



# Auditor's Annual Report for Lancaster City Council - **DRAFT**

Year-ended 31 March 2024

—

November 2025

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This report is addressed to Lancaster City Council (the 'Council'). We take no responsibility to any member of staff acting in their individual capacities, or to third parties.

External auditors do not act as a substitute for the audited body's own responsibility for putting in place proper arrangements to ensure that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.

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**01**

# **Executive Summary**

# Executive Summary

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## Purpose of the Auditor's Annual Report

This Auditor's Annual Report provides a summary of the findings and key issues arising from our 2023-24 audit of Lancaster City Council (the 'Council'). This report has been prepared in line with the requirements set out in the Code of Audit Practice published by the National Audit Office and is required to be published by the Council alongside the annual report and accounts.

## Our responsibilities

The statutory responsibilities and powers of appointed auditors are set out in the Local Audit and Accountability Act 2014. In line with this we provide conclusions on the following matters:



**Accounts** - We provide an opinion as to whether the accounts give a true and fair view of the financial position of the Council and of its income and expenditure during the year. We confirm whether the accounts have been prepared in line with the CIPFA/LASSAC Code of Practice in Local Authority Accounting ('the Code').



**Narrative report** - We assess whether the narrative report is consistent with our knowledge of the Council.



**Value for money** - We assess the arrangements in place for securing economy, efficiency and effectiveness (value for money) in the Council's use of resources and provide a summary of our findings in the commentary in this report. We are required to report if we have identified any significant weaknesses as a result of this work.



**Other powers** - We may exercise other powers we have under Local Audit and Accountability Act. These include issuing a Public Interest Report, issuing statutory recommendations, issuing an Advisory Notice, applying for a judicial review, or applying to the courts to have an item of expenditure declared unlawful.

## Findings

We have set out below a summary of the conclusions that we provided in respect of our responsibilities.

Accounts	We issued a disclaimed opinion on the Council's accounts on [Date]. This is because we have been unable to obtain sufficient appropriate audit evidence over the financial statements as we have been unable to perform the procedures that we consider necessary to form our opinion on the accounts. Further details are set out on page 7.  We have provided further details of the key risks we identified and our response on pages 8-9.
Narrative report	Whilst in our opinion the content of the Narrative report is consistent with the financial statements, we are unable to determine whether there are material misstatements in the Narrative report.
Value for money	We are required to give an opinion as to whether the Council has appropriate arrangements in place to secure economy, efficiency, and effectiveness in the use of resources.  Our opinion is that we have identified two significant weakness in the Council's arrangement in relation to securing economy, efficiency, and effectiveness in the use of resources. In all other respects we found the Council's arrangement to be appropriate.  Further details are set out on pages 23-25.
Other powers	See overleaf.

In addition to the above, we respond to valid objections received from electors.

# Executive Summary

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There are several actions we can take as part of our wider powers under the Local Audit and Accountability Act:

## Public interest reports

We may issue a Public Interest Report if we believe there are matters that should be brought to the attention of the public.

If we issue a Public Interest Report, the Council is required to consider it and to bring it to the attention of the public.

**We have not issued a Public Interest Report this year.**

## Judicial review/Declaration by the courts

We may apply to the courts for a judicial review in relation to an action the Council is taking. We may also apply to the courts for a declaration that an item of expenditure the Council has incurred is unlawful.

**We have not applied to the courts this year.**

## Recommendations

We can make recommendations to the Council. These fall into two categories:

1. We can make a statutory recommendation under Schedule 7 of the Local Audit and Accountability Act. If we do this, the Council must consider the matter at a general meeting and notify us of the action it intends to take (if any). We also send a copy of this recommendation to the relevant Secretary of State.
2. We can also make other recommendations. If we do this, the Council does not need to take any action, however should the Council provide us with a response, we will include it within this report.

**We made no recommendations under Schedule 7 of the Local Audit and Accountability Act.**

## Advisory notice

We may issue an advisory notice if we believe that the Council has, or is about to, incur an unlawful item of expenditure or has, or is about to, take a course of action which may result in a significant loss or deficiency.

If we issue an advisory notice, the Council is required to stop the course of action for 21 days, consider the notice at a general meeting, and then notify us of the action it intends to take and why.

**We have not issued an advisory notice this year.**

In addition to these powers, we can make performance improvement observations to make helpful suggestions to the Council. Where we raise observations we report these to management and the Audit Committee. The Council is not required to take any action to these, however it is good practice to do so and we have included any responses that the Council has given us.

**02**

# **Audit of the financial statements**

# Audit of the financial statements

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**Our responsibility is to conduct an audit of the financial statements in accordance with the Local Audit and Accountability Act 2014, Code of Audit Practice and ISAs (UK) and to issue an auditor's report.**

However, due to the significance of the matters described below, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the Council's financial statements.

We have fulfilled our ethical responsibilities under, and are independent of the Council in accordance with, UK ethical requirements including the FRC Ethical Standard.

**Our disclaimer of opinion on the financial statements *[Draft subject to change]***

The Accounts and Audit (Amendment) Regulations 2024 (the "Amendment Regulations") require the Authority to publish its financial statements and our opinion thereon for the year ended 31 March 2024 by 28 February 2025 (the "Backstop Date") or as soon as reasonably practicable after the Backstop Date.

We have been unable to obtain sufficient appropriate audit evidence over a number of areas of the financial statements as we have been unable to perform the procedures that we consider necessary to form our opinion on the financial statements by the publication date of the financial statements. These areas include, but were not limited to: the carrying amount of property, plant and equipment, and investment property; short term debtors; short term creditors; other services expenses; fees, charges and other service income; net income from council tax, non-domestic rates, district rate income; government grants and contributions; disclosures of related party transactions, the Housing Revenue Account and Collection Fund Statements and the balance of, and movements in, usable and unusable reserves for the year ended 31 March 2024.

