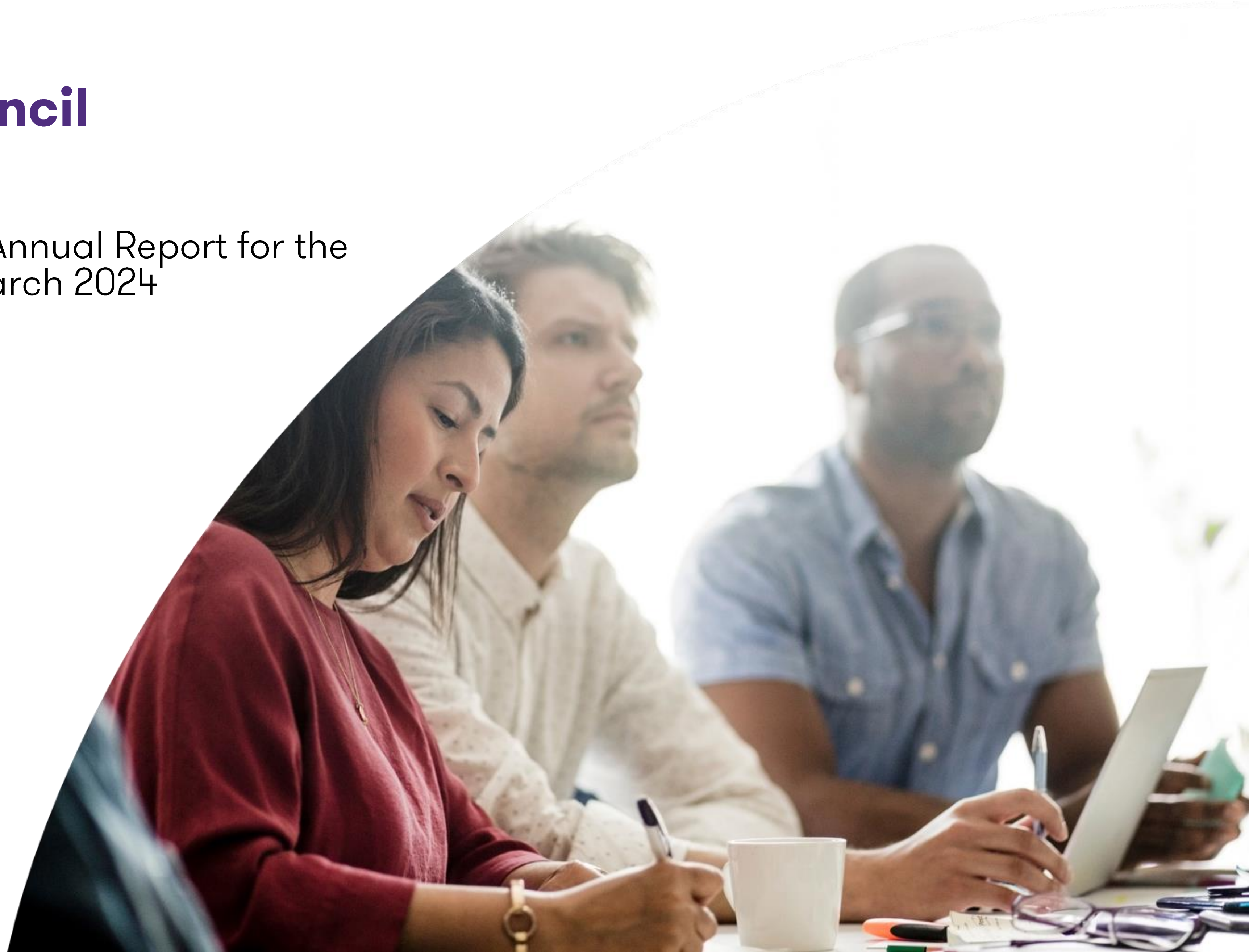
Grant Thornton

Sefton Council

Interim Auditor's Annual Report for the year ended 31 March 2024

February 2025



Contents

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

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

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.

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. The NAO has consulted and updated the Code to align it to accounts backstop legislation. The new Code requires auditors to share a draft Auditors Annual Report ("the Report") with those charged with governance by a nationally set deadline each year (30 November) and for the audited body to publish the Report thereafter. This new requirements will be introduced from November 2025. As a firm, we are committed to reporting the results of our local audit work on as timely a basis as possible.

Auditors are required to report their commentary on the Council's arrangements under specified criteria and 2023/24 is the fourth year that these arrangement have been in place. Your previous external auditor-presented their Value for Money commentary for 2021/22 to 2022/23 at the Audit and Governance Committee on 21 November 2024 and identified a significant weakness in arrangements relating to an inadequate Ofsted inspection carried out during 2021/22. We had already identified this as a potential risk of significant weakness in our risk assessment for our 2023/24 work., where 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. Where we identify significant weaknesses in arrangements, we are required to make recommendations so that the Council may set out actions to make improvements. Our conclusions are summarised in the table below.

Criteria	2023/24 Risk assessment	2023/24 Auditor judgement on arrangements	
Financial sustainability	We identified a potential risk of significant weakness in relation to the medium-term financial sustainability of the council, including managing budget pressures, in particular in relation to children's social care, DSG deficit and adequacy of reserves.	R	We have confirmed one significant weakness in relation to the Council's medium term financial sustainability We have also identified four improvement recommendations.
Governance	No potential risks of significant weakness were identified during audit planning	R	We have confirmed one significant weakness in relation to the level of procurement waivers, and we have also identified ten improvement recommendations.
Improving economy, efficiency and effectiveness	We identified a potential risk of significant weakness in relation to insufficient improvement in Children's Social Care following an inadequate Ofsted inspection.	R	We have confirmed one significant weakness in relation to the Council needing to take more effective corporate grip of the improvement of Children's Social Care. We have also identified six improvement recommendations.

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

Executive summary (continued)

Financial sustainability

The local government sector is operating with a significant degree of financial uncertainty. The Council, like others in the sector, continues to face financial challenges in terms of the medium-term financial outlook and is facing a very difficult period in order to maintain financial sustainability. The Council has recognised this, and management has taken action throughout 2023/24 with further work planned in 2024/25 and beyond. However, based on the work undertaken and evidence reviewed, we are not satisfied that the Council has proper arrangements in place to secure economy, efficiency and effectiveness in its use of resources in 2023/24. Further immediate action is required to ensure that budget pressures are more effectively managed, and reserves are maintained at planned levels. The Council should also have a clear plan to implement additional savings identified across the MTFP period. The current position of increasing demand pressures leading to budget overspends, despite increasing service budgets, particularly in relation to Children's Social Care is not sustainable and represents a significant weakness in arrangements for securing financial sustainability. Due to the significance of this matter we have raised a key recommendation. See page 6 for more detail.

We have also found opportunities for financial sustainability arrangements to be further enhanced and we have made four improvement recommendations set out on pages 19 and 20 of this report.

Governance

We have reviewed the Council's arrangements for governance in terms of internal control, decision making, risk management, budget setting and monitoring, internal audit and compliance with standards and have established the Council had suitable arrangements in place to support its control environment during the reporting period, except for the level of procurement waivers being applied. Based on our work undertaken and evidence reviewed we have identified this as a significant weakness and have raised a key recommendation in relation. See page 7 for more detail.

We have also found opportunities for governance arrangements to be further enhanced and we have made ten improvement recommendations set out on pages 30 to 34 of this report. These include in relation to internal audit, procurement, and capital programme governance.

Improving economy, efficiency and effectiveness

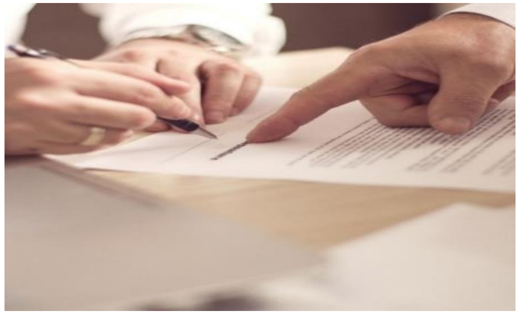
The Council has a history of poor Ofsted inspection outcomes and has been under government intervention for its children's social care services since June 2021. Whilst Ofsted has noted some progress, it repeatedly reports, most recently in June 2024, that the Council has not taken sufficient action to tackle some of the weaknesses identified and the pace of improvement in some areas is too slow where leaders are not monitoring the impact of these changes well enough. Notwithstanding significant investment into the revenue budget of the service, it continues to realise and forecast overspends on annual budgets. Due to the significance of this matter we have raised a key recommendation, See page 8 for more detail.

We have also found opportunities for arrangements to be further enhanced and we have made six improvement recommendations set out on pages 41 to 43 of this report. These predominately relate to arrangements concerning the Council's wholly owned companies.

Financial Statements opinion

We have substantially completed our audit of your financial statements and anticipate issuing a disclaimer of audit opinion due to the prior year disclaimed accounts and lack of assurance over opening balances, following the Audit and Governance Committee meeting on 12 February 2025.

Our findings are set out in further detail on pages 45 to 46.



Acknowledgement

We would like to take this opportunity to record our appreciation for the assistance provided by Council officers and Members with whom we have engaged during the course of our review.

Use of auditor's powers

We bring the following matters to your attention:

	2023/24
Statutory recommendations Under Schedule 7 of the Local Audit and Accountability Act 2014, auditors can make written recommendations to the audited body which need to be considered by the body and responded to publicly.	We did not make any written recommendations under Schedule 7 of the Local Audit and Accountability Act 2014.
Public Interest Report Under Schedule 7 of the Local Audit and Accountability Act 2014, auditors have the power to make a report if they consider a matter is sufficiently important to be brought to the attention of the audited body or the public as a matter of urgency, including matters which may already be known to the public, but where it is in the public interest for the auditor to publish their independent view.	We did not issue a public interest report.
Application to the Court Under Section 28 of the Local Audit and Accountability Act 2014, if auditors think that an item of account is contrary to law, they may apply to the court for a declaration to that effect.	We did not make an application to the Court.
Advisory notice Under Section 29 of the Local Audit and Accountability Act 2014, auditors may issue an advisory notice if the auditor thinks that the authority or an officer of the authority: • is about to make or has made a decision which involves or would involve the authority incurring unlawful expenditure, • is about to take or has begun to take a course of action which, if followed to its conclusion, would be unlawful and likely to cause a loss or deficiency, or • is about to enter an item of account, the entry of which is unlawful.	We did not issue any advisory notices.
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 make an application for judicial review.

Key recommendations

Key Recommendation 1	Further immediate action is required to ensure that budget pressures, in particular in children's services, are more effectively managed, and reserves are maintained at planned levels. The Council should also have a clear plan to implement additional savings identified across the MTFP period.
Identified significant weakness in arrangements	Whilst the Council has taken and continues to take steps to manage its medium to financial resilience, there remain unidentified savings or actions to meet funding gaps in the MTFP. This is particularly the case given ongoing and significant demand and cost pressures in relation to Children's Social Care, Home to School Transport and more recently in relation to Adult Social Care
Summary findings	Whilst general fund reserve balances have been increased for 2024/25 the current position of increasing demand pressures leading to budget overspends, despite increasing service budgets, particularly in relation to Children's Social Care is not sustainable. Reserves will not be adequate to manage the funding gaps in the MTFP, including the management of any potentially significant financial shocks.
Criteria impacted by the significant weakness	Financial sustainability
Auditor judgement	Based on the work undertaken, we are not satisfied that the Council has proper arrangements in place to secure economy, efficiency and effectiveness in its use of resources in 2023/24. We have therefore identified a significant weakness in arrangements.
Management comments	Agreed. The Council always sets robust budgets which are informed based on advice by the relevant executive and service directors in terms of investment required, especially to meet demand, and where appropriate savings that will support financial sustainability. Savings are successfully implemented by the Council and have been over the last 14 years due to arrangements being put in place to ensure delivery through Transformation Boards, etc. There is an agreed reserves strategy in place for the Council. Aside from Children's Services, all other services within the Council have substantially operated within their budget limits. Children's Services is a demand and need based service which, as stated, is set based on the advice of the Executive Director and in line with the Improvement Plan – this service has overspent in the last four years despite continued investment and rigorous monitoring lead by the Chief Executive and the S151 officer. The Council will continue to try to forecast this demand and need to inform the financial sustainability of the Council.

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

Progressing the actions management has identified to address the recommendations made will support the Council in addressing the weaknesses identified from our work. We consider that the timescales provided by management are appropriate and encourage the Audit Committee to monitor progress of implementation to gain assurance over the arrangements in place.

Key recommendations (Cont'd)

Key Recommendation 2	The Council must take urgent steps to change procurement culture in the use of waivers, ensure waiver data is reported quarterly to the Audit Committee, analyse waiver activity to understand the reasons for the level of waivers, confirm that waivers related to existing contracts or framework agreements, confirm that no waiver approvals resulted in a conflict of interest, gain assurances that all waivers are approved in line with the Council's Contract Procedure Rules and relevant procurement legislation and that procurement activity that required a waiver did not take place.
Identified significant weakness in arrangements	The Council has a recent history of significant use of procurement waivers (exceptions to contract procedure rules) which presents risks to the Council in realising value for money.
Summary findings	Analysis of waivers provided by the Council identified the total value of waivers during 2023/24 was £16.664m, with waivers being used in all service areas. The total value of waivers represents 6.5% of the Council's net revenue expenditure for the year. The interim head of procurement has recently updated the Waiver Request Report so that the approver of the waiver should declare any conflict of interest, and has amended the waiver process so that the Head of Procurement is able to check waiver requests prior to their approval. This should bring some additional controls to the process. However, the level and value of waivers is a significant concern.
Criteria impacted by the significant weakness	Governance
Auditor judgement	Based on the work undertaken, we are not satisfied that the Council has proper arrangements in place to secure economy, efficiency and effectiveness in its use of resources in 2023/24. We have therefore identified a significant weakness in arrangements.
Management comments	Agreed. The Council's Contract Procedure Rules are currently the subject of review to take account of new Procurement legislation. As part of that process a review of when waivers are required, and at what financial level and under what circumstances, will also be undertaken. This will ensure that waivers are appropriate and material in value. As part of the training for the new arrangements, the approach to waivers will be a key part of the training. Waiver data will be provided quarterly to Audit and Governance Committee.

Progressing the actions management has identified to address the recommendations made will support the Council in addressing the weaknesses identified from our work. We consider that the timescales provided by management are appropriate and encourage the Audit Committee to monitor progress of implementation to gain assurance over the arrangements in place.

