

# Auditor's Annual Report on Barrow Borough Council

2021-22

March 2023



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

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



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

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# Executive summary



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

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

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

Further detail is set out in the remainder of this Executive Summary.

| Criteria  | Risk assessment                             | 2020/21 Auditor Judgment |  | 2021/22 Auditor Judgment |   | Direction of travel |
|---|---|--------------------------|--|--------------------------|---|---------------------|
| Financial sustainability                        | No risks of significant weakness identified |                          | No significant weaknesses in arrangements identified, but 5 improvement recommendations made.                                    |                          | No significant weaknesses in arrangements identified, but 3 improvement recommendations made.                                     | ↔                   |
| Governance                                      | No risks of significant weakness identified |                          | Significant weaknesses in arrangements identified and statutory recommendation made. 2 further improvement recommendations made. |                          | Significant weaknesses in arrangements identified and statutory recommendations made. 2 further improvement recommendations made. | ↔                   |
| Improving economy, efficiency and effectiveness | No risks of significant weakness identified |                          | Significant weaknesses in arrangements identified and statutory recommendation made. 1 further improvement recommendation made.  |                          | Significant weaknesses in arrangements identified and statutory recommendations made. 3 further 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 statutory/ key recommendations made.  |

# Executive summary (cont'd)



## Overall commentary

We have identified significant weakness in the Council's arrangements for both governance and in securing economy, efficiency and effectiveness in its use of resources. These relate to procurement and contract management and were originally reported on 6 October 2022 when we issued statutory recommendations under Section 24 Schedule 7 of the Local Audit and Accountability Act 2014. Management has provided updated comments on these statutory recommendations which are included on pages 8 to 10 of this report. We acknowledge that, the Council is making good progress on these recommendations but new arrangements have largely been delivered from April 2022, which is beyond the 2021/22 financial year of this VfM review.

We have also identified a number of other improvement recommendations relating to financial sustainability, governance and securing economy, efficiency and effectiveness, to further improve the Council's value for money arrangements. **All recommendations raised have been made in the context of local government reorganisation (LGR) and may be appropriate to carry forward to the new Westmorland and Furness Council.**

We have undertaken a local context review of the transition arrangements on LGR as summarised on pages 5 and 6 of this report.



## Financial sustainability

The Council is operating in an increasingly uncertain financial environment. Despite this uncertainty, and the challenges posed by the Covid-19 pandemic, the Council has maintained a reasonable financial position. The Council has put forward a series of proposals, which forecast a balanced budget for the 2022/23 financial year. In addition, as at 31 March 2022, the Council held general reserves balance of £12.061m, which represented 103.2% of 2021/22 net revenue expenditure of £11.69m. There have been significant changes to the MTFP during 2022/23 as assumptions have been reviewed, and as a result of the in-sourcing of the Council's waste service. This has led to a significant increase in the forecast budget deficit for 2023/24 and 2024/25. The Council has identified potential actions to mitigate this deficit, which will contribute to the MTFP of the new unitary council, whose responsibility it will be to agree arrangements to effectively manage the medium-term financial position.

Our work has identified that there were arrangements in place for delivering a balanced budget during 2021/22 and we have not identified any significant weaknesses in arrangements to secure financial stability at the Council. However, we have made three improvement recommendations to strengthen the Medium Term Financial Plan (MTFP), to manage the medium-term deficit, and the monitoring of the capital programme. Further details are set out on pages 13 to 20 of this report.



## Governance

As already noted, we have identified significant weaknesses in the Council's governance arrangements for procurement and contract management and made a statutory recommendation in October 2022. The Council must ensure that changes planned are fully embedded and there is full compliance with the Council's procurement procedures and rules.

The Council also needs to ensure the governance arrangements are sufficient to provide assurance on the effectiveness of procurement and contract management controls, which will remain important as the Council transitions into the new unitary council. We expect officers in all departments to follow and fully evidence compliance with contract standing orders on all procured services to address significant control environment weaknesses. The statutory recommendations are set out on pages 8 to 10. We have also made one further improvement recommendation to improve corporate performance reporting. Further details is set out on pages 21 to 25 of this report.





# Executive summary (cont'd)



## Improving economy, efficiency and effectiveness

As already noted, we have identified a significant weakness in the Council's arrangements for procurement and made statutory recommendations in October 2022. This relates to long-standing failures relating to the compliance with the Council's contract standing orders, procurement procedures and financial regulations..

The statutory recommendations are set out on pages 8 to 10. We have also made three further improvement recommendations which relate to changes in the service delivery model for the waste and leisure services, and the delivery of an agreed action plan to ensure the recommended actions in the Internal Audit report on the Performance Management Framework are implemented. Further details is set out on pages 26 to 33 of this report.

## Local Government Reorganisation: Context and Background



In July 2021 the Secretary of State for the Ministry for Housing, Communities and Local Government announced their decision to create two new unitary councils in Cumbria. This forms part of a wider series of government decisions in relation to Local Government Reorganisation (LGR) in England and followed submissions to government from existing councils in the Cumbria geography on the form that LGR should take. The six district councils, along with the county council, will be replaced by two new unitary councils. In the geography currently covered by Allerdale Borough Council, Carlisle City Council and Copeland Borough Council a new authority, Cumberland Council, will be created. In the geography currently covered by Barrow-in-Furness Borough Council, Eden District Council and South Lakeland District Council a second new authority, Westmorland and Furness Council, will be created. The fire and rescue service, currently part of Cumbria County Council, will become a separate body and form part of the governance arrangements of the Police and Crime Commissioner (PCC) for Cumbria (to then be called the Police, Fire and Crime Commissioner for Cumbria).

Grant Thornton is the external auditor of all seven local authorities in Cumbria, the Police and Crime Commissioner (PCC) for Cumbria and the Chief Constable of Cumbria. We have undertaken an over-arching local context review of LGR as part of our 2021/22 Value for Money (VfM) work in relation to the seven local authorities. This has included meeting key stakeholders from the two Shadow Authorities, interim and appointed senior officers from the two new unitary councils and other key stakeholders. We have summarised our findings in relation to the activity of the seven local authorities (the sovereign councils) and the new Shadow Authorities in the context of our VfM work. As all seven councils are demising bodies, and given the timing of our reporting, we have taken into account LGR implementation during 2022/23. We have set out our summary findings based on this over-arching review on page 6. Any findings specific to the Council are reported in the main part of this report. Our detailed findings on LGR local context is presented in a separate report.



# Executive Summary (cont'd)

## Local Government Reorganisation: Summary Findings

The move from seven to two councils provides an opportunity to realise financial benefits and improve service delivery and the financial sustainability of local government in Cumbria. The overall aim is to unlock efficiencies from the rationalisation of council structures and assets and improving systems and processes. However, we recognise that disaggregation of some County services, has required the duplication of some statutory posts.

However, implementing LGR is complex, time consuming and provides some significant challenges. These challenges for Cumbria include a relatively short implementation timescale, the pressures that come from delivering business as usual services by the sovereign councils whilst implementing LGR in parallel, the lack of ownership of some sovereign councils for the approved unitary model and a shared business case, the need to disaggregate county wide finances and services to align to the geographies of the two new unitaries, and undertaking financial and service planning for the new unitaries when many senior officers were not in role in a timely way to make key decisions.

It is clear from our work that officers and members at sovereign councils and the Shadow Authorities involved in LGR have been fully committed to a successful transition and implementation – in particular we often heard that officers had gone “above and beyond” what has been expected of them. The relatively short implementation timescale has resulted in a focus on the new unitaries being “safe and legal” on their vesting days.

This focus on ensuring continuity of existing services to residents and businesses in Cumbria has meant that the opportunities that should arise from rationalisation and transformation have not progressed and have largely been deferred for decisions to be taken following vesting day when there should be greater capacity available and senior leadership teams are in place.

It will take several years to fully realise the benefits planned from LGR and will require sustained commitment from senior stakeholders to deliver. There remain inherent risks in any LGR implementation, and the new unitary councils will have significant decisions to take post vesting day. In summary, we see a number of critical challenges and opportunities, in particular the following are key priorities:

- Financial sustainability pressures with reliance on potential additional government financial support and use of capital receipts and /or prudential borrowing to fund revenue expenditure

- Sub-optimal progress on the transformation agenda means the new councils will need to act fast, and fully utilise the PMO resource, to drive transformational change to improve service users’ experience and generate significant savings.

- Organisational structures, cultures and values will need to be agreed and embedded. This will be critical to the effectiveness of the new councils’ governance and performance management frameworks.

- Structures and key personnel put in place need to be proportionate to the significant scaled up challenges and opportunities the new councils will face.

- Specifying, procuring and successfully implementing new financial systems to replace the work around solution of utilising legacy financial systems. Whilst the work around arrangements are understandable in the context, this represents significant challenges in the short and medium term which will incur additional costs and impact on accounts production, audit, and budget monitoring.

- Concluding the outstanding disaggregation of services and associated budgets.

It will be important that elected members of the new unitary councils have appropriate time to fully engage with and scrutinise these key decisions.

At the same time as successfully managing LGR transition, the two new unitary councils will need to manage business as usual challenges affecting Cumbria, which include improving social care provision, managing increasing demographic pressures, recruitment and retention challenges, and improved working with the NHS.

It will also be important that the new unitary councils do not lose best practice arrangements that we have observed over recent years at sovereign councils, which include, but are not limited to:

- Good governance via effective Audit Committees and robust risk management at , Cumbria County Council, Carlisle City Council and South Lakeland District Council.

- Strong partnership governance with a focus on demonstrable outcomes at South Lakeland District Council, Carlisle City Council, and Allerdale Borough Council.

