

Auditor's Annual Report on Kirklees Council

2021/22

Interim Report

July 2023



Contents



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

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



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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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Securing economy, efficiency and effectiveness in the 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).



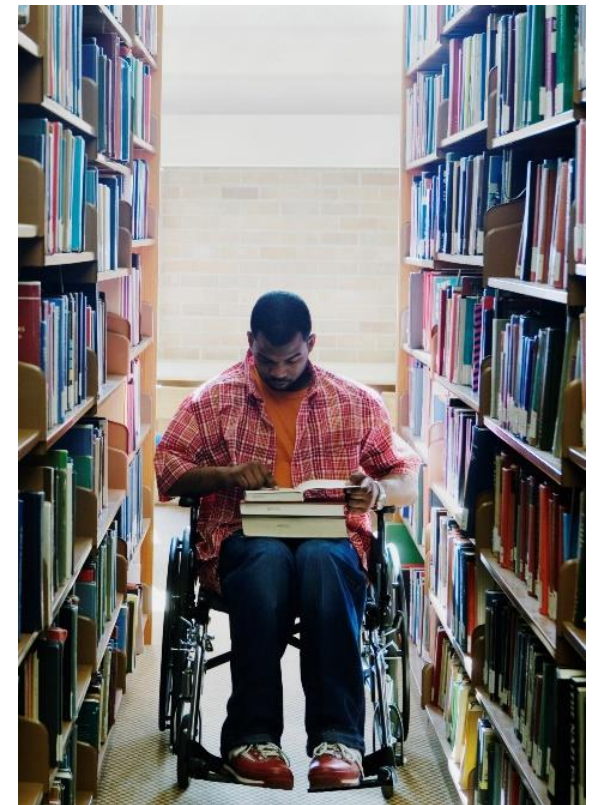
Governance

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.



Our commentary on the Council's arrangements in each of these three areas, is set out on pages 8 to 26. Further detail on how we approached our work is included in Appendix B.










Executive summary






Value for money arrangements and key recommendation(s)

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

Auditors are required to report their commentary on the Council's arrangements under specified criteria and 2021/22 is the second year that we have reported our findings in this way. As part of our work, we considered whether there were any risks of significant weakness in the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources. Our conclusions are summarised in the table below.

Criteria	Risk assessment	2020/21 Auditor Judgment	2021/22 Auditor Judgment	Direction of travel
Financial sustainability	Risk identified on the Council's DSG overspend	 No significant weaknesses in arrangements identified, but improvement recommendations made	 Significant weakness on financial sustainability identified.	
Governance	Risk identified on decision-making related to potential governance change from Leader and Cabinet model to Committee model	 No significant weaknesses in arrangements identified, but improvement recommendations made	 No significant weaknesses in arrangements identified, but improvement recommendations made	
Improving economy, efficiency and effectiveness	No risk of significant weakness identified.	 No significant weaknesses in arrangements identified, but improvement recommendations made	 No significant weaknesses in arrangements identified, but improvement recommendations made	

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

Executive summary



Financial sustainability (Significant Weakness)

Our work indicates that the Council's future financial sustainability is at risk in the medium term if prompt action is not taken to rebalance the cost of services with the income that is expected to be available over the next 3-5 years. The Council's financial position has become significantly more challenging due to increased demands and complexity of service provision, along with the impact of inflation and the cost-of-living crisis, combined with workforce pressures. Any failure to properly develop and risk assess savings schemes with appropriate contingencies in place will further intensify this pressure. The greatest risk is around the Council's use of reserves in the short to medium term. Reserves are a one-off resource and once consumed are not available to manage future pressures. Robust plans need to be put in place to replenish reserves or the Council may be forced to take emergency measures to cut non-statutory activities in order to mitigate any further funding pressures. Whilst this need to build up reserves has been acknowledged in the most recent MTFS published in February 2023, no provision to do so has been included in the current financial projections. We note that although the Council has delivered significant savings in the past, it has not had to do so for the last 3-4 years and now faces a significant shift of focus back towards restoring financial sustainability. The lack of maturity of the new arrangements to develop and monitor savings over the next year poses a significant challenge to the Council. It must ensure that rigorous monitoring of savings development takes place, with robust risk assessment and prompt mitigating action to monitor and manage slippage.

Whilst in 2021/22 the Council's overspend was a marginal £41k, the extremely challenging financial pressures on the budget in 2022/23 and 2023/24 mean that a deficit position can only be managed through the significant depletion of reserve balances. The depletion of reserves and the need to deliver significant savings in 2023/24, when considered together, present a significant weakness in financial sustainability. We have raised a key recommendation in regard to this matter on the following page. Further details can be seen on pages 8-11 of this report.



Governance

The Council has appropriate arrangements for ensuring that it makes informed decisions and properly manages its risks. Our work this year has focussed on continuing to develop our knowledge and understanding of the governance arrangements in place at the Council building on our work in the prior year. We have not identified any significant weaknesses in arrangements, but we have made three improvement recommendations for the Council to enhance its arrangements in regard to risk management processes, members' declarations of interests and counter fraud.

Further details can be seen on pages 12-17 of this report.



Improving economy, efficiency and effectiveness

The Council has demonstrated that appropriate arrangements are in place to secure economy, efficiency and effectiveness in its use of resources. We note that the Council is striving to strengthen its procurement arrangements and this remains a priority of the Council's improvement agenda. We also note that our benchmarking analysis of unit costs compared to other similar councils indicates that the Council's services are generally delivered at low to medium cost, following earlier phases of service transformation between 2010 and 2019. Whilst this does not prevent the Council from driving out further efficiency, it does indicate that the opportunity for further top slicing of budgets is reduced and that savings will need to come from genuine transformation of service delivery and consideration of local priorities, which is likely to take a number of years to implement. Our work identified no further risk of significant weaknesses in arrangements but we have made two further improvement recommendations to highlight the need for the Council to continue to strengthen its procurement processes.

Further details can be seen on pages 18-23 of this report.

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



Key recommendation



Key Recommendation

The members and senior officers of the Council must recognise the severity of the Council's medium term financial outlook and the need to take prompt, effective and far-reaching action to restore a sustainable financial position in the medium term. The Council should take the following steps to help this process:

- Review the process of setting savings schemes and monitoring these throughout the financial year to build a greater element of contingency and allowance for slippage. This should include the clear separation of recurrent and one-off savings (e.g. holding staff vacancies) within the savings programme.
- Ensure corporate and member oversight and challenge of proposed savings is robust, with responsible managers held to account, to make sure savings are credible, accurately valued, have realistic timing and phasing of delivery, and have been properly assessed for quality impact and risk.
- Ensure corporate and member monitoring of savings delivery is sufficiently regular and robust to drive delivery in line with plan and help to develop mitigating actions as soon as possible when delays or risks are met.
- Demonstrate a realistic plan for replenishment of reserves where one-off use is expected to cover budget gaps, to ensure medium term financial plans, demonstrate a realistic prospect of financial sustainability
- Focus financial planning on reducing reliance on one-off measures over the medium term and consider opportunities to review service delivery, particularly in regard to the analysis and prioritisation of statutory vs discretionary spend and modern ways of working (such as early intervention).
- Ensure that savings plans for future years of the MTFP are developed and discussed with members as soon as possible to ensure that delivery activities can be started as close to the beginning of the financial year as possible.

Why/impact

The Council's financial position is becoming significantly more challenging due to increased demands and complexity of service provision, along with the impact of inflation and the cost-of-living crisis, combined with workforce pressures. A failure to properly develop and risk assess savings schemes with appropriate contingencies in place will further intensify this pressure. The greatest risk is around the Council's use of reserves in the short to medium term. Reserves are a one-off resource therefore developed plans need to be in place to replenish these or the Council may be forced to curtail non-statutory activities. Whilst this need to build up reserves, has been acknowledged in the most recent MTFP published in February 2023, no active measures appear to have been refined.

Auditor judgement

The Council has not had in place large savings schemes in recent years, so now has a large shift of focus needed in order to achieve planned savings targets to bridge budget gaps. The infancy of the arrangements to develop and monitor savings going forward poses challenges to the Council and they must ensure rigorous monitoring of the position of savings going forward, with key risk assessments and development of mitigating actions on a regular basis. Whilst in 2021/22 the Council's overspend was a marginal £41k, the extremely challenging financial pressures on the budget in 2022/23 and 2023/24 mean that a deficit position appears inevitable without significant use of reserve balances. These two layers of financial risk considered simultaneously present serious concerns with regards to financial sustainability.