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

Key recommendations (Cont'd)

Key Recommendation 3	The Council must ensure there is a corporate grip on successfully delivering the Improvement Plan for Children's Social Care.
Identified significant weakness in arrangements	The overall pace of improvement of the service is impacting on the Council's ability to effectively and efficiently meet its children's social care statutory responsibilities, and at the same time failure to manage demand pressures is having a significant impact on the Council's medium-term financial sustainability.
Summary findings	The Council has a history of poor Ofsted inspection outcomes and has been under government intervention for its children's social care services since June 2021. Whilst Ofsted has noted some progress, it repeatedly reports, most recently in June 2024, that the Council has not taken sufficient action to tackle some of the weaknesses identified and the pace of improvement in some areas is too slow where leaders are not monitoring the impact of these changes well enough. Notwithstanding significant investment into the revenue budget of the service, it continues to realise and forecast overspends on its annual budget.
Criteria impacted by the significant weakness	Improving economy, efficiency and effectiveness
Auditor judgement	Based on the work undertaken, we are not satisfied that the Council has proper arrangements in place to secure economy, efficiency and effectiveness in its use of resources in 2023/24. We have therefore identified a significant weakness in arrangements.
Management comments	Agreed. There are currently arrangements in place to ensure this takes place.

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

Progressing the actions management has identified to address the recommendations made will support the Council in addressing the weaknesses identified from our work. We consider that the timescales provided by management are appropriate and encourage the Audit Committee to monitor progress of implementation to gain assurance over the arrangements in place.

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

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

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

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

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

Financial sustainability

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

Governance

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

Improving economy, efficiency and effectiveness

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

Our commentary on the Council's arrangements in each of these three areas, is set out on pages 11 to 43.

In addition to our financial statements audit work, we perform a range of procedures to inform our value for money commentary:

- Review of Council, Cabinet and committee reports
- Regular meetings with senior officers
- Interviews with other members and management
- Attendance at Audit Committee
- Considering the work of internal audit
- Reviewing reports from third parties including Ofsted
- Reviewing the Council's Annual Governance Statement and other publications

The current local government landscape

It is within this context that we set out our commentary on the Council's value for money arrangements in 2023/24 and make recommendations where any significant weaknesses or improvement opportunities in arrangements have been identified.

National context

Local government in England remains a challenged sector. In recent years, generationally significant levels of inflation put pressure on councils' General Fund revenue and capital expenditure. The associated cost of living crisis drove an increase in demand for council services such as social care and homelessness. At the same time, the crisis impacted adversely on key areas of council income that were needed to service the increase in demand, for example fees and charges and the collection rates for council tax, business rates and rents.

For Housing Revenue Accounts, inflation in recent years led to cost increases often outstripping rent rises. In the coming years, new legal duties on landlords are expected to increase costs further, without there necessarily being any additional funding to cover the new costs. At the same time, high construction prices are making it harder for councils to invest in the new accommodation which might have helped make savings in the revenue account, for example on temporary accommodation and homelessness. Housing Revenue Accounts are under further pressure due to regulatory challenges in housing quality in the light of national issues in respect of cladding and damp/mould issues.

In January 2024, the UK government announced an additional £600 million for local government, but the Spring Budget for 2024 brought little in the way of any further support. Rising costs of delivering services, coupled with workforce shortages in key areas, supply chain fragility, and rising interest rates for servicing debt, brought a level of crisis to the local government sector perhaps never experienced before. Current warning signs of difficulty include:

- Seven councils issuing eleven section 114 notices between 2019 and 2023, compared with two councils issuing notices between 2001 and 2018, with an increasing number of other councils publicly warning of a section 114 risk;
- Twenty councils being with government approval for exceptional financial support during 2024/25, totalling approximately £1.5 billion. Only six of these councils had previously issued a section 114 notice.; and
- The Local Government Association warning that councils in England face a funding gap of £4 billion over 2023/24 and 2024/25.

Local government is coming under an increased spotlight in terms of how the sector responds to the financial challenge it faces. A change in government took place following the general election on 4 July 2024. The new government policies that impact on the sector include planned reform of planning and the introduction of house building targets, with indications that the local government funding settlement will be multi-annual. The Chancellor's Budget on 30 October 2024 confirmed the Government's plans for greater devolution in England and confirmed a real terms increase in core spending power to local government for 2025/26 of 3.2%. Including an increase in grant of £1.3 billion. The Chancellor also announced £1 billion additional funding for SEND, an additional £2.3 billion for schools, and councils will be able to use the full amount of capital receipts from right to buy sales. The detail of what the Chancellor's announcement means for individual councils will become clearer when their provisional finance settlement for 2025/26 is confirmed by the Government in December 2024.

Local context

Sefton Council is a metropolitan borough of Merseyside, one of six that comprise the Liverpool City Region Combined Authority and the Council plays an active role with lead responsibilities for issues of education, skills and employment in the region. The borough spans the industrial Bootle to Southport, and from Liverpool to West Lancashire. It extends along 22 miles of coastline of the Irish sea which is a defining feature of the area The borough encompasses the towns of Crosby, Hightown, Formby and Southport and covers approximately 60 square miles. There are 25 conservation areas and 5 historic parks within the borough as well as attractions such as Aintree Grand National, Anthony Gormley's Another Place, and the Royal Birkdale Golf Club.

Sefton has a population of approximately 275,900, with a relatively old average population of 23.7% aged 65 or older. The population density of the borough is over four times higher than the rest of England and it is the fifth most deprived of all local authority areas in England.

The Council is made up of 66 councillors who have a term of 4 years, representing 22 wards with 3 councillors per ward. Following the May 2024 local election the Council comprises 49 Labour councillors, 9 Liberal Democrat councillors, 4 Conservative councillors, 2 Independent councillors and 1 Green councillor.

Since 2016, the Council has been working towards a future vision called Sefton 2030 with key aims including social reinvestment and sustainable economic prosperity.

Financial sustainability

We considered how the Council:

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

Short and Medium-Term Financial Planning

The full Council agreed its Medium-Term Financial Plan (MTFP) for the period 2023/24 to 2025/26 on 2 March 2023. The associated budget papers noted that the Council's budget report of March 2022 had highlighted the financial risk to the Council from children's social care, which was reflected in the overall risk analysis that determined the reserves that the Council should hold at that point. The main budget report reflected that in the absence of further government funding, if costs in children's social care (and adults social care) increased then savings would be required in future years. The financial risk of children's social care principally related to the number of children being looked after, and the cost of accommodation for children who require support. Children's social care had been the main areas of budget growth, increasing from £33m in 2018/19 to £52m in 2022/23.

The Council's S151 Officer's Section 25 Report, which formed part of the papers to the 2 March 2023 full Council, provided an assessment of the robustness of the 2023/24 budget assumptions and adequacy of reserves. This report noted that financial planning assumptions had been reviewed and were considered prudent. However, the report noted that there were some assumptions related to areas where the final cost was yet to be identified, such as the pay award, which would be monitored, and any variation reported to Members. The Section 25 report further noted that due to prevailing economic conditions, the volatility that exists within the budget for 2024/25 could not be underestimated. As a result, the budget would need proactive management to contain expenditure within the approved levels.

The March 2023 budget report noted that these risks had increased exponentially during 2022/23 for reasons that were unforeseen at the time that the budgets for the year were originally agreed. The report summarised these as the impact of a significant increase in inflation on accommodation costs, and the increase in rates of agency social workers, which in turn had impacted on the recruitment and retention of permanent social workers. The report, correctly, notes that these are national issues. As a consequence, £17m of additional 2022/23 in year pressures were reported of which £11.3m were forecast to continue into 2023/24.

Analysis of demand, accommodation and staffing costs, including inflation assumptions, resulted in a budget growth for children's services of £17.9m in 2023/24 (plus additional temporary funding of £3.2m) with the annual budget for the service totalling £70m. The budget report noted that the children's services budget would be aligned to the service's improvement plan, as recommended by the Department for Education's (DfE) Children's Commissioner, and that the budget had to be managed effectively during 2023/24, and that the service could not overspend this budget, as had been the case in prior years. The budget report further noted that there were no surplus balances available to meet any additional budget pressures in children's services and should cost pressure be experienced within the service during 2023/24, it should be identified at the earliest opportunity via the monthly monitoring process and reported to Members.

The Children's Services Improvement Plan, which is monitored by Overview and Scrutiny Committee, as already noted, is now aligned to the service budgets, and all budget estimates for the next two financial years had been signed off by the Executive Director of Children's Services.

Financial sustainability (Cont'd)

Short and Medium-Term Financial Planning (Cont'd)

The 2023/24 budget, along with the MTFP (2023/24 to 2025/26), was approved by full Council on 2 March 2023. This included funding gaps for each year of the plan, as summarised in the table below.

	2023/24 £m	2024/25 £m	2025/26 £m
Initial MTFP position - funding gap	10.418	13.800	10.450
Changes to government funding	-20.070	-9.968	-2.600
Growth Items	24.768	5.498	1.700
Updated funding gap	15.116	9.330	9.550
Budgeted savings	-7.568	0.455	-0.800
Revised funding gap	7.548	9.785	8.750
Council Tax (at 4.99%)	-7.548	-7.977	-8.400
Residual funding gap	**0.000**	**1.808**	**0.350**

The revised funding gap in 2023/24 was met by the Council approving the maximum level of Council Tax increase, resulting in a planned balanced budget for the year.

The November 2023 Local Government Association (LGA) Corporate Peer Review recommended that the Council use the process of developing the MTFP to develop a widespread understanding and ownership of the Council's financial challenges to ensure accurate forecasts on costs and demand, and the development of clear saving plans. The Council's action plan in response noted that the next MTFP will include detail provided by services on all aspects of demand growth and cost inflation and will inform the overall budget gap which will be used to determine the savings required from the Council via its transformation programme and budget proposals.

The next budget, for 2024/25, along with the MTFP (2024/25 to 2026/27) was approved by full Council on 29 February 2024. This included funding gaps for each year of the plan, as summarised in the table on the right. As with the previous year, in approving the maximum Council Tax increase the Council was able to approve a balanced budget for 2023/25.

Planned savings over the MTFP do not meet the forecast funding gaps in each year of the plan, and the residual funding gap in year 3 of the plan is increasing. For future years the Council will need to determine how funding gaps are managed in order to set and maintain a balanced budget in 2025/26 and 2026/27 of the plan when the budgets for these years are being developed and agreed.

	2024/25 £m	2025/26 £m	2026/27 £m	Total £m
Initial MTFP position - funding gap	19.422	12.030	13.150	44.602
Changes to government funding	-17.780	-3.000	-2.000	-22.78
Growth Items	10.621	2.400	3.510	16.531
Updated funding gap	12.263	11.430	14.660	38.353
Budgeted savings	-4.265	-2.465	-4.378	-11.108
Revised funding gap	7.998	8.965	10.282	27.245
Council Tax (at 4.99%)	-7.998	-8.438	-8.884	-25.320
Residual Funding Gap	**0**	**0.527**	**1.398**	**1.925**

Reserves

The General Fund Reserve (General Balances) is the Council's primary reserve. It exists to provide the Council with a contingency against unexpected financial events or shocks. The fund should only be utilised to address short-term issues and should not be relied upon to finance ongoing budget deficits. Where the General Fund Reserve is used, it should be replenished in full in the next financial year.

The Section 25 report that formed part of the budget papers presented to full Council on 2 March 2023 noted that the Council was forecast to start 2023/24 with a General Fund balance of £11.991m, which was considered to be below that considered prudent when compared to the risks faced. The 2023/24 budget included a contribution to General Balances of £3.400m funded from the net Council Tax / Business Rates surplus declared for 2023/24. This increased General Balances to £15.391m, which was still below the level considered prudent compared to the risks faced. The report noted that the budget included £1.023m to be carried forward as General Balances to offset anticipated one-off costs in 2024/25, and that these could also be drawn on if required during 2023/24.

The report recommended that the reserves strategy of the Council be re-visited as part of the next MTFP. This reflected that there was no surplus funding available to support the current budget nor meet budget pressure in 2023/24 thereby re-enforcing the requirement for budget holders to deliver services within the approved budget.

The November 2023 LGA Corporate Peer Review recommended the Council should increase financial reserves, noting that the Council was aware that their reserve levels are amongst the lowest in the country, and there was a need to increase them over the cycle of the MTFP to support resilience against potential unexpected financial pressures.

Financial sustainability (Cont'd)

Reserves (Cont'd)

The Section 25 report of 29 February 2024 considered various national and local risks which resulted in the General Fund Balances being increased to £30m for 2024/25 (from £15m) which represents approximately 11% of the Council's net budget requirement, with General Fund balances expected to increase by £2m each year thereafter. The Council must continue to maintain and replenish its general fund reserve as planned over the medium term as part its wider strategy to maintain financial stability.

The Section 25 report in the February 2024 Budget Paper included as context that the CIPFA Financial Resilience Index identified that the Council is at a higher risk of financial due to its level or reserves and balances, being relatively low in comparison to other Metropolitan District Councils (based on 2021/22 data). The report further noted that the Council has the fifth lowest level of reserves (General Balances and Earmarked Reserves as a proportion of net revenue expenditure) of all metropolitan districts as at 31 March 2023. The Section 25 report concluded that the budget proposed was robust, and ensured there are adequate General Balances to draw on if the service budgets turn out to be insufficient.

Unlike the General Fund Reserve, Earmarked Reserves are held for a specific purpose. These purposes may be determined by the Council to coincide with its policy objectives, dictated by statute or agreed with partners who also contribute to the reserve.

The Council holds earmarked reserves separately from its General Fund to meet a number of specific purposes. These are summarised in the table below.

Earmarked Reserves	1 Apr 2022 (£m)	31 Mar 2023 (£m) Est	Change (£m)	1 Apr 2023 (£m)	31 Mar 2024 (£m) Est	Change (£m)
Strategic	15.472	14.583	-0.889	16.370	9.891	-6.479
Committed	10.948	10.948	0.000	10.633	10.633	0.000
Uncommitted	3.077	0.000	-3.077	0.000	0.00	0.000
Restricted	1.921	2.042	0.121	1.812	1.999	0.187
Temporary	49.835	16.364	-33.471	22.975	14.785	-8.190
Total	**81.253**	**43.937**	**-37.316**	**51.79**	**37.308**	**-14.482**

These earmarked reserves relate to:

- Strategic Reserves - In accordance with policy decisions, funding may be set aside and ringfenced for the benefit of a particular service or project ensuring that there is funding to take the activity forward as planned. This can also include general support to the budget.
- Committed Reserves – Where the Council makes a decision that commits it to incurring additional costs in the future, it can set aside the funding necessary to meet that cost when it arises, ensuring that the costs of current decisions are recognised at the point that decisions are made and do not become a burden on future budgets.
- Uncommitted Reserves – Where the Council is aware of an issue that may incur additional costs in the future, it can set aside the funding necessary to meet that cost if and when it arises, ensuring that the potential costs of these issues do not become a burden on future budgets.
- Restricted Reserves – The Council sometimes receives contributions from partners or has to set aside its own funding in a way that restricts where it can be spent in the future. These reserves can only be used to support eligible expenditure which may be restricted to a particular place, activity or service.
- Temporary Reserves – These are used to phase out timing differences between when the Council (or another body) funds expenditure and when it is incurred.