Changes to the Fire and Rescue Service resulting from LGR means there are challenges for the service beyond April 2023, including ensuring its financial sustainability, how it collaborates with the Constabulary, shares assets, and delivers its improvement agenda.

# Use of formal auditor's powers

We bring the following matters to your attention:

## Statutory recommendations

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

We have identified significant weaknesses in the Council's arrangements for procurement and contract management. We have identified three statutory recommendations for improvement as outlined on pages 8 to 10.

## Public interest report

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

We did not issue a Public Interest Report.

## Application to the Court

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

We did not make any Application to the Court.

## Advisory notice

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

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

We did not issue an Advisory notice.

## Judicial review

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

We did not apply for a Judicial review.

# Statutory recommendations



## Statutory Recommendation 1

Embed and enforce the Council's updated contract standing orders and procurement rules.

We expect officers in all departments to follow and fully evidence compliance with contract standing orders on all procured services.

### Why/impact

The Council is failing to demonstrate and apply the principles and values of sound governance in its procurement arrangements. This is leading to ineffective procurement of supplies and services to support the delivery of strategic priorities. This failure to adhere to Council purchasing and contract standing orders means it is difficult for the Council to demonstrate that it has achieved value for money in all procurement decisions. Furthermore, these weaknesses increase the exposure risk of fraud in procurement and increase the potential for legal challenge from unsuccessful potential suppliers.

### Summary findings

We acknowledge that, the Council has made some progress in addressing its procurement and contract management arrangements with the introduction of STAR Procurement, but this has largely been delivered from April 2022 and further work is required to ensure changes are fully embedded. The Council needs to ensure the governance arrangements are sufficient to provide assurance of the effectiveness of procurement and contract management controls, which will remain important as the Council transitions into the new Westmorland and Furness Council.

### Management Comments

It is considered that the actions against the recommendation are complete. All procuring officers were offered training in March 2022 on the new procurement rules and procedures. A recording of the training has been available since March 2022; available to all officers to view as a refresher and to new officers as part of induction training for those involved in procurement. The procurement guidance and handbook is kept under regular review to ensure it remains up-to-date. The ProActis training for officers began in January 2023 and continues to be rolled out. Spot checks are made of ordered goods and services to ensure the rules are being embedded. The exemption process was included in the training and is evident in practice with activity reported to the Audit and Governance Committee, and to the Executive Committee in relation to the Waste Service direct delivery.

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





# Statutory recommendations



## Statutory Recommendation 2

Ensure members and officers have robust assurance and reporting arrangements in place, for managing all ongoing contracts to enable appropriate and timely action to remediate any non-compliance or wider deficiencies.

### Why/impact

Receiving timely and reliable information in relation to the effectiveness of internal controls is critical to support informed decision making by officers and members.

As well as members receiving compliance assurance they need to demonstrate timely action in holding officers to account for any non-compliance.

### Summary findings

It is evident from Internal Audit and our work that, procurement and contract documentation has not been made available for inspection on a timely basis. This has resulted in several areas of the Internal Audit annual work programme being issued with “no assurance”. This undermines the system of assurance and accountability.

Management has not been able to provide contract documentation for audit inspection. It is difficult for the Council to manage contracts when this basic information is not readily available. This risk has materialised with respect to the waste contract.

### Management Comments

It is considered that the actions against the recommendation are complete. A schedule of significant contracts was provided to Overview and Scrutiny Committee at its meeting in 2 November 2022, with contract reports presented to meetings in December 2022 and February 2023. The Corporate Programme Board reviews the contracts register on a regular basis with any actions identified and fed back to relevant responsible officers. A report to note the procurement exemption activity for the initial 6 months of operating under the new arrangements was presented to Audit and Governance Committee in December 2022, and the exemptions required to initiate direct delivery of the Waste Service were reported to the Executive Committee.

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



# Statutory recommendations



## Statutory Recommendation 3

Review the Council's escalation arrangements up to Full Council and Overview and Scrutiny Committee to ensure an adequate and timely response to address significant control environment weaknesses.

### Why/impact

If the Council fails to take appropriate action or secure improvement in areas of significant weaknesses, it will be difficult for the Council to demonstrate it has achieved value for money.

We expect good governance arrangements via the Audit and Governance Committee to escalate ongoing significant matters to both Full Council and Overview and Scrutiny Committee, to demonstrate effective accountability and to drive timely improvements.

### Summary findings

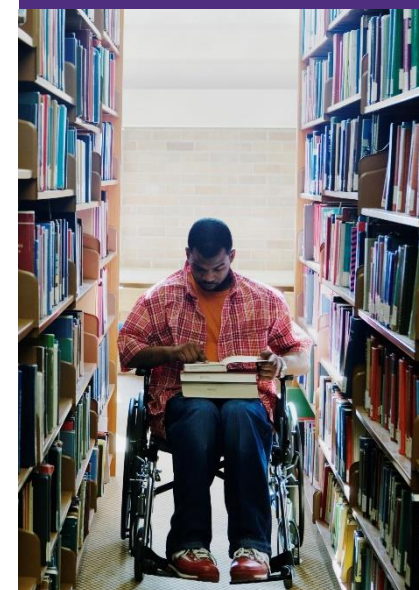
Since 2016-17 and earlier, Internal Audit has reported continued deficiencies in the Council's arrangements for ensuring compliance with procurement and contract management procedures. Reviews of procurement and specific contracts have identified breaches of the procurement rules and Contract Standing Orders. There are several historic recommendations for improvement to internal controls highlighted by Internal and External Audit, which have not been resolved.

Despite being aware following persistent warnings from the Council's auditors, it has had a significant period of time where its procurement and contract management arrangements have been inadequate. There are currently 15 outstanding recommendations, including 7 assessed as high priority, issued by Internal Audit from the reviews of procurement procedures, some of which were first reported in September 2015. In 2021/22 Internal Audit completed 9 contract audits, no assurance was assigned to 7 reviews and the other 2 received restricted assurance. Since April 2018, Internal Audit have reported 93 recommendations in relation to contract audits.

### Management comments

It is considered that the actions against the recommendation are complete. The Council has reviewed the outstanding and historic priority 1 recommendations, which have been picked up through the improvement plan where not overtaken by events. The referral and escalation routes have been clarified. Responses to Internal Audit reports are pursued by management as soon as the response time has elapsed.

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



# Opinion on the financial statements



## Audit opinion on the financial statements

We plan to give unqualified audit reports on the Council's 2021/22 financial statements before end of March 2023, 5 months after the statutory deadline.

## Other opinion/key findings

We have not identified any significant unadjusted findings in relation to other information produced by the Council, including the Narrative Report, Annual Governance Statement in 2021/22.

## Audit Findings Report

More detailed findings can be found in our 2021/22 AFR, which is reported to the Council's Audit Committee on 24 March 2022.

## Preparation of the accounts

The Council has not provided draft accounts in line with the national deadline but has provided a reasonable set of working papers to support it but we have not always had timely responses to audit queries, as a direct result of the capacity of the small Finance Team who have had several LGR related competing priorities.

## 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 deadline.

## 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.



# 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 B.

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 is set out on pages 13 to 33.



# 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.

## Identifies all the significant financial pressures it is facing and builds these into its plans

The Council's Medium-Term Financial Plan (MTFP), approved on 23 March 2021, covered the period 2021/22 to 2024/25. The level of government funding for the Council was known for 2021/22 and the MTFP assumed that the same funding allocation will be received for future years.

A deficit of £257k was forecast for 2021/22 on the core revenue budget, but a balanced budget was set due to the deficit being covered by one-off government grants relating to the Lower Tier Services Grant and COVID-19 Council Tax Support. The March 2021 approved MTFP is summarised below.

|                           | 2021/22<br>Budget as<br>approved<br>£'000 | 2022/23<br>Projected<br>Budget<br>£'000 | 2023/24<br>Projected<br>Budget<br>£'000 | 2024/25<br>Projected<br>Budget<br>£'000 |
|---------------------------|---|---|---|---|
| Net Revenue Budget        | 9,973.3                                   | 10,313.3                                | 10,554.7                                | 10,798.3                                |
| Core Revenue Financing    | - 9,716.1                                 | - 10,313.3                              | - 10,554.7                              | - 10,798.3                              |
| Core Deficit / (Surplus)  | 257.1                                     | -                                       | -                                       | -                                       |
| One off Government Grants | - 257.1                                   | -                                       | -                                       | -                                       |
| Budget Deficit / Surplus  | 0.0                                       | -                                       | -                                       | -                                       |

The MTFP sets out the risks that had been considered in developing the budget, and makes clear that the priority for the Council is maintaining a balanced budget over the medium term whilst delivering Council Plan priorities. In prior years the Council had delivered savings totalling £8.9m up to 31 March 2019. The MTFP approved in March 2021 did not set out any additional savings requirements, or the need to use reserves to balance the budgets over the medium term. No significant changes to demand were forecast, and no service reductions were anticipated. The MTFP notes that any efficiencies achieved would be repurposed into existing service budgets or used to contribute to reserves.

The budget is developed each year considering potential cost pressure. Forecast pressures are outlined within the budget which includes analysis from all council activities, historical trends and demographic changes, which are used as the basis for forecasting demand for relevant services. The potential impact of changes of various estimates and assumptions is discussed with Executive Committee as part of the briefing process, as part of the budget development.

# Financial sustainability (cont.)

## Identifies all the significant financial pressures it is facing and builds these into its plans (cont.)

The MTFP and budget reflect assumed spending pressures including pay and non-pay inflation such as utilities, maintenance contracts and materials, software maintenance, subscriptions and publications. The MTFP is reviewed annually as part of the annual budget setting process and because inflation significantly increased following agreement of the MTFP, a review of assumptions underlying key costs included in the MTFP was undertaken in June 2022 and a report presented to the Council Executive Committee. The revised MTFP has assumed the 2022/23 energy prices become the new baseline.

