

Auditor's Annual Report on South Ribble Borough Council

2022/23

January 2024



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

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



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

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Executive summary



Value for money arrangements and key recommendation(s)

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

Auditors are required to report their commentary on the Council's arrangements under specified criteria and 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. It should be noted that the significant weaknesses reported in 2021/22 were only reported to the Council in August 2023 due to the time it took to fully explore those areas. The weaknesses were therefore still in place in 2022/23 and so are re-reported. The Council has made substantial progress in addressing these weaknesses in 2023/24.

Criteria	2022/23 Risk assessment	2022/23 Auditor judgement on arrangements	2021/22 Auditor judgement on arrangements	Direction of travel
Financial sustainability	No significant weaknesses identified.	A No significant weaknesses in arrangements identified, but one improvement recommendation made.	A No significant weaknesses in arrangements identified, but two improvement recommendations made.	↑
Governance	Significant weaknesses identified in 2021-22 in arrangements for procurement and onboarding of contractors	R Significant weaknesses in arrangements and two key recommendations made.	R Significant weaknesses in arrangements and two key recommendations made.	↔
Improving economy, efficiency and effectiveness	Significant weaknesses identified in 2021-22 in arrangements for procurement and onboarding of contractors	R Significant weaknesses in arrangements and one key recommendation and two improvement recommendations made.	R Significant weaknesses in arrangements and one key recommendation made.	↔

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

Executive summary (cont'd)



Financial sustainability

The Council has a structured and effective approach to developing and reviewing its financial plans. We are satisfied that the assumptions underpinning the Council's financial planning and strategy for the 2022/23 revenue budget and the medium-term were appropriate. Capital schemes were linked to corporate priorities. There was a planned capital programme of £29 million but an outturn of £13 million in 2022/23 which indicates scope for improved planning of capital schemes.

The Council's approach to developing its financial plans included a good level of internal engagement to establish the financial context and share budget assumptions. This work was led by the senior management team and engaged a wide range of managers and budget holders to ensure that budget issues were captured and opportunities to save were aired. The Council continued to set its General Fund reserve balance at £4 million to mitigate the risks of generating income from investment and temporary delays in savings schemes. The Council's analysis of reserves indicated an anticipated total of £17 million of General and Earmarked reserves at the end of 2022/23 and the Council did not undertake any short or long-term borrowing. Notwithstanding the Council's good financial position, work continued on its Transformation Strategy and shared services partnership in recognition of the continuing need to improve efficiency and secure savings.

Our work has not identified evidence of significant weaknesses within the arrangements in place. However, we have identified that the Council could improve arrangements for planning of capital spending and as such, have raised an improvement recommendation. See page 20 for more detail.



Governance

In our 2021/22 Auditor's Annual Report we reported on additional risk-based work undertaken following an Internal Audit Review into the shared services provided by the Commercial Services Directorate. Our findings were that the Council was exposed to risks through its failure to have proper controls and processes in place in respect of Contractors working in the Council and that this represented a significant weakness in the Council's arrangements. We made two key recommendations in relation to Governance systems to address this significant weakness. The first related to the extent of system access granted to contractors and the documentation and review of access. The second related to the organisational architecture required to ensure effective safeguards, checks and balances.

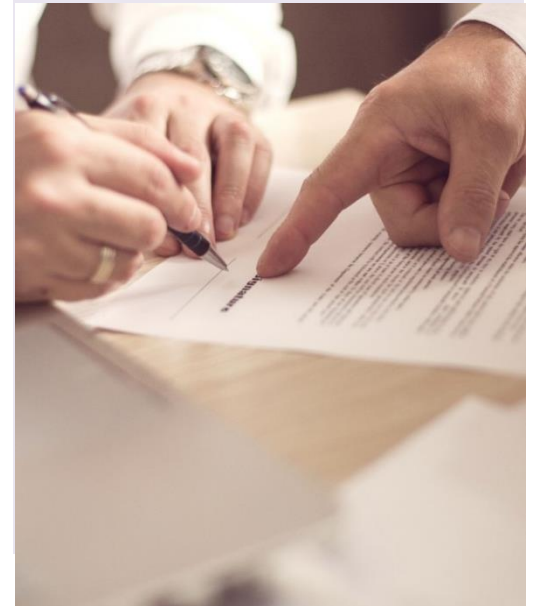
We have considered and included references to the Council's actions to address this significant weakness (which have mainly been carried out in 2023/24) in this report. Because this report is retrospective and looks at arrangements in place in 2022/23, and because the significant weaknesses were present in 2022/23 we have repeated the key recommendations we made in our 2021/22 Report. It should be noted that the significant weaknesses reported in 2021/22 were only reported to the Council in August 2023 due to the time it took to fully explore those areas. The Council has made significant progress in addressing these significant weaknesses and implementing the recommendations in 2023/24.

Our work has not identified any evidence which leads us to conclude that there are additional significant weaknesses, other than those identified above, present in the Council's Governance which require further recommendations to be raised.



Financial Statements opinion

We are in the progress of completing our audit of your financial statements and anticipate issuing an unqualified audit opinion.



Executive summary (cont'd)



Improving economy, efficiency and effectiveness

In our 2021/22 Auditor's Annual Report we reported on additional risk-based work undertaken following an Internal Audit Review into the shared services provided by the Commercial Services Directorate. Our findings were that the Council was exposed to risks through its failure to have a properly resourced procurement function and that this represented a significant weakness in the Council's arrangements. We made a key recommendation in relation to the economy, efficiency and effectiveness of the Council to address this significant weakness which related to the resourcing and responsibilities of the procurement function.

We have considered and included references to the Council's actions to address this significant weakness (which have mainly been carried out in 2023/24) in this report. Because this report is retrospective and looks at arrangements in place in 2022/23, and because the significant weaknesses were present in 2022/23 we have repeated the key recommendations we made in our 2021/22 Report. It should be noted that the significant weaknesses reported in 2021/22 were only reported to the Council in August 2023 due to the time it took to fully explore those areas. The Council has made significant progress in addressing these significant weaknesses and implementing the recommendations in 2023/24.

We have made two improvement recommendations about the more effective use of performance bench-marking information and the development of a partnership strategy.

Our work has not identified any evidence which leads us to conclude that there are additional significant weaknesses, other than those identified above, present in the Council's governance which require further recommendations to be raised.



Use of auditor's powers

We bring the following matters to your attention:

2022/23

Statutory recommendations

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

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

Public Interest Report

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

We did not issue a public interest report.

Application to the Court

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

We did not make an application to the Court.

Advisory notice

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

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

We did not issue any advisory notices.

Judicial review

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

We did not make an application for judicial review.

Key recommendations



Key Recommendation 1

The Council should review the safeguards put in place in relation to onboarding a contractor as part of the shared services arrangements. Although the contractor was not onboarded by South Ribble, the Council should be cognisant of the potential risks of any process essentially carried out by a 'third party' and the requirement for related robust controls.

Going forward the Council needs to give due consideration to the extent of IT and documentation access required for any contractor to effectively perform their role. The Directorate responsible for the contractor, and IT, must communicate to ensure that appropriate system access is provided. Any contractor added to the Council system or who has access to Council information, must be treated on a case-by-case basis with consideration of the risks involved. This consideration must also be appropriately documented and an audit trail maintained to ensure appropriate risk management. System access must also be regularly reviewed throughout periods of employment.

Identified significant weakness in arrangements

If the appropriate access is not given when on-boarding contractors, then the Council may be exposed to data breaches.

Summary findings

The on-boarding of a contractor was not appropriately risk-managed leading to breaches of the IT security framework.

Criteria impacted by the significant weakness

Governance

Auditor judgement

This report looks at arrangements in place in 2022/23 and the significant weaknesses were present in 2022/23, we have therefore repeated the key recommendations we made in our 2021/22 Report. It should be noted that the significant weaknesses reported in 2021/22 were only reported to the Council in August 2023 due to the time it took to fully explore those areas. The Council has made significant progress in addressing these significant weaknesses and implementing the recommendations in 2023/24.

Management comments

See next page

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

Key recommendations

Management comments

The council has undertaken significant work since the issues were first identified. This has included:

- changes to the process to create access to the council network to explicitly identify the type of access being granted (for example, contractor, permanent employee, fixed term employee)
- the agreement of a Director, documenting necessity and extent of access required.
- introduction of a regular check of network access for contractors.

The roll out of the new file saving system using Microsoft Teams has continued, and is now being used by all teams across the organisation. This brings a number of advantages:

- limiting the requirement for external users to have network access
- providing greater ability to provide limited access to files
- allow easy reporting of external access to council systems and files
- greater integration with staff attendance management system iTrent for automated reporting on starters and leavers

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

Key recommendations (cont'd)



Key Recommendation 2

In the case of the Commercial Services directorate, officers working across both Councils were able to operate for an extended period of time outside the control framework without being picked up by the Council's safeguards, checks or balances. Council governance processes must ensure appropriate protection for officers as well as the organisation. The Council must consider what organizational architecture needs to be in place to ensure that the appropriate safeguards, checks and balances are in place to provide the assurance that officers acting improperly will be detected by Council systems. This will ensure appropriate protection for both officers and the organisation.

Identified significant weakness in arrangements

The circumstances of an individual contractor's employment or engagement with the Council can change during their time with the organisation. Without regular review of system access in order to re-consider the risks, this exposure to risk increases.

Summary findings

A contractor was able to operate for an extended period of time outside the control framework without this being identified.