In addition, we have been unable to obtain sufficient appropriate evidence over the disclosed comparative figures for the year ended 31 March 2023 by the publication date of the financial statements. Therefore, we were unable to determine whether any adjustments were necessary to the opening balances as at 1 April 2023 or whether there were any consequential effects on the Authority's income and expenditure for the year ended 31 March 2024.

Any adjustments from the above matters would have a consequential effect on the Authority's net assets and the split between usable reserves, including the Housing Revenue Account, and unusable reserves as at 31 March 2024 and 31 March 2023, the Collection Fund and on its income and expenditure and cash flows for the years then ended.

# Audit of the financial statements

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The table below summarises the key financial statement audit risks that we identified to our audit opinion as part of our risk assessment and how we responded to these through our audit.

Significant financial statement audit risk	Procedures undertaken	Findings
<b>Valuation of land and buildings</b>  The Council operates a rolling five-year revaluation cycle for land and buildings, creating a risk that assets not revalued in-year may differ materially from their current value.  For assets revalued during the year, there is an additional risk due to the significant judgement and estimation involved by the in-house valuer.	We have undertaken risk assessment and planning procedures over this balance only, in line with our disclaimed opinion, as noted on Page 7.	As noted we have not undertaken a substantive response to this risk.
<b>Valuation of investment property</b>  The council engages management experts to perform a valuation of investment property. There is a risk that these valuations are not reflective of the fair value of the property.	We have undertaken risk assessment and planning procedures over this balance only, in line with our disclaimed opinion, as noted on Page 7.	As noted we have not undertaken a substantive response to this risk.
<b>Management override of controls</b>  Professional standards require us to communicate the fraud risk from management override of controls as significant.  Management is in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.	We have undertaken risk assessment and planning procedures over this risk only, in line with our disclaimed opinion, as noted on Page 7.	As noted we have not undertaken a substantive response to this risk.





# Audit of the financial statements

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Significant financial statement audit risk	Procedures undertaken	Findings
<p><b>Valuation of post retirement benefit obligations</b></p> <p>The valuation of the post retirement benefit obligations involves the selection of appropriate actuarial assumptions, most notably the discount rate applied to the scheme liabilities, inflation rates and mortality rates. The selection of these assumptions is inherently subjective and small changes in the assumptions and estimates used to value the Council's pension liability could have a significant effect on the financial position of the Council.</p>	<p>We understood the processes the Council have in place to set the assumptions used in the valuation;</p> <p>We evaluated the competency, objectivity of the actuaries to confirm their qualifications and the basis for their calculations;</p> <p>We performed inquiries of the accounting actuaries to assess the methodology and key assumptions made;</p> <p>We agreed the data provided by the audited entity to the Scheme Administrator for use within the calculation of the scheme valuation;</p> <p>We evaluated the design and implementation of controls in place for the Council to determine the appropriateness of the assumptions used by the actuaries in valuing the liability;</p> <p>We challenged, with the support of our own actuarial specialists, the key assumptions applied, being the discount rate, inflation rate and mortality/life expectancy against externally derived data;</p> <p>We confirmed that the accounting treatment and entries applied by the Council are in line with IFRS and the CIPFA Code of Practice;</p> <p>Considered the adequacy of the Council's disclosures in respect of the net position to these assumptions; and</p> <p>Where applicable, assessed the level of surplus or minimum funding that should be recognised by the Council.</p>	<p>We observed that there no key controls in place around the assumptions used in the valuation. Although reviewed, management do not challenge the assumptions used or review the reasonableness of the calculations performed. We have also made some recommendations for management for improved and earlier engagement with the Local Government Pension Scheme (LGPS) actuary.</p> <p>We have assessed the overall assumptions used by management as optimistic relative to our central rates but within our reasonable range. We identified that CPI was optimistic but still within reasonable range. All other individual assumptions were balanced and within our reasonable range.</p> <p>We identified that the Council had not appropriately considered IFRIC 14 (which clarifies how entities should limit the amount of surplus recognised as an asset) in the current or previous year. We therefore critically challenged this position and the IAS 19 results were revised for the current and previous year. We therefore raised a current year corrected audit misstatement to cap the recognisable surplus from £47.3m to £nil; and a prior year corrected audit misstatement to cap the recognisable surplus from £33.9m to £nil.</p> <p>We identified some small inconsistencies between the Council's full pension's note and the reconciliations per the actuary's IAS 19 reporting.</p> <p>Following the Court of Appeal's dismissal of the Virgin Media appeal, we recommended that the Council makes appropriate narrative disclosure that it is currently not clear if there is any impact on the benefits in LGPS Funds, therefore it is not possible for employers to quantify the Defined Benefit Obligation (DBO) impact, if any.</p>



**03**

# **Value for Money**

# Value for Money

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## Introduction

We are required to consider whether the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources or 'value for money'. We consider whether there are sufficient arrangements in place for the Council for the following criteria, as defined by the National Audit Office (NAO) in their Code of Audit Practice:



**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

## Approach

We undertake risk assessment procedures in order to assess whether there are any risks that value for money is not being achieved. This is prepared by considering the findings from other regulators and auditors, records from the organisation and performing procedures to assess the design of key systems at the organisation that give assurance over value for money.

Where a significant risk is identified we perform further procedures in order to consider whether there are significant weaknesses in the processes in place to achieve value for money.