Reserve levels are reviewed twice a year, which includes benchmarking with other councils in the Liverpool City Region.

Transformation and Savings Plans

Since 2016 the Council has had a framework for a transformation programme with financial sustainability at the centre of it. The second iteration, Framework for Change 2020, concluded at the time the 2023/24 budget was being set, when a new transformation programme was in development.

At Cabinet in September 2022 it was agreed that the Council Vision would be reviewed, with a focus on two areas: Growth and Strategic Investment, with continued transformation of key services that reflected political priorities due to the importance to residents and those with the greatest financial impact. This activity was due to be aligned to the next MTFP, commencing in 2024/25. This was one of key findings from the LGA Corporate Peer Review in 2022.

Financial sustainability (Cont'd)

Transformation and Savings Plans (Cont'd)

A review of all areas of the Council has taken place and a new transformation programme for 2024-2027 has been agreed. Transformational activity is focussed on the largest Council budgets and those under demand and cost pressure and is designed to support the Council's financial resilience and financial stability. Priority projects relate to Adult Social Care, SEND, Home to School Transport, Corporate Landlord, and Operational In-House Services.

The Budget Report of 29 February 2024 set out planned savings as follows:

Service	2024/25 £m	2025/26 £m	2026/27 £m	Total
Adult Social Care	2.390	2.140	1.980	6.510
Corporate Resources	0.486	0.000	0.505	0.991
Communities	0.585	0.225	0.725	1.535
Operational In-House Services	0.449	0.100	1.168	1.717
Highways & Public Protection	0.355	0.000	0.000	0.355
Total	**4.265**	**2.465**	**4.378**	**11.108**
Revised MTFP funding gap	7.998	8.965	10.282	27.245

As already noted, planned savings do not fully meet the MTFP funding gap. Failure to successfully implement these planned savings will increase the funding gap and put further pressure on the Council's financial sustainability.

Whilst Children's Social Care is a key service affected by demand pressures it does not feature in the savings plan but does have its own improvement programme. The challenges to this service have been described earlier in this section and Children's Social Care is covered further in the section of this report on Improving Economy, Efficiency and Effectiveness. Further areas of financial pressure for the Council are set out below.

The High Needs Budget

Councils with responsibility for the provision of Special Education Needs and / or Disability (SEND) services have seen a significant increase in demand and costs since reforms were introduced by the then government a decade ago. This includes an increase in Education Health and Care Plans (EHCP's), increased demand for non-mainstream education, a rise in demand and cost for home to school transport, and the cost of education provision. These have placed significant pressure on the funding available in the Dedicated Schools Grant (DSG) leading some councils to carry a DSG deficit.

In response the previous government introduced:

- a statutory accounting override which means that the deficit is rolled forward each year until 1 April 2026. It remains unclear if this statutory override will be extended.
- support programmes led by the DfE: the Safety Valve Programme and the Delivering Better Value programme.

The Council has seen the number of active EHCP's increasing from 1,637 in 2019 to 3,184 in February 2024. This has led to increased demand in the staffing required to process EHCP applications (£0.745m) and increased demand for Home to School Transport, whose budget has increased from £7.4m in 2019/20 to £14.4m in 2024/25.

The accumulated High Needs Budget deficit has increased from £6.172m in 2022/23 to £37.996mm in 2023/24 (with an in year overspend of £19.3m). During 2023/24 an additional 600 children were assessed as requiring an EHCP, representing a 21% increase. In addition, placements of children out of borough have increased, in part due to a shortage of in-house places.

The DfE permits councils to carry forward their DSG deficit and the Council holds this on the balance sheet as an unusable reserve. Should the statutory override not be extended from 1 April 2026, future deficits will need to be met from the general fund. The Council is actively seeking clarity from the government on what happens at the end of the statutory override on 31 March 2026.

The Council is part of the DfE Delivering Better Value (DBV) programme which includes a focus on improving capacity and training, redesigning service provision, and developing a data dashboard. Some implementation timescales have had to be adjusted due to recruitment challenges. This forms part of a SEND project as part of the Council's transformation programme.

The significance of this deficit was reported in the 2024/25 budget report, including the S151 Officers Section 25 report, and in the 2023/24 outturn report to Cabinet. The adequacy of high needs funding to meet demand, and the impact of the demand and cost of home to school transport on the Council's financial sustainability, are included in the Council's corporate risk register. The Council must ensure the controls and mitigations to minimise the DSG deficit and to limit general fund risk should the statutory override not be extended by the government.

Financial sustainability (Cont'd)

Academisation

The Academies Act 2010 permitted individual schools to move away from local authority control, based on a decision of a school's governing body, and the numbers of schools to do so has varied by local authority area in the intervening period. Sefton had not seen much academisation until recently, but this position is changing, and the increase of academisation of schools in the borough is included in the Council's corporate risk register. The impacts set out relating to this risks include the loss of income to the Council, via Service Level Agreements (SLAs) from schools who become academies

Cabinet on 4 April 2024 considered the impact of academisation on the Council. Academies are able to decide to choose another provider, and the report noted the potential financial risk to the Council should this happen.

The 4 April 2024 Cabinet report noted that there will be significant financial implications to the Council from the conversion of nine schools to academies.

Maintained schools pay a contribution from their delegated budget each year to the Council for the costs of the Council meeting its statutory education functions and central support functions. On academisation this contribution is no longer made and the Council forecast a loss of income of £74.3k during 2024/25 with this pressure to be met from within exiting Education Excellence budgets.

In addition, Academies may choose to purchase support services formerly provided by the Council from another provider and the Council forecast a financial loss of £213.8k from the loss of traded services in 2024/25, with this loss to be met from within existing Corporate Resources and Customer Services budgets, with a review of service provision planned to manage the impact on the MTFP. Whilst the financial impacts of academisation currently predicted by the Council are less significant than demand pressures faced by other Council services, the Council needs to have a clear plan on its approach to the provision of services to academies, and continue to understand the impact of any lost income to traded services, the impact on delegated budget contributions, and the implications for the MTFP.

Capital grant is also transferred to the academies and capital balances transferred to the new academies totals £63.7m.

Adult Social Care

The Section 25 Report in the Budget Papers of February 2024 noted that whilst the Adult Social Care budget had historically been underspent, challenges facing the service through demand, cost pressure and provider fees is increasing substantially. During 2023/24 the service had required increased savings to be delivered and in year remedial actions undertaken. Whilst the budget for 2024/25 increased by a net £12m (excluding the impact of a pay award from April 2024) this budget is now a key risk for the Council.

2023/24 Outturn

The Cabinet was provided with updates of the Council's forecast revenue position each month during the financial year from July 2023. The report to Cabinet on 7 March 2024, noted that as at the end of January 2024, the forecast outturn was a net overspend on services of £9.911m compared to the originally approved budgets, the majority of which related to additional pressure within the following areas:

- Children's Social Care: potential net overspend of £6.555m: this included forecast overspend on staffing casts of £1.161m and additional accommodation costs of £4.807m. It was reported that there had been recent improvements in practice resulting in more children being placed in more appropriate settings at a lower cost, reviews into demand and cost was ongoing including whether pressures were temporary or permanent in nature, and that the service was stabilising.
- Adult Social Care: potential net overspend of £2.493m: budget pressures relating to increased demand and increased provider fees. £5.7m of savings had been agreed and at the time of this report £5.5m had been delivered.
- Education Excellence: potential net overspend of £1.730m relating to the provision of additional SEND staff and home to school transport. The 2023/24 budget had included additional funding but further pressures had arisen due an increase in the number of EHCPs.

The other key variance related to the local government pay award with a forecast overspend of £1.4m. The approved base budget included an assumption of 4.5% for the pay award. The nationally agreed award agreed resulted in an increase of 6%.

Financial sustainability (Cont'd)

2023/24 Outturn (Cont'd)

As part of previous monthly reports mitigating actions had been agreed, in November 2023 and February 2024, reducing the forecast overspend to £1.555m. The report noted that there would be no flexibility left for the use of existing reserves or general balances, should any additional pressures arise, and that the Council needed to meet a balanced budget for 2023/24 to ensure its financial sustainability.

The final 2023/24 outturn position was reported to Cabinet on 25 July 2024, which represented a £0.114m overspend. This overall position incorporated a net overspend on service expenditure of £10.4m. This overspend related to issues reported during 2023/24 and included overspends in the following services:

- Children's Social Care were £8.0m overspent,
- Adult Social Care were £2.9m overspent
- Education Excellence were £1.7m overspent, mainly due to the Home to School Transport function.

As already mentioned, the Section 151 Officer's Section 25 report when setting the 2023/24 budget noted that there were no surplus balances available to meet any additional budget pressures in children's services during the year. However, a significant overspend did arise.

Most other services were underspent or reporting close to balanced positions. Remedial Actions Plans approved by Cabinet in November 2023 (£4.795m) and February 2024 (£3.561m), together with savings across corporate budgets meant the overall overspend was reduced to £0.114m. There was a transfer to General Balances of £4.309m which was £0.114m less than budgeted for due to the overspend.

Whilst the outturn position represents a small net overspend, service overspends remain significant in Children's and Adult Social Care, and in Home to School Transport, and the service overspend at outturn represented an increase compared to the March 2024 forecast

2024/25 Forecast Outturn

Cabinet received at its July 2024 meeting an update on the Council's forecast revenue position for 2024/25. Overspends were forecast in Adult Social Care (£2m) and in Children's Social Care (£3.5m) with underspends forecast in Health and Wellbeing (£0.120m) and in council wide budgets (£0.430m). The forecast year end position for 2024/25 was a net deficit of £4.950m.

Adult Social Care had delivered £0.9m of the planned £4.8m savings and expected to deliver all savings in year. Additional savings are also required to manage the in-year budget pressure due to increased demand.

Children's Social Care had received an additional £21m budget during 2023/24 to invest in additional staffing and care package costs. The 2024/25 budget included a further £3m increase to manage inflationary pressures and care package costs. The 2024/25 outturn forecast an overspend of £1.4m on staffing costs due to the need to use high-cost agency staff whilst permanent roles are recruited to in the service's new structure. The rest of the service overspend (£2.4m) relates to the cost of accommodation and care packages.

The Council is undertaking a comprehensive review of Adults and Children's residential placements and agency staff in order to inform a revised year end forecast.

Capital Programme

The capital budget for 2023/24 was £47.171m and the outturn position presented to Cabinet in July 2024 noted actual expenditure of £38.355m resulting in a year-end variance of £8.816m (18.6%). Total capital expenditure for the year was £40.937m when taking account of capital spend devolved to schools, and capitalisation of highways expenditure. Capital expenditure was funded as follows:

Capital Funding 2023/24	£m
Grants and other contrbutions	30.660
Prudential Borrowing	6.005
Contributions	2.426
Revenue Contribution	1.847
Total	**40.937**

Financial sustainability (Cont'd)

Capital Programme (Cont'd)

The most significant in year underspends related to:

- Marine Lake Events Centre (£1.869m) due to demolition and main works packages being reprofiled to take place in 2024/25
- The Local Authority Housing Fund (£1.297m) with delays to acquiring homes for refugees due to challenging market conditions to locate suitable homes within the available budget.
- Southport Pier (£0.645m) due to a change in project scope delaying commencement of the main works.

The capital programme is increasing over the medium-term, with planned spend totalling £68.755m in 2024/25 and £57.849m in 2025/26. This includes the successful Towns Fund application awarded by the government which is due to total £37.5m for a range of projects across Southport town centre and sea front.

The Council's single largest capital project is the Marine Lake Events Centre, a town-centre regeneration project for Southport and supported by Towns Fund funding. The project has a planned spend of £16.770m in 2024/25, £43.206m in 2025/25 and £2.954m in 2026/27, and as already noted faced an underspend during 2023/24.

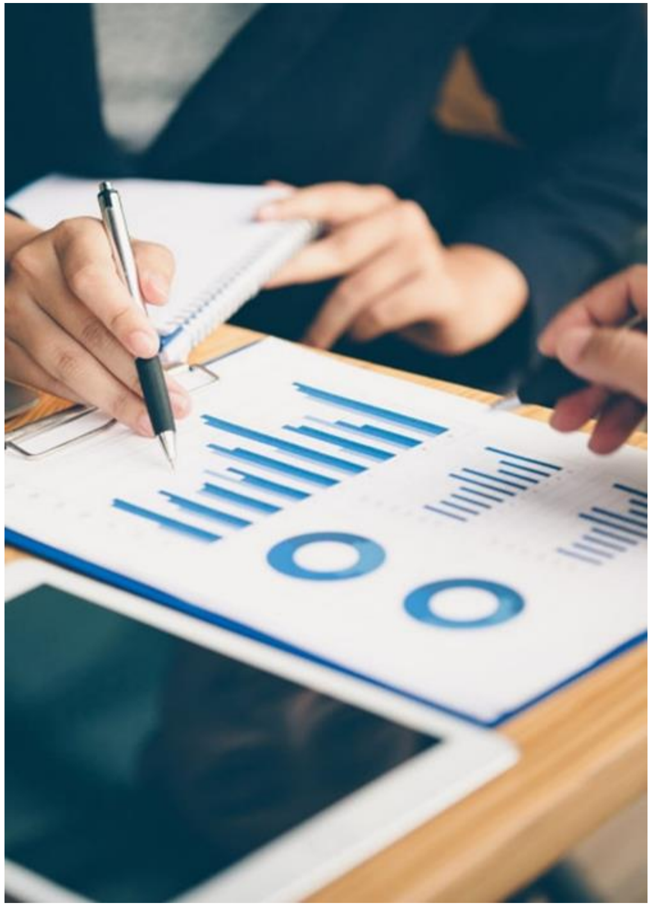
The capital programme supports the Council's corporate priorities including regeneration, economic growth and service transformation. Given the slippage to delivery experienced during 2023/24, the Council should ensure that the project management and contract management arrangements in relation to capital projects are effective to mitigate any delays in project delivery, and any timescale risks relating to government funding.

Overall Conclusion

The local government sector is operating with a significant degree of financial uncertainty. The Council, like others in the sector, continues to face financial challenges in terms of the medium-term financial outlook and is facing a very difficult period in order to maintain financial sustainability. The Council has recognised this, and management has taken action throughout 2023/24 with further work planned in 2024/25 and beyond.

However, further immediate action is required to ensure that planned savings are successfully implemented, that additional savings are identified, that service transformation is delivered as planned, budget pressures are more effectively managed, and reserves are maintained at planned levels. The current position of increasing demand pressures leading to budget overspends, despite increasing service budgets, particularly in relation to Children' Social Care is not sustainable and represents a significant weakness in arrangements for securing financial sustainability. A key recommendation is made in this regard and is set out on page 6 of this report.

