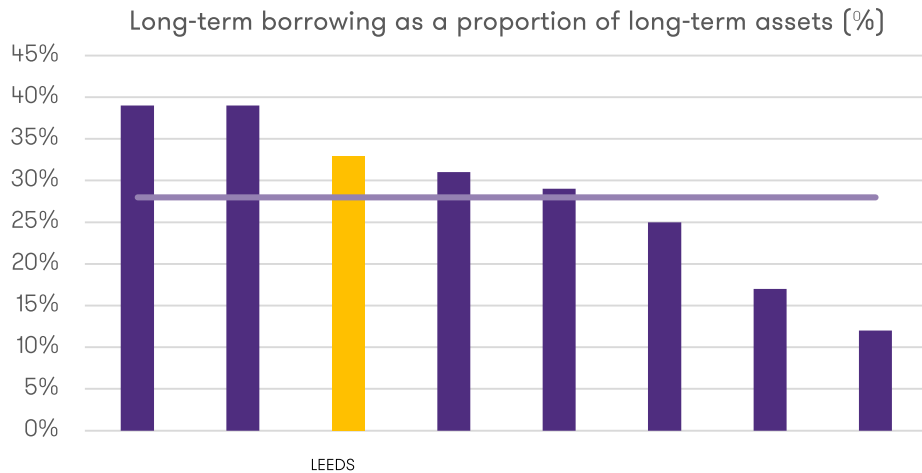
# Financial sustainability

## Long term borrowings

The Council's total long term borrowings at 31 March 2022 amounted to £2,256m, this compares with £2,203m at 31 March 2021 and £2,225m at 31 March 2020. The fall between 2019-20 and 2020-21 relates to the repayment of debt whilst the increase of £53m between 2020-21 and 2021-22 relates to increased borrowings to fund capital expenditure in accordance with the Council's capital programme and treasury management strategy.

The Council's Financial Performance Outturn Report for 2021-22 presented to the Executive Board on 22 June 2022, noted a borrowing requirement of £721.4m for the five year period, 2021-22 to 2025-26 to fund a capital programme of £1,984m for the same period (General Fund £1,265.2m and HRA £718.7m).

Our comparison of the Council's long-term borrowings as a percentage of long-term assets for 2021-22 with other core cities indicates the Council's debt equates to 33% of its long term assets, which is slightly above the average for other core cities (see Chart 3 below).



As reported previously, there is a need for the Council to consider as part of its wider capital investment ambitions and treasury management strategy, the level of its long term debt and its ability to fund the associated future revenue costs, in particular, the future Minimum Revenue Provisions (MRP) required. This may be particularly relevant given the increase in interest rates and associated borrowing costs.

## Minimum revenue provision (MRP)

The Council is required by statute to charge a Minimum Revenue Provision (MRP) to the General Fund Revenue account each year for the repayment of debt. The MRP charge is the means by which capital expenditure which has been funded by borrowing is paid for.

Legislation requires local authorities to make a prudent level of MRP provision, with statutory guidance referring to a prudent MRP policy which ensures debt is repaid over the period over which the capital expenditure is expected to provide benefits. Within this overall aim, the guidance gives local authorities considerable freedom to determine a prudent level of MRP.

The Capital Programme budget report to Executive Board in February 2021 projected MRP charges of £54.1m in 2021-22, £57.7m in 2022-23, £60.0m in 2023-24 and £60.6m in 2024-25. These charges were more in line with our expectations based on Council debt subject to any offset arrangements from capital receipts.

Given an average asset life of 50 years, an MRP charge of around 2% would be expected each year. The MRP for 2021-22, excluding PFI and finance lease repayments, was £56.6m, which equated to 2.2%.

# Financial sustainability

## 2021-22 capital outturn

The Council's annual capital budget report explains how the Council's capital budget supports the Council's Best Council Plan and projects the Council's capital programme for a five year period, allowing early consideration of schemes and their financial impact.

The Financial Performance Outturn Report for 2021-22 presented to Executive Board in July 2022 noted that capital expenditure for 2020-21 totalled £404.1m (General Fund £332.8m and HRA £71.3m). Expenditure in respect of the Capital Programme at the year-end was £56.1m or 10.1% lower than that assumed in the February 2022 Capital Programme projected outturn. For 2020-21 there was a difference of £25m or 7% from the February projection. There were various reasons for the underspends but, given the significant change in a short period of time, we believe there needs to be an improvement in forecasting the progress and likely outturn of capital schemes. We have raised an improvement recommendation in this regard.

## Medium term financial strategy

The Council's Medium Term Financial Strategy (MTFS) is a key strategy of the Council and covers a five year period. The MTFS links the Council's vision and priorities with its financial budgets and details how the Council's finances will be structured and managed to support its priorities.

The Medium Term Financial Strategy aligns the Council's expenditure decisions to the Council's Best Council Plan ambitions which include, working in partnership to tackle poverty and inequalities through strengthening the economy and doing this in a way that is compassionate and caring.

There are three pillars which underpin this vision:

- Inclusive growth
- health and wellbeing
- net zero (climate change emergency).

These all aim to embed sustainability across the Council's decision-making. The Council's Best Council Plan (replaced by the Best City Ambition in February 2022) focuses on becoming a more efficient, enterprising and healthy organisation. Together, these set the strategic context for the Council's Medium Term Financial Strategy.

The Council applies several key assumptions in developing its Medium Term Financial Strategy and plans. These assumptions are subject to question and challenge by Executive Board and include for the MTFS 2023-24 to 2027-28:

- a 1.99% Council Tax increase for each financial year and a lower than average underlying growth in the taxbase for 2023-24 of 1.5% (following the Chancellor's Autumn Statement a 2.99% increase is now proposed for 2023-24)
- the Council will continue with a 50% Business Rates retention throughout the plan, which is a change as 75% retention was expected to be introduced from 2024-25
- 1% increase in the Adult Social Care precept in 2023-24 and 2024-25, whereas previously 2021-22 was expected to be the final year. (Following the Chancellor's Autumn Statement a 2% increase is now proposed for 2023-24) All other social care grants continue to be protected and have been rolled forward into 2023-24 and beyond
- no increase in Children's Social Care resources over the period and ending of the £1.6m per annum Strengthening Families grant in 2024-25
- the Housing Benefit and Local Council Tax Support Administration Subsidy grants are anticipated to continue to reduce by a further £1.162m over the period of the MTFS
- recognition of the increasing demography and demand pressures for services in Adult Social Care, Children and Families services and Waste services, with an additional £22.5m being provided over the five years up to 2027-28.

