

**REPORT TO:** Council

**DATE:** 4 December 2024

**REPORTING OFFICER:** Director of Finance

**PORTFOLIO:** Corporate Services

**SUBJECT:** External Auditor's Annual Report 2023/24

**WARD(S):** Borough-wide

## **1.0 PURPOSE OF REPORT**

1.1 To consider the Auditor's Annual Report 2023/24 shown in Appendix 2, which will be presented by the Council's External Auditor, Grant Thornton UK LLP.

## **2.0 RECOMMENDED: That;**

- (i) the contents of the Auditor's Annual Report 2023/24 shown in the Appendix 2 be noted;**
- (ii) the two Statutory Recommendations highlighted within the Auditor's Annual Report 2023/24 be noted;**
- (iii) the Council's responses to the Statutory Recommendations as detailed in Appendix 1, be approved.**

## **3.0 SUPPORTING INFORMATION**

3.1 The External Auditor is required to consider whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. The Auditor's Annual Report details the Council's overall arrangements, as well as providing key recommendations regarding any significant weaknesses identified during the review. In addition, improvement recommendations are made which the Council may also decide to implement.

3.2 The External Auditor is required to report under three specific criteria, being:

- Financial Sustainability
- Governance
- Improving Economy, Efficiency and Effectiveness

3.3 The report in Appendix 2 provides details of the findings from the External Auditor's review, which were presented to the Audit and Governance Board on 20<sup>th</sup> November 2024.

- 3.4 A number of Key Recommendations and Improvement Recommendations are shown within the report, along with management's responses to those recommendations.
- 3.5 In addition, two Statutory Recommendations have been made, which the Council is required to consider, confirm whether the recommendations are accepted, and if so, how they will be addressed.
- 3.6 The Annual Auditor's Report 2023/24 will be presented by the Council's External Auditor, Grant Thornton UK LLP.
- 3.7 The two Statutory Recommendations are presented in Appendix 1 along with management's responses.

#### **4.0 POLICY IMPLICATIONS**

- 4.1 None.

#### **5.0 FINANCIAL IMPLICATIONS**

- 5.1 The report provides an external viewpoint on the financial sustainability of the Council. As is now the case for many local authorities, there are significant financial challenges for the Council in balancing future year budgets and managing spending within budgets.
- 5.2 The report identifies a number of significant weaknesses regarding the arrangements the Council has in place to secure financial sustainability, governance, and improving economy, efficiency and effectiveness. Recommendations are made in respect of each and management's responses to those recommendations are included within the report.

#### **6.0 IMPLICATIONS FOR THE COUNCIL'S PRIORITIES**

- 6.1 Improving Health, Promoting Wellbeing and Supporting Greater Independence
- 6.2 Building a Strong, Sustainable Local Economy
- 6.3 Supporting Children, Young People and Families
- 6.4 Tackling Inequality and Helping Those Who Are Most In Need
- 6.5 Working Towards a Greener Future
- 6.6 Valuing and Appreciating Halton and Our Community

There are no direct implications, however the revenue and capital programme support the delivery and achievement of all the Council priorities.

## **7.0 RISK ANALYSIS**

7.1 The risks that have been considered as part of the Council having in place arrangements to secure economy, efficiency and effectiveness, are detailed in the attached report.

## **8.0 EQUALITY AND DIVERSITY ISSUES**

8.1 None.

## **9.0 CLIMATE CHANGE IMPLICATIONS**

9.1 None.

## **10.0 LIST OF BACKGROUND PAPERS UNDER SECTION 100D OF THE LOCAL GOVERNMENT ACT 1972**

10.1 None under the meaning of the Act.

## Statutory Recommendations

### Recommendation 1

The Council should improve its short and medium term financial planning by;

- Ensuring that financial plans appropriately account for significant cost pressures, including developing comprehensive plans to address overspending on agency staff
- Implementing a more robust budget-setting approach, including public budget engagement
- Ensuring that risks to financial resilience are appropriately highlighted in financial plans, including the section 25 report
- Ensuring that financial plans are sufficient to bridge all forecast budget gaps and replenish reserves
- Ensuring that financial plans are linked to the Council's corporate priorities as set out in its new Corporate Plan

### Management Response:

The Council will further develop the Medium-Term Financial Strategy (MTFS) and Budget Report to highlight risks regarding financial resilience, continue to reflect all significant forecast cost pressures, and will ensure a robust budget setting process is in place.