We have also found opportunities for arrangements to be further enhanced and we have made four improvement recommendations set out on the following pages.



Financial governance

Financial planning and monitoring

Stakeholders that we met during the course of our work commented that there was an appropriate "tone from the top" with appropriate emphasis on financial risks and clarity of roles and responsibilities.

The Council's Executive Leadership Team (ELT) comprises the Chief Executive and Executive Directors, and the Senior Leadership Board (SLB) comprises members of ELT and Associate Directors. The Council's budgetary position is a standing agenda item at the meetings of ELT and SLB. Departments and services are expected to manage service delivery within approved budgets, with senior management holding each other to account, and there is evidence of corporate responsibility in managing significant budget pressures.

The Council held challenge sessions with key officers and members as part of developing the 2024/25 budget, during September and October 2023, and used benchmarking to identify potential areas of savings.

Financial planning for the 2025/26 budget had commenced at the time of this review, with the first Cabinet discussion taking place on 23 May 2024. The MTFP was updated for the period 2025/26 to 2027/28, with assumptions relating to demand, inflation, government funding and areas of growth, with an assessment of potential funding gaps over the medium-term. Financial planning will continue with options for savings.

Financial Management Code

The CIPFA Financial Management Code (2019) is designed to support good practice in financial management and to assist local authorities in demonstrating their financial sustainability. The Code is based on a series of principles supported by specific standards which are considered necessary to provide the strong foundation to:

- financially manage the short, medium and long-term finances of a local authority.
- manage financial resilience to meet unforeseen demands on services.
- manage unexpected shocks in their financial circumstances.

The Code has clear links to a number of value for money characteristics such as sound governance at a strategic, financial and operational level, sound management of resources and use of review and options appraisal. The Code, importantly, recognises that a council leadership team must recognise that while statutory responsibility for the financial management of the authority rests with the Chief Finance Officer, the Chief Finance Officer is reliant on the actions of the leadership team, both collectively and individually as elected members and senior officers.

Councils should detail how they meet the Code's standards through self-assessment and identify what improvements are required in order to ensure compliance. An initial review the Council's self-assessment was carried out in early 2021, together with the development of an action plan that was presented to Members of Audit and Governance committee for consideration in March 2021. A follow-up review was presented in June 2022 which identified progress against the action plan and further areas to improve compliance with the Code. The Audit and Governance Committee at its meeting on 19 July 2023 received an update on the latest self-assessment, which included input from the SLB to reflect that financial management and good practice needs to be embedded across the Council and at all levels of the organisation.

The 2023 assessment highlighted that many areas of good practice in financial management are evident across the organisation, and an update on the action plan reported no amber or red rated actions.

The action plan noted the following progress:

- Completion of the update to the Council's Contract Procedure Rules, an update to the Finance Procedure Rules to clarify requirements from Assistant Directors in relation to partnership arrangements, with supplementary guidance being developed, and ongoing work to update the Code of Corporate Governance.
- Financial policies and procedures and service schemes of financial delegation are updated at regular intervals, communicated to those with delegated budget responsibility and are available via the Council's intranet
- Finance recruitment, including CIPFA Trainees, and succession planning arrangements. The rollout of a business partnering approach across the Council with further work being undertaken to embed this approach in Children's Social Care and Adult Social Care.
- Activity in relation to demand management forecasting to support financial planning, and a strategy to increase general fund reserves.
- A new dedicated budget forecasting IT solution had been implemented and this was supported by appropriate training for those with delegated budget responsibility and finance staff.

The CIPFA Financial Management Code is not a statutory requirement and the Council's self-assessment against the Code is good practice which should continue, and actions arising be fully implemented.

Improvement recommendations: Financial Sustainability

Improvement Recommendation 1	The Council must continue to maintain and replenish its general fund reserve as planned over the medium term as part its wider strategy to maintain financial stability.
Improvement opportunity identified	The current reserve level strategy must be maintained to ensure financial sustainability
Summary findings	The Council is at higher risk of financial sustainability compared to other Metropolitan District Councils due to its level of general fund reserves. Whilst these have been increased for 2024/25 with plans to increase in subsequent years, the significant funding gaps in the MTFP risks reserves being depleted.
Criteria impacted	Financial sustainability
Auditor judgement	Our work has enabled us to identify a weakness in arrangements which we do not consider to be significant, but have raised a recommendation to support management in making appropriate improvements.
Management comments	Agreed. A Reserves Strategy has always been in place within the Council, and the Council benchmarks its General Fund reserves with other councils. This is evidenced through the substantial increase in General Fund Balances in 2024/25, and a strategy to replenish reserves in the three year period 2025/26 to 2027/28 is included with the budget report that will be approved by Council on 27th February 2025.

Improvement Recommendation 2	The Council must ensure controls and mitigations minimise the DSG deficit and to limit general fund risk should the statutory override not be extended by the government.
Improvement opportunity identified	Participation in the DBV programme and the SEND transformation project are opportunities to bring greater control to the management of the Council's DSG deficit.
Summary findings	The Council's DSG deficit was £39m at the end of 2023/24 with a trend for significant increases. Failure to manage the deficit places risks the financial sustainability of the Council's general fund, particularly if the statutory override is not extended in April 2026.
Criteria impacted	Financial sustainability
Auditor judgement	Our work has enabled us to identify a weakness in arrangements which we do not consider to be significant, but have raised a recommendation to support management in making appropriate improvements.
Management comments	Agreed. The Council is delivering all agreed outputs from the DBV Programme as agreed with the DfE and the recommendations from a recent Internal Audit review. It is important to note that the DBV Programme is not focussed on financial sustainability. Therefore, the Council awaits proposals for the reform of the system by central government, who acknowledge it is not fit for purpose and not financially sustainable.

Progressing the actions management has identified to address the recommendations made will support the Council in addressing the improvements identified from our work. We consider that the timescales provided by management are appropriate and encourage the Audit Committee to monitor progress of implementation to gain assurance over the arrangements in place. The range of recommendations that external auditors can make is explained in Appendix B.

Improvement recommendations: Financial Sustainability (Cont'd)

Improvement Recommendation 3	The Council needs have a clear plan on its approach to the provision of services to academies, and continue to understand the impact of any lost income to traded services, the impact on delegated budget contributions, and the implications for the MTFP.
Improvement opportunity identified	Working with academy schools to ensure traded services meet their service and cost requirements.
Summary findings	The increase in academisation of schools will impact on the Council's revenue income, and creates a risk in loss of trading services income and school delegated budget contributions.
Criteria impacted	Financial sustainability
Auditor judgement	Our work has enabled us to identify a weakness in arrangements which we do not consider to be significant, but have raised a recommendation to support management in making appropriate improvements.
Management comments	Agreed. This is already in place. The Council acknowledges that there will be certain functions where academy trusts provide support that the Council previously did, and that there will be a loss of income (the impact of which has been included in the Council's Medium-Term Financial Plan). It should be noted that some support services are statutory services that would continue to be undertaken by the Council but the amount of funding available within the Dedicated Schools Grant to fund these services will reduce. For other services the Council takes a proactive approach in selling these services to schools.

Improvement Recommendation 4	The Council should ensure that the project management and contract management arrangements in relation to capital projects are effective to mitigate any delays in project delivery.
Improvement opportunity identified	The capital programme supports the Council's corporate priorities including regeneration, economic growth and service transformation. Mitigating delivery slippage ensures corporate priorities are not impacted and timescale risks to government funding are managed.
Summary findings	The 2023/24 capital programme underspent by 19% and the capital programme is significantly increasing in the medium term.
Criteria impacted	Financial sustainability
Auditor judgement	Our work has enabled us to identify a weakness in arrangements which we do not consider to be significant, but have raised a recommendation to support management in making appropriate improvements.
Management comments	Agreed. This is already in place.

Progressing the actions management has identified to address the recommendations made will support the Council in addressing the improvements identified from our work. We consider that the timescales provided by management are appropriate and encourage the Audit Committee to monitor progress of implementation to gain assurance over the arrangements in place. The range of recommendations that external auditors can make is explained in Appendix B.

Governance

We considered how the Council:

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

Council governance

The Council is politically led through a Leader and Cabinet model, with nine-portfolio holders. The Council also operates with four Overview and Scrutiny Committees which are designed to support Cabinet through recommendations on the delivery of services and the development of policy. The Council's Constitution was reviewed and updated in January 2024. The Constitution sets out how the Council operates, how decisions are made and the procedures which are followed to ensure that these are efficient, transparent and accountable to local people. The Constitution includes the member code of conduct, the scheme of delegation, financial procedure roles, and officer code of conduct The Council's Corporate Plan 2024 – 2027 sets out the Council's priorities for the medium-term across three themes: Communities, Collaboration and Ambition.

Risk management and internal controls

ELT manages the corporate risk register (CRR) and reviews it with SLB. The CRR was reviewed and updated in Summer 2023. Services manage operational and service risk registers. Service risks are put forward by the relevant Associate Director, based on the risk rating, for ELT to consider if it should be incorporated into the corporate risk register.

The LGA Corporate Peer Review of November 2023 noted that the Council's internal governance is supported by respectful and trusting relationships across members and officers, exemplified by the committed and passionate leadership of the Cabinet. The report further noted that internal processes and systems, including clear financial reporting, pro-active engagement with external audit, and detailed risk registers at a corporate, directorate and service level all support the Council's governance arrangements. Whilst noting the Council has key elements of internal assurance and controls in place, the LGA recommended the Council develops a wider assurance framework within the Council to strengthen internal assurance, rigor, risk management and challenge within the organisation. The Council's action plan in response to the LGA review notes that the Council will be able to demonstrate via quarterly performance reports to Cabinet and via its internal system of management and control, that risks are being managed effectively, to be in place from July 2024.

The LGA Corporate Peer Review was positive about the work of the Audit and Governance Committee including that it is supported by a clear and structured approach to risk management, with clear owners and actions presented. We comment further on this committee later in this section of the report. The LGA also noted positively that the Council has built on the concept of "golden triangle" of the three statutory officers (Head of Paid Service, Monitoring Officer and Section 151 Officer) to develop the 'golden square' comprising the aforementioned statutory officers and the Head of Internal Audit to support risk management across the organisation.

Internal Audit

Internal audit services are provided in house by the Risk and Audit Team which is managed by the Chief Internal Auditor. The annual audit plan is developed to align to corporate risks. The 2023/24 plan was approved by the Assurance and Governance Committee on 15 March 2023 and a revised plan was approved on 6 September 2023.

The Chief Internal Auditor's annual report summarises the work undertaken during the preceding financial year and provides an overall opinion on the robustness of the Council's control environment which has been derived from this work. The Chief Internal Auditor's 2023/24 annual report gave a rating of adequate on the adequacy and effectiveness of the Council's internal control framework.

Governance (Cont'd)

Internal Audit (Cont'd)

78 internal audits were completed during 2023/24 comprising 61 on behalf of the Council and 17 in relation to schools. Two of these audits resulted in a red rating representing a major organisational risk:

- The impact of Sandway Homes Limited on the financial sustainability of the Council: high priority recommendations were made in relation to the loan agreement between the Council and the company to ensure that it is brought up to date with current legislation, states the approved peak debt and that roles and responsibilities for enforcing the conditions of the agreement are clarified.
- Damp and mould in Council owned properties: high priority recommendations were made in respect of the small number of properties owned by the Council and managed by Green Sefton. These include developing policies and procedures defining roles and responsibilities, introducing annual assessments of damp and mould in the properties and new processes for monitoring and reporting to management and Members.

The Chief Internal Auditor's annual report did not provide analysis of planned audits against actual audits completed in year, and an improvement recommendation has been made in this regard.

The public sector internal audit standards (PSIAS) were introduced from April 2013 and updated in April 2017. An Independent External Quality Assessment of Internal Audit should be undertaken on a five-year cycle to ensure compliance with PSIAS. The internal audit service was externally evaluated in March 2018 by CIPFA and was found to generally comply with the standards. The assessment recognised that the service needed to develop its skill set in order to provide a modern and effective audit service that fits with the strategic and commercial direction of the Council. An improvement plan was developed which, the Chief Internal Auditor's 2023/24 Annual Report, noted was still being implemented.

The 2023/34 Annual Report was presented to the Audit and Governance on 19 June 2024 and noted that because it was now more than five years since the previous external quality assessment had taken place, Internal Audit no longer complied with PSIAS and arrangements would be made for external validation during 2024/25.

Further detail was included in the Internal Audit Service performance update to the Audit and Governance Committee on 4 September 2024, that during 2022/23 the planned external assessment was not undertaken, due to resourcing issues within the service, and an external assessment is being planned by CIPFA during January to March 2025.

We note that this non-compliance was reported in the 2022/23 and 20233/24 Annual Reports of the Chief Internal Auditor, but not in the draft Annual Governance Statement (AGS) for 2023/24. This lack of compliance should be disclosed in the Council's AGS for 2023/24 and represents a weakness in arrangements., and we have made an improvement recommendation.

Internal Audit has analysed progress against agreed actions from internal audit reports completed between 2018/19 and 2022/23. As at December 2023, of the total 657 agreed actions, 543 (83%) had been implemented with 108 (16%) of agreed actions still outstanding and for six (1%) the implementation date was not due for review. In undertaking this analysis Internal Audit had a lack of initial response from a small number of services. This analysis highlights that there remain delays in progressing a small number of agreed recommendations across the Council, and the Council leadership should consider how to ensure that all agreed internal audit actions are progressed in line with planned timescales.

During 2023/24, internal audit conducted a full review of the Council's corporate governance arrangements. This followed the mandatory CIPFA/SOLACE guidance "Delivering Good Governance in Local Government" (2016), to inform the Council's Annual Governance Statement (AGS) 2023/24 and ensure that the content of the AGS was fully evidenced.

The overall audit opinion for the work was that it presents an organisational risk of Moderate. There were a number of key findings emanating from the work, and two of these feature in the Council's Annual Governance Statement 2023/24 as Significant Governance Issues relating to council services:

- The full Ofsted inspection of February 2022 judgement of inadequate, with at the time the most recent Ofsted visit of February 2024 finding that while steady progress has been made in strengthening a number of areas, this was from a very low starting point and the pace of progress in some areas has been too slow.
- The Council's high needs budget facing severe cost pressures and overspend in 2023/24 with an accumulated deficit of £35m, and demand for EHCPs will make the overspending position more acute in 2024/25.

We provide further commentary on these areas in the Financial Sustainability and Improving Economy, Efficiency and Effectiveness sections of this report.

Governance (Cont'd)

Internal Audit (Cont'd)

Internal audit identified no major risks resulting from schools audits undertaken during the year. One major risk was reported in relation to the Council's companies:

- SHOL governance and risk management: a risk management policy should be developed, a corporate risk register should be developed, and risk monitoring and reporting arrangements should be established.

