

# Draft commentary on the Council's VFM arrangements

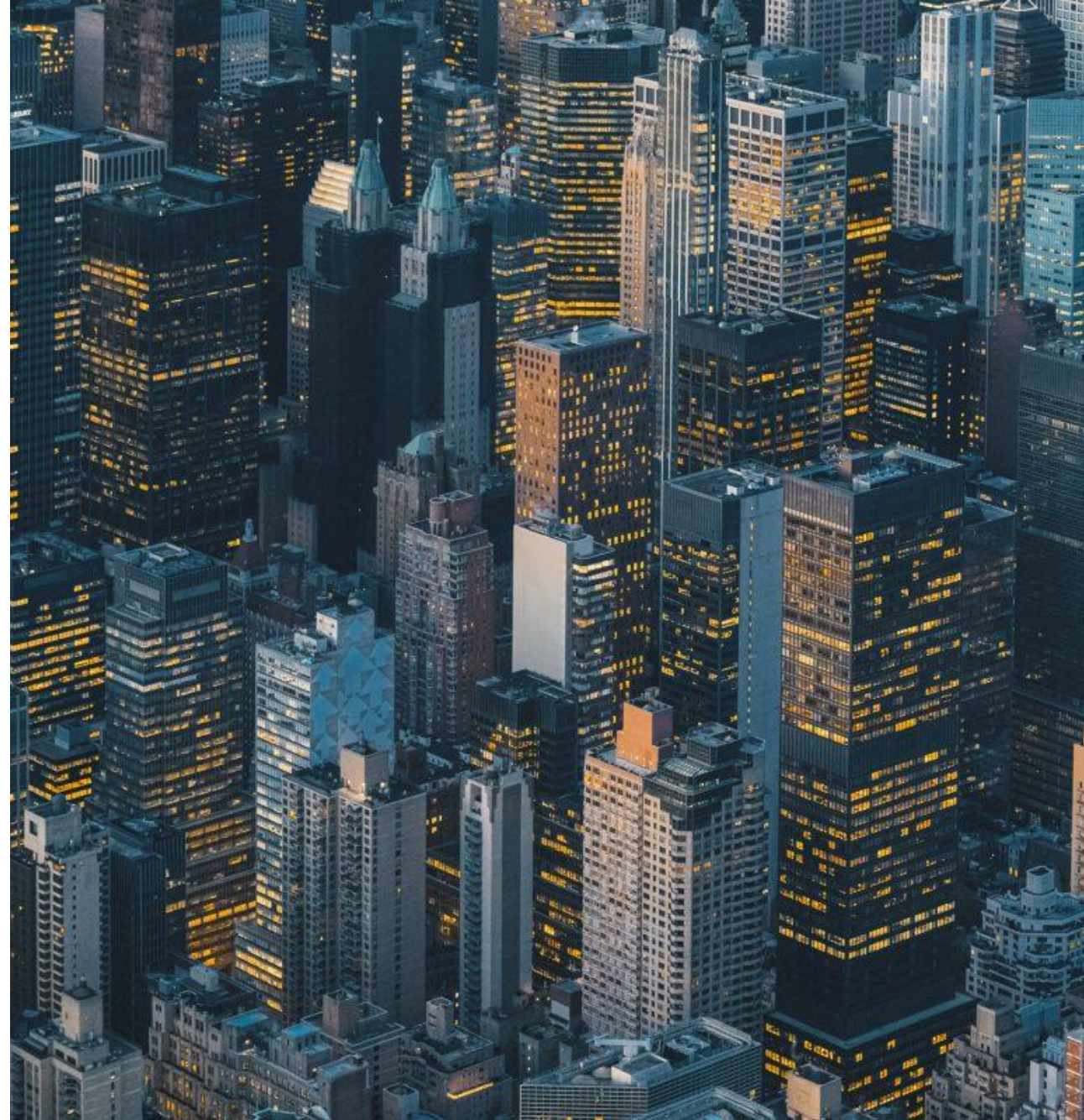
Harborough District Council – year ended  
31 March 2023

April 2024



# Commentary on VFM arrangements

## Overall summary





# VFM arrangements – Overall summary

## Approach to Value for Money arrangements work

We are required to consider whether the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The NAO issues guidance to auditors that underpins the work we are required to carry out and sets out the reporting criteria that we are required to consider. The reporting criteria are:



**Financial sustainability** - How the Council plans and manages its resources to ensure it can continue to deliver its services



**Governance** - How the Council ensures that it makes informed decisions and properly manages its risks



**Improving economy, efficiency and effectiveness** - How the Council uses information about its costs and performance to improve the way it manages and delivers its services

Our work is carried out in three main phases.