Management Comments

The Council acknowledges the severity of its financial position and has put in place arrangements to both deliver a balanced budget in 2023/24, including the delivery of savings, and to develop a range of savings options to reduce its net expenditure to a sustainable level and to replenish its reserves for financial resilience (see Page 11 for further details of these arrangements).

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

We bring the following matters to your attention:

Opinion on the financial statements

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

We have completed our audit of your financial statements and issued an unqualified audit opinion on **TBC**, following the Corporate Governance and Audit Committee meeting on **TBC**. Our findings are set out in further detail on page 27.

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 issue statutory recommendations.

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 an Advisory Notice.

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 apply for Judicial Review.

Financial sustainability



We considered how the Council:

- identifies all the significant financial pressures that are relevant to its short and medium-term plans and builds them into its plans
- plans to bridge its funding gaps and identify achievable savings
- plans its finances to support the sustainable delivery of services in accordance with strategic and statutory priorities
- ensures its financial plan is consistent with other plans such as workforce, capital, investment and other operational planning which may include working with other local public bodies as part of a wider system
- identifies and manages risk to financial resilience, such as unplanned changes in demand and assumptions underlying its plans.

Background

The Council has a track record of strong financial and budgetary management. The 2021/22 outturn was a marginal overspend of £41k.

The Council has had a number of years in which savings were not at the forefront of members' minds. Following the end of the COVID-19 pandemic, the focus of the Council will need to return to handling financial pressures, which have significantly worsened during 2022 with inflationary pressures on energy, a pay award that was significantly higher than budgeted and increasing demand for services, particularly Adult Social Care.

At the end of 2021/22 the Dedicated Schools Grant ("DSG") deficit was £22.3m following receipt of £13.5m from central government during the financial year. This receipt arose from the "Safety Valve" agreement, which will contribute a further £4m per annum for the following five years.

The Council has previously had a strong level of reserves, but that is now reducing. General Fund Balances at 31 March 2022 were £166.8 million, a net decrease of £30.6 million over the year. These balances include £156.8 million that has been earmarked for particular purposes, including £37.1 million Financial Resilience Reserves covering a range of potential unfunded risks and pressures (including budget savings risks highlighted in the Council's corporate risk assessment).

Our review of the CIPFA Financial Resilience Index 2021/2022 has shown that Kirklees Council has some high indicators of financial stress particularly around the sustainability and level of reserves. The data indicates that Kirklees ratio of unallocated reserves to net expenditure were the lowest compared to CIPFA statistical neighbours in 2021/22. Whilst many councils are expected to struggle with increased inflationary costs and demand in future years, Kirklees will have proportionally less financial resilience, as reserves are comparatively lower.

The 2022/23 budget was balanced by a planned transfer of £5.5m from reserves. Budget forecasts for the following four years indicated a forecast budget gap of £16.4m in 2023/24, £31.4m in 2024/25, £33.5m in 2025/26 and £38.2m in 2026/27.

However, an update to the financial position at the end of the first quarter of 2022/23 indicated an estimated budget gap of £18.8m for the financial year (net of a further transfer from reserves of £10m) and an updated budget gap of £41.3m for 2023/24. We understand that this latter value is likely to be closer to £55m.

The original 2022/23 budget

The approved budget which was published in February 2022 was a balanced one. It was set using (at the time) realistic assumptions including:

- A return to pre-pandemic level of business rates;
- Council tax increase of 2.99%, including the 1% adult social care precept.
- A 2% pay award
- £3m extra for Children's Services
- A net £2m extra for Adults and Health
- £3.1m for the interim waste contract
- £1.5m for legal services.

Detailed worksheets for each directorate were included in the approved budget.

Financial sustainability

The 2022/23 financial position

On 5 September 2022, the Cabinet received a report on the updated Medium Term Financial Plan, based on the first quarter of the 2022/23 financial year. It showed the following cost pressures for 2022/23:

	£m
Energy	13.4
Pay award	8.6
Other cost of living	2.0
School transport	2.4
Other cost pressures	2.4
Less transfer from reserves	(10.0)
Net total General Fund overspend	18.8

The updated budget gap for 2023/24 increased as a result of these cost pressures from £16.4m in the MTFP that accompanied the 2022/23 budget in February to £41.3m, with a worst-case scenario of £55.2m. At the time our discussions with staff at the Council suggested that £55m was a truer reflection of the actual shortfall.

The third quarter of 2022/23, which was reported to Cabinet in March 2023, showed an increased overspend for 2022/23 of £29.4m. Taking into account the forecast overspend for 2022/23 the value of useable reserves at 31 March 2023 was at that point estimated to be £82.7m. We note that some of the reserves denoted as "Earmarked" (for example the insurance reserve) may not be available to be used to cover the 2022/23 shortfall.

If the Council does not act to address the £55.2m shortfall in 2023/24, the useable reserves will be exhausted before the end of 2024/25, a situation exacerbated by the current use of the release of a Minimum Revenue Provision (MRP) prepayment to support the ongoing revenue position (see next page for details).

Actions taken by the Council

As a response to the financial situation the Chief Executive of the Council implemented a number of short-term measures including:

- A short-term freeze on recruitment;
- Reduction in agency staff;
- Rationalising use of Council buildings;
- Increased scrutiny on all new expenditure; and
- Reductions in non-essential expenditure across services.

This was in addition to ongoing work to review in-year demand forecasts, continued exploration of external funding opportunities, ongoing review of fees and charges and a corporate led capital plan review. A high-level estimate of the impact of these measures is approximately £4m for the current financial year (2022/23).

Despite this the current 2022/23 outturn of a £30m deficit combined with the 2023/24 budget deficit of £24.6m within the 2023/24 MTFs, reflects a higher level of reduction in reserves than we consider prudent and will leave the Council with limited capacity to absorb further shocks in 2023/24 or beyond. Whilst there is an acknowledgement within the latest MTFs paper presented to Council on 21st February 2023, of the need to replenish reserves, there appears to be limited capacity to do so. Even a relatively small further utilisation of unallocated reserves to manage the position in 2023/24 would take the Council below the minimum level of reserves it needs to manage financial risks. Additionally, the Council's sensitivity analysis indicates that should the 'Pessimistic' scenario occur, the Council will struggle to cover the additional gap with reserves.

The Council's savings requirement of £18.6m may be achievable if sufficient energy and focus from senior management is applied, but it could be highly challenging to deliver, considering the relatively low level of savings which have been made over the last 3 years and the lack of recent experience and embedded governance structures to support savings delivery.

At this stage we are aware that work had begun on developing savings, but governance arrangements in this area appear to still be in their infancy. We are therefore concerned that there is a significant weakness because even if there is a relatively small amount of slippage on the savings plan, the Council will then be dependent on a potentially unsustainable use of reserves to support its revenue position. A significant proportion of the savings that have been developed are still at an early stage of development and will require significant effort and focus in order to be achieved in full.

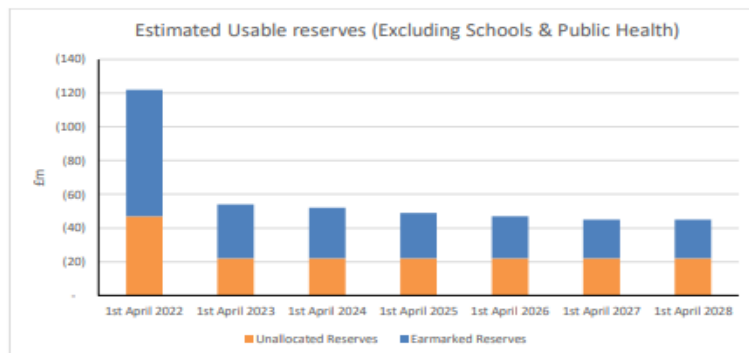
Financial sustainability

The 2023/24 budget and revised MTFP (Feb 2023)

As the Council goes into the new 2023/24 financial year, it has been able to set a balanced budget in line with statutory requirements. However, the reduction in reserves that this has required has dramatically reduced its ability to manage future unplanned financial shocks, pressures in excess of those predicted by the MTFP or any slippage in the proposed savings plan in 2023/24 or in future years. The current MTFP does not set out how reserves will be replenished.

