

Auditor's Annual Report on Lancashire County Council

2020-21

4 February 2022



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.



Section	Page
Executive Summary	3
Key recommendations	5
Commentary on the Council's arrangements to secure economy, efficiency and effectiveness in its use of resources	6
Financial sustainability	7
Governance	12
Improving economy, efficiency and effectiveness	17
COVID-19 arrangements	20
Opinion on the financial statements	22
 Appendices	
A – The responsibilities of the Council	
B – An explanatory note on recommendations	
C – Detailed unit cost analysis	

The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Council or all weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. 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.

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 Authority has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. The auditor is no longer required to give a binary qualified / unqualified VFM conclusion. Instead, auditors report in more detail on the Authority's overall arrangements, as well as key recommendations on any significant weaknesses in arrangements identified during the audit.

Auditors are required to report their commentary on the Authority's arrangements under specified criteria. As part of our work, we considered whether there were any risks of significant weakness in the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources. We identified risks in respect of:

- Financial sustainability
- Governance
- Improving economy, efficiency and effectiveness

Criteria	Risk assessment	Conclusion
Financial sustainability	No risks of significant weaknesses identified	No significant weaknesses in arrangements identified, but improvement recommendations made
Governance	No risks of significant weaknesses identified	No significant weaknesses in arrangements identified, but improvement recommendations made
Improving economy, efficiency and effectiveness	No risks of significant weaknesses identified	No significant weaknesses in arrangements identified.



Financial sustainability

The Authority is operating in an increasingly uncertain financial environment. For the second successive year, the Comprehensive Spending Review was a single year spending review. Lancashire, as with all local authorities, will need to continue to plan with little certainty over funding in the medium term.

Despite this uncertainty, and the challenges posed by COVID-19, the Authority has maintained a good financial position. As at 31 March 2021, the Authority held general revenue reserves of £242m and held £250.9m of earmarked reserves.

This places the Authority in a strong financial position. Having planned its budgets for future years well in advance will enable sensible phasing of proposals to minimise the impact of the financial climate on services to residents.

Our work has not identified any significant weaknesses in arrangements to secure financial stability at the Authority. We have identified a small number of improvement recommendations. Further details can be seen on pages 7-11 of this report.



Governance

Our work this year has focussed on developing a detailed understanding of the governance arrangements in place at the Authority and the changes instigated as a response to the pandemic.

Our work on both business as usual governance and adapted structures has not identified any significant weaknesses in arrangements in relation to governance. We have identified a small number of improvement recommendations. Further details can be seen on pages 12-16 of this report.



Improving economy, efficiency and effectiveness

The Authority has demonstrated a clear understanding of its role in securing economy, efficiency and effectiveness in its use of resources.

Our work has not identified any significant weaknesses in arrangements or improvement recommendations in relation to delivering economy efficiency and effectiveness. Further details can be seen on pages 17-19 of this report.

Opinion on the financial statements

We presented our finalised Audit Findings Report to the Informal Meeting of the Audit, Risk & Governance Committee on 21 December 2021. We have completed our audit of the Council's financial statements and issued an unqualified opinion on 22 December 2021.

Further detail is set out on page 22.



Key recommendations



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'.

Our work has not identified any significant weaknesses in arrangements and therefore we have not made any key recommendations.

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



Commentary on the Council's arrangements to secure economy, efficiency and effectiveness in its 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 each of these three areas, as well as the impact of Covid-19, is set out on pages 7 to 21.

Financial sustainability



We considered how the Council:

- identifies all the significant financial pressures it is facing and builds these 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
- identifies and manages risk to financial resilience, such as unplanned changes in demand and assumptions underlying its plans.

2020/21 and ongoing financial pressures

Lancashire County Council has historically performed well, with a record of strong financial and budgetary management. Despite the challenging environment in which it is operating as a result of the Covid-19 pandemic, the 2020/21 outturn position for the council resulted in an underspend of £19.232m.

The approved budgeted net expenditure for the year was £844.851m. The net outturn position for the year was £825.619m. Included within the outturn is £45.5m of Covid-19 emergency funding which has been apportioned based on the pressures experienced across service directorates but is non-recurrent.

One of the key areas contributing to the underspend was the significant underspend in Treasury Management of £24.602m, as a result of the sale of gilts and bonds. The underspend on Treasury management negated the main area of overspend in 2020-21 which was Adult Services (£15.870m).

As with the majority of councils, Adult Services makes up a significant proportion of the total net budget and an area of difficulty in controlling costs. This directorate was subject to significant volatility in demand across services provided throughout the year as a result of the pandemic. Adult services also makes up a significant proportion of the savings plans, many of which were delayed in 2021 due to the pandemic.

The Council has a very strong reserves position with a General Fund position of £23.4m (2019-20 – £23.4m) and other earmarked reserves of £469.5m (2019-20 – £310.4m). Within these reserves is the transitional reserve which had a balance of £201.7m as at 31 March 2021. This reserve is the primary means of addressing any short term funding gaps in the budget.

In 2020-21, there was an agreed contribution to the budget of £1.385m which was determined as part of the original budget setting process in February 2020. Due to the combination of the revenue underspend and reduced expenditure from reserves, the transitional reserve increased by £42.355m in year. Whilst a significant proportion of the increase is supporting future year commitments. With commitments of £33.130m forecast over the next 3 years, £168.625m is available to support the financial gap in 2021/22 and beyond.

The Council's latest Medium Term Financial Strategy, which was presented to the Cabinet Committee in November 2021, has identified a funding gap of £58.563m by 2024/25. The savings plans which have been identified by the Council are therefore an important component in being able to address the forecast financial deficit in the medium term.

Financial sustainability

Financial Planning

The Corporate Strategy clearly sets out corporate strategic priorities, which are referenced within the Council's financial planning. This planning aims to provide a framework to invest in the Plan's broader ambitions and long term priorities, as well as the recovery from COVID-19.

The capital programme also supports the Council's corporate priorities. The Council has a Capital Strategy which aims to support the delivery of the council's Corporate Strategy by investing in the capital asset base within the resources available and with due regard to risk management. The capital budget for 2021/22 correlates with the revenue budget with the main areas of spend being Adults, Schools and Highways service areas.

The original capital plan agreed by Full Council in February 2020 was £133.842m. With additional funding being received in year specifically to help the Council deliver projects linked to the Covid-19 pandemic, the delivery programme noticeably increased (£160.420m). The additional projects took priority over some schemes in the original delivery programme, causing some slippage. The final outturn for capital spend was £127.810m, which is 80% of the amended budget.

We are satisfied there is a clear linkage between the Medium Term Financial Strategy and the priorities set out in the Corporate Strategy.

Whilst discretionary spending is subject to close scrutiny when spending and savings plans are being considered, these two types of spending are not clearly differentiated in the financial planning reports which available on the internet. We have identified this as an improvement recommendation.

Managing risks to financial resilience

The Medium Term Financial Strategy (MTFS) is based on a number of assumptions due to the uncertainty in relation to future medium-term local government funding. The Corporate Management Team have reviewed and assessed the key assumptions and the "most likely" scenario was adopted within the MTFS. Throughout 2020-21 a review of these assumptions was undertaken to identify the impact of COVID-19 and ensured that the results were factored in to the MTFS.