### Phase 1 - Planning and risk assessment

At the planning stage of the audit, we undertake work so we can understand the arrangements that the Council has in place under each of the reporting criteria; as part of this work we may identify risks of significant weaknesses in those arrangements.

We obtain our understanding of arrangements for each of the specified reporting criteria using a variety of information sources which may include:

- NAO guidance and supporting information
- Information from internal and external sources including regulators
- Knowledge from previous audits and other audit work undertaken in the year
- Interviews and discussions with staff and directors

Although we describe this work as planning work, we keep our understanding of arrangements under review and update our risk assessment throughout the audit to reflect emerging issues that may suggest there are further risks of significant weaknesses.

### Phase 2 - Additional risk-based procedures and evaluation

Where we identify risks of significant weaknesses in arrangements, we design a programme of work to enable us to decide whether there are actual significant weaknesses in arrangements. We use our professional judgement and have regard to guidance issued by the NAO in determining the extent to which an identified weakness is significant.

### Phase 3 - Reporting the outcomes of our work and our recommendations

We are required to provide a summary of the work we have undertaken and the judgments we have reached against each of the specified reporting criteria in this Auditor's Annual Report. We do this as part of our Commentary on VFM arrangements which we set out for each criteria later in this section.

We also make recommendations where we identify weaknesses in arrangements or other matters that require attention from the Council. We refer to two distinct types of recommendation through the remainder of this report:

- **Recommendations arising from significant weaknesses in arrangements**

We make these recommendations for improvement where we have identified a significant weakness in the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources. Where such significant weaknesses in arrangements are identified, we report these (and our associated recommendations) at any point during the audit.

- **Other recommendations**

We make other recommendations when we identify areas for potential improvement or weaknesses in arrangements which we do not consider to be significant but still require action to be taken

The table on the following page summarises the outcomes of our work against each reporting criteria, including whether we have identified any significant weaknesses in arrangements or made other recommendations.

# VFM arrangements – Overall summary

## Overall summary by reporting criteria

Reporting criteria	Commentary page reference	Identified risks of significant weakness?	Actual significant weaknesses identified?	Other recommendations made?
 Financial sustainability	6	No	No	No
 Governance	10	No	No	No
 Improving economy, efficiency and effectiveness	13	No	No	No

# Commentary on VFM arrangements

## Financial Sustainability

How the body plans and manages its resources to ensure it can continue to deliver its services



# VFM arrangements – Financial Sustainability

## Overall commentary on the Financial Sustainability reporting criteria

Significant weakness in 2021/22	Nil.
Significant weaknesses identified in 2022/23	Nil.

### Position brought forward from 2021/22

We reported in our Annual Auditor’s Report for 2021/22, that we had:

- Reviewed the 2021/22 financial performance and forecasts during the year and considered the Council's financial outturn position as presented in the financial statements;
- Reviewed the 2022/23 General Fund Budget.
- Reviewed the Council's Annual governance Statement for any significant issues; and
- Considered the general findings from our audit work in other areas.

As set out in the table above, there are no indications of a significant weakness in the Council’s arrangements for financial sustainability brought forward from 2021/22. The Council’s underlying arrangements in relation to financial sustainability are not significantly different in 2022/23.

### Overall responsibilities for financial governance

We have reviewed the Council’s overall governance framework, including Council and committee reports, the Annual Governance Statement, and Statement of Accounts for 2022/23. These confirm the Council undertook its responsibility to define the strategic aims and objectives, approve budgets and monitor financial performance against budgets and plans to best meet the needs of the Council’s service users.

### The Council’s financial planning and monitoring arrangements

Through our review of Council and committee reports, meetings with Officers and relevant work performed on the financial statements, we are satisfied that the Council’s arrangements for budget monitoring remain appropriate, including regular reporting to Members and well-established arrangements for year-end financial reporting.

### 2022/23 Budget Setting and the Medium-Term Financial Strategy

We considered the 2022/23 budget setting process, including the Medium-Term Financial Strategy as part of our work on the 2021/22 review of arrangements, with no significant concerns arising. We were satisfied that, the Budget Report for 2022/23 adequately explains revenue and capital budgets, with a sufficient explanation on the impact to the general fund balance.

The Council reported its financial outturn position to Cabinet in July 2023 and in the 2022/23 Statement of Accounts. The Council reported a £4k underspend, with a small overspend on the capital budget of £59k. The variance does not give rise to concern in relation to the Council’s arrangements for financial sustainability.