We are required to report a summary of the work undertaken and the conclusions reached against each of the aforementioned reporting criteria in this Auditor's Annual Report. We do this as part of our commentary on VFM arrangements over the following pages.

We also make recommendations where we identify weaknesses in arrangements or other matters that require attention from the Council. We make performance improvement observations where we identify opportunities to improve in areas where we have not identified any weaknesses.

## Summary of findings

	Financial sustainability	Governance	Improving economy, efficiency and effectiveness
<b>Commentary page reference</b>	13	16	19
<b>Identified risks of significant weakness?</b>	✓ Yes	✓ Yes	✗ No
<b>Actual significant weakness identified?</b>	✓ Yes	✓ Yes	✗ No
<b>2022-23 Findings</b>	No significant weakness identified	No significant weakness identified	N/A. Not subject to review in the prior year.
<b>Direction of travel</b>	↓	↓	↔

# Value for Money

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## National context

We use issues affecting Councils nationally to set the scene for our work. We assess if the issues below apply to this Council.

### Financial performance

Over recent years, Councils have been expected to do more with less. Central government grants have been reduced, and the nature of central government support has become more uncertain in timing and amount. This has caused Councils to cut services and change the way that services are delivered in order to remain financially viable.

Some Councils have initiated innovative plans to raise new funds, such as through increasing commercial activity. Examples have included purchasing commercial assets such as shops and offices with a view to generate rental income, others have set up novel joint ventures to deliver regeneration schemes. Some have questioned whether commercialisation activities open Councils to excessive risk or could be a poor use of taxpayer monies.

Some Councils have issued what are known as “section 114” notices, in this instance a declaration that they cannot generate sufficient resources to meet the costs they need to incur. In some instances, this has resulted in a need for exceptional financial support from central government (such as approval to sell council buildings to meet costs) and severe cutbacks to services.

### Housing Revenue Account (HRA)

Councils which operate a HRA are required to prevent the account running into deficit, and must operate it independently of the main operations of the Council. HRAs have experienced financial pressure over the past few years on account of high inflation rates increasing the cost of operating housing, whilst central government cap rent increases at or below the rate of inflation.

Following tragic deaths in housing estates in Kensington and Rochdale, there has been increased focus on the safety of social homes. Landlords are required to take remedial action to ensure homes are compliant with fire safety legislation and new regulations to improve building safety more generally. These regulations have increased the costs faced by landlords, caused loss of income where properties were void for repairs, and increased the risk of regulatory action should improvements not be made.

## Local context

- The Council is made up of 61 democratically elected councillors and operates within a two-tier system of local government, working alongside Lancashire County Council.
- For 2023/24, the Council recorded a final outturn deficit of £9.5m on the provision of services. The deficit was driven primarily by Environment and Place services overspend of £11.7m and Housing Revenue Account (HRA) overspend of £5.1m.
- The General Fund (GF) balance decreased by £1.3m during the year, closing at £10.3m. During the year, the Council drew down £1.4m from the GF working balance reserve. This comprised a planned drawdown of approximately £0.6m, with additional money required mainly to address costs arising from a major fire incident at the Supa Skips building in December 2023. However, GF earmarked reserves increased by £4m, rising from £13m in 22/23 to £17m in 23/24.
- HRA reserves remain at the minimum threshold of £750k. Also, the HRA earmarked reserves fell significantly, decreasing from £8.2m in 22/23 to £2.8m in 23/24.
- Total expenditure on capital schemes amounted to £14.3m, against a budget estimate of £18.6m. Delivered schemes comprised: £7.6m under the GF and £6.7m under the HRA.
- The Head of Internal Audit opinion provided ‘Moderate Assurance’ that there is an adequate system of internal control, however, in some areas weaknesses in design and/or inconsistent application of controls puts the achievement of some of the organisation’s objectives at risk.
- There were no adverse inspectorate findings in the year.
- We have not identified any issues arising from quality of services provided by the Council.

# Financial Sustainability

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## How the Council plans and manages its resources to ensure it can continue to deliver its services.

We have considered the following in our work:

- How the Council ensures that it identifies all the significant financial pressures that are relevant to its short and medium-term plans and builds these into them;
- How the Council plans to bridge its funding gaps and identifies achievable savings;
- How the Council plans finances to support the sustainable delivery of services in accordance with strategic and statutory priorities;
- How the Council ensures that 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; and
- How the Council identifies and manages risks to financial resilience, e.g. unplanned changes in demand, including challenge of the assumptions underlying its plans.

### *Budget setting*

The Council's budget-setting process begins with engagement between service accountants, budget holders, and service heads to review current and future developments and assess financial implications. These discussions identify key pressures such as staff turnover, rising demand in areas like homelessness, and underperformance against income targets. Proposals to address these issues are developed by Chief Officers and Heads of Service and reviewed by the Senior Leadership Team (SLT) to ensure alignment with strategic priorities.

The process follows a structured sequence of phases. It starts with a Baseline Reset, where budgets are returned to a base level and challenged through meetings with budget holders during September and October. This 'business as usual' position is formally reported to Cabinet and Council in December. Once established, inflation factors are applied using data from internal service requirements and external sources.

Following this, the Council seeks savings and growth proposals from budget holders, supported by detailed business cases. These proposals undergo rigorous scrutiny by SLT before being presented to Cabinet Members and discussed at wider Member briefings. In the new year, the implications of the Local Government Finance Settlement are considered and incorporated into the Medium-Term Financial Strategy (MTFS), which is formally reported in January.