The 2021/22 out-turn report was presented to the Council's Executive Committee on 14 September 2022. The General Fund budget outturn for the year saw a net underspend of £513k, largely as a result of employee cost related savings due to staff vacancies. Recruitment to vacancies continued during 2022/23 and the establishment budget has not been reduced. The underspend was used to contribute to reserves, and to be used to mitigate energy market price pressures during 2022/23.

The MTFP was updated as part of the 2022/23 budget setting process and approved by Full Council in March 2022. The core revenue budget deficit for 2022/23 was £321k, which was again covered by one off government grants. The 2022/23 General Fund budget was prepared in December 2021 and incorporated some savings and increased income levels relating to the insourcing of the Council's waste contract and improved Treasury Management returns.

As part of the 2021/22 outturn report an updated MTFS was reported to the Executive Committee in September 2022. The updated March 2022 MTFS is summarised below:

|                            | 2022/23<br>Budget as<br>approved<br>£'000 | 2022/23<br>Core<br>Budget<br>£'000 | 2023/24<br>Projected<br>Budget<br>£'000 | 2024/25<br>Projected<br>Budget<br>£'000 |
|----------------------------|---|------------------------------------|---|---|
| Net Revenue Budget         | 8,842.0                                   | 10,982.2                           | 13,278.8                                | 13,634.1                                |
| Core Revenue Financing     | - 8,520.4                                 | - 10,982.2                         | - 10,895.3                              | - 11,135.8                              |
| Core Deficit / (Surplus)   | 321.5                                     | -                                  | 2,383.5                                 | 2,498.2                                 |
| One off Government Grants  | - 321.5                                   | -                                  | -                                       | -                                       |
| Budget Deficit / (Surplus) | - 0.0                                     | -                                  | 2,383.5                                 | 2,498.2                                 |

The MTFP update assumed the government funding settlement baseline would increase at 2% per annum.

The Net Revenue Budget increased for 2023/24 and 2024/25 principally to reflect the additional costs following the insourcing of the Council's waste and recycling contract. The projected deficits for 2023/24 and 2024/25 are significant. The September 2022 MTFP report noted that "whilst it is not able to be presented as balanced, the future grant funding, Business Rate Retention, service income and service efficiencies are somewhat likely to contribute to reducing the core deficit".

In addition, the 2023/24 and 2024/25 projected budgets and core deficits reported in September 2022 had increased significantly since those reported in March 2021 and March 2022, as follows:

| Net Revenue Budget and<br>Core Deficit | 2023-24<br>Projected<br>Budget<br>£'000 | 2024/25<br>Projected<br>Budget<br>£'000 |
|--|---|---|
| NRB - March 2021                       | 10,554.7                                | 10,798.3                                |
| NRB - March 2022                       | 11,304.5                                | 11,662.7                                |
| NRB - Sept 2022                        | 13,278.8                                | 13,634.1                                |
| Core Deficit - March 2021              | 0                                       | 0                                       |
| Core Deficit - March 2022              | 409.19                                  | 526.85                                  |
| Core Deficit - Sept 2022               | 2,383.5                                 | 2,498.2                                 |

A further update on the MTFP was reported to the Council's Executive Committee in January 2023, setting out an increase to the 2023/24 projected core deficit from £2.3m to £2.6m as a result of further planned costs relating to the waste service and a reduction in car parking income. The report also set out proposals for how the deficit could be reduced to £0.4m via increased income from recycling, staff vacancies, potential reduction in energy prices, and from increase Treasury Management investment income.

LGR means that the Council will be replaced on 1 April 2023, its geography included in Westmorland and Furness Council, one of the two new unitary councils being created in Cumbria. Finance representatives from the existing sovereign councils have worked together to agree key financial assumptions for the two new unitary councils, align the different approaches historically used for medium-term financial planning, and disaggregate the funding and expenditure of the sovereign councils in order to develop the budgets for the new unitary councils.

# Financial Sustainability (Cont'd)

## Identifies all the significant financial pressures it is facing and builds these into its plans (cont.)

This exercise resulted in a total funding gap in 2023/24 for Westmorland and Furness Council forecast of £19m. This funding gap, reported to the Shadow Authority Executive on 11 November 2022, was recognised as a “snap shot at a point in time” and that there may be changes before the final budgets for 2023/24 are approved, including the decisions made on the level of council tax for the year. In addition, it was noted that the integration and service planning for the new councils will not have concluded at the time the 2023/24 budget is to be approved.

The level of this funding gaps has meant that the Shadow Authority has entered dialogue with DLUHC on the possibility of exceptional financial support during 2023/24. These discussions, which include the possibility of using capital receipts and/ or prudential borrowing to fund revenue expenditure, was progressing but had not been fully concluded at the time of our review.

A cash forecast was prepared for the financial reporting year end 31 March 2022. The cash forecasts include both planned / routine and unplanned / unusual items for the main sources of income and expenditure by each month. Examples of the categories of planned / routine income include business rates, grants; and for expenditure including salaries. The cash flow forecasts and actual out-turn indicated that the Council's cash balance remained positive throughout 2021/22 with no cash flow difficulties identified.

The Council's corporate risk register includes a risk relating to ensuring the Council is financially sustainable which reflects the significant financial challenges and uncertainties the Council faces.

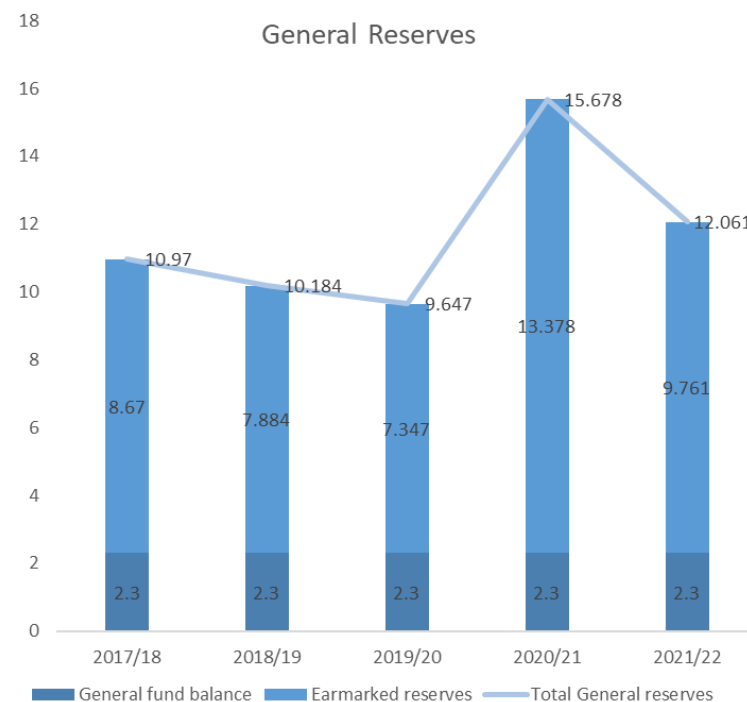
Financial planning arrangements relating to 2021/22, the year of our audit, were reasonable and we found no significant weaknesses. However, we note that a significant budget deficit has emerged subsequently, relating to 2023/24 onwards. This will contribute to the new unitary council's forecast funding gap, which is significant.

The impact on the financial sustainability of the new organisation will need to be closely monitored, and mitigations put in place, so that this does not adversely impact on the new council's ability to deliver their statutory responsibilities, that transformation is delivered in a measured and strategic way, and reserves are not depleted to an unmanageable and unsafe level. We have made an improvement recommendation on this which is on page 18 of this report.

## Management of reserves

The MFTP sets out the Council's policy on reserves and balances, the risks that are being managed, and sets out an approach for increasing the Council's reserves to support uncertainty in the short and medium term. The General Fund balance was projected to be £2.3m on 31 March 2021, above the minimum target of £1.9m.

The graph below summarises the level of useable reserves for the period 2017/18 to 2021/22. This highlights a reduction in the overall reserves balance from 2020/21 to 2021/22. The primary reason for this was the use of £3.964m from the Covid-19 Business Rates and Council Tax reserve.



# Financial sustainability (cont.)

## Managing reserves (cont.)

There are earmarked reserves across the MTFP period of 2022-2025 including those relating to transformation, public buildings maintenance, insurance excesses, local government reorganisation, budget variations, Covid-19, welfare support and some drawdown of ring-fenced grants.

The MTFP notes that until the government funding position beyond 2021/22 is known, reserves will be protected as far as possible. The allocation of earmarked reserves is via recommendations to full Council from the Executive Committee. The transferring, repurposing or extinguishing of reserves is dealt with by the Executive Committee.

When the 2021/22 budget was approved in March 2021 the estimated movement in reserves during the year was forecast to be £3.79m. The net outturn position for the year, reported to the Executive Committee in September 2022, was £3.62m withdrawn from reserves. The outturn had no impact on the General Fund balance which was forecast to remain at £2.3m by 31 March 2022. As already noted the year-end revenue budget underspend resulted in an unplanned contribution to reserves of £513k, which has been set aside to mitigate the energy market price pressures of 2022/23. Usable reserves totalled £32.8m.

We have not found any significant weaknesses in arrangements for managing reserves.

## Plans its finances to support the sustainable delivery of services in accordance with strategic and statutory priorities

The MTFP demonstrates that the Council has an understanding of the cost of delivering core statutory services as distinct from discretionary areas of spend. Discretionary spend is not clearly differentiated in the financial planning reports which underlie the budget and MTFP on the basis that all spend is directed towards the delivery of core services and achievement of Council Plan priorities. There is an ongoing exercise to amalgamate district budgets to the new unitary council as a result of LGR, alongside disaggregated budgets from the county council.