# VFM arrangements – Financial Sustainability

## Financial sustainability and revenue reserves

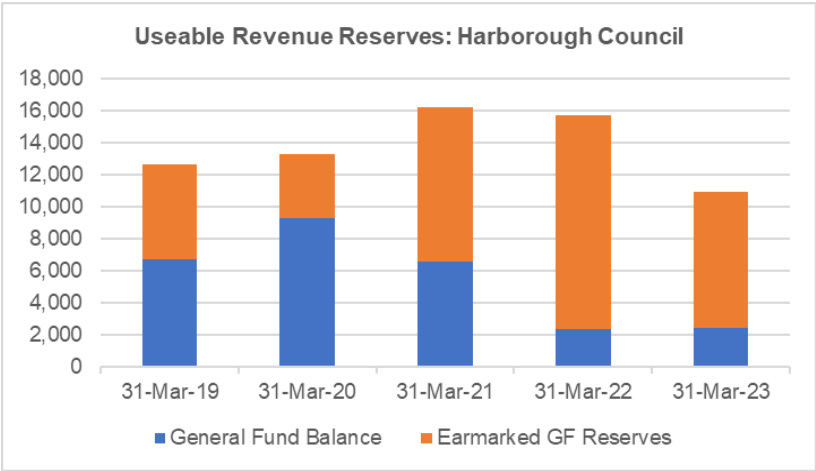
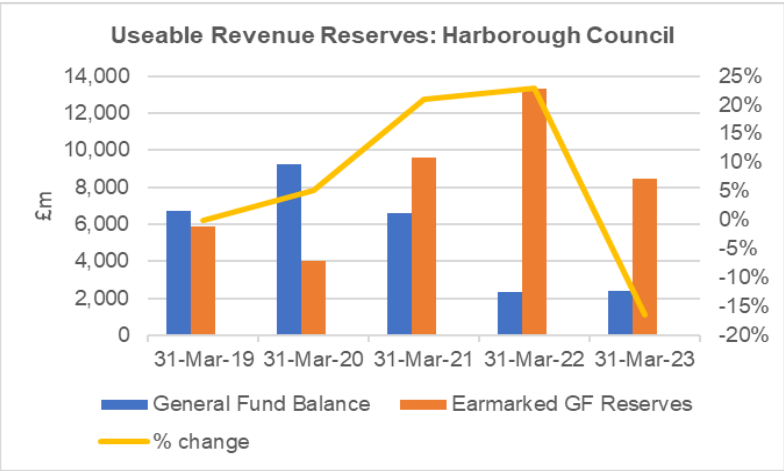
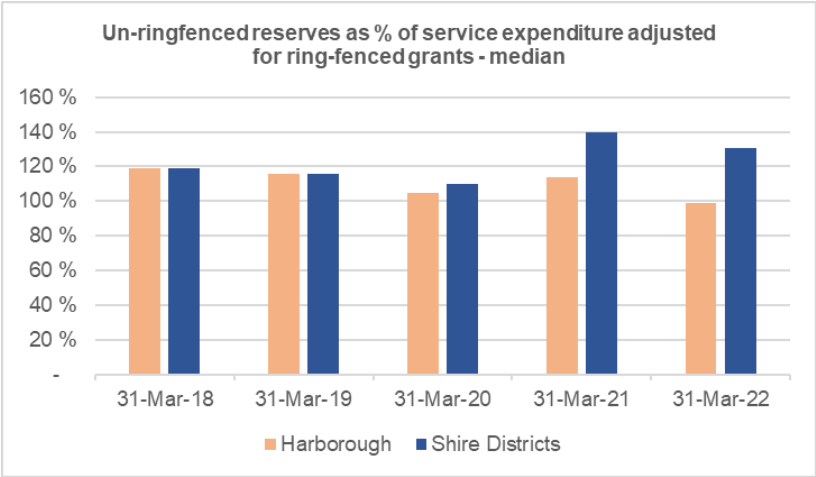
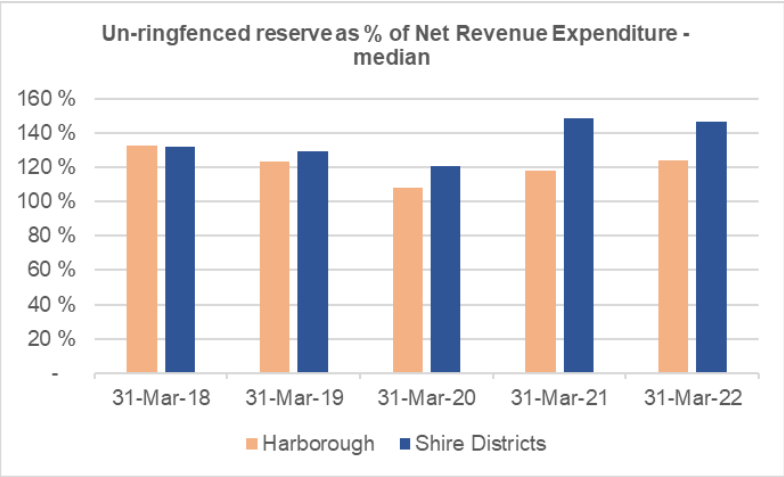
We have also performed a more detailed review of the Council's revenue reserves.