The net overspend on budget in 2022/23 is projected to lead to a drawdown on reserves of c. £30m. A further £24.6m has been required to bridge the remaining funding gap in the 2023/24 budget, meaning that that almost £55m of reserves have been consumed. These reserves have primarily been raised from a review of Earmarked Reserves, and the remaining balances are those against which there are existing financial commitments that need to be covered. While the unallocated reserves are assessed to remain above the minimum 5% of the net cost of services, any significant encroachment on these is likely to tip the Council into a position where it can no longer demonstrate financial sustainability. Such a large reduction in earmarked reserves is a major risk as these are held to manage future financial risks and support specific projects, some of which have now had to be re-prioritised. Having already reviewed existing balances to manage the 2021/22 position, the opportunity for freeing up further reserves is now highly limited. Crucially, earmarked reserves also provide the basis for managing strategic financial risk, over and above unallocated reserves. The significant depletion of earmarked reserves has therefore significantly impaired the Council's ability to manage further unplanned costs or pressures in future, such as a failure to deliver savings plans in full or in year budget overspends.

The drawdown in reserves is reflected in the revised MTFP and budget paper as follows:



The projected funding gap over the medium term is presented in the current budget and MTFP as follows:

	23/24	24/25	25/26	26/27	27/28
	£m	£m	£m	£m	£m
Budget Gap (MTFP 22-27)	16.4	31.4	33.5	38.2	38.2
Funding Changes	(10.5)	(10.5)	(10.5)	(10.5)	(10.5)
Spending Changes	35.4	37.7	41.3	41.5	41.5
Budget gap (23/24 MTFP Update report)	41.3	58.6	64.3	69.2	69.2
Funding Changes	1.1	(9.3)	(10.3)	(11.4)	(24.4)
Spending Changes	0.8	6.0	10.4	13.0	26.6
Budget gap (Post-Financial Settlement 2023/24)	43.2	55.3	64.4	70.8	71.4
Savings proposals	(18.6)	(30.1)	(39.6)	(42.9)	(40.6)
Use of unallocated reserves	(24.6)				
Balanced Budget position 2023/24	-	25.2	24.8	27.9	30.8

The 2023/24 position also depends on the delivery of £18.6m of savings, which is a significant increase in comparison to prior years. Further significant savings will be required throughout the MTFP period to cover a cumulative funding gap of £71.4m by 2027/28. Under the current plan, a further £30.8m of savings will be required, over and above the £40.6m identified by 2027/28.

We note that detailed savings proposals are in place to cover the £18.6m in 2023/24. However, we also note that a significant proportion of these are with one off measures (e.g. the holding of vacant posts below the current required establishment of the service, or are aspirational in that they are targeted savings from service review or other activities yet to take place. We note that in many cases, the service impact assessment for these proposals has not yet been completed and they still require member approval. There are also significant savings arising from reductions in the revenue impact from the capital programme, which again may put pressure on important infrastructure development in the medium term. These factors add to the risk of slippage in the savings programme. This in turn, would increase the Council's reliance on unplanned underspends or windfalls, as yet unsecured additional funding from government, or the consumption of the limited remaining reserves. This is not reflective of a financially sustainable position.

The level of savings that are now required in the medium can only be delivered through a fundamental review of service priorities and it is likely that difficult decisions will need to be made around priorities. Members and senior officers will need to work closely together to remedy this situation.

Financial sustainability

Given the passage of time since the initial preparation of this report, management have been given the opportunity to describe the steps that have been taken to address the significant medium term financial challenges it faces. The remaining text on this page represents management's submission. The updated additional arrangements described have not been reviewed in detail by the auditor, as they relate to developments outside the year of audit but will be considered as part of the 2022/23 annual value for money reporting.

Management update- July 2023

The Council recognises the seriousness of its financial position and has put in place arrangements to both ensure delivery of the budget in 2023/24 and to ensure the Council remains financially sustainable over the medium term.

Recognising the need to both manage in-year spending and the delivery of agreed savings for 2023/24, robust monitoring arrangements have been put in place so that the Council understands what its financial position is, what progress is being made on savings and what early actions can be implemented to ensure the Council's budget remains in balance. This includes, for example:-

- Putting in place a Programme Governance Framework to oversee the delivery of the budget in 2023/24 and the development of budget options over the medium term. The Executive Team is meeting at least on a monthly basis (and often in between) as a Budget Delivery Programme Board (BDPB) to review in detail progress on the delivery of the 2023/24 budget and the development of savings options for 2024/25. The BDPB is supported by various Delivery Groups including a Budget Delivery Group (chaired by the Service Director Finance), a Capital Assurance Board (also chaired by the Service Director Finance) and a People Panel (chaired by Head of People Services);
- Detailed monitoring of the implementation of budget savings. This comprises a RAG-rated analysis of implementation along with detailed analysis outlining progress and, where progress is not as expected, what other options are being considered and implemented;
- Monitoring of a series of Demand and Capacity Indicators that allow the Executive Team and Leading Councillors to understand emerging pressures and how these might influence the Council's expenditure and income. These indicators are used as an 'early warning system' that allow action to be taken on mitigation measures to control and reduce net spending as required;
- Undertaking a monthly (beginning in Month 2) monitoring position to both understand emerging issues, to correlate the progress on delivery of savings and to prompt actions necessary to control net spending as required. This includes tracking the assumption upon which the budget was based and assessing the impact of actual performance against those assumptions;

- Reviewing the Council's Balances and Reserves to understand commitments and determine the scope for freeing up reserves to both support the Council's budget in the short to medium term and to provide funds towards the transformation of services. This will also include a plan for the replenishment of reserves to ensure the Council achieves a balance between financial resilience and sustainability;
- Bringing forward a review of the Council's Fees and Charges (and the related Policy Framework) with a view to taking early decision on increases in fees and charges and reiterating the policy on achieving full cost recovery for chargeable services;
- Undertaking a review of the Council's Medium Term Capital Programme with a view to further re-phasing of projects as a means of reducing the cost of the Council's borrowing. This is being complemented by an Asset Rationalisation (and Disposals) Programme aimed at both generating capital receipts and reducing the revenue costs of the Council's Estate.
- Reviewing the strength of the Council's Balance Sheet so that, in conjunction with the broader issues faced by the Council, there is a clearer understanding of the financial risks that may impact on the Council's financial position.

Acknowledging the need to reduce the Council's net expenditure as early as possible, some savings proposals earmarked for future years are being brought forward for implementation earlier than planned.

As part of the Programme Governance Framework, progress on the delivery of savings is reported to and monitored by Leading Councillors and ultimately by Cabinet through regular monitoring reports and by a Cross Party Budget Working Group (comprising membership from each of the Council's Political Groups). And fulfilling the Council's scrutiny function, the Overview and Scrutiny Management Committee is providing challenge and oversight on financial matters as part of its overall work programme.

Looking ahead, work is underway to review and update the Council's Medium Term Financial Plan. In conjunction with this, early action has been taken to establish Budget Planning Totals for each Directorate for 2024/25 which are being used to develop savings options for consideration by Councillors. These proposals are currently being developed in line with a clear timeline setting out how plans will be processed through the Council's normal governance processes and with a view to implementing Equally, the development of savings options is being undertaken by Services in conjunction with Finance Leads who are providing appropriate support to ensure savings are robust, ie credible, accurately reflect the change in the agreed base budget and are deliverable in a timely manner, are either sustained or one-off.

Financial sustainability

Minimum Revenue Provision

The Minimum Revenue Provision (MRP) is the method by which local authorities charge their revenue accounts over time with the cost of their capital expenditure which is funded by borrowing. In our report last year, we referred to the fact that as a result of a revision to the Council's Treasury Management policy regarding MRP it has had the benefit of the release of a £91m "overpayment" since 2017/18. This was originally planned to be released over a ten-year period (£9.1m per annum), but the release was accelerated in 2020/21 to £13.7m per annum such that the benefit now expires in 2024/25, with a commensurate cost pressure in that financial year. We recommended last year that the use of the MRP prepayment be transparent in the Council's MTFP and we can see that it is shown separately in the budget workbook.

Capital Strategy

The Council's capital strategy is included in the Council Budget report, along with capital financing and treasury management activity. The Council's capital programme for 2021/22 was £157.4m but was underspent by £29.2m owing to the lack of resources available to deliver projects. These have been rolled over into future years. For 2022/23 the capital programme is £261.4m. However, we understand that as a result of the financial pressures encountered by the Council, including increasing interest rates, the multi-year capital programme has been rephased. This includes the significant investment in the 'Cultural Heart' programme which will now be subject to a phased implementation given the scale of the financial challenge facing the Council. Management have indicated that this has resulted in estimated annual revenue savings of c£3.5m each year over the life of the Programme. A subsequent review of the Programme is underway as part of the refresh of the Medium Term Capital Programme. We will review management's arrangements around this area as part of our 2022/23 work programme.