The Council updates and reports its MTFS in September each year to ensure all available information has been incorporated, as well as extending the MTFS to the following year.

In preparing the MTFS, the Council incorporates sensitivity analysis which allows appropriate scenario modelling to take place with the Council using the most likely projections in developing its budget, ensuring the MTFS is as realistic as possible.

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# Financial sustainability

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## 2022-23 position

Although the Council is expecting to deliver its planned savings programme for 2022-23 of £16.5m, as at month 9 (end of December 2022), the Council was forecasting an overspend of £13.4m. The overspend relating to Children and Families was forecast to be £15.8m. The issues faced by this directorate are of such significance that two meetings of a Council-wide task and finish group are being held each week to address the issues for 2023-24 and beyond.

The overall position reflected the impact of the national employers pay offer for 2022-23; increased energy costs and where known, other inflationary rises.

The increasing cost of energy has severely affected the Council's financial position. Although the Council forward purchased over 80% of its energy for winter, the projected position is that General Fund expenditure on energy will be c£20.6m against a budget of £14.36m. The Council previously set aside energy contingency funding of £3.94m, which, together with the use of other reserves of £2m, helps to reduce the overspend to £0.3m. In addition, staffing is projected to overspend by £10.955m and this figure includes the additional cost of the pay award (£18.8m gross).

Significant action has been taken to minimise the overall overspend by implementing a freeze on recruitment and non-essential spend, except in specific circumstances such as if needed for health and safety reasons. Despite this, the Council is forecasting an overspend of around £13.4m, which will be charged against the Strategic Contingency Reserve. As a result, the Strategic Contingency Reserve is projected to reduce from £32.2m to £18.8m at the year-end.

## Conclusion

The Council has a good understanding of its budgetary position, budgetary pressures and the savings required to be delivered each year. There is an established process by which the budget is reviewed regularly, and issues are reported in a timely manner to members.

The Council has managed its financial position and delivered an underspend in both 2020-21 and 2021-22 without the significant use of reserves to bridge the Council's funding gap.

However, the current environment is resulting in significant financial pressures which the Council is currently dealing with, which have been exacerbated by the increasing levels of inflation, energy costs and rising interest rates. We will continue to engage with the Chief Finance Officer as part of our ongoing audit work to monitor the 2022-23 outturn position and the budget for 2023-24.

# Improvement recommendations



## Financial sustainability

### Recommendation 1

Given the significant swings experienced in the capital programme spend from February's projections compared to the actual outturn, we recommend the Council reviews its processes for monitoring the capital spend and projections. This should result in more accurate projections of the expected capital year-end spend, strengthening financial monitoring arrangements.

### Management Comments

*Agreed. The Council is aware of the requirement to ensure that its capital monitoring processes are as robust as possible. In 2023-24 there will increased emphasis upon Finance Business Partners, Project managers/Project teams and the Best Council Team (Strategic Investment) to ensure both actual capital spend and projected spend are subject to increased scrutiny and challenge so that Capital Programme can be managed both efficiently and effectively.*

### Recommendation 2

When reporting savings delivered in year and achieved at the year-end, we recommend the Council reports the split between recurrent and non-recurrent savings. This will increase the transparency of the type of savings delivered and provide clarity on the proportion of non-recurrent savings that may continue to be a challenge for the Council in the future.

### Management Comments

*Agreed. The Revenue Savings report received at Executive Board makes this distinction clear and reporting of Budget Action Plans in 2023-24 will also report this requirement. It is planned that the Medium Term Financial Strategy, Financial Health monitoring and the Proposed/Final Budget reports will also incorporate this requirement.*

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

# 6. Governance



## We considered how the Council:

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

## Leadership and committee effectiveness

Appropriate leadership is in place. The Executive Board is the principal decision making body of the Council. The Leader of the Council chairs the Executive Board which leads and oversees the Council's priorities, working with its partners and councillors from across the City. In addition, scrutiny committee arrangements are in place through 11 Scrutiny Boards which hold the Executive Board to account.

The Corporate Governance and Audit Committee is the Committee which undertakes the role of Those Charged with Governance (TCWG) and demonstrates appropriate challenge of financial and non-financial information. The Committee contains an appropriate mix of elected members with financial and non-financial experience in addition to an independent member. We have observed and experienced the appropriate debate and challenge they provide at each Corporate Governance and Audit Committee meeting.

## Policies, procedures and controls

The Council has in place a wide range of policies and procedures designed to ensure compliance with legislative and regulatory standards, including for example codes of conduct for members and staff and HR policies and procedures. With the exception of the Code of Conduct for Officers, which we understand hasn't been updated since 2013, all policies have been reviewed in the last two years. We have raised an improvement recommendation to review the Code of Conduct for Officers and update if necessary.

The Council has an established anti-fraud culture through its counter fraud and corruption strategy and fraud response plan, its whistleblowing policy, and the proactive counter fraud work undertaken during the year. The Council also has in place clear codes of conduct for both members and officers along with registers for gifts and hospitality and a register of interests.

A new Anti Money Laundering Policy was presented to the Corporate Governance and Audit Committee in November 2022, together with an easy to use one page summary.

The Council makes use of compromise (settlement) agreements where considered appropriate. In 2021-22, two such agreements were used in relation to senior manager posts. We have considered the basis for the use of the agreements and deem them reasonable.

## Monitoring and assessing risk

The Council has in place a risk management framework which includes a Risk Management Policy and Strategy which sets out the Council's approach to embedding risk management arrangements within the Council.

An Annual Corporate Risk Report is presented to members at the Executive Board. The annual report focuses on corporate risks, in particular those risks rated as 'very high' and those classed as 'standing risks' i.e. the ones that will never go away. Reporting includes an assurance for each risk covering what the risk is, the controls in place to manage the risk and any further actions required.

The latest annual report (July 2022) included 13 corporate risks at July 2022 which appears manageable. The risks include seven 'standing' risks that are always likely to be present such as safeguarding children and financial management.