The Capital Strategy and Treasury Management Statement formed part of the MTFP which was approved in March 2021. The narrative of the MTFP section titled 'What are the Council's Capital Spending Plans?', provides details on how some of the projects link to Corporate Plan and Capital Strategy outcomes e.g. "Public Housing £2.18m and Private Housing £1m investment to modernise housing stock.

To strengthen the link between strategic priorities and the capital programme, the capital programme should be categorised by outcomes aligned to particular Council Plan outcomes. This would demonstrate more clearly how the Council is delivering their Council Plan outcomes through the capital programme. We have made an improvement recommendation in relation to this detailed on page 19.

## Capital programme and financing

The planned capital programme for 2021/22 totalled £4.9m. An updated on the capital programme 2021-25 was reported to the Executive Committee on the 9 March 2022, and there was a further update on 27 July 2022. The changes to the total capital programme are summarised below:

| Capital Programme | 2021/22 | 2022/23 | 2023/24 | 2024/25 |
|-------------------|---------|---------|---------|---------|
|                   | £m      | £m      | £m      | £m      |
| Mar-21            | 4.903   | 5.787   | 3.984   | 3.984   |
| Mar-22            | 5.871   | 20.940  | 27.532  | 6.246   |
| Jul-22            | n/a     | 21.242  | 26.952  | 6.840   |

The Council has received funding from the Levelling Up Fund of £15.9m, which is the primary reason for the re-profiling and increase to the programme..

Notwithstanding the reprofiling of the programme during 2021/22 the total capital expenditure during the year was £5.3m, resulting in the reprofiling of £419k programme spend into 2022/23. This included: North Central Renewal - Greengate Street £150k, Town Deal - Marina Village £70k and Cemetery £98k. The slippage was primarily due to programme delays due to the ongoing impact of Covid-19.

The 2021-25 capital programme is funded from use of the capital receipts, ring-fenced grants, use of the Renewals Reserve and via the ring-fenced Housing Revenue Account. The programme for this medium-term period does not include any borrowing, which leads to increased capital costs in the revenue budget.

As at 31 March 2022 the Council had 19 Public Works Loan Board (PWLb) loans outstanding. The total balance of loans outstanding was £34.5m. £21.1m related to the Housing Revenue Account (including £12.1m relating to the HRA self-financing settlement), and £13.4m relating to the General Fund. One loan of £1m is to be repaid during 2022/23.

The Council's authorised borrowing limit for 2021/22 was £55m and borrowing was within this limit. All treasury management activities for 2021/22 complied with the Council's Treasury Management Strategy that, was approved by Full Council in March 2021.

The Director of Resources, as part of the Treasury Management Strategy agreed in March 2021, confirmed that the Council complied with the prudential indicator, which is ensure that gross debt does not exceed the total Capital Financing Requirement (historic debt outstanding on capital expenditure) during 2020/21, 2021/22, and the following two years.



# Financial sustainability (cont.)

## Manages risk to financial resilience, such as unplanned changes in demand and assumptions underlying its plans

Our work identified the MTFP details the main financial risks facing the Council and provides detail of the sensitivities on key areas of risks. The MTFP sets out the potential impact of these risks on reserves.

Our Auditor's Annual Report (AAR) 2020-2021 included an improvement recommendation to include the main budget risks and sensitivities in the budget report. The AAR was reported in October 2022 and the Council has advised that the main budget risks and sensitivities will need to be considered as part of the 2023-2024 budget setting process by the new unitary council following LGR. For the 2022-2023 budget, reported to the February 2022 Executive Committee, highlighted changes to assumptions including price related risks. A further report in June 2022 updated assumptions on utility pricing and staff pay award pressures.

The potential impact of changes of various estimates and assumptions was discussed with the Executive Committee as part of the briefing process in the development of the budget. However, this is not formally reported to Full Council. The Council, or new unitary council, should introduce formal reporting to full Council on sensitivity analysis and scenario planning that has been undertaken on key assumptions and estimates, as part of the development of the annual budget and MTFP. This will provide transparency on the sector wide uncertainties the Council is subject to and the potential impact of these on its financial sustainability. This is reflected in the improvement recommendation on page 20 of this report.

There is no evidence of the Council failing to update financial plans to reflect changes in government policy. Where required, the Council has sufficient provisions in place to take into account the impact of legal and regulatory proceedings.

## Ensures its financial plan is consistent with other plans such as workforce, capital, investment and other operational planning

The Council's MTFP sets the framework for how the Council plans to use its financial resources to fund the activity to deliver on the Council's outcomes. The MTFP is a key strategic document that links how revenue resources will be used to deliver the Council Plan and the associated corporate priorities. The Council has a workforce strategy, which is the framework for how the workforce will achieve Council Priorities.

Given historic challenges in recruitment in a number of services, including finance, it is important that the Council continues to engage in proactive workforce planning and develops its own people through investment in apprenticeships and other on the job training/professional qualifications.

The Council has a Treasury Management Strategy, which sets out the balance between optimising return and mitigating risk. The Council follows the CIPFA Code of Practice on Treasury Management, which sets out the reporting requirements, to ensure best practice is followed. The minimum reporting requirements are for three main reports incorporating estimates and actuals. The Council's annual Treasury Management Strategy, which is prepared in advance of the new financial year, covers the annual Treasury and Investment Strategies, the Treasury and Capital Prudential Indicators and the Minimum Revenue Provision, a Provision Policy Statement. A mid-year Strategy Review is provided to update Members with the progress of the capital programme, amending prudential indicators as necessary, and whether the Treasury Strategy is still appropriate or requires revision. The Council continues to adopt a low risk investment strategy.

Our work has not identified instances of services developing their plans in silos or producing conflicting / competing priorities. Budgetary information reported in year is consistent with the financial position as reflected in the financial statements.

## Conclusion

In conclusion, we have identified that there were arrangements in place for delivering a balanced budget during 2021/22 and have not identified any significant weaknesses in arrangements to ensure the Council manages risks to its financial sustainability.

However, there are significant gaps in the Council's MTFP from 2023/24 onwards which will need to be effectively managed by the new unitary council.

We have made three improvement recommendations to strengthen the MTFP, management of the medium-term deficit, and the monitoring of the delivery of capital plan, which we have set out on pages 18 to 20 of this report.

# Improvement recommendation



## Financial sustainability

|                                     |  |
|-------------------------------------|--|
| <b>Improvement Recommendation 1</b> | To conclude agreement on the mitigation actions in relation to the MTFP funding deficits forecast for 2023/24 and 2024/25.   |
| <b>Why/impact</b>                   | The impact on the financial sustainability of the new unitary council, to which the Council's medium-term funding deficit will contribute, will need to be closely monitored and mitigations put in place, so that this does not adversely impact on the new council's ability to deliver their statutory responsibilities, that transformation is delivered in a measured and strategic way, and reserves are not depleted to an unmanageable and unsafe level  |
| <b>Auditor judgement</b>            | Whilst a balanced budget was set and delivered for 2021/22, the medium term financial position for the Council, in particular from 2023/24 onwards forecasts a significant budget deficit. Whilst the Council has identified a series of mitigations to manage the deficit, this will require further work by the new unitary council to ensure arrangements are agreed and implemented.   |
| <b>Summary findings</b>             | Financial planning arrangements relating to 2021/22, the year of our audit, were reasonable and we found no significant weaknesses. However, we note that a significant budget deficit has emerged subsequently, relating to 2023/24 onwards. This will contribute to the new unitary council's forecast funding gap, which is significant.  |
| <b>Management comment</b>           | The 2022/23 in-year budget pressures in the sovereign councils that form Westmorland and Furness Council were reviewed and where appropriate incorporated into the 2023/24 revenue budget approved by the shadow council on the 7th March 2023. This included a pressure in relation to the Barrow Waste Service. As part of the ongoing transition work and transformation work by Westmorland and Furness Council it is expected that future savings and efficiencies will be identified and these will be reported as part of budget monitoring in year and reviewed as part of the budget setting process for 2024/25 onwards. |



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

# Improvement recommendation



## Financial sustainability

|                                     |   |
|-------------------------------------|---|
| <b>Improvement Recommendation 2</b> | Strengthen the link between strategic priorities and Council Plan outcomes with the capital programme.  |
| <b>Why/impact</b>                   | This would demonstrate clearly how the Council is delivering their Council Plan outcomes through the capital programme.   |
| <b>Auditor judgement</b>            | Clear detailed links highlighting how planned capital projects link to the Council Plan would enable members make informed decisions and challenge Capital Strategy assumptions to help ensure forecasts remain accurate.   |
| <b>Summary findings</b>             | The Capital Strategy includes planned capital expenditure over the four year period of the MTFP by year. The narrative of the MTFP section 'Capital Programme', provides insufficient details on how some of the projects link to Council Plan and Capital Strategy outcomes. |
| <b>Management comment</b>           | The Capital Strategy provide an overarching link of capital project themes to Council priorities. This can be extended to individual project level.   |



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

# Improvement recommendation



## Financial sustainability

|                                     |   |
|-------------------------------------|---|
| <b>Improvement Recommendation 3</b> | Refine formal reporting to Full Council on sensitivity analysis and scenario planning, undertaken on key assumptions and estimates, as part of the development of the annual budget and MTFP.   |
| <b>Why/impact</b>                   | Regular review of MTFP assumptions will help to ensure ongoing accurate financial forecasting and allow for appropriate timely action. Reporting a mid-year review of MTFP assumptions, sensitivity analysis and scenario planning to members will provide the opportunity for challenge, scrutiny, oversight and improved the accuracy of forecasting. |
| <b>Auditor judgement</b>            | Greater agility on financial management is required given current financial uncertainties, regular review and challenge of MTFP assumptions to help ensure financial forecasts remain accurate.   |
| <b>Summary findings</b>             | Sensitivity analysis and scenario planning is undertaken as part of the development of the budget, however this analysis is not formally presented to members.  |
| <b>Management comment</b>           | This improvement was accepted in the 2020/21 Auditor's Annual Report and whilst it could not be actioned by Barrow Borough Council, the benefit of recommendation is accepted.  |



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



# 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 Risk Register is clearly set out, with a risk owner, concise description and key controls to manage the risk. The Council has a Risk Management Policy, Process Guide and Toolkit to ensure consistent scoring of risks across all Departments. Our review of the current Risk Management policy and various papers from Audit Committee highlight the Council provides appropriate training on risk management. The Council's risk appetite was unchanged throughout 2021/22.

