

# Public Document Pack

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Dear Sir/Madam

## **AUDIT AND MEMBER STANDARDS COMMITTEE SUPPLEMENT**

Please find attached supplement papers for Audit and Member Standards Committee on  
**TUESDAY, 28TH NOVEMBER, 2023 at 6.00 PM**

Yours faithfully

A handwritten signature in cursive script that reads "Kerry Dove".

Kerry Dove  
**Chief Operating Officer**

### **SUPPLEMENT**

- |    |   |        |
|----|---|--------|
| 6. | <b>Auditor's Annual Report for Lichfield District Council 2022/23</b> | 3 - 30 |
|    | <i>Report of the External Auditors</i>                                |        |

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# Auditor's Annual Report on Lichfield District Council

Page 3

2021/22 and 2022/23

November 2023



Item 6



We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to satisfy ourselves that the [type of body] 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 [type of body]'s arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.



# Contents

Section	Page
Executive summary	03
Opinion on the financial statements and use of auditor's powers	
Commentary on the Council's arrangements to secure economy, efficiency and effectiveness in its use of resources	06
Financial sustainability	07
Governance	11
Improvement recommendation	14
Improving economy, efficiency and effectiveness	15
Improvement recommendations	18
Follow-up of previous recommendations	20
Opinion on the financial statements	21
<b>Appendices</b>	
Appendix A – Responsibilities of the Council	24
Appendix B – Risks of significant weaknesses, our procedures and findings	25
Appendix C – An explanatory note on recommendations	26
Appendix D – Sources of evidence	27
Appendix E - Key acronyms and abbreviations	28

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

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# Executive summary















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

Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to consider whether 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 Council's arrangements under specified criteria. 2020/21 was the first year that we reported our findings in this way. The NAO have issued guidance to auditors which states that a commentary covering more than one financial year can be issued where it is more efficient and effective to do so. We have decided to report a combined commentary on the Council's arrangements for 2021/22 and 2022/23 because this will provide an up-to-date commentary. As part of our work, we considered whether there were any risks of significant weakness in Council's arrangements for securing economy, efficiency and effectiveness in its use of resources. Our conclusions are summarised in the table below.

Page 5

Criteria	Risk assessment	2021/22 Auditor Judgment	2022/23 Auditor Judgment	Direction of travel
Financial sustainability	No risks of significant weakness identified.	 No significant weakness in arrangements identified.	 No significant weaknesses in arrangements identified.	
Governance	No risks of significant weakness identified	 No significant weaknesses in arrangements identified and one Improvement Recommendation made.	 No significant weaknesses in arrangements identified and one Improvement Recommendation made.	
Improving economy, efficiency and effectiveness	No risks of significant weakness identified.	 No significant weaknesses in arrangements identified and two Improvement Recommendations made.	 No significant weaknesses in arrangements identified and two 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

In challenging financial circumstances the Council was able to maintain a strong position in 2021/22 and 2022/23, assisted by its recognition of the unsustainability of continuing to balance its budget through the use of reserves in the medium-term. The Council's arrangements to plan and manage its finances were effective in both years. The Council embarked on new change processes through the Being a Better Council programme which is helping to refocus its performance and effectiveness. We are satisfied that the Council had adequate and appropriate processes in place to ensure that its medium-term financial planning, budgeting and monitoring and reporting processes were effective in 2021/22 and 2022/23 and that the Council is financially sustainable over the medium-term. We have not identified any significant weaknesses in arrangements to ensure the Council manages risk to its financial sustainability. We have set out our findings on financial sustainability on pages 7-10.



## Governance

The Council has effective processes to support decision-making for matters including risk, budget planning, financial management and improvement. We have made one Improvement Recommendation (Improvement Recommendation 1) in relation to governance of the Council's wholly-owned company. Overall we are satisfied that the arrangements the Council has in place to ensure good governance are adequate. We found no evidence of significant weaknesses in the Council's governance arrangements and we have set out our findings on governance on pages 11-14.



## Improving economy, efficiency and effectiveness

The Council had a clear strategic plan throughout 2021/22 and 2022/23 and demonstrated a continuing focus on improving performance and efficiency. As part of its improvement plans the Council set out its ambitions to improve its performance management framework but did not complete this work in the timescales it originally set. We have made an Improvement Recommendation about this. Similarly, the Council did not achieve its objective of developing guidance and protocols on contract and relationship management which we have also addressed in an Improvement Recommendation. Overall, we are satisfied that the Council has effective arrangements in place to ensure good governance. We found no evidence of significant weaknesses in the Council's governance arrangements.



## 2021/22 and 2022/23

We have substantially completed our audit of your financial statements and intend to issue an unqualified audit opinion, following the Audit Committee meeting on 28 November 2023 on both years audits, once all remaining audit procedures are completed. Our findings are set out in further detail on pages 21 to 22.



# Use of auditor's powers

We bring the following matters to your attention:

	2021/22	2022/23
<p><b>Statutory recommendations</b></p> <p>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</p>	We did not issue Statutory Recommendations	We did not issue Statutory Recommendations
<p><b>Public Interest Report</b></p> <p>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.</p>	We did not issue a Public Interest Report	We did not issue a Public Interest Reports
<p><b>Application to the Court</b></p> <p>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.</p>	We did not apply to the Court	We did not apply to the Court
<p><b>Advisory notice</b></p> <p>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:</p> <ul style="list-style-type: none"> <li>is about to make or has made a decision which involves or would involve the authority incurring unlawful expenditure,</li> <li>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</li> <li>is about to enter an item of account, the entry of which is unlawful.</li> </ul>	We did not issue an Advisory Notice	We did not issue an Advisory Notice
<p><b>Judicial review</b></p> <p>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.</p>	We did not apply for Judicial Review	We did not apply for Judicial Review