Criteria impacted by the significant weakness

Governance

Auditor judgement

This report looks at arrangements in place in 2022/23 and the significant weaknesses were present in 2022/23, we have therefore repeated the key recommendations we made in our 2021/22 Report. It should be noted that the significant weaknesses reported in 2021/22 were only reported to the Council in August 2023 due to the time it took to fully explore those areas. The Council has made significant progress in addressing these significant weaknesses and implementing the recommendations in 2023/24.

Management comments

The strengthened Corporate Governance Group continues to monitor the Council's internal governance arrangements, with agenda items including Annual Governance Statement actions, ICT Programme updates and rotational updates from Heads of Service. This work will continue, with the Annual Governance Statement. A comprehensive check of expenditure incurred with all suppliers that totalled more the £50k in the 3 years to June 2023 has been completed in 2023/24, and did not identify any new issues.

Key recommendations (cont'd)



Key Recommendation 3

The Council must consider the role of the procurement function in respect of the whole organisation. The Council should outline the responsibilities of procurement versus service line leads in contract management and procurement and document this delineation in its Constitution.

The Council must seek to renew and enhance its procurement strategy.

The Council must prioritise the appropriate resourcing of its procurement function, particularly with respect to the shared services arrangement. The lack of capacity of the current procurement function is putting the Council at significant risk of failure to achieve value for money in its procurement and contract management arrangements.

The Council must seek to appropriately train the employees in the procurement function. There was evidence of a limited advisory and supervisory function of the procurement team throughout this review. The procurement function is also lacking in appropriately qualified personnel. The procurement team must be aware of their responsibilities as an advisory and monitoring function and must perform this role effectively.

Identified significant weakness in arrangements

Not having a comprehensive procurement strategy in place and a lack of resource in the procurement department leave the Council exposed to risk in terms of its key contracts and poses both a reputational and financial risk.

Summary findings

Significant weaknesses in the procurement and management of a contractor exposed the council to risk and highlighted weaknesses in the procurement function.

Criteria impacted by the significant weakness

Improving economy, efficiency and effectiveness

Auditor judgement

This report looks at arrangements in place in 2022/23 and the significant weaknesses were present in 2022/23, we have therefore repeated the key recommendations we made in our 2021/22 Report. It should be noted that the significant weaknesses reported in 2021/22 were only reported to the Council in August 2023 due to the time it took to fully explore those areas. The Council has made significant progress in addressing these significant weaknesses and implementing the recommendations in 2023/24.

Management comments

The Council has put in place arrangements to strengthen the procurement function. This has included using external support from Blackburn with Darwen Council, employing a qualified senior procurement officer and, more recently, agreeing further strengthening of the procurement function following a review. That strengthened team will be implemented during 2024. The procurement strategy will also be refreshed during 2024, taking into consideration changes in legislation.

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

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

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

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

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



Financial sustainability

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



Governance

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



Improving economy, efficiency and effectiveness

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

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

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



Our commentary on the Council's arrangements in each of these three areas, is set out on pages 14 to 28.

The current LG landscape



National context

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

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

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

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

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

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

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

The current LG landscape (continued)



Local context

South Ribble Borough Council (the Council) was formed on 1 April 1974 as part of a wider reorganisation of local government in England undertaken at that time. It is a district council in south Lancashire with its largest town being Leyland. It is bordered by the Lancashire districts of Fylde, Preston and Ribble Valley to the north, West Lancashire to the west and Chorley to the south. Blackburn with Darwen Borough lies to the east of South Ribble. The Borough covers 11,461 hectares with almost a third of the population living in rural areas.

South Ribble's population was estimated at just under 111,000 in the Office for National Statistics 2021 Census. The population grew by 1.8% over the previous decade, which was lower than the rate for England (6.6%) and neighbouring areas. At 1.8% South Ribble's population growth over the decade was one of the lowest in the North-West region. 23.6% of South Ribble's population change was in people aged over 65 and there were also significant rises in the 50-59 and the 30-34 age groups. There was a 1.5% decrease in the number of children aged under 15.

The percentage of those economically active in the borough is higher than the UK average and the area's good communication links and proximity to Greater Manchester means that the borough has significant employment in the construction and manufacturing sectors. At 2.4%, unemployment is lower than the regional and national levels.

The Council has 50 elected members representing 23 wards. Elections are held every four years. The Labour Party is currently in control of the Council and the current political balance is: Labour 29, Conservative 16 and Liberal Democrat 5.

The Council's 2023/24 – 2024/25 Corporate Strategy sets out the Council's vision of "A listening, engaging, and responsive Council that makes the best use of its resources to enable every person and community to thrive in a vibrant, green and fair borough." The Strategy sets out four key priorities:

- *An Exemplary Council*
- *Green and Clean Neighbourhoods*
- *Healthy and Happy Communities*
- *Opportunities for Everyone.*

The Council has established a partnership with Chorley Borough Council through which it has a shared management team and a number of shared service arrangements.

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

The Council has a structured and effective approach to developing and reviewing its financial plans.

When the Council set its 2022/23 budget in February 2022, it identified the financial challenges it faced over the next three years in the South Ribble Medium-Term Financial Strategy (MTFS) 2022/23 to 2024/25. The MTFS highlighted the uncertainty around the national policy context, including the unresolved Fair Funding Review. Similarly, the Government's review of the Business Rates Scheme identified the need for more frequent revaluations (every three years) and a requirement to review the level of business rate retention, as a result of which the Council concluded that the quantum of business rates available to it in future was uncertain.

The MTFS also identified that the *Levelling-Up The United Kingdom* White Paper included a potential shift in the way local government may operate in the future but concluded that this would not have an imminent impact on the finances of the Council because of the timescales for consultation and legislation.

Assumptions

The MTFS 2022/23 to 2024/25 set out assumptions about reductions in central government funding, including a reduction in New Homes Bonus to £0.802 million in 2022/23 with this income stream expected to cease in 2023/24. Key planning assumptions also included no increase in the council taxbase. The Council assumed no increase in growth of retained business rates because of revaluations, appeals and possible changes to the baseline. However, it anticipated that it would continue to benefit from additional income from the Lancashire Business Rates Pool which was expected to be £1.396 million in 2022/23, and in each of the following two years.

Assumptions around income and expenditure growth over the forecast period to 2024/25 were based on a prudent but realistic view. Pay awards of 1.75% in 2021/22 and 2% in 2022/23 and pensions contributions of 17.1% were incorporated over the period.

General assumptions included a Council tax freeze in 2022/23 and 2023/24 followed by a Council tax increase of 1.99% in 2024/25 but it was recognised that the continuing uncertainty meant that these assumptions would be re-visited in the annual budget setting process.

Overall, the Council's funding from all sources was forecast to be £14.9 million by 2024/25. The MTFS recognised that the increase in the Business Rates base would provide an additional £300,000 income to the Council in 2022/23 and as a consequence a council tax freeze was agreed in the 2022/23 budget. Nevertheless, the Council's assessment of the impact of its cost pressures and meeting its priorities resulted in a budget deficit of £55,000 in 2022/23, £739,000 in 2023/24 and £1.014 million in 2024/25. The MTFS identified additional income from the administration charge for Disabled Facilities Grant of £55,000 which produced a balanced budget in 2022/23. Additional income from capital investments was projected to yield an additional annual income of £65,000 from 2023/24 and the projected council tax increase in 2024/25 would yield an additional annual income of £162,000. These changes resulted in a balanced budget for 2022/23 and budget gaps of £619,000 and £732,000 for the following years.

Further savings of £732,000 to close the budget gaps in 2022/23 and 2023/24 were to be achieved through the Council's Transformation Strategy which included plans to invest in employment and housing initiatives, further sharing of services, energy efficiency savings to address the budget gap.

The MTFS 2022/23 to 2024/25 included a narrative linking the Council's corporate plan priorities to future investment plans and notwithstanding the Council's current good financial position, it recognised the continuing need for productivity savings and the savings and resilience which could be achieved through developing the shared service arrangements. We are satisfied that the assumptions underpinning the Council's financial planning and strategy for the 2022/23 revenue budget and the medium-term were appropriate.

Financial sustainability (cont'd)

Short and medium term financial planning (cont'd)

Capital Strategy and Treasury Management

When the Council approved the Capital Strategy on 23 February 2022, capital expenditure of £29.192 million was approved for 2022/23. This was subsequently amended to £24.255 million in February 2023 to reflect slippage and re-profiling. The 2021/2022 capital outturn was reported as £13.555 million to Cabinet on 21 June 2023.

Some variation within the capital programme is inevitable and often attributable to unforeseen delays or changes to plans. However, the difference between a planned programme of £29.192 million and an outturn of £13.555 million in 2022/23 may be symptomatic of problems which might include poor planning or delivery. In the light of this variance we have made a recommendation (improvement recommendation 1) that the Council should review the inclusion of projects within the first two years of its capital programme to ensure that schemes can be planned and delivered within an appropriate timescale.

Capital schemes were linked to corporate priorities and the Council had a clear description of governance processes which apply to capital schemes. Proposed new schemes were required to follow standard project management methodology with business cases which were scrutinized by the finance team. External expertise was brought in where required. New capital schemes were considered by the Senior Management Team before going through Cabinet and Council approval processes.