Savings plans

The Council monitors the delivery of planned savings, and mitigating actions where required, on a quarterly basis. These are reported to the Corporate Management Team (CMT) and to Cabinet as part of the updates to the Medium Term Financial Strategy (MTFS). During 2018/19, all services undertook a service challenge and this resulted in savings identified that total £77.171m over the period 2019/20 to 2022/23. £26.841m of these related to management actions rather than policy decisions with the most significant element relating to adult social care at £18.9m. As a result of the pandemic a significant proportion of these savings have been delayed for future years as officer priorities in service areas were refocussed on the response to the pandemic.

There was significant stakeholder engagement and consultation with the 2018/19 services challenge review. Many of the savings identified then remain in progress today. Further savings plans were identified since then which have not been subject to similar levels of stakeholder consultation, we have raised an improvement recommendation on this matter.

The scale of savings agreed to be delivered over future financial years remains significant with £24.876m delayed in 2020/21 due to the pandemic response. In addition there are forecast savings of £24.241m to be delivered across 2021/22 and 2022/23. Should the Covid emergency response continue for a protracted period it is likely that there will be further slippage.

Generally, we find the Council to be well managed and there is a high level of understanding of its budgetary position, budgetary pressures and any savings required. There is an established process by which the budget is reviewed regularly, and issues are reported on a timely basis to those charged with governance.

Financial sustainability

Medium term financial planning

The Medium Term Financial Strategy (MTFS) is updated quarterly alongside the quarterly reporting of the budget to actual performance. At each update of the MTFS, the latest available known changes in finance settlements, council tax rates, demand for services, income forecasts and latest expected savings performance are applied.

In formalising the MTFS, the Council apply scenario analysis to critically analyse a range of inputs and establish the most likely outcome. This is especially vital as a result of the uncertainty of future funding. A number of scenarios were modelled which whilst not an exhaustive analysis of all funding options, consisted of the most obvious measures which could be taken. This resulted in a range of forecast funding gaps being identified. Following a review of these scenarios by the Corporate Management Team, including the consideration of advice from external advisors, a core and most likely funding scenario on which to base this medium term financial strategy was agreed. This most likely scenario used in the MTFS as at November 2021 forecasts a gap of £58.563m covering the period 2022/23 to 2024/25 which is a decrease of £5.395m from the last reported position in September 2021. The reduction is a combination of revised demand figures included in the forecast, and an additional grant allocation. In this scenario there would be a need to meet the funding gap with available reserves, however the strength of the Council's reserves means that the transitional reserve is able to be sufficient to cover the funding gap and allow time for the Council to address the structural deficit in a sustainable manner.

A key area of uncertainty within the Medium Term Financial Strategy relates to the demand for, and funding of, adult social care across the next few years and beyond. Social care charging reforms are due to be introduced in October 2023, which include a lifetime cap on the amount anyone in England will need to spend on their personal care, alongside changes to the means-test for local authority financial support via an amendment to the Care Act 2014. The impact which this will have on "self-funders" using Council services and the related costs to the Council are not yet known. This is an area which the Council will need to keep abreast of to determine if it creates an additional financial pressure in future years.

Similarly, there are increasing pressures across many local authorities within the High Needs Education Services. At a number of local authorities demand in this area is outstripping central government funding adding additional pressures to budgets. The outturn position for the 2020/21 High Needs Block (HNB) was an underspend of circa £0.9m. Whilst this is not an area of immediate concern for the Council, there is potential that further demand in this area could cause additional financial pressures in the future.

Overall, from our assessment of the arrangements in place, we are satisfied the Council identifies and manages risks to financial resilience and challenges the assumptions underlying its plans.

Conclusion

We are satisfied the Council has appropriate arrangements in place to ensure it manages risks to its financial sustainability. We have not identified any risks of serious weaknesses. We have identified two opportunities for improvement. These are set out overleaf.

Improvement recommendations



Financial sustainability

1 Recommendation	A clearer distinction could be made between statutory and discretionary spending in the budgetary information provided to members and published on the web.
Why/impact	This would help residents to understand the difference between these types of spending and would help inform them as to any spending which is made as a result of manifesto pledges or following a decision by the Council to undertake a specific project.
Auditor judgement	The different categories of spending could be made clearer in the budget information which is included in the public agenda papers. Currently it is not apparent whether any of the Council's spending is discretionary.
Summary findings	No distinction is made in the financial information reported to Those Charged With Governance between statutory and discretionary spending.
Management comment	<p>We are pleased that on the basis of a detailed and thorough review Grant Thornton have concluded that there are appropriate arrangements in place to ensure we manage risks to our financial sustainability with no serious risks identified. We have, in previous budget cycles, analysed the budget between statutory and non-statutory expenditure and reported this to Members. This exercise recognised that statutory expenditure was representing an increasing proportion of the overall budget but also that there are challenges with regard to the interpretation of statutory and discretionary as they relate to a number of service areas.</p> <p>One of the key elements of previous, and future budget cycles, has been to look at how all services including statutory ones can be delivered differently to deliver better outcomes for individuals, often at a reduced cost overall, and discretionary or preventative services can often be key in supporting these changes. As an area of potential improvement this will be considered by the Member Budget Scrutiny Review Panel.</p>



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

Improvement recommendations



Financial sustainability

1 Recommendation	Stakeholders should be consulted on all significant savings schemes/plans identified by the Council.
Why/impact	This will ensure that all staff, local residents, service users, the voluntary sector and local businesses have a say in the savings that have been identified and what the potential impact may be on services being provided.
Auditor judgement	Whilst there was significant stakeholder engagement and consultation within the 2018/19 services challenge review. Further savings plans were identified since then which have not been subject to similar levels of stakeholder consultation. It is recommended that all major savings plans identified are subject to consultation with key stakeholders.
Summary findings	Arrangements for how the Council plans to bridge it's funding gap and identify achievable savings plans could be improved by ensuring suitable involvement of key stakeholders in the development of savings plans.
Management comment	The report recognises the significant stakeholder engagement and consultations as part of the service challenge review process and the majority of current agreed savings plans resulted from this process. Subsequent agreed savings have been primarily efficiency or income related and we are not aware of any savings that should have been through a specific consultation process, before final decisions being made, that haven't. As an area of potential improvement this will be considered by the member Budget Scrutiny Review Panel.



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

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 effectiveness processes and systems are in place to ensure budgetary control
- ensures it makes properly informed decisions, supported by appropriate evidence and allowing for challenge and transparency
- monitors and ensures appropriate standards.

Monitoring and assessing risk

The Corporate Register is used to monitor progress against governance issues and quarterly progress reports are also presented to the Corporate Management Team (CMT) and the Cabinet Committee on Performance Improvement. There is a separate risk register for the Pension Fund and the full register is reviewed by the Local Pension Board and presented to the Pension Fund Committee every six months.

The Corporate Risk Register (CRR) weights the identified risks and assigns an appropriate RAG rating. The RAG rating is based on the impact/likelihood assessment of each risk. The CRR sets out what the current rating is as well as the target rating. The CRR sets out the risk, the risk consequences, mitigating actions already in place, recommendations or actions to be taken, progress made to date and responsible officers for both. It also sets out how likely achieving the target score is as well as a target date for achieving it.