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

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

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

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

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



## Financial Sustainability

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



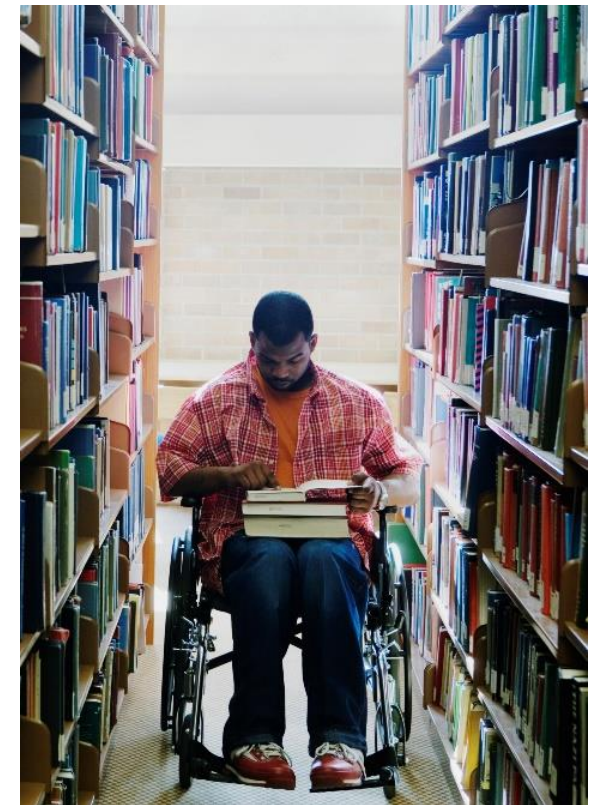
## Governance

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



## Improving economy, efficiency and effectiveness

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



Our commentary on the Council's arrangements in each of these three areas, is set out on pages 7 to 19. Further detail on how we approached our work is included in Appendix B.



# 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.

## Budget setting 2022/23

The Council produced a Medium-Term Financial Strategy (MTFS) covering a period of five years from 2021/22 to 2025/26. This was refreshed on an annual basis as part of the budget setting process, ensuring the Council's ongoing financial strategy takes into account changes brought about by funding, policy, demand for services and one-off events.

The MTFS report to Cabinet on 22 February 2022 provided an update on the period up to 2025/26 and recommended a net revenue expenditure of £11,951,000. It included key information such as the provisional funding settlement for 2022/23, New Homes Bonus, Lower Tier Services Grant and Services Grant. The information also included information on the Business Rates pool and the principles applying to Council Tax increases.

The Settlement was more advantageous than the assumptions used in the MTFS report considered by Cabinet on 6<sup>th</sup> July 2021. This because the Provisional Settlement included an additional New Homes Bonus payment for 2022/23, some additional 'one off' grant funding and because Local Government Finance Reform was delayed by at least a further year, business rate growth was retained. This additional funding meant that the level of uncertainty for 2022/23 was reduced to 'Medium' but remained 'High' for 2023 /24.

## Budget setting 2023/24

On 14 February 2023 the Cabinet considered a refreshed MTFS report for the period up to 2027 with updated key information. The proposed net revenue expenditure was £12,551,000. This included information on the Business Rates pool and the principles applying to Council Tax increases.

The report highlighted the Fair Funding Review, review of Business Rates and a new housing incentive scheme which it considered would have a detrimental impact on the Council's budget from 2025/26. The Council's Core Spending power increase in 2023/24 was shown as 4.9%, which is 0.1% lower than the average figure for Shire Districts.

The MTFS report also projected a contribution requirement of over £1 million from General Reserves would be needed to balance the budget in 2022/23. At the end of 2023/24 the Council was projected to have total General Reserves of over £6 million which would be sufficient to meet the funding gap until 2026/27. However, the report recognises that this is not sustainable and that options to close the funding gap will need to be explored.

## Resources and Funding

The Council's primary mechanism to generate funding continued to be local taxation – primarily Council Tax and Non-Domestic Rates income. The annual charge for Council tax was not increased in 2023/24, following a 1.5% increase in 22/23 and a 2.78% increase in 21/22 for a Band D property. This approach reflected the Council's commitment to recognise the impact of cost-of-living pressures. The Council considered carefully its approach to balancing its income from council tax and other sources with its capacity to secure savings so that it had realistic plans in place to manage funding gaps and balance its budget without a continuing and unsustainable dependence on the use of reserves.

# Financial Sustainability (cont'd)

## Resources and Funding (cont'd)

The Council continued to work with a degree of uncertainty around the review of Income from Non-Domestic rates (which may impact in 2025/26) and has incorporated changes in specific grants in its MTFS. This included a reduction in New Homes Bonus of £408,653 in 2023/24. As a consequence of the review of funding, the projected level of uncertainty in 2025/26 remained 'High'.

Core Spending Power from 2020/21 to 2021/22 was assumed to increase by 0%, and to 2022/23 it was assumed to increase by 5.2% if the council tax increase was maximised. District Councils were able to increase their Band D by the higher of 1.99% or £5 (the latter increase for Lichfield District Council equated to an increase of 2.70%).

In both years, the Council took account of changing sources of income such as New Homes Bonus, Lower Tier Services Grant and (in 2022/23) Services Grant. In 2021/22 the settlement was in line with assumptions in the draft MTFS presented on 19/11/2020. There was a level of uncertainty and/or risk which remained high. The Revenue Budget presented a balanced budget with funding gaps shown for the following three years (22/23, 23/24, 24/25). In 2022/23 the Settlement was more advantageous than the assumptions used in the draft MTFS. This was because the provisional settlement included an additional New Homes Bonus payment for 2022/23, some additional 'one off' grant funding and because Local Government Finance Reform had been delayed by at least a further year, and business rate growth was therefore retained. This additional funding means that the level of uncertainty for 2022/23 was reduced to Medium but remained High for 2023 /24.

The Council made reasonable assumptions in its budget planning in 2021/22 and 2022/23 modelling changes and their impact using inflation projections, budget variations and funding changes to produce a central scenario based on lower property growth, an increased level of Council Tax support, a maximum allowed Council Tax increase and a risk-based reduction in sales, fees and charges.

On 14 February 2023 the Cabinet considered a refreshed MTFS report for the period up to 2027 with updated key information. This report projected a contribution requirement of over £1 million from General Reserves to balance the budget in 2022/23. At the end of 2023/24 the Council was projected to have total General Reserves of over £6 million which would be sufficient to meet the funding gap until 2026/27. However, the report recognised that this was not sustainable and that options to close the funding gap would need to be explored. Council tax was not increased in 2023/24, following a 1.5% increase in 2022/23 and a 2.78% increase in 2021/22.

