Interim Auditor's Annual Report on Leeds City Council

2022-23 VFM arrangements

22 November 2023

Contents

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

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

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 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. We have raised two key recommendations. The first relates to the Council's financial sustainability. The second relates to the Council's arrangements relating to, and engagement during, the external audit process. Both key recommendations build on improvement recommendations we have raised in recent years. Further details are set out on pages 7 and 8-10 and in Section 3 of this Report. The range of recommendations is explained further in Appendix B.

Criteria	2022-23 Auditor judgement on arrangements	2021-22 Auditor judgement on arrangements
Financial sustainability	Key recommendation raised in relation to the Council's financial sustainability; three further improvement recommendations also raised.	No key recommendations made but improvement recommendations raised.
Governance	Key recommendation raised in relation to the Council's arrangements relating to, and engagement during, the external audit process. One further improvement recommendation also raised.	No key recommendations made but improvement recommendations raised.
Improving economy, efficiency and effectiveness	No key recommendations made but improvement recommendations raised.	No key recommendations made but improvement recommendations raised.

1. Executive summary (continued)

Financial sustainability

The Council has a robust and consultative approach to setting its annual budget, Medium-Term Financial Strategy (MTFS) and annual savings plan. It has clear and transparent financial reporting and a strong grasp of the financial challenges it faces. Like many other local authorities, however, the Council faced significant financial pressures moving into 2022-23 and overspent its revenue budget by £12.4m (2.4% of the Council's Net Revenue Budget) causing it to draw on its Strategic Contingency Reserve. Most of the Council's directorates overspent, but the largest overspend - by some margin – was in the Children and Families directorate with an overspend of £16.9m (13% of its budget). In common with other local authorities with social care responsibilities, the Council has experienced a 'perfect storm' of increased demand and complexity in its caseload in this area, alongside increasing costs of provision.

These cost pressures, combined with other factors including the impact of inflation on its staff cost base, are now placing considerable strain on the Council's overall financial standing. The Council identified £128m of cost pressures in its 2023-24 budget, compared to 2022-23. It managed to set a balanced budget for 2023-24, partly as a result of increased central Government funding, though only after planned use of £14.3m from its Strategic Contingency Reserve. The Council's forecast medium-term budget gap over a rolling five-year period has increased from £182.6m in September 2022 to £251m in September 2023. The forecast deficit on the Dedicated Schools Grant budget also continues to increase with the Council now forecasting a cumulative deficit of £78.7m by 2026-27. The Council has over £2.4bn of external borrowing and while the Council now makes appropriate provision for repayment of external borrowing, a Minimum Revenue Provision (MRP) charge in 2023-24 of £64.9m is an increase of over £30m from the MRP charge in 2020-21, representing another significant cost pressure for the Council.

By the end of Quarter 2 2023, however, the Council was forecasting a £30.5m overspend on its agreed 2023-24 budget, which presents a further risk to the Council's ability to balance its budget with continuing to draw on its reserves, as it did in 2022-23. The Council has historically maintained relatively low levels of general reserves that are available to meet unforeseen risks, relative to its net expenditure and compared to other metropolitan and large city councils. The Council established the Strategic Contingency Reserve in 2020-21 to fund future unforeseen budget pressures and to ensure the Council becomes more financially resilient. This reserve stood at £37.5m at the end of 2021-22. However, it currently forecasts that this reserve will have reduced to £3.7m by 31 March 2024. The General Fund remains at around £33m and while there are plans to increase this, this relies on no contribution being required from this reserve to the Council's 2023-24 financial position.

Due to the significance of the challenges and the current level of risk, we have made a key recommendation relating to the Council's financial sustainability (see page 7). The Council has a very challenging financial position. It has relatively low levels of available reserves compared to similar councils, and relatively high levels of external borrowing. Like many other councils, it has also experienced significant pressures from cost and demand inflation, particularly in its Children and Families directorate. It overspent by £12.4m in 2022-23 and is now forecasting a £30.5m overspend on its 2023-24 budget, which also includes a £58.6m savings programme. The Council used its reserves to balance its 2022-23 outturn position. In setting its 2023-24 budget, it planned to make use of a further £14.3m of reserves. The Council acknowledges (as set out in its November 2022 LGA peer challenge report) that ongoing use of reserves to balance its position is not financially sustainable. The Council is taking a range of actions to manage its in-year budget pressures and has recognised the need for further, significant transformation, to deliver a sustainable financial position in the longer term. It has also recognised that this will likely require significant reductions in its headcount. We understand the Council is updating its medium-term financial strategy accordingly and will consider this issue again as part of our 2023-24 review of the Council's value for money arrangements.

We have also raised some improvement recommendations to support further enhancement in the Council's financial planning and reporting arrangements.

Executive summary (continued)

Governance

The Council has a sound internal control environment and despite a degree of turnover in recent years, its Corporate Governance and Audit Committee, supported by Internal Audit, exercises appropriate oversight and challenge. The Council maintains clear processes that reinforce good behaviours and working relationships; and maintain high standards of conduct. Its processes for identifying and reporting strategic risks are appropriate, though we raise an improvement recommendation to increase the frequency and utility of strategic risk reporting to the Executive Board.

For several years we have noted the challenges of delivering a modern external audit approach, using data interrogation techniques given the nature of the Council's ageing in-house ledger system. In addition, we have raised concerns around challenges noted in the preparation and provision of working paper documentation to support the external audit of the Council's financial accounts, and with the timely engagement of responses to external audit requests for information and queries. These areas are crucial to ensuring the audit of the Council's accounts can be completed in a timely manner. Although the Council has committed to improvement in this area, we have experienced similar issues in completing our audit of the Council's 2021-22 accounts which currently remains ongoing. As we have noted previously, as a local audit team the only audit where we experience challenges on delivery is at Leeds. The ongoing 2021-22 audit, which was originally planned for completion in September 2023, has resulted in the need to push back the start of the 2022-23 accounts audit into the New Year.

We raise a key recommendation in relation to the Council's arrangements relating to, and engagement during, the external audit process, which is an escalation of similar improvement recommendations from prior years (pages 8-10).

Improving economy, efficiency and effectiveness

The Council's performance reporting reflects the fact that 2022-23 is a transitional year following its adoption of the Best City Ambition in 2022. Its partnership working is an area of strength with clear evidence of active involvement in partnerships to improve outcomes for the people of Leeds.

The Council is currently refreshing the technology underpinning its finance systems as part of its Core Business Transformation programme, and has taken pragmatic steps to reduce the risks of implementation of the new ledger system, though we recommend the Executive Board is fully briefed on residual risks prior to the system going live. The Council has identified potential for cost savings through its contracted services, but acknowledges that will require improvements to its arrangements for managing contracts across the commercial lifecycle, not just at the procurement stage.

We we make a small number of improvement recommendations which have been accepted by Management. See pages 36-38 for more detail.

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

2. 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.

3. Key recommendations

Key Recommendation 1	*The Council should set out in detail how its proposed transformation plans will enable it to deliver a sustainable, balanced budget year-on-year.*
Key issues identified and summary findings	The Council has a very challenging financial position. It has relatively low levels of available reserves compared to similar councils, and relatively high levels of external borrowing. Like many other councils, it has also experienced significant pressures from cost and demand inflation, particularly in its Children and Families directorate. It overspent by £12.4m in 2022-23 and is forecasting a £30.5m overspend on its 2023-24 budget, which also includes a £58.6m savings programme. The Council used its reserves to balance its 2022-23 outturn position. In setting its 2023-24 budget, it planned to make use of a further £14.3m of reserves. The Council acknowledges that ongoing use of reserves to balance its position is not financially sustainable. The Council is taking a range of actions to manage its in-year budget pressures. We understand work is also ongoing in relation to a fundamental review of all the Council's services, and the updated MTFS will set out how the transformation plans will enable the Council to deliver a balanced 2024-25 and medium term position without ongoing use of reserves. In addition, the Council continues to consider the impact of these plans on its staffing levels.
Criteria impacted by the Key recommendation	Financial sustainability
Auditor judgement	Based on the work undertaken, we have raised a key recommendation (as defined at Appendix B) relating to the Council's financial sustainability. This is because we consider the issues summarised above constitute a significant challenge to its arrangements relating to current and ongoing financial sustainability.
Management comments	In response to the financial challenge, as set out in the Medium Term Financial Strategy which was received at Executive Board in September 2023, the Council has embarked upon a process of re-setting and re-shaping its revenue budget with a service classification of essential, statutory, preventative, priority and then categorised these according to the potential level of savings required, including a best (lowest) and worst (highest) level of savings required. The prioritisation work the Council has undertaken will ensure that the services the Council provides are re-set/re-based within the Financial Envelope the Council has available. Accompanying an ongoing review of the organisational design of the Council, which will help to reshape the work, this will mean that the Council is in a good position to deliver a proposed balanced budget position for 2024/25 which will be received at Executive Board in December 2023. The savings programme for both 2023/24 and 2024/25 analyses the proposed savings between those that are one off and those that are recurrent. The key messages in the MTFS and the annual budget reports is that the Council is seeking to make the revenue budget robust, resilient, and sustainable. The majority of these savings are on a recurrent basis and reduce the cost base of the Council. To ensure that the Council has the transformational capacity and skills to deliver both the change required and the subsequent realisation of identified savings proposals, the Council has established a Corporate Transformation team funded through the use of capital receipt flexibilities. (The Council already uses capital receipt flexibilities to ensure that it has the capacity to deliver transformation particularly with regard to IT). This transformation capacity is in addition to the team established in Children and Families and builds on those resources which have been in the established structures for Adults Social Care, City Development, Community and Environment and IDS. In addition the Council has established in 2020 both the Innovation and Investment reserves which provide a level of resource which Directorates can use to provide the capacity to deliver targeted change. The annual revenue budget provides for a contribution to these reserves to ensure that they remain sustainable and accessible for Directorates. The Council is continually improving and is more financially sustainable and resilient despite the unforeseen financial pressures facing Local Authorities nationally.

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

Key recommendations (continued)

Key Recommendation 2	*In order to strengthen arrangements in engaging in the external audit process, the Council needs to ensure:* • *timely provision of good quality working papers consistently to support the Council's financial statements (reviewed by an independent officer prior to being provided) and that all working papers reconcile clearly to FMS or other appropriate systems;* • *increased capacity within the Council's accounts team to respond promptly and in a timely manner to audit queries or requests for information, including ensuring the 2021-22 accounts audit is completed as soon as possible; and* • *that the expected time commitment and risks associated with introducing the new ledger system, and the other key tasks being undertaken by the finance team, such as budget preparation, do not impact on the availability of key finance staff to engage with external audit to deliver the 2022-23 accounts audit.*
Key issues identified and summary findings	The Council's arrangements to support its engagement with the external audit processes have resulted in delays in provision of key information and responses to external audit queries; and issues with the information and working papers provided. This reflects issues with the underlying financial systems and limited capacity within the Council's finance team to support the audit. It is our judgement that the Council has not sufficiently progressed agreed actions to improve the quality and timeliness of material provided to support the audit that we have raised over several years. We have continued to experience delays in the provision and quality of working papers provided by the Council to support the external audit process.
Criteria impacted by the key recommendation	Governance of the accounts and external audit process
Auditor judgement	The Council's arrangements for, and engagement during, the external audit of the Council's accounts have not sufficiently improved following previous improvement recommendations on this matter. In our judgement, it is therefore appropriate to escalate this to a key recommendation (as set out at Appendix B).
Management comments	See pages 9 and 10

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

Key recommendations (continued)

Management comments on Key Recommendation 2 - timely provision of good quality working papers consistently to support the Council's financial statements (reviewed by an independent officer prior to being provided) and that all working papers reconcile clearly to FMS or other appropriate systems.

This comment echoes those made in previous VFM reports and fail to recognise the improvements that the Council has put in place since the last Grant Thornton VFM report. Working papers have been improved so that they are more readily accessible and understandable to Grant Thornton staff undertaking the audit. In particular improvements to working papers for the main financial statements has smoothed the audit process when compared to previous financial years. By way of example a reconciliation to FMS is now provided with all capital working papers.