The Capital Strategy 2022/23 used a modified affordability indicator when comparing its capital financing costs to the net revenue stream. Net income generated through income generating assets was included. The closing capital financing requirement in the capital strategy for 2022/23 was £16.058 million and the opening capital finance requirement in the capital strategy for 2023/24 approved in March 2023 was £9.805 million with plans to increase prudential borrowing by £18.057 million in 2023/24.

The Capital Strategy 2023/24 projected an increase in capital expenditure to £40.030 million (from a budgeted £24.255 million in 2022/23). The increase reflected changes to the programme including a £25 million Town Fund grant to deliver new housing and employment opportunities. The programme included a £3 million refurbishment of Worden Hall. Investment to generate efficiency savings included £970,000 in ICT infrastructure.

The Council's Treasury Management Strategy 2022/23 to 2024/25 set out prudential indicators for capital expenditure and financing, the forecast level of external borrowing and investments. It also amended the policy for Minimum Revenue Provision (MRP) following an internal review. This change in MRP policy involved adopting an annuity basis for all post 2008 debt and to charge MRP in equal annual instalments over the asset life for pre-2008 debt. The revised approach is prudent and consistent with the options provided in government guidance.

On 1 March 2023 the Council approved the revised Treasury Management Strategy which was set out in an Appendix to the MTFS 2023/24 to 2025/26. The MRP policy approved as part of the Treasury Management Strategy was consistent with the changed policy approved in 2022. The Council's maintained its position of zero external debt and used its capacity for internal borrowing where necessary. The Council's Operational Boundary was set at £9.74 million and was projected to rise to over £27 million in 2023/24. The Council's Strategy was to maintain an under-borrowed position using reserves, balances and cashflow to cover borrowing need.

The Treasury Management Strategy also sets out the Council's Investment Policy including its approach to assessing creditworthiness, investment counterparties, country limits and expectations in terms of investment returns.

Monitoring progress

The MTFS was reviewed as part of the annual budget setting process. On 1 March 2023, a revised MTFS 2023/24 to 2025/26 set out new assumptions on key income and expenditure issues, including recognising the impact of higher inflation rates of 5% on anticipated pay awards in 2023/24 and 2024/25, full year CPI estimates of 7.4% in 2023 and 100% increases in utility costs in 2023/24. The budget gap of £967,000 in 2024/25 was to be closed by increasing investment income, realising procurement savings (including joint procurement with Chorley Borough Council) and further efficiency savings through investment in infrastructure, ICT and exploring alternative delivery models for its services.

The assumptions and variables within the Council's financial model were updated during the year to enhance the financial planning and assess the impact of known changes and potential changes. Regular monitoring reports were made at departmental and Cabinet level to ensure there was a strong control environment.

Financial sustainability (cont'd)

Monitoring progress (cont'd)

A report under Section 25 of the Local Government Act 2003 was included as Appendix B1 to the Revenue Budget and MTFs Reports in 2023/24. The report forecast a balanced budget for 2023/24, a General Fund Reserve Balance of £4 million and earmarked reserves of £13.194 million at the start of 2023/24. The Section 151 Officer confirmed their belief that the level of reserves was robust.

The 2022/23 draft outturn was published to Cabinet in June 2023 and reported a provisional underspend of £290,000 for 2022/23. The provisional outturn for total net expenditure was therefore £15.383 million compared to the original £15.546 million budget. The outturn report included details of key variances by directorate.

Planning and delivering savings

The MTFs 2022/23 to 2023/24 set out a budget gap of £55,000 in 2022/23 increasing significantly to £1.014 million in 2024/25. The Council's funding had remained relatively stable rising from £13.909 million in 2016/17 to a projected £14.568 million by 2024/25. The relatively small budget deficit in 2022/23 was addressed by a change in the administrative charge for Disabled Facilities Grant. Nevertheless, the Council was mindful of the continuing need to make savings and improve efficiency through cost controls, efficiency savings and increased income generation which it delivered through its Transformation Strategy.

The key challenge for the Council was therefore to maintain a focus on efficiency in anticipation of a more challenging financial position in future years whilst the budget requirement and funding gap for 2022/23 was manageable (see Fig 1). The Transformation Strategy includes income generation activities which recognise that the relatively strong position of the Council in terms of council tax and business rate income may not be sufficient in the long term. The Council has therefore identified three investment sites – McKenzie Arms, West Paddock Extra Care Scheme, and Worden Hall which have potential to bring both community and additional income benefits. A second strand of the Transformation Strategy focussed on savings which included a potential of £470 million of service savings over the three years of the MTFs.

Fig. 1 Planned and actual performance 2021/22 and 2022/23

£ 000	2022/23	2021/22
Planned revenue expenditure	£15,639	£ 14,230
Actual revenue expenditure	£15,383	£ 13,872
Planned capital spend	£29,194	£15,814
Actual capital spend	£13,555	£ 7,764
Planned savings target (budget gap)	£55,000	£0
Actual savings delivered (outturn)	£290,000	£ 570,000
Year-end cash position	£8,098	£ 18,155

Financial sustainability (continued)

Planning and delivering savings (cont'd)

A third strand of activity was around alternative delivery models which included expansion of the shared service partnership with Chorley Borough Council and the reduction of leisure costs through South Ribble Leisure Ltd which is a wholly-owned company of the Council. The Transformation Strategy also includes the Council's programme aimed at de-carbonising assets which includes a £5 million Government grant to help reduce the use of fossil fuels to power the Council's leisure centres. The Council projected that the de-carbonisation process would result in financial savings of £600,000 over eight years.

Progress in meeting transformation goals was reported to Cabinet and Scrutiny, Budget and Performance Panel. For example, in November 2022 a report covered performance up to the end of Quarter 2 in 2022/23 and included updates on shared services, the workplace strategy and data governance.

In addition to reporting to members, a Transformation Focus Group met regularly with Directors and Service Leads to scrutinise savings and income generation proposals. This included the feasibility of the proposals, timelines and any additional budget pressures that might result. The Transformation Focus Group's purpose is to monitor the progress in project delivery and ensure that the overall objectives of the Transformation Strategy are met and that anticipated savings are achieved. In our view, this has proved to be a productive approach in achieving savings and a balanced budget.

Financial planning and strategic priorities

The MTFs was part of a framework which aligned the use of resources and activities to deliver the Council's priorities. Those priorities were set out in the second element of the framework, the Corporate Strategy 2021/22 to 2023/24, This was monitored through the corporate performance framework. The Corporate Strategy set out four priorities:

- Thriving Communities;
- Good Homes, Green Spaces, Healthy Places;
- A fair local economy that works for everyone; and
- An exemplary council (which aims to improve performance, work effectively with partners and be open and transparent).

Investment plans for each of these priorities were included within the MTFs and in addition to the Council's major capital schemes, they included new investment in business support (£200,000), investments to tackle fly-tipping and environmental issues (£200,000) and a community support fund (£250,000).

The Transformation Strategy was the third element of the framework and this coordinated the Council's change programmes including digitalisation and the workforce plan. There is a clear read-across between the priorities set out in the corporate strategy, the MTFs and the Transformation Strategy. Key performance indicators were identified in the corporate strategy and were reported through the Council's performance monitoring.

The Council has identified significant resources to support its ambition to de-carbonise its assets including government grant of £5 million. The capital programme for 2022/23 included a planned investment of £5.269 million in de-carbonisation. The Council therefore made a substantial commitment to moving towards net zero. However, the capital outturn report for 2022/23 indicated a slippage and re-profiling of £2.869 million of planned spend on Leisure Centre refurbishment and de-carbonisation.

Slippage and re-profiling of the capital programme totalled £11.131 million at the end of 2022/23 and, as previously noted, we have made an improvement recommendation earlier in this report (improvement recommendation 1) about the planning and delivery of capital schemes which will be important if the Council is going to meet its de-carbonisation aims.

The Council's approach to developing its financial plans included a good level of internal engagement to establish the financial context and share budget assumptions. This work was led by the senior management team and engaged a wide range of managers and budget holders to ensure that budget issues were captured and opportunities to save were aired. In preparing the 2023/24 budget, the senior leadership team held a workshop session to understand budget performance and address the future budget gap. As part of the process updated assumptions were shared informally with members to support discussions on addressing gaps in the budget.

Financial sustainability (cont'd)

Managing risks to financial resilience

Reserves

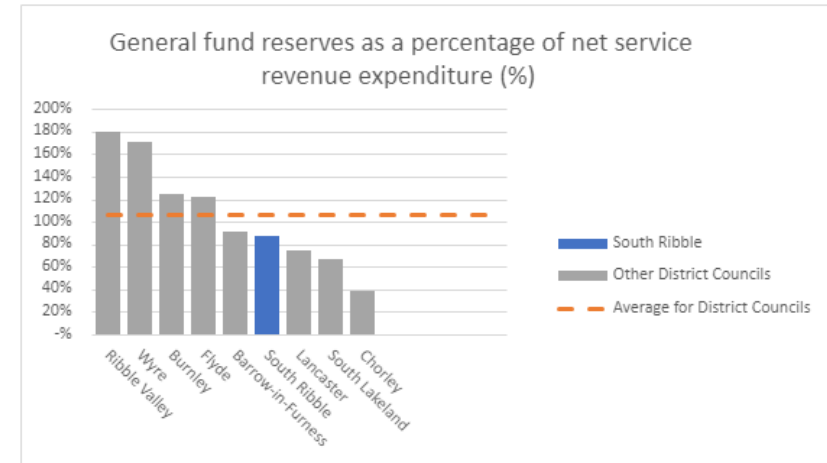
When revising the MTFS in February 2023, the Council identified risks to the MTFS, categorising them as High, Medium and Low. High risks consisted of risks to the Council's income through possible changes to the Business Rates and Business Rates retention scheme, and the delay to the Fair Funding Review. Pay inflation and delivery of savings were among the medium risks faced by the Council. The risk of loss of income streams, including investment income was also recognised.