We consider that the Council's approach to budget setting is effective and appropriate.

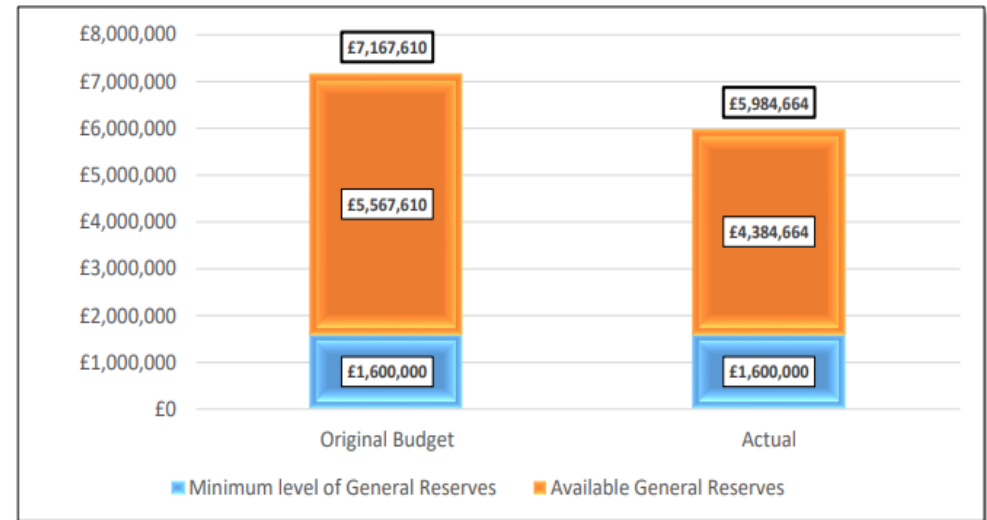
## Revenue Budget Outturn 2021/22

The Money Matters report to Cabinet in June 2022 identified that the revenue budget performance was an overspend of £42k and that this reduced the projected contribution to reserves to General Reserves to £131k. At £6.9m the General Reserves were £140k lower than originally forecast due to the ongoing impact of COVID-19. Nevertheless, the Council's General Reserves position is still good relative to its net revenue expenditure.

## Revenue Budget Outturn 2022/23 and level of General Reserves at the end of 2022-23

The financial Outturn for 2022/23 was reported to Cabinet on 27 June 2023 and indicated an overspend of £90,665, resulting in a higher contribution of £860,915 from General Reserves. The level of General Reserves on 31 March 2023 was just under £6 million. (Fig 1)

Fig. 1 Comparison of budgeted and actual reserves 2022-23



# Financial Sustainability (cont'd)

## Savings in 2021/22

In 2021/22 the MTFS proposed the early repayment of loans to reduce the Minimum Revenue Provision related to the capital investment at Burntwood Leisure Centre. This proposal was projected to result in annual savings of £140,000. There were no savings schemes required to balance the budget and the Council had reasonable plans in place to use savings to bridge the financial gap in 22/23.

## Savings in 2022/23

The MTFS report to Cabinet in February 2022 identified a £995k savings requirement in 2022/23 to be achieved through the Being a Better Council programme. This was approximately 8.1% of the net revenue budget. The MTFS report highlighted a risk that these savings may not be fully delivered in 2022/23, thus requiring a contribution from reserves to balance the revenue budget. The Money Matters Report of 14 February 2023 set out progress on savings plans and identified 37 projects in Appendix A aiming to achieve a total of £2m in savings. The eight-month projection showed a shortfall of £598k against this target.

The Council's strong reserves position has meant that a substantial programme of savings was not required until the longer-term funding position was set out in 2021/22 and the Council agreed to proceed with the 'Building a Better Council' programme which included savings projects. The Council recognised that full achievement of the planned savings in 2022/23 may not be delivered which would require a contribution from reserves to balance the revenue budget.

The Council's financial forecasting and robust reserves provided it with a sound foundation for the future. Nevertheless, it was clear that the Council needs to plan and deliver further savings in order to close the future funding gap set out in the 2023/24 to 2026/27 MTFS. In our opinion, the Council has the capacity to address this funding gap but will need to carefully monitor future transformation plans to ensure that savings are delivered, and slippage is avoided.

Overall, the Council's forecasting and robust financial position meant that savings plans did not feature as a significant part of its strategy until 2022/23. The Council's strong financial management processes suggests there is a reasonable expectation that the savings proposed for future years will be deliverable.

The Council set out its processes and a timetable for savings in the MTFS. This involves a process which includes review by the Overview and Scrutiny (O&S) Committee, Cabinet, Council and Audit and Member Standards Committee. The Council included plans to consult on its budget proposals, including savings and the outcomes of these consultations were reported back to the Council.

In 2021/22 and 2022/23 there was a clear and coherent link between strategic priorities and the way in which the budget was designed. As part of the MTFS budget principles, the Council stated that it would prioritise funding for statutory and regulatory responsibilities to ensure these are delivered in a way that meets legal requirements and customer needs. In 2021/22 the Council did not identify any plans to reduce or remove any services but in 2022/23 the Council recognised some annual savings would be realised through the reduction or closure of some services or facilities. However, these were described by the Council as modest in scale.

We have not identified a strategic weakness in the way the Council approached the planning and delivery of savings in 2021/22 and 2022/23.

## Treasury Management

In 2021/22 and 2022/23 the Treasury Management Strategy statement was set out in the MTFS and included information about management of the Council's cash flows as a key responsibility of Treasury Management.

In 2022/23 the Council's gross investment income was estimated as £690,000 and this equated to 5% of The Council's total funding of £12,551,000 compared with 3% of total funding in 2021/22.

The Council was originally projecting £2.060 million of loans outstanding at the 31 March 2022, a decrease of £0.196 million on the previous year. In February 2023 the level of external debt was reported as £1.126 million although this was projected to rise to £10.77 million over the period to 2027.