## Internal Audit

The Internal Audit function operates to the United Kingdom Public Sector Internal Audit Standards (UKPSIAS) and is subject to external quality assessment every five years. The last assessment was in December 2021 when the Internal Audit function was found to be meeting all necessary standards.

# Governance

Internal Audit also issue an Annual Report and Opinion, which sets out the work undertaken to be able to provide an annual opinion on the risk, governance and control arrangements in place at the Council. This report, which was presented to the Corporate Governance and Audit Committee in October 2022, gave a satisfactory overall opinion over these arrangements for 2021-22.

## Budgetary Setting Process

The Council has an established budget-setting process in place for agreeing its budget each year. The budget-setting process is thorough, with several stages. Following Executive Board's approval of the Initial Budget Proposals in December, a public budget consultation exercise is undertaken. The results of the consultation and engagement are considered by members before the budget is approved in February.

As noted in the Financial Sustainability section, the Council has in place a Medium Term Financial Strategy (MTFS) which covers a five year time horizon. The MTFS is normally updated in September following the approval of the annual budget in February to take account of any further information and developments.

## Budgetary control

All cost centres within the Council are linked to a budget holder and a finance business partner to support each budget holder. Within each directorate, monthly budget monitoring is provided using the actual and projections module in the Council's financial management system (FMS). These projections are informed by discussions with budget holders. The Council wide monthly budget monitoring timetable provides for the financial position to be agreed with budget holders before being reported at a directorate level.

Where there are any significant variances, the actions being taken to deliver a balanced budget position is incorporated into the narrative of the Financial Health Monitoring Report with further details (and information on smaller variances) included within the directorate dashboards included as appendices. Reporting takes place normally on a monthly basis to Executive Board.

## Monitoring and ensuring appropriate standards

The annual governance statement is compliant with the CIPFA code. The Authority has adopted the CIPFA/SOLACE framework Delivering Good Governance in Local Government. An appropriate level of care is taken to ensure the Authority's policies and procedures comply with all relevant codes and legislative frameworks.

A detailed report, a statement of internal control, on the Council's financial management arrangements is presented to the Corporate Governance and Audit Committee annually. The latest report, covering the period November 2021 to October 2022, was presented to the Committee in November 2022. The report concludes that "the Chief Officer Financial Services is satisfied that the arrangements are up to date and fit for purpose, that they are communicated and embedded and that they are routinely complied with". A number of 'opportunities for improvement' are identified, none of which reflect significant weaknesses in the Council's arrangements, which reflects our own findings.

In addition to the overall statement of internal control, further statements on internal control are produced in relation to Employment Policy and Conduct, Decision Making and Financial Management. Each of these are presented to the Corporate Governance and Audit Committee.

## OFSTED inspection

We noted in our 2020-21 report that OFSTED had undertaken a review of the Council's Children's Services in February 2022, reporting in May 2022. The service was graded as outstanding which is a significant achievement for the Council. It was noted that two areas were noted for improvement, namely contingency planning in children's written plans and consistent decision-making for strategy discussions.

The report was presented to the Children and Families Scrutiny Board together with an action plan. The agreed actions have been implemented or, in some cases, are ongoing e.g. sampling of information on open cases to understand the quality and consistency of decision making and outcomes.

# Governance

## Final accounts closedown and audit process

We have previously reported to members at the Corporate Governance and Audit Committee (CGAC) the challenges experienced in undertaking our audit work. Our comments were included in our 2020-21 Audit Findings (ISA260) Report first presented to the CGAC in February 2022 and updated and presented in February 2023, and in our 2020-21 Auditor's Annual Audit Report, which was presented to the CGAC in October 2022.

The Authority has a dedicated team responsible for the Council's final accounts preparation and audit process consisting of two key officers who are also responsible for other duties including budget preparation.

We have identified a number of adjustments and disclosure changes during our audit of the 2019-20 and 2020-21 accounts. Collectively, these matters were material (although did not impact on the Council's useable reserves in 2020-21) and indicate significant scope for improvement in the Council's processes. We included an overall recommendation in the ISA260 Report for the Council to ensure appropriate action is taken to enhance the accounts and audit process, including the supporting working papers, independent management quality assurance review and engagement with external audit as part of the 2021-22 and 2022-23 audit process. Progress should be monitored by the Corporate Governance and Audit Committee as those charged with Governance at the Council.

As a local public sector audit team we have gained a strong reputation on delivery and audit quality. Indeed the audit regulator has reviewed a number of our audits in recent years, including at the Council, and confirmed on each occasion our work was at the required standard in terms of documentation and quality. In addition, we complete the audits at our other local authority and NHS clients to an agreed timetable, only experiencing significant issues in the accounts audit at Leeds.

We are pleased to understand that the Council has noted our comments from recent years and informed us that it has strengthened its arrangements and processes as part of producing the 2021-22 accounts and supporting working papers. This includes increasing quality assurance review and approval of working papers and involving internal audit colleagues in the process. Our 2021-22 audit is underway and we will report our findings in our 2021-22 ISA260 Report (expected in June).

We also note the challenges of the existing Council ledger compared to a modern audit approach. Again it is good to note that work is well underway to procure and implement a new, modern ledger by 1 April 2024 – this should also lead to a smoother audit process once implemented (see right hand column).

## New Financial Ledger for the Council planned

We reported in our 2020-21 Auditor's Annual Audit Report that the nature of the FMS system remained a challenge in terms of the clarity of the audit trail from the FMS system, to supporting figures included within the draft accounts. The Authority's FMS system dates back to the early 1990's with limited functionality and, as a result, it requires additional work to produce the information necessary for both management and for audit purposes.

To address these issues, we noted that the Chief Officer - Financial Services was progressing work to procure a new financial ledger system. A procurement process has started and the Chief Officer – Financial Services hopes to have a new ledger in place by October 2023 and HR and payroll by April 2024.

This is a positive development and should help to ensure a more efficient and effective accounts preparation and audit process, along with wider benefits to the Council's operations by improving the levels of management information available to officers and Members.