The Cabinet considers risks as part of their decision making role on corporate policies, including the annual budget setting processes, major policy decisions and major projects. The Corporate Management Team also reviews these corporate risks through quarterly monitoring reports. The Council's understanding of and planning for risks appears sound, and does not demonstrate a risk of a serious weakness.

A full Internal Audit plan was prepared for the start of the year but, by the time the Audit, Risk and Governance Committee considered it on 27 July 2020, the plan had already been curtailed by the onset of the coronavirus pandemic. The majority of the internal audit team had been withdrawn from internal audit work and redeployed to support the council's operational response. It was still anticipated though that detailed audit work on a range of services, systems and processes would be undertaken. However, it became apparent that the Council lacked the capacity to undertake a full audit plan, and a much-reduced plan was presented to the committee in October 2020. As such there was a significant reduction in the number of internal audits completed in year with an assurance rating only provided in 9 cases (over 40 were planned).

The HoIA opinion for 2020-21 was therefore supported by "other assurance" gained during the year from sources other than the Internal Audit Service's own work and the opinion has also been strongly informed by the Internal Auditor's experience within the organisation, judgements about the calibre and actions of the senior management team, and understanding of the organisation's direction of travel. A reduction in the capacity of Internal Audit reduces their ability to evaluate and improve the effectiveness of risk management, control and governance processes. We understand the unique challenges the Covid-19 pandemic impacted on the Council, and we are satisfied that there is no evidence of significant and pervasive changes to control processes at the Council during the year. A full Internal Audit team is operating for 2021-22 with 7 Internal Audits completed and reported to the Committee as at November 2021, all with "Moderate" or "Substantial" levels of assurance awarded.

Despite this other assurance work which contributed to the HOIA opinion for 2020-21, there was, at least, a risk that the overall system of internal control was compromised during the year. However, the positive assurance ratings for 2021-22 already reported provide some evidence that there were not material failings.

Governance

Budgetary Setting Process

The budget-setting process is multi-layered and extremely thorough, with several stages. The draft budget is then presented to Cabinet for review in January, with additional papers presented to Full Council to approve the budget in February.

During the budget setting process the contents of the report to cabinet are subject to consultation with a variety of stakeholders and partners. For the budget consultation, an email was sent out on behalf of the County Council outlining the proposal for Council Tax and an Adult Social Care Precept and containing a link to the relevant reports - the results of the consultation were included in Appendix B to the Budget which was presented to Full Council for Approval.

There is a quarterly review of budget to outturn position which is presented to Cabinet. There is also a quarterly update of the Medium Term Financial Strategy which assesses the medium term financial health of the Council based on latest known changes in finance settlements, council tax rates, demand for services, income forecasts and latest expected savings performance. The monitoring of the budget to outturn position and medium term financial position compliment each other and demonstrate a consistent approach to monitoring the Council's finances. The arrangements in place confirm the strength and validity of the budget setting processes in place.



Budgetary control

There are good systems in place for oversight of the budget. The Finance Department engages at least monthly with budget holders. Budget holders receive monthly financial performance information from the operational finance team. The financial performance is discussed with the budget holder each month with any key areas, trends or issues drawn out to be added to the narrative section of the financial performance report which is reviewed by the Corporate Management Team and CEO on a monthly basis. This information is collated into the quarterly "Money Matters" budget reports presented to the Cabinet.

The quarterly budget monitoring reports detail variances by department (and service lines within departments) demonstrating a regular identification of in-year variances. Actions being taken or to be taken by departments in response to such variances are set out. The reports are clear and concise and allow for the key information reported to be easily digested.

Leadership and committee effectiveness/decision making

Appropriate leadership is in place. The Council operates a Leader and Cabinet form of executive arrangements. In addition, there are two scrutiny committees which hold the Cabinet to account.

The work of the Council's committees is governed by the constitution. This constitution is regularly reviewed and updated. The constitution is openly available on the Council's website. The Annual Governance Statement needs to be read alongside the Council's constitution, which sets out how the Council operates, how decisions are made and the policies which are followed to ensure that these are efficient, transparent and accountable to local people.

There is a good suite of policies in place, covering anti-fraud and corruption, and the Council has an established anti-fraud culture. We have identified some opportunities to strengthen these with a central register of members' interests and similarly a central register of gifts and hospitality declared. We have also identified some improvements with regard to the level of challenge offered at Committees.

Monitoring and ensuring appropriate standards

The annual governance statement is compliant with the CIPFA code. An appropriate level of care is taken to ensure the Council's policies and procedures comply with all relevant codes and legislative frameworks.

Conclusion

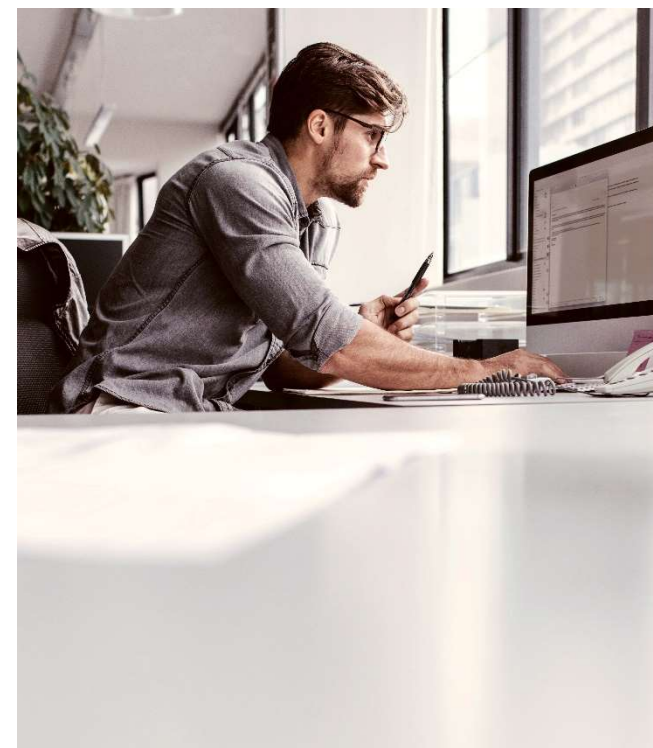
Overall, we found no evidence of significant weaknesses in the Council's arrangements for ensuring that it makes informed decisions and properly manages its risks. We have identified some opportunities for improvement, set out overleaf.

Improvement recommendations



Governance

2 Recommendation	Whilst gifts and hospitality received are declared, as with members interests there is not a central register of all gifts and hospitality received. Improvements could also be made to the level of detail captured on the councillor gifts/hospitality register such as date, value, whether it was accepted or declined.
Why/impact	Transparency of gifts and hospitality received is important. This protects members from inappropriate allegations of corruption or bias.
Auditor judgement	It is not immediately apparent if there is any consistency in the gifts and hospitality being accepted by any particular committee or political grouping.
Summary findings	Transparency could be improved by making this information available in a single place online. This could help the Authority (and members) to demonstrate that gifts and hospitality are not tools being used to lobby or incentivise members.
Management comment	This recommendation will be implemented.