The Audit and Governance Committee and the SLB received regular updates on risk and audit performance during 2023/24 and there were quarterly meetings between the Monitoring Officer, Section 151 Office and Chief Internal Auditor, to consider governance issues and identify any areas for improvement, such as with the drafting of the annual work plan for the Audit and Governance Committee, and the Committee's training plan.

During 2023/24 work was undertaken to improve the embedding of risk management within the Council. The Risk and Resilience Team facilitated the completion of outstanding Service and Operational Risk Registers across the Council working closely with management teams. The Chief Internal Auditor's annual report noted that risk appetite is likely to increase as a result of the Council's ambitious change programme to deliver the Corporate Plan.

An independent risk management health check, was undertaken by Gallagher Basset during the year, assessing the Councils risk management framework. They key recommendations from the review were:

- To provide more developmental opportunities for staff to raise their understanding of risk management, particularly amongst front line service leaders.
- To update the Corporate Risk Management Handbook so that is more user friendly.
- Raising the profile of risk management by publicly celebrating risk management successes as well as publishing lessons learned from failure.
- Identifying ways of integrating risk management more overtly so people are aware of its importance within their roles.
- In the longer term continue to develop the suite of KIPs associated with measuring the performance of risks and opportunities

The Chief Internal Auditor noted in their 2023/24 annual report the importance during 2024/25 of corporate risk management continuing to develop and embed across the Council and in particular the understanding of the Council's risk appetite is embedded across decision making including in Committee papers.

Counter Fraud

The Council's Anti-Fraud, Bribery and Corruption Policy sets out the Council's position in respect of fraud, bribery and corruption and is applicable to all aspect of the Council's business, its members, employees, contractors and any persons or organisations doing business with the Council. It was reviewed, updated and approved by the Cabinet in October 2023, having previously been reviewed in 2016. The Audit and Governance Committee has responsibility for monitoring the policy.

Internal Audit has responsibility for the prevention and detection of fraud, bribery and corruption, which includes co-ordination of the Council's work on the National Fraud Initiative (NFI), compilation of the Council's return to the CIPFA Counter Fraud Tracker, which compares fraud detection levels with peers, and investigation of referrals of suspected fraud and irregularity.

Following the retirement of a previous counter fraud resource and a recruitment freeze instigated across the Council for 2022/23 and 2023/24 there has been limited dedicated resources on counter fraud. A restructure of the Risk and Audit Team was approved for the 2024/25 financial year and completed in June 2024, which created a new Counter Fraud Investigator role, with the appointee starting in role on 1 July 2024. Additional support to this new role is being considered from the wider Risk and Audit Team. This lack of counter fraud resource has impacted on actions, now in train, that include:

- Implementing outstanding actions from a CIPFA Fraud self-assessment.
- Drafting a Counter Fraud Strategy the next three months
- Completion of Fraud Risk Assessments by services
- Delivery of training and awareness programme
- Developing a fraud risk register
- Developing a sanctions policy

The Council must ensure that there is appropriate resource in place to meet the obligations and responsibilities of the Risk and Audit Team in relation to its role in the prevention and detection of fraud, bribery and corruption.

Governance (Cont'd)

Informed decision making including the Audit Committee

The Audit and Governance Committee considers and approves the Council's accounts, internal control systems, risk management and corporate governance issues. The Committee met five times during 2023/24. The Council has a forward plan that is regularly reviewed. The Committee meets on a quarterly basis and these meetings are preceded by dedicated briefing sessions to support members of the Committee and have been well-attended.

The Council adopted the CIPFA model Terms of Reference in May 2021 for the Committee. The Terms of Reference requires the Committee to publish an annual report on the work of the committee as well as to report to full council on a regular basis on the committee's performance in relation to the terms of reference and the effectiveness of the committee in meeting its purpose. At its meeting on 6 September 2023 the Committee received its Annual Report for 2022/23, the third annual report produced.

The report summarised its activities for the year and noted:

- the appointment of a co-opted non-voting Independent Member to the serve on the Committee, with the successful candidate to take up the role at the start of the 2023/24 municipal year.
- the introduction of quarterly Work Programme update reports for the Committee to monitor adherence to their Work Programme.
- programme of Member Briefings to be held prior to each Committee Meeting based on key competencies outlined by CIPFA.

These are all good practice approaches for the Committee to have adopted.

The Committee undertakes an annual self-assessment that incorporates the key principles set out in the Chartered Institute of Public Finance and Accountancy's (CIPFA) Position Statement and their 2022 publication Practical Guidance for Local Authorities and Police.
The self-assessment is used to support the planning of the Audit and Governance Committee Work Programme, support the planning of the Committee's Training Programme, and informs the Committee's Annual Report.

The 2023/24 self-assessment was reported to the Committee on 20 March 2024 and concluded that the majority of 25 criteria were being fully or partly met. Criteria that were partly or not met resulted in the following issues identified:

- The need to assess members of the Committee against the core knowledge and skills framework.
- The need to review training to ensure the Committee has the appropriate skills and experience.
- The committee Chair should obtain feedback on the Committee's performance from those interacting with the committee or relying on its work.
- The committee should have an action plan to improve any areas of weaknesses.
- Conclude the review of its terms of reference.

The effectiveness of the Committee was assessed, with ratings made against 17 areas of the Committee's performance and 15 of these were assessed as 4 or 5, the two highest ratings possible. Two areas were assessed as 3:

- Encouraging ownership of the internal control framework by appropriate managers.
- Raising significant concerns over controls with appropriate senior managers.

It is good practice for the Committee to undertake annual self-assessments, and as part of its approach to continuous improvement, it should progress actions to manage the areas identified by the 2023/24 assessment.

A Council Assurance framework was developed and approved by the Audit and Governance Committee in September 2022. The framework describes the sources of assurance that are provided to Cabinet and the Audit and Governance Committee. The framework did not provide an assessment of how assurance is provided on the key risks to the achievement of the Council's strategic objectives detailed in the Corporate Risk Register. This was supported by findings from the November 2023 LGA Corporate Peer Review already noted

As a result, it was agreed that Internal Audit would prepare an assurance map to list the sources of assurance (through the three lines of defence model) to each key risk using the Corporate Risk Register. The aim of the assurance map is to:

- give senior management and elected/committee members comfort that there is a comprehensive risk and assurance framework with no duplicated effort or potential gaps;
- ensure that Internal Audit plans are targeted to address the key risks facing the Council and where assurance gaps remain;
- identify any potential areas of overlap or duplication of assurance.

The results of the first assurance mapping exercise were presented to the Audit and Governance Committee on 20 March 2024. The results identified effective assurance was in place for nine of the Council's twelve strategic risks.

Governance (Cont'd)

Informed decision making including the Audit Committee (Cont'd)

A red rated gap was identified in relation to the risk "Increase in academisation of schools within the borough" in terms of the level of assurance provided to the relevant governance bodies, in part due to this being a new risk in the corporate risk register.

Amber gaps were identified in relation to the risks "Failure to Comply with Sections 1 and 10 of the Freedom of Information Act 2000" and the "Ability of the Council to recruit to its workforce in order to deliver its Core Purpose". The first of these was due there being an annual report provided to Members on progress, and the second of these was due to there being limited assurance provided to Members on the progress to address the issue outside of Children's Services.

The introduction of assurance mapping is good practice and provides the Audit and Governance Committee with an understanding of how risks are being manged and mitigated across the Council and has also supported internal audit planning for 2024/25 including its alignment to the corporate risk register.

We note that the corporate risk register does not align risks to corporate objectives, which may limit the effectiveness of the Council's corporate risk management approach.

The Council should maintain its approach to assurance mapping and, ensure the assurance gaps identified in this initial exercise are mitigated, and fully implements the LGA recommendations to improve the Council's wider assurance framework. It should also consider aligning corporate risks to corporate priorities.

Scrutiny

The Council operates four Overview and Scrutiny Committees which are overseen by the Overview and Scrutiny Management Board:

- Adult Social Care and Health
- Regulatory, Compliance and Corporate Services
- Regeneration and Skills
- Children's Services and Safeguarding

There is an Executive/ Scrutiny Protocol in Place, which was approved by Cabinet in December 2020 and was based on guidance produced by the Centre for Governance and Scrutiny.

At its meeting on 20 June 2023, the Overview and Scrutiny Management Board considered the Protocol which led to amendments so that:

- Overview and Scrutiny Committees receive all key Council strategies and plans prior to their submission to Cabinet or Council, and that there is adequate timescale for consideration.
- Informal meetings as well as working groups of Overview and Scrutiny Committees were reflected in the protocol.

The protocol is good practice and places more emphasis on pre-decision scrutiny, as is the regular review and where appropriate, making necessary amendments. Overview and Scrutiny Committees meet regularly during the year, and each have forward plans, setting out their planned business for each municipal year, which is also good practice. The amended protocol should ensure that Council strategies and plans, whilst in these forward plans, do not avoid scrutiny, as has been the case for some of these documents in prior years

The Council has put in place external training for their Children's Services Scrutiny Committee and may wish to consider the benefit of extending this training to other scrutiny committees, as recommended in the LGA Corporate Peer Review of November 2023. The LGA noted that scrutiny arrangements could be further improved by the including the contribution of opposition parties, support through action tracking, and further training and development.

Standards and behaviours

The Council's Constitution sets out the standards and behaviours expected from Members. The role of the Hearings Sub-Committees is to hear and determine any complaints against Members which have been referred for investigation and impose sanctions where a Member is found to have breached the Code of Conduct. The last time the Committee met was in September 2014 when it found that an elected member had breached the Members Code of Conduct. The Committee has not met since that time, due to no standards investigations having been investigated.

Governance (Cont'd)

Cyber Security

The Local Government Association (LGA) undertook a review of the Council's cyber security arrangements, reporting in October 2022 which followed a large-scale IT transformation programme. The LGA noted that the Council was developing a strong cyber security culture, due to the strength of leadership within the Council, the hard work and diligence of the security team, and the formation of good relationships and partnerships with key providers.

The LGA further noted that a few key personnel in the Council bear significant responsibility for decision-making about cyber risks, technical expertise, and communication in relation to cyber-security. The Council was aware of this potential overreliance on these individuals and was considering ways to manage this.

During 2023/24 the Council's ICT team engaged with Council services to promote cyber security. This included the use of questionnaires for services to consider issues such as service responsibility for the management and review of cyber related risks, senior management oversight of cyber security risk, and staff training in cyber security awareness.

Whistleblowing

The Council's current Whistleblowing Policy was approved by Audit and Governance Committee at its meeting on 19th June 2019. The Committee received a report at its meeting on 20 March 2024 providing an update on the review of the Council's whistleblowing policy, and referrals made during 2022/23.

Four referrals were received in the year 2022/23 compared to seven referrals during 2021/22 and seven during 2020/21. The four referrals received during 2022/23 were investigated. One was confirmed as a complaint rather than whistleblowing, one was confirmed as a misunderstanding of the use of the whistleblowing policy, one was managed to reach a satisfactory conclusion with the whistle-blower, and one was established to not relate to a breach of Council policies.

Council owned companies

The LGA Corporate Peer Challenge of November 2023 noted positively that the Council had proactively reviewed the governance of the three Council owned companies (Sefton New Directions, Sefton Hospitality, and Sandway Homes) against independent national advice (such as the Caller Report and Local Partnerships Framework).

Partnership protocols are included in the Financial Procedure Rules, with a section on commercial activities which covers the Council's wholly owned companies.

The Council has produced conflicts of interest guidance for company directors, approved by the Audit and Governance Committee on 20 March 2024, to comply with CIPFA good practice guide for local authority owned companies (2022) and assist company directors to comply with their duties and responsibilities under the Companies Act 2006.

Capital Programme Governance

The Council's Asset Management Strategy and Asset Disposal Policy were reviewed and updated in January 2024 and are due to be reviewed again in January 2025. These were approved by Cabinet in February 2024.

The Asset Management Strategy follows guidance set out in the Prudential Code for Capital Finance in Local Authorities, and provides a framework for the planning, prioritisation, management and funding of the Council's asset base, and informs the Council's MTFP. The Asset Disposal Policy sets out the Council's broad objectives in relation to the use of property assets, summarises the Council's property asset base, sets out the principles used when making asset disposal decisions, and identifies a list of sites and property assets that are available for disposal.

The Strategic Capital Investment Group, is a member-led body, supported by senior officers, that meets monthly. It considers performance updates on live capital projects and decides on whether new projects progress to full business cases, which are approved by Cabinet.

The Council has a central property team but there is no single team with responsibility for all property related activity across the Council. The central property team informally supports departmental teams involved in property projects, including sharing learning and good practice to try to ensure there is a standard approach in place across the Council. As previously mentioned, the Council has been increasing its capital programme spend and the Council should take steps to ensure that teams involved in property related projects are appropriately skilled and resourced, and that there is a standard approach to project development, approval and contract management in place.

Governance (Cont'd)

Capital Programme Governance (Cont'd)

The Council has registered with the Regulator of Social Housing following a decision to become a provider of social housing. The Social Housing (Regulation) Act 2023 received Royal Assent in July 2023 introducing significant reforms to social housing, largely in response to the Grenfell Tower Fire and the safety and quality of social housing. At its meeting on 4 April 2024 Cabinet approved the governance arrangements for the management of Council owned homes, delegated authority for the formal adoption of Council housing policies required to facilitate the management and maintenance of any new Council owned homes, and an Early Acquisition Scheme including delegated authority to acquire additional properties for council housing provision. A Housing Advisory Board is to be created to support Cabinet in its oversight of housing management services. The Council should ensure that the planned governance arrangements and housing policies are in place prior to first homes coming under Council management, which is forecast to be in early 2025.

Procurement

At the time of our review the Council did not have a procurement strategy in place, with a strategy in the process of being developed. A procurement strategy is a key document to set out how the Council secures best value and maximises social value from it's procurement activity, and the Council must ensure the strategy is finalised and approved, and reflects obligations relating to the Procurement Act 2023, which come into force in October 2024.

The Council has central procurement team, which is responsible for providing support and training to services teams involved in procurement activity.

Contract Procedure Rules are referred to in the Council's Constitution, but constitute a separate document, and these procedure rules were reviewed and updated in January 2024. The rules set out that when considering a waiver to the Contract Procedure Rules the relevant officer should complete a formal Waiver Request Report, including how value for money will be achieved. Depending on the seniority of the officer, the waiver should be approved by the relevant Head of Service, Executive Director or the Chief Executive.

Analysis of waivers over the years 2021/22 to 2023/24 provided by the Council is summarised in the Table A on the following page. This represents a significant number and value of waivers over this three-year period. The total value of waivers during 2023/24 was £16.654m, which represents 6.5% of the Council's net revenue expenditure for the year. We understand that during the Covid-19 pandemic that some waivers were required to manage service delivery, such as in Adult Social Care.