# Improvement recommendations



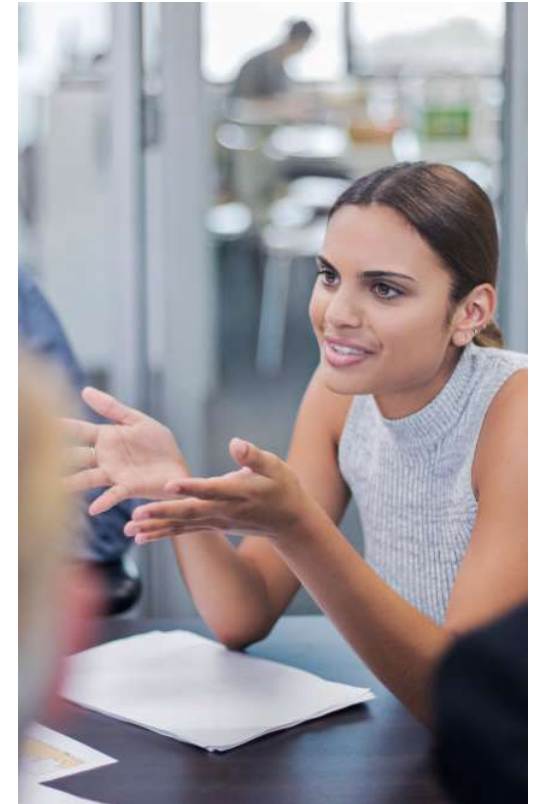
## Governance

### Recommendation 3

In our review of the key governance policy documents of the Council, we noted that the Code of Conduct for Officers does not appear to have been reviewed for relevance since 2013. We recommend the Council reviews the Code of Conduct for Officers for relevance and updates the Code as required.

### Management Comments

*Agreed. We are currently carrying out an exercise to refresh the policies and procedures register and prioritise which policies and procedures need to be reviewed and refreshed, this includes the code of conduct. The policies and procedures are being RAG rated based on when they were last reviewed and taking into account any areas that could be impacted upon by up and coming legislation, governance or required policy changes to prioritise when policies will be taken forward for review. The code of conduct will be reviewed in line with the new schedule for review.*



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

# 7. Improving economy, efficiency and effectiveness



## We considered how the Council:

- uses financial and performance information to assess performance to identify areas for improvement
- evaluates the services it provides to assess performance and identify areas for improvement
- ensures it delivers its role within significant partnerships and engages with stakeholders it has identified, in order to assess whether it is meeting its objectives
- where it commissions or procures services assesses whether it is realising the expected benefits.

## Performance Management

The Council is committed to delivering high quality and value for money for its residents, and the evaluation of this achievement is represented through the performance management framework. Key performance indicators (KPIs) are updated on a quarterly basis and reported to the directorate management teams and Corporate Leadership Team (CLT) and twice yearly to Scrutiny Boards in January and June. In addition, an Annual Performance Report which focusses on year-end results, is presented to the Executive Board in July.

The Annual Performance Report is used to highlight the differences made to local communities through the work carried out by the Council and partners. The report provides a clear picture of progress in the year, comparing results to both targets and prior year outcomes. Our 2020-21 VFM report noted that many of the KPIs had been significantly affected by the effects of the Covid-19 pandemic, with some results suspended due to lockdown restrictions particularly those in relation to schools. As a result, we have undertaken a review of 2021-22 performance, compared to 2020-21 and, where possible, 2019-20.

## Adult Social Care

We found that performance was fairly consistent across the three years. There were no significant falls in performance other than in relation to the number of service users that found it easy to find information about support (57.8% against 75.1% in 2019-20) and the number of carers that found it easy to find information about services (57.1% against 65.4% in 2018-19, which is the most recent comparator. This has been recognised by the Council as the first priority in the revised Better Lives Strategy i.e. “we will make it easier for people to access the services they need, when they need them”.

## Voids

We reported on the increase in voids in our 2020-21 report and, from this year’s work, we noted the number of void properties increased by around 57% year on year, increasing from 730 to 915 in the first six months and then to 1,148 at year end (31 March 2022). A number of reasons were suggested for this including Covid safe practices, Covid absences and both materials and labour shortages. There were 970 voids at the end of October 2022 and the target remains 1% of stock in void which represents 540 voids. The current recovery plan forecast is for this to be achieved by March 2023.

## Repairs

The number of repairs not meeting the target response time, which varies depending on priority from 24 hours to 60 working days, increased considerably during the pandemic. In 2019-20, 96.34% of repairs met the target, reducing to 77.26% in 2020-21 and then to 74.01% in 2021-22. The Council has yet to return to pre-pandemic levels of performance, but the direction of travel is positive as 87.72% of repairs have been complete within target in 2022-23 (to 31 December 2022). A further issue is that increased costs of labour and materials potentially impact the viability of the existing contracts and the affordability of the service.

# Improving economy, efficiency and effectiveness

## Children looked after and those with a care plan

The target for both of these indicators is to reduce the number of children in care and the number subject to a care plan. Although not increasing significantly, the numbers have increased over the last two years and are continuing to increase.

KPI	2019-20	2020-21	2021-22	Oct 2022
Children who need to be looked after	1,346	1,278	1,365	1,449
Children with a care plan	590	560	619	652

In relation to children who need to be looked after, we understand that the Leeds 'Looked After' population increased by 7.3% between April 2021 and March 2022, compared to a 4.9% rise for core cities, a 1.6 % rise nationally, and a 1% rise for Yorkshire and the Humber.

Despite this rise, the Council's rate per 10,000 children of 80.5 is below all comparators except England as a whole (70). Core Cities, for instance, is 99. The Early Help service is being reshaped to enable it to provide further support on preventative work to reduce the need for children to be looked after.

Child protection work has been subject to some of the most significant challenges of any area during the pandemic. Although the number of cases in Leeds has increased, the annual Child in Need Census, a statutory return all local authorities complete for the Department for Education, shows that there are significantly fewer children subject to a child protection plan in Leeds:

The Council's rate of 35.6 per 10,000 children is below all comparator groups, including England (42.1), statistical neighbours (52.5), core cities (52.1), and Yorkshire and The Humber (48.5).

## Bin collection rate

There has been very little change year on year. In 2021-22, 99.87% of planned collections were made despite the continuing impact of Covid illness and self-isolation.