# Financial Sustainability (cont'd)

## Treasury Management (cont'd)

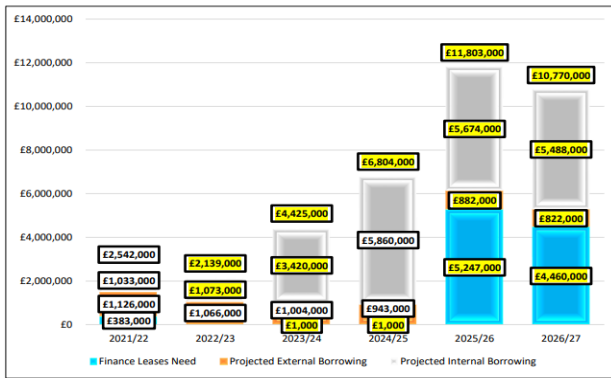


Fig 2. The Council's Capital Financing Requirement February 2023

The Council's reports on Treasury Management in 2021/22 and 2022/23 included an appropriate range of information presented in an accessible way. This included information on interest rates, minimum revenue provision, the investment strategy and reserves. It also included projections of the Council's cash flows (Fig 3) which took into account the income the Council would receive including Housing Benefits Grant, Council Tax and Business Rate income and expenditure such as payments to precepting bodies, employee costs and Housing Benefit Payments.

### Capital Programme

The Council's Capital Programme was included in its MTFs reports to Cabinet in February 2022 and 2023 and in 2022/23 the total planned capital expenditure was £7.9 million with borrowing need shown as £2.3 million. In February 2023, the 2023/24 capital programme rose to £12.2 million but borrowing need was £2.4 million. In both years the Council set out a detailed capital strategy which included its Capital Financing Requirement (Fig 2) and a Minimum Revenue Provision statement which complies with Government guidance.

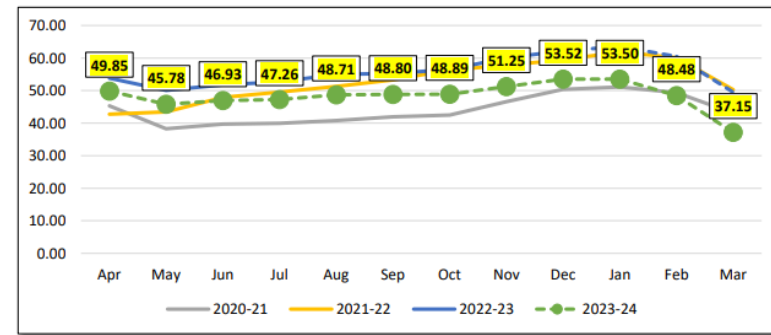


Fig 3. The Council's MTFs cashflow projections February 2023

### Conclusions

We are satisfied that the Council had adequate and appropriate processes in place to ensure that its medium-term financial planning, revenue and capital budgeting, monitoring and reporting processes were effective in 2021/22 and 2022/23. The Council recognised that pressures on its income and spending would require a robust approach to planning and achieving savings in order to balance the budget if its reserves were not to be depleted. We are satisfied that the Council's approach to Treasury Management was effective.

In conclusion we have not identified any significant weaknesses in arrangements to ensure the Council manages risk to its 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.

## Assessment and management of risk 2021/22

The Corporate Risk Register showed how the Council assessed risks by how likely they were and their potential impact. The Risk Register highlighted 7 key risks, 2 of which are 'significant', the resilience of the Council's staff teams following Covid and financial pressures. Risks were rated 'Red', 'Amber' and 'Green' (RAG rating) and appropriate mitigations were in place.

The Audit and Member Standards Committee received Risk Management Updates three times per year. Reports were notably detailed and thorough. Risks were mapped to corporate objectives, allocated to a named Cabinet member and senior officer and the direction of travel was clearly set out.

The Council's Internal Audit function was managed in-house, supported by additional specialist capacity. The Internal Audit Plan was thorough and well presented. It demonstrated a focus on core systems and areas of higher risk. 94% of the Audit Plan was completed. The Internal Audit Charter was reviewed annually. There were some delays in delivering the Audit Plan, partly caused by the time taken to commission specialist capacity, but that did not have a significant impact on performance.

There was no evidence of any significant weaknesses in internal controls. The Council had a Code of Conduct for Employees and a Confidential Reporting (Whistleblowing) Policy last updated in 2018. There were no concerns raised under the policy in 2020/21 or for 4 years previously.

## Assessment and management of risk in 2022/23

The Strategic Risk register was reviewed in 2022/23. Only one risk was identified as being outside the Council's risk appetite – 'SR1 Financial Pressures', which included the impact of the cost of living and fuel costs. This risk was reviewed monthly by the Council's Leadership Team. The Strategic Risks were revised and two previously separate risks, around organisational capacity to respond to disruption, were combined.

Risks were reported to the Leadership Team monthly and to the Audit and Member Standards Committee as well as the portfolio holder for Finance and Procurement, quarterly.

An External Quality Assessment against Public Service Internal Audit Standards was carried out with a judgement of 'generally conforms'. An action plan was developed to address any issues.

85% of Audit Plan was delivered against a target of 90% because three audits were deferred to 23/24, partly due to officer vacancies, which have now been filled.

There was no evidence of any significant weaknesses in internal controls. The Council maintained its Code of Conduct for Employees and Confidential Reporting (Whistleblowing) Policy throughout 2022-23 and there were no concerns raised.

# Governance (cont'd)

## Annual Budget Setting 2021/22 and 2022/23

In setting the 2021/22 budget, the Council modelled potential changes and scenarios in its financial circumstances, including the impact of inflation, budget variations from both revenue and capital spending and changes to funding. Similar approaches were taken to modelling factors such as property growth, New Homes Bonus income, fees and charges income and business rates.

The revenue budget was set within the overall context of the medium-term financial strategy which included a longer-term revenue perspective up to 2044/45. The implications of the capital programme, the Treasury Management Strategy, reserves and cashflow position were also taken into account.

The Council consulted on the 2021/22 budget through an online questionnaire on the Council's website, promoted through social media, e-news subscribers, traditional media and the Council's LDC News magazine distributed to 44,000 homes. 150 responses were received to the survey and responses to the questions were analysed and considered in the budget response.