The Strategic Risk update for 2021/22 was completed in July 2022. The impacts of the pandemic are reflected throughout the Corporate Risk Register. There are 18 risks on the 2021/22 corporate risk register, 12 risks are RAG rated high risk, a summary of the highest rated risks is as follows:-

1. Significant changes arising from Central Government Legislation
2. Failure to secure and manage data
3. Economic change
4. Climate Change adversely impacts the Borough and its surroundings.

The Corporate Risk register also includes a risk relating to the impact of LGR adversely impacting public services. No additional risks were included following the strategic risk update, with energy price pressures included as part of the risk on Economic Change.

We made an improvement recommendation in our 2020/21 Auditor's Annual Report (published in October 2022) for the Council to improve the risk register, provide associated training and improve clarity on roles and responsibilities. Following an external review, the Council has revised the format of the Corporate Risk Register and changes presented to the Audit and Governance Committee. The Risk Management Policy has not been updated to reflect the changes due to the risk management arrangements for the new unitary council will take effect from 1 April 2023. We have been advised that the planned risk management training was not delivered due to delays in the completion of the external review, and will need to be delivered by Westmorland and Furness Council.

More generally, the Council has continued its work on improving risk management which has included the ongoing development of departmental risk registers. Work has continued on improving operational risk management by supporting various department and service areas. Corporate risks continue to be reviewed on a quarterly basis by risk owners, the Council's Executive Committee, Audit Committee and the full Council. Operational monitoring risk reviews and implementation of actions reports are presented to the Executive Committee.

The Council Plan and Going Forward Activity tracker (Corporate Performance Monitoring Report) includes a description of over 70 actions that the Council is undertaking during 2020-24 incorporating performance measures, which provide an indication of how well the Council is performing against its priorities. The new unitary council should consider whether it can streamline this report to provide more summarised and integrated performance, finance and risk reporting. This would build on existing arrangements which include meetings between respective finance, performance and risk management teams to discuss their reporting to Executive Committee. We have made an improvement recommendation and this is detailed on page 25 of this report.

# Governance (cont.)

## Assurance over the effective operation of internal controls

In developing its 2021/22 Annual Governance Statement (AGS) the Council reviewed its corporate governance arrangements against its Local Code of Corporate Governance. The AGS was prepared in accordance with the guidance set out in CIPFA Bulletin 10 – Closure of the 2021/22 Financial Statements. The AGS has been corroborated by our 2021/22 financial statements audit.

The Council has revised its Procurement Strategy, which was adopted by the Council on the 12 January 2022. This replicated the priorities and themes within the National Procurement Strategy for Local Government in England (NPS) and was aligned to the Council Plan.

The Council also reviewed and updated related documents including Contract Standing Orders, the Procurement Handbook and Procurement Checklist, standard terms and conditions, and procurement related forms and templates.

The Council is a member of the Morecambe Bay Anchor Collaborative, a partnership of public and private sector organisations whose purpose is to make a difference to local people by widening access to quality work, purchasing and commissioning for social benefit. This work is overseen by the Lancaster and South Cumbria Joint Committee, which is a formal arrangement between the three district councils within Morecambe Bay (Lancaster City Council, Barrow-in-Furness Borough Council and South Lakeland District Council) to build on collective strengths and increasing local capacity to deliver on key issues affecting the sub-region.

The Council has adopted a three line of defence model in which the responsibility for implementing a system of governance and internal control within the Council lies primarily with the Senior Management Team. Directors and Service Leads provide the first line of defence as they need to ensure that they maintain effective control procedures. Council compliance and support functions provide the second line of defence, with the third line being provided by Internal Audit and external agencies (including external auditors). Internal Audit do not repeat the work of the second line, rather it is considered during reviews to assess the level of reliability which can be placed upon it.

During 2021/22 the Council's Internal Audit service identified a number of significant weaknesses, including in relation to procurement and contract management. These are discussed in the following section.

## Internal Audit

Internal Audit services are provided by an in-house team. During 2021/22 an audit plan of work was carried out across the Council. Internal Audit reported 29 (88%) out of 33 planned reviews with the remaining reviews in progress (2 at draft report stage and 2 fieldwork underway). Some internal audit work was impacted by the pandemic.

Internal audit's performance during the year was reported against the following key measures:

- Draft Internal Audit investigation reports issued within 10 working days of completion of audit fieldwork: 100%.
- Management Responses received within 20 working days of issue of the Draft report: 69%.
- Final reports issued within 10 working days of receipt of management response: 100%.
- Priority 1 and Priority 2 Recommendations acceptable to the audit client: 100%.

The Head of Internal Audit provided "limited assurance" over the effectiveness of the Council's arrangements for governance, risk management and internal control. Of more concern were areas where No Assurance was provided, these related to:

- Procurement.
- Forum Catering and Cleaning.
- Cleaning of Barrow Town Hall and Associated Buildings 2023-23.

The Head of Internal Audit's opinion statement for 2021/22 identified a number of weaknesses in areas including recruitment, accounts receivable and performance management. The Council has taken action to address these recommendations and an action plan of remedial activity is in place.

The Head of Internal Audit's annual report also notes that Internal Audit's Quality Assurance and Improvement Programme, which ensures their work is compliant with Public Sector Internal Audit Standards (PSIAS).

Our work evidenced the Council has appropriate Internal Audit arrangements in place. We note that the Head of Internal Audit left the Council on 20 October 2022, and the S151 Officer has assumed the role of Head of Internal Audit supported by the existing Internal Audit team.

# Governance (cont.)

## Procurement and Contract Management

The Head of Internal Audit's 2021/22 opinion statement identified significant weaknesses in the Council's arrangements for ensuring policies and procedures in relation to procurement and contract management are followed. This follows a series of Internal Audit recommendations on procurement and contract management going back to at least 2016/17 reflecting long standing deficiencies in arrangements.

In October 2022, via Statutory Recommendations, we reported on the urgent need for the Council to improve its procurement and contract management arrangements. These are set out on pages 8 to 10 of this report. Procurement and contract management is discussed further in the section of this report on Improving Economy, Efficiency and Effectiveness.

## Counter Fraud

The Council has anti-fraud and corruption policies in place. As part of the Council's responsibility to take action against potential fraud and corruption, a whistleblowing facility in the form of a fraud hotline and webform has been established since May 1998. This is available to Council staff, contractors, suppliers and members of the public.

The fraud hotline facility is operated by Internal Audit and call details are either investigated by Internal Audit, the Council's Revenues and Benefits team, or forwarded to the Department for Work and Pensions for Housing Benefit fraud. If necessary referrals are referred in specific instances to other agencies for example Public Protection Services. The Council has not been subject to any material frauds during the 2021/22 year.

## Leadership, committee effectiveness and decision making

The Council operates a committee system of governance, which includes an Overview and Scrutiny Committee and an Audit and Governance Committee.

The work of the Council's committees is governed by the Council's constitution. The constitution is regularly reviewed and updated, most recently in July 2022. The constitution is shared with all Council members and Council staff on joining and is openly available on the Council's website. The constitution sets out how the Council operates, how decisions are made and the policies that should be followed to ensure that they are efficient, transparent and accountable to local people.

The Council's Audit Committee provides oversight of internal and external audit activity and considers the level of assurance it can give over the Council's corporate governance arrangements within the defined regulatory framework. Our review of minutes and papers for the Audit Committee and review of other committee minutes and committee attendance indicates that key strategic decisions are subject to challenge and are supported by detailed papers. Senior officers are open to conversations during committee meetings.

We have not seen evidence of discussions not being open. However, overall the Audit Committee could provide greater challenge of financial and non-financial items. The Committee now has one member with an audit background and those charged with governance have received training to support the discharging of their role. The Committee is well attended with minimal absences and the Chair is very committed to getting it right in terms of assurances required.

## Register of Interests, Gifts and Hospitality

The Council maintains a record of member interests and gifts and hospitality on its website. There is a requirement for members to confirm any interests within 28 days of becoming a member or reconfirm on re-election or re-appointment to office. The constitution is clear that member must ensure that their register of interests is kept up-to-date and updates should be notified within 28 days of becoming aware of any new interest.

The Council undertakes an annual exercise to inform the related party disclosures in the financial statements.

Our work has not identified instances of interests not being declared within 28 days of taking office, or any instances which have caused damage to the Council's reputation or had any other significant impacts on the Council.

## Budget Setting Process

The Council has an established process for developing its annual budget and MTFP and has arrangements in place to recognise, assess, and re-evaluate the impact of changes in expenditure and income drivers and associated assumptions. The MTFP sets out the range of key assumptions that the Council has made in developing its financial plans which include inflation, pay increases, and changes to sources of income.

Risks are incorporated into the MTFP including the actions to mitigate each risk identified. The potential impact of changes of various estimates and assumptions is discussed with Cabinet as part of the briefing process in the development of the budget.