## Support to improve skills

The target for 2021-22 was 6,450 adults to be provided with support to improve their skills but only 2,485 were actually supported, compared to 4,857 the previous year. The report notes that the pandemic has impacted on the Council's services over the last 24 months, and the number of customers engaging have yet to return to pre-pandemic levels. Efforts are being made to increase take up by, for instance, increased marketing through improved websites, attending open events, hosting open enrolments, more targeted leafleting and by reviewing the curriculum.

## Collection rates for council tax and business rates

The collection rates for both council tax and business rates increased year on year, but both are still below the target, especially in relation to business rates. The pandemic had a negative impact on most business sectors resulting in an inability to pay business rates. In 2021-22, the collection rate improved (93.74%) compared to the previous year (90.21%) but remained below the pre-pandemic average of 98.5%. Recovery action was, once again, suspended during much of 2021-22 and the availability of court dates remains limited. The Council anticipates that the backlog of recovery action will be cleared during 2022-23.

## ICT service desk

The Council has a target of 70% of ICT service desk calls being fixed at the first point of contact. The target was exceeded in both 2020-21 and 2021-22. However, the number of service desk calls being fixed at the first point of contact has decreased from 83.15% in 2019-20 to 75.17% in 2021-22. We understand that this is due to a reduction in Service Centre staff and the ongoing impact of rollouts of several major IT upgrades.

In conclusion, overall performance is satisfactory and, where improvements are required, plans are in place to bring about that improvement. The next reports to members are to the various scrutiny boards in early 2023.

# Improving economy, efficiency and effectiveness

## Best City Ambition

Building on the key council and partnership strategies in place at the time, the Council's Best Council Plan 2020-2025 set out a number of interconnected priority areas of work. These flowed in particular from the Council's two long-standing main strategies – Inclusive Growth and Health and Wellbeing – as well as a third strategic key pillar, which was new for 2020, Climate Emergency.

In October 2021, the Executive Board agreed in principle to replace the Best Council Plan with a Best City Ambition, better reflecting the important role partnership working across Leeds has in achieving the city's shared goals. The report to Executive Board noted that the City Ambition would demonstrate the interlinked nature of the key priorities shared by the Council and its partners and would enable work to be better aligned across partnerships with resources used to their maximum in Leeds. The Best City Ambition was approved by the Council in February 2022 following consultation.

Although moving from the Best Council Plan to the Best City Ambition, the Council still measures and reports on a wide range of organisational and city-wide indicators. In fact there is considerable similarity between the Best Council Plan indicators and the Best City Ambition indicators especially at the organisational level. A report on performance against the organisational level indicators was presented to the Corporate Leadership Team in November 2022 and reports on these indicators and the wider Best City Ambition indicators will be presented to Scrutiny Boards in early 2023.

Of the 25 organisational indicators, seven were assessed as red. In most cases, a commentary was provided to explain the performance and the action being taken to improve performance. However, in some cases the report was noted 'Awaiting commentary from the service' two of which related to red rated areas, namely collection of rental income and the percentage of people receiving direct payments for social care. We have raised an improvement recommendation for the various services to ensure that the appropriate commentary is available at the time the report is issued.

In addition to these indicators, a key part of the framework is the Social Progress Index (SPI), which is a "comprehensive measure of real quality of life, independent of economic indicators". A report to Scrutiny Board in January 2022 noted that only one other local authority in England, Barking and Dagenham, has completed an SPI.

The Council has continued to work on the SPI throughout 2022. Starting with an initial 310 possible indicators, a cross council data team reduced to the indicators to 73 and finally to 48 usable indicators.

The Best City Ambition will use the Leeds SPI model to understand the impact of the Council's and its partners' interventions to enable a better understanding of the differing strengths and challenges of the city's communities. A website has been set up which enables users to review the information by ward, including overall score (out of 100) and the relative position of each ward. The use of the SPI is still in the early stages and will be further developed in 2023.

## Procurement

The Council has a Procurement Strategy 2019 - 2024. In addition, all procurements must be undertaken in accordance with the Council's Contract Procedure Rules (CPRs). Amongst other things, CPRs require competition for all contracts valued above £100k, and also for those up to £100k (save in exceptional circumstances).

A review of the Council's procurement strategy was undertaken in November 2021. It was considered that it remained fit for purpose, and that no updates were required at that time. A further review is intended to take place in 2023 with a view to putting in place a new procurement strategy in early 2024.

In June 2021, the Council worked with the LGA to facilitate a peer review of the Council's procurement function. This included review of the procurement strategy, review of the Council's procurement function in that context, and recommendations that have been developed into a plan forming part of the Council's Core Business Transformation programme.

The number of procurement waivers reduced significantly year on year from 60 in 2020-21, which in itself was a reduction from 79 in the previous year, to 37 in 2021-22.

# Improving economy, efficiency and effectiveness

## Benchmarking

The Council make significant use of data and benchmarking as part of performance management. KPIs are benchmarked against the core cities, the region and nationally, where possible and results are included in reports to directorate management teams and the Corporate Leadership Team. As recommended in our 2020-21 report, the use of benchmarking could be expanded to also consider costs, particularly unit costs. Analysis of unit costs would help to assess the value of proposals and transformation of services.

## CFO Insights

As part of our audit work, we have benchmarked the Council's total net expenditure by service on a unit basis against the other core cities. This analysis shows that the Council has average total overall unit cost when compared to other core cities. However, within this, there are a number of areas in which the Council's unit costs are high or very high. Those that are very high are:

- Cultural and related services – very high areas include culture and heritage and open spaces
- Environmental and regulatory services – a significant number of areas are very high cost, including, for example, climate change, recycling and community safety crime reduction

There are other areas where the overall service area cost isn't very high, but elements within that service area might be. Examples include:

- Development control (Planning and development services)
- Primary schools (Education service)
- Learning disability support 65+ (Adult social care)

We recommend that the Council reviews the 'very high' cost areas to understand if there are any pertinent reasons why the costs are high and if there is scope for reducing costs without any significant impact on service performance.