This improvement is evidenced by the fact that there has been an observable reduction in queries coming thorough from Grant Thornton staff. Grant Thornton staff engaged on the audit have commented to LCC finance staff that they are finding it a lot easier to follow and understand working papers when compared to previous years.
For 2021/22, we were again not issued with a detailed PBCL (Prepared by Client List) in advance of the audit. Instead, the same folder structure as previously was set up in Inflo, and we were asked to upload the same working papers. Additional requirements have emerged gradually during the audit.

Despite repeated requests from the Council to Grant Thornton, Grant Thornton have not provided a detailed audit plan which would have informed the Council which areas of the final accounts Grant Thornton will be auditing and when. This level of detail would further contribute towards ensuring that working papers are available to Grant Thornton in a timely fashion since finance staff would be better informed in managing their workloads and priorities. It would also ensure that LCC finance staff do not focus their attention upon the production of working papers that are not a priority requirement for Grant Thornton.

Working papers are checked by a member of staff who is different to the member of staff who produced the working paper. A Senior Financial Manager will check Finance Manager's working papers whilst in turn the Head of Finance (Technical) will review the working papers produced by Senior Financial Manager. The robustness of the working papers is recognised by the fact that Grant Thornton's audit, to date, of the 2021/22 accounts has not highlighted any material issues. However the Council does recognise that reviews of working papers should be evidenced and it will make appropriate arrangements moving forward to do so.

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

Key recommendations (continued)

Management comments on Key Recommendation 2 (cont.) - increased capacity within the Council's accounts team to respond promptly and in a timely manner to audit queries or requests for information, including ensuring the 2021-22 accounts audit is completed as soon as possible; and that the expected time commitment and risks associated with introducing the new ledger system, and the other key tasks being undertaken by the finance team, such as budget preparation, do not impact on the availability of key finance staff to engage with external audit to deliver the 2022-23 accounts audit.

There are currently eight members of staff within the Corporate Financial Management function whose prime role is to support the annual closure of the financial accounts. (One of these is currently on maternity leave). There are numerous Business Partners within Financial Services who are also responsible for closing the accounts within their area of responsibility. This is felt to be an appropriate level of resource to support this key financial process.

This level of resource supporting the closure of accounts function reflects the fact that additional resources (2 members of staff) have been brought in to facilitate a member of staff (Senior Head of Finance) within the function supporting on a more full time basis the delivery of the new financial ledger. It also allows the Head of Finance (Technical) to have an appropriate level of input into the implementation of the new system. It should be noted that the additional two members of staff who have been brought in to support the closure of accounts have significant experience of this financial process within Leeds City Council.

Since the team for closing the accounts has been strengthened, to accommodate the requirement to support the implementation of the new financial ledger, sufficient resources will be available to support the audit of the 2022/23 accounts.

The two members of staff referred to in Grant Thornton's comments are the Senior Head of Finance and the Head of Finance (Technical) and they are responsible for all liaison with Grant Thornton audit staff. By doing this, senior finance staff will be aware of what queries/requests for information are being made by Grant Thornton. As a result they can direct the query/request to the right individual or readily source the information and they can ensure that responses provided are timely, professional and provide the information requested by Grant Thornton.

In addition Grant Thornton's Hot Review of the 2021/22 final accounts asked 109 questions and covered 11 pages. Inevitably responding to these questions and subsequent points of clarification from Grant Thornton took a considerable amount of staff time to complete. This requirement added to the pressure upon a key member of staff to complete whilst at the same time they were also working on responding to other Grant Thornton requests for information.

The audit of the 2021/22 accounts needs to be seen in the context of the fact that the 2020/21 accounts were not approved at Corporate Governance and Audit Committee until the 6th February 2023 after which key members of staff involved in the process took annual leave before starting the process for the closure of the 2022/23 accounts. These draft accounts were published in July 2023. Grant Thornton were made aware of the above and that both their available resources and their audit planning should take account of this.

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

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 14 to 38.

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

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

5. The current Local Government landscape

National context

Local government in England continues to face significant challenges as a sector. These include a high level of uncertainty over future levels of government funding, alongside delays to the Government's plans for reform of the local government finance system, impacting on medium-term financial planning. This is also a time of generationally significant levels of inflation – the UK inflation rate was 7.8% in April 2022, rising to a 41-year high of 11.1% in October 2022, then reducing to 10.1% in March 2023. Inflation levels put pressure on councils' revenue and capital expenditure, as well as the associated cost of living crisis impacting on local communities and businesses, leading to an increase in demand for council services such as children with special education needs with associated transport costs, debt advice, housing needs, and mental health, as well as impacting on some areas of council income such as car parking and the collection rates of council tax, business rates and rents. This follows a significant period of funding reductions by Government (2012 to 2017) and the impacts of Brexit and the COVID-19 pandemic which, for example, have contributed to workforce shortages in a number of council service areas, as well 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 continue to exceed their core funding in 2023-24 and in 2024-25. This includes underlying cost pressures that pre-date and have been increased by the pandemic, such as demographic pressures increasing the demand for services such as social care and homelessness.

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

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

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

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

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

The current Local Government landscape (continued)

Local context

Leeds is a large and growing city situated West Yorkshire, in the North of England. With a population of over 800,000 at the time of the 2021 Census, it is one of the 'core' cities of England, and one largest cities in the UK. Like many other cities, it has areas of both relatively high and low deprivation but, overall, has more areas that are in the most deprived 10% of areas in England, than most other local authorities (ranking 33 out of 317 local authorities in England on this measure, where a rank of 1 is the local authority with the highest proportion of localities in the most deprived 10% nationally).

The Council is a metropolitan district council. Its main decision-making body is the Executive Board, which is chaired by the Leader of the Council, and in 2022-23 included seven other Executive Members with portfolio responsibilities, plus the leaders of the two main opposition parties. Operationally, the Council is divided into five directorates, covering particular areas of service provision. For 2022-23 these were Adults and Health, Children and Families, Resources, City Development, and Communities, Housing and Environment.

The Council's senior management team, known as Corporate Leadership Team, is made up of the Chief Executive and the five departmental directors along with three further senior officers who have statutory responsibilities – the Director of Public Health, the City Solicitor (Monitoring Officer) and the Chief Officer – Financial Services (Section 151 Officer).

The Council's 2023 elections saw all 33 wards contested with one councillor elected per ward. The current make-up of the city council is a Labour majority 61 out of 99 seats in total. The Conservatives hold 18 seats, Liberal Democrats and Morley Borough Independents six each, Garforth and Swillington Independents Party and Green 3 seats each, and the Social Democratic Party two seats.

In February 2022, the Council adopted its Best City Ambition, replacing the previous Best Council Plan. The Best City Ambition sets out the Council's proposed outcomes for the city, within three pillars:

1. **Health and Wellbeing**: In 2030 Leeds will be a healthy and caring city for everyone: where those who are most likely to experience poverty improve their mental and physical health the fastest, people are living healthy lives for longer, and are supported to thrive from early years to later life.
2. **Inclusive Growth:** In 2030 Leeds will have an economy that works for everyone, where we work to tackle poverty and ensure that the benefits of economic growth are distributed fairly across the city, creating opportunities for all.
3. **Zero Carbon:** In 2030 Leeds will have made rapid progress towards carbon neutrality, reducing our impact on the planet and doing so in a fair way which improves standards of living in all the city's communities.

Like many other councils, the Council faces a challenging combination high inflation and rising demand for key services, such as for children's care services. The result of these pressures was an overspend for the 2022-23 financial year which caused the Council to need to draw on its reserves, which the Council has acknowledged are lower than many comparable councils. The Council's budget for 2023-24 identified £58.6m savings to achieve a balanced budget position (after some further planned use of reserves). At the time of writing this report, the Council anticipated needing to make further savings in the current and following years.

6. 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.

Short and medium term financial planning

2022-23 revenue outturn

Like many other local authorities, the Council faced significant financial pressures moving into 2022-23. The Council's Medium Term Financial Strategy (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.

The Council overspent its revenue budget by £12.4m (2.4% of the Council's Net Revenue Budget) in 2022-23, causing it to draw on its Strategic Contingency reserve. The Council set a balanced budget for 2022-23, but this came under significant pressure from the impact of inflation, particularly in relation to energy costs and higher staff pay awards than the Council had budgeted for, and in demand for some of the services, such as children's services.

Most of the Council's directorates overspent, but the largest overspend - by some margin – was in the Children and Families directorate. The outturn position for this directorate was an overspend of £16.9m. This represents an overspend of around 13% on the 2022-23 budget of £133m for this area, which had already been increased by £16m (12%) when compared to the adjusted budget for 2021-22. This Children and Families directorate budget came under particular pressure from increased demand (for example, there were 95 external residential placements against the budgeted 74, resulting in a £3m overspend; and increased costs. The overspend in the Children and Families directorate, along with overspends in other areas, was partly offset by an underspend in the central, resources directorate.

The Council's Strategic Contingency Reserve, which stood at £32.3m at the start of the 2022-23 year is now almost fully used or committed to balancing to 2023-24 budget. The approved 2023-24 budget set in February 2023, required a net contribution of £14.3m from this reserve, with further cost pressures emerging since. The Council acknowledges (as set out in its November 2022 LGA peer challenge report) that ongoing use of reserves to balance its position is not financially sustainable.

2022-23 capital outturn

The Council improved the accuracy of its capital expenditure monitoring in 2022-23 though there is scope for further improvement. Capital expenditure in 2022-23 at outturn was £447.1m, which was a 0.9% variation against the February 2023 Capital Programme projected Outturn. This means that the Council did not repeat the large swings in capital programme spend between February and the year-end that we observed in our 2021-22 Auditor's Annual Report, addressing our improvement recommendation in this area from our 2021-22 Auditor's annual report.

However, we note that the overall capital programme for 2022-23, restated at 2021-22 close, was £577.4m. This reduced through the year, however, to £560.1m in Q1, £499.6m at Q2 and £443.1m at Q3. The capital element of the outturn financial report to Executive Board lists significant variances but compares outturn to variances against the latest capital forecast (from February 2023). It is not easy to track overall changes to the programme from the outturn report. We therefore raise a further improvement recommendation to include more granular level on variances within capital programme reporting (page 26).

Housing Revenue Account (HRA) and Dedicated Schools Grant (DSG) Outturn

The Council spent less on its DSG account than expected though significant medium challenges remain (page 17). Beyond the General Fund, the Council's ringfenced Housing Revenue Account (HRA) indicated a net overspend of £6.8m. The overspend on the HRA was driven by an overspend on the repairs and disrepair budgets, in which inflation was also a factor. At the start of 2022-23 the in-year DSG budget was assumed to balance whilst the ring fenced DSG reserve had a surplus balance of £0.1m. During 2022-23, however, there was a net movement of £8.9m, which resulted in a surplus balance of £9.0m to be carried forward into 2023-24.

Financial sustainability (continued)

2023-24 Budget

The Council has a robust approach to setting its annual budget assumptions. The 2022-23 budget, approved in February 2023, reflected the implications of the annual local government funding settlement, incorporating funding from central government. The impact of the funding settlement for 2022-23 is clearly set out within the budget report, along with indicative amounts for future years. Funding within the budget also includes a 4.99% increase in council tax in accordance with referendum principles, reflecting a 2.99% core increase with a further 2% relating to the adult social care precept, which is in line with national guidance. We set out more detail in relation to the budget setting process on page 21.

The Council identified £128m of cost pressures in its 2023-24 budget, compared to 2022-23. The vast majority of this significant increase in the Council's budgeted cost base related to expenditure pressures (driven by increased costs of, and demand for, its services) rather than reductions in its income. The key areas of cost pressure include:

- **Contract inflation:** Contract prices are often index linked to indices such as the Consumer Price Index (CPI) or Retail Price Index (RPI) which were both high in 2022 (September 2022 CPI was 10.1%; RPI 12.6%). The Council needs to provide for the increase accordingly.
- **General inflation:** The 2023-24 Budget also makes allowance for net general price inflation of £20.3m across its directorates, including: Adults and Health £5.0m, Children and Families £7.8m, City Development £2.5m, Communities, Housing and Environment £2.6m, and Resources £2.4m.
- **Pay inflation:** The Council budget allowed for £38.9m of pay inflation in 2023-24, £18.8m of which reflected its final offer for 2022-23, which was not agreed until after approval of the 2022-23 budget. In addition, the Council identified £25.5m of additional wage costs associated with commissioned services, compared to its 2022-23 budget.
- **Increased demand:** The 2023-24 budget recognises increasing demand pressures for services in Adults and Health, Children and Families and Communities, Housing and Environment. Within Adults and Health, the Council's MTFS assumes a steady increase in the number of people aged 85+ between 2021 and 2026 and provided £2.3m for the 2023-24 financial year to deal with this demand and demographic growth. The Council's Budget for 2023-24 also included £1.6m for the projected demand in the children looked-after (CLA) and financially supported non-CLA budgets, excluding inflation.