The Council undertook lessons learned workshops during February and March 2024 of three recent construction projects: Crosby Lakeside Adventure Centre (CLAC) Hospitality, CLAC Bunkbarn, and Bootle Canalside (Salt and Tare).

These lessons learned reviews, which are good practice to undertake, identified that some waivers were "completed at the last minute and after invoices had been received due to time scales of a project". The lessons learned report noted that "to ensure this doesn't happen again, allow sufficient time in programme to undertake the full procurement process. Waivers should not be used on high profile projects, unless in exceptional circumstances, due to high risk."

The interim head of procurement has recently updated the Waiver Request Report so that the approver of the waiver should declare any conflict of interest, and has amended the waiver process so that the Head of Procurement is able to check waiver requests prior to their approval. This should bring some additional controls to the process. However, the level and value of waivers is a significant concern. The Council must take urgent steps to change procurement culture in the use of waivers, ensure waiver data is reported quarterly to Audit and Governance Committee, analyse waiver activity to understand the reasons for the level of waivers, confirm that waivers related to existing contracts or framework agreements, confirm that no waiver approvals resulted in a conflict of interest, gain assurances that all waivers are approved in line with the Council's Contract Procedure Rules and relevant procurement legislation and that procurement activity that required a waiver did not take place.

This represents a significant weakness in arrangements and we have made a key recommendation in this regard, set out on page 7.

We have identified that some suppliers of agency staff did not meet the Council's procurement rules. The Council should review its procurement arrangements for all agency staff to ensure there is full compliance.

Governance (Cont'd)

Procurement (Cont'd)

Table A: Summary of procurement waivers by department, 2021/22 to 2022/23

Service	2021/22 £	2021/22 Waivers	2022/23 £	2022/23 Waivers	2023/24 £	2023/24 Waivers	2021/22 -23/24 £	2021/22 -23/24 Waivers
Adult Social Care	£7,039,148	171	£3,886,389	163	£3,505,559	104	£14,431,096	438
Children's Social Care	£1,838,480	8	£336,730	6	£1,875,223	14	£4,050,433	28
Communities	£844,349	8	£262,755	9	£2,046,100	17	£3,153,205	34
Corporate Resources	£3,617,745	51	£1,792,362	42	£4,972,336	71	£10,382,444	164
Economic Growth & Housing	£949,617	21	£2,141,408	42	£1,843,362	85	£4,934,387	148
Education	£77,385	3	£153,685	9	£383,419	6	£614,489	18
Health & Wellbeing	£1,644,400	27	£97,410	4	£184,043	5	£1,925,853	36
Highways & Public Protection	£700,950	13	£164,563	4	£1,134,304	8	£1,999,816	25
Operational In-house Services	£206,947	7	£1,507,312	12	£544,779	12	£2,259,038	31
Regeneration	£0	0	£116,986	2	£19,795	1	£136,781	3
Strategic Suppport	£22,475	3	£53,258	6	£144,561	4	£220,294	13
Total	**£16,941,497**	**312**	**£10,512,858**	**299**	**£16,653,481**	**327**	**£44,107,836**	**938**

Governance (Cont'd)

Commissioning

The Executive Director for Adult Social Care and Health has responsibility for the commissioning function for Children's Social Care, as well as Adult Social Care. The Executive Director for Children's Services is accountable for Children's Social Care budgets. The commissioning team within Adult Social Care undertake reviews of contacts relating to Children's Social Care and make recommendations to the Executive Director of Children's Services.

At the time of our review a revised structure was being considered to ensure appropriate commissioning capacity and clarity on roles and responsibilities.

An Executive Commissioning Group has been established which is chaired by the Council's Chief Executive, with other members of the Group representing relevant service functions in the Council and NHS bodies. The role of the Group is to provide the senior leadership governance arrangements for the children's social care and health activity:

- The Children and Young Peoples Sufficiency and Improvement Project aligned to Ofsted Improvement Recommendations/Plan
- The Children and Young People's Commissioning Improvement Plan
- The co-design and development of the Start Well Programme
- The interface with the SEND Improvement Programme
- The interface with the co-design and development of the Integrated Care System.
- The interface with the Voluntary, Community and Faith sector spend aligned to Communities

The Group has been established to provide oversight and assurance in respect of the improvement and transformation of the whole system commissioning of services and support for children and young people and their families.

Overall Conclusion

We have identified two significant weaknesses in the Council's arrangements for ensuring that it makes informed decisions and properly manages its risks. These relate to:

- the failure of internal audit to maintain its PSIAS compliance.. This is set out on page 7 of this report.
- the level of procurement waivers . This is set out on page 8 of this report.

We have also found opportunities for arrangements to be further enhanced and we have made ten improvement recommendations set out on the following pages.

Improvement recommendations: Governance

Improvement Recommendation 5	The Chief Internal Auditor's annual report should provide analysis and commentary comparing actual audits completed compared to those set out in the plan agreed prior to the start of the year.
Improvement opportunity identified	By including analysis of planned audits against actual audits completed in year, the Audit and Governance Committee will have greater transparency over delays or changes to planned audits.
Summary findings	The Chief Internal Auditor's annual report for 2023/24 did not provide analysis of planned audits against actual audits completed in year.
Criteria impacted	Governance
Auditor judgement	Our work has enabled us to identify a weakness in arrangements which we do not consider to be significant, but have raised a recommendation to support management in making appropriate improvements.
Management comments	Agreed. This will be introduced during 2025/26.

Improvement Recommendation 6	The Council must ensure that the independent external quality assessment of Internal Audit is completed as soon as possible, so that internal audit is confirmed as being compliant with Public Sector Internal Audit Standards (PSIAS).
Improvement opportunity identified	During 2023/24 the Council's internal audit was non-compliant with PSIAS and remains so at the time of this report.
Summary findings	An Independent External Quality Assessment of Internal Audit should be undertaken on a five-year cycle to ensure compliance with PSIAS. The Council became non-compliant with PSIAS during 2022/23. This was not reported to Audit and Governance Committee until June 2024. Whilst an independent assessment is planned towards the end of 2024/25, this represents a significant weakness in arrangements during 2023/24.
Criteria impacted	Governance
Auditor judgement	Our work has enabled us to identify a weakness in arrangements which we do not consider to be significant, but have raised a recommendation to support management in making appropriate improvements.
Management comments	Agreed. The Council has already planned for this review to take place in before the end of 2025/26.

Progressing the actions management has identified to address the recommendations made will support the Council in addressing the improvements identified from our work. We consider that the timescales provided by management are appropriate and encourage the Audit Committee to monitor progress of implementation to gain assurance over the arrangements in place. The range of recommendations that external auditors can make is explained in Appendix B.

Improvement recommendations: Governance

Improvement Recommendation 7	The Council leadership should consider how to ensure that all services with agreed internal audit actions are progressed in line with planned timescales.
Improvement opportunity identified	Internal audit recommendations relate to identified weakness or areas of improvement. Failure to follow up on actions places risks on the Council's control environment.
Summary findings	Internal audit analysis of actions agreed between 2018/19 and 2022/23 identified that 16% of agreed actions were still outstanding at December 2023.
Criteria impacted	Governance
Auditor judgement	Our work has enabled us to identify a weakness in arrangements which we do not consider to be significant, but have raised a recommendation to support management in making appropriate improvements.
Management comments	Agreed. The Executive Leadership Team and the Audit and Governance Committee receive regular reports on progress. The Council performs well in this area with over 80% implementation against an industry benchmark of 60%, but will continue strive for even better performance.

Improvement Recommendation 8	The Council must ensure that there is appropriate resource in place to meet the obligations and responsibilities of the Risk and Audit Team in relation to its role in the prevention and detection of fraud, bribery and corruption.
Improvement opportunity identified	The need for appropriate resource to deliver activities to prevent and detect fraud, bribery and corruption.
Summary findings	Counter fraud related resource has historically been low and whilst the Council has recently taken steps to try and address this issue, it should review the position to ensure that the expected obligations of the Risk and Audit Team can be met.
Criteria impacted	Governance
Auditor judgement	Our work has enabled us to identify a weakness in arrangements which we do not consider to be significant, but have raised a recommendation to support management in making appropriate improvements.
Management comments	Agreed. This has been implemented with a recent appointment into the team of a Counter Fraud Officer.

Progressing the actions management has identified to address the recommendations made will support the Council in addressing the improvements identified from our work. We consider that the timescales provided by management are appropriate and encourage the Audit Committee to monitor progress of implementation to gain assurance over the arrangements in place. The range of recommendations that external auditors can make is explained in Appendix B.

Improvement recommendations: Governance (Cont'd)

Improvement Recommendation 9	The Audit and Governance Committee should progress actions to manage the areas identified by its 2023/24 self-assessment.
Improvement opportunity identified	To maintain and fully embed the continuous improvement culture of the Audit and Governance Committee.
Summary findings	The Audit and Governance Committee seeks to continuously improve including via the undertaking of annual self-assessments.
Criteria impacted	Governance
Auditor judgement	Our work has enabled us to identify a weakness in arrangements which we do not consider to be significant, but have raised a recommendation to support management in making appropriate improvements.
Management comments	Agreed. Audit and Governance Committee receive an annual report and actions are progressed in light of the self-assessment.

Improvement Recommendation 10	The Council should maintain its approach to assurance mapping and, ensure the assurance gaps identified in this initial exercise are mitigated, and it fully implements the LGA recommendations to improve the Council's wider assurance framework. It should also consider aligning corporate risks to corporate priorities.
Improvement opportunity identified	To implement and conclude the assurance mapping activity to support improvements to the Council's wider assurance framework.
Summary findings	The LGA recommended the Council develops a wider assurance framework within the Council to strengthen internal assurance, rigor, risk management and challenge within the organisation.
Criteria impacted	Governance
Auditor judgement	Our work has enabled us to identify a weakness in arrangements which we do not consider to be significant, but have raised a recommendation to support management in making appropriate improvements.
Management comments	Agreed. This is already in place and will continue.

Progressing the actions management has identified to address the recommendations made will support the Council in addressing the improvements identified from our work. We consider that the timescales provided by management are appropriate and encourage the Audit Committee to monitor progress of implementation to gain assurance over the arrangements in place. The range of recommendations that external auditors can make is explained in Appendix B.

Improvement recommendations: Governance (Cont'd)

Improvement Recommendation 11	The Council should take steps to ensure that teams involved in property related projects are appropriately skilled and resourced, and that there is a standard approach to project development, approval and contract management in place.
Improvement opportunity identified	To ensure a standard approach to property related activity that is appropriately skilled and resourced.
Summary findings	The Council is significantly increasing its capital programme, and it needs to ensure that it has appropriate skills and capacity to deliver the property aspects of the programme, and there is a standard Council-wide approach.
Criteria impacted	Governance
Auditor judgement	Our work has enabled us to identify a weakness in arrangements which we do not consider to be significant, but have raised a recommendation to support management in making appropriate improvements.
Management comments	Agreed. This is already in place and will continue.

Improvement Recommendation 12	The Council should ensure that the planned governance arrangements and housing policies are in place prior to first homes coming under Council management, which is forecast to be in early 2025.
Improvement opportunity identified	To ensure appropriate governance arrangements and associated policies are in place in relation to the Council's decision to become a housing provider.
Summary findings	The decision to become a council housing provider requires the planned governance and policies to be in place prior to the first homes are under Council management.
Criteria impacted	Governance
Auditor judgement	Our work has enabled us to identify a weakness in arrangements which we do not consider to be significant, but have raised a recommendation to support management in making appropriate improvements.
Management comments	Agreed. Plans are already in progress within the Council to do this and the Council has staff with the relevant experience and expertise to progress this.

Progressing the actions management has identified to address the recommendations made will support the Council in addressing the improvements identified from our work. We consider that the timescales provided by management are appropriate and encourage the Audit Committee to monitor progress of implementation to gain assurance over the arrangements in place. The range of recommendations that external auditors can make is explained in Appendix B.

Improvement recommendations: Governance (Cont'd)

Improvement Recommendation 13	The Council must ensure the Procurement Strategy is finalised and approved, and reflects obligations relating to the Procurement Act 2023, which come into force in October 2024.
Improvement opportunity identified	A procurement strategy is a key document to set out how the Council secures best value and maximises social value from it's procurement activity.
Summary findings	During 2023/24 the Council had no Procurement Strategy in place.
Criteria impacted	Governance
Auditor judgement	Our work has enabled us to identify a weakness in arrangements which we do not consider to be significant, but have raised a recommendation to support management in making appropriate improvements.
Management comments	Agreed. The Council has had a project running to address this issue for the last 18 months which includes leadership from Procurement and Legal, which is supplemented by expert external legal advice and support who are producing the Council's updated procurement procedures. The Council has a training programme in place for key staff and provides regular reports to Executive Leadership Team and Strategic Leadership Board.

Improvement Recommendation 14	The Council should review its procurement arrangements for all agency staff to ensure there is full compliance.
Improvement opportunity identified	When procuring agency staff within our outside the matrix system, the Council should ensure that procurement rules are followed.
Summary findings	We have identified that some suppliers of agency staff did not meet the Council's procurement rules
Criteria impacted	Governance
Auditor judgement	Our work has enabled us to identify a weakness in arrangements which we do not consider to be significant, but have raised a recommendation to support management in making appropriate improvements.
Management comments	This has been actioned. Senior leadership board were instructed to ensure that all agency staff used by the Council were either procured via Matrix or are on fixed term contracts by the end of November 2024- this follows the completion of and exercise that all local authorities needed to undertake to meet HMRC requirements re. IR 35, which the Council has completed to the satisfaction of HMRC.

Progressing the actions management has identified to address the recommendations made will support the Council in addressing the improvements identified from our work. We consider that the timescales provided by management are appropriate and encourage the Audit Committee to monitor progress of implementation to gain assurance over the arrangements in place. The range of recommendations that external auditors can make is explained in Appendix B.

Improving economy, efficiency and effectiveness

We considered how the Council:

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

Use of financial and performance information

The Chief Executive and Section 151 Officer meet corporate directors monthly and the standing agenda includes discussing financial performance. There are performance and finance meetings between the finance team and services to monitor and track spend against budgets.

The LGA Corporate Peer Review of November 2023 noted that the Council had made progress with the introduction of reporting that brings together finance, performance and risk information as recommended in the previous LGA Review in 2018, but the Council recognised that further work is required to build on these improvements to performance reporting. This included reporting to Scrutiny as well as Cabinet to support their work programme and their understanding of the Council's performance position across the wider organisation.

Budget monitoring reports are now shared quarterly with members which includes information on service performance and risks. These reports go to the Audit and Governance Committee, the Regulatory Compliance Scrutiny Committee, Cabinet and full Council. There is potential for this work to go further, and the LGA encouraged the Council to ensure that the outcomes reported best reflect the Council vision and priorities, the incorporation of direction of travel and benchmarking to better understand relative performance, and the use of targets to articulate ambition and focus attention on service improvement. The Council has reviewed the corporate Key Performance Indicators (KPIs) to be used for 2024/25 and performance against the KPIs is due to be supported by benchmarking where appropriate.