Financial Risk management

Risks are incorporated into the budget and MTFP which is agreed annually by the Council. The budget report includes a summary of the corporate risk register, is updated regularly and included in the quarterly finance reports presented to Cabinet. We note the high risks ascribed in the quarter two financial report to matters relating to inflationary pressures. Not only on the Council directly, but also on residents and their consequent demands for Council services.

Sensitivity analysis is undertaken as part of the budget setting process with specific consideration of government funding levels, council tax and NNDR collection rates, pay awards, energy costs, fuel inflation, food inflation and increasing interest rates.

In "normal" years sensitivities would be expected broadly to even each other out. However the current financial year is exceptional, with the result that many of the sensitivities' worst cases have turned out to be understated, and most have moved adversely. For example, the total worst-case scenario presented in the original budget for 2023/24 was an increase in financial pressures of £11.3m. The estimate of the updated budget gap for 2023/24 presented in September 2022 showed a base position estimate of financial pressures (in addition to the baseline gap of £16.4m) of £24.9m, with an updated worst case of a further £13.9m.

Conclusion

Our work indicates that the Council's future financial sustainability is at risk in the medium term is prompt action is not taken to rebalance the cost of services with the income that is expected to be available over the next 3-5 years. The Council's financial position has become significantly more challenging due to increased demands and complexity of service provision, along with the impact of inflation and the cost-of-living crisis, combined with workforce pressures.

A failure to properly develop and risk assess savings schemes with appropriate contingencies in place will further intensify this pressure. The greatest risk is around the Council's use of reserves in the short to medium term. Reserves are a one-off resource therefore developed plans need to be in place to replenish these or the Council may be forced to curtail non-statutory activities. Whilst this need to build up reserves, has been acknowledged in the most recent MTFP published in February 2023, no active measures appear to have been refined. The Council has not had in place large savings schemes in recent years, so now has a large cultural shift in order to achieve planned savings targets to bridge significant budget gaps. The infancy of the arrangements to develop and monitor savings going forward poses challenges to the Council and they must ensure rigorous monitoring of the position of savings going forward, with key risk assessments and development of mitigating actions on a regular basis.

Whilst in 2021/22 the Council's overspend was a marginal £41k, the extremely challenging financial pressures on the budget in 2022/23 and 2023/24 mean that a deficit position appears inevitable without significant use of reserve balances. These two layers of financial risk considered simultaneously present serious concerns with regards to financial sustainability.

Governance



We considered how the Council:

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

Risk Management

The Council has a well-established risk management system in place, which is embedded in the governance structure of the organisation. The risk management arrangements incorporate service and directorate risk registers, which are informed by an assessments of the key risks impacting each area. The latest iteration of the Corporate Risk Register and Risk Management Action plan was released in January 2022, clarifying roles and responsibilities and incorporates risk appetite and tolerance into the organisational knowledge.

The Council documents its risks through risk registers, which apply a risk score both before and after mitigations measures, enabling the Council to manage the risk actively and act where necessary. The assessment and scoring of the risks is based on the likelihood of the risk being realised and the impact it would have.. This document ensures that the Council is committed to providing the highest standard of services and recognises the role that risk management in enabling this.

The risk management process within the Council, clearly sets out the risk strategy in a clear and detailed format, providing members and Council officers with sufficient and appropriate detail. The report includes relevant management actions, control opportunities and trends in a digestible format.

Changes have been made to the risk management process within the Council, in line with the risk management statement. This includes a more structured approach to Risk Panel meetings and assessments. It has been noted from our key stakeholder meetings that there is a more consistent approach needed when reporting risk to the Leadership Management team.

It has been noted with the Annual Governance Statement that for the 2022/23 financial year, the Council will need to improve the quality of directorate-based risk arrangements and elevation process. The Council has developed an initial corporate assurance framework in connection with all key and emerging business risks. The Council must continue to embed the changes made, fostering a risk-based focus to understand appetite and options in order to navigate an ever changing political and financial environment.

Budget setting process

The annual budget setting process at the Council is led by the Service Director – Finance (s151 Officer) who engages with the Executive Team at numerous staging posts during the budget process. Leadership Management Team (LMT) are also engaged by s151 officer at various points during the process along with discreet Scrutiny sessions.

The Council's annual budget for 2022/23 was approved at Budget Council in February 2022, which is also informed by the current approved Council plan to March 2023. This allows for the Council to incorporate both financial and strategic outcomes in its reporting function.

Once the annual budget has been agreed, the financial performance monitoring reports of the Council are presented to senior managers, and Cabinet for approval on a quarterly basis. This enables appropriate scrutiny and oversight of financial performance and any spending pressures that may arise.

Governance

Partnership governance

Partnership working plays a significant part in the Council's operating model. The Council has in place partnership working boards as part of its committee structure, which feedback through the governance structure via the Council. The Council is associated in many partnership to facilitate its activities, with oversight and challenge being provided by the Health and Wellbeing Board, Integrated Care Board and Communities Partnerships Board.

It has been noted within the Annual Governance Statement that partnership governance has improved within key public and private sector partners at an executive level. It was noted that during the year, new uncertainties associated with new ways of working have occurred, impacting the form of relationship the Council has with its partners. The Council must further develop its understanding of these relationship in order to maximise both influence and integration, and work closer with its partners to improve the effectiveness to provide the require outcomes. The Council has committed to producing six-monthly assurance reports to assess its governance regarding key partnerships and associated partners. These must be further developed within the financial year 2022/23. Additionally during 2022 the Internal Audit team has undertaken reviews of associated parties and companies, the recommendations from these reports should be considered and actioned as soon as possible in order to strengthen these governance arrangements and reduce risk to the Council.

Change in structure

It was noted within our last Value for Money review that the Council was considering a transition towards a Committee structure of governance. The Council was engaging with the Local Government Association (LGA) to ensure its decision regarding this matter was properly informed for the needs of the organisation.

The Democracy Commission, which is formed of a cross-party group of Kirklees councillors, has been engaging in a knowledge building activity with other authorities who have made the transition. After this, the Council considered evidence from stakeholders within Kirklees.

In the Council meeting in January 2023 the Democracy Commission's report on the Committee System Proposal was considered. The Council agreed to adopt for the retention of the current Cabinet Strong Leader Model of governance, along with a series of improvements to engage non-Cabinet members in the decision-making process.

Council decision making and oversight

Within the Council, arrangements are in place to ensure that all relevant information is provided to decision makers before making major decisions. Directors commission head of service and their teams to produce reports related to the major decision, which are supported where necessary by professional experts. Draft proposals are review by the responsible directorate senior leader teams. All investment decisions within the Council are assessed and approved internally prior to the revenue or capital allocations provided, through the annual budget, which then is signed off by Cabinet. This system allows for segregation of duties regarding financial decisions and enables healthy deliberation and challenge to be incorporated into the decision-making process.

The Council's decision-making arrangements are established in the Council's constitution, which is publicly available on the Council's website. Decisions are either made by members (Council, cabinet or other decision-making committees) or delegated to Cabinet portfolio leads, or officers. Prior to decision making, the Overview and Scrutiny committees provide evidence-based recommendations regarding a decision, which provides oversight to the policy making process. This Committee has oversight of the key services lines (Health and Adults Social Care, Children, Economy and Neighbourhoods, Corporate) and also has an ad-hoc function to carry out focussed initiatives to influences the best options for the Council. The key principles are to proactively and constructively provide 'critical friend' challenge and maximise the use of pre decision scrutiny to influence important decisions before they are made.

Governance

Investigation of fraud and corruption

From our review of the Council's central resources, it is clear that there are arrangements in place in respect of the prevention and detection of fraud. These are covered within the Council's constitution, code and conduct and whistleblowing policy. Furthermore, employees must observe the employee handbook which includes fraud and corruption items, setting out learning on best practice examples and remedies.

From our conversation with key stakeholders, it has become apparent that the Council's current arrangements for understanding and detecting fraud and corruption are outdated. The Exchequer team was responsible for this role, which has recently been handed over to the Internal Audit function. There was shared understanding within the Council that management of fraud and corruption cases was inadequate, and the Council was in need of the development of new systems, training, workstreams and programmes that would run alongside the Council's strategic risk processes. At the time of writing, the Council has developed a draft 'Fraud Risk strategy' that will come into implementation within FY22/23. We recommend the Council should focus on finalising this strategy, along with a clear plan of action including appropriate milestones and take to Cabinet for approval.