In setting the 2022/23 budget the Council recognised that there was a high degree of uncertainty around the local government funding regime and took into consideration the impact of inflation, budget variations from both revenue and capital spending and changes to funding.

The revenue budget was set within the overall context of the medium-term financial strategy which includes a longer-term revenue perspective up to 2044/45. The implications of the capital programme, the Treasury Management Strategy, reserves and cashflow position were also taken into account.

The Council consulted on the 2022/23 budget through the same range of methods as in the previous year. 264 responses were received, an increase of 75% on the previous year. The questions were consistent with previous surveys to enable comparisons and they were analysed and considered in the budget response.

The Council used benchmarking to judge how they were performing against comparator councils, including reporting the CIPFA Resilience Index. Our own analysis of long-term borrowing as a proportion of long-term assets shows that Lichfield District Council ranks low against comparators.

## Financial management systems 2021/22

The Council had effective arrangements in place to ensure that financial performance was monitored, and timely and accurate reports were available to budget holders.

Members of the Finance team worked closely with budget holders to ensure that management information was available and timely action was taken to address budget problems. In 2021/22, engagement within the organisation was less effective than previously because of staff absences and vacancies following the pandemic.

Quarterly 'Money Matters' reports provided information about financial performance including budget variances which ensured that the Cabinet could understand the overall impact of performance on the budget.

The Leadership Team members reviewed their services and completed an annual submission setting out cost and demand drivers, income and savings plans. Responsibilities for financial management were clearly set out in job descriptions and staff objectives.

## Financial management systems 2022/23

The Council continued to have effective arrangements in place to ensure that financial performance was monitored, and timely and accurate reports were available to budget holders. Financial reports were provided in a timely way to support budget holders.

Engagement between the finance team and the rest of the organisation improved in 2022/23 when additional support was provided to newly recruited staff. All finance staff were now qualified accountants or accounting technicians and taking part in continuing professional development, as well as having access to up-to-date information and guidance to support their professional practice. The Leadership Team members continued to review their services and completed an annual submission setting out cost and demand drivers, income and savings plans. Responsibilities for financial management were clearly set out in job descriptions and staff objectives.

Quarterly 'Money Matters' reports provided information about financial performance including budget variances which ensured that the Cabinet could understand the overall impact of performance on the budget and enable detailed oversight.

# Governance (cont'd)

## Effective decision-making 2021/22

In 2021 the Council began a major change process 'Being A Better Council' to improve and strengthen its structure, performance and culture and generate savings.

The Strategic Plan 2020/24 was consulted on via residents' focus groups. The Council had a contact centre through which it provided information to residents and gathered data about their needs.

There were clear links between the Strategic Plan and Delivery and Service Plans. Reports to Cabinet and Full Council provided evidence of decision-making which was consistent with the Strategic Plan and other plans.

Clear information was provided to decision makers before strategic decisions were made. Reports to Cabinet and Full Council provided all the necessary information to support effective decision-making.

We made an Improvement Recommendation in the prior year that the Council should develop a Procurement Strategy which they implemented. The Procurement Strategy aligned the Council's approach to procurement to the Strategic Plan.

The Council has a wholly-owned company, LWMTS. The Chief Executive Officer (CEO), Chief Operating Officer (COO) and Deputy Leader of Cabinet and Cabinet Member for Investment, Economic Growth & Tourism are directors of its housing company. The s151 officer, Monitoring Officer and Cabinet Member for Customer Services & Innovation represent the Council as Shareholder.

## Effective decision-making 2022/23

As part of the 'Being a Better Council' programme, the Council improved its approach to external communications. This led to an increased number of responses from 7,500 residents whose views influenced the development of the Lichfield 2050 Strategy. The Council also established a Youth Council and used intermediaries, such as faith groups, to reach under-represented groups.

There were clear links between the Strategic Plan and Delivery and Service Plans. Reports to Cabinet and Full Council provided evidence of decision-making which is consistent with the Strategic Plan and other plans.

It was reported to Cabinet in September 2021 that an in-house Procurement Team had been established and was working to deliver an Action Plan and key performance indicators designed to embed good procurement practice across the Council. The Council introduced a Future Procurement Plan to improve programming of procurement activity.

The CEO, COO and Deputy Leader of Cabinet and Cabinet Member for Investment, Economic Growth & Tourism continued to be directors of LWMTS. The s151 Officer Monitoring Officer and Cabinet Member for Customer Services & Innovation represent the Council as Shareholder and the company's business plan is approved by a Cabinet Member decision.

While the Council made every effort to avoid conflicts of interest, ideally, it would strengthen the governance arrangements if the Council reduced the direct involvement of members and senior officers as directors of the company to avoid conflicts of interest. We have made an improvement recommendation about this. (Improvement Recommendation 1)

## Conclusions

**Overall, we found no evidence of significant weaknesses in the Council's governance arrangements. We have made an improvement recommendation (Improvement Recommendation 1) in relation to governance of the Council's wholly-owned company which is set out on page 14.**

**The Council should review its arrangements for the appointment of directors to its wholly-owned company to minimise the potential for conflicts of interest.**

# Improvement recommendation



## Governance

### Recommendation 1

The Council should review its arrangements for the appointment of directors to its wholly-owned company to minimise the potential for conflicts of interest.

### Audit year

2022/23

### Why/impact

There is a risk that conflicts of interest between the Councils and their wholly owned company can lead to poor decision making and a lack of transparency.