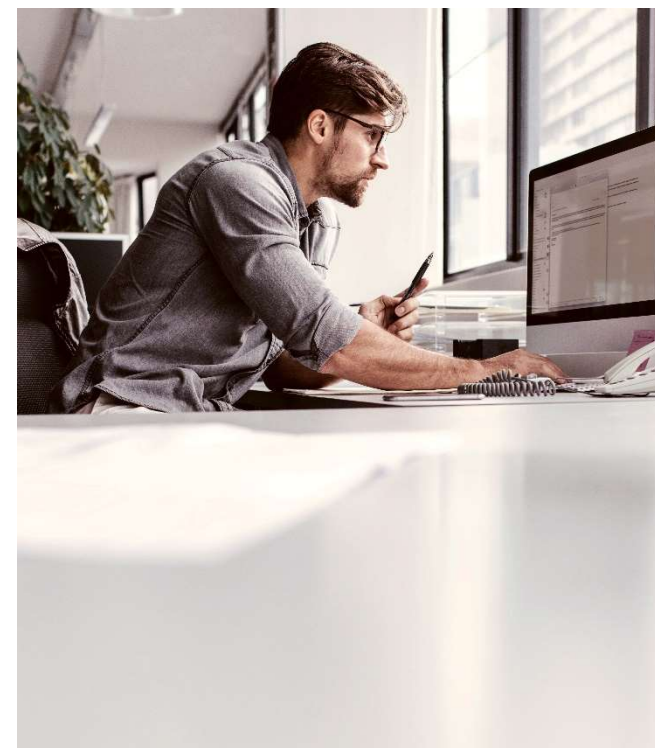
The range of recommendations that external auditors can make is explained in Appendix B.

Improvement recommendations



Governance

2 Recommendation	Whilst interests declared by members are available on their individual biographies on the website, the Council should consider the creation of a central, online register of members' interests. This would enable a review of the interests of the Cabinet or of a specific Committee as a whole.
Why/impact	Having to check each member separately is piecemeal and makes it difficult to confirm the overall complexion of interests held.
Auditor judgement	It is not immediately apparent if there are a number of interests or similar interests held by any particular committee or political grouping.
Summary findings	Whilst there is a full register of interests available at the office of the Chief Executive, this is not available online as a single document. Transparency could be improved by making this information available in a single place online.
Management comment	This recommendation will be implemented.

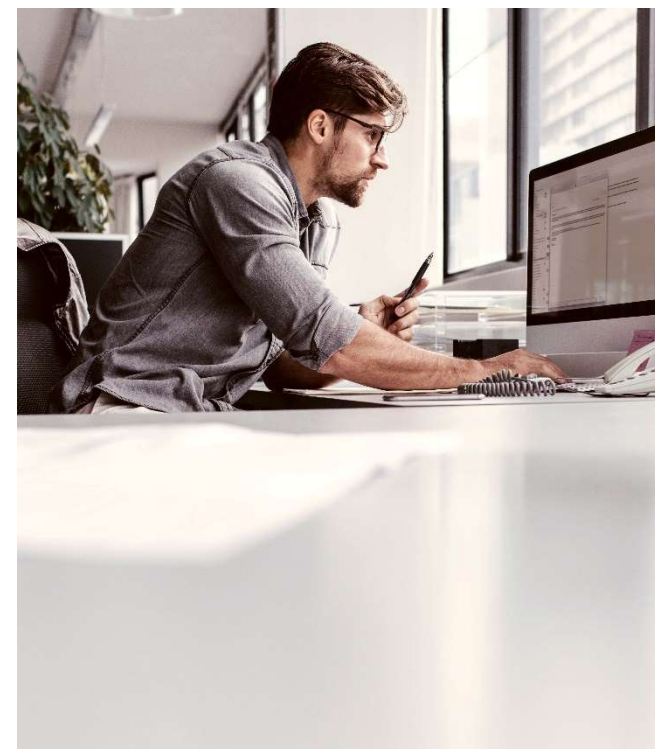


The range of recommendations that external auditors can make is explained in Appendix B.

Improvement recommendations

Governance

2 Recommendation	The Council should aspire to ensure that all agenda items reported to committees are subject to sufficient challenge and scrutiny.
Why/impact	This will ensure that members are fully aware of key decisions which have been made, assurances which are being provided and ensure all members have a thorough understanding of key decisions to be made, the control environment in place at the Council and assurances being afforded before approving items.
Auditor judgement	Our experience is that not all agenda items are subject to the same level of discussion and challenge prior to approval.
Summary findings	Our experience is that some reports can be approved by members with limited discussion or challenge over the key items therein. A culture of rigorous challenge and scrutiny of all papers in committee meetings will ensure a thorough understanding of the key decisions being made and the control environments in place at the Council.
Management comment	<p>We are pleased that the External Auditor found no evidence of significant weaknesses in the Council's arrangements for ensuring that it makes informed decisions.</p> <p>Whilst we support the aspirations of this recommendation we have requested further evidence from the External Auditor so that we can consider this improvement recommendation in the context of the enhancements we are putting in place following the LGA Peer Review and the Internal Audit of scrutiny.</p>



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

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, engages with stakeholders, monitors performance against expectations and ensures action is taken where necessary to improve
- ensures that it commissions or procures services in accordance with relevant legislation, professional standards and internal policies, and assesses whether it is realising the expected benefits.

Performance review, monitoring and assessment

Reporting of performance information within the Council is good. There is a very detailed performance scorecard reviewed quarterly by the Cabinet Committee on Performance Improvement. The scorecard sets out RAG ratings for over 40 KPIs used to assess the Council's performance against the targets set out in the Corporate Strategy. The scorecard clearly sets out areas for improvement within the RAG rating. There is helpful commentary against each KPI, explaining any issues and actions taken to address such issues. The KPIs are also organised by strategic priority, enabling members to focus on those within their portfolio.

Whilst there are a number of red rated KPIs as of the 2020-21 outturn position, in the main these are related to the impact of Covid which has caused some services such as libraries to close, has reduced working opportunities and job vacancies, has led to increased staff sickness etc. The report highlights where covid has been a factor in the performance of the KPI and what steps the Council are taking to improve performance.

The Council utilises a number of different tools in order to collate, visualise and assess service performance information. As well as subscribing to the Grant Thornton product CFOi, the Council utilises the advice of local government financial management advisers' Pixel as well as LG Futures for professional advice to assist forecasting and the development of the Council's financial plans. The Local Government Association Peer Review which took place in Autumn 2021 also commented how "the Council has a good understanding of service performance against similar councils elsewhere and has used this to inform spending decisions in the period between 2019 – 2021."

In addition, the review and follow up of both internal and external audit recommendations is sound, with regular reports to the Audit, Risk & Governance Committee on the progress in implementing these recommendations. Our 2019-20 Audit Findings Report included two recommendations [relating to IT controls and Payroll leaver controls] which had not been implemented at the time which we concluded our 2020-21 audit. However, the Council has put in place steps to address the issues as a new financial ledger system is due to be implemented from 1 April 2022 which should address the IT control weaknesses. The Council also brought the payroll services back in house from BTLs from 1 April 2021. As such we are satisfied that steps are being taken to address our findings which will be followed up again in the 2021-22 audit.