The final stage involves consultation and approval. Members are engaged throughout via workshops, briefings, and committee reports, ensuring ownership and accountability. Political groups may propose alternative budgets, with final approval by full Council typically in late February. Public consultation is undertaken through the Budget and Performance Panel in January, supported by stakeholder briefings for Members, staff, partners, media, and the public. Formal reporting to Cabinet and Council is complemented by scrutiny from the Budget and Performance Panel and the Capital Assurance Group.

### *Budget monitoring*

The Council operates a formal quarterly reporting cycle known as Delivering Our Priorities (DoP), which provides financial information on revenue and capital expenditure for both the GF and the HRA, alongside forecasts for reserves and balances. Reports are presented in a clear and accessible format, incorporating narrative, tabular, and graphical analysis to support informed decision-making.

Budget monitoring is an integrated process involving close collaboration between service accountants, budget holders, and Chief Officers throughout the quarterly cycle. Variances of £5,000 or more at service level require detailed commentary, and corrective actions such as offsetting or virement are considered where appropriate, in line with annually reviewed virement rules. Chief Officers also meet regularly with their respective Portfolio Holders to review financial and non-financial performance, while the Finance Portfolio Holder receives weekly briefings from the Section 151 Officer on both their specific responsibilities and the Council's overall financial position.

Cabinet is briefed in advance of meetings on all reports, including DoP updates, and works with the SLT to address service-level pressures and agree significant corrective actions. Financial and non-financial scrutiny is provided by the Budget and Performance Panel, which, although not a decision-making body, can make formal recommendations to Cabinet and request attendance from Chief Officers. Overview and Scrutiny Committee also retains the ability to call in decisions and request further information on service or Council-wide issues, ensuring robust governance and accountability throughout the process.

# Financial Sustainability (Cont.)

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## Budget Outturn

For 2023/24, the Council approved a General Fund revenue budget of £21m, supported by a planned contribution of £0.57m from reserves to achieve a balanced position. At year-end, while the Council delivered a balanced budget, this required a total drawdown of £1.35m from reserves. The additional £0.8m, beyond the planned contribution, was primarily attributable to costs arising from a major fire incident in December 2023, which necessitated £0.65m from unallocated reserves to fund building clearance and demolition.

We identified a financial sustainability risk arising from the Council's reliance on General Fund reserves to balance the budget. See page 21 for detailed assessment of this risk.

## Borrowing cost

We assessed the Council's borrowing costs, noting that the 23/24 ratio of financing costs to net revenue stream was 17.98%, slightly above the Lancashire benchmark of 14% but broadly in line with other councils in the region pursuing similar capital investment strategies. Borrowing considerations are embedded within the MTFs, overseen by the Capital Assurance Group, and regularly discussed at Cabinet and Council meetings. Based on the current position and governance arrangements, we do not consider this a significant financial sustainability risk at present, although future borrowing will require ongoing monitoring.

## Saving plans

The Council's Outcome-Based Resourcing (OBR) framework aims to align resources with strategic priorities and statutory functions while reducing expenditure in areas that contribute less to the Council's objectives. Savings delivery is monitored through the quarterly DoP reporting cycle, which includes analysis of approved savings and corrective actions where required. Financial and non-financial scrutiny is provided by the Budget and Performance Panel, which can make recommendations to Cabinet.

For 2023/24, Members approved savings of £2.4m as part of the budget-setting process and £2.2m of these savings were achieved at year-end.

## 2024/25 Budget

The Council set a net General Fund revenue expenditure budget of £25m, incorporating a £1.9m contribution to reserves and OBR savings proposals totalling £1.2m. In addition, the Council reaffirmed its commitment to maintaining a minimum General Fund balance of £5m.

At year-end, the Council delivered revenue expenditure in line with the approved budget, requiring a contribution of £208k from the General Fund reserve. With respect to efficiency measures, savings achieved amounted to £385k, representing 31% of the target established at the outset of the financial year.

Key financial and performance metrics:	2023-24	2022-23
	£'000	
GF Planned surplus/(deficit), before contribution to or from reserves	(577)	34
GF Actual surplus/(deficit), before contribution to or from reserves	(1,351)	(267)
Actual HRA surplus/(deficit)	(5,715)	(7,817)
Usable reserves	35,153	36,242
Gross debt compared to the capital financing requirement	0.58	0.60
Year-end borrowings	57,960	59,010
Year-end cash position	10,784	24,251

*HRA: Housing Revenue Account, a ring-fenced fund relating to social housing*

*Gross debt compared to the capital financing requirement: Authorities are expected to have less debt than the capital financing requirement (i.e. a ratio of under 1 : 1) except in the short term, else borrowing levels may not be considered prudent.*