The cost of meeting demand for key services has already risen above the Council's budget and the Council is forecasting a significant overspend. As at the end of September 2023-24, the Council was forecasting an overspend of £30.5m for the General Fund (5.3% of the 2023-24 approved net revenue budget), a deterioration on the previous month but an improvement from on the £33.9m overspend reported earlier in the year. An overspend in the Children and Families directorate was over £28m, indicating further inflation and demand pressures significantly over and above what was assumed in the 2023-24 budget.

The Council is highly conscious of the pressure on its budgets and is undertaking a range of activities to attempt to bring down its projected in-year overspend. These include exploring opportunities to secure in-year savings (such as holding vacancies where it considers this will not adversely affect critical services or staff wellbeing) and maximising income. Asset reviews are also underway. A freeze on recruitment, agency and overtime spend introduced in 2022-23 within a framework of agreed exceptions remains in place. It is also considering more radical options to re-base its budgets over the medium term (see page 16).

The Council's Budget proposals also provided for an £11.2m increase in the cost of servicing the Council's debt. Within this figure, the budget for total external interest costs increased by £6.2m, of which an additional £1.4m will be recharged to the HRA, meaning a net increase of £4.6m in the General Fund debt budget. The Minimum Revenue Provision (a charge the Council is required by statute to make to the General Fund each for the repayment of debt) will increase by £5m as a result of the ongoing capital programme. We set out further detail in this area on page 20.

Financial sustainability (continued)

Short and medium term financial planning (continued)

Medium Term Financial Planning

The Council's financial planning process indicates that its medium-term financial planning is based on assumptions underpinned by reasonable analysis and that its arrangements for developing its medium-term financial strategy (MTFS) are robust. Financial planning across local government is made more difficult due to the uncertainty created from annual finance settlements and the delay to funding reforms such as the fair funding review, social care reform and the business rate reset. The Council's financial planning recognises the uncertainty and risk associated with government funding, with the fair funding review and business rate reset now expected to be delayed beyond 2023-24.

The Council sets a MTFS in September each year, setting the strategic backdrop and setting out the key assumptions underpinning for the Budget submission the following February. From the starting position in terms of the net revenue charge – business rates growth and council tax assumptions are refreshed, as is the forward view of pressures and variations for the upcoming financial years. Assumptions include treatment of key expenditure drivers such as the pay award, inflation, and demographic and demand changes which are particularly acute in Adults' and Children's Services. The level of inflation currently experienced within the 2022-23 budget would have been difficult to predict but demonstrates the value of sensitivity analysis for key budget assumptions.

The Council's medium-term funding gaps are widening. The MTFS covers a rolling five-year period and assumptions are continually updated, which can make comparisons between iterations of the plan harder but, as shown in the table below, the challenge over both the short-term and the period covered by the plan has increased significantly, with the overall forecast gap increasing from £182.6m to £251m between the September 2022 and September 2023 iterations of the MTFS. As set out on pages 14 and 15, the Council has continued to experience in-year cost increases even beyond the gaps it has identified, and provided for, in both 2022-23 and 2023-24 (to date).

The Council is aware it now needs consider more transformational changes to its operating model and the way it delivers key services, to ensure its financial sustainability. The Council has previously chosen not to implement our improvement recommendation, set out in our 2020-21 Auditor's Annual Report, that it develop a clearer view of the cost of its statutory and discretionary services. However, as the Council's budgets continue to come under extreme pressure from cost and demand inflation, particularly in its Children and Families directorate, it is beginning to develop its view of what its "essential" services look like, potentially re-basing each service around those elements that are required by statute and/or are preventive (recognising that this may also involve an element of "discretionary" preventive spend to reduce the need for higher-cost, more intensive, or reactive services).

Such an exercise would inevitably require very difficult decisions, including around staffing requirements, and the Council has already acknowledged that some reductions in FTE posts may be necessary. However, delaying such decisions would likely only increase the risk that the Council is forced into shorter-term decisions over which it has less control. **Our key recommendation on page 7 addresses this issue.**

MTFS version	Set in	Gap in 2024-25	Gap over MTFS period
2023-24 to 2027-28	September 2022	£37.7m	£182.6m
Financial health monitoring cost-of-living refresh (covering three years to 2025-26)	October 2022	£49.4m	-
2024-25 to 2028-29	September 2023	£59.2m	£251.0m

Financial sustainability (continued)

Dedicated Schools Grant (DSG)

The Council's forecast DSG deficit may place significant further pressure on the Council's financial position.

The DSG is a ring-fenced budget which is allocated in blocks; schools, early years and high needs. The DSG is allocated in four blocks: schools, high needs, early years and central schools services. At the start of 2022-23 the in-year DSG budget was assumed to balance whilst the ring fenced DSG reserve had a surplus balance of £0.1m. During 2022-23, however, there was a net movement of £8.9m. The largest component of this was an underspend of £6.8m against the high needs block reflecting lower than forecast demand as well as some cost-saving measures. This resulted in a surplus balance of £9.0m to be carried forward into 2023-24.

Reporting to its Schools Forum in October 2022, however, the Council forecast a cumulative DSG deficit over the medium term, reaching £17.7m in 2026-27 and £31m by 2027-28, with an in-year overspend of between £0.8m and £17.7m per year if no action were taken. The majority of the forecast overspend was on the high needs block and the Council was currently reviewing the options available for managing this.

Under the current regulations any local authority with an overall deficit on its DSG account, or whose DSG surplus has substantially reduced during the year, must cooperate with the Department for Education (DfE) in managing that situation. The Council reported to its Schools Forum in October 2023 that, as the Council is not currently in deficit the DfE does not require it to prepare a plan for financial sustainability. However, the Council acknowledges that good financial management requires that it still develop plans to mitigate expected future pressures.

Reporting to its Schools Forum in October 2023, the Council's most recent DSG projections indicate a worsening position with the Council now forecasting a cumulative deficit of £78.7m by 2026-27, compared to a forecast of £17.7m for the same point, a year previously. This reflects higher estimates of expenditure, particularly within the high needs block, as well as uncertainty over future funding arrangements.

A statutory override has been provided by the Government which currently allows the DSG deficit to be carried over as a negative reserve without the need to draw on the general fund reserve. 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. This Instrument is however time-limited. It 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. If the statutory override is not extended or financial support **is not** forthcoming to reduce the financial deficit, a substantial deficit would be a further significant pressure for the Council to manage within already stretched resources.

We recommend that the Council reports regularly to the Executive Board on savings plans to address the forecast DSG deficit as part of its routine financial reporting on the savings programme (see pages 23 and 24).

Dedicated Schools Grant Deficits

In December 2022, the UK Government announced that it would be extending statutory override for the DSG in England for the next 3 years, from 2023-24 to 2025-26. By the time this period elapses, the statutory override will have been in place for six years.

Whilst statutory override remains in place, there is no requirement to make provision from general reserves for repaying the deficit. Reforms and savings targets have been agreed with those local authorities with the biggest deficits. However, all local authorities need to focus on managing (and reducing) their deficits – because how these will crystalise as liabilities in 2026 is not clear.

Within DSG, the High Needs Block has proved particularly problematic. The Block is there to support children with special educational needs (SEN), which means providing more teaching staff and resources. However, there is often a significant gap between funding granted per child and the actual cost of the teaching and other resources needed.

Every parent has the right to apply for support for their child. An expensive appeal process also exists. There are significant regional differences in numbers of plans granted by local authorities and cost management on those plans once they are granted. Managing (and reducing) the growing DSG deficits that arise as a result will be a challenge both for financial sustainability and for maintaining the overall quality and effectiveness of service provision.

Financial sustainability (continued)

Identifying and delivering savings

The Council takes a strategic view of its savings programme, driven by a clear understanding of its medium-term and annual budget gaps. In support of this, under its "financial challenge" programme, the Council takes a three-year view of savings, recognising that some schemes will take more than one year to deliver the improvements required to drive the intended benefits. Savings programmes, like the budget, are developed iteratively and with appropriate Member engagement. Lead officers presented savings options to the Executive Board in October 2022 and December 2022, ahead of the Budget in February 2023 and following extensive internal engagement aligned to the annual budget setting arrangements.

The Council has a reasonable record of delivering its identified savings plans but the level of challenge is increasing. We note however that in relation to 2022-23 and the forecast 2023-24 programme, the outturn percentage delivered is lower than in prior years. This may indicate that, as the savings programme has developed, it has become harder to identify "low hanging fruit" or tactical efficiency savings that deliver in short-timeframes, which underlines the importance of the Council's multi-year view. Given the council's increasingly large medium-term budget gaps (see page 16), the need for clear reporting and accurate forecasting of the savings programme has never been greater.

	2020-21	2021-22	2022-23	2023-24
Savings target	£26m	£56.1m	£16.5m	£58.6m
Savings delivered	£24.4m	£56.7m	£11.2m	£46.5m (forecast)
% achieved	94%	101%	68%	79% (forecast)

Financial planning and other strategic priorities and plans

The Council has established a link between from its corporate strategy to the budget, and MTFS. The Council adopted its current corporate plan, the Leeds Best City Ambition, from February 2022. The Council's revenue and capital principles make clear that any proposals for investment need to address achieve the priorities set out in the Best City Ambition and this strategy is also referenced clearly in the Equality Impact Assessment that accompanies the Budget.

At a more granular level, the Budget and Capital Programme reporting are not explicitly aligned to the three pillars set out in the Best City Ambition. The Best City Ambition has three "Pillars": health and wellbeing, inclusive growth, and zero carbon and sets out goals under each. It is not clear whether changes to the budget assumptions or the requirements of the savings programme proposed will have any impact on the likelihood of, or timescales for delivering the more detailed goals by the 2030 target date. We raise an improvement recommendation to more clearly align budget reports to the Best City Ambition, to better allow tracking of the impact of budgetary decisions on the Council's overall strategy.

The Council considers workforce issues in setting out its financial plans but any longer-term transformational changes will require the Council to have a clear view of the its workforce and skills needs. Although the Council does not currently have a formal workforce plan, it is clear from Budget submissions that pay cost pressures are a very significant source of budgetary pressure for the Council.

Furthermore, the staff impact of savings proposals is included in the Council's savings programme development. Any savings that might require staffing changes are made subject to consultation. As set out on page 16, however, the Council is clearly moving into a phase beyond tactical efficiency savings where more fundamental transformation may be required to balance its financial position. Any future transformation will require robust decision about service prioritisation and configuration and will have strong workforce element - the Council will need to have a clear view of the skills required to deliver transformation effectively.

Financial sustainability (continued)

Managing risks to financial resilience - reserves

The Council's usable reserves reduced by £64m (13%) from £496m in 2021-22 to £432m in 2022-23. The majority of these £432m of reserves (£309m), however, are ringfenced and are not available to support general expenditure. These include revenue and capital grants received in advance of planned expenditure (£160m); and a useable capital receipts reserve of £82m, to finance capital expenditure. The remaining £123m is made up of the £33m General Fund reserve and £90m of other 'earmarked' reserves, including the Strategic Contingency Reserve.

The Strategic Contingency Reserve - a key part of the Council's response to our earlier identification of weaknesses in its level of reserves – is forecast to have reduced by over 90% in three years. The Council established the Strategic Contingency Reserve in 2020-21 following our identification of weaknesses in our 2019-20 audit, in relation to its reserve levels - to "fund future unforeseen budget pressures and to ensure the Council becom[es] more financially resilient." This reserve stood at £37.5m at the end of 2021-22. However, the Council used: £6.6m to balance the 2022-23 budget; £12.4m to balance the 2022-23 outturn; and £14.3m to balance the 2023-24 budget. After further current and expected in-year cost pressures during 2023-24, the Council currently forecasts that this reserve will have reduced to £3.7m at 31 March 2024.