During the 2018/19 financial year the Council focussed on the development of services through a 'service challenge' with the aim to put users at the heart of the service whilst securing lower costs. This involved comprehensive benchmarking against other county councils and an open dialogue with other local authorities to improve costs and outcomes, resulting in a £77m savings programme to be delivered by 2022/2023. This benchmarking analysis is updated annually to understand how the Council's position against peers changes, as a result of ongoing service reviews and savings scheme implementations, and to provide updated performance and savings targets for directorates.

Improving economy, efficiency and effectiveness

Benchmarking Analysis

We performed our own benchmarking analysis of Lancashire County Council against its peers. This work found that the Council was very high spending in four areas; Children's social care, Adult social care, Education services and Public health. Education and Public health spend are mainly funded through ring-fenced grants of which councils have limited control of, restricting the effect council decisions have on unit costs in this area.

Children's Services

Children's services has been identified as an area of 'Very High' spend in relation to other local authorities. However, the Council are aware of this, and have been running a large transformation programme over the last 12 months to increase savings and deliver 'whole system' change. This has been reflected in the budget for 2020/2021 and further benchmarking using 2020/2021 budgeted figures, show that the unit cost score has been reduced to High, rather than Very High as a result.

Adult Services

Adult Services is an area where Lancashire County Council benchmark highly on unit costs compared to peers, both using 2019/2020 outturn and 2020/2021 budgeted figures, showcasing very high unit costs across a range of areas including commissioning and service delivery, mental health support and physical support for older people.

Lancashire's social care responsibilities are also a significant budgetary cost, circa 43% of the total net budget for 2020/2021. Additionally, like many local authorities, Lancashire faced pressures within the service, as a direct result of the pandemic, due to increased demand for non-residential services and staffing constraints.

It is evident that adult's services is an area which of high spend, which the Council are addressing through development of transformation plans and a demanding savings programme to ensure cost efficiencies. There is ambitious savings target, and there is a degree of urgency needed to ensure that sufficient progress against plans are being made. It is essential that this is clearly communicated to members and will continue to be monitored in 2021/2022.

Full details of the analysis of the Council's high spend service areas can be found in Appendix C.

Improving economy, efficiency and effectiveness

Partnership working

The Corporate Strategy sets out the high level intentions and objectives of working with partnerships, expected outcomes and deliverables. The Corporate Strategy is linked to the service performance scorecard in which KPIs are monitored and reported to the Cabinet Committee on Performance Improvement.

The Council are an active participant in the Lancashire and South Cumbria Integrated Care Partnership. The Integrated Care System (ICS) Board is a partnership board, constituted of a range of NHS, local government, voluntary and community sector organisations working together across Lancashire and South Cumbria. The role of the ICS Board is to provide leadership and development of the overarching Lancashire and South Cumbria ICS strategy, oversight and facilitation of delivery of sustainability, transformation and design of the future state of health and care. The Board meets on a monthly basis to consider progress and risks in the implementation of the integrated care system's aims and objectives and approve any mitigation measures and other action required to assure success, in line with the approved programme.

As a result of the covid pandemic, the Council recognised that partnership working is key to an effective response, and have been central to the ramping up of the Local Resilience Forum (LRF) to become the central hub for all activity. The Chief Executive and Director of Resources is currently the chairperson of the Forum. The CEO is then able to feed back to members and the CMT on key matters relating the pandemic response to the Council.

Lancashire County Council, along with the two unitary authorities and 12 districts across Lancashire have been progressing arrangements with regards to agreeing a devolution 'county deal'. The aim of the county deal is to see Lancashire take greater control and governance over funding for a range of projects designed to improve skills, housing and transport, boost the local economy and tackle climate change.

The Local Government Association Peer Review which took place in Autumn 2021 also noted that "The leaders commitment to engage with partners has built new relationships and future opportunities" and that "Relationships with districts have improved significantly." The Peer Review also states that it is important to build upon these improved partnerships in furthering the Council's future aspirations.



Conclusion

Overall, we are satisfied the Council has appropriate arrangements in place to ensure it manages risks to its oversight in ensuring economy, efficiency and effectiveness in its use of resources.

COVID-19 arrangements



Since March 2020 COVID-19 has had a significant impact on the population as a whole and how Council services are delivered.

We have considered how the Council's arrangements have adapted to respond to the new risks they are facing.

Financial sustainability

The impact of COVID-19 has cut across the Council, impacting both its income in the collection rates of Council Tax and Business Rates, and expenditure which has seen additional pressures, most notably on adult social care. There were a number of service areas experiencing financial pressures due to the impact of Covid but there were also offsetting short-term cost reductions resulting from factors including lower than anticipated demand for some services and the move to remote working in line with Government guidance. Included within the outturn position is £45.5m of Covid-19 emergency funding which has been apportioned based on the pressures experienced across service directorates but is non-recurrent.

The Council has maintained a good oversight of its COVID-19 related costs and income losses. These were identified early on and subject to detailed monitoring and scrutiny. The MTFS was reviewed and updated during the year, and detailed quarterly reporting against the budget to cabinet was maintained throughout the year.

Whilst the Council has significant reserves to draw upon both to address the current forecast funding gap to 2024/25 and also to potentially cover other short term financial pressures, the Council will undoubtedly need to maintain its high level of monitoring and scrutiny over its finances in order to maintain financially sustainable.

The recent Local Government Association Peer Review also stated "The Council has managed the cost pressures of COVID particularly well. Continuing to monitor any latent impact of COVID-19 on financial forecasts and future saving delivery will remain important. The Council has a good level resilience to this."

Governance

While the Council generally maintained a business-as-usual approach to its governance arrangements during the pandemic, some adjustments were required. As a result of the lockdown restrictions announced on the 16th March 2020, the Council adjusted some of its internal control processes to support effective governance throughout the pandemic. As soon as these were lawful, the Council started holding members' meetings online.

To enable the Council to be able to respond in a timely manner to the rapidly changing challenges posed by the Coronavirus outbreak, it was agreed that a blanket delegation of all Cabinet powers to officers at Head of Service or above was applied. This was approved at the 14 May Cabinet Committee meeting (retrospectively to 30 March 2021). This was not intended to replace the existing urgent business procedures, and these were encouraged to be used wherever possible.

Before the Covid-19 pandemic, service risk and opportunity registers were updated regularly and the Corporate Risk and Opportunity register was reported to Corporate Management Team (CMT), Cabinet Committee for Performance Improvement (CCPI) and Audit, Risk and Governance Committee on a quarterly basis.

As a result of Covid-19, reporting was suspended, and service level situation reports were introduced. These reports are presented on a weekly basis to the Corporate Emergency Response Team and issues are escalated to CMT and the Local Resilience Forum (LRF). The reports set out the impacts on current service delivery, mitigation actions to minimise impacts and any resource issues. The Corporate Risk and Opportunity Register recommenced reporting to the CCPI in September 2021.

Given the circumstances brought about by the COVID-19 outbreak the Procurement Service undertook an urgent review in April 2020 of contracts expiring that would otherwise have been re-procured in the next 6 to 12 months. As such, the Council extended contracts (total value of £20.6m) with the incumbent to ensure that the focus of the procurement team was maintained on essential category management activities, such as securing the supply of PPE. The contracts extended were set out in the May 2020 Cabinet papers and approved by members.