The development of the budget commences with the rolling forward of the Budget Model from the prior year. The model is updated to reflect any known changes to funding, including new grants, the latest Council Tax base data and any changes to Business Rates income. Prior year assumptions are reviewed and updated to reflect any new service pressures, changes to sources of funding, fees and charges and the Council Tax base.

# Governance (cont.)

## Budget setting process (cont'd)

The Council's MTFP covers a rolling four-year period. A report was brought to Executive Committee in November 2021 which outlined the approach to updating the MTFP and 2022/23 budget. This report contained the financial planning assumptions for the period of the MTFP in the context of the Council Plan. It updated the 2021-2025 Budget Planning position and proposed the approach to be taken to deliver the savings required to achieve a balanced budget over the four year period. As already noted, a report on revised MTF assumptions was presented to the Executive Committee in January 2023.

We have already commented that sensitivity analysis and scenario planning has been undertaken on key assumptions and estimates, as part of the development of the annual budget and MTFP, but is not reported to full Council, and make an improvement recommendation on this on page 20 of this report.

Our work identified an appropriate level of engagement from budget holders, departmental leadership and executive leadership in the annual budget setting process.

## Budgetary control

The Finance Department engages at least monthly with budget holders. There is monitoring at a service, directorate and corporate level.

Our work identified that there is appropriate in-year oversight of the budget with quarterly budget monitoring reports taken to Executive Committee. These reports include outturn against budget and explanations for any variances against budget at a directorate level. Any proposed revisions to the budget are also set out in these reports.

There is clear reporting on the forecast outturn and any impact on useable reserves. An update is also provided on the capital programme including any reprofiling.

We are satisfied that timely and accurate financial monitoring information is provided to budget holders.

## Capital programme

The capital programme recognises the impact of inflation on construction related costs and contracts which is impacting on all local authorities.

Approval for new capital schemes is based on the approval of an appropriate business case including alignment with Council Plan priorities, revenue implications (such as maintenance costs) and any savings that may arise.

Capital project proposals are considered by specific programme management teams before being presented to a programme board which is also responsible for monitoring capital projects against the delivery of outcomes, priorities and financial. Progress reports incorporating any recommended variations to each project are presented to the programme board and the Executive Committee where required.

## Conclusion

We have identified significant weaknesses in the Council's governance arrangements for procurement and contract management. We have made three statutory recommendations for improvement as outlined on pages 8 to 10.

We have made one further improvement recommendations relating to integrated performance reporting on page 25.



# Improvement recommendation



## Governance

|                                     |  |
|-------------------------------------|--|
| <b>Improvement Recommendation 4</b> | Streamline the Corporate Performance Monitoring report to provide more summarised and integrated performance, finance and risk reporting.  |
| <b>Why/impact</b>                   | To improve performance reporting to members, and better align performance, finance and risk management information.  |
| <b>Auditor judgement</b>            | There is scope to improve the information reported to members in the risk register by including potential factors including direction of travel, target risk score, contingency, future actions required, sources of risk and assurance and dates of last and next review.   |
| <b>Summary findings</b>             | The Council Plan and Going Forward Activity tracker (Corporate Performance Monitoring Report) includes a description of 70 plus actions that the Council undertook and performance measures which provide an indication of how well the Council is performing against its priorities. The Council should consider whether it can streamline this report to provide more summarised and integrated performance, finance and risk reporting, this would build on existing arrangements which include meetings between respective finance, performance and risk management teams to discuss their reporting to Executive Committee. |
| <b>Management comment</b>           | The Service Performance Framework was revised in October 2022 and the Risk Management arrangements have been reviewed and the Risk Register revised in March 2023. There will be no further review of corporate performance monitoring carried out by Barrow Borough Council.  |



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

# 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

Performance is reported and monitored by the Overview & Scrutiny Committee and Executive Committee on a quarterly basis. The performance report is aligned to the Council's strategic objectives and includes baselined targets and performance forecasts (such as whether on track or under performing).

Some slippage against performance targets was to be expected given the impacts of the pandemic throughout 2021/22. However, as the Council returned to business as usual and manages the LGR transition, it is important that performance continues to be monitored closely and there remains an appropriate focus on the delivery of Council Plan priorities. We have highlighted the importance of integrated performance reporting and have made an improvement recommendation on page 25 of this report.

There are multiple levels of review before reports are compiled for committee meetings. Pre-briefs are held with the Executive Committee prior to formal meetings to ensure reports are understood.

During 2021/22 Internal Audit reviewed progress made to embed the Performance Management Framework (PMF) since its implementation in 2018. This reported that whilst the Council has undertaken significant work to implement the PMF, further work was required and a restricted performance rating was ascribed. Areas for improvement included better defining of performance targets clearly linked to the Council Plan priorities, to better measure progress and in reporting to members and public transparency.

The Council has subsequently reviewed the PMF in October 2022 considering the associated procedures to ensure there is monitoring and management of performance across all levels of Council, and roles and responsibilities of staff and members are clearly defined. Planned changes have not progressed due to the impact of LGR transition. We have made an improvement recommendation on page 31 of this report, relating to a follow up of the agreed action plan to ensure the recommended actions in the Internal Audit report are implemented and progress is reported in the 2022/23 AGS.

We have not identified any evidence of failure to meet minimum service standards or failure to review and challenge strategic priorities.

Key decisions are published on the Council's website and the Council carries out a wide range of public consultation.

# Improving economy, efficiency and effectiveness (cont.)

## Stakeholder Engagement

The Council consulted with various stakeholder groups on the draft 2021/22 budget. This included consulting with residents via a questionnaire, which sets out the key principles of the budget proposals along with a summary of the current context and challenges facing the Council in future years.

The key consultation findings covered what services are important to those who responded, which services could be a focus for generating additional income, and views on Council Tax increase and potential service reductions, including some costed proposals. Responses provided qualitative feedback and insight for the Council to consider during budget setting.

More generally, Council business is conducted in public unless legislation deems it.

## LGA Peer Review

A Peer Review was undertaken by the Local Government Association (LGA) in February 2020. Fourteen key recommendations were made including:

- Housing becoming a Committee in its own right (rather than the Housing Management Forum reporting to the Executive Committee)
- To review role of the Executive Committee and responsibility for policy issue
- Strengthening the voice of residents
- Ensure the Forward Plan becomes widely available, not only to Members, but to local residents via the Council website.

The Council developed an action plan in response and these recommendations which have been delivered to timetable with improvements taking place.

## Procurement and Contract Management

As noted in our Auditor's Annual Report for 2020/21, since at least 2016/17 Internal Audit had reported continued deficiencies in the Council's arrangements for ensuring compliance with procurement and contract management procedures.

In July 2022 Internal Audit reported on their latest review of procurement arrangements covered by the Council's Purchasing Procedure, which relates to procurements below £100k.

The Council uses framework agreements obtained through competitive tendering where possible, while other suppliers require differing numbers of quotations to be obtained, depending on their value.

The review was issued with a no Assurance opinion, and there were three high priority recommendations as follows:

- Management Board should explain the reasons for significant non-compliance with the Council's financial regulations with regard to expenditure incurred with individual suppliers in excess of £100,000; and ensure that all future procurements exceeding £100,000 are conducted in accordance with Contract Standing Orders.
- The Council should ensure that the provisions in place for the engagement of "specialist" suppliers are not abused and are used only for the engagement of specialists rather than just preferred suppliers; and where specialised suppliers are identified, approval is obtained and clearly documented by authorised managers prior to purchase.
- The Council should review and update its Purchasing Procedure regularly and ensure that the latest version is available online.

The report also made the following Priority 2 recommendations:

- Clarification of the Council's policy in regard to procurement made by third parties to ensure that the Council's Financial Regulations are being complied with.
- Ensure that, where services or supplies are regularly required, market testing is undertaken regularly and fully documented.
- Making the requirement to use frameworks, where they exist, more explicit in the Purchasing Procedure.

In addition, as part of this review Internal Audit also reviewed progress made on recommendations made in June 2019, June 2017 and September 2016. They found a number of significant issues in each of these report that hadn't been addressed:

- Explaining why a contract is not in place for a supplier who received £336k.
- Officers ensuring that all relevant supporting documentation relating to procurements are retained and readily available for inspection to confirm compliance with the Council's Purchasing Procedure.
- Ensuring that procurements / purchases are consistently made in accordance with the competition requirements of the Council's Purchasing Procedure.
- Ensuring that correctly authorised official purchase orders are issued for all relevant suppliers.
- Giving consideration to performing a regular review of total annual payments to suppliers in order to identify whether Contract Standing Orders should have been followed in specific instances.

# Improving economy, efficiency and effectiveness (cont.)

## Procurement and Contract Management (Cont'd)

The Head of Internal Audit's 2021/22 opinion statement identified significant weaknesses in the Council's arrangements for ensuring policies and procedures in relation to procurement and contract management are followed. This is a long term and systematic area of failure of arrangements. In October 2022, via Statutory Recommendations, we reported on the urgent need for the Council to improve its procurement and contract management arrangements. These are set out on pages 8 to 10 of this report and summarised below.

**Statutory recommendation 1: Embed and enforce the Council's updated contract standing orders and procurement rules. We expect officers in all departments to follow and fully evidence compliance with contract standing orders on all procured services.**

The Council has failed to demonstrate and apply the principles of sound governance in its governance arrangements, leading to ineffective procurement arrangements. Failure to adhere to Council contract standing orders and purchasing procedures means that it is difficult for the Council to demonstrate that it has achieved value for money. Whilst improvements have been made they have not been fully embedded and the control environment on procurement and contract management will remain important as the Council transitions to the new unitary council.