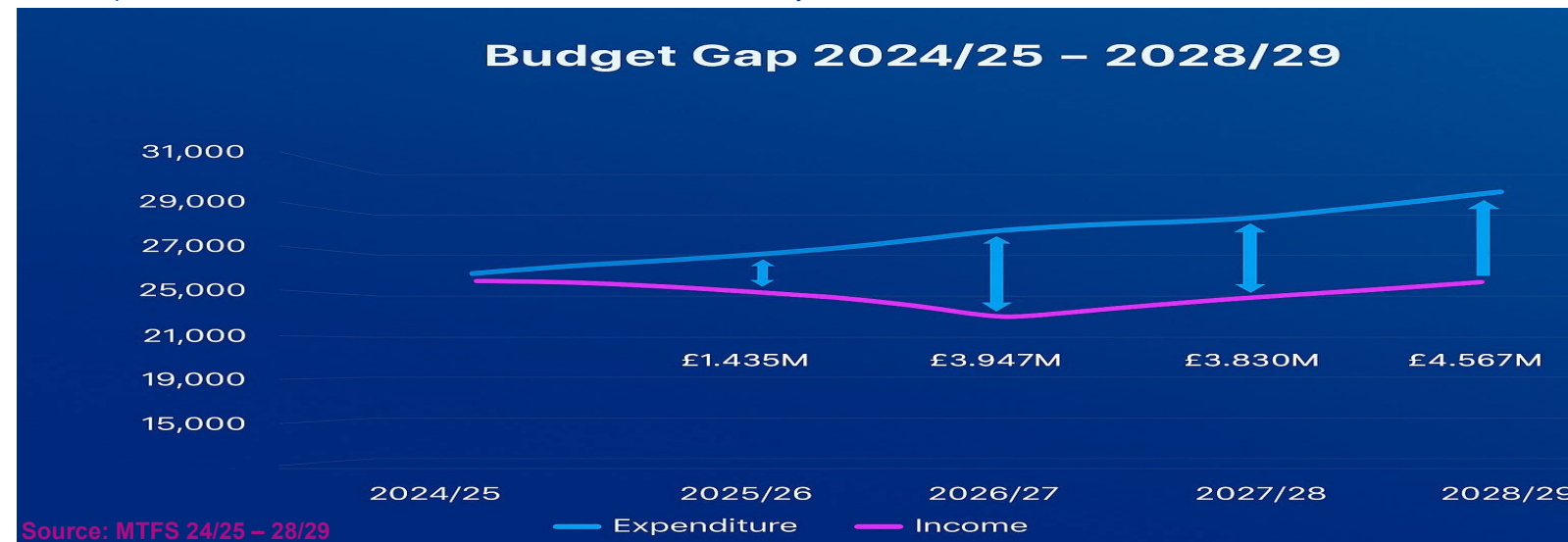
# Financial Sustainability (Cont.)

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## Medium Term Financial Strategy (MTFS) – See Significant Risks details on pages 21-24

The Council's MTFS, agreed by the Cabinet on 13 March 2024, for 2024/25 to 2028/29 identifies a structural budget gap, with projected shortfalls of £1.4m in 2025/26, rising to £3.9m in 2026/27, £3.8m in 2027/28, and reaching £4.6m by 2028/29 - equivalent to up to 16% of the net revenue budget. These gaps are driven by ongoing pressures such as pay inflation, increased capital financing costs, and uncertainty around government funding. Continued growth in funding gaps and spending pressures are significant concerns and will require the Council to explore additional options to maintain financial sustainability.

The Council is also confronted with substantial financial risks over the short and medium term which result in the requirement to drawdown General Fund reserves to address the budget gaps and pressure on HRA reserves. Further challenges include the potential decline in business rates income, limited expansion of the council tax base, and broader economic uncertainty.



### Conclusion

Based on the procedures performed, we have identified significant weakness regarding the Council's arrangements for HRA reserves. Please refer to page 23 for further details.



## Reserves – See Significant Risks details on pages 21-24

The table below identifies the level of reserves held by the Council. Reserves show contrasting trends, with a net contribution to the General Fund but significant depletion of HRA reserves between 22/23 and 23/24.

The 23/24 budget included a planned £0.6m drawdown from General Fund reserves, highlighting some reliance on reserves for recurring costs. For HRA reserves, continued use beyond planned levels or further reductions could limit flexibility to manage unexpected pressures and deliver housing commitments under the 30-year HRA Business Plan.

Reserves	2023-24	2022-23
	£'000	
GF Reserves	10,326	11,677
Earmarked GF Reserves	17,040	13,075
<b>Total GF Reserves</b>	<b>27,366</b>	<b>24,752</b>
HRA Reserves	750	624
Earmarked HRA Reserves	2,823	8,253
<b>Total HRA Reserves</b>	<b>3,573</b>	<b>8,877</b>



# Governance

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## How the Council ensures that it makes informed decisions and properly manages its risks.

We have considered the following in our work:

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

## *Risk management*

The Council's Risk Management Policy outlines a structured approach to identifying and assessing risks, incorporating techniques such as workshops, checklists, and brainstorming. Risks are identified during service planning or routine as barriers to achieve objectives and must be reported by staff to their Chief Officers/managers. Once recognised, risks are recorded in appropriate 'Risk Register' on the GRACE risk management system with a unique identifier and assigned owner, ensuring accountability and traceability. Risks are evaluated using a consistent scoring framework based on a four-point scale for likelihood and impact. The highest applicable scores determine the overall risk level, which is plotted on a matrix and categorised using a traffic light system—red for high, amber for medium, and green for low. This enables clear prioritisation and supports informed decision-making across the Council.

Mitigation actions are developed and documented within GRACE, guided by five strategic responses: avoid, accept, transfer, reduce, and exploit. Chief Officers are responsible for maintaining their service risk registers, while the Strategic Risk Register is reviewed quarterly by the SLT and Audit Committee. This process ensures ongoing oversight, facilitates challenge, and promotes continuous improvement in managing organisational risk.

## *Anti-fraud Controls*

The Council has established a framework for addressing fraud, bribery, and corruption, as set out in its 'Anti-Fraud, Bribery and Corruption Policy'. This framework applies to all employees, elected Members, contractors, and partners, and is supported by related governance documents and codes of conduct. The arrangements include defined roles and responsibilities for officers, Members, and service managers, as well as measures such as recruitment and procurement procedures, risk assessments, and training and awareness activities. The policy outlines processes for reporting concerns, investigating suspected cases in accordance with legal requirements, and taking action where necessary. These arrangements are subject to periodic review and updates, informed by internal audit and other sources.