The Council continued to set its General Fund reserve balance at £4 million to mitigate the risks of generating income from investment and temporary delays in savings schemes. The assessment of risks was clearly set out in an appendix to the MTFS which also included an analysis of reserves indicating an anticipated total of £17.343 million of General and Earmarked reserves at the end of 2022/23. Within its reserves, the Council made provision of £2.164 million for one-off reductions in business rates and a provision of £0.75 million to offset the reduction of income at the end of the City Deal agreement.

The MTFS 2023/24 to 2025/26 stated that the Council did not rely on the use of the general reserve but that it was available to help manage the potential risks in the budget. These potential risks included volatility in the funding system relating to business rates retention, the profile of savings and income generation proposals. General Fund Reserves as a percentage of net service revenue expenditure were slightly below the average for District Councils. (See Fig. 2)



Fig.2 General fund reserves as a % of net revenue expenditure 2022/23



Reporting

Balance sheet and capital programme monitoring was reported in June and November to Cabinet and the Scrutiny Budget and Performance Panel. Changes in interest rates impacted on investment income and debt interest payable and the outturn on 31 March 2023 showed that interest income exceeded interest payable and MRP resulting in a positive net borrowing and interest position of £476,000, which was the result of additional interest and investment income of £740,000 over the budgeted total for these items.

Investments made by the Council in 2022/23 totalled £27.5 million. There was no short or long-term borrowing. Cash balances held by the Council were £8.09 million.

Reporting also included the total outstanding debt at the end of the year which indicated a small improvement in the Council Tax collection rate and in business rates collected. The balance outstanding on Commercial Sundry Debts and Housing Benefits overpayments at the end of the year was lower than the previous year.

Financial governance

Annual budget setting

The Council took a consistent approach to budget setting in 2022/23 and 2023/24 by building on the previous year's budget and factoring-in changes including: new grants, Council Tax base data and Business Rates. The budget process also took into account savings delivery, service pressures and changes to service fees and charges.

There was council-wide involvement of officers and members during the preparation of the budget which considered capital and revenue plans, risks, cost pressures and savings. The 2023/24 budget setting preparations included consideration of factors such as the cost-of-living crisis, rising utility costs, increasing interest rates and recovery from the Covid 19 pandemic. The Council carried out budget consultation exercises to gather feedback prior to setting the budget. The consultation prior to setting the 2022/23 budget took place between 1 February and 10 February 2022 and resulted in 220 responses to an online survey, with 109 open responses and 39 comments through social media. The 2023/24 budget was carried out between the 13 February and 21 February 2023 and received 104 responses through the Council's website and social media. Responses indicated the level of support for Council priorities, the level of support for a council tax increase (in 2022/23) and provided the scope for open-ended comments.

The Cabinet considered and approved the 2023/24 budget on 22 February 2023 prior to the Council approving the budget on 1 March 2023. The MTFs set out forecasts over the three-year period as well as the context for the annual budget. The framework for budget setting was set out within the Council's Constitution and in its Budget Strategy. The potential impact of changes of various estimates and assumptions was discussed as part of the briefing process in the development of the budget.

Budgetary Control

The Finance Department engaged regularly with budget holders and budget performance was monitored at senior management team meetings, at departmental level and in briefings with Executive Members. Budget accountability for Heads of Service (who were the majority of budget holders) was built into quarterly reporting at Directorate Management team and then onto Senior Management Team. There was challenge within these processes.

Quarterly budget monitoring reports were taken to Cabinet and included outturn against budget, variance analysis, and explanations for underspends and overspends against budget at a directorate level. Any proposed revisions to the budget were also communicated through this report. There was clear reporting on the forecast outturn and the impact on useable reserves. An update was also provided against the Capital Programme, with revisions also communicated. The 2022/23 draft outturn was published to Cabinet in June 2023 and reported a provisional underspend of £290,000 for 2022/23.

The MTFs report on 1 March 2023 for the period 2023/24 to 2025/26 included a Treasury Management Statement setting out policies for borrowing and debt management, investment strategy and Minimum Revenue Provision. Financial monitoring reports and minutes demonstrated that in-year forecast variances were being picked up promptly, and budget holders were being held to account for delivering to budget. On 10 November 2022 a report to Cabinet set out the revenue and reserves forecasts at six months (September 2022) indicating a provisional underspend of £213,000 and setting out the main variances from the original budget. The main additional cost pressures arose from the anticipated pay award and rising utility costs.

Financial Sustainability and Financial Governance conclusions

We are satisfied that the Council had adequate financial planning arrangements which were scrutinised at Cabinet, Council and Governance Committee and that risks to the Council's financial sustainability were identified and monitored, reflecting the Council's awareness of the challenges it faced.

The Council had an adequate level of reserves and did not plan to use reserves in order to balance its budget. Its reserves position was strong enough to be able to deal with any unforeseen problems arising during the year if it became necessary.

Whilst the Council's funding gap in the short-term is relatively manageable, the Council's approach recognized future budget shortfalls and in-year pressures required a combination of savings and additional income to ensure continuing financial sustainability. The Council's overall financial position in terms of its reserves, investments, low use of borrowing and continuing focus on efficiency ensured that it remained financially sustainable in 2022/23.

We did not identify any significant weaknesses in arrangements to ensure financial sustainability and maintain effective financial governance at the Council. We have made one recommendation about how the Council plans its capital spending (improvement recommendation 1).

Improvement recommendation 1



Improvement Recommendation 1

The Council should review the approach it takes to inclusion of projects within the first two years of its capital programme to ensure that schemes can be planned and delivered within an appropriate timescale.

Improvement opportunity identified

The significant gap between the planned capital programme and outturn indicates the potential for improved planning and scheduling of capital spending and improved outcomes in terms of the Council's priorities and outcomes.

Summary findings

The Council planned to spend £29.192 million on capital schemes in 2022/23 but reported an outturn spend of £13.555 million which is indicative of problems which might include poor planning or delivery with consequences for the management of resources and the delivery of the Council's priorities.

Criteria impacted

Financial sustainability

Auditor judgement

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

Management comments

Since the appointment of the Head of Property and Development in April 2023, processes have been reviewed and regular meetings are held between the Estates and Finance teams to review the profile of expenditure on each capital scheme, utilising both the knowledge of the Officers involved and Quantity Surveyor reports. Any required movements in spend profile are reflected in the Quarterly Capital and Balance Sheet Monitoring reports presented to the Cabinet. In addition, a consultant partner has been procured to provide Development Management services and who will provide support in informing the capital programme and timescales for delivery, based on available resource and funding timescales. It must be noted however that whilst action has been taken to improve the accuracy of forecast spend through the capital programme once the scheme is underway, there is sometimes slippage between the time the initial scheme and profiled programme budget is approved, through to the actual start on site; there can be several reasons for this, for example further design and detailed specification work required, possible consultation, and then the procurement process itself.

Governance



We considered how the Council:

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

Risk management and internal controls

Risk Management

The Council's Risk Management System included a Strategic Risk Register which identified the key risks facing the organisation. Service level and project risks were also included in a live risk-management system (GRACE) which was updated to reflect new or emerging risks. The Strategic Risk Register was owned by the Senior Management Team and risks were scored on a risk matrix based on an assessment of the impact of each risk and its likelihood. Risks were RAG-rated and allocated to categories such as risks relating to financial controls, regulatory issues, reputational risk, and achievement of corporate objectives. Risks were assessed to indicate the direction of travel. Risk owners were identified for each strategic risk and control measures were identified and described, together with action plans and named owners for the action plans. The Council had a Risk Management Policy, Process Guide and Toolkit which underpinned its approach to risk management across all Directorates and this approach was supported by training on risk management.

Strategic risks were reported to the Governance Committee. The report the Committee considered on 26 July 2022 identified 16 strategic risks at that time. The risks were described and shown with the control and mitigation measures which were in place or planned. The highest scoring risk related to lack of staff capacity and skills based on recruitment issues faced by the Council. The risk was being mitigated through the Organisational Development Strategy, mapping of key skill gaps, recruitment drives and a review of employee benefits.

The reporting highlighted changes to the risk scores, some of which reflected changing risks as the Council emerged from the impact of the pandemic. The reporting also included a specific narrative on action being taken in relation to each risk. For example, in relation to the risk of failing to sustain the performance of corporate strategy projects and organisational performance, the mitigating factors included the further development of the performance management system and investment in technology.

Of the 16 strategic risks reported to Governance Committee in July 2022, two risks had increased scores since the previous report indicating a heightened level of risk. Three risks had decreased in significance reflecting the reducing impact of the COVID-19 pandemic and the in-sourcing of leisure and waste services.

Internal Audit

The Council's Internal Audit Service (shared with Chorley Borough Council) carried out and reported on an internal assessment against the requirements of the Public Sector Internal Audit Standards (PSAIS) on an annual basis. A report was made to the Governance Committee on 24 May 2022 setting out the results of the assessments for 2022. External assessment has been carried out every five years and the last external assessment was in April 2018 and a further assessment is due in 2023/24. The service self-assessed that it was compliant with 128 aspects of PSAIS and partly compliant with the remaining one aspect.