Leeds		2022/2023 (£000s)	Unit	Unit Cost (£)	Unit Cost Score
TOTAL EDUCATION SERVICES (RA) £/aged 0-18	0	601,053.00	179,584.00	3,346.92	High
TOTAL HIGHWAYS ROADS AND TRANSPORT SERVICES (RA) £/head	0	20,430.00	798,786.00	25.58	Average
TOTAL CHILDRENS SOCIAL CARE (RA) £/aged 0-17	0	173,428.00	170,581.00	1,016.69	Low
TOTAL ADULT SOCIAL CARE (RA) £/aged 18+	0	262,602.00	628,205.00	418.02	Very Low
TOTAL CULTURAL AND RELATED SERVICES (RA) £/head	0	59,084.00	798,786.00	73.97	Very High
TOTAL PLANNING AND DEVELOPMENT SERVICES (RA) £/head	0	10,272.00	798,786.00	12.86	Low
TOTAL HOUSING SERVICES (GFRA only) (RA) £/head	0	20,090.00	798,786.00	25.15	Very Low
TOTAL ENVIRONMENTAL AND REGULATORY SERVICES (RA) £/head	0	74,943.00	798,786.00	93.82	High
TOTAL CENTRAL SERVICES (RA) £/head	0	9,878.00	798,786.00	12.37	Very Low
TOTAL PUBLIC HEALTH (RA) £/head	0	46,842.00	798,786.00	58.64	Very Low
TOTAL OTHER SERVICES (RA) £/head	0	(4,067.00)	798,786.00	(5.09)	Very Low
<b>TOTAL SERVICE EXPENDITURE (RA) £/head</b>	0	<b>1,274,555.00</b>	<b>798,786.00</b>	<b>1,595.62</b>	<b>Average</b>

# Improving economy, efficiency and effectiveness

## Climate emergency/net zero

In March 2019 the Council declared a climate emergency with an ambition of reaching net zero by 2030. The Council has made a commitment to become carbon-neutral in its operations. The Council's key sources of emissions are street lighting, its buildings and fleet. The Council, we understand, has already acquired the largest local government electric vehicle fleet in the UK, committed to halve the energy required for street lighting by transferring to LED and to replace gas in city centre buildings with district heating.

In 2019, the Council established a Climate Emergency Advisory Committee which is authorised to consider and make recommendations regarding climate change and sustainability. Regular meetings have been held, especially over the last year. Climate emergency or net zero is one of the three pillars of the Best City Ambition which means that any decisions taken by the Council must consider if there is an impact on net zero.

Climate change is listed on the corporate risk register. The details are reported to the Executive Board as part of the Annual Corporate Risk Report. The report includes a one page assurance on the Climate Change risk, the main controls in place and further actions planned.

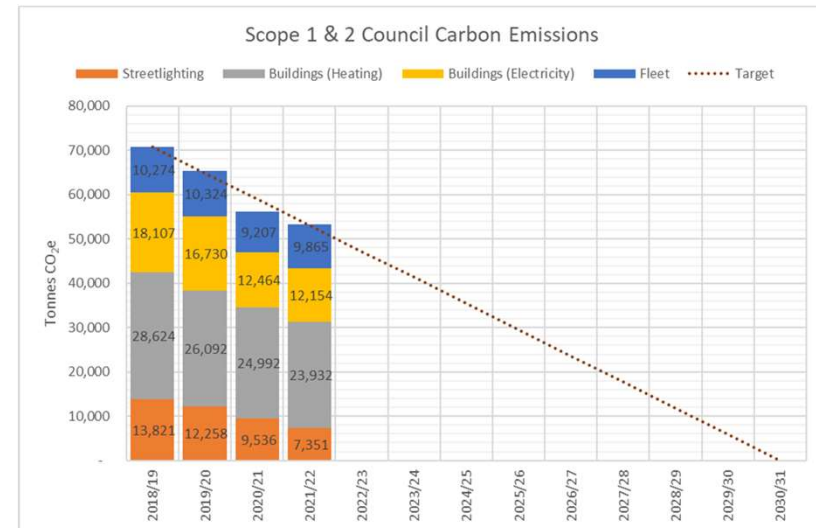
Other than in relation to the running costs of the Council's Sustainable Energy and Air Quality Team (SEAO), there is no revenue budget for carbon reduction. There are a number of capital schemes in the current programme covering such issues as LED lighting (total cost £22.8m of which £4.5m related to 21-22), district heating and vehicle replacement (including charging point infrastructure).

The LED roll-out is on target for October 2023, with contractor (Enerveo) currently forecasting that they will exceed this target. In terms of carbon reduction from street lighting, year to date is showing a reduction of 21.6% and, over the past four years, a reduction of just over 60%.

There are a number of links to other public sector bodies and the private sector through groups such as the Leeds Climate Commission, Yorkshire & Humber Climate Commission and Climate Action Leeds. In addition, the Leeds Anchor Network brings together some of the city's biggest organisations including the Council, Leeds City College, University of Leeds, Leeds Community Healthcare, Yorkshire Water and others. Climate change is discussed at the Network's meetings.

The Council's climate change action plan was assessed by Climate Emergency UK according to 28 questions across nine sections. Each council was marked against these criteria and given a right to reply before the scores underwent a final audit. This work was completed between June and December 2021. The Council scored well as all scores were above the average for single tier councils that had an action plan in place. In addition, the Council's arrangements have also been assessed by the Carbon Disclosure Project (CDP), a charity that runs a global disclosure system for investors, companies, cities, to manage their environmental impacts. In its latest report, Leeds is included on the 'A list' as a "leader in environmental action and transparency".

Overall, the Council appears to be broadly on target to achieve net zero by 2030.



# Improvement recommendations



Improving economy, efficiency and effectiveness

## Recommendation 4

When reporting our 2020-21 findings we recommended that the Council should consider the use of unit cost benchmarking. Our own use of such benchmarking, using CFO Insights highlighted a number of areas where the Council's costs, relative to other core cities, are 'very high'. We therefore recommend that the benchmarking data presented in this report from CFO Insights is reviewed, along with any other benchmarking data that is available, to help the Council understand its costs and to potentially identify areas for cost reduction and improvement.