### Auditor judgement

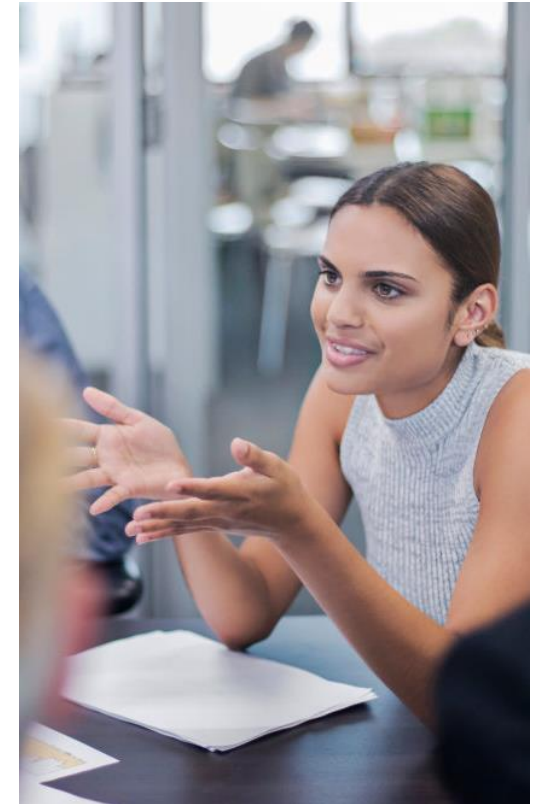
There is an inherent risk of conflicts of interest between member and officers' roles within the Council and their roles as directors of a council owned company. For example, if the Council lends money to the company, it will seek the best possible return on its investment, but it will be in the interests of the company to pay as low a rate of interest on its loans as possible.

### Summary findings

Members and senior officers are very much aware of the potential risks of conflict of interest that and when they set up a company. They have taken steps to minimise the risk of conflict of interest by establishing a shareholder agreement and ensuring effective scrutiny of the company. They are keeping their relationship with the company under review. As the company becomes more established, they should continue to keep the roles of members and officers in the company with a view to reducing their involvement as directors

### Management Comments

A review of the LATCo governance arrangements and structures has been included on the internal audit plan and will be undertaken by BDO.



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's Strategic Plan was approved in 2020 and covers a four-year period. The Plan's four strategic themes were:

- Enabling People
- Shaping Place
- Developing Prosperity
- A good Council

In 2021/22 the Council's budget and financial reporting was mapped to the four strategic themes and was reflected in budget monitoring through its regular quarterly Money Matters reports. The Money Matters Reports in February 2022 and February 2023 show revenue spending variances by strategic theme at the eight month point of their respective financial years.

In September 2021 the Council set out plans for 'Being a Better Council' change programme to improve the quality and responsiveness of services and deal with the projected gap in future funding. Fifteen workstreams are identified along with key performance indicators.

The Money Matters report of February 2022 reviewed financial performance for the first eight months of 21-22 and showed revenue spending variances by strategic theme. These thematic totals were then broken down into project variances. The projected revenue budget overspend was £25,680 over the budgeted figure. The Money Matters report of June 2022 indicated a final revenue spending figure of £42,031 over budget.

The Council's strong approach to managing its finances was reflected in a Local Government Association (LGA) Corporate Challenge Feedback Report which took place in November 2021 and which described the Council as "well-run with committed and passionate members and officers." The positive feedback to the Council included a recommendation that it should develop clear outcomes for the remainder of the strategic plan to produce a golden thread from strategic intent to delivery plans.

In 2022/23 the Council continued to review its financial performance through the Money Matters Reports. For example, in February 2023 financial performance for the first eight months of 2022-23 showed revenue spending variances by strategic theme. These thematic totals were then broken down into project variances. The report projected a shortfall of £598,000 in the revenue budget.

The Council also undertook a review of its Being a Better Council programme which reported that an aim of putting in place a new performance management framework by January 2022 had not been achieved by March 2023. Similarly, an aim to provide a 'high support, high challenge' approach to managing performance was not achieved by its target date of September 2022.

The Council continued to have strong financial performance management and monitoring throughout 2021-22 and 2022-23 but fell short in its aspirations to improve its performance management framework and strengthen the golden thread running from its strategic aspirations to its resources and activities. We have made an improvement recommendation about this. (Improvement Recommendation 2)

# Improving economy, efficiency and effectiveness (cont'd)

## Performance Management (cont'd)

The Council demonstrated a continuing focus on efficiency and improvement throughout 2021/22 and 2022/23. The Being a Better 2001/2004 Strategy included a range of measures relating to the Change Programme. The Council responded to the LGA Peer Challenge recommendation that clear outcomes should be identified for the remainder of the strategic plan period and progress was made in linking resources and activities to key outcomes in the strategic plan. Cabinet received reports on progress in meeting Delivery Plan targets and performance on corporate indicators was monitored. The Council recognised that, although it continued to have a strong reserves position, that was not a sustainable approach and that additional savings and income would be required.

In 2022/23 the Council's performance improvements included structural and cultural improvement goals which signalled a clear emphasis from the Council's senior leadership on moving away from dependence on the use of reserves to balance the annual budget. An increasing appetite was developed for re-prioritising resources and focussing investment on operational improvements and digital capacity.

Our own analysis shows that in terms of comparisons with nearest statistical neighbours, Lichfield District Council's service costs are mainly below the average. However, Planning and Development unit costs and cultural and related service costs were higher than average.



# Improving economy, efficiency and effectiveness (cont'd)

## Procurement

The Council's Procurement Strategy was approved December 2020 and the September 2021 Cabinet meeting considered a report setting out progress in implementing the procurement strategy. The strategy included an aspiration to produce a contract management guide but this was not achieved in 2021/22.

The Council assessed itself against the LGA National Procurement Strategy Maturity Assessment and demonstrated improvement in 2021/22 but still had progress to make, particularly in relation to contract and relationship management. The Council's approach included an appreciation of risk and reward in contracting. For example, in October 2021 the Council initiated the re-procurement of Agency Staff for Operational Services through a Framework Agreement with two providers. The report identified and set out the mitigation for key risks.

In 2022/23 the Council introduced a Future Procurement Plan to improve programming of procurement activity. Risks and rewards were considered when entering into key commercial ventures. For example, in May 2022 the Cabinet considered a report on Lichfield West Midlands Traded Services Ltd (LWMTS Ltd), its re-purposed Local Authority Trading Company (LATCO). The report identified three business streams - Talent Acquisition, Project Management of Capital Works and Corporate Landlord Services which would form the main business of the LATCO. The report set out legal, governance and financial considerations. And in October 2022 the Council's Cabinet set out its intention to enter into a joint venture with Evolve Estates Ltd through a Limited Liability Partnership to develop a new cinema and associated activities. The total financial cost to the Council is estimated as £5,349,000.