Governance (cont'd)



Internal Audit (cont'd)

The Internal Audit Annual Plan and Opinion for 2022/23 was reported to and considered by the Governance Committee on 23 May 2023. The overall annual internal audit opinion was that the adequacy and effectiveness of the Council's governance, risk management and control processes was adequate for 2022/23. Sixteen audit reviews were planned and thirteen were completed in the year. However, the exception to this opinion was the three limited assurance rated reviews and the unplanned review which represented a significant control weaknesses. Management actions arising from Internal Audit reviews are monitored and it was reported that 64% of the Council's management actions due by 31 March 2023 had been completed and that 80% of management actions for shared services had been completed. The target was that 90% of management actions should have been completed and the failure to achieve the target was largely attributable to the issues identified in the Commercial Services review.

Of the thirteen completed Internal Audit reviews, there were three rated as substantial assurance. They were Safeguarding, Code of Conduct and VAT. Six reviews were rated as adequate: Workshop Record Management, Community Hubs / Boost Fund, Absence Management, Key strategic partnerships and contracts, Payroll and External Funding. Four reviews were rated as limited: Utilities Management, Waste Services, Water Management and GDPR – data retention. An unplanned Internal Audit review of Commercial Services identified clear breaches of the governance framework which resulted in a significant reputational risk and failure to protect confidential data. Fig.3 (below) summarises Internal Audit assurance levels in 2021/22 and 2022/23.

Fig.3 Internal Audit Review assurance performance

Assurance Level	2021/22	%	2022/23	%
Full	0	0	0	0%
Substantial	4	25%	3	21%
Adequate	8	50%	6	43%
Limited	4	25%	5	36%
Totals	16		14	

In our Auditor's Annual Report 2021/22 we made a recommendation relating to effective controls in on-boarding and managing contractors, including specific controls where contractors have access to the Council's IT systems. The absence of proper controls and processes exposed the Council to risk and was a significant weakness which was present during 2022/23. We have therefore repeated this recommendation (**key recommendation 1**).

We made a second key recommendation in our Auditor's Annual Report 2021/22 about the organizational architecture which is required to ensure that appropriate safeguards, checks and balances operate effectively to provide the assurance that officers acting improperly will be detected by Council systems and the need to carry out an exercise to identify whether there were similar cases elsewhere in the Council. This significant weakness was also present in 2022/23 and so we have also repeated this recommendation (**key recommendation 2**).

We recognise that in 2023/24 the council has responded to these key recommendations made in our Auditor's Annual Report 2021/22 by putting in place changes to the process to create access to the Council network which explicitly identifies the type of access being granted (for example, contractor, permanent employee, fixed term employee). We also note that changes have been made to require the agreement of a Director, documenting necessity and extent of access required. A regular check of network access for contractors has also been introduced and a new file saving system, making use of Microsoft Teams, will enable controlled external access to individual files. The rollout of the new file storage system will allow for meta-data such as tagging where files are confidential and their retention periods.

We further note that evidence has been provided to us by the Council that systems are in place to identify instances where confidential information is being copied to an external email address which enables the Council to take the appropriate action. The Council has developed its arrangements through a Corporate Governance Group which monitors the Council's internal governance, with agenda items including Annual Governance Statement actions, ICT Programme updates and rotational updates from Heads of Service. Also, a review total spend with individual Creditors > £50k across the last 3 years has been completed.

We have therefore concluded that the changes made by the Council following the Internal Audit Report and our Auditor's Annual Report 2021/22 represent a robust response and that the completion and embedding of these actions during 2023/24 should provide the Council with assurance that these significant weaknesses will have been addressed but because these changes were not all in place in 2022/23 we report the same significant weaknesses.

Governance (cont'd)



Governance assurance

The Governance Committee met six times in 2022/23 and considered reports on the internal and external audit plans and progress, the Local Code of Corporate Governance, the Statement of Accounts, Treasury mid-year Review, the Constitution, Audit and Risk, the Internal Audit Annual Report, the Annual Governance Statement and the external Auditor's Annual Report.

Governance Committee meetings were well-attended and provided opportunities for members to question and challenge.

The Council had procedures and policies in place to address the threat of security or cyber-attack, which included an external review. Data breaches in 2022/23 were monitored. The Council carried out cyber penetration testing to test the robustness of Information Systems and ascertain and act on weaknesses.

The draft Annual Governance Statement was approved by the Governance Committee on 23 May 2023. It was prepared in accordance with CIPFA/SOLACE guidance. The statement is under-pinned by work carried out by the Corporate Governance Group and it highlighted the roll-out of new Human Resource (HR) policies which had brought consistency across staff working in shared services and developed a new suite of policies which can be accessed through an online HR Hub. The Statement also noted improvements made to business planning, contracts and partnerships, project management, performance management, risk management and report writing.

The Annual Governance Statement reported completion of eleven out of seventeen actions on governance issues identified in the previous Annual Governance Statement. Nine areas for improvement were identified for 2022/23 (See Fig. 4)

Fig. 4 Governance improvements and Audit opinions 2021/22 and 2022/23

	2022/23	2021/22
Annual Governance Statement (no. of areas for improvement)	Nine	Seventeen
Head of Internal Audit opinion	Adequate	Adequate

Standards and behaviours

The Council's constitution is based on a Cabinet and Scrutiny system which includes a Governance Committee, Standards Committee, a Shared Services Joint Committee as well as a Scrutiny Committee. A corporate governance group of senior officers including the Council's statutory officers oversaw the application of governance arrangements and required service assurance statements which assessed compliance with the governance framework. Senior leaders communicated with staff about the importance of compliance with governance requirements.

A Code of Conduct for Members is in Part 5 of the Council's constitution and set out the conduct required of Members, their obligations in respect of declarations of interest and registering of gifts and hospitality, and arrangements for dealing with complaints. An Employee Code of Conduct set out rules and protocols for officer behaviour. The Standards Committee was responsible for determining any standards allegations and for convening Hearing and Appeals panels to hear and determine complaints where appropriate. The constitution also included a protocol for Member / Officer relations

Gifts and Hospitality were recorded in the Register of Interests and regular reminders were issued to Members to ensure they were updated. Details relating to each Member were available on the Council's website and these records provided evidence that gifts and hospitality were being declared. Work is carried out by Internal Audit to test the recording of declarations of interest as part of the Annual Governance Statement work.

A whistleblowing policy was available on the Council website. It set out how issues could be raised, arrangements for confidentiality, ways of raising concerns externally and sources of information and advice.

There was evidence of a good tone being set by those at the top of the organisation with an open and accepting approach to the challenges faced by the Council, a collaborative approach at senior levels and clear communications within the organisation about compliance with governance processes. The transition to a new shared Chief Executive Officer (internal appointment) appeared to have progressed well and there has been a strong emphasis on improving staff understanding of governance obligations, particularly in the light of staff turnover in some key areas of management responsibility.

Governance (cont'd)



Governance Conclusions

The Council had significant weaknesses in 2022/23 in respect of its management of contractors and safeguards which would prevent controls being circumvented. We identified these weaknesses in our Auditor's Annual Report 2021/22 and they continued to be present during 2022/23. We have therefore reported the two key recommendations we made about Governance. The Council has made substantial progress in addressing these significant weaknesses in 2023/24 which we have made reference to in this report and which represent a positive direction of travel.

We are satisfied that, other than the two significant weaknesses which we have raised again for the audit year of 2022/23, the arrangements for Internal Audit, Governance assurance and standards were adequate.



Improving economy, efficiency and effectiveness



We considered how the Council:

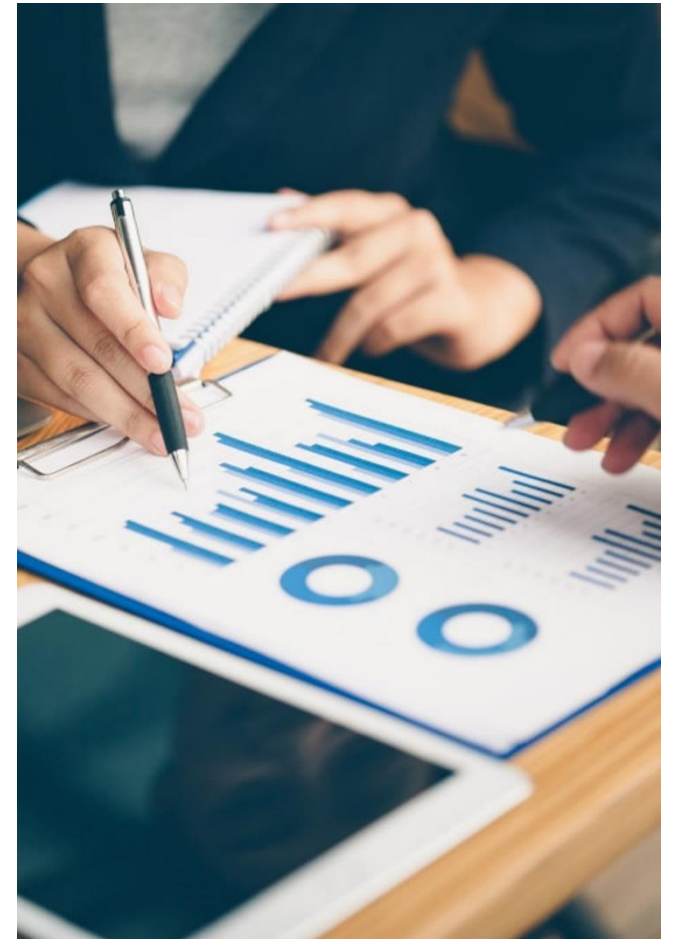
- uses financial and performance information to assess performance to identify areas for improvement
- evaluates the services it provides to assess performance and identify areas for improvement
- ensures it delivers its role within significant partnerships and engages with stakeholders it has identified, 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

Quarterly performance reports were provided to Cabinet and to the Scrutiny Budget and Performance Panel. The reports summarised overall performance and provided a narrative of performance for each of the four priorities within the Council's corporate plan. The reports used Red-Amber-Green (RAG) rating to report progress on the delivery of key projects within the Plan. Reports included key performance indicators relating to the corporate priorities.