It was also noted within our conversations with key stakeholders that alongside the need of a newly developed 'Fraud Strategy', and Fraud Workplan, there is also a need for enhanced fraud risk training and risk assessment training for employees. In navigating through the current turbulent economic and political environment, employees will need to better understand the role they play in the risk process and identify roles and responsibilities throughout day-to-day operations. This will help the Council to develop richer business cases, bids and better management of the Council's financial and strategic priorities.

Gifts, hospitality and declaration of interests

A satisfactory gifts and hospitality policy is set out in the Councils' constitution. It was noted however that within our previous Value for Money assessment, declarations of interest of members are not readily available for public inspection within the Council's website. This is still the case, and the Council should update the documents in a timely manner, as it may obstruct accountability and hinder public inspection.

Conclusion

The Council has appropriate arrangements for ensuring that it makes informed decisions and properly manages its risks. Our work this year has focussed on continuing to build our knowledge and understanding of the governance arrangements in place at the Council building on our work in the prior year. We have not identified any significant weaknesses in arrangements, but we have made three improvement recommendations for the Council to enhance its arrangements in regards to risk management process, members declarations of interests and counter fraud.

Improvement recommendations



Governance

Improvement Recommendation 1

The Council should take a more proactive and committed approach to improving risk management with a particular focus on improving directorate and project-based risk management. The Council should enhance the current level of training and use of better practice to aid the organisations knowledge and practise.

Why/impact

From conversations with key stakeholders at the Council, it has become apparent that there is need for the organisation to develop a more robust approach and culture regarding risk below the strategic level. This will help to enhance the management of risk at every level of the organisation, aiding them to navigate the turbulent political and economic environment which it is currently posed with.

Auditor judgement

From our assessment of the Council's documents and conversations with key stakeholders, it is clear that the current understanding of risk needs to be developed at the directorate level.

Summary findings

The Council needs to improve the quality of directorate-based risk arrangement and elevation. The Council has developed an initial corporate assurance framework in connection with all key and emerging business risks. The Council must continue to embed the changes made, fostering a risk-based focus to understand appetite and options in order to navigate an ever changing political and financial environment. This would be aided by updated training.

Management Comments

Work is being progressed on improving the approach to risk management and increasing engagement, and embedding progress already made in this area, including a clearer approach to identifying risk appetite, and ensuring that established processes are followed, through training and other engagement.

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

Improvement recommendations



Governance

Improvement Recommendation 2

The Council should focus on updating a centralised version of the declaration of interests in a timely manner. This will aid transparency within the Council and improve ability for public inspection and accountability.

Why/impact

The aim of the Gifts and Hospitality policy is to guard against the risk of allegations of impropriety undertaken by the Council. Under the Bribery Act 2010, it is a criminal offence for employees in an official capacity to accept any gift or consideration as an inducement or reward for doing or not doing anything or showing favour or disfavour to any person. By adopting a process of publishing the register in a timely manner, transparency and integrity are built into the reporting process, allowing public inspection to occur and increasing public accountability.

Auditor judgement

This improvement recommendation has been carried forward from last year's Value for Money assessment. Whilst the declaration of interest are available individually, this makes it more difficult to review in full and a central version would be useful, in line with the register for Gifts & Hospitality.

Summary findings

The Council's declaration of interests for its members are not centrally held for public inspection. Although information can be obtained through searching each member, this should be centrally held for ease of public inspection.

Management Comments

A revised corporate approach for declarations of interest and gifts and hospitality is under development. Consideration will be given to centralising the member declarations, although, as the text acknowledges, the member information is already present.

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

Improvement recommendations



Governance

Improvement Recommendation 3

The Council should focus on creating a revised 'Fraud Strategy' that helps to rebuild the processes and policies in place at the Council, alongside a clear Fraud Work Plan to focus their work. This should include improved training for fraud awareness and prevention.

Why/impact

It has been noted from our assessment of the Council's documents and key stakeholder interviews that there is need to improve the centralised fraud strategy to run alongside the wider corporate risk strategy. This should be combined with a clear work plan for the fraud team including a roll out of updated fraud awareness training. Without actioning this, the Council could be susceptible to increased financial losses from both internal and external threats.

Auditor judgement

From our judgement, there has been a lack of ownership of responsibilities regarding fraud management. The Council's current policies and procedures are not established or robust with no clear work plan in place.

Summary findings

Throughout our assessment, we have noted that ownership of the Fraud Management and the wider strategy is now the responsibility of the Internal Audit team. Whilst there is a revised 'Fraud Strategy' in development, the Council must enact to approve this and roll out as soon as possible.

Management Comments

The Fraud Strategy was approved by Cabinet in January 2023, and its implementation is in progress.

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

Improving economy, efficiency and effectiveness



We considered how the Council:

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

Performance Management

The Council Plan outlines the Council's vision, priorities and values, and it is against these that the Council manages performance against its stated key outcomes. During the 2021/22 financial year the plan was updated which saw the addition of a new shared outcome, 'Shaped by People'. This was developed in conjunction with directorates, members and citizens.

The Council's performance in delivering its key outcomes is reviewed by Cabinet on a biannual basis, via production of a mid-year and year-end performance report. These set out progress against each of the outcomes and summarise key successes and risks for each.

The year-end report for 2021/22 highlighted progress against all 95 deliverables across all the key outcomes, providing a concise overview of the Council's performance. This indicated that as of August 2022, 82% of these had been fully or partly completed within the published timescales.

The report uses a new format in comparison to previous years with a focus on greater transparency and clarity. However, the Council should consider whether twice yearly reporting is frequent enough to provide assurance to members and the public that the Council plan is being delivered as intended and to ensure that mitigating action is taken in areas of under performance. Additionally, some data in the year-end report is out of date and not reflective of 2021/22 performance.

We noted some examples within the performance reports which indicated that the Council have shown significant improvement or high achievement, as well as areas that were behind target. For example, there has been improvement in placement stability for Looked After Children (85.6%) where performance was better than both statistical neighbours and England (70%). Other indicators included recycling rate, which saw 26.9% of household waste recycled in 2021/22, up slightly from 25% the year before and the highest rate in 4 years.

Other areas have struggled post-pandemic, such as library services which whilst visits and new member numbers have increased since 2020/21 they are still below pre-pandemic figures. Additionally, the Council are in the bottom quartile of all local authorities for school readiness.

In the last few years, the Council has shifted the emphasis of its performance management to focus more on measurable outcomes that demonstrate value to service users, as opposed to focussing solely on traditional KPIs based on output metrics. Whilst this is welcomed, the depth and breadth of how outcomes are being measured remains uneven across the different aspects of service and a broader range of metrics used to measure progress should be developed to ensure that all outcomes are covered with an equal degree of clarity and transparency. This would provide stronger evidence of the impact of improvement actions on service delivery and aid transparency.

Work is also being undertaken to increase data sharing with other organisations, as well as looking to categorise data in order to deliver efficiencies, gain a grip on, and recognise high value data, and prevent data silos. Whilst this is clearly a work in progress, it is, however not out of sync with the wider sector. The Council has plans in place in to realise improvements in this area.

Improving economy, efficiency and effectiveness

Managing performance against the DfE Safety Valve

We note that the Council has been managing an accumulated deficit on the Dedicated Schools Grant (DSG) budget, due to shortfalls in the funding of services provided to young people categorised as 'High Needs.' We note that the Secretary of State for Education confirmed, on 24 March 2022, the Council's successful participation in Round 2 of its deficit reduction (Safety Valve) Programme. This included an initial 2021/22 Government funding contribution of £13.5m made on 31 March 2022. The balance of agreed £20m government funding contribution to the Council's DSG deficit over the next 5 years is dependent on delivery of in-year DSG High Needs savings target. We note that as at Quarter 3 2022/23 there is a forecast in-year spend on High Needs spend in excess of the Dedicated Schools Grant (DSG) funding allocation of £12.8m and the overall DSG Deficit is forecast to be £27.1m by 31 March 2023. This is off track with Safety Valve modelled projections by £3.6m. Quarterly reports are submitted to the Education and Skills Funding Agency (ESFA) Safety Valve team to highlight the progress towards the safety valve planned position and the management plan also allows for some flexibility to review spend and funding profiles over its lifetime. Following the Quarter 3 submission that highlighted the slippage against the plan, an initial dialogue between the ESFA and Council Senior officers began to review plans further to address the current issues being faced with rising High Needs costs, alongside future opportunities to bring the Plan back into alignment over the 5-year period. At present, we are satisfied that the Council is taking appropriate steps to address the slippage but will continue to monitor the Council's progress towards eliminating the deficit and have made it clear that there is still work to be done before the Council has fully implemented the recommendation we made in the last audit.