The Council uses an IT system (Collaborative Planning) which uses financial data exported from other council systems including Agresso, the Council's main finance system, and the payroll system, as part of its budget monitoring approach. Collaborative Planning is considered a more user-friendly system for budget holders to use and allows services to include updates on the system for the finance team. At the time of reporting not all services were using the e system in this way.

As part of the financial planning approach for 2023/24 the Council reviewed a small number of other councils MTFPs as a lessons learned exercise to identify best practice, including the structure and content of MTFPs, recognising there is no standard template used in the sector. We have been advised that benchmarking was used during the 2024/25 financial planning cycle. The Section 151 Officers of the councils that comprise the Liverpool City Region have started to share benchmarking information including financial planning assumptions, demand forecasts, social care provider fees, and levels of government funding. This has been introduced for the 2025/26 financial planning cycle.

A monitoring dashboard is used within Adult Social Care, which is being further developed during 2024/25 to include demand related information. The Council has used a care analytics model relating to provider fees since 2018 to support financial and service planning.

We have undertaken our own financial benchmarking using 2022/23 Revenue Outturn (RO) data, which was the most recently available at the time of our review. We are aware that the Council undertakes its own financial benchmarking, however as part of our work we compared the Council's unit costs to its nine statistical nearest neighbours. The Council's unit costs benchmarks very high for education services (special schools and alternative provision) and for children's social care (family support services and looked after children). These variation may be because of different policy choices of statistical nearest neighbour councils, but the Council should consider exploring and understanding these variances and where appropriate use that understanding to inform service improvement and support financial and performance reporting.

Improving economy, efficiency and effectiveness (Cont'd)

Key Partnerships and Commercial Activity

At the time of our review the Council's Monitoring Officer was reviewing the Guidance on partnership arrangements which includes Council owned companies. This was being undertaken following some high-profile failures elsewhere in the sector, to provide management with assurances that arrangements at the Council remained appropriate. This work had not concluded at the time of this report.

The Council has three wholly owned companies:

- Sefton New Directions Limited (SNDL), incorporated in January 2007, providing health and social care services for the elderly and disabled in the borough.
- Sandway Homes Limited (SHL), incorporated in November 2018, a housing development company.
- Sefton Hospitality Operations Limited (SHOL), incorporated in June 2021 for the operation of assets in the hospitality sector and provision of outside catering, including the hospitality elements of the Crosby Lakeside Adventure Centre (CLAC).

The value of the Council's shares are of a nominal value of £1 per share. The Council holds 1,000 shares in SNDL, 100 shares in SHL, and 1 share in SHOL.

The Council has Shareholder Agreements with each company and the Cabinet is responsible for the Council's shareholder function, with the relevant portfolio holder acting as Shareholder Representative attending company board meeting as an observer.

As the 100% shareholder in the companies there are matters reserved for the Council to decide upon, for example, to make any material change to the nature of a company's business. The Council's Shareholder Representative has delegated authority from the Cabinet to act as shareholder in respect of all relevant shareholder decisions including appointing and dismissing board directors, making decisions on reserved matters, approving the company strategy and business plan and voting on behalf of the shareholder at Annual General Meetings.

The Cabinet approves company annual business plans including any material changes. During 2023/24 the Council introduced a review of each company's performance against business plan. This is considered by Cabinet and Overview and Scrutiny Committee. The Council should consider establishing a Shareholder Panel so that the shareholder function has dedicated agenda time to focus on company performance, and free up agenda time of the Cabinet.

SHOL

Cabinet agreed a three-year business plan for SHOL in February 2022 and received an update on the company's performance in December 2023. The company has created 50 jobs and the focus of its operations are CLAC and the White House Cafe in Southport which was opened in Spring 2023.

As is common in the hospitality sector, inflationary pressures including on the cost of food, drink and energy, the Covid-19 pandemic, and the cost of living crisis impacting on customer demand, have all led to challenges on the company's finances and operations, with forecast net income below the original business plan target until at least 2024/25.

Overview and Scrutiny reviewed the company's 2022/23 business plan performance at its meeting in January 2024. The company was projected a loss of approximately £200k, The original business plan assumed that the Council's subsidy to CLAC would be removed and this was implemented during 2021/22 and 2022/23.

The Council has provided a shareholder loan facility to the company which was originally £0.9m and had risen to £1.4m at December 2023 due to changes in economic conditions.. The business plan forecast repayment of the loan by the end of 2026/27, along with dividend payments commencing to the Council as shareholder. This remains the target for the company's board, and repayment of the loan during 2026/27 was reported in the Council's Budget Report of February 2024, and the Council remains committed to the long-term future of the company. It is important that the Council regularly monitors the company's financial position so that dividends and loan repayments meet business plan targets.

Council officers are directors of the company and the Council intends to replace them with independent directors in the long-term. To manage potential conflicts of interest the Council should define the timescale for making this change

SNDL

A service review of the company was initiated in March 2023 at the request of the Council's Executive Director of Adult Social Care. The focus of the review was formally agreed via a high-level plan with the SNDL Board in July 2023.

Improving economy, efficiency and effectiveness (Cont'd)

Key Partnerships and Commercial Activity (Cont'd)

SNDL (cont'd)

The review was undertaken due to concerns over the future viability and sustainability of the company, including the company board reporting concerns that future investment from the Council would be required due to inflationary increases in costs. The review was reported to Cabinet in January 2024, who approved a twelve-month transformation plan to address the potential resource gap in collaboration with Commissioners to ensure a balanced financial position can be maintained by the company and it is able to meet the Council's commissioning requirements from within available resources to the Council to fund the company for these services. The Council must ensure that the company deliverers this agreed transformation plan.

Shareholder meetings take place during the year, with membership including the Chair of the company board, the Cabinet Member shareholder representative, the Chief Executive of the Council and the Executive Director of Adult Social Care and Health. These meetings consider progress against the business plan and decisions are made to escalate any matters back to Cabinet.

The company accounts for 2022/23, approved by the board in November 2023 reported turnover of £9.775m with a pre-tax loss of £0.972m (there was a £0.028m loss in 2021/22). The company has an agreed deficit of £0.990m for 2023/24, with the accounts for the year not currently available. The company has passed £0.811m in dividends to the Council over the six-year period to 2022/23, and has taken over services from other providers who were loss-making and of poor quality, based on the findings of the regulator the Care Quality Commission.

There has been no additional direct investment such as loans or debt facilities made available by the Council to the company.

SHL

SHL is wholly owned by Sefton Holding Company which in turn is a wholly owned company of the Council. The company was incorporated in October 2018 under the name Sefton (ACS) Development Company Limited and changed its name to Sandway Homes Limited in December 2018. The objectives of the company are:

- To generate a better financial return on land assets and a revenue stream for the council.
- For the Council to be seen to directly contribute to the need for 11,000 new homes in the Borough.
- To provide good quality homes that meet market needs.

Revised Business Plans for Phase 1 of SHL were approved by Cabinet in October 2021, December 2022 and December 2023. The Business Plans set out the delivery timescales of each of the three sites (Meadow Lane, Barton's Close and Buckley Hill) in Phase 1 of the company operations.

The most recent SHL Business Plan was reported to Cabinet in December 2023 and informs the Council's MTFP assumptions. SHL has a peak debt facility (loans from the Council) of £8.3m, approved by Cabinet in December 2021, representing an increase from the original agreed facility of £5.1m. The Council charges interest on loans to the company 2.2% above base rate.

As at the end of December 2023 the total debt facility provided to the company was £6.743m. This is forecast to be fully repaid by the end of December 2025. The business plan update highlighted challenges relating to the economic environment, which may mean that debt levels may need to be reconsidered, alongside associated risks.

SHL is required to generate financial profits (by way of a Shareholder dividend) to the Council via the sales receipts achieved from Phase 1. The projected dividend to be paid the Council was revised from £1.35m to £1.05m (£1.05m in original Business Plan) in December 2022.

The most recent Business Plan forecasts a dividend of £0.301m to be paid to the Council in November 2025 upon completion of Phase 1. This will be in addition to a capital receipt of £2.2m from the sale of the three sites.

At the time of our review the Council's Shareholder Agreement relating to the company was being reviewed.

In April 2023 Cabinet approved the Council Housing Business Plan which set out proposals for the Council to deliver around 46 homes. In November 2023 Cabinet approved the acquisition of 18 apartments from SHL at the Buckley Hill Lane development site in Netherton. SHL, with their appointed contractor, Challenger Building Services, will develop and construct the apartments, to be handed over to the Council early in 2025.

The Council's internal audit service undertook an audit of SHL, reporting in October 2023,. The audit rated the financial sustainability of the company as a moderate risk but rated the company's impact on the Council's financial sustainability as a major risk.

The report noted a number of factors that are affecting the cost of, the supply, and demand of the new build sector as well as the wider housing sector including high inflation, higher energy costs, increased interest rates impacting mortgage costs, the cost of living crisis, staff recruitment challenges, and supply chain issues relating to availability and cost.

At the time of the internal audit the majority of units had been completed at Meadow Lane and Barton's Close and a large proportion of units had been sold or reserved. Construction had yet to commence at the Buckley Hill site.

Improving economy, efficiency and effectiveness (Cont'd)

Key Partnerships and Commercial Activity (Cont'd)

SHL (Cont'd)

Internal audit recommendations to the company included:

- SHL management should determine an agreed frequency for undertaking formal scenario planning/ stress testing, to assess the impact that a 'worst case scenario' and material changes would have on the project and financial sustainability of SHL.
- The outcomes of the scenario planning / stress testing should be reported to SHL Management Team / Board and used to inform key decision making on whether the exit strategy should be enacted. SHL management may wish to use a RAG (red, amber, green) rating system to assess the results of the stress testing to highlight results considered high risk.

Internal audit also identified several issues regarding the administration of the Loan Agreement in place between the Council and SHL relating to the debt facility provided by the Council including failure to retain and locate a signed copy of the original loan agreement and not updating and signing the amended loan agreement despite having Cabinet approval to undertake the increased lending.

Internal audit also identified issues regarding enforcement of the conditions of the Loan Agreement by the Council which had not been formally documented, agreed or communicated. The Council is responsible for the management of these issues.

As already noted, Cabinet agreed to increase peak debt level from £5.1m to £8.3m in December 2021 . However, following Cabinet approval, the Loan Agreement had not been signed or amended by both parties. As of March 2023, £6.7m of the debt facility had been drawn down by SHL.

Internal Audit were informed by the Council's Monitoring Officer that although the Loan Agreement was not signed by both parties, the current agreement was still legally binding in accordance with law due to acceptance of terms being verbally agreed and implied through conduct. Therefore, repayment of the loan from SHL would be enforceable.

The loan facility is drawn down by SHL via utilisation requests made to the Council's Finance Team. In accordance with Section 7 of the Loan Agreement, "within 30-days of each sale SHL is required to repay the loan using the sales income". Internal Audit noted that there was £5.96m of open market sales made during 2022/23, however SHL has not made any loan repayments to the Council of the £6.7m loan drawn down to date.

The Internal Audit report recommended that roles and responsibilities for enforcing the conditions of the updated Loan Agreement should be clarified and contract management arrangements should ensure the enforcement of loan agreement conditions.

The Council must ensure that all internal audit recommendations in relation to SHL are actioned, and takes steps to ensure the company is able to meet its forecasts for making dividend payments to the Council and repays Council provided loans in line with Business Plan targets.

Other Commercial Arrangements

The Strand Shopping Centre in Bootle was acquired by the Council in 2019. This acquisition was undertaken as a commercial investment as well as to support the Council's plans for the regeneration of Bootle town centre. A revised business plan for the diversification of the use of the centre was approved by Cabinet and full Council in 2019 to reflect a change in market conditions. The Council appointed external advisors including for legal, tax and valuation advice and support the Council's due diligence. The first phase of the associated capital project included £20m of government levelling up funding. The project team report to the service Associate Director who reports to the Executive Director for Place, who in turn reports to ELT and to Cabinet on a monthly basis.

The Council is entering a £73m joint venture arrangement with ASM Global Europe, in relation to the Marine Lake Events Centre project in Southport. This project was initiated in February 2020, when the Council commissioned a Feasibility Study to consider the future options for the Southport Theatre and Convention Centre (STCC) site. The finall business case was approved by Cabinet in July 28 2022 following an options appraisal. An update to Cabinet in November 2024 reported that demolition and enabling works are expected to continue until early 2025. As previously noted, this represents the largest capital project in the Council's capital programme, and forms part of the Southport Town Deal and the Town Investment Plan.

The Council terminated its contract with the key contractor in relation to Crosby Lakeside Adventure Centre, as part of a financial reengineering exercise to ensure that the Council's financial risks are managed and costs are maintained within the forecast cost envelope.

Improving economy, efficiency and effectiveness (Cont'd)

External Regulators

The Local Government and Social Care Ombudsman's annual review for 2023/24 focuses on the Council's response to complaints. The Ombudsman reported that 100% of their recommendations had been complied with and successfully implemented to remedy complaints. The Ombudsman further noted that 73% of complaints investigated were upheld, which compare to 80% for similar organisations. Complaints are upheld where the Ombudsman finds fault in an organisation's actions.

Given the Council's recent decision to become a social housing provider, it should ensure that it meets the requirements of the Regulator for Social Housing and the Housing Ombudsman.

A Care Quality Commission (CQC) and Ofsted joint area SEND inspection took place in April 2019 and judged that local area leaders had not made sufficient progress to improve each of the serious weaknesses identified at the previous inspection in 2016. The Government issued an improvement notice as a result of the 2019 inspection, and an improvement plan was developed. In July 2021, the government improvement notice was revoked due to the progress that had been made. We have been advised that a SEND joint area inspection is due to take place in 2024 but at the time of this review the findings were not yet available.

Ofsted inspections in relation to Children's Social Care are considered in the next section.

Children's Social Care

The Department for Education (DfE) issued an improvement notice due to poor performance in children's social care services in June 2021, which followed an Ofsted focused visit report in May 2021.

Ofsted undertook a full inspection of children's services in February and March 2022 and Ofsted rated the service as inadequate. The Ofsted report noted that, over a long period, the political and executive leadership of the Council has not secured the structures, systems and processes to keep an effective single line of oversight of children's services. Services for children and young people had been dispersed across the Council. Since the previous inspection in 2016, there had been a significant deterioration in services. A joint targeted area inspection in September 2019 and a focused visit in March 2021 both identified serious weaknesses in child protection practice and management oversight resulting in areas for priority action. The Council and senior leaders had not sufficiently understood these failures or taken the necessary actions to improve services for children.