## Management Comments

*Noted. Benchmarking data is already used extensively in services such as Adult Social Care where it has been used to inform budget strategies by highlighting areas where the service could be more efficient or where there are opportunities for increased income collection. Whilst the Council does not subscribe to Grant Thornton's CFO Insights benchmarking tool, the Council does instead across a wide range of services use a variety of benchmarking data and membership of benchmarking clubs to inform decision making and the identification of cost efficiencies.*

## Recommendation 5

In our review of performance reporting we noted that, in the report on organisational KPIs to the Corporate Leadership Team in November 2022, three indicators were awaiting a commentary from the service. In order that both officers and Members fully understand performance, we recommend that commentary is available on all KPIs at the time of reporting.

## Management Comments

*Agreed. Despite the key contacts being contacted and reminded to submit commentary in relation to their KPI results, none was provided for the two indicators in question for the deadline of the CLT report submission. However, updated results and commentary were obtained when the performance indicators were reported to the respective Scrutiny Boards in January 2023. Although service key contacts are reminded to submit performance reports and supporting commentary each quarter, with any gaps after the deadline being followed up, we will enhance our arrangements by escalating any gaps in the results and/or supporting commentary to the relevant Head of Service and/or Chief Officer.*

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

# 8. Follow-up of previous recommendations

Recommendation	Type of recommendation	Date raised	Progress to date per management:	Addressed?	Further action?	
1	The Council should continue to keep its financial position under review and continue to closely monitor the delivery of savings schemes and actions to address the current and future years budget gap.	Improvement	September 2022	Updated MTFS approved at Executive Board. Latest Financial Health received at November's Executive Board. Proposed Budget 23/24 and Indicative Budgets report presented at December's Executive Board. A balanced budget has been approved for 2023-24 but there are budget gaps of £4.3m and £28.7m for 2024-25 and 2025-26 respectively.	Yes but remains ongoing	<p>This will need to be a continuing area of focus for the Council given the challenging economic conditions it is facing.</p> <p>We will continue to liaise with the senior officers of the Council on this issue as part of our 2022-23 audit work.</p>
2	The Council should continue to consider the adequacy of its current level of General Fund Reserves and Balances to ensure these remain adequate for its needs and potential unforeseen events.	Improvement	September 2022	As above - MTFS and Proposed Budget 23/24 reports show latest assumptions in respect of the GF reserves.	Yes but remains ongoing	<p>As above, this will need to be a key area of focus for officers and Members given the Council's relatively low level of reserves for a Council of its size, and in the context of the current economic climate.</p> <p>We will continue to liaise with the senior officers of the Council on this issue as part of our 2022-23 audit work.</p>
3	The Council should consider as part of its wider capital investment ambitions and treasury management strategy, the level of its long term debt and its ability to fund the associated future revenue costs, in particular, the future Minimum Revenue Provisions (MRP) required.	Improvement	September 2022	Capital Review being undertaken the results of which will be incorporated into February 2023 Capital Programme report.	Yes but remains ongoing	<p>As with points 1 and 2 above, this issue will remain an ongoing matter for the Council to continue to monitor, including the possible use of capital receipts to reduce the Council's debt levels.</p> <p>We will continue to liaise with the senior officers of the Council on this issue as part of our 2022-23 audit work.</p>



# Follow-up of previous recommendations

	Recommendation	Type of recommendation	Date raised	Progress to date per management:	Addressed?	Further action?
4	The Council should clearly identify statutory and discretionary spending in budgetary information which is provided to members and the public when setting the budget each year.	Improvement	September 2022	<p>Management initially stated that to implement this recommendation would involve mapping services being provided to the statutory requirement and then allocating and apportioning costs and income in accordance with this. There were no plans to do this, but management stated that it remained an option that it may wish to pursue.</p> <p>Since a local authority has a significant number of statutory responsibilities, and it isn't always clearly defined what is statutory or non-statutory, the implementation of this recommendation would be resource intensive without necessary realising any additional benefits.</p> <p>Given Grant Thornton's share of the Local Authority audit market it would be useful if they could highlight where an authority has successfully implemented this split between statutory and non-statutory expenditure and income so that this could inform how this recommendation could be readily applied and implemented in Leeds.</p>	No	<p>We acknowledge that there is discretion in the delivery of all statutory / mandatory services, which can blur the line somewhat.</p> <p>A possible approach for the Council could be to set out material spending areas which have been the previous choices of Members, alongside the proposed efficiency and savings plans for key services.</p> <p>We will follow up this point as part of our 2022-23 VFM work.</p>

# Follow-up of previous recommendations

Recommendation	Type of recommendation	Date raised	Progress to date per management:	Addressed?	Further action?	
5	The Council should ensure supporting working papers are prepared on a basis that shows a clear audit trail from the FMS system to the figures that go into the Council's draft accounts corroborated as necessary by relevant evidence. Working papers should be subject to a quality assurance process prior to the working papers being provided to external audit. In addition, the Council should ensure that responses to audit queries are provided in a timely manner and are specific to the query or request raised.	Improvement	September 2022	Following a review by the Finance team, a number of actions have been identified and these have been incorporated into an 2021-22 Action Plan that has been discussed and agreed with the external audit team. The Council has stated that it has enhanced the processes to compile the accounts and supporting working papers, increasing the quality assurance level and also involving internal audit in the process	Yes	<p>We note the work that management has done for the 2021-22 accounts and working papers production. During our audit of the 21-22 accounts we will consider how effective these changes have been. We also note the decision taken to have a new, modern financial ledger in place at the Council by 1 April 2024 at the latest.</p> <p>We will report our findings on the 2021-22 accounts and audit process in our ISA260 Report to CGAG in June 2023.</p>
6	The workforce plan currently being developed should be Council wide for the full Council and be built up by each service area and directorate and cover a period of one to three years. The Council should complete its workforce plan as soon as possible and maintain it up to date.	Improvement	September 2022	<p>In response to the recommendation, management stated that the Council's approach is not to have a Council wide workforce plan but, instead, to focus on developing a consistent approach for services to utilise when developing plans for their area.</p> <p>There has been no change since the original response.</p>	No	We remain of the view that a Council wide workforce plan would be beneficial for the Council. We will follow up this point as part of our 2022-23 VFM work.
7	The Council should consider expanding the Waiver report to the Corporate Governance and Audit Committee to include a complete listing of all waivers issued for the year to include for example, entity name, value of contract, directorate and service area, reason for the waiver and if a waiver had previously been issued.	Improvement	September 2022	Future reports will include a schedule covering the issues set out in the recommendation. The first of these reports should be in June/July 2023.	Not yet – expected at the CGAC meeting in June/July 2023	<p>Ongoing at present, we will note the report in June/July to see if our recommendation has been implemented as agreed.</p> <p>Commentary on this will be in our 2022-23 Auditor's Annual Report.</p>