The Council undertakes an annual process of reporting on counter fraud activity to the Audit Committee. The 'Annual Counter Fraud Report' is prepared by the Corporate Fraud Manager and provides information on the Council's arrangements, activities, and outcomes in relation to the prevention, detection, and investigation of fraud and related matters. The report describes the work of the Corporate Enquiry Team, partnership activities, and the operation of internal controls and risk management. This annual reporting process enables the Audit Committee to consider the effectiveness of the Council's counter fraud arrangements and to note developments and areas for further attention.



# Governance (Cont.)

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## ***Financial Plan 2023/24 and budget monitoring***

The Council's financial plan for 2023-24, as part of the MTFs, went through several levels of review prior to approval by the Council in February 2023. Financial performance, against the budget is regularly monitored as outlined in the Financial Sustainability section. As part of quarterly 'Delivering Our Priorities' Report to the Cabinet, significant variances against budget are clearly identified and explained with reference to change in position. Any mitigating actions are also identified. For 2023/24, the Council approved a General Fund balanced revenue budget of £21m, supported by a planned contribution of £0.57m from reserves. At year-end, while the Council delivered a balanced budget, this required a total drawdown of £1.35m from reserves.

## ***Compliance with laws and regulations***

The Council's Monitoring Officer is responsible for monitoring compliance with all relevant/applicable legal requirements. As per the Constitution, the Monitoring Officer, after consultation with the S151 Officer, will report to the Council if they consider that any proposal, decision or omission would give rise to unlawfulness or if any decision or omission has given, or would give rise, to maladministration. Such a report prevents implementation of the proposal or decision until it has been formally considered. Management inquiries have confirmed there have been no breaches of legislation or regulatory standards that has led to an investigation by any legal or regulatory body during the year.

## ***Standards of behaviour***

The Council's Code of Conduct defines standards for behaviour, including respect, integrity, and management of interests, while the Raising Concerns Policy sets out procedures for confidentially reporting malpractice or breaches of standards. Both policies describe processes for communication, access, escalation, and provide contact details for designated officers and external bodies. The Constitution sets requirements for managing conflicts of interest, referring to the Code of Conduct for Cabinet members and officers. If an Officer with delegated authority has a conflict, the delegation reverts to the person who made it or is otherwise managed as set out in the Code. Where all Cabinet or committee members have a conflict, dispensations may be granted by the Monitoring Officer, Standards Committee, or Chief Executive.

## ***Decision making process – See Significant Risk details on page 23***

The Council's decision-making process is governed by its Constitution, which requires the Cabinet to make decisions in line with approved policies and budgets, with special notice and consultation procedures for significant executive decisions, such as those involving expenditure over £250,000. Under the Constitution, the Leader may delegate executive functions to the Cabinet, which can further delegate to Committees, individual Cabinet Members, or Officers. Current financial limits allow the Chief Executive to approve up to £200,000 and Chief Officers up to £100,000, with decisions over £50,000 requiring consultation with relevant Cabinet member.

Although these arrangements establish a structure for governance, their effectiveness relies on consistent application and strong project-level controls. Our review indicates that these principles have not been fully embedded in the Mainway Estate regeneration project, resulting in a significant value-for-money weakness (see page 23 for further details). Approved by Cabinet in February 2022, Phase 1 of the project represents a major investment intended to deliver strategic regeneration objectives. However, despite incurring £3.7m expenditure till 23/24 — comprising £2.2m in capital and £1.5m in revenue costs for site acquisition, master planning, and demolition—there remains no clear delivery plan, defined milestones, or measurable outcomes.

# Governance (Cont.)

DRAFT

	2023-24	2022-23
Control deficiencies reported in the Annual Governance Statement	3 (Risk Management, Procurement and Financial sustainability)	2 (Risk Management and Financial sustainability)
Head of Internal Audit Opinion	Moderate Assurance	Moderate Assurance
Local Government Ombudsman findings	Complaints upheld = 100% Satisfactory remedy provided by the organisation = 0% Compliance with Ombudsman recommendations = 100%	Complaints upheld = 50% Satisfactory remedy provided by the organisation = 0% Compliance with Ombudsman recommendations = 100%
Housing Ombudsman findings	Determinations: 2 Maladministration Rate: 100%	No report issued by the Housing Ombudsman

**Conclusion**

Based on the procedures performed, we have identified significant weaknesses regarding the Council' arrangements for key decision making and statutory financial reporting deadlines. Please refer to pages 23 and 25 for further details.



# Improving economy, efficiency and effectiveness

DRAFT

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

We have considered the following in our work:

- how financial and performance information has been used to assess performance to identify areas for improvement;
- how the Council evaluates the services it provides to assess performance and identify areas for improvement;
- how the Council 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; and
- where the Council commissions or procures services, how it assesses whether it is realising the expected benefits.

## Performance of services

The Council operates a formal quarterly reporting cycle, Delivering our Priorities (DoP), which integrates performance, project, and resource monitoring. Key performance indicators (KPIs) are developed at both corporate and service levels, with regular reporting to Chief Officers, Portfolio Holders, and Cabinet. The Project & Performance Team ensures alignment of KPIs and service plans with Council priorities, and performance information is presented in narrative, tabular, and graphical formats. Scrutiny of operational and service performance is provided by the Budget and Performance Panel and Overview and Scrutiny Committee, which can request further information, call in decisions, and require Chief Officers to attend meetings. This structured approach supports ongoing monitoring, challenge, and continuous improvement of Council services.

Based on Q2 23/24 DoP report, the Council projects a £0.611M overspend, with notable service impacts. Environment & Place faces operational strain from high sickness in waste collection and delayed fleet renewal, affecting service reliability. Housing & Property is under pressure from rising homelessness and property compliance issues, despite some vacancy-driven savings. Planning & Climate Change struggles with capacity gaps and reliance on consultants, slowing planning processes amid reduced fee income. People & Policy is undergoing major workforce restructuring, creating short-term disruption. In contrast, Communities & Leisure maintains delivery but faces income challenges at leisure facilities.