For example, Quarter Two performance reporting in 2022/23 showed no red rated projects across all of the Council's four corporate priorities. The decarbonisation project for leisure centres was rated amber due to the risk of delays and cost uncertainty. Similarly, the McKenzie Arms affordable homes scheme was also rated amber because of delays attributable to supply chain issues and contractor delays. Key performance indicators were used to monitor organisational performance in corporate priority areas. For example, the number of Households in Temporary Accommodation was reported as 52 in Quarter Two, up from the previous Quarter and higher than the same Quarter in the previous year. The Council's performance reporting was therefore linked to its corporate priorities and reported performance trends with the use of colours and symbols to interpret performance data.

Regular reports to the Scrutiny Budget and Performance Panel financial reporting including directorate level reporting. Budget variances were reported with a narrative explaining them and setting out actions being taken. For example, the additional forecast spending on Temporary Accommodation of £616,000 which was reported to Cabinet on 15 November 2023 included actions aimed at re-focussing the service on homelessness prevention, re-opening accommodation units, using two private sector leasing schemes, and reviewing capacity.



Improving economy, efficiency and effectiveness (cont'd)

Use of financial and performance information (cont'd)

Our view of the Grant Thornton / CIPFA CFO Insights financial benchmarking data identified two areas of relatively high unit costs. Cultural, Planning and Other services is one area which reflects the post pandemic spending on supporting the recovery of leisure services as well as the rise in utility costs. The second area of high spending relates to Open Spaces, Community Development and Economic Development.

Whilst these are mainly discretionary services, they relate closely to two of the Council's corporate priorities – A Fair Economy that Works for Everyone and Good Homes, Green Spaces, Healthy Places. The former priority includes work to develop the Leyland Town Deal (£38 million investment) and a Cost of Living Action Plan. The latter includes decarbonisation plans, affordable homes and tree-planting schemes. The Council is also investing in climate change activity through carbon calculations on vehicles and assets as well as a tree planting strategy. Whilst we acknowledge that areas of higher spending in comparison with other councils reflect the Council's corporate priorities, higher unit costs may indicate potential for improving efficiency. The Council could make more effective use of performance bench-marking to explore this potential and we have therefore made an improvement recommendation about this. (Improvement recommendation 2)

The Council had a deepening relationship with Chorley Borough Council (CBC) which was based on shared services but also included mutual support and learning where one council has experience or expertise which the other doesn't. For example, Enforcement and anti-social behaviour challenges at CBC were supported by the Council. The Council also had collaborative arrangements with neighbouring authorities through the Central Lancashire Local Plan.

On 21 Feb 2023 a report to the Joint Shared Services Board indicated an overall saving of £1.6 million to the two councils, of which £700,000 was the saving to the Council, from the implementation of phases 1 and 2 of the shared service strategy. 47% of the workforce for the two councils were now involved in providing services for both councils. New employment terms and conditions had been adopted by both councils together with a shared Human Resources Framework. Phase 1 of the shared services work brought Governance, Transformation and Partnerships, Communications and Visitor Economy together. Phase 2 added ICT and Customer Services. The councils now had a shared Chief Executive and Directors.

The Council built on this work by looking at Property and Asset functions and this is likely to be followed by Business Support and Economic Growth. Further opportunities in Public Protection, Environmental Health and Planning would be considered in the future. The councils used a framework to evaluate shared service potential which considered whether they would be able to continue to deliver their own priorities, whether a shared model was possible and whether the two councils had a shared need for the service. The evaluation process also looked at pragmatic issues such as capacity, recruitment issues and opportunities for alignment.

Other performance and financial benchmarking data for 2022/23 published by the Office for Local Government (OFLOG) indicates that the Council performed well on the percentage of household waste sent for recycling in comparison with other Lancashire and North-West districts. In terms of financial comparators, the Council had no long-term borrowing whereas the average for District Councils is 15% long-term borrowing as a proportion of long-term assets. This placed the Council in a good financial position compared to the sector as a whole.

At the end of 2022/23, General Fund reserves were 87% of net revenue expenditure compared to an average of 142% for district councils. The 2021/22 data from the CIPFA Resilience Index was reported to Governance Committee in May 2023 and this included data from the previous two years on the reserves sustainability measure and seven other measures. This provided the Council with the opportunity to compare its financial resilience position with a group of statistical nearest neighbour local authorities.

Overall, we consider that the Council makes effective use of a range of financial data to monitor and assess and compare its financial performance. We have made an improvement recommendation about the more effective use of performance benchmarking data to drive improvement in its economy, efficiency and effectiveness.

Improving economy, efficiency and effectiveness (cont'd)

Partnership working

The Council prioritises working with partners to make things better as part of its Corporate Plan ambitions. In the 2023/24 iteration of the Corporate Plan, the Council specifically focuses on joining up public provision for early years provision. In reviewing its Corporate Plan the Council recognised that best practice had been identified in the South Ribble Partnership which was informing the new joint partnership with Chorley Public Service Reform. The strategy aims to bring public services together to reduce duplication and make best use of resources. The Council also collaborates on a neighbourhood level through Community Hubs in five neighbourhood areas across the borough. A Town Fund Board has been established to oversee the Leyland Town Deal.

The Council also has shared strategic ambitions with other Lancashire local authorities which are set out in the Lancashire 2050 Framework.

The Cabinet received reports on the work of key partnerships and where these formed part of the Corporate Plan, key performance indicators were reported. Examples included the Mental Health Action Plan, and the Select Move Partnership (Housing allocations).

The Council's most significant partnership activities are through the Shared Service arrangements with CBC which are monitored and reported through a Joint Committee.

The Council worked with a wider range of partners including key stakeholders in preparing its annual budget and engaged in appropriate consultation for individual proposals. For example, the Cabinet approved a public consultation event for the Worden Park Improvement Plan on 14 September 2022.

The Council effective engagement with a wide range of partners and integrates its partnership work with its strategic priorities. However, the Council does not currently produce a partnership strategy which pulls together its approach to partnership working so that partnership priorities and key partners are explicitly identified and can be reviewed periodically. We have made an improvement recommendation that a partnership strategy should be produced and reviewed periodically. (improvement recommendation 3).

Commissioning and procurement

The Council's Contract Procedure Rules are set out in Part 4 of the Council's Constitution. They defined the processes and approach to procurement and specific requirements for contracts of low value (under £25,000), intermediate value (£25,000 to £100,000) and high value contracts (over £100,000). The Rules made specific provision for their application to the appointment of consultants to the Council.

In our Auditor's Annual Report 2021/22, published in July 2023, we reported on additional risk-based work relating to an Internal Audit Review into procurement in the Commercial Services Directorate. This work identified breaches of the contract procedure rules in respect of procurement of contractor services, a lack of coordination and proper documentation and under-resourcing of the procurement function. We made a key recommendation (key recommendation 3) to address a significant weakness in relation to the responsibility for and resourcing of procurement functions, renewal of the procurement strategy and proper training and qualified personnel in procurement.

The significant weakness which we identified in our 2021/22 Auditor's Annual Report, was present during 2022/23 and we have therefore repeated the recommendation (**key recommendation 3**) relating to the procurement function and strategy.

However, we recognise the progress the Council is making in 2023/24 by strengthening the shared service procurement team, using external capacity and improving procurement monitoring. A senior qualified procurement officer has been appointed and external support has been provided by Blackburn with Darwen Council. Procurement needs and future staffing requirements have been reviewed and a business partnering approach is being developed. The Contracts Transparency Register is now being maintained and the Council intends to review its Procurement Strategy in early 2024.