# Follow-up of previous recommendations

	Recommendation	Type of recommendation	Date raised	Progress to date per management:	Addressed?	Further action?
8	The Council should review the action plans for Housing Void Management in order to adequately address the backlog and reduce the number of void properties. It should also ensure that sufficient capacity is available to deliver all areas of responsibility and improve performance against targets.	Improvement	September 2022	<p>Positive progress is being made to reduce the number of voids across the city. At the end of Q4 21/22 there were a total of 1,130 citywide voids. This has reduced to 970 at present. The target remains 1% of stock in void which represents 540 voids. The current recovery plan forecast is for this to be achieved by March 2023. It should be noted that whilst this remains a challenging target, recent performance levels from both internal and external providers has shown acceleration in the number of weekly returns.</p> <p>Setting aside the current positive trend, it should be noted that challenging market conditions are impacting on void progress.</p>	No	Ongoing – we will discuss this issue with management later in 2023 as part of our 2022-23 VFM audit work.
9	The Council should consider the use of unit cost benchmarking as part of their overall benchmarking analysis.	Improvement	September 2022	<p>In response to this recommendation, management said that the Council already undertakes unit cost benchmarking within the Adults and Health directorate and that, in recognising the benefits of unit cost comparisons, other opportunities would be identified to benchmark mark against other local authorities.</p> <p>There has been no change since the original recommendation.</p>	No	We remain of the view that implementing this recommendation would enhance the Council's benchmarking analysis. We will follow up this point as part of our 2022-23 VFM work.

# 9. Opinion on the financial statements



## Audit opinion on the financial statements

At the time of this report, we have commenced our audit of the Council's 2021-22 accounts. We are aiming to substantially conclude our audit testing by the end of April, ahead of presenting our findings to the CGAC in June.

## Other opinion/key findings

Should our audit progress smoothly and in line with the timetable agreed with management, we aim to issue our opinion on the 2021-22 accounts following the CGAC meeting in June 2023.

## Audit Findings (ISA260) Report (AFR)

We will be presenting our findings on our audit of the Council's 2021-22 accounts in our AFR, which is targeted to be published and reported to the Council's CGAC in June 2023.

## Whole of Government Accounts

To support the audit of the Whole of Government Accounts (WGA), we are required to review and report on the WGA return prepared by the Council. This work includes performing specified procedures under group audit instructions issued by the National Audit Office.

Based on the newly released guidance for the 2021-22 WGA work, the Council is expected to be above the audit threshold and will therefore continue to require a more detailed audit review of WGA.

We would seek to perform any WGA following completion of the main accounts audit in June 2023.

## Preparation of the accounts

The Council provided draft 2021-22 accounts in line with the national deadline.

Given the challenges noted earlier in this report and in our 2020-21 ISA260 Report, the finalisation of the 2020-21 accounts audit did take longer than planned, coupled with the national issue in respect of accounting for infrastructure assets. As such our audit of the 2021-22 accounts only commenced in late January.

## Grant Thornton provides an independent opinion on whether the accounts are:

- True and fair
- Prepared in accordance with relevant accounting standards
- Prepared in accordance with relevant UK legislation.



# Appendices

# Appendix A – Responsibilities of the Council

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

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

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

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

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

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



# Appendix B – An explanatory note on recommendations

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

Type of recommendation	Background	Raised within this report	Page reference
Statutory	Written recommendations to the Council under Section 24 (Schedule 7) of the Local Audit and Accountability Act 2014.	No Statutory recommendations have been raised in 2021-22.	N/A
Key	The NAO Code of Audit Practice requires that where auditors identify significant weaknesses as part of their arrangements to secure value for money they should make recommendations setting out the actions that should be taken by the Council. We have defined these recommendations as ‘key recommendations’.	No key recommendations have been raised in 2021-22.	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.	A total of five improvement recommendations have been raised in our 2021-22 VFM work.  Two improvement recommendations have been raised on financial sustainability, with one recommendation on the governance theme, and two recommendations in the 3Es.	Page 13 (financial sustainability), page 17 (governance) and page 23 (3Es)

# Appendix C – Sources of evidence



## Staff involved

- Tom Riordan, Chief Executive
- Victoria Bradshaw, Chief Finance Officer
- Richard Ellis, Deputy Chief Financial Officer
- Tim Rollett, Intelligence and Policy Manager
- Mark Barrett, Head of Finance – Business Change
- Chris Hudson, Performance Programme Manager
- Emma Kamillo-Price, Senior Intelligence and Policy Officer
- Andrew Lingham, Senior Project Manager



## Documents Reviewed

- 2021-22 Draft Statement of Accounts
- 2021-22 Budget - February 2021
- Medium Term Financial Strategy 2022-23 to 2026-27
- 2022-23 Budget - February 2022
- Medium Term Financial Strategy 2023-24 to 2027-28
- Financial Performance Outturn Report – June 2022
- Financial Health Monitoring Reports
- Cashflow Forecast - 2021-22
- Budget Savings Proposals 2022-23 to 2024-25
- Capital Programme 2021-22 to 2024-25
- Treasury Management Strategy Statement 2022-23
- Annual Corporate Performance Report – July 2022
- Annual Corporate Risk Management Report – July 2022
- Best City Ambition – February 2022
- Best Council Plan
- Climate Emergency Annual Report – February 2022

## Documents Reviewed Continued

- Annual Report on Standards and Conduct – March 2022
- Internal Audit Plan, Annual Report and Update Reports
- OFSTED reports and action plans
- Scrutiny Boards Performance Updates – June 2022
- Procurement Strategy 2019-24
- Register of Gifts & Hospitality
- Annual Governance Statement 2021-22
- Framework of Internal Control and Assurance Map – July 2022



## Meetings Observed / reviewed

- Corporate Governance and Audit Committee meetings during 2021 and 2022
- Review of Council minutes
- Review of Executive Board minutes