Procurement and Contract Management

Kirklees Council's procurement strategy was dated 2013-2017. Throughout 2021/22, the Council has been developing an updated Procurement Strategy, and Social Value Policy with a final version agreed by Cabinet in November 2022. The strategy is also supported by the Contract Procedure Rules, which were updated in May 2022. It is also supported by a procurement action plan to monitor delivery of the strategy and the social value policy. The Council should seek as part of this plan to regularly monitor and report on procurement key performance indicators, including the use of waivers, spend without purchase orders, and contracts renewals outside tender processes.

Alongside the updated strategy, the Council has established a procurement action plan to monitor delivery of the strategy and the social value policy. Whilst progress has been made to update these documents the Council should prioritise agreeing timelines and lead officers for progressing delivery of the actions identified in order to ensure this is robust and achievable within the life of the strategy. Additionally, a key element of both the procurement and social value strategies is focussed on the performance measures which do not yet have corporate resources for tracking progress. The Council should seek as part of this plan to regularly monitor and report on procurement key performance indicators, including the use of waivers, spend without purchase orders, and contracts renewals outside tender processes to ensure transparency.

Despite there being improvements identified in the Council's procurement actions plans, the Procurement function has been in receipt of awards at the National Public Procurement GoAwards, most recently as 2022 finalists for the Individual Achievement & Social Value Award. It is clear that the Council has been working to transform the procurement processes over the last few years, which has resulted in recognition nationally.

As part of monitoring of contract management, the Council has set up a Contract Assurance and Resilience Board. This is used to discuss approaches to contract variations and to ensure standardised practices across the Council. The function of this Board is particularly important given the recent changes in market dynamics as a result of inflationary pressures and should help to aid more robust monitoring in future.

Whilst the updates to the strategy, development of the action plan and publication of pipelines are welcome, there is further work needed. We consider that there needs to be a wider understanding of the importance of a robust procurement and contract management process, with particular focus on those areas with higher levels of temporary staffing or large infrastructure projects. The Council should ensure that contract management training is rolled out across the Council and that all contract managers are aware of their roles and responsibilities, with regular reporting to directorate management teams.

Improving economy, efficiency and effectiveness

Unit cost benchmarking

Our CFOi benchmarking data indicates that for 2021-22 Kirklees unit costs are mainly average for metropolitan districts across a range of service lines. This includes education, adult social care, culture services, planning and development and housing services. There are some areas where spend is below average including Children's Social Care and Public Health.

Our conversations with Children's Social Care indicate that the comparatively low cost of the service is a result of service transformation, that were initially driven by the Council's response to the Inadequate Ofsted rating in 2016. A commissioner was brought in at that point and a formal partnership developed with Leeds City Council to help aid service improvement. In 2019 the service was found to no longer be inadequate.

One of the main strategies which has helped to reduce costs is to move away from reliance on an agency workforce and there are now very low numbers of agency workers in Kirklees' Children's Services. Environmental & Regulatory Services' outturn has been identified as a very high spender in relation to other metropolitan districts in 2021/22. This means that for this service line the Council was in the top 20% of spenders (within metropolitan councils). However, when we benchmarked 2021-22 budget against other metropolitan councils, the unit costs for this service line were not in the top 20%, leading us to conclude that this may have been due to an overspend in this directorate in that year and that budgeted costs were not an outlier.

Our review of the financial outturn report for 2021-22 indicated there was an overspend of £8.6m (26%) during the year. £5.7m of this related to COVID-19 pressures, made up of £2m of additional COVID-19 spend and £3.6m of COVID-19 income loss. Overspends are linked to Schools Transport due to increased number of routes to out of area schools along with loss of income on parking due to site closures. In relation to bereavement costs there have been income shortfalls due to a cremator replacement and capacity reductions.

Waste services were also impacted by additional spend on vehicles and staff during COVID-19 and backlog and recovery work post-COVID-19 on estate street cleaning and parks. The Council also includes catering under this directorate, which includes school catering, this resulted in large income losses (£1.7m) due to reduced pupil numbers. Car parking fees were reduced due to increased home working and local measures to increase footfall which led to free parking for all key workers in towns. Q1 2021-22 financial reports show that pressures continue in this directorate with overspends of £2m estimated on schools' transport along with continued pressures on catering and car park income. These pressures continue in Q2 with the transport pressure rising to £2.4m and £1.2m on parking, along with a waste services pressure of £0.7m due to extra vehicles and staff hires.

Our review of the Council's Corporate Performance and Impact report for 2021/22 showed that key success in this directorate included pandemic recovery activity. In regard to reported challenges, recruitment was flagged as a key issue. The issues around staff capacity in environment were reviewed as a priority for 2022-23 as per the Council's Overview and Scrutiny Management Committee meeting in July 2022.

Kirklees Council	2021/22 [£000's]	Unit	Unit Cost [£]	Unit Cost Score
TOTAL EDUCATION SERVICES (RA) £/aged 0-18	297,287.00	105,192.00	2,826.14	Low
TOTAL HIGHWAYS ROADS AND TRANSPORT SERVICES (RA) £/head	9,646.00	441,290.00	21.86	Low
TOTAL CHILDRENS SOCIAL CARE (RA) £/aged 0-17	72,295.00	100,020.00	722.81	Very Low
TOTAL ADULT SOCIAL CARE (RA) £/aged 18+	140,881.00	341,270.00	412.81	Average
TOTAL CULTURAL AND RELATED SERVICES (RA) £/head	16,646.00	441,290.00	37.72	Average
TOTAL PLANNING AND DEVELOPMENT SERVICES (RA) £/head	3,468.00	441,290.00	7.86	Very Low
TOTAL HOUSING SERVICES (GFRA only) (RA) £/head	11,656.00	441,290.00	26.41	High
TOTAL ENVIRONMENTAL AND REGULATORY SERVICES (RA) £/head	31,622.00	441,290.00	71.66	High
TOTAL CENTRAL SERVICES (RA) £/head	17,029.00	441,290.00	38.59	Low
TOTAL PUBLIC HEALTH (RA) £/head	26,434.00	441,290.00	59.90	Very Low
TOTAL OTHER SERVICES (RA) £/head	157.00	441,290.00	0.36	Low

Improving economy, efficiency and effectiveness

Partnership working

Kirklees Council is aware of the importance of partnership working, and with the recent changes in the wider system, with the establishment of the ICB and Kirklees Health & Care Partnership, along with new leadership of local organisation such as local NHS Trusts and West Yorkshire Police there has been a renewed focus on partnerships and related strategies.

The Council has in place a cross-cutting Kirklees Partnership Executive, chaired by the Chief Executive. This is focussed on strategic partnerships with key organisations such as health and social care bodies, the University of Huddersfield, schools representatives and Chamber of Commerce. There are also partnership boards for Kirklees Communities, the Children and Young People's Partnership, and a Joint Health and Wellbeing Board. The Council has also begun to reform partnerships in the economic space through the newly established Kirklees Inclusive Economic Partnership. Currently the Council is also developing an Environment Partnership in order to help progress key environmental outcomes and build a local Environmental Strategy.

Additionally the Council has in place partnership arrangements focussed around themes such as employment and skills and digital inclusions and is beginning to form arrangements for a social value partnership. These partnerships are built around desired sets of outcomes which are codified within strategies, all of which can be found on the Council website.

Examples of successful partnership working throughout 2021/22 have included the continuation of the Kirklees Top 100 Companies, the Iroko Project and the Kirklees Better Outcomes Partnership. The former is a local joint venture between the University of Huddersfield, Kirklees Council, the Huddersfield Examiner, and the 3M Buckley Innovation Centre, to help raise the profile of local businesses.

Additionally, the Council was highly commended in the Community Project of the Year category at the British Diversity Awards for their partnership with the Black African and Caribbean community for their work on the Iroko project (a community-led initiative to uncover inequalities and understand experiences of services).

The Kirklees Better Outcomes Partnership is a local partnership of social sector organisations commissioned by the Council to support people in the community who face increased risks of homelessness. The Partnership has supported thousands of residents and was a finalist for the Local Government Chronicle's Public/Private Partnership Award.