COVID-19 arrangements

All office-based staff were provided with the necessary equipment to work from home, enabling a smooth transition to remote working where this was possible. Home-based working has continued throughout the pandemic and there has been a good level of continuity of service. Enabling staff to work from home also supported the Council in protecting its frontline staff and residents by reducing the risk of virus transmission. PPE was also sourced and provided to all Council staff where this was deemed necessary.

Improving economy, efficiency and effectiveness

The Council has been mindful of the impact on the pandemic on its most important resource, its staff. Actions have been put in place to support staff wellbeing and supporting staff remains a key priority for the Council. In aiming to maintain staff wellbeing, the Council has been able to maintain an efficient and effective delivery of its statutory services.

Partnership working is a key theme of the Corporate Strategy, and work with community partners increased during the pandemic. This is set out in the reporting to those charged with governance and commented on in the Local Government Association Peer Review of the Council which stated that “The Council’s response to Covid-19 has been exemplary...relationships with district councils have improved significantly”. The Council has also been actively engaging with the Lancashire and South Cumbria Health and Care Partnership throughout the pandemic in co-ordinating a joined up response.

Conclusion

Our review has not identified any significant weaknesses in the Council’s VFM arrangements for responding to the Covid-19 pandemic.



Opinion on the financial statements



Audit opinion on the financial statements

We gave an unqualified or we qualified the financial statements on 22 December 2021.

Other opinion/key findings

We did not identify any significant unadjusted findings in relation to other information produced by the council, including the narrative report, Annual Governance Statement and Pension Fund Financial Statements.

Audit Findings Report

More detailed findings can be found in our Audit Findings Report, which was published and reported to the Council's Audit, Risk and Governance Committee on 21 December 2021.

Issues arising from the accounts:

All unadjusted misstatements, disclosure amendments and prior year unadjusted misstatements are disclosed in the 2020-21 Audit Findings Report at Appendix B.

Preparation of the accounts

The Council provided draft accounts on 15th May 2021, two months ahead of the national deadline and provided a good set of working papers to support it.

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.

We will complete our work on the Whole of Government Accounts consolidation pack in line with the national deadlines.

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



Role of the Section 151 Officer (Chief Executive Officer & Director of Resources):

- Preparation of the statement of accounts
- Assessing the Council's ability to continue to operate as a going concern

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 section 151 officer 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 section 151 officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The section 151 officer 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 section 151 officer is responsible for assessing the Council's ability to continue as a going concern and use the going concern basis of accounting unless there is an intention by government that the services provided by the Council will no longer be provided.

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



Appendix B - An explanatory note on recommendations

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

Type of recommendation	Background	Raised within this report	Page reference
Statutory	Written recommendations to the Council under Section 24 (Schedule 7) of the Local Audit and Accountability Act 2014. A recommendation under schedule 7 requires the Council to discuss and respond publicly to the report.	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'.	No	N/A
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	Financial Sustainability – p.10-11 Governance – p.14-16

Appendix C – Detailed Unit Cost Analysis

Service line expenditure

This benchmarking analysis compares Lancashire's expenditure as a balance per head, from the 19/20 RO forms, in order to compare service line costs with other County councils. The unit cost aims to normalise spend to allow for a more accurate comparison between areas and then allocates a score, based on where the unit costs stands compared to the rest of the group. The top 20% are classified as 'Very High' and the bottom 20% as 'Very Low'.

Whilst a little outdated, the 19/20 data is the most recent benchmark of actual outturn. This is still relevant as a reflection of costs, as it reflects a 'normal' pre-covid baseline, especially given the funding differences in 20/21 which are unlikely to continue.

In comparison to other County Councils Lancashire has a very high spend across:

- Children social care
- Adult social care
- Education services
- Public Health

Use of benchmarking

During the 2018/19 financial year Lancashire focussed on the development of services through a 'service challenge' with the aim to put users at the heart of the service whilst securing lower costs. This involved comprehensive benchmarking against other county councils and an open dialogue with other local authorities to improve costs and outcomes, resulting in a £77m savings programme to be delivered by 2022/2023. This benchmarking analysis is updated annually to understand how the Council's position against peers changes, as a result of ongoing service reviews and savings scheme implementations, and to provide updated performance and savings targets for directorates.

Lancashire recognise they are high spend in the following service lines, but due to the focus on dealing with pandemic related stresses, there has been limited capacity during 2020/2021 to identify areas of focus for reduction in spend. Despite this, the Council have worked with the LGA to understand spending changes relative to other local government associations throughout 2021/22 and are working towards identification of new savings, to help reduce costs in high spend areas as part of the 2022/23 financial planning. The proportion of the revenue budget spent on adult and children's services is expected to continue increasing due to enhanced demand and change in population demographics towards older populations, which has been reflected in the medium term financial plan. Additionally in 2021/22 services will need to deliver £43m of savings to stay within their budget envelope which includes those savings that have been delayed as a result of the pandemic.

We would encourage continued use of benchmarking to guide the saving scheme planning at the directorate level to further understand opportunities for cost reduction and efficiencies.

Education and Public Health

Education and Public Health spend mainly funded through ring-fenced grants of which councils have limited control of, restricting the effect council decisions have on unit costs in this area. Therefore the 'Very High' score below is as a result of funding, rather than an indication of value for money.

Lancashire		2019/2020 (£000s)	Unit	Unit Cost (£)	Unit Cost Score
TOTAL EDUCATION SERVICES (RO) £/aged 0-18		952,013.00	264,866.00	3,594.32	Very High
TOTAL HIGHWAYS AND TRANSPORT SERVICES (RO) £/head		49,747.00	1,219,799.00	40.78	Very Low
TOTAL CHILDREN SOCIAL CARE (RO) £/aged 0-17		208,141.00	251,042.00	829.11	Very High
TOTAL adult social care (RO) £/aged 18+		418,732.00	968,757.00	432.24	Very High
TOTAL CULTURAL AND RELATED SERVICES (RO) £/head		16,703.00	1,219,799.00	13.69	Average
TOTAL PLANNING AND DEVELOPMENT SERVICES (RO) £/head		3,453.00	1,219,799.00	2.83	Low
TOTAL HOUSING SERVICES (GFRA only) (RO) £/head		(49.00)	1,219,799.00	(0.04)	Very Low
TOTAL ENVIRONMENTAL AND REGULATORY SERVICES (RO) £/head		71,009.00	1,219,799.00	58.21	High
TOTAL CENTRAL SERVICES (RO) £/head		31,049.00	1,219,799.00	25.45	High
Total Public Health Services (RO) £/head		68,162.00	1,219,799.00	55.88	Very High