The Secretary of State for Education issued a statutory direction in relation to Children's Services in May 2022, following the Ofsted full inspection. The statutory direction replaced the 2021 improvement notice. The statutory direction led to a Children's Commissioner being appointed by the Secretary of State to lead a review of the children's social care function, to determine whether the most effective way of securing and sustaining improvement was to remove the control of children's social care services from the Council.

A revised statutory direction was issued in November 2022 following the Commissioner's first six-month report which recommended that, at that stage, an alternative delivery model was not required, and in order to secure sustained improvement to children's social care services, a Commissioner should remain with oversight for the foreseeable future to ensure the pace and momentum is not lost and services fail to progress. A new Children's Commissioner was appointed at this time.

The Council, working with the Commissioner, developed a Children's Improvement Plan covering the following improvement areas: quality, implementation of learning, tools and strategic partnership.

There have been five Ofsted monitoring visits since the full inspection in 2022, most recently in June 2024 which reported that the Council has not taken sufficient action to tackle some of the weaknesses found at the last inspection. The pace of improvement in some areas is too slow where leaders are not monitoring the impact of these changes well enough.

In particular, Ofsted noted that the response to children at risk of significant harm is not consistently timely or reducing risks to children sufficiently well. Despite these weaknesses, Ofsted noted some positive progress, which included:

- The service "front door" has been restructured to include an early help pathway through the family advice and support team (FAST), and a pathway directly into social care through the children's help and advice team (CHAT), which are supporting more timely decision-making.
- Children who need early help now receive a more timely and effective service.

Improving economy, efficiency and effectiveness (Cont'd)

Children's Social Care (Cont'd)

- The response to children who need help and protection outside of normal office hours and when allegations are made against professionals working with children has improved.
- Increased management oversight, monitoring and regular sampling are leading to greater consistency in application of thresholds. Assessment timeliness has significantly improved, and more assessments now demonstrate elements of stronger practice.
- Enhanced quality assurance is providing a greater understanding of weaknesses in the "front door" response.

The Statutory Direction and Children's Commissioner remain in place, and as noted in the Financial Sustainability section of this report, children's social care is the main area of budget growth and is impacting on the Council's financial sustainability.

The new Director of Children's Services, who was appointed in March 2023, meets the Council's Chief Executive (who started in role in July 2023) and Section 151 Officer on a monthly basis.

The overall pace of improvement of the service is impacting on the Council's ability to effectively and efficiently meet its children's social care statutory responsibilities, and at the same time failure to manage demand pressures is having a significant impact on the Council's medium-term financial sustainability. This represents a significant weakness in arrangements, and we have made in key recommendation in this regard, set out on page 8.

Procurement

As noted in the section of this report on governance, the Council currently has no approved Procurement Strategy, which should be a key document to set out how the Council secures best value and maximises social value from its procurement activity. The governance section also commented on the significant used of waivers to the Council's Procurement Procedure Rules. Improvement Recommendations have already been made in relation to both these issues.

Overall Conclusion

We have identified a significant weakness in the Council's arrangements for improving economy, efficiency and effectiveness. This relates to the Council needing to ensure that there is effective corporate grip on successfully delivering the Improvement Plan for Children's Social Care. Further detail is set out on page 8 of this report.

We have also found opportunities for arrangements to be further enhanced and we have made six improvement recommendations set out on the following pages.

Improvement recommendations: 3Es

Improvement Recommendation 15	The Council should consider exploring and understanding key variances in benchmarked unit costs, and where appropriate use that understanding to inform service improvement.
Improvement opportunity identified	Understanding significant variances could support service improvement and efficiencies in identified areas and inform financial and performance reporting.
Summary findings	Benchmarked unit costs in relation Children's Social Care and Education Services are very high when compared to the Council's statistical nearest neighbours.
Criteria impacted	Improving economy, efficiency and effectiveness
Auditor judgement	Our work has enabled us to identify a weakness in arrangements which we do not consider to be significant, but have raised a recommendation to support management in making appropriate improvements.
Management comments	Agreed. This is already in place within the Council and has been focussed over the last two years on benchmarking Children's Social Care and Adult Social Care activity and cost against nearest neighbours and comparator local authorities. This has been done in conjunction with the LGA. This reflects that these budgets being the most volatile and representing over 70% of the Council's net expenditure.

Improvement Recommendation 16	The Council should consider establishing a Shareholder Panel for oversight of the Council's wholly owned companies.
Improvement opportunity identified	Introducing dedicated agenda time and focus on the performance of the Council's companies, whilst freeing up Cabinet agenda time.
Summary findings	The Council has three wholly owned Companies with Cabinet portfolio holders acting as the Shareholder Representative, with no formal body in place to dedicate their time to oversight on the performance of the companies.
Criteria impacted	Improving economy, efficiency and effectiveness
Auditor judgement	Our work has enabled us to identify a weakness in arrangements which we do not consider to be significant, but have raised a recommendation to support management in making appropriate improvements.
Management comments	Agreed. This will be considered during 2025/26. The Council will continue, through the monitoring officer, to ensure that all governance arrangements in respect of wholly owned companies represent industry best practice.

Progressing the actions management has identified to address the recommendations made will support the Council in addressing the improvements identified from our work. We consider that the timescales provided by management are appropriate and encourage the Audit Committee to monitor progress of implementation to gain assurance over the arrangements in place. The range of recommendations that external auditors can make is explained in Appendix B.

Improvement recommendations: 3Es (Cont'd)

Improvement Recommendation 17	The Council should continue to closely monitor the financial performance of Sefton Hospitality Operations Limited.
Improvement opportunity identified	To ensure the Council loan is repaid and the company is able to make dividend payments to the Council
Summary findings	The company has had financial challenges being established and the Council needs to ensure the company can repay the Council loan and pay the Council dividends as forecast in its business plan.
Criteria impacted	Improving economy, efficiency and effectiveness
Auditor judgement	Our work has enabled us to identify a weakness in arrangements which we do not consider to be significant, but have raised a recommendation to support management in making appropriate improvements.
Management comments	Agreed. The Council holds quarterly shareholder meetings with the Company which are led by the Chief Executive, and an annual Business Plan is presented to Cabinet as the shareholder.

Improvement Recommendation 18	The Council should set out a clear timescale to replace Council officers as Directors of Sefton Hospitality Operations Limited.
Improvement opportunity identified	To manage any real or perceived conflicts of interest.
Summary findings	Council officers are directors of the company. Whilst the council plans to remove them from this role, the timescale is currently unclear.
Criteria impacted	Improving economy, efficiency and effectiveness
Auditor judgement	Our work has enabled us to identify a weakness in arrangements which we do not consider to be significant, but have raised a recommendation to support management in making appropriate improvements.
Management comments	Agreed. This will be agreed in early 2025/26.

Progressing the actions management has identified to address the recommendations made will support the Council in addressing the improvements identified from our work. We consider that the timescales provided by management are appropriate and encourage the Audit Committee to monitor progress of implementation to gain assurance over the arrangements in place. The range of recommendations that external auditors can make is explained in Appendix B.

Improvement recommendations: 3Es (Cont'd)

Improvement Recommendation 18	The Council must ensure that the Sefton New Directions Limited deliverers this agreed transformation plan.
Improvement opportunity identified	To ensure a balanced financial position can be maintained by the company and it is able to meet the Council's commissioning requirements from within available resources to the Council to fund the company for these services.
Summary findings	The Board of Sefton New Directions Limited have expressed concerns about the company's financial viability and the Council has instigate the development and agreement of a transformation plan for the company.
Criteria impacted	Improving economy, efficiency and effectiveness
Auditor judgement	Our work has enabled us to identify a weakness in arrangements which we do not consider to be significant but have raised a recommendation to support management in making appropriate improvements.
Management comments	Agreed. A report outlining progress was presented to Cabinet as shareholder in December 2024. This will ensure financial sustainability for the Company. This is also considered at the quarterly shareholder meetings with the Company which are led by the Chief Executive.

Improvement Recommendation 20	The Council must ensure that all internal audit recommendations in relation to Sandway Homes Limited are actioned and takes steps to ensure the company is able to meet its forecasts for making dividend payments to the Council and repays Council provided loans in line with Business Plan targets.
Improvement opportunity identified	To support the financial sustainability risks of the company and to ensure it repays Council loan and forecasted dividends in line with the company's business plan.
Summary findings	Internal Audit identified improvements to the company's financial forecasting and issues regarding the administration of the Loan Agreement in place between the Council.
Criteria impacted	Improving economy, efficiency and effectiveness
Auditor judgement	Our work has enabled us to identify a weakness in arrangements which we do not consider to be significant but have raised a recommendation to support management in making appropriate improvements.
Management comments	Agreed. The Council will continue to ensure Internal Audit recommendations are actioned.

Progressing the actions management has identified to address the recommendations made will support the Council in addressing the improvements identified from our work. We consider that the timescales provided by management are appropriate and encourage the Audit Committee to monitor progress of implementation to gain assurance over the arrangements in place. The range of recommendations that external auditors can make is explained in Appendix B.

Follow-up of previous recommendations

	Recommendation	Type of recommendation	Date raised	Progress to date	Further action?
1	We recommend that the improvement plans submitted to Ofsted over the period are executed and completed within the specified timelines. All recommendations in the Ofsted reports from their inspection in 2021/22 as well as the subsequent monitoring reports regarding improvements to the children's services should also be executed by the council with oversight of the Overview and Scrutiny Committee.	Key	November 2024	Due to the timing of when this recommendation was made, and the timing of our 2023/24 work, we have reported our findings in this AAR on the current position.	We have raised a Key Recommendation in relation to our 2023/24 work.

The Council's previous auditors reported to the Audit and Governance Committee on 20 November 2024, setting out the findings of their VfM work for the audit years 2021/22 and 2022/23. They identified the above significant weakness and reported no other recommendations.

Opinion on the financial statements

Grant Thornton provides an independent opinion on whether the Council's financial statements:

- give a true and fair view of the financial position of the Council as at 31 March 2024 and of its expenditure and income for the year then ended, and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of practice on local authority accounting in the United Kingdom 2023/24
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

We conducted our audit in accordance with:

- International Standards on Auditing (UK)
- the Code of Audit Practice (2020) published by the National Audit Office, and
- applicable law

We are independent of the Council in accordance with applicable ethical requirements, including the Financial Reporting Council's Ethical Standard.

Audit opinion on the financial statements

We have substantially completed our audit of your financial statements and anticipate issuing a disclaimer or audit opinion as a result of the prior year disclaimed accounts and lack of assurance over opening balances, following the Audit and Governance Committee meeting on 12 February 2025.

Further information on our audit of the financial statements is set out overleaf.

Opinion on the financial statements (Cont'd)

Timescale for the audit of the financial statements

- Our audit plan was presented to the Audit and Governance Committee on 19 June 2024.
- Our planning and interim work was performed in March and April and our final audit visit took place from July to September 2024 with a follow up in January 2025.
- The Council provided draft financial statements in line with the national timetable
- The audit required a follow up visit in January due to the draft accounts not including group figures or all the investment property valuations. In addition, the previous audits had not been finalised by the predecessor auditors.
- We have substantially completed our audit of your financial statements and anticipate issuing a disclaimer of audit opinion as a result of the prior year disclaimed accounts and lack of assurance over opening balances, following the Audit and Governance Committee meeting on 12 February 2025.

Findings from the audit of the financial statements

- We identified a significant risks in respect of management override of controls, which is a non-rebuttable presumed risk for all entities and was primarily addressed through our journals work. Our work has not identified any issues in respect of management override of controls although our Audit Findings Report notes some recommendations in respect of the control environment.
- We also noted a completeness risk in respect of the risk of fraud related to expenditure recognition in line with the Public Audit Forum Practice Note 10. Our work on cut-off identified no issues.
- The valuation of land and buildings and investment properties is a significant risk and estimate for the Council and our work on the valuations identified adjustments as the draft accounts did not include all asset revaluations and also some other adjustments which needed to be made in prior sets of accounts. We also noted some control findings in our Audit Findings Report.
- The valuation of the pension fund also represents a significant risk and estimate and we also noted adjustments here in respect of the classification and also the requirement for the actuary to recalculate some of their data on investment returns as at the year-end rather than the initial Month 9.

More detailed findings are set out in our Audit Findings Report, which was presented to the Council's Audit and Governance Committee on 12 February 2025. Requests for this Audit Findings Report should be directed to the Council.

Whole of Government Accounts

To support the audit of the Whole of Government Accounts, we are required to examine and report on the consistency of the Council's consolidation schedules with their audited financial statements. This work includes performing specified procedures under group audit instructions issued by the National Audit Office. Our work found no issues although we cannot certify the audit as National Audit Office have asked us not to certify until they have had chance to finalise their work on the 2023/24 Whole of Government Accounts.

Appendices

Appendix A: Responsibilities of the Council

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

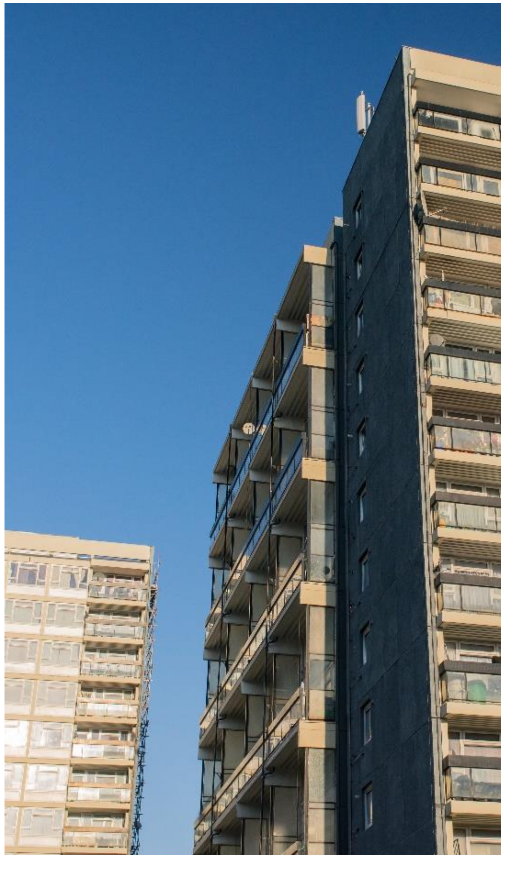
Financial statements are the main way in which local public bodies account for how they use their resources. Local public bodies are required to prepare and publish financial statements setting out their financial performance for the year. To do this, bodies need to maintain proper accounting records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

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

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

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

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



Appendix B: 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(s)
Statutory	Written recommendations to the Council under Section 24 (Schedule 7) of the Local Audit and Accountability Act 2014.	No	n/a
Key	The NAO Code of Audit Practice requires that where auditors identify significant weaknesses as part of the Council's arrangements to secure value for money they should make recommendations setting out the actions that should be taken by the Council. We have defined these recommendations as 'key recommendations'.	Yes	6 to 8
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	19 to 20, 30 to 34, and 41 to 43

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