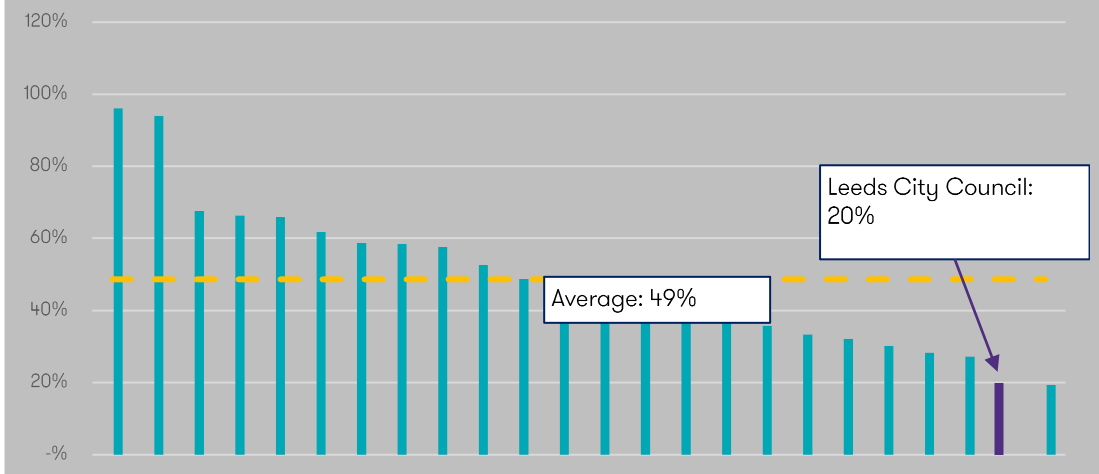
The Council's levels of general fund, non-school reserves are much lower, relative to its net revenue budgets, than the average for Metropolitan districts. Our benchmarking data for the 2022-23 shows the Council at 20% (with the average at 49%). This reflects similar findings reported in our Auditor's Annual Reports covering the 2020-21 and 2021-22 financial years, indicating that the Council has not reduced its level of risk, in relative terms, compared to other councils.

In line with statutory requirements, the Council's budget and MTFS includes an assessment of the adequacy of its reserves. In its most recent assessment, the Council reported that: *"whilst the Council maintains a robust approach towards its management of risk, and especially in the determination of the level of reserves that it maintains, it is recognised that our reserves are lower than those of other local authorities of a similar size."*

The current cost pressures the Council faces present a risk to its plans to grow its General Reserve. Following the closure of the 2022-23 (unaudited) accounts, the Council's General Reserve stood at £33.2m. In its last two Medium Term Financial Strategies the Council has committed to progressively growing the General Reserve at £3m a year, to total over £50m by 2028-29, and has built this contribution into its budget. This plan assumes that a balanced budget position is delivered in 2023-24 without the use of a contribution from the Council's General Reserve.

We set out a Key Recommendation relating the Council's financial sustainability on page 7.

General fund and non-schools earmarked general fund reserves as a percentage of net service revenue expenditure (%) – 2022/23; Metropolitan District Councils for which data available at time of report.



Data is sourced directly from local authority draft Statement of Accounts for 2022/23 published on council websites as at September 2023. As this data is taken from third parties, we cannot verify the accuracy of completeness of such information. Data is not available for all local authorities due to some delays in publications.

Financial sustainability (continued)

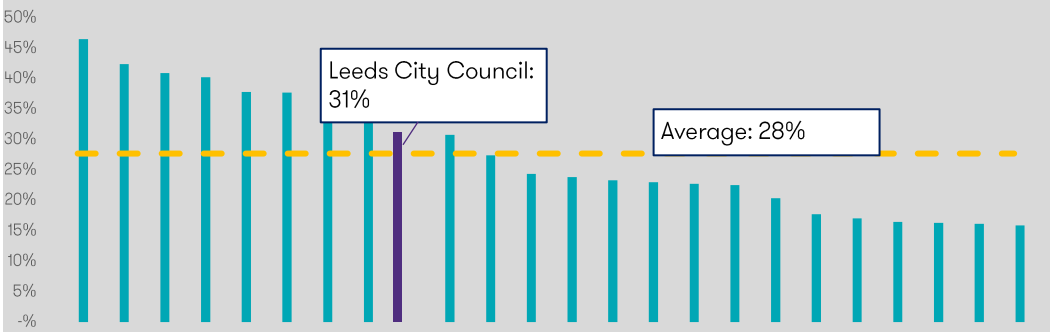
Managing risks to financial resilience – capital strategy and borrowing

The costs of financing the capital programme and the Council's debt are substantial and present another challenge to Council's financial sustainability.

- **The Council already has one of the highest levels of external borrowing of any council in England and has a significant capital programme of around £2bn spanning 2023-2027.** The Council's forecast that it will use £707.2m of borrowing to fund its current capital programme and that net external borrowing requirement would increase from the current around £2.4bn in 2022-23 to £2.8bn in 2023-24.
- **Although the majority of the Council's current external borrowing is at long term, fixed rates, the Council's latest Treasury Management strategy indicates a potential increased reliance on short-term borrowing moving forward.** The proportion of this exposed to interest rate risk potentially increasing from 7% to 24% (though this depends on the actual level and source of borrowing entered into).
- **The Council's level of borrowing, relative to its long-term assets is above the average for metropolitan district councils – see** the **chart opposite.**
- **In February 2023, the Council identified that the financing cost of external borrowing alone on the General Fund was equivalent to 21% of its net revenue stream**. This rises to over 30% including PFI liabilities. The proposed budget for gross external interest costs for the general fund is £59.6m and the proposed budget for minimum revenue provision (MRP - a charge to the revenue account set aside for the repayment of debt) is £64.9m. The year-end MRP charge was £68.7 million in 2021-22.
- **A forecast MRP charge in 2023-24 of £64.9m is an increase of over £30 million from the MRP charge 2020-21, representing another significant cost pressure for the Council.** We understand the increase in MRP of £31.3m from the 2020-21 figure of £37.4m was due principally to the end of savings available from earlier years when MRP had been overpaid. Typically, we would expect the charge to be around 2% representing an asset life of 50 years. At Leeds for 2021-22, the General Fund MRP charge was £61.7m against a Capital Financing Requirement of £2,450m, which is 2.51% (or equivalent to an average asset life of 40 years). We note that in the Council's 2023-24 Treasury Management strategy the MRP is forecast to be £64.9m against a CFR of £2,794m which would be 2.32%.

Clearer alignment of the capital programme to the three Best City Ambition pillars would help clarify the impact of changes to – or slippage within - the capital programme. The Council's capital programme is broadly aligned to its Best City Ambition strategic objectives though in practice is reported against its six capital objectives: Improving Our Assets; Investing in Major Infrastructure; Supporting; Service Provision; Investing in New Technology; Supporting the Leeds Economy; Central & Operational Expenditure. More direct linkages to the Best City Ambition would make the relationship between this key strategy and the capital programme clearer. For example, one of the Council's Best City Ambition is "Zero Carbon". The Council's capital programme includes a Decarbonisation Programme & Energy Efficiency programme, allocated £19.8m (roughly 1% of the overall programme) within the "investing in major infrastructure" objective. However, other capital projects across the programme may contribute to "Zero Carbon", such as the replacement of street lighting with LED lighting (£13.2m). Clearer alignment of projects and programme to strategic objectives may assist the Council in making difficult decisions about the Capital programme, given the need to balance the need for future investment with financial risk and affordability. **We raise an improvement recommendation that the Council make this improvement as part of careful ongoing monitoring of the balance between the benefits, risk and affordability of future capital investment.**

Long-term borrowing as a proportion of Long-term assets (%); 2022-23, Metropolitan District Councils for which data available at the time of reporting.



Data is sourced directly from local authority draft Statement of Accounts for 2022/23 published on council websites as at September 2023. As this data is taken from third parties, we cannot verify the accuracy of completeness of such information. Data is not available for all local authorities due to some delays in publications.

7. Financial governance

Annual budget setting

The Council's formal budget setting process is well-embedded. The Council begins its budget planning process following account closure in April and outturn reporting in June each year, with the MTFS typically considered by Executive Board in September, prior to consideration of the Budget in the following February. The Council's Scrutiny committees formally review the Budget and the results of this review are presented with the Budget. The results of public consultation are also included within the Budget submission.

Budget development is iterative and consultative, promoting a "no surprises" approach for officers and Members. The Council described a regular programme of engagement through a variety of forums, including the Corporate Leadership Team and extended Corporate Leadership Team, which include senior officers from operational and service directorates, HR, IT and legal, as well as the finance function. The Chief Officer – Financial Services briefs key Members and Member groups, throughout the year. The Council aims to ensure there has been sufficient directorate involvement in developing and challenging the budget, encouraging ownership of key assumptions. To support this and the development of the savings programme, the Council holds weekly "financial challenge group" meetings which include chief officers from each of the directorates, as well as support services such as legal, HR, and IT.

The Council's Budget sets out clearly its consideration of, and assumptions around longer-term trends, such as demand. For example, the 2023-24 budget recognises increasing demand pressures for services in Adults and Health, Children and Families and Communities, Housing and Environment, while the MTFS reflects the anticipated impact of increasing cash personal budgets through to 2025.

However, similarly to its approach to developing the savings programme, there is no formal risk-adjustment or scenario planning within the Budget submissions or MTFS. The Council informed us it does some benchmarking of its assumptions using an externally-developed "model MTFS" and also informally through comparisons with other Councils in the Core City group. Given the current level of volatility in recent years around key assumptions (such as inflation, and demand for reactive services such as children's care services) we consider that formal risk-based scenario analysis would help identify, at an earlier stage, the likelihood and financial impact of key risks materialising. Our improvement recommendation on page 23 covers scenario planning in relation to budget-setting, as well as in the savings programme.

Budgetary control

In-year financial reporting provides a clear summary of the Council's developing revenue position and explains clearly reasons for any variance to plan, broken down by operating unit or business stream. For example, reporting for month 4 2023-24 notes significant forecast overspends principally driven by Children and Families directorate and provides a good level of information on the drivers of this forecast overspend to allow for further challenge and discussion. Although performance and financial reporting are not integrated, the narrative supporting the explanation of budget variances does include the operational and workforce reasons for variances (such as inflation, and demand), as well as the financial.

There is clear evidence that financial performance is an objective for senior managers, including (and particularly) those in non-financial roles. This clear ownership is particularly important given the future financial challenges facing the Council cannot be solved by the finance team alone. It is established within the Council's "Revenue and Capital Principles", contained within is Budget submissions that Directors and Departmental Chief Officers, supported by Finance Services, are responsible for their budgets. This includes: business cases, savings development and delivery, and accountability for delivery of budgets and related action plans. As set out on page 14, above, capital reporting could be improved by providing more information on slippages, which are significant viewed in the context of the overall programme.

Financial governance (continued)

Final accounts preparation and external audit

Over a number of years we have reported delays in the provision and quality of working papers provided by the Council to support the external audit process. In our 2019-20 audit we reported in the Audit Findings (ISA260) Report that:

- Whilst some working papers were provided at the outset of the audit, not all were, with working papers being provided on an on-going basis
- Working papers showed the build-up of the numbers included in the accounts but there was generally a gap in reconciling these to the Council's core finance (FMS) system, necessitating additional audit work and/or further information requests.
- Our audit work to agree the Council's FMS (trial balance) to the CIES and Balance Sheet took considerably longer than expected because the Council's FMS system was complex and, being over 30 years old, relatively limited in functionality. The Council was considering a new ledger system in the next few years which is now more advanced.

We agreed actions with management to improve the process but experienced similar problems in 2020-21. We reported these issues in our Audit Findings (ISA260) Report but also in the 2020-21 Auditor's Annual Report (presented in September 2022) as an improvement recommendation, in particular:

- Similar issues with the timely provision of working papers, which we understand was due to workload pressures and slow resolution of some audit queries due to workload pressures within the Council's finance team. Timely responses to audit queries is essential to ensure issues can be resolved promptly and late adjustments to the accounts avoided
- As in the previous year, there was generally a gap providing supporting evidence to show how numbers reconciled to the Council's FMS system. This required additional work by us to agree or further requests to management for additional information
- The nature of the FMS system remained a challenge, especially for a modern data interrogation audit approach, with some improvements contingent on implementation of the new ledger system.