Appendix C – Detailed Unit Cost Analysis

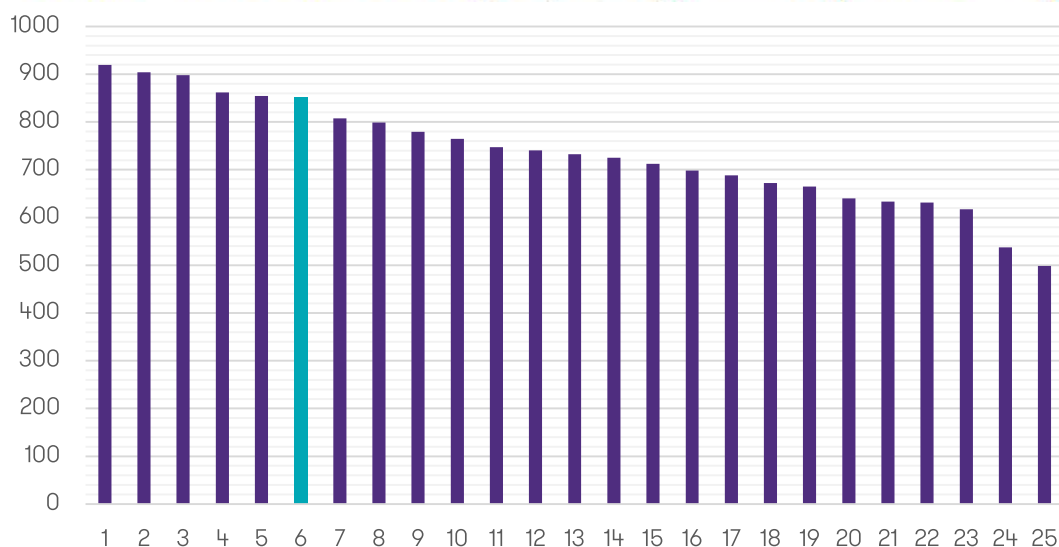
Children's Services

2020/2021 Position

Using the 19/20 RO figures, Children's services has been identified as an area of 'Very High' spend in relation to other local authorities. However, the Council are aware of this, and have been running a large transformation programme over the last 12 months to increase savings and deliver 'whole system' change. This has been reflected in the budget for 2020/2021 and benchmarking using 2020/2021 RA budgeted figures, show that the unit cost score has been reduced to High, rather than Very High as a result.

Despite this, the 2020/2021 outturn report showcased that Education and Children's Services (ECS) directorate had an overspend of £6.368m (3.18%) in 2020/2021 year, £5m of which was offset by emergency coronavirus funding. Within this overspend, £2.645m (1.91%) related to Children Social Care. Internal benchmarking across key elements of spend showcase that the high unit costs are driven mainly by Looked After Children and Family Support. The Council have also had a significant amount of spend in relation to temporary agency staff in this directorate.

Childrens Social Care (RA) £/aged 0-17 (Unit costs)



Council Response

The Council are focussed on delivering 'whole system' change, driven by the January 2021 implementation of the Lancashire Family Safeguarding Model (LFS) as well as remodels of the Early Help and Inclusion services, with the aim of moving away from a locality based approach to a more targeted functional based service.

The new LFS Models' priority is to support families through early intervention in order to keep parents and children together, to achieve better outcomes and reduce costs over a 5 year timeframe. Performance reports have shown this is already highlighting a reduction in the number of children being taken into care, improving the quality of life of young people in the area. (*Corporate Strategy Monitoring Report – Q2 2021/22*).

The average number of children entering care has been falling since September 2020, and from March to August 2021 the reduction of children in care fell from 82 to 79 per 10,000. Additionally, the number of children subject to a Child Protection Plan has fallen from 25 to 20 per 10,000 between March and August 2021. This work has also had a large impact on the Council's financial forecasts in Education and Children's Services, with the decreased demand leading to a forecast underspend of £5.868m. The main impact on the forecast position being the reductions in the number of children entering care, which has resulted in an underspend of £6.6m. Although the Council acknowledge pandemic related income pressures remain which may negate underspends achieved.

In relation to staff costs, the service is currently reviewing the use of agencies and have in place a plan to support recruitment of permanent social workers to support the LFS. However, as for many Councils, this is still an area of continuing challenge, with Q1 forecasts estimating overspends in social work teams of £1.4m as a result of using agency workers to fill vacant posts. Our conversations with staff have identified that work is ongoing in this area to improve recruitment and retention of staff through investment in training and development, use of apprenticeships and promotion through newsletters.

Lower than expected demand is driving underspend in Quarter 1, as well as reflecting successful delivery of the transformation programme. Looking forwards, those charged with governance need to continue to monitor the demand trajectory, to ensure that the forecast outturn takes into account potential variances.

Appendix C – Detailed Unit Cost Analysis

Adult's Services

2020/2021 Position

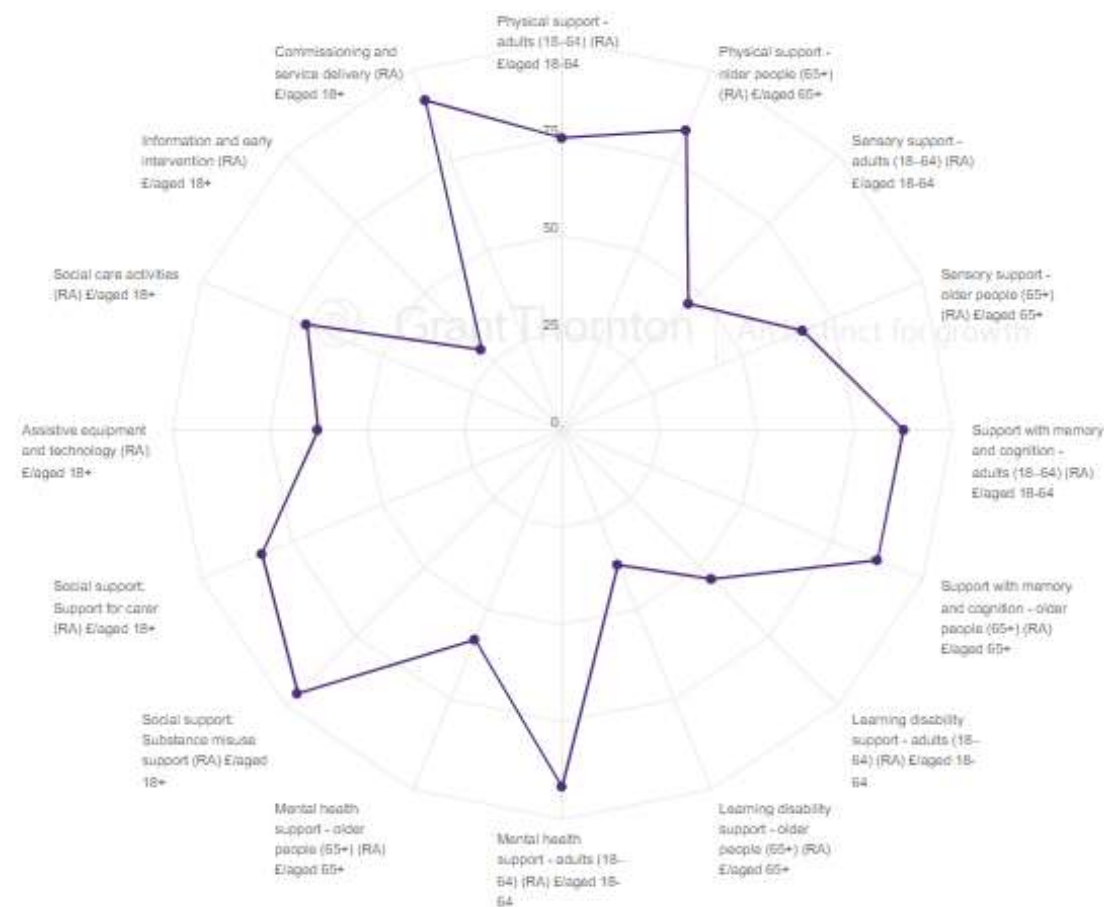
Adult Services is an area where Lancashire County Council benchmark highly on unit costs compared to peers, both using 2019/2020 outturn and 2020/2021 budgeted figures, showcasing very high unit costs across a range of areas including commissioning and service delivery, mental health support and physical support for older people. Lancashire's social care responsibilities are also a significant budgetary cost, circa 43% of the total net budget for 2020/2021. Additionally, like many local authorities, Lancashire faced pressures within the service, as a direct result of the pandemic, due to increased demand for non-residential services and staffing constraints.