The purpose of the Council's general fund reserve is to meet costs arising from any unplanned or emergency events. It also acts as a financial buffer to help mitigate against the financial risks the Council faces and can be used to a limited degree to 'smooth' expenditure on a one-off basis across years. Whereas earmarked reserves, are set aside for specific purposes.

We reviewed data published in May 2023 by the Department for Levelling Up, Housing and Communities on Local authority general fund earmarked and unallocated reserve levels, 2017-18 to 2021-22. The Council's reserves have generally been in line with the median compared to shire districts since 2018 (first two charts to the right).

Through a review of the financial statements, we have considered the Council's revenue reserves over time (bottom two charts), which is beginning to reflect a downward trend. From our review of Note 8 of the financial statements, the Council used £5m of its earmarked reserves in 2022/23. The Council recognises that planned use of reserves is not a sustainable option. The development of robust savings plans for the period 2025/26 onwards is and must be a priority, making the calendar year 2024 very important with regard to the development and agreement of transformation and savings plans to feed into the 2025/26 budget. Furthermore, with ongoing and increasing financial uncertainty across local government, the Council should consider incorporating more granular detail over the mitigation strategies over the duration of the MTFs from 2025/26 to 2028/29 to avoid the use of drawing on the general fund working balance.

Overall, we are satisfied that the Council's Reserves position does not give rise to an immediate risk of significant weakness in arrangements to secure financial sustainability.



Based on the above considerations we are satisfied there is not a significant weakness in the Council's arrangements in relation to financial sustainability for the year ended 31 March 2023.

Details on the definitions and data quality arrangements are available here: <https://www.gov.uk/government/publications/local-authority-general-fund-earmarked-and-unallocated-reserve-levels-2017-18-to-2021-22>



# Commentary on VFM arrangements

## Governance

How the body ensures that it makes informed decisions and properly manages its risks





# VFM arrangements – Governance

## Overall commentary on the Governance reporting criteria

Significant weakness in 2021/22	Nil.
Significant weaknesses identified in 2022/23	Nil.

### Position brought forward from 2021/22

As set out in the table above, there are no indications of a significant weakness in the Council’s arrangements for financial sustainability brought forward from the previous year.

### The Authority’s governance structure

Based on our work, we are satisfied that the Council has established governance arrangements, consistent with previous years, in place. These are detailed in the Statement of Accounts and Annual Governance Statement. We have considered both documents against our understanding of the Council as part of our audit.

Our review of corporate governance arrangements confirms the Council has an agreed Constitution, setting out how it operates, how decisions are reached and what procedures are followed to ensure that these are transparent and accountable to local people.

Our review of Committee papers confirms that a template covering report is used for all reports, ensuring the purpose, risks, and recommendations are clear. Minutes are published and reviewed by Committees to evidence the matters discussed, challenge and decisions made.

### 2023/24 Budget Setting and the Medium-Term Financial Strategy

The Council’s budget setting and medium-term financial planning follows a similar process and format to previous years and our review is supported by discussions with officers during the year and experience from prior year audits. The arrangements in place for budget setting and updating the Medium-Term Financial Strategy are as expected for a District Council, with arrangements for the evaluation of financial risk, alignment to business plans and sources of funding.

There is no indication of excessive use of capital flexibilities to support revenue expenditure. Furthermore, there is no indication that the Council’s Medium Term Financial Strategy and budget setting process is not aligned to supporting plans.

We read the Medium-Term Financial Strategy (MTFS) as included in reports to Cabinet and Council in February 2023. As in previous years, it includes an adequate level of detail over the assumptions and cost pressures facing the Council, which are consistent with our experience at similar sized authorities and not unreasonable. In addition, there is sufficient narrative to explain the rationale and key financial risks.