In 2022/23 the Council again assessed itself against the LGA National Procurement Strategy Maturity Assessment and demonstrated improvement in 2022/23 but had made limited progress in relation to contract and relationship management. We have made an improvement recommendation about this (Improvement Recommendation 3)

## Partnerships

The Council demonstrated its awareness of the importance of key partnerships in a number of ways in 2021/22 and 2022/23. The Council had a wide range of partnerships which are reflected in its plans and strategies. For example, the Lichfield District Community Safety Plan mapped the lead agencies involved in the delivery of priority issues.

In 2022/23 the Council began work on a partnership with Evolve Estates Ltd to develop a new cinema as well as providing assistance to its key partner in leisure, Freedom Leisure, before the termination of the contract was negotiated.

The Council also set out its ambitions around engagement with community organisations in its community power strategy in 2021/22. This included improving outcomes by engaging with community organisations.

The LGA Corporate Peer Challenge Report in November 2021 found that partners of the Council felt that LDC had a legitimate role as a Leader of Place.

The Council's approach to working with partnerships is also reflected in the way that risks are assessed and managed. For example, the Council identifies risks relating to key partnerships within its strategic risk register. Partners identified include the Local Resilience Forum, Lichfield District Board, Staffs County Council, Birmingham Chambers, Burntwood Business Community, and key software suppliers.

## Conclusions

**Overall, we found no evidence of significant weaknesses in the Council's governance arrangements. We have made two improvement recommendations which are set out on pages 18 and 19.**

**The Council should complete the development of its performance framework to meet its aspiration of a high support/high challenge culture through the development and reporting of high-quality performance data including performance benchmarking.**

**The Council should develop clear protocols and guidance on contract and relationship management.**

# Improvement recommendations



Improving economy, efficiency and effectiveness

**Recommendation 2** The Council should complete the development of its performance framework to meet its aspiration of a high support/high challenge culture through the development and reporting of high-quality performance data including performance benchmarking.

**Audit year** 2021/22 and 2022/23

**Why/impact** The Council has set out its ambition to become more data-driven and an effective performance management framework will assist it to strengthen the golden thread between its priorities and activities as well as enabling it to compare its performance with similar organisations.

**Auditor judgement** The Council did not complete its development of its performance framework in 2022/23.

**Summary findings** We have set out on page 15 of the report our finding that the Council had not met its aim to put in place a new performance management framework by Jan 2022.

**Management Comments** The Council agrees with the above recommendation. Resources have been focused on developing our people performance management framework to strengthen the golden thread. This has now been successfully rolled out. Focus will now turn to corporate performance indicators with the aim of reporting on a suite of performance indicators by the end of 2023/24.



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

# Improvement recommendations



Improving economy, efficiency and effectiveness

**Recommendation 3** The Council should develop clear protocols and guidance on contract and relationship management.

**Audit year** 2021/22 and 2022/23

**Why/impact** The Council has identified that improved and consistent contract and relationship management would have a positive effect on the Council's ability to secure value for money from its key suppliers and partners.

**Auditor judgement** The Council has not yet made sufficient progress in meeting its aim of producing protocols and guidance on contract and relationship management.

**Summary findings** On page 17 of the report we have set out our findings that the Council had made limited progress in relation to improving its contract and relationship management by providing protocols and guidance.

**Management Comments** The Council continues to maintain an up to date contract register with named contract owners.  
A contracts management policy and procedure guide has been developed with a supporting toolkit that includes: Contract overview document, Contract management planner and Minutes and agenda templates

"Effective contract management" slides are also available, and the procurement & commissioning team will deliver training across the council once the newly appointed Social Value Co-ordinator is in post.



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	The Council should ensure that sufficient senior leadership oversight is in place over reports presented for the purpose of decision-making to ensure that appropriate information is included and courses of action are in-line with legislation and policy. The Council should also consider further tailoring to its Constitution to ensure processes and policies are more closely matched to the Council's operations.	Improvement	March 2022	The Council has tightened its processes to ensure that reports and decisions are informed by the S151 and Monitoring Officer and that there is stronger oversight by the Senior Leadership team.	Yes	No
2	The Council should increase visibility of reporting against Corporate Indicators and ensure that information on its public facing website is up to date.	Improvement	March 2022	The Council has made improvements in its approach to performance management but has yet to complete its aim of developing a revised performance framework. We have made an Improvement Recommendation about this.	Partly	Yes
3	The Council should ensure that all recommendations from the Corporate Peer Review process are followed up on and progress against these reported.	Improvement	March 2022	A re-visit and progress report by the LGA peer review team has been considered by the Council.	Yes	No
4	The Council should review the way in which it enforces compliance with online training and take steps to increase take-up of annual performance reviews.	Improvement	March 2022	The Council monitors uptake of mandatory training and removes access to key systems where training is not completed. Performance management processes are in place to deal with failure to carry out performance reviews.	Yes	No

# Opinion on the financial statements for 2022/23



## Audit opinion on the financial statements

We intend to issue an unmodified opinion in respect of 22/23 once all audit procedures are completed.

## Audit Findings Report

More detailed findings can be found in our AFR, which was published and reported to the Council's Audit Committee on 28 November 2023.