**Statutory Recommendation 2 Ensure members and officers have robust assurance and reporting arrangements in place, for managing all ongoing contracts to enable appropriate and timely action to remediate any non-compliance or wider deficiencies**

It is evident from Internal Audit and our work that procurement and contract documentation has not been made available for inspection on a timely basis. This has resulted in several areas of the Internal Audit annual work programme being issued with "no assurance". This undermines the system of assurance and accountability. Management has not been able to provide contract documentation for audit inspection. It is difficult for the Council to manage contracts when this basic information is not readily available. This risk has materialised with respect to the waste contract, which we discuss later in this report.

**Improvement Recommendation 3: Review the Council's escalation arrangements up to Full Council and Overview and Scrutiny Committee to ensure an adequate and timely response to address significant control environment weaknesses.**

Internal Audit has reported continued deficiencies in the Council's arrangements for ensuring compliance with procurement and contract management procedures. Reviews of procurement and specific contracts have identified breaches of the procurement rules and Contract Standing Orders. There are several historic recommendations for improvement to internal controls highlighted by Internal and External Audit, which have not been resolved.

Despite being aware following persistent warnings from the Council's auditors, it has had a significant period of time where its procurement and contract management arrangements have been inadequate.

The Council has a Sustainable Procurement Strategy, which was approved by the Executive Committee in January 2022. The aim of the strategy is to support the Council's long term financial sustainability and drive efficiencies, support local economic growth and to optimise the opportunities for delivering social value through procurement. The strategy includes Key Performance Indicators (KPIs) and performance management data has been developed and reported to the Senior Management Team at least annually. This includes metrics such as savings, social value and compliance.

The transition to the new unitary council as a result of LGR has included the novation of Council contracts to the new unitary council.

We now set out the circumstances of changes made by the Council to two significant contracts.



# Improving economy, efficiency and effectiveness (cont.)

We acknowledge that some of the commentary below on Waste and Leisure contracts carries on into the 2022/23 financial year, but it is related to decision making and actions taken in 2021/22 and earlier, so is relevant to provide full context with an up to date position on these contracts.

## Waste collection, recycling and street cleaning contract

The Council's waste collection, recycling and street cleaning service was awarded to FCC, an external contractor, from 1 April 2017 following a procurement exercise. The value of the contract was circa £2.1m per annum.

During 2019/20 Internal Audit completed a review of the award of the contract and identified a number of weaknesses in the procurement. This included a two-year delay in completing the Council's 'pre-contract' checklist, which should have been completed prior to award of the contract. The issues identified in relation to this procurement contributed to the significant weaknesses in procurement and contract management arrangements and to our statutory recommendations set out on pages 8 to 10 of this report.

There have been long standing contract management issues with this contract relating to effective service delivery, poor recycling performance and additional costs to the Council including the Council not receiving any of its share of Recyclate Share Value since the start of the contract. Dialogue between the Council and contractor had focussed on effective contract management and compliance, an agreed business case for the contractual relationship to continue, and the need to relocate the depot to facilitate a planned housing-led regeneration scheme.

On 22 March 2022 the Council's Executive Committee agreed to give notice to the contractor that it would be terminating the contract in line with contract terms.

A further reason for this decision was the expectation of the need for a joined-up delivery approach for waste collection, recycling and street cleaning following LGR and the creation of a new unitary council on 1 April 2023. The Council decided that the service would be delivered in-house from 1 October 2022, with a decision on any change to the delivery approach to be made by the new unitary council.

The Council has forecast the financial impact of this change will be an annual additional gross costs £0.885m, and an annual net additional cost of £0.353m after accounting for income to the service, such as from garden waste.

This change has required the Council to transfer staff from the contractor to the Council under the Transfer of Undertakings (Protection of Employment) Regulations 2006 (TUPE) and take over the waste fleet and processing facilities. The change incurred transition costs of £0.4m.

Since the transfer took place the Council has been reviewing its financial assumptions on the cost of delivering the service and the potential for generating additional income in relation to recycling, which has been mentioned in the Financial Sustainability section of this report.

We note that as part of the Council's actions to improve procurement arrangements more generally, good practice case studies have been developed and made available to those involved in procurement. The Council should undertake a lessons learned review to identify if and how the weaknesses identified during the waste management procurement exercise contributed to the contract management challenges it experienced, alongside any other learning from the management of this significant contract, to be shared across the wider organisation and new unitary council, to support good practice in procurement and contract management arrangements. We have made an improvement recommendation which is on page 32 of this report.

## Barrow Park Leisure Centre

The Council entered into a ten-year contract with Stockport Sports Trust (trading as Life Leisure Trust) in 2018 to manage and operate Barrow Park Leisure Centre. Separately, Life Leisure Trust had a long-standing contract with Stockport Metropolitan Borough Council (MBC) to operate all its leisure centres.

The Covid-19 pandemic had a significant financial impact on the leisure sector nationally. Stockport and Barrow councils supported the on-going operation of their leisure facilities by providing deficit funding. However, at the end of the contract between Stockport MBC and Life Leisure Trust, Stockport MBC advised the Trust that it planned to deliver leisure services by establishing its own Community Interest Company (CIC).

Stockport MBC provided 85% of the income of Life Leisure Trust, and as a consequence, the Trust advised the Council that it would not be able to deliver its contract with the Council beyond 31 March 2021.

The Council commissioned an options appraisal, which was undertaken by SLC Consultancy, which was considered by the Executive Committee on 10 February 2021. This set out alternative options for the management of Barrow Park Leisure Centre and associated community based activity programmes. **These options included providing the service in-house, procuring an alternate provider, and the establishment of a CIC or Local Authority Trading Company (LATC).** The Council then engaged the Association for Public Service Excellence (APSE) who provided a further assessment of the options, opportunities, and challenges for the Councils leisure function.

APSE reported their findings in March 2021 and a decision was taken by the Council's Executive Committee on 23 March 2021, and subsequently full Council on 21 April 2021, to establish a LATC to take over the operation of the Barrow Park Leisure Centre

# Improving economy, efficiency and effectiveness (cont.)

## Barrow Park Leisure Centre (cont'd)

The LATC, Barrow Forward Limited, was incorporated on 26 April 2021 as a company at arm's length from the Council but wholly owned and controlled by the Council. The Board of Barrow Forward Limited first met on 15 July 2021 and the new company began trading on 1 February 2022. As a not-for profit enterprise, any surpluses generated from the leisure centre will be invested by the company back into leisure, health and wellbeing services for the community.

Staff and assets were transferred from Live Leisure Trust to Barrow Forward Limited under TUPE. The transfer, originally forecast to take place by 1 September 2021, concluded on 31 January 2022. The establishment of a new company has required considerable work in establishing new governance arrangements, developing a business plan, migrating data from the Trust to Barrow Forward, and managing the TUPE process.

Barrow Forward has been in the process of commissioning support services from third party providers, because the Council does not have the capacity to provide the company with support services such as accounting, IT, HR, marketing, payroll and pensions. At the time of our review not all these arrangements were in place. The Council does provide facilities management services to Barrow Forward and the Council recharges property related contract costs to the company.

A Memorandum of Agreement is in place between the Council and Barrow Forward which sets out roles and responsibilities, the service specification of the Council's requirements for the overall operational performance of the company, agreed delivery objectives, and payment terms. A sub-committee to the Council's Executive Committee has been established to provide oversight of the new company. A lease arrangement was agreed for the company to occupy the leisure centre with the Council retaining responsibility for structural repairs of the building. The Council's capital programme includes £817k relating to planned capital works required on the leisure centre.

APSE noted a likely increase in costs to the Council from this change in delivery model of between £100k and £160k per annum, but that this should reduce over a five year term and the Council could reduce its subsidy to the LATC to zero or better within three to five years, assuming there is a positive post pandemic recovery. As already noted, the leisure sector was significantly impacted by the pandemic, and continues to face challenges including the inflationary impact of rising energy prices and other costs.

The management fee paid by the Council to Barrow Forward was £76.8k for 2021/22 (for February and March 2022) and for 2022/23 and 2023/24 this is budgeted at £197.7k. During 2022/23 the company requested additional funding from the Council, due to a deficit as a result of increased energy costs incurred during the year. This totalled £250k and was approved by the Council's Executive Committee on 8 March 2023. It is to be funded by a combination of reserves, set aside funds from 2021/22 and additional interest earned.

The Council has noted that a move towards a position of zero subsidy will be dependent on the company significantly increasing income or reducing costs. The Council must continue to robustly monitor the operational performance of the new LATC to ensure that it meets its business plan objectives, secures appropriate back office support, and the Council's financial subsidy is reduced in line with expectations. An improvement recommendation has been made in this regard and is on page 33 of this report.

## Data Quality

In our 2020/21 Auditor's Annual Report we included an improvement recommendation for the Council to update the data quality policy and associated guidance to reflect best practice, organisational structure, and the processes required for the producing and reporting performance management information.

The Council has not established a Data Quality policy and we note that there is an ongoing LGR work package to establish information management policies for the new unitary, Westmorland and Furness Council.

## Conclusion

We have identified a significant weakness in the Council's arrangements in place in relation to how it manages its risks and ensures economy, efficiency and effectiveness in its use of resources. This relates to procurement and contract management and we have made three statutory recommendations on pages 8 to 10.

We have made three further improvement recommendations on pages 31 to 33, which relate to changes to the delivery models for the waste service and Barrow Park Leisure Centre, and the delivery of the agreed action plan to ensure the recommended actions in the Internal Audit report on the Performance Management Framework are implemented.

# Improvement recommendation



## Improving economy, efficiency and effectiveness

### Improvement Recommendation 5

Deliver the agreed Internal Audit report on the Performance Management Framework recommendations to ensure the actions are implemented and that progress is fully reported in the 2022/23 Annual Governance Statement.