As set out in the previous section, the Council’s 2022/23 outturn was balanced after drawing £5m from earmarked reserves. We reviewed the Council’s budget approval process, including reports to Scrutiny, Cabinet and Council, including the impact on reserves, which we summarise as:

Year ending	31 Mar 2024	31 Mar 2025	31 Mar 2026	31 Mar 2027	31 Mar 2028
General Fund forecast reserves	2,494	2,580	2,777	2,951	3,020
Earmarked revenue reserves	11,744	12,505	11,321	9,584	7,921

The adoption of the 2023/24 MTFS results in revenue reserves of £11m by 31 March 2028. We have also updated our assessment to reflect on the 2024/25 MTFS, which continues to show revenue reserves in a balanced position. Arrangements are in place, via performance reporting and budgetary control, to monitor the progress against addressing the gap in the MTFS and Council’s financial sustainability, including a structural deficit task and finish group.

We supplemented our review of the 2023/24 budget and MTFS by reviewing the Quarter 2 performance report to Cabinet in November 2023, which forecasts an underspend of £410k compared to the general fund budgeted costs.

The Council should not, however, become complacent and fall into a position whereby a repeat of the BC2025 exercise becomes a necessity and instead be vociferous in embedding a culture of fiscal responsibility and cross departmental working.

# VFM arrangements – Governance

## Overall commentary on the Governance reporting criteria

### Risk management

The Council has an established risk management framework and systems in place which are built into the governance structure of the organisation. Arrangements have not significantly changed over the prior year, which were judged adequate. We reviewed the Quarter 2 risk report presented to Cabinet in December 2022 as evidence of member oversight of risk and opportunities facing the Council, with no indication of a significant weakness in arrangements.

The Annual Governance Statement is a critical component of the Council's governance arrangements. It is an evidenced self-assessment by the Council on the Council's governance, assurance and internal control frameworks for the financial year. No significant weaknesses in internal control have been identified from our work to date and Internal Audit have not identified or raised any significant concerns. We reviewed the Annual Governance Statement as part of our work on the financial statements with no significant issues arising.

### Audit Committee

The Council has an established Audit and Standards Committee. We have reviewed supporting documents and confirmed the Committee meets regularly and reviews its programme of work to maintain focus on key aspects of governance and internal control. Our attendance at Audit Committee has confirmed there is an appropriate level of effective challenge.

### Internal Audit

We have met with management and the Head of Internal Audit regularly during the year, reviewed Audit Committee reports and attended Committee meetings to observe the performance of Internal Audit and the Audit Committee. We also confirmed that the Head of Internal Audit Opinion has been adequately reflected in the Annual Governance Statement. No issues arose from our review to indicate there is a significant weakness in the Council's arrangements for governance.

Overall, we have not identified any indicators of a significant weakness in the Council's arrangements relating to the Governance criteria for the year ended 31 March 2023.



# Commentary on VFM arrangements

## Improving economy, efficiency and effectiveness

How the body uses information about its costs and performance to improve the way it manages and delivers its services





# VFM arrangements – Improving Economy, Efficiency and Effectiveness

## Overall commentary on the Improving Economy, Efficiency and Effectiveness reporting criteria

Significant weakness in 2021/22	Nil.
Significant weaknesses identified in 2022/23	Nil.

### Position brought forward from 2021/22

As set out in the table above, there are no indications of a significant weakness in the Council's arrangements brought forward from the prior year.

### Performance Monitoring

The Council's arrangements are consistent with the prior year, which were deemed adequate, with the Corporate Plan setting out what it wants to achieve for local residents and communities through to 2024.

Performance is monitored and reported to Officers and Members on a quarterly basis as part of the Council's Performance Management Framework. Performance Reports are submitted to both Scrutiny and the Cabinet via quarterly reports. Officers and Members can review performance via Pentana Risk in between these reports. We reviewed the performance outturn for 2022/23 as evidence of the Council's approach to evaluating performance. In our view, reports contain sufficient narrative to demonstrate that there are adequate arrangements to assess performance and identify areas for action.

### Regulators / Inspections

Our work has not identified any adverse findings from inspectors leading to any intervention action at the Council, this includes our review of the annual report of the Local Government and Social Care Ombudsman.

### Partnerships and procurement

During the year, the Council explored an option to create a strategic partnership with Melton Borough Council. We met with officers and reviewed reports on the matter, including reports to the Audit and Standards Committee. Whilst the Council chose not to proceed with the collaboration, there is no evidence of any

significant weakness in arrangements.

Aside from this, we identified no significant changes in arrangements regarding partnership working and are satisfied the Council continues to have arrangements for standing financial instructions, including purchase order controls. Our work on the financial statements has not identified any significant internal control deficiencies regarding purchasing controls.

Overall, we have not identified any indicators of a significant weakness in the Council's arrangements relating to the Improving Economy, Efficiency and Effectiveness criteria for the year ended 31 March 2023.

# Mark Surridge, Key Audit Partner

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