We again agreed actions with management to improve the process, the quality of working papers and the timely response to audit queries. In addition, we understood that arrangements for the accounts and audit process in 2021-22 were being developed to allow for working papers to go through a quality assurance process before being finalised and shared with external audit. The 2020-21 financial statements audit was concluded on 17 February 2023. These findings were also mirrored in our Auditor's Annual Report for 2021-22 which highlighted the need for the Corporate Governance and Audit Committee to monitor the Council's progress to address these matters.

Despite this, we have experienced similar challenges during the 2021-22 audit process. While we had planned for the 2021-22 audit to be completed by 30 September 2023, this remains on-going with an expectation of completion by mid-December 2023. Our working draft 2021-22 Audit Findings (ISA260) Report to management and the Audit Committee (July 2023) noted similar issues with working papers and difficulties reconciling numbers to reconciled to the FMS general ledger system requiring additional audit work, and delays in responding to audit requests and queries.

Only limited progress on the outstanding areas of the 2021-22 audit took place during the Summer, as a result of capacity issues of the key audit contacts within the finance team, and the prioritisation of producing the draft 2022-23 accounts over dealing with the audit requirements of the 2021-22 accounts. This delay to the completion of the 2021-22 audit will now delay the start of audit work on the Council's 2022-23 financial statements.

There is limited capacity within the finance team assigned to supporting the final accounts audit process. Following discussions with management and to encourage finance officers across the Council to better understand the importance promptly engaging with external audit, and need to prepare good quality working papers which are comprehensive, reconcile to the FMS system and are easy to follow, we ran an online workshop on 25 April 2023 where we used examples to illustrate the content of good quality working papers. The workshop was attended by over 100 finance officers. However, sufficient staff are not consistently available to engage with the final accounts audit processes, and to respond to audit querier in a timely manner, alongside their other commitments.

We raise a Key Recommendation in this regard setting out the actions the Council needs to take on page 8.

8. Improvement recommendations

Improvement Recommendation 1	*We recommend the Council makes further improvements to its the presentation of the budget and the accompanying savings programme. Specifically:* • *consider an explicit adjustment for optimism bias in the Council's forecast of the likely savings programme outturn against savings target when reporting on its annual savings programme. This essentially means revising downward its "best estimate" by a further percentage. This is an approach recommended by Government its 'Green Book' guidance on project and programme appraisal.* • *use formal scenario and/or sensitivity analysis around delivery scenarios for the budget and savings programme (setting out the impact on budgets of non-delivery). This means identifying explicitly and systematically those key assumptions that might differ from those built into the budget, why this might happen, the likelihood of this happening and the financial impact if it does. It is typical to see "base case" and alternative scenarios, including worst-case scenarios, presented to show the plausible range of impacts under different assumptions. This type of analysis already underpins the Council's assessment of its minimum reserve levels.* • *Monitor carefully and report regularly to Executive Board on savings plans to address the forecast DSG deficit as part of its routine financial reporting on the savings programme / budget action plans, to allow actions to be tracked and issues escalated in a timely manner.*
Improvement opportunity identified	Greater use of formal scenario planning would enable the Council to illustrate to Members the Council's view of the likelihood and financial impact of deviations from the Council's "base case" assumptions. Given the level of volatility evident in key areas such as inflation and service demand in recent years, a clear picture of the impact of plausible variations from the base case would allow earlier planning and consideration of mitigations, or contingency plans should those variations occur. An explicit adjustment for optimism bias would enhance the Council's view of risk to delivering the savings programme in full.
Summary findings	The Council has a well-embedded and iterative approach to developing budget assumptions. However, it does not use formal scenario planning to illustrate the impact of variation in key assumptions. The DSG savings plan is not routinely reported alongside directorate savings plans.
Auditor judgement	Our work has enabled us to identify a weakness in arrangements which we do not consider to be significant, however, we have raised a recommendation to support management in making appropriate enhancements to its arrangements.
Management comments	(see page 24)

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

8. Improvement recommendations

Management comments on Improvement Recommendation 1

In the determination of the savings programme that is received at both Executive Board and Full Council, and which contribute towards the Council presenting a balanced budget position, all proposals must first pass through an iterative process which requires the application of different scenarios, sensitivities and assumptions.

These will be discussed within respective Directorates and after taking account of the different scenarios and assumptions an agreed saving proposal will then be taken forward. They are also discussed with the Leader, Deputies and Members of the Executive Board. The submitted budget savings proposals will then be received at the Council's Financial Challenge group who will scrutinise them and challenge the assumptions.

When the detailed budget savings proposals are subsequently received at Cabinet, elected members will be made aware of the assumptions that underpin them.
Within the annual budget report risks to budgeted assumptions is highlighted and reported specifically within the Directorate budget reports which are contained within Appendix 8 of the main report.

With regard to the recommendation about reporting an explicit adjustment for optimism bias it would be useful if it could be highlighted by Grant Thornton as to which of their client local authorities is currently doing this so that the Council can review this and further consider the realisation of benefits from this proposal.

The DSG MTFS is part of the overall MTFS report, the DSG budget is also included in the proposed and final budget reports, and the in-year position is reported in the monthly financial health reports. There is also reporting to Schools Forum on these areas. There are currently no DSG budget action plans, but monitoring of any created in future would be captured within the monthly financial health reports. To supplement these arrangements we agree it would be beneficial for DSG to be more formally included in the MTFS savings programme for future years, with agreed savings targets and reporting of progress in developing proposals.

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

Improvement recommendations

Improvement Recommendation 2	*We recommend the Council aligns its key budget and financial monitoring reports more clearly to the Council's strategic goals, as set out in the Leeds Best City Ambition, and to its strategic risks.*
Improvement opportunity identified	Closer alignment of budget and capital programme reporting would enable better tracking of the impact of budget delivery performance and changes to the Council's current overarching strategic objectives.
Summary findings	The Council has established a link between from the Best City Ambition and its budget and capital programmes. At a granular level, however, reporting on the Budget and Capital Programme reporting is not explicitly aligned to the three pillars set out in the Best City Ambition so it is not always clear what impact changes to the budget assumptions, the requirements of the savings programme, or changes (including slippage) within the capital programme, have on these strategic objectives.
Auditor judgement	Our work has enabled us to identify a weakness in arrangements which we do not consider to be significant, however, we have raised a recommendation to support management in making appropriate enhancements to its arrangements.
Management comments	Agreed - The Council will review how it currently aligns it key financial reports to the Council's strategic goals.

Improvement recommendations

Improvement Recommendation 3	*In relation to the Capital programme and related monitoring, we recommend the Council:* • *monitors carefully the balance between the benefits of capital investment and the financial risk, including to the overall affordability of its programme, given the need to make prudent provision to reduce its debt. The impact of proposed new investment on affordability should be made clear to enable timely challenge from Members* • *refines its existing arrangements for monitoring the capital programme to ensure the spend profile and timing of capital expenditure remains accurate and supports delivery of the programme and the Council's strategic objectives. Timely reporting of any significant slippage and delays within the capital programme should be made, together with any implications for service delivery and council taxpayers arising from this, and actions to be taken to address the issues.*
Improvement opportunity identified	More information on slippages would enhance the clarity of reporting on the capital programme allowing greater challenge of variances from one quarter to the next, and over the year as a whole.
Summary findings	Capital reporting is undertaken regularly but examples we reviewed contained less granular information on the major sources of slippage in the programme, compared to additions to the programme.
Auditor judgement	Our work has enabled us to identify a weakness in arrangements which we do not consider to be significant, however, we have raised a recommendation to support management in making appropriate enhancements to its arrangements.
Management comments	The costs associated with managing the Council's debt portfolio need to be seen within the context of the Council seeking to both improve its assets and meet its Best City Ambition whilst at the same time its capital plans need to remain affordable within the resources envelope available to the Council. The overall level of debt needs to be in the context of both the size of the Council's asset base which was £6.95bn at 31st March 2023 and the average rate of interest paid on the Council's external debt which at the 31st March 2023 was 3.22%, This compares favourably with many other local authorities. This demonstrates that the Council has a robust Treasury Management Strategy which means that the cost of servicing the debt can be managed within the approved budget. The results of the recent capital review were incorporated into the updated Medium Term Financial Strategy which was received at Executive Board in September 2023. Within this report it was made explicit that a review of the existing capital programme had been undertaken to ensure all existing borrowing commitments were still required and to confirm the profile of the necessary borrowing; that any new borrowing be limited to the level of budgeted MRP, with a requirement that should the impact of the review on the revenue debt budget go above this headroom the cost of additional new borrowing would be added to that directorate's revenue savings target and: each capital should be consistent with the Council's priorities. The Council recognises the requirement to ensure that the spend profile on capital schemes should be both accurate and realistic. This will facilitate the better planned use of resources and also ensure that any implications for the revenue budget and the timing of the delivery of the Council's priorities is better understood.

9. 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 (pages 21 and 22)
- 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

The Council has adequate arrangements in place to identify, assess, record and escalate strategic risks. The Council has a Risk Management Policy and Strategy that sets out the Council's approach to embedding risk management arrangements. The policy sets out the Council's commitment and approach to risk management to ensure that risk management becomes an integral part of decision-making and day to day business. Key risks identified within service risk registers feed into directorate risk registers and into the Council's corporate risk register if appropriate. Risks are reported routinely to the Corporate Leadership Team (CLT) and to members through the Strategy and Resources Scrutiny Board, Executive Board and the Corporate Governance and Audit Committee. Risks are recorded within the Council's Risk Management System (RMS), an application that houses the Council's corporate and directorate risk registers and includes key details of the individual risks within each register.

The Council has arrangements in place to report risks to the Executive Board. An Annual Corporate Risk and Resilience Report is presented to members at the Executive Board, providing a joined-up picture of the risk and resilience activities undertaken by the Council. The report focuses on corporate risks, in particular those risks rated as 'Very High', which ensures that Executive Board's focused appropriately on strategic risk issues. There were 13 such corporate risks in September 2023. The report covers the three inter-related areas of Risk Management, Emergency Planning and Business Continuity Management. The report includes details of the most significant risks currently on the Council's corporate risk register, with summary assurances describing the key controls in place to manage those risks and further actions planned, signposting to where more detailed information can be found. It also includes details of the work undertaken by the Council's Resilience and Emergencies Team, which has responsibility for emergency planning and response.

Strategic risk reporting to Executive Board is relatively infrequent. Our review of meetings held from the start of the financial year to date indicates that only the Annual Risk and Resilience Report was presented for 2021-22 and 2022-23. Some of the risks, such as "in-year budget" are subject to more frequent, separate reporting.

However, in the current environment, the risk picture, particularly for more dynamic risks, moves more quickly than is captured in these reports. A more frequent overview would support timely discussion and challenge of the Council's approach to managing strategic risks, the effectiveness of key mitigations and the direction of travel. We make an improvement recommendation encouraging more frequent and proactive reporting of strategic risk throughout the year, including setting out the progress made against the further planned actions.

Governance (continued)

Internal controls including the Audit Committee

The Corporate Governance and Audit Committee plays a key role in the Council's governance, providing effective challenge despite some turnover. The Committee reviews and reports on the Council's governance, financial and assurance processes. There has been some turnover of members on the Audit Committee, including in the Chair position, in the past three years. Overall, however, based on our attendance at the Committee we have observed a good level of questioning and challenge of officers, and both internal and external audit. A period of stability in Members and the Chair going forward would clearly be beneficial, and we do not currently have any particular concerns over the Committee's effectiveness .

The Committee is supported effectively by the Council's in-house Internal Audit function.