It is clear that there are some positive examples of the Council's engagement in partnership working, alongside a real drive to expand this further through development of the Economic and Environment Partnerships. Additionally, the Council has recently updated a range of partnership strategies such as the Health & Wellbeing Strategy 2022-2027. The Children and Young People Partnership Plan will be updated in 2023.

In order to ensure continued success, it is important that given the current financial context the Council continues to engage with partnerships to identify opportunities for efficient and effective working. This will be particularly important in terms of considering the wider impact of both the Council's and partners' savings plans across the system for 2023 and beyond.

Conclusion

The Council has demonstrated that appropriate arrangements are in place to secure economy, efficiency and effectiveness in its use of resources. We note that the Council is striving to strengthen its procurement arrangements and this remains a priority of the Council's improvement agenda. We also note that our benchmarking analysis of unit costs, compared to other similar councils, indicates that Kirklees Council's services are generally delivered at low to medium cost, following significant work on driving out cost efficiency since 2010. While this does not prevent the Council from driving out further efficiency, it does indicate that the opportunity for further top slicing of budgets is reduced and that savings will need to come from genuine transformation of service delivery and consideration of local priorities, which is likely to take a number of years to implement. Our work identified no further risk of significant weaknesses in arrangements but we have made two further improvement recommendations to highlight the need for the Council to continue to strengthen its procurement processes.

Improvement recommendations



Governance

Improvement Recommendation 4

The Council has in place a Procurement Action Plan. However in order to ensure this is fully achieved, this needs to be developed further. The Council should:

- Agree timelines for progressing delivery of the actions identified
- Appoint lead officers to manage and carry out actions identified
- Develop key procurement performance metrics
- Identify corporate resource for tracking relevant procurement performance measures
- Report on the use of waivers, spend without PO, contracts renewed without tendering to members

Why/impact

In order to successfully implement the strategic vision and operational improvements outlined in the Procurement Strategy, Social Value Policy and associated action plan it is important that the Council allocates resource and identifies lead officers to carry these out as soon as possible. Without accountable officers identified to achieve actions identified, it is unlikely these will be progressed in a timely manner. This is particularly important in order to ensure that wider understanding of contract management is embedded throughout the Council.

Auditor judgement

The Council has made good progress to update the Procurement Strategy, and Social Value Policy along with publication of procurement pipelines. Additionally, the action plan alongside this is clear and includes ambitions for templates and more developed training, along with raising awareness of regulation changes. However the ambitions outlined are unlikely to be achieved without clear resources identified and held accountable throughout the year.

Summary findings

The Procurement team has been recognised nationally for their procurement activity. This is now reflected in the updated Procurement Strategy and the Team has a clear vision of further improvements to be achieved. However this will be difficult unless key officers are identified in a timely manner.

Management Comments

Agreed. Lead officers have been assigned to progress and deliver the areas identified in the action plan.

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

Improvement recommendations



Governance

Improvement Recommendation 5 The Council should ensure that procurement and contract management training is rolled out across the Council and all contract managers are aware of their roles and responsibilities, with regular reporting to directorate management teams.

Why/impact

Robust contract management is key to the successful management of risk within the procurement process and any weaknesses in contract management can leave the Council open to risk. All contract managers need to be aware of and required to comply with the procurement strategy if it is to be effective. When contract management works well, there are better relationships with suppliers; fewer disputes; and better outcomes. When it doesn't work well, the door starts to open for risk of fraud.

Auditor judgement

There should be a wider understanding of the importance of a robust procurement and contract management process, with particular focus on those areas with higher levels of temporary staffing or large infrastructure projects

Summary findings

Contract management processes have been varied across the Council. This has been recognised by the leadership team and in response the Contract Assurance Board has been set up, chaired by the s.151 Officer. This is relatively new and has been put in place in order to standardise processes in relation to contract management, with a specific focus on dealing with contract variations. However, in order to ensure that the contract management role is more fully embedded as part of 'business as usual' the Council should focus on clarifying roles and responsibilities, along with ensuring adequate training is provided to all relevant staff.

Management Comments

Agreed.

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

Follow-up of previous recommendations

Recommendation	Type of recommendation	Date raised	Progress to date	Addressed?	Further action?	
1	Optimise outcomes for the Council in the current round of Department for Education Safety Valve Group discussions, including approval for the Special Educational Needs (SEND) Transformation Plan in order to seek a long term solution to the Dedicated Schools Grant (DSG) overspend.	Improvement	March 2022	At the end of 2021/22 the Dedicated Schools Grant ("DSG") deficit was £22.3m following receipt of £13.5m from central government during the financial year. This receipt arose from the "Safety Valve" agreement, which will contribute a further £4m per annum for the following five years.	Partly	It is important that the DSG overspend is kept under constant review so that the Council do not breach the conditions of the Safety Valve agreement with DfE. This is particularly important as the agreement was signed prior to recent inflationary rises.
2	Ensure that the scale of future years Minimum Revenue Provision (MRP) continues to be transparent in future years budgets and medium term financial strategies (MTFS).	Improvement	March 2022	We recommended last year that the use of the MRP prepayment be transparent in the Council's MTFP and we can see that it is shown separately in the budget workbook.	Yes	No
3	Update the Council Plan for the next iteration to clearly reflect the impact that COVID-19 will have on financial and performance measures.	Improvement	March 2022	The Council's updated Council Plan 2021/23 focusses on addressing impacts of the pandemic including mental health and educational outcomes, along with ensuring learning from the pandemic response is built into future policies and actions.	Yes	No
4	Consider publishing the Member and Senior Officer's registers of interests and gifts and hospitality more clearly on the Council website.	Improvement	March 2022	These are now clearly displayed on the Council's website, with the Gifts & Hospitality register table as one document. The individual declarations of interests for each Councillor are also available to download.	Partly	The Council may consider publishing one complete central register of all declared interests. This would enable a review of the interests of the Cabinet or of a specific Committee as a whole.

Follow-up of previous recommendations

	Recommendation	Type of recommendation	Date raised	Progress to date	Addressed?	Further action?
5	Ensure that a comprehensive assessment which assesses the advantages and disadvantages of each governance model takes place to support any decision made on the future governance model for the Council.	Improvement	March 2022	This assessment has taken place and a decision has been taken to continue in the current arrangement of Leader and Cabinet.	Yes	No
6	We recommend that the Council creates an updated procurement strategy and a regular review process to ensure this is kept up to date.	Improvement	March 2022	The Council have now developed a Procurement Strategy which was approved by Cabinet in November 2022.	Partly	The Council now need to work to embed the Procurement Strategy throughout the organisation.
7	We recommend the Council reviews its group company and investment governance arrangements.	Improvement	March 2022	This is ongoing. Our discussion with the Head of Internal Audit highlighted that there have been a number of reports on the Council's associated parties and specifically Kirklees Community Association. At the time of writing specific action against the recommendations of these reviews had not yet been taken.	Partly	Whilst the Council have reviewed some of the arrangements in relation to its arrangements, it is clear that further work is needed in order to ensure governance arrangements are effective and risks are reduced to the Council.
8	We recommend that quarterly performance reporting is reinstated.	Improvement	March 2022	Performance reporting currently takes place bi-annually with a mid-year and year-end report produced. This is an improvement on the prior year where no Corporate Performance reports had been submitted to Cabinet.	Partly	The Council should consider whether their current arrangement of bi-annual reporting is sufficiently often for updating members and mitigating poor performance in a timely manner.

Opinion on the financial statements



Audit opinion on the financial statements

We gave an unqualified opinion on the Council's financial statements on **TBC**.

Audit Findings Report

More detailed findings can be found in our AFR, which was published and reported to the Council's Corporate Governance and Audit Committee on **TBC**.

Whole of Government Accounts

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

TBC.

Preparation of the accounts

The Council provided draft accounts in line with the national deadline and provided a good set of working papers to support it.