## Whole of Government Accounts

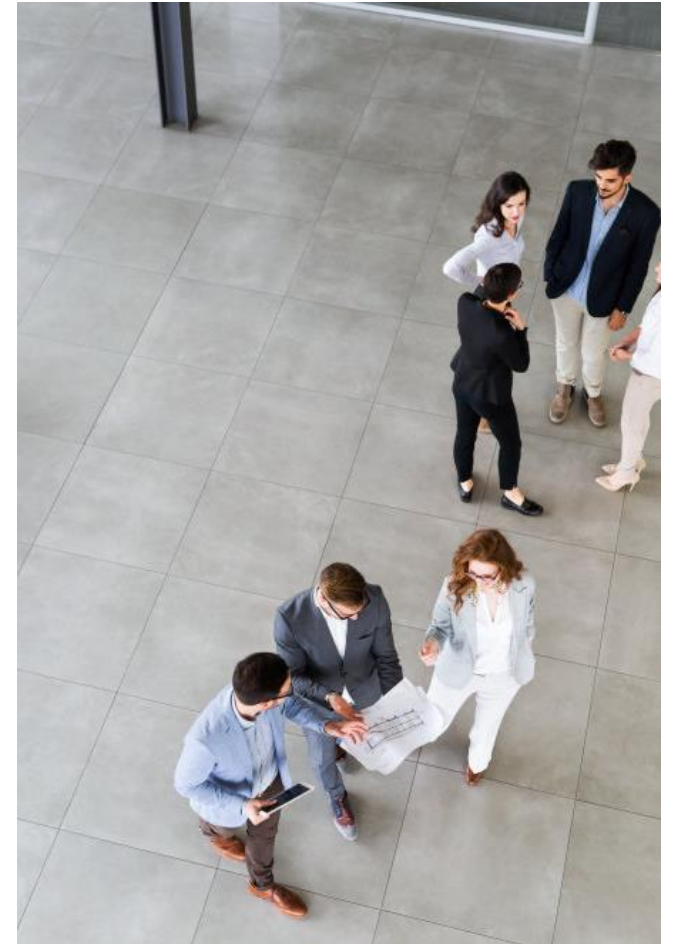
To support the audit of the Whole of Government Accounts (WGA), we are required to review and report on the WGA return prepared by the [type of body]. This work includes performing specified procedures under group audit instructions issued by the National Audit Office. We expect no issues.

## 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.

## 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



# Opinion on the financial statements for 2021/22



## Audit opinion on the financial statements

We intend to issue an unmodified opinion in respect of 21/22 once all audit procedures are completed.

## Audit Findings Report

More detailed findings can be found in our AFR, which was published and reported to the Council's Audit Committee on 28 November 2023.

## Whole of Government Accounts

To support the audit of the Whole of Government Accounts (WGA), we are required to review and report on the WGA return prepared by the [type of body]. This work includes performing specified procedures under group audit instructions issued by the National Audit Office. We expect no issues.

## 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.

## 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.

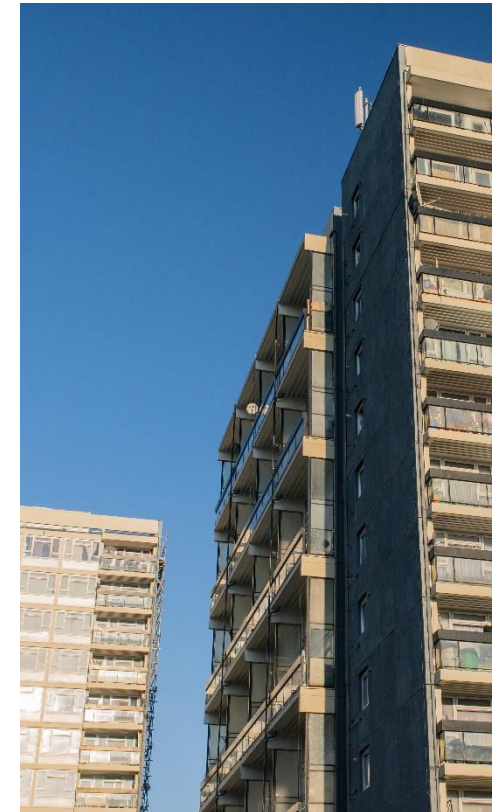
Financial statements are the main way in which local public bodies account for how they use their resources. Local public bodies are required to prepare and publish financial statements setting out their financial performance for the year. To do this, bodies need to maintain proper accounting records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

Year of audit	Risk of significant weakness	Procedures undertaken	Findings	Outcome
2021/22 and / or 2022/23	Financial sustainability was not identified as a potential significant weakness, see page 7 for more details.	None	No significant weakness	Appropriate arrangements in place no further action taken.
2021/22 and / or 2022/23	Governance was not identified as a potential significant weakness, see page 11 for more details.	None	No significant weakness	Appropriate arrangements in place, one improvement recommendations raised.
2021/22 and / or 2022/23	Improving economy, efficiency and effectiveness was not identified as a significant weakness, see page 15 for further information	None	No significant weakness	Appropriate arrangements in place, two improvement recommendations raised.

# Appendix C – An explanatory note on recommendations

A range of different recommendations can be raised by the [type of body]’s auditors as follows:

Type of recommendation	Background	Raised within this report	Page reference
Statutory	Written recommendations to Council under Section 24 (Schedule 7) of the Local Audit and Accountability Act 2014.	No	
Key	The NAO Code of Audit Practice requires that where auditors identify significant weaknesses as part of their arrangements to secure value for money they should make recommendations setting out the actions that should be taken by the Council. We have defined these recommendations as ‘key recommendations’.	No	
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	14,18,19

# Appendix D – Sources of evidence



## Staff involved

- Anthony Thomas s151 officer
- Mark Hooper Monitoring Officer



## Documents Reviewed

- Procurement\_strategy 2020 - 24
- Cabinet Report - Procurement Update 7.9.21
- Annual Treasury Management Reports 21 22 and 22 23
- Budget\_Book\_2021\_22 and 22 23
- Capital Strategy 2021\_22 and 22 23
- Annual\_Governance\_Statement\_2020\_21 and 2021\_22
- Code\_of\_conduct\_for\_members
- Confidential Reporting (Whistleblowing) Policy 2019 and 2022
- Counter Fraud Corruption Policy Statement
- MTFS 2021\_22 and 2022\_23
- Mid-Year Treasury Management Report Nov 21
- Medium Term Financial Strategy Report Jan 22
- Risk Management Update 11.11.21 and 30.11.22
- Treasury Management Statement and Prudential Indicators
- Lichfield\_CPC\_Progress\_Review 2022
- Annual Report of the Audit Member Standards Committee 2022\_23



## Meetings Observed

- Cabinet meeting - 13<sup>th</sup> April 2021
- Overview and Scrutiny Committee meeting - 19<sup>th</sup> July 2022
- Full Council meeting - 28<sup>th</sup> February 2023
- Audit and Member Standards Committee meeting – 23<sup>rd</sup> March 2023



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