- The Internal Audit function operates to the United Kingdom Public Sector Internal Audit Standards (UKPSIAS). It is subject to external quality assessment every five years and was assessed in December 2021 as meeting the necessary standards.
- Each year, the audit plan is agreed by the Chief Officer - Financial Services and then presented to the Corporate Governance and Audit Committee, which agreed the 2022-23 plan in March 2022. Changes to the internal audit plan are made throughout the year as necessary to recognise any new risks that arise and approved by the Corporate Governance and Audit Committee.
- The initial plan set an expectation that over 70 reviews will be performed over the course of the financial year. The Internal Audit Annual Report of July 2023 indicates that 71 review had been completed as at this point, providing sufficient basis for the overall annual Head of Internal Audit Opinion.
- Progress with the Internal Audit plan is reported regularly to the Council's Corporate Governance and Audit Committee. The Committee uses the work and findings of internal audit to consider the operation of key controls during the year which is used to draft the annual governance statement.

The majority of high and medium priority recommendations were implemented during the year though some remained outstanding. Of the 51 overdue recommendations not yet implemented, around half (23) were in progress. The areas where the lowest proportions of open recommendations had been progressed were Finance and Key Financial Systems, and Resources.

We did not identify evidence of significant weaknesses in the internal control environment. The Internal Audit Annual Report, presented to the Corporate Governance and Audit Committee provided an overall opinion for 2022-23 that the internal control environment (including the key financial systems, risk and governance) is well established and operating effectively in practice. Only three reviews in year provided with limited assurance opinions with regard to the control environment: No Recourse to Public Funds Follow Up - Financial Management & Safeguarding; Privileged User Access Follow Up - Cyber Security & Information governance; and Adults and Health Debt Recovery - Financial Management & Anti-Fraud and Corruption. A further four limited assurance reviews related to compliance issues within schools.

	2022-23	2021-22
Annual Governance Statement (control deficiencies)	None	None
Head of Internal Audit opinion	Internal control environment well established and operating effectively in practice.	Internal control environment well established and operating effectively in practice.
Ofsted Children's Services inspection rating	Outstanding (new inspection published May 2022)	Outstanding (based on 2018 review)

Governance (continued)

Standards and behaviours

The Council has appropriate arrangements in place to monitor compliance with legislation and regulatory standards and to communicate the behaviours expected of Officer and Members. It has in place a range of policies and procedures designed to ensure compliance with legislative and regulatory standards including Codes of Conduct for both Members and Officers, a Member-Officer protocol, and policies covering Whistleblowing; declarations of interest; Gifts and Hospitality; and Anti Bribery and Anti-Money Laundering Policy

The Council actively monitors compliance with expected standards and behaviours. The Monitoring Officer provides advice on key decisions including the budget each year and reports on an annual basis to Full Council on key issues including complaints against Members and how these were dealt with. The report from the Monitoring Officer in March 2023 provided assurances in respect of work undertaken to ensure registers of interests and dispensations were correctly administered; deal with any sensitive interests; assess and respond to complaints; and support parish and town councils. During 2022-23 there were seven complaints made against Leeds City Councillors but no trends or issues of concern were raised from the complaints which required intervention. No formal complaints required referral to the police. At the time of this report, the Monitoring Officer had received three complaints relating to parish or town councillors in the Leeds area but no further action or themes were noted.

Standards are reinforced by an appropriate "tone from the top", led by senior management. In addition to evidence from our own attendance at the Corporate Governance and Audit Committee, and review of Council papers, we note that the Council's recent (November 2022) LGA Peer Review assessment noted a number of positive findings in relation to working relationships across the Council. They noted that supported by the Council's structure (such as the inclusion of the two main opposition party leaders on the Council's Executive Board) political differences are aired openly and cross-party working is normalised. They also observed mature, transparent and constructive working relationships between Members and Officers, supported by the Member-Officer protocol.

Informed decision-making

The Council has appropriate arrangements to support effective decision-making. Key decisions are taken by Executive Board and are subject to circulation requirements to ensure members have adequate time to consider the issues at hand. Key decisions are also subject to potential call-in by the Council's Scrutiny Boards. Officer Decision Records are published to ensure transparency of decision making on the Council's website. As set out on page 21, Directors and Senior staff take ownership of the financial consequences of their decisions. Our review of Executive Board and other Committee papers confirms that there is active discussion of issues and appropriate questioning and challenge of the basis for decisions.

The Executive Board's agenda is inevitably broad and there is a balance to strike between focus on strategic priorities and coverage of the breadth of the Council's business. Decision notices outline the scale of financial impact of the decision, and indicate at a high level to which of the three Pillars of the Best City Ambition the decision relates. In considering our improvement recommendations in relation to capital reporting (page 26); risk reporting (page 30) and performance reporting (page 37), the Council may wish to consider a framework for indicating to which specific corporate strategic risks and key performance indicator the decision relates, to make even clearer the positive and negative implications or trade-offs required.

We note that in July 2022, the Council was found following Judicial Review to have decided unlawfully to award planning permission case related to the development of up to 61 affordable homes on land at Oldfield lane in Wortley. The Judge found that the decision failed to take into account relevant local policy, and the grant of planning permission was quashed, noting the need for the Council to be robust in considering all relevant policy, and the different roles of the NPPF and development plan. The Council's Chief Planning Officer reported to us that that following the decision an advice note was issued to its Development Management and Strategic Planning (Policy Team), to confirm that the relevant policy should be treated as an extant policy and be considered, when appropriate in planning application determinations. We do not raise a recommendation in this area as the Council has already put in place arrangements to address the weakness in its arrangements, but the Council will naturally wish to assure itself that the changes it has made have been embedded, in due course.

10. Improvement recommendation

Improvement Recommendation 4	*We recommend the Council implements more frequent reporting of strategic risks to Executive Board throughout the year, setting out the progress made against actions, direction of travel and emerging issues detailed in these reports.*
Improvement opportunity identified	In the current environment a more frequent overview would support timely discussion and challenge of the Council's approach to managing strategic risks, the effectiveness of key mitigations and the direction of travel.
Summary findings	The Council reports strategic risks to its Executive Board in an appropriate and helpful way, but does so relatively infrequently, which may mean that the risk picture, particularly for more dynamic risks, moves more quickly than is captured in these reports.
Auditor judgement	Our work has enabled us to identify a weakness in arrangements which we do not consider to be significant, however, we have raised a recommendation to support management in making appropriate enhancements to its arrangements.
Management comments	Agreed – the recommendation will be implemented.

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

11. 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

2022-23 appears to have been a transitional year for the Council's monitoring and reporting of its performance. From our review of the Scrutiny Boards and the Executive Board meetings, an Annual Corporate Performance Report is produced for presentation to the Executive Board and performance reports are taken to the Scrutiny Boards twice a year. As set out in more detail on page 13, the Council has now adopted the Best City Ambition, replacing the previous Best Council Plan as its overall statement of its strategic ambition. The Best City Ambition sets out the Council's proposed outcomes for the city, within three pillars: Health and Wellbeing; Inclusive Growth; and Zero Carbon.

The Council has recognised that it needs to review and align its partnership arrangements, and its performance monitoring to its new strategic plan. This work is ongoing. As a result, a number of reporting frameworks and templates have been used throughout the year. In a Best City Ambition and Performance Update report taken to the Strategy and Resources Scrutiny Board on in January 2023, the Council proposed to split the reporting of "organisational" or corporate KPIs from the more outcome-focused Best City Ambition KPI reporting, with the latter being a work in progress. In its most recent annual corporate performance report, meanwhile, produced for presentation to the Executive Board in September 2023, the Council reports performance against KPIs aligned to its main Directorates, in the Resources, Communities, Housing & Environment, City Development, Children and Families and Adults and Health directorates and covers in narrative form the five additional "breakthrough" priorities from the Best City Ambition.

The Council has identified three key reporting routes through which it will report its performance in future:

- The Leeds Social Progress Index: a locally tailored version of the SPI for Leeds which was launched in 2022-23 and is currently being updated.
- The Joint Strategic Assessment (SA): a statutory analysis of the city completed every three years, which informs health and wellbeing strategy.
- More detailed plans set out in individual strategies underpinning each of the three pillars of the Best City Ambition - it is through these that performance in those areas will be reported.

From review of the draft Best City Ambition outcome reporting presented to Executive Board in January 2023, it is clear that the Council recognises the benefit of drawing on established, high quality data sources. Many of the indicators are drawn from various official statistics, such as on life expectancy at birth. **A trade-off with this approach, however, is that many of the indicators will have significant lags in reporting.** For example, for a number of indicators the most recent data available is for 2020. While this is likely to be inevitable for some indicators, such life expectancy, it would be worth the Council considering whether it could supplement its reporting with more "leading" indicators of performance that would indicate the direction of travel. This could be in the form of reporting on key actions and milestones, or through making more use of operational data on service delivery. An example would be the delivery of smoking cessation interventions as a potential leading indicator of smoking prevalence. While care is required in selecting these indicators, this approach would provide an opportunity to review performance. In other cases, it would be helpful to indicate whether there is a specific goal, or whether the direction of travel is positive. For example, the percentage of the population claiming Universal Credit could reflect issues related to employment or economic challenges, or could reflect a positive trend in households taking-up their benefit entitlement. Again, linking the indicators to key actions. **We set out an improvement recommendation to support the Council's development of its reporting framework on page 37.**

Improving economy, efficiency and effectiveness (continued)

Assessing performance and identifying improvement (continued)

As set out in prior years' Auditors' Annual Reports, the Council makes use of a range of comparative and benchmarking data to inform its view of performance. As part of this, the Council underwent an LGA-led peer challenge during November 2022. The report highlighted a range of positive findings in relation to the Council's culture, leadership and its work with partners. The Executive Board considered the findings and recommendations from the Report in February 2023 alongside an action plan, which provides a framework through which progress in implementing the report's recommendations can be tracked.

Alongside its positive fundings, the report also made a number of recommendations many of which are relevant to the themes covered elsewhere in this report, including the need for the Council to:

- Consider a more outcomes focused and evidence-based approach to medium-term financial planning;
- Prepare for the financial challenges ahead and develop a clear and robust plan and process to address the council's budget gap, which further mitigates risk
- Develop capacity for transformation and change.

Reviews of key services by inspectorate and regulatory bodies indicate that, overall, the Council does not have the same level challenges that some other local authorities face in terms of service quality. The latest inspection of the Council's Children's Services Department was a rating of "Outstanding" which is a significant achievement.

The Council's overall performance in terms of its housing service as reported by the Housing Ombudsman indicated that it was in line with other councils of a similar size and type, although of course this did mean that in a number of cases it was found that the Council could have dealt with tenants' concerns about their properties more effectively. From our review of the Care Quality Commission (CQC) website, we have identified that all but one adult social care service reviewed in 2022-23 which was provided and/or run by the Council received a "Good" rating.

Where issues are found, the Council has demonstrated arrangements to make the necessary improvements.

- During the year, one Council run adult care service, Reablement Skills (a homecare service provider) received a "Needs Improvement" rating from CQC within the 'Safe' and Well-Led' categories, this indicates that the service is not performing as well as it should and CQC has informed the service how it must improve. The Council reported to us that following a CQC inspection of this nature would be monitored by officers through the services' management arrangements with support from its commissioning team.
- In August 2022, the Local Government and Social Care Ombudsman made a finding of maladministration with injustice about a complaint and issued a public report against the Council. This report was discussed at Executive Board in September 2022. The report relates to complainant "Mrs B" who had raised concerns her mother's care, provided on behalf of the Council by an external provider. The complaint related to two issues: (a) the standard of care and (b) charges made for care. Alongside a range of adverse findings in relation to the quality of care, the report stated that the Council should end the practice of allowing care providers to enter contracts with clients (or their relatives) to make additional charges for care that run concurrently to contracts the Council has entered with the same care provider to provide the clients' care at a lower cost. The Council produced an action plan in response to the report on in August 2022, and reported to Executive Board that all actions had been responded to within a month from the date of the report. Our review of the Local Government and Social Care Ombudsman website, indicated that in 100% of cases they were satisfied the Council had successfully implemented their recommendations for the 2022-23 financial year.

Improving economy, efficiency and effectiveness (continued)

Assessing performance and identifying improvement (continued)

We reported specifically in our 2020-21 and 2021-22 Auditor's Annual Reports on the increase in void properties, which continued to increase from 540 in 2019-20 to 1,148 at the end of 2021-22. A number of reasons were suggested for this including Covid safe practices, Covid absences and both materials and labour shortages. We note that in 2022-23 the number of voids had begun to fall, to 916 properties at the end of 2022-23. We are therefore satisfied that the Council has put in place arrangements to monitor progress in this area, though the target remains 1% of stock in void, which represents 540 voids, and this remains an ongoing challenge.