Improving economy, efficiency and effectiveness (cont'd)

Commissioning and procurement (cont'd)

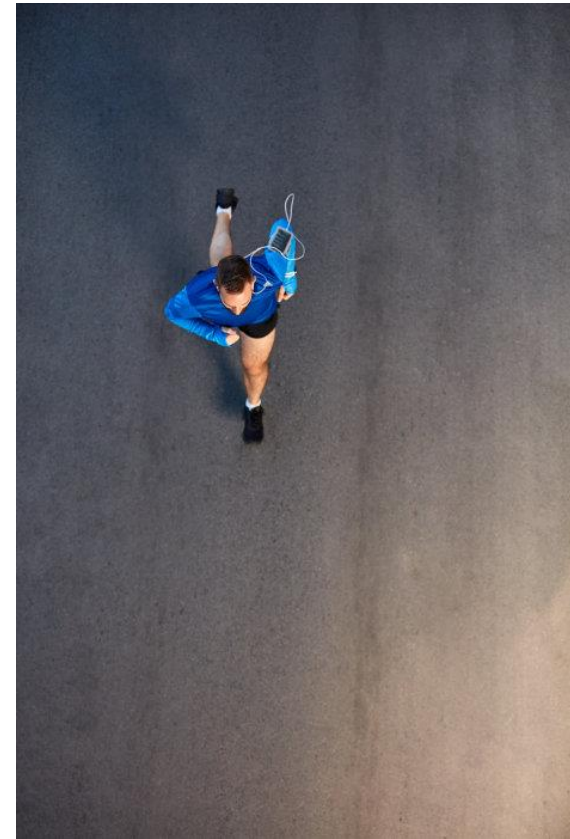
A planned Internal Audit Report in 2022/23 into Utilities Management resulted in a Limited Assurance Opinion and identified weaknesses in Utilities management which included failure to undertake a procurement exercise of water supplies since the deregulation of commercial water supplies. This is further evidence of the weakness in the responsibility for procurement and contract management and we made an improvement recommendation about this in our Auditor's Annual Report 2021/22. The Council has subsequently entered into a managed utilities contract to address this weakness.

Conclusions – Improving economy, efficiency and effectiveness

The Council has an effective approach to performance management and reporting which enables it to assess progress towards delivering its corporate priorities. The Council uses financial performance comparators to help assess its own performance in a wider context. The Council has a mature approach to partnership working which is focussed on helping to achieve its priorities. We have made an improvement recommendation that the Council should produce a partnership strategy.

We have noted the Council's substantial work undertaken by the Council in 2023/24 which is aimed at addressing the significant weaknesses in contract and procurement arrangements which we identified in our Auditor's Annual Report 2021/22. The significant weaknesses in relation the resourcing of procurement functions in the Council continued to be present during 2022/23 so we have reported the Recommendation we made in our Auditor's Annual Report 2021/22 (**key recommendation 3**). A planned Internal Audit report into Utilities Management in 2022/23 highlighted failures in the procurement of water supplies which indicated the systemic nature of these weaknesses.

We are satisfied that, other than these significant weaknesses, the arrangements for use of financial and performance information, and partnership working are appropriate.



Improvement recommendation 2



Improvement Recommendation 2

The Council should make more effective use of performance bench-marking information to explore the potential for improving efficiency.

Improvement opportunity identified There is an opportunity for the Council to use comparative information to explore service areas with higher unit costs and improve efficiency.

Summary findings The Council makes effective use of a range of financial data to monitor and assess and compare its financial performance. However, there is scope for more effective use of performance bench-marking data to drive improvement in its economy, efficiency and effectiveness.

Criteria impacted Economy, Efficiency, and Effectiveness

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


Management comments

South Ribble Borough Council are committed to making more effective use of performance benchmarking to support our performance measures by identifying performance successes and areas for improvement. The Council is registered with LG Inform, which provides comprehensive benchmarking tools, and will regularly review the data and intelligence available against priority areas of work, for example when developing proposals to effectively manage the budget during 2024/25. The Council are also monitoring the development of OFLOG and the benchmarking data that has been provided to date in their Data Explorer tool. We will use the suite of metrics to enable performance comparisons with our peers and statistical neighbours, helping us to identify areas for improvement and opportunities for sharing and learning.

We use a 1,2,3 approach to data quality through defined roles and responsibilities at all levels, which has been identified as good practice by the Local Government Association. The Performance and Partnership Team are proactive around data auditing, working alongside Officers and Senior Responsible Officers on an ongoing basis to ensure corrective action is taken at the earliest opportunity. The Council undertakes a residents survey every two years which is framed around the Local Government Association question set and guidance for resident benchmarking, this enables benchmarking of resident perception and satisfaction against national and regional comparators.

New members of the Senior Leadership team joined the Council in January 2024 and this has enabled further learning and developing opportunities through benchmarking through membership of the LGA Transformation Leads Group, the INetwork and membership of Knowledge Hub, including the Improvement and Performance Group.

Improvement recommendation 3

 Improvement Recommendation 3	The Council should produce a partnership strategy for approval and periodic review.
Improvement opportunity identified	The Council
Summary findings	The Council has effective engagement with a wide range of partners and integrates its partnership work with its strategic priorities. However, the Council does not currently produce a partnership strategy which pulls together its approach to partnership working so that partnership priorities and key partners are explicitly identified and can be reviewed periodically.
Criteria impacted	Economy, Efficiency and Effectiveness
Auditor judgement	Our work has enabled us to identify a weakness in arrangements which we do not consider to be significant, but have raised a recommendation to support management in making appropriate improvements.
Management comments	<p>Lancashire 2050 is the long-term strategic plan for Lancashire. It was initiated by Lancashire’s 15 councils and involves other key stakeholders, setting out a shared vision and priorities for the future of the county. It aims to ensure that Lancashire speaks with one voice and focuses on the things that are most important. There are county and regional partnerships in operation focused on health and economic growth, as well as district partnerships to deliver at the local and neighbourhood level. The Chorley and South Ribble Partnership was established in September 2021 and exists to ensure that partners and services are collaborating across both boroughs.</p> <p>There are also other strategic and statutory partnerships and forums in operation that support cooperative ways of working. South Ribble Council does not have a separate partnership strategy, the Chorley and South Ribble Partnership Strategy 2021 – 2024 serves both councils. The document clearly sets out our key partners, priorities for improved system working and governance arrangements. The Partnership meets at least three times a year to review and monitor the work being undertaken around the priorities and, will often establish task groups to focus on specific areas such as early years.</p> <p>A key piece of work of the Chorley and South Ribble Partnership is the development of a data platform which will enhance sharing of data and intelligence across the system. It is envisaged that wider data sharing will improve strategic and operational decision making as a collective as a well as a council and enable targeting of resources more effectively to deliver the greatest impact for residents. The Council’s Corporate Strategy is aligned with the priorities set out in Lancashire 2050 and the priorities set out in the Chorley and South Ribble Partnership Strategy.</p> <p>South Ribble Council’s Key Contracts and Partnerships Framework was introduced in 2021. Work is being undertaken to refresh the framework, creating a shared document across South Ribble and Chorley, to improve partnership governance including monitoring processes and documentation.</p>

Follow-up of previous recommendations

Recommendation	Type of recommendation	Date raised	Progress to date	Addressed?	Further action?
<p>1 The Council should review the safeguards put in place in relation to onboarding a contractor as part of the shared services arrangements. Although the contractor was not onboarded by South Ribble, the Council should be cognisant of the potential risks of any process essentially carried out by a 'third party' and the requirement for related robust controls.</p> <p>Going forward the Council needs to give due consideration to the extent of IT and documentation access required for any contractor to effectively perform their role. The Directorate responsible for the contractor, and IT, must communicate to ensure that appropriate system access is provided. Any contractor added to the Council system or who has access to Council information, must be treated on a case-by-case basis with consideration of the risks involved. This consideration must also be appropriately documented and an audit trail maintained to ensure appropriate risk management. System access must also be regularly reviewed throughout periods of employment.</p>	Key	July 2023	We have summarised progress in 2023/24 on page 22 of this report.	No	The Council has made considerable progress in 2023/24. We have re-raised this key recommendation because the significant weakness was present in 2022/23 and to ensure that the Council is focused on delivering improvements. See Key Recommendation 1
<p>2 In the case of the Commercial Services directorate officers working across both Councils were able to operate for an extended period of time outside the control framework without being picked up by the Council's safeguards, checks or balances.</p> <p>Council governance processes must ensure appropriate protection for officers as well as the organisation. The Council must consider what organizational architecture needs to be in place to ensure that the appropriate safeguards, checks and balances are in place to provide the assurance that officers acting improperly will be detected by Council systems. This will ensure appropriate protection for both officers and the organisation.</p>	Key	July 2023	We have summarised progress in 2023/24 on page 22 of this report.	No	The Council has made considerable progress in 2023/24. We have re-raised this key recommendation because the significant weakness was present in 2022/23 and to ensure that the Council is focused on delivering improvements. See Key Recommendation 2

Follow-up of previous recommendations (cont'd)

Recommendation	Type of recommendation	Date raised	Progress to date	Addressed?	Further action?
<p>3 The Council must consider the role of the procurement function in respect of the whole organisation. The Council should outline the responsibilities of procurement versus service line leads in contract management and procurement and document this delineation in its Constitution. The Council must seek to renew and enhance its procurement strategy. The Council must prioritise the appropriate resourcing of its procurement function, particularly with respect to the shared services arrangement. The lack of capacity of the current procurement function is putting the Council at significant risk of failure to achieve value for money in its procurement and contract management arrangements. The Council must seek to appropriately train the employees in the procurement function. There was evidence of a limited advisory and supervisory function of the procurement team throughout this review. The procurement function is also lacking in appropriately qualified personnel. The procurement team must be aware of their responsibilities as an advisory and monitoring function and must perform this role effectively.</p>	Key	July 2023	We have summarised progress in 2023/24 on page 27 of this report.	No	The Council has made considerable progress in 2023/24. We have re-raised this key recommendation because the significant weakness was present in 2022/23 and to ensure that the Council is focused on delivering improvements. See Key Recommendation 3
<p>4 This recommendation replaces part of the improvement recommendation made in 2020/21 AAR. Refine formal reporting to Members on sensitivity analysis and scenario planning undertaken on key assumptions and estimates as part of the development of the annual budget and MTFS.</p>	Improvement	July 2023	Information regarding the sensitivity of assumptions and estimates, and the resulting financial impact of each of these, was provided to the Portfolio Exchange meeting of Executive Cabinet Members as part of the 23/24 Budget Setting process (December 2022). This is being developed further in 2023/2024 to include a review of the MTFS assumptions, sensitivity analysis and scenario planning.	Partly	In progress