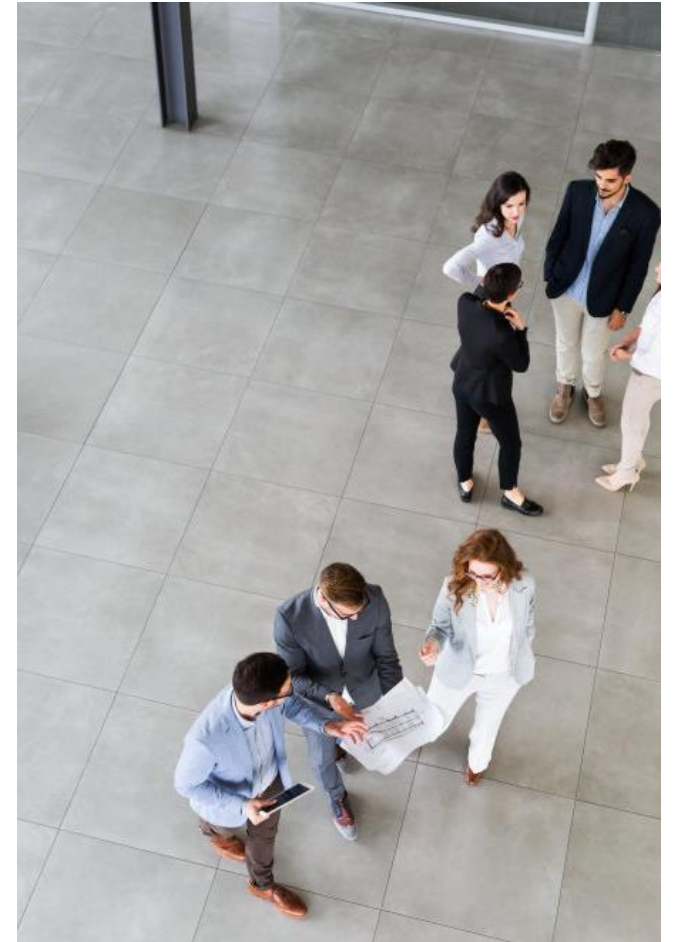
Issues arising from the accounts:

The key issues were:

- National changes to accounting for infrastructure assets
- Material movements in pension fund asset returns affecting the Council's draft financial statements

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

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



Appendices

Appendix A – Responsibilities of the Council

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

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

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

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

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

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

Appendix B – Risks of significant weaknesses, our procedures and findings

As part of our planning and assessment 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 that we needed to perform further procedures on. The risks we identified are detailed in the table below, along with the further procedures we performed, our findings and the final outcome of our work:

Risk of significant weakness	Procedures undertaken	Findings	Outcome
<p>Financial sustainability was identified as a potential significant weakness, see pages 7-11 for more details.</p> <p>The Council has a significant DSG overspend held in an unusable DSG reserve under statutory override.</p>	<p>We reviewed the agreement with DfE and progress against the SEND Transformation Plan. We spoke to both finance and children social care officers to fully understand the current position and key risks.</p>	<p>At the end of 2021/22 the Dedicated Schools Grant ("DSG") deficit was £22.3m following receipt of £13.5m from central government during the financial year. This receipt arose from the "Safety Valve" agreement, which will contribute a further £4m per annum for the following five years.</p>	<p>Appropriate arrangements not in place, one key recommendation.</p>
<p>Governance was identified as a potential significant weakness, see 12-18 for more details.</p> <p>The Council has been considering a move from the Leader and Cabinet model of governance to a Committee structure. There was a risk identified that Council may not arrive at the most suitable governance structure unless the decision is properly considered and supported by evidence.</p>	<p>We reviewed the process and evidence submitted by the Democracy Commission in consideration of the change in leadership structure. We also engaged with the Head of Governance to understand further the work that had been undertaken to reach the decision.</p>	<p>In the Council meeting in January 2023 the Democracy Commissions' report on the Committee System Proposal was considered. The Council agreed to adopt for the retention of the current Cabinet Strong Leader Model of governance, along with a series of improvements to engage non-Cabinet members in the decision-making process.</p>	<p>Appropriate arrangements in place no further action taken.</p>
<p>Improving economy, efficiency and effectiveness was not identified as a risk of significant weakness.</p>	<p>N/A</p>	<p>N/A</p>	<p>N/A</p>

Appendix C – An explanatory note on recommendations

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

Type of recommendation	Background	Raised within this report	Page reference
Statutory	Written recommendations to the Council under Section 24 (Schedule 7) of the Local Audit and Accountability Act 2014.	No	N/A
Key	The NAO Code of Audit Practice requires that where auditors identify significant weaknesses as part of their arrangements to secure value for money they should make recommendations setting out the actions that should be taken by the Council. We have defined these recommendations as ‘key recommendations’.	Yes	6
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	15,16,17,22,23

Appendix D – Sources of evidence



Documents Reviewed

- Annual Budget 2022/23-2026/27
- Annual Governance Statement
- Annual Treasury Management Report 2021/22
- Capital Plan 2022/23-2030/31
- Children & Young People's Plan
- CIPFA Resilience Index
- Code of Conduct
- Code of Corporate Governance
- Committee papers and minutes
- Committee System Proposal Papers
- Communities Partnership Plan 2022/27 and Board minutes
- Constitution
- Contract Procedure Rules
- Corporate Customer Standards Interim Report
- Corporate Financial Monitoring Report Q1 2022/23
- Corporate Financial Monitoring Report Q2 2022/23
- Corporate Performance and Impact End of Year Report 2021/22
- Corporate Performance and Impact Mid-Year Report 2021/22
- Corporate Risk Matrices
- Corporate Risk Register and Risk Management Action Plans
- Directorate Risk Matrices
- Draft Fraud Strategy Draft Internal Audit Plan
- DSG Safety Valve Agreement
- Economic Strategy
- Environment Strategy Consultation
- Financial Outturn Report 2021/22
- Gifts & Hospitality Register
- Head of Internal Audit Opinion
- Inclusive Communities Framework
- Internal Audit Reports and Investigation papers
- Kirklees Active Leisure Funding and Partnership Framework
- Kirklees Cashflow workings
- Kirklees Community Association Financial Statements
- Kirklees Health & Care Place Based Partnership Collaboration
- Kirklees Health & Wellbeing Plan KLT
- Kirklees Joint Targeted Area Inspection Report
- Kirklees Stadium Development Financial Statements
- Kirklees Stadium Development Limited Options paper
- Local Government Association Corporate Peer Challenge Progress Report
- News article reviews
- Ofsted reports and letters
- Partnerships Updated to ELT
- Procurement Pipeline May 2022
- Procurement Strategy
- Procurement Strategy Action Plan
- Risk Management report to Executive Team
- Safeguarding Adults Board Annual Report
- Savings templates
- SEND – Transformation Plan Update and Appendix
- SEND Transformation Plan updates
- Social Value Policy
- Suez Recycling Financial Statements
- Statement of Accounts 2021/22
- Update of MTFP 2023/24
- Waste Disposal Arrangements and pre-decision scrutiny papers
- West Yorkshire People PLAN
- Whistleblowing Policy

Appendix D – Sources of evidence



Staff involved

- **Amanda Evans** – Director Adults Social Care
Operation Amanda Evans
- **Andy Simcox** – Director Strategy & Innovation
- **Eamonn Croston** – Director of Finance (S.151 Officer)
- **Jo-Anne Sanders** – Director Learning & Early Support
- **Jonathan Nunn** - Policy and Partnerships Team
Manager
- **Jacqui Gedman** – Chief Executive
- **Jane Lockwood** – Head of Procurement &
Commissioning Support
- **James Anderson** – Head of Accountancy
- **Joanne Batholomew** – Director Skills & Regeneration
- **Martin Dearnley** – Head of Risk (Internal audit & Risk
Management)
- **Samantha Lowton** – Head of Governance
- **Tom Brailsford** – Director of Resources, Improvement &
Partnerships

Appendix E - Key acronyms and abbreviations

The following acronyms and abbreviations have been used within this report

AGN – Auditor Guidance Notes

AGS – Annual Governance Statement

CE – Chief Executive

CIPFA – Chartered Institute of Public Finance and Accountancy

DfE – Department for Education

DSG – Dedicated Schools Grant

FY – Financial Year

GTIL – Grant Thornton International Ltd

HoIA – Head of Internal Audit

IA – Internal Audit

ICB – Integrated Care Board

ICP – Integrated Care Partnership

ICS – Integrated Care System

KPI – Key Performance Indicator

LASAAC - Local Authority (Scotland) Accounts Advisory Committee

LGA – Local Government Association

LLP – Limited Liability Partnership

LGA – Local Government Association

LLP – Limited Liability Partnership

LMT – Leadership Management Team

MRP – Minimum Revenue Provision

MTFP – Medium Term Financial Plan

NAO – National Audit Office

NHS – National Health Service

NNDR – National Non-Domestic Rates

RAG – Red, Amber, Green

SEND – Special Education Needs and Disabilities

VfM – Value for Money

WGA – Whole of Government Accounts