Commissioning, procurement and contract management

As we have noted in prior year, the Council generally maintains appropriate arrangements to oversee procurement activity but timeliness of reporting could be improved. The Council has a procurement strategy in place. It updates its key guidance in this area regularly, updating its contract procedure rules in March 2023. Internal Audit's reports in this area did not highlight significant areas of non-compliance or significant limitations in assurance. However, we note that the usual annual assurance report on procurement presented to the Corporate Governance and Audit Committee has been delayed several times, most recently to November 2023. At the time of this report, therefore, we are unable to say whether the Council has continued to reduce its use of contract waivers, or implement our 2020-21 recommendation that it improve its reporting in this area and we re-iterate an improvement recommendation in this area.

The Council has identified scope to improve contract management. The Council has significant value invested in contracts. As at October 2023 its contract register lists contracts with a total estimated value of over £5bn, nearly half of which is in long-term PFI contracts across schools, waste management and street lighting. As set out opposite, getting value for money from contracts is a long-term exercise that goes way beyond the initial procurement. In 2021, the Council underwent a focussed LGA peer review on its Procure to Pay Cycle. This review identified opportunities to improve contract management, supported by appropriate technology. This review identified that contract management is undertaken by departments rather than a central team and, while there were pockets of good practice, contract management not undertaken consistently across the Council. The review also indicated scope to drive savings through the life of contracts, such as by exploring sharing savings made with suppliers, or letting longer term contracts that allow suppliers to offer better pricing structures. We set out further detail on the Council's activity to improve contract management in this area in our commentary on the Council's Core Business Transformation Programme on page 34.

We did not identify instances where non-compliance with the Council's arrangements had exposed it to significant financial loss, though this is an area where ongoing vigilance is required. The Council reported to us that it issued nine Voluntary Ex-Ante Transparency (VEAT) notices during 2022-23. VEAT notices can be used when contracts are awarded without prior publication of contract notice. The procuring authority should be able to demonstrate that it has given the matter sufficient consideration including appropriate fact finding, taking legal advice and reasonable decision-making. From detailed review of an example, we are satisfied that the Council has arrangements in place to seek and consider appropriate advice, setting out the risks and other considerations in proceeding with procurement. The Council should, of course, continue to monitor any instances of non-compliance with procurement regulations and seek to minimise the need to use mechanisms such as VEATs to minimise the risk of non-compliance leading to legal challenges or other sanctions. The Council was not aware that it had received any formal legal challenge on procurements carried out in 2022-23.

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.

Improving economy, efficiency and effectiveness (continued)

Commissioning, procurement and contract management - Core Business Transformation Programme

The Council is currently undertaking a transformation which aims to refresh the technology it uses to support core business support functions, starting with Finance. In later phases, this programme may support broader transformation of its core business support services, to improve service quality and, potentially, to drive financial savings.

The Council refreshed its approach to the core business transformation programme in 2022-23, to reduce commercial and delivery risk. The original business case (approved by Executive Committee in September 2020) was to commence procurement activities for the implementation of a full Enterprise Resource Planning (ERP) system across the whole of its core business support (covering areas such as finance, HR, and payroll) with one supplier providing both technology and transformation support. However, a more recent, revised business case from September 2022 outlined the case for a change to this approach, splitting the transformation into a portfolio of activity with multiple phases, each individual approved, to reduce commercial and delivery risk from having one partner with such a wide scope.

The phasing of the programme reflects the Council's view of each service area's readiness to realise the benefits of new technology, the underlying complexity, and the scale of business transformation required. The Council's assessment was that the different areas of core business were at different stages of readiness to adopt new technology with Finance and Purchase to Pay ready to commence implementation sooner. Accordingly:

- Phase 1 of the programme focuses on finance and the implementation of a core finance and ledger system to replace the FMS system, which is now more than 30 years old.
- Phase 2 will focus on HR and Payroll. This reflects the Council's judgement that the HR and Payroll technology landscape is more complex, and that more work will be required to assess the technology required and the impact of technology change for these areas, which may be significant impact, and to prepare service users for changes to the way they work.

The Council envisages Phases 1 and 2 being completed over a 3-4 year period. The Council's Executive Board recently approved Phase 2, following review of a separate business case in February 2023.

The Council has established appropriate governance. Executive Board has had the opportunity to review and approve key business cases, as set out above. Routine reporting is carried out via a Programme board chaired by the S151 Officer, and the programme supported by ongoing assurance work from Internal Audit. The Council has appointed an external implementation partner to assist with the rollout of the new finance system. We note that the programme is not identified as a corporate risk on the most recent annual report on strategic risk register and it is not clear that progress is reported to the Executive Board. **We recommend the Executive Board is fully briefed on progress and risks prior to the new finance system going live so that it can ensure the rollout occurs once it is satisfied that any residual risks have been appropriately mitigated (page 36).**

The programme is slightly over budget and phase 1 (the ledger system) is likely to be delayed to allow for additional testing of the system prior to implementation. The Executive Board has approved a £18.48m budget for Phase 1 and 2. Within this, the total cost estimate to deliver Phase 1 is £10.48m. As at September 2023, the Phase 1 and 2 programme was forecasting to spend £19.35 million, an overspend of around £850k or 5%. Phase 1 is behind the original schedule with roll-out likely to be delayed by 6 months to October 2024. The delay to implementation should allow the Council to undertake further integration and end-to-end testing on the data in the system and interfaces work as intended before it goes live. Given recent high-profile issues experienced by other councils implementing ledger systems, there is a sound rationale for caution in this area, and the Council considers the current system will remain functional long enough to cover this extension to the timetable.

A potential Phase 3 could transform the Council's contract management arrangements and deliver financial savings on the Council's significant contract spend but would be a complex project. While undertaking 'discovery' work for a project to replace its e-tendering system, the Council identified opportunities to improve the quality and outcomes through broader improvements to the 'lifecycle' of contract management. The commercial lifecycle is much broader than just procurement covering the whole process from: identifying a requirement that might be delivered by a supplier; selection and appointment process; and contract management activity; to possible contract termination or transition to alternative arrangements. At the time of our review, the Council was developing a separate business case for possible further work in this area. It is positive that the Council has recognised that driving improvements in this area this would require a significant business transformation programme involving business process and behaviour change, supported by technology, rather than being a (relatively) straightforward technology project. As the LGA notes, it is therefore important that the Council's view of its future skills base includes capacity for management of business transformation.

Improving economy, efficiency and effectiveness (continued)

Partnership working

The Council has a clear commitment to partnership working. The "Team Leeds" approach set out in the Best City Ambition sets out core principles for partnership working, informed by engagement with partners across the city. This emphasises being evidence-led, working with strengths and co-production and co-design with citizens as standard. In its Peer Review report, the LGA noted many examples of positive feedback from partners that provided, in its view, evidence of "deep and collaborative partnership working which many other councils could learn from and is national best practice." The report noted that there are risks to this partnership working from the resource pressures the Council currently faces.

Accordingly, much of the Council's overarching strategy is developed in partnership. As well as the Best City Ambition itself. There are a range of other strategies, for example, a Better Lives Strategy that emphasises partnership working, such as with the Third Sector. These strategies influence priority setting, service planning and shaping meaningful actions subsequently delivered at a corporate level and/or through activity in council directorates.

The Council recognises that risks can emerge from working within partnerships, as well as benefits. As part of its own review of partnership governance as part of its Annual Governance Statement, the Council notes that it has developed a partnership governance and risk checklist and circulated to all Directorate Management Team from February 2023 onwards. This prompts teams to identify any issues or concerns with partnerships within their remit and escalate these as appropriate.

The Council can demonstrate oversight of performance and decision-making within partnerships. In line with the Council's decision-making framework, respective directorate management teams have responsibility for ensuring delivery against key strategies and the actions they contain, with oversight from the Executive Board. Performance updates on partnership working are taken to both the Executive Board and the Scrutiny Boards. For example, An Ad:Venture and Digital Enterprise Programme Update was taken to the March 2023 Executive Board outlining efforts in developing new funding packages for these programmes and seeks approval to enter into a series of contracts and funding agreements with the principal funder – West Yorkshire Combined Authority (WYCA) and delivery partners.

The Council's Chief Executive acts as key link to the new NHS West Yorkshire Integrated Care Board, further demonstrating the Council's commitment to key partnerships within the region. A significant new partnership during the 2022-23 year has been the inception of the new West Yorkshire Integrated Care Board (ICB), which is a statutory NHS organisation which is responsible for developing a plan for meeting the health needs of the population, managing the NHS budget and arranging for the provision of health services in a geographical area. The West Yorkshire ICB appoints a number of "partner members" to provide insight and expertise in particular areas. The Council's Chief Executive acts as the partner member for local authorities.

12. Improvement recommendations

Improvement Recommendation 5	*We recommend the Executive Board is fully briefed on progress and risks prior to the new finance system going live so that it can ensure the rollout occurs once it is satisfied that any residual risks have been appropriately mitigated.*
Improvement opportunity identified	We note that the Core Business Transformation programme, of which the finance system implementation is a part, is not identified as a corporate risk on the most recent annual report on the strategic risk register and it is not clear that progress is reported to the Executive Board although progress is reported appropriately to a dedicated programme board. Given high profile examples of issues from similar projects in other councils there is scope to ensure Executive Board are fully sighted on any issues or risks.
Summary findings	The Council is currently undertaking a transformation which aims to refresh the technology it uses to support core business support functions, starting with Finance. The programme is slightly over budget and phase 1 (the ledger system) is likely to be delayed to allow for additional testing of the system prior to implementation.
Auditor judgement	Our work has enabled us to identify a weakness in arrangements which we do not consider to be significant, however, we have raised a recommendation to support management in making appropriate improvements.
Management comments	A Senior Responsible Officer is keeping the Executive Board Portfolio Member updated with progress via their regular updates. This will be supplemented with additional reports to the Executive Board as follows: • Mid-point of the project – update on timeline, gaps identified and solutions, change impact/benefits, training plan, risk and mitigations. • Once month prior to planned go-live – update on final solution design, testing and training, go-live support and post-go live support plans, risk and mitigations.

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

Improvement recommendations

Improvement Recommendation 6	*We recommend that as the Council continues to develop its performance reporting it should:* • *Develop a consistent framework that provides coverage of Best City Ambition outcome indicators, with clear goals and targets identified as appropriate* • *Develop leading indicators of performance, and align outcomes to the key projects and programmes critical to their delivery, where possible, to provide more timely information on progress toward longer-term outcome goals* • *Consider more frequent reporting of performance against Best City Ambition and Organisational indicators to the Executive Board.*
Improvement opportunity identified	More timely and richer reporting of performance including linking longer-term outcomes to key activities would allow more timely review of progress and allow Members to track and challenge progress toward those goals.
Summary findings	The Council has recognised the need to align performance reporting to its strategic goals but this remained a work in progress during 2022-23.
Auditor judgement	Our work has enabled us to identify a weakness in arrangements which we do not consider to be significant, however, we have raised a recommendation to support management in making appropriate improvements.
Management comments	We recognise and agree the helpful recommendations. Since the audit was conducted, further work has been undertaken to refine and improve the performance monitoring framework with clearer understanding of what relates to the council's own performance and can be more directly influenced, and which factors are more relevant to wider city analysis and the context in which we operate. Going forward, reporting will offer a clearer explanation and delineation of these two connected but separate aspects. Recommendations around better reflection of critical projects and programmes, and governance linking strategic ambitions and performance, will be considered further through ongoing organisational development work. Similar to risk, we will also explore opportunities to increase the frequency with which information is provided to Executive Board members.

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

Improvement recommendations

Improvement Recommendation 7	*We recommend the Council ensures timely reporting to the Corporate Governance and Audit Committee on procurement compliance activity, including the use of waivers. In line with our previous recommendation in this area, 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 opportunity identified	More timely reporting of procurement activity and any instances of non-compliance would provide greater assurance that the Council is substantively compliant with relevant regulation and help identify and manage key risks in this area.
Summary findings	The Council has at the time of our review not delivered its usual annual report on procurement activity to the Corporate Governance and Audit Committee.
Auditor judgement	Our work has enabled us to identify a weakness in arrangements which we do not consider to be significant, however, we have raised a recommendation to support management in making appropriate improvements.
Management comments	Recommendation will be implemented as part of the annual procurement assurance report provided to CGAC, save in respect of the final point of the recommendation where additional clarity is sought. Data as to previously issued waivers is not immediately available and will require further analysis. The Auditor is asked to clarify the recommended period that this look-back information should cover.