## Benchmarking

The Council benchmarks its services using data from external sources such as Association for Public Service Excellence (APSE), Local Government Association (LGA), and CIPFA, as well as through informal networks like the Lancashire Chief Finance Officers and service-specific groups. Chief Officers are responsible for benchmarking their own service costs and performance, with examples including waste collection and leisure services compared against similar authorities. The Council also engages external consultants for targeted benchmarking reviews and participates in corporate benchmarking exercises, such as LGA finance reviews and peer challenges. Benchmarking findings are considered during budget processes and service planning, with areas of higher spend or performance variance subject to further review and challenge.

The Council's benchmarking of waste and environmental services through APSE shows cost efficiency, with top-quartile performance in net investment per household (£23.99), waste disposal costs (£92.47), and fuel usage (2,046 litres), alongside high customer satisfaction (92%). However, service coverage (95%) ranks in the bottom quartile, and recycling performance lags behind peers, with lower recycling rates (47.2%), higher contamination (6.8%), and above-average landfill use (18%).

# Improving economy, efficiency and effectiveness (Cont.)

**DRAFT**

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

We have considered the following in our work:

- how financial and performance information has been used to assess performance to identify areas for improvement;
- how the Council evaluates the services it provides to assess performance and identify areas for improvement;
- how the Council 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; and
- where the Council commissions or procures services, how it assesses whether it is realising the expected benefits.

## Partnership

The Council actively pursues partnership initiatives with a range of organisations to enhance the quality and economy of its services. The Council works closely with anchor institutions such as local universities, NHS partners, and third-sector organisations through the Lancaster District Strategic Partnership and The Bay Anchor Network, aiming to deliver shared outcomes in areas like economic development, health, and community wellbeing. Partnerships with organisations such as Lancaster and Morecambe College support skills development and green technology training, while collaborations with the Local Government Association, voluntary groups, and community organisations help deliver projects in regeneration, culture, and public health.

The Council also engages in joint initiatives for climate action, biodiversity, and sustainable transport, working with partners like Green Rose CIC and participating in national programmes such as the UK Shared Prosperity Fund. Community engagement is further strengthened through partnerships with groups like Communities Together and the Community Safety Partnership. These collaborative efforts are designed to leverage local expertise, resources, and innovation, ensuring that services are delivered efficiently, sustainably, and in line with the needs of residents.

## Conclusion

Based on the procedures performed, we have not identified a significant weakness associated with arrangements around improving economy, efficiency and effectiveness.

# Significant Value for Money Risk

DRAFT



1

## Drawdown of General Fund Reserves

Risk that value for money arrangements may contain a significant weakness linked to financial sustainability

### Significant Value for Money Risk

#### Background and value for money risk

The 2023/24 budget relied on a planned drawdown of £0.6 million from General Fund (GF) reserves to achieve balance, indicating structural reliance on reserves to fund recurring expenditure. This approach posed a risk to long-term financial resilience, particularly if reserve usage exceeded planned levels or if unforeseen events further depleted reserves.

### Our response

- We reviewed the Council's outturn position for 2023/24, focusing on actual reserve movements compared to budgeted plans.
- We examined explanations for variances, including any exceptional or unforeseen costs.
- We held detailed inquiries with management to understand the reasons for the higher-than-planned drawdown and the extent of any underlying structural financial pressures.
- We evaluated the adequacy of the Council's MTFS and reserve management policies.
- We considered whether the Council had developed plans to replenish reserves and reduce structural dependency.
- We assessed compliance with minimum reserve thresholds and the potential impact on financial resilience.

### Our findings

We identified:

- In 23/24, the Council drew down £1.3m from General Fund (GF) reserves, compared to a planned drawdown of £0.6m, resulting in a variance of £0.7m. The variance was primarily driven by a major one-off incident (a fire at the former Supa Skips building in December 2023) which required additional funding of £649k after external contributions. Other minor variances included £214k for solar scheme costs. Management provided clear explanations for these variances in the budget outturn report and actively monitored overspending areas. The additional reserve use was largely exceptional, and overall, the Council did not materially deviate from its financial plan.
- Despite this variance, the Council's reserves position remains strong. At year-end, GF reserves stood at £10.3m, significantly above the minimum threshold of £5m recommended by the Section 151 Officer. In addition, the Council held £17m in GF earmarked reserves, bringing total GF reserves to £27.4m—an increase of 10% from £24.7m in 22/23. This demonstrates that the Council has maintained a healthy level of financial resilience while managing unforeseen pressures.

# Significant Value for Money Risk

DRAFT



1

## Drawdown of General Fund Reserves (Continued)

Risk that value for money arrangements may contain a significant weakness linked to financial sustainability

### Significant Value for Money Risk

#### Background and value for money risk

The 2023/24 budget relied on a planned drawdown of £0.6 million from General Fund reserves to achieve balance, indicating structural reliance on reserves to fund recurring expenditure. This approach posed a risk to long-term financial resilience, particularly if reserve usage exceeded planned levels or if unforeseen events further depleted reserves.

### Our response

- We reviewed the Council's outturn position for 2023/24, focusing on actual reserve movements compared to budgeted plans.
- We examined explanations for variances, including any exceptional or unforeseen costs.
- We held detailed inquiries with management to understand the reasons for the higher-than-planned drawdown and the extent of any underlying structural financial pressures.
- We evaluated the adequacy of the Council's MTFS and reserve management policies.
- We considered whether the Council had developed plans to replenish reserves and reduce structural dependency.
- We assessed compliance with minimum reserve thresholds and the potential impact on financial resilience.