#### Why/impact

The Council has identified improvements to performance management arrangements need to be made in can and is making progress to implement internal audit recommendations but these have not concluded or been fully embedded. This remains important so that there is effective monitoring and management of performance across all levels of the Council and that roles and responsibilities of staff and members are clearly defined.

#### Auditor judgement

The Council should follow up of the agreed action plan to ensure the recommended actions in the Internal Audit report on the Performance Management Framework are implemented and progress reported in the 2022/23 Annual Governance Statement.

#### Summary findings

During 2021/22 internal audit assessed the progress made to embed the Performance Management Framework since its implementation in 2018. This included better defined performance targets which more clearly link to the Council Plan priorities to enable measurement of progress and increase transparency of reporting performance information to the public. Progress on implementing these changes have been impacted by LGR transition.

#### Management comment

The Service Performance Framework was revised in October 2022 and quarterly reporting to the Overview and Scrutiny Committee occurred for 2022/23.



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

# Improvement recommendation



## Improving economy, efficiency and effectiveness

|                                     |  |
|-------------------------------------|--|
| <b>Improvement Recommendation 6</b> | Undertake a lessons learned review to identify if and how the weaknesses identified during the procurement exercise for the waste collection, recycling and street cleaning contract contributed to challenges experienced in the management of the contract, alongside any other learning from the management of this significant contract.   |
| <b>Why/impact</b>                   | There were significant weaknesses in relation to the procurement exercise relating to this contract award and the management of the contract has been beset by significant challenges. The results of a lessons learned review, shared across the wider organisation, would support an organisational improvement culture that is urgently required on procurement and contract management arrangements. Such learning could also be of value to the new unitary council.  |
| <b>Auditor judgement</b>            | The procurement of this contract had significant weaknesses and the management of this contract faced challenges that could not be resolved, leading to its early termination. The Council has not been able to demonstrate arrangements in place provided value for money.  |
| <b>Summary findings</b>             | Significant weaknesses have been identified by internal audit in relation to the procurement exercise relating to this contract award. The management of the contract has been beset by significant challenges in relation to contract performance, and the Council has faced increased costs. The results of a lessons learned review, shared across the wider organisation would support an organisational improvement culture that is urgently required on procurement and contract management arrangements. Such learning could also be of value to the new unitary council. |
| <b>Management comment</b>           | The Council considered all previous contracting and procurement activity and weaknesses as part of the review completed in 2021/22.  |



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

# Improvement recommendation



## Improving economy, efficiency and effectiveness

|                                     |  |
|-------------------------------------|--|
| <b>Improvement Recommendation 7</b> | Continue to robustly monitor the operational performance of the new leisure LATC, Barrow Forward Limited, to ensure that it meets its business plan objectives, secures the appropriate back office support and the financial subsidy is reduced in line with expectations.  |
| <b>Why/impact</b>                   | Barrow Forward Limited is a new arm's length trading company of the Council. Given the recent context of the impact of the pandemic on the leisure sector and that this is a new company, it will be critical that the Council (and the new unitary council) monitors its operational performance to ensure that both service outcomes are met and the planned reduction in subsidy from the Council is realised over the medium-term. |
| <b>Auditor judgement</b>            | The Council has demonstrated that it can respond to changing contractor circumstances, consider alternate options, and implement an alternate service delivery model. However, given the continued market context, and that this is a new company, it will be critical that the company's operational performance is closely monitored to ensure that arrangements provide value for money.  |
| <b>Summary findings</b>             | Barrow Forward Limited is a new arm's length trading company of the Council. Given the recent context of the impact of the pandemic on the leisure sector and that this is a new company, it will be critical that the Council (and the new unitary council) monitors its operational performance to ensure that both service outcomes are met and the planned reduction in subsidy from the Council is realised over the medium-term. |
| <b>Management comment</b>           | The Council will continue to robustly monitor the operational performance of the new leisure LATC.   |



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



# Follow-up of previous improvement VFM recommendations

| Recommendation  | Year raised | Progress to date  | Addressed? | Further action? |
|---|-------------|---|------------|-----------------|
| <b>Financial Sustainability</b><br><br>Report the outturn position to Members promptly after the year end, and ideally in June or July once management accounts have been closed  | 2020-21     | Whilst the 2020-21 outturn reporting was impacted by COVID-19 duties, 2021-22 has also been reported to the Executive Committee in September. The accounts for 2021-22 were closed in August 2022. A revaluation of the Council's assets was carried out for 2021-22 with a new external valuer; that work, the management review and subsequent accounting were completed by the end of July 2022. The Section 151 Officer's final review was completed late August and the draft accounts authorised for issue; the outturn report prepared. The valuation work for 2022-23 will fall within the closedown timetable and outturn reporting will return to June/July | Yes        | N/A             |
| <b>Financial Sustainability</b><br><br>Include a summary of the financial risks within the budget, their potential impact, and how the risks are mitigated within the Section 25 statement within the annual budget report. | 2020-21     | Whilst there won't be an annual budget report for Barrow Borough Council alone for 2023-24, the inclusion of the financial risks, impacts and mitigation within the report of the Section 151 Officer is supported as an improvement.   | Yes        | N/A             |

# Follow-up of previous recommendations

| Recommendation  | Year raised | Progress to date   | Addressed? | Further action?   |
|---|-------------|--|------------|---|
| <b>Financial Sustainability</b><br><br>Refine formal reporting to members on sensitivity analysis and scenario planning, undertaken on key assumptions and estimates, as part of the development of the annual budget and MTFP. | 2020-21     | Sensitivity analysis and scenario planning to quantify the assumptions underlying the budget and Medium Term Financial Plan would improve the reports to members and create a stronger connection between the budget and the outturn, and clearer recognition of new pressures and exceptional variances to existing assumptions. The next annual budget report will be for Westmorland and Furness Council. | Partly     | We have made an improvement recommendation relating to this detailed on page 16 |

| Recommendation   | Year raised | Progress to date   | Addressed? | Further action? |
|--|-------------|--|------------|-----------------|
| <b>Financial Sustainability</b><br><br>Provide a clear distinction between discretionary and non-discretionary spending in the budgetary information presented to members and ensure it is published on the website. | 2020-21     | The quarterly financial monitoring is focussed on the divisions established through the restructuring of 2022 which aligned resources to the Council Plan priorities. Expenditure is not marked as discretionary or non-discretionary, however this can be introduced and would be most appropriately applied to the 2023-24 budget. There is an ongoing exercise to amalgamate district budgets to their unitary and disaggregate the county budget to add the two parts. As this work is already underway, the marking of discretionary and non-discretionary spending should be incorporated. | Yes        | N/A             |

# Follow-up of previous recommendations

| Recommendation  | Year raised | Progress to date  | Addressed? | Further action?   |
|---|-------------|---|------------|---|
| <b>Financial Sustainability</b><br><br>Develop or update the workforce plan adequately to reflect the Council's operational requirements and service delivery objectives.   | 2020-21     | The Workforce Strategy has been revised by the Head of HR and a Workforce Strategy Statement 2022-23 was presented to the Executive Committee in November 2022. Given the timeframe for Local Government Reorganisation a Strategy Statement was prepared for the period leading up to vesting day, and this is being passed into Westmorland and Furness Council's policy formation process.   | Yes        | N/A   |
| Recommendation  | Year raised | Progress to date  | Addressed? | Further action?   |
| <b>Governance</b><br><br>Strengthen the risk management framework further by developing a full training programme for all levels of staff, providing greater clarity of the relationship between all the risk registers used across the Council, including strategic, operational, project and partnership risk.<br><br>Develop the risk register to align with best practice to ensure adequate information is reported to members | 2020-21     | The Council worked with an external specialist to review the Risk Management Policy and reformat the Risk Registers. The Risk Registers have been reformatted and the changes presented to the Audit and Governance Committee; the Policy has not been updated to reflect the format changes as the Westmorland and Furness Council risk arrangements take effect from 1 April 2023. Training for risk management will be delivered by Westmorland and Furness Council. | Partly     | We have made commentary relating to risk register development and policy review on page 21, which the new Council may wish to factor into wider arrangements going forward. |

# Follow-up of previous recommendations

| Recommendation   | Year raised | Progress to date   | Addressed? | Further action? |
|--|-------------|--|------------|-----------------|
| <b>Governance</b><br><br>Implement regular monitoring and reporting of audit recommendations to the Audit and Governance Committee with updates from all responsible officers including the S151 officer and Monitoring Officer.<br><br>For all audit recommendations, we would expect an appropriate action plan to be put in place with realistic targets for delivery of improvements and responsible officers assigned | 2020-21     | The referral options available to the Audit and Governance Committee have been presented to Members to clarify the actions available to ensure that governance and internal controls are effective. The outstanding recommendations were reviewed by the Audit and Governance Committee in December 2022 and all prior year priority 1 recommendations have been actioned and closed. There were no priority 1 recommendations raised from the 2022-2023 audits. | Yes        | N/A             |

| Recommendation   | Year raised | Progress to date   | Addressed? | Further action?  |
|--|-------------|--|------------|--|
| <b>Economy, effectiveness &amp; efficiency</b><br><br>Update the Data Quality policy and guidance to reflect best practice, organisational structure, and the processes required for the producing and reporting performance management information. | 2020-21     | The Council has not established a Data Quality policy; there is an ongoing work package to establish information management policies for Westmorland and Furness Council | Ongoing    | This will need to be reviewed by the new unitary council which replaces the Council on 1 April 2023. |

# Appendices



# Appendix A - 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.  | Yes                       | 8 to 10                            |
| 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                       | FS: 18-20<br>Gov: 25<br>3Es: 31-33 |

# Appendix B - Responsibilities of the Council



## Role of the Director of Finance:

- 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 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.