Follow-up of previous recommendations (cont'd)

Recommendation	Type of recommendation	Date raised	Progress to date	Addressed?	Further action?
5 To strengthen the link between strategic priorities and the capital programme, the capital programme could be categorised by specific Council Plan outcomes.	Improvement	July 2023	Schemes within the Capital Programme are now reported under the Corporate Priority to which they relate.	Yes	No
6 The Internal Audit report on Commercial Services was triggered by a routine check on the creditors system indicating the submission of a large volume of invoices to one company which did not have the appropriate procurement documents in place. We recommend that the Council implement an automated interface between the creditors system and the procurement system so as to forgo the need for manual input and upload of the necessary procurement documentation for a supplier. In lieu of the incorporation of an automated interface, the Council should perform a manual exercise to match all suppliers listed on the creditors system with corresponding contracts on the Contracts Register. This exercise would demonstrate if any of the Council's suppliers are operating outside of contract.	Improvement	July 2023	A spot-check has been carried out of contractors and a review of total spend with individual Creditors > £50k across the last 3 years has been undertaken to check for anomalies. The Council has re-procured its existing finance system supplier for two years while preparing for a market test of procuring a new finance system. As part of this the Council will explore the possibility of an interface between the Creditors system and the Contract Register.	Partly	No
7 Internal Audit carried out a review of utilities management which was reported in August 2022. This identified a number of weaknesses including some key operational risks. The Council needs to give acute attention to the recommendations of Internal Audit and ensure these are implemented on a timely basis. We acknowledge that a remedial action plan has been put in place to address the issues raised.	Improvement	July 2023	The Council agreed in October 2023 to enter into a managed utility contract which would enable better procurement, management, monitoring and verification of utilities. This will improve on the current arrangements.	Partly	In progress

Opinion on the financial statements



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

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

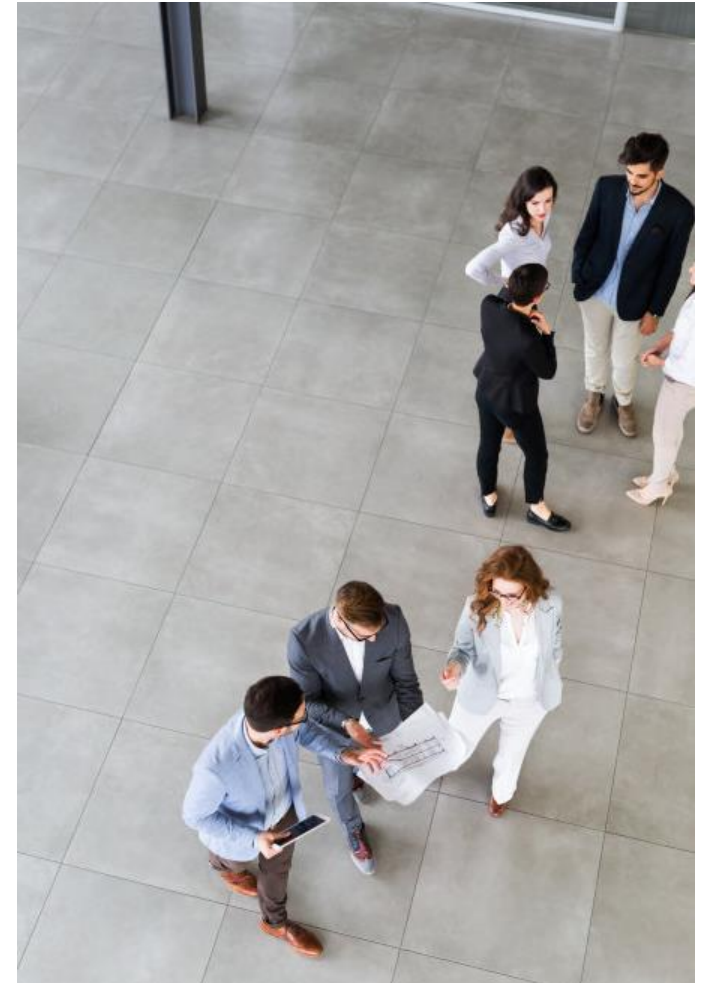
We conducted our audit in accordance with:

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

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

Audit opinion on the financial statements

At the time of writing our work is still in progress. We intend to issue issued an unqualified opinion on the Council's financial statements.



Opinion on the financial statements

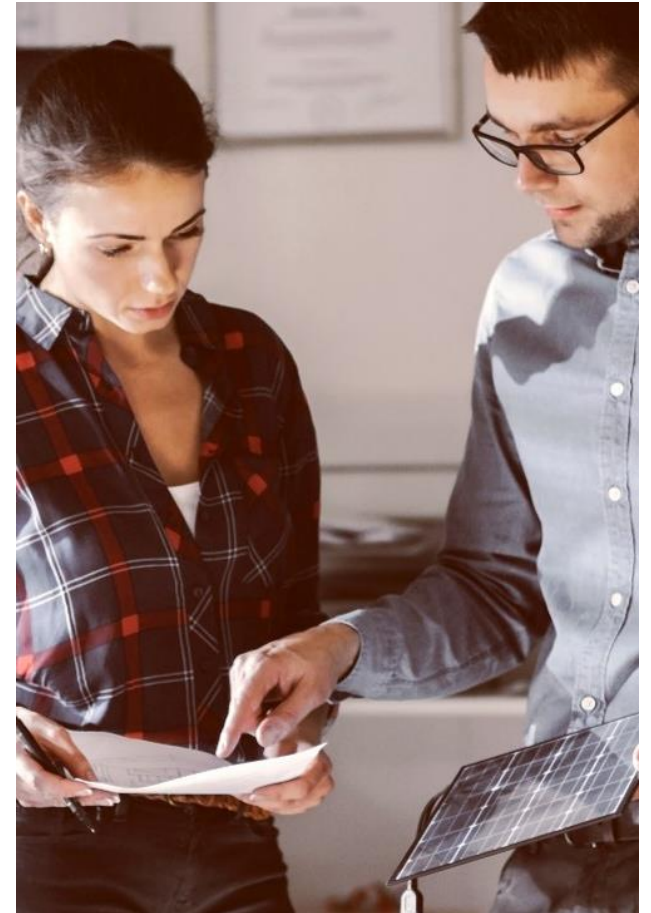


Timescale for the audit of the financial statements

- Our audit plan was issued in May 2023 and presented to the Governance Committee
- The Council provided draft financial statements in August 2023 and we commenced our audit on receipt of those statements.
- At the time of writing our work is still in progress. We intend to issue issued an unqualified opinion on the Council's financial statements.

Findings from the audit of the financial statements

More detailed findings are set out in our Audit Findings Report, which will be presented to the Council's Governance Committee in February 2024. Requests for this Audit Findings Report should be directed to the Council.



Other reporting requirements



Audit Findings Report

More detailed findings can be found in our AFR, which will be published and reported to the Council's Audit Committee in February 2024.

Whole of Government Accounts

To support the audit of the Whole of Government Accounts, 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.

The Council is below the threshold which requires any detailed work to be done.



Appendices

Appendix A: Responsibilities of the Council

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

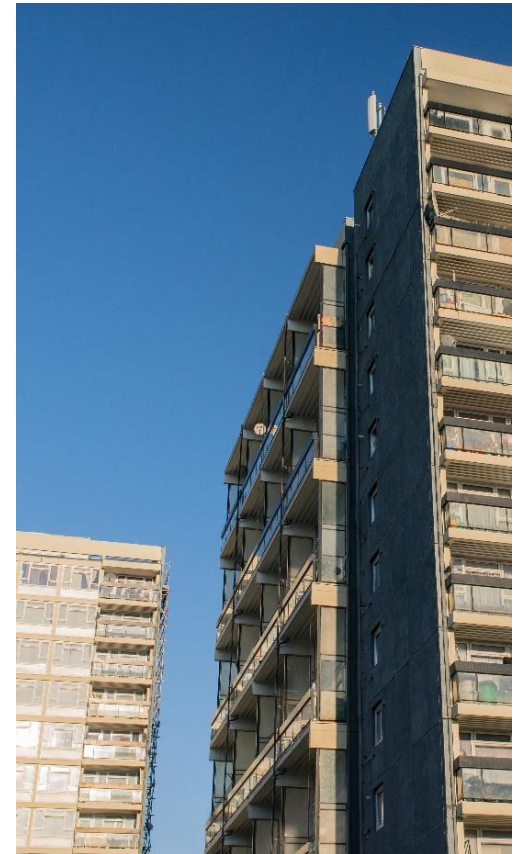
Financial statements are the main way in which local public bodies account for how they use their resources. Local public bodies are required to prepare and publish financial statements setting out their financial performance for the year. To do this, bodies need to maintain proper accounting records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

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

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

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

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



Appendix B:

An explanatory note on recommendations

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

Type of recommendation	Background	Raised within this report	Page reference(s)
Statutory	Written recommendations to the Council under Section 24 (Schedule 7) of the Local Audit and Accountability Act 2014.	No	
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	7-10
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.	Yes	20, 29, 30