During the 2020/2021 financial year, Adults Services attained a £15.773m overspend, although this was significantly supported by £31.643m of Covid-19 funding which reduced the final outturn to a £15.87m underspend. These were mainly driven by delays in saving plans due to Covid-19, with £23m of the £35.452m target affected. However there have also been significant overspends in Learning Disability, Autism & Mental Health (£11.049m) due to significant waiting lists in Deprivation of Liberty Safeguards Service (DOLS) and increased demand for domiciliary care as a result of the pandemic.

Council response

Whilst some additional Government funding has been provided to support social care in 2021/2022, the short and long term impacts are still relatively uncertain. Therefore there has been a big focus on enabling savings to be made in this area, with a target set for 2021/2022 of £14.341m. Whilst this is a substantial target, the service achieved a 95.1% achievement against target by March 2020, so have a good track record of making savings. The directorate's focus will also be on implementing work programmes to re-enable users to live independently with a programme of change currently underway in Adult Services through use of the '3 Conversations Model'. This approach will be used to support people to gain access to care and to restore their independence without the need for long term services. The aim is for services to not only enable users to live safely and independently, but to reduce waiting lists and bureaucracy, in turn giving the potential to deliver savings. Despite these plans, adults services has a forecast overspend at the end of 2021/2022 Q1 of £15.769m (4.19%) of which £12.483m is expected to be offset by non-recurrent Covid-19 funding.

It is evident that adult's services is an area which of high spend, which the Council are addressing through development of transformation plans and a demanding savings programme to ensure cost efficiencies. This is ambitious savings target, and there is a degree of urgency needed to ensure that sufficient progress against plans are being made. It is essential that this is clearly communicated to members and will continue to be monitored in 2021/2022.



The 50 line represents the median of all authorities. Points closer to the centre would be described as very low, points closer to the outside would be described as very high in comparison to the group. Across almost all of the categories Lancashire scores as high or very high on unit costs compared to all other Counties.

Appendix C – Detailed Unit Cost Analysis

Nearest Neighbour Analysis

Socio Economic characteristics

In order to appropriately benchmark Lancashire against similar areas we used a variety of socio-economic measures to profile the council and then find other authorities with similar characteristics.

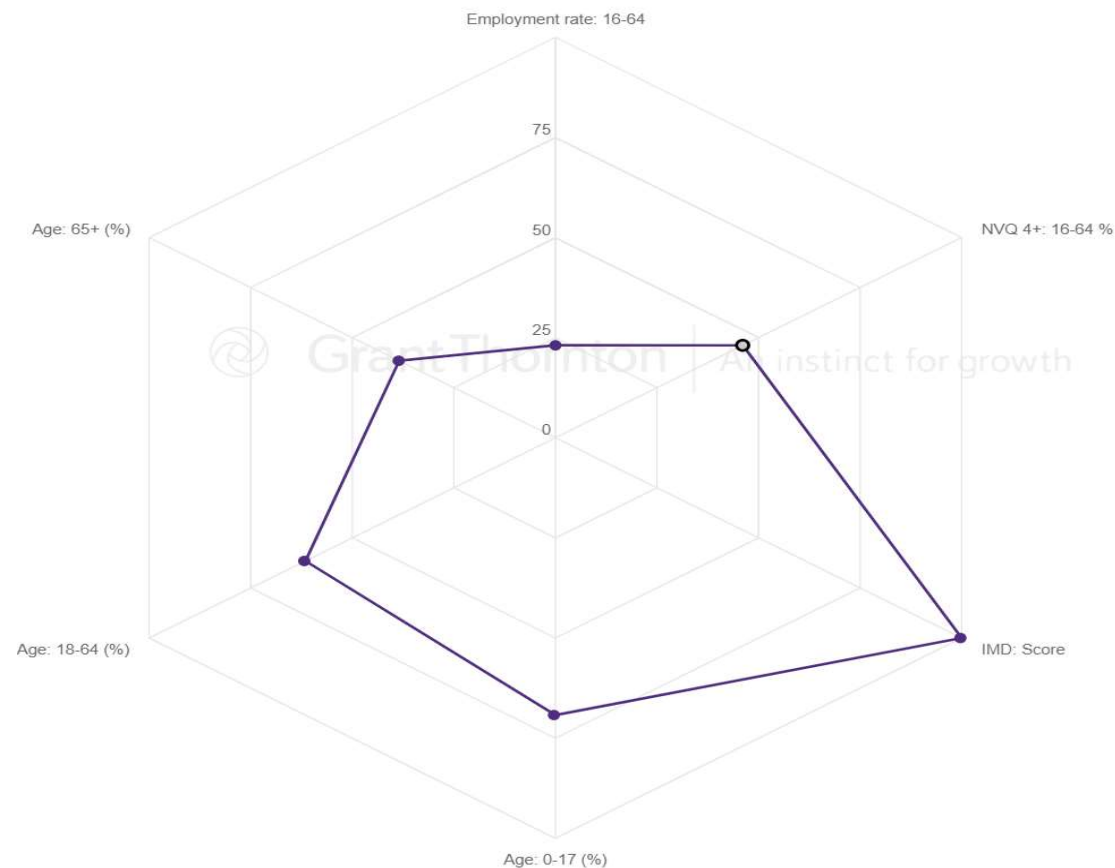
Using the measures set out in the spider chart, we have analysed Lancashire's Near Neighbour group, to identify the ten most statistically similar authorities to Lancashire based on these indicators. These are shown in the table, with Kent being most similar overall.

The measures used were specifically selected as they give a holistic picture of the population of Lancashire. Measures include age brackets, deprivation and employment rate.

The socioeconomic profile, shows Lancashire in the context of all English county councils. The 50 line represents the group median, consequently points closer to the outside of the profile are 'very high' in comparison to the group and those closer to the centre are 'very low'.

Education levels would be described as average in Lancashire. The spider chart shows that Lancashire has high deprivation and a lower employment rate, whilst the age profile is younger than the national median.

The nearest neighbour group identified has been used as a more focused benchmark group for this report in order to appropriately benchmark Lancashire against similar areas. We have also used all County Councils as a wider, national-picture benchmarking group.



Nearest Neighbours	
Kent	Northamptonshire
Derbyshire	Suffolk
Essex	Cumbria
Nottinghamshire	Norfolk
Staffordshire	Gloucestershire