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

13. Follow-up of previous recommendations

	Recommendation	Type of recommendation	Date raised	Progress to date	Addressed?	Further action?
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.	Financial sustainability – Improvement	March 2023	Capital expenditure in 2022-23 at outturn was £447.1m, which was a 0.9% variation against the February 2023 Capital Programme projected Outturn. This means that the Council did not repeat the large swings in capital programme spend between February and the year-end that we observed in our 2021-22 Auditor's Annual Report, addressing our improvement recommendation in this area from our 2021-22 Auditor's annual report.	Yes	We have re-raised related improvement recommendation to enhance capital reporting with more explanation on the variances and changes (including slippage) presented each quarter (page 26).
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.	Financial sustainability – Improvement	March 2023	Savings did not appear to have been reported in this way in 2022-23. The savings plan includes a mixture of income generation, one-off and recurrent measures. However, the areas in which there is expected to be a related cost pressure, from use of reserves, for example, are made clear. The savings programme presented to Executive Board is also set out on a 3-year basis which means the recurring impact of savings on this period is explicit.	Partly	The Council should still consider including a summary measure of recurrent versus non-recurrent savings planned and achieved in key reports.
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.	Governance - Improvement	March 2023	From review of the Council's policies it is not clear that this has yet been implemented, but we note from our 2021-22 AAR management's agreement to do so as part of a refresh of policies and procedures, and therefore do not identify further weaknesses in the Council's arrangements.	No	Yes – updating this policy is still recommended – the Council has told us this recommendation will be progressed through the wider corporate led review of policies and procedures.

Follow-up of previous recommendations (continued)

	Recommendation	Type of recommendation	Date raised	Progress to date	Addressed?	Further action?
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 date that is available, to help the Council understand its costs and to potentially identify areas for cost reduction and improvement.	EEEs - Improvement	March 2023	Given the scale of the challenge required, the Council is aware of the need to consider radical changes to its operating model and the way it delivers services. The Council has not yet implemented our improvement recommendation from our 2020-21 Auditor's Annual Report but this is now essentially in progress - that it develops a clearer view of what "essential" services look like, re-basing each service around those elements that are required by statute and/or are preventive. This would encompass a clear view of the costs of delivering its service.	Partly - ongoing	Yes – see Key recommendation on Page 7.
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.	EEEs - Improvement	March 2023	2022-23 is a transitional year for the Council as it has now adopted the Best City Ambition, and the Council is reviewing the strategic framework, partnership arrangements, and performance monitoring. This work is continuing and key developments are detailed in the Best City Ambition and Performance Update reporting to the Strategy and Resources Scrutiny Board in January 2023. Our assessment of performance reporting arrangements is set out on page 31 of the AAR.	Partly	Yes – see improvement recommendation on page 37.

Follow-up of previous recommendations (continued)

	Recommendation	Type of recommendation	Date raised	Progress to date	Addressed?	Further action?
6	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.	Financial sustainability - Improvement	September 2022	The Council has developed a reasonable record of delivering its identified savings plans but the level of challenge is increasing. We note however that in relation to 2022-23 and the forecast 2023-24 programme, the outturn percentage delivered is lower than in prior years. This may indicate that, as the savings programme has developed, it has become harder to identify "low hanging fruit" or tactical efficiency savings that deliver in short-timeframes, which underlines the importance of the Council's multi-year view.	Partly	Yes - we raise a further key recommendation in this area (see page 7).
7	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.	Financial sustainability - Improvement	September 2022	The Council has historically maintained relatively low levels of reserves available to meet unforeseen circumstances and continues to do so.	No	Yes - we raise a Key improvement recommendation in this area (see page 7).
8	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.	Financial sustainability - Improvement	September 2022	The Council continues to maintain a high level of external borrowing and has a large and ambitious capital programme.	Partly	Yes - we raise a further improvement recommendation in this area (see page 26).

Follow-up of previous recommendations (continued)

	Recommendation	Type of recommendation	Date raised	Progress to date	Addressed?	Further action?
9	The Authority should clearly identify statutory and discretionary spending in budgetary information which is provided to members and the public when setting the budget each year.	Financial sustainability - Improvement	September 2022	The Council has not yet implemented this recommendation, although we are aware this is in progress. Given the scale of the challenge required, the Council is aware of the need to consider radical changes to its operating model and the way it delivers services. As the Council's budgets continue to come under extreme pressure from cost and demand inflation, particularly in its Children and Families directorate, the Council is beginning to develop its view of what its "essential" services look like, re-basing each service around those elements that are required by statute and/or are preventive (which may involve an element of "discretionary" spend, aimed at reducing the need for more intensive, reactive services). Such an exercise would inevitably require difficult decisions, including around staffing requirements, and the Council has acknowledged that some job losses may be necessary. However, delaying such decisions would only increase the risk that the Council is forced into shorter-term decisions over which it has less control.	No - ongoing	Yes – see key recommendation on page 7.
10	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.	Financial sustainability - Improvement	September 2022	As above	No - ongoing	Yes - see above and Key Recommendation on page 7.

Follow-up of previous recommendations (continued)

	Recommendation	Type of recommendation	Date raised	Progress to date	Addressed?	Further action?
11	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.	Governance - Improvement	September 2022	The Council has not sufficiently progressed agreed actions to improve the quality and timeliness of material provided to support the audit that we have raised over several years. We have continued to experience delays in responses to queries and in the provision and quality of working papers provided by the Council to support the external audit process.	No - ongoing	Yes – see Key Recommendation on page 8
12	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.	EEEs - Improvement	September 2022	We note that in 2022-23 the number of voids had begun to fall, to 916 properties at the end of 2022-23. We are therefore satisfied that the Council has put in place arrangement to monitor progress in this area through the target remains 1% of stock in void which represents 540 voids and this remains an ongoing challenge.	Partly - ongoing	No – but we note this area remains a challenge for the Council.
13	The Council should consider the use of unit cost benchmarking as part of their overall benchmarking analysis.	EEEs - Improvement	September 2022	We note that the Council makes use of benchmarking in a variety of contexts, including setting its annual budget.	Partly – ongoing	Yes – detailed comparison of service costs may assist with implementation of our Key Recommendation on page 7.
14	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.	COVID 19 – Improvement	September 2022	The Council has at the time of our review not delivered its usual annual report on procurement activity to the Corporate Governance and Audit Committee for us to review implementation of this recommendation.	No	Yes – see improvement recommendation raised on page 38.

14. 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.

Timing of the audit and opinion on the Council's 2022-23 financial statements

Given this issues set out earlier in this report in relation to the challenges of delivering the accounts audit at the Council, our 2022-23 accounts audit is yet to commence.

We are currently working with the Council to finalise the 2021-22 accounts audit – which is overrunning against its original completion date. Our revised target sign off for the 2021-22 accounts is December 2023.

Once this audit is completed, we will then move onto the 2022-23 accounts audit which has been pushed back to commence in the New Year.

15. Other reporting requirements

Annual Governance Statement and Narrative Report

We are required to give an opinion on whether the other information published together with the audited financial statements (including the Annual Governance Statement and Narrative Report), is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We will review the 2022-23 AGS and Narrative Report as part of our 2022-23 audit which is expected to commence in the New Year.

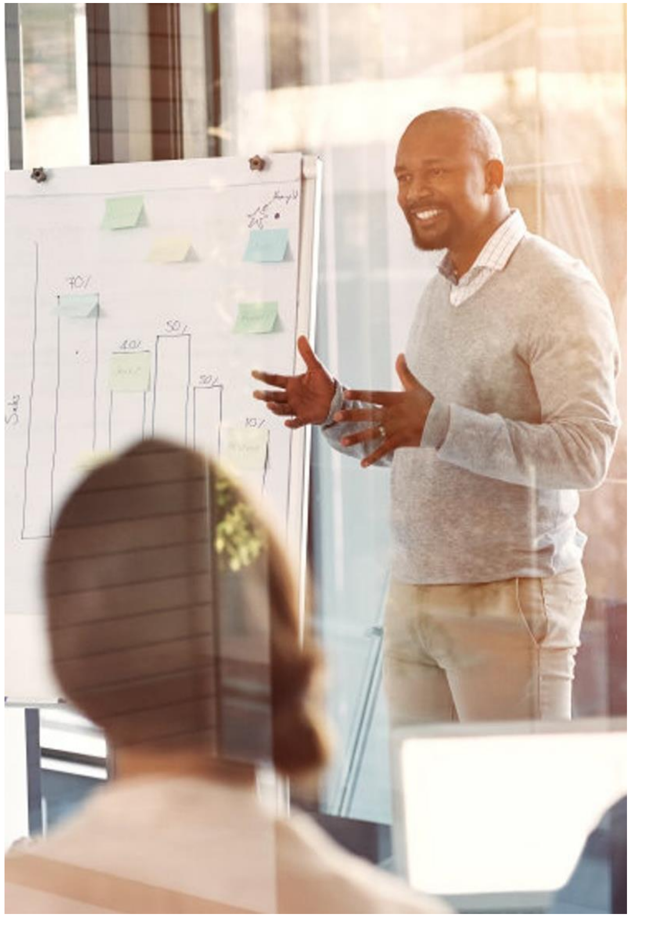
Audit Findings (ISA260) Report

We will report our detailed findings from the 2022-23 accounts audit in our ISA260 Report. We have a provisional timing of presenting this report to the Corporate Governance and Audit Committee in March 2024.

Whole of Government Accounts

To support the audit of the Whole of Government Accounts (WGA), we are required to examine and report on the consistency of the Council's consolidation schedules with their audited financial statements. This work includes performing specified procedures under group audit instructions issued by the National Audit Office.

Our 2022-23 WGA work is expected to take place following completion of the main accounts audit.



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.

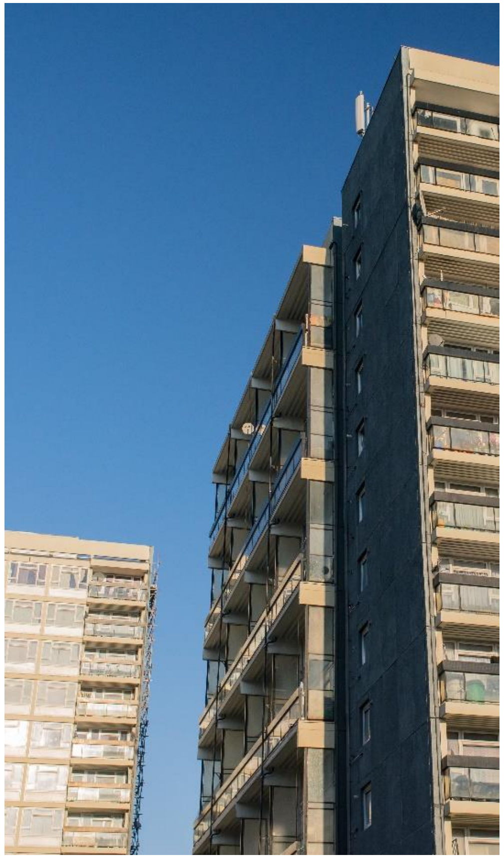
Financial statements are the main way in which local public bodies account for how they use their resources. Local public bodies are required to prepare and publish financial statements setting out their financial performance for the year. To do this, bodies need to maintain proper accounting records 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 Officer – Financial Services (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 Officer – Financial Services (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 Officer – Financial Services (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	
Key	The NAO Code of Audit Practice requires that where auditors identify significant weaknesses as part of the Council's arrangements to secure value for money they should make recommendations setting out the actions that should be taken by the Council. We have defined these recommendations as 'key recommendations'.	Yes	7, 8-10
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. We have raised seven improvement recommendations: three in financial sustainability, one in governance and three in the 3Es theme.	Yes	23, 24, 25 (financial sustainability), 30 (governance), 36, 37, 38 (3Es).

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