The MTFS has been extended to cover four years from 2025/26, to reflect the Council's challenging financial circumstances and financial risks. It outlines the particular pressure of agency staffing costs, the work being undertaken corporately and across service directorates to address these pressures, and includes significant additional financial provision towards meeting these costs. In addition, similar details and financial provision are included within the Strategy for demand-led services which are experiencing significant financial pressures including; children's residential placements, independent fostering, home to school transport, adults community care, direct payments and care homes.

The MTFS also now includes details of the scenario planning for demand-led spending areas which is undertaken when preparing the Strategy, and also includes sums to replenish reserves.

The approach to budget setting will be re-focused to provide a more robust approach, seeking immediate budget proposals for consideration by Members for the forthcoming year, whilst identifying areas requiring longer-term development via the Transformation Programme. Use of

benchmarking against nearest neighbour comparators will be enhanced as part of re-focusing the Transformation Programme, to provide the evidence base to focus upon those areas where opportunities exist to develop budget savings proposals. Consideration will also be given to how public engagement in the budget setting process might be accommodated, by reference to the approach taken by other councils.

The opportunity has been taken within the MTF5 2025-29 to highlight financial resilience issues, including the forecast DSG deficit and the impact if the statutory over-ride is removed. The section 25 report within the 2025/26 Budget Report will also be enhanced to highlight current and future financial risks. The MTF5 highlights the significant scale of funding gaps over the four-year period, compared to the level of budget savings proposals required and available useable reserves. As a result, the Strategy recommends that the Council apply for the Government's Exceptional Financial Support arrangement.

In preparing the budget for 2025/26, consideration will be given to how the budget setting process is linked to the delivery of the Council's priorities as set out within the new Corporate Plan.

## **Recommendation 2**

The Council should develop and implement the transformation programme at scale and pace to address the significant structural budget deficit. This should include:

- ensuring it has effective overview and control of its transformation programme which is sufficiently focused on budget savings.
- ensuring there is sufficient capacity and skills in the organisation to effectively deliver the required savings, including change management and the Project Management Office (PMO).
- ensuring the reprioritisation of the programme includes a review of both discretionary spending and the levels at which statutory services are provided and is informed by appropriate stakeholder consultation.
- improving programme management to include officer as well as member assurance boards.
- developing robust and transparent monitoring arrangements for benefits realisation and tracking savings as a whole programme.
- ensuring the programme has a risk and issues log that the PMO updates and uses regularly.

## **Management Response:**

The Council is refocusing the transformation programme during the current quarter, with continued full focus of the programme aligned to the delivery of budget savings. The project set will be reconfigured, with those not designed to achieve significant savings transferred to business units to be pursued outside of the core programme.

Additional process and data analysis skills are being brought into the programme, to accelerate the scoping of projects in areas where cost benchmarking has been applied and revealed notable cost variances against nearest neighbour authorities.

Subject matter experts will be engaged in projects where technical knowledge and expertise is required quickly to fully understand the operating environment and associated cost reduction opportunities. This approach will encompass the examination of mandatory and discretionary elements of service delivery.

The Member Transformation Programme Board, established in August 2024, will be augmented with an Officer Assurance Board. Benefit tracking, risk and issue reporting is being enhanced to inform these governance arrangements. The delivery of budget savings via the Transformation Programme will be added as a separate risk within the Corporate Risk Register.