### Our findings

- The Council continues to take steps to strengthen its financial sustainability. In 23/24, it delivered £2.2m of savings against a target of £2.4m and initiated Outcomes Based Resourcing (OBR), which reduced forecast budget requirements by approximately £2.7m.
- The Council has approved a Flexible Use of Capital Receipts Strategy to support revenue expenditure while maintaining long-term sustainability. The MTFS acknowledges significant future pressures and highlights the need to manage reliance on reserves to address forecast overspends.

#### Conclusion

Based on the findings above we have not identified any significant weaknesses in arrangements.

# Significant Value for Money Risk

DRAFT



2

## HRA Sustainability and Mainway Estate Regeneration

Risk that value for money arrangements may contain a significant weakness linked to financial sustainability and governance

### Significant Value for Money Risk

#### Background and value for money risk

There is a risk that the Council's declining HRA reserves, coupled with the absence of a clear strategy for the Mainway Estate regeneration project, will undermine its ability to deliver statutory housing services, maintain housing stock, and achieve sustainable HRA objectives. The lack of defined plans and financial alignment increases exposure to escalating costs, inefficient resource use, and long-term financial instability.

### Our response

- Reviewed the movement in HRA general and earmarked reserves over the last three years.
- Evaluated the Council's HRA Business Plan, including assumptions on income, expenditure, and capital investment.
- Assessed whether the plan incorporated stress testing for future risks and realistic cost pressures.
- Considered compliance with minimum reserve thresholds.
- Examined whether strategies existed to rebuild reserves and prioritise essential works.
- Reviewed Cabinet and Committee meeting minutes and project reports relating to Mainway Estate regeneration.
- Examined expenditure to date and evaluated alignment with agreed objectives.
- Considered reporting mechanisms and governance arrangements for the regeneration project.
- Discussed with management the current status of Mainway Estate plans and future options.

### Our findings

We identified:

- The Council's Housing Revenue Account (HRA) reserves have declined sharply over the past three years, with general reserves reducing from £2.5m in 2021/22 to £0.7m in 2023/24, falling below the minimum threshold. Earmarked reserves also dropped from £10.3m to £2.8m over the same period. We understand that this deterioration reflects external pressures such as rising depreciation charges linked to property values, cost-of-living impacts including energy inflation, escalating repairs costs and increased compliance expenditure to meet national requirements.
- Further strain on reserves has resulted from decisions to fund regeneration-related costs, including the Mainway Estate project, acquisition of the former Skerton School site, and buy-back of leasehold properties. These commitments have significantly reduced the financial buffer available to manage unforeseen repairs, compliance obligations, or emergency housing needs, creating a material risk to the delivery of statutory housing services and essential capital works. The current reserve position is not supported by a clear recovery strategy or stress-tested financial planning within the HRA Business Plan and MTFs as at year-end 23/24.

# Significant Value for Money Risk

DRAFT



2

## HRA Sustainability and Mainway Estate Regeneration (Continued)

Risk that value for money arrangements may contain a significant weakness linked to financial sustainability and governance

### Significant Value for Money Risk

#### Background and value for money risk

There is a risk that the Council's declining HRA reserves, coupled with the absence of a clear strategy for the Mainway Estate regeneration project, will undermine its ability to deliver statutory housing services, maintain housing stock, and achieve sustainable HRA objectives. The lack of defined plans and financial alignment increases exposure to escalating costs, inefficient resource use, and long-term financial instability.

### Our response

- Reviewed the movement in HRA general and earmarked reserves over the last three years.
- Evaluated the Council's HRA Business Plan, including assumptions on income, expenditure, and capital investment.
- Assessed whether the plan incorporated stress testing for future risks and realistic cost pressures.
- Considered compliance with minimum reserve thresholds.
- Examined whether strategies existed to rebuild reserves and prioritise essential works.
- Reviewed Cabinet and Committee meeting minutes and project reports relating to Mainway Estate regeneration.
- Examined expenditure to date and evaluated alignment with agreed objectives.
- Considered reporting mechanisms and governance arrangements for the regeneration project.
- Discussed with management the current status of Mainway Estate plans and future options.

### Our findings

- This challenge is compounded by the Mainway Estate regeneration project, where approximately £3.7m has been spent to date on site acquisition and master planning, yet there remains no clear delivery plan, defined milestones, or robust governance arrangements. The absence of a comprehensive plan means that financial implications of redevelopment options are not understood or reflected in the HRA Business Plan, preventing the Council from aligning housing priorities with long-term financial sustainability.
- While management has begun considering measures such as revising asset valuation methodology, reassessing useful lives, reviewing loan funding arrangements, and strengthening governance for Mainway through a Cross-Party Councillor Board and pre-market engagement, these actions have commenced after the year end, remain at an early stage and as such do not reflect robust arrangements as at year-end 23/24.

#### Conclusion

Based on the findings above we have determined that there is a significant weakness in arrangements relating to financial sustainability and governance.



# Significant Value for Money Risk

DRAFT



3

## Compliance with statutory financial reporting deadlines

Risk that value for money arrangements may contain a significant weakness linked to governance

### Significant Value for Money Risk

#### Background and value for money risk

The Council faced the challenge of concluding multiple years of accounts and audits simultaneously (2020/21 through 2023/24), which posed a significant risk to timely completion and the ability to meet statutory requirements. This situation also raised concerns about whether sufficient experienced resources were assigned to manage the accounts and audit process effectively.

### Our response

Through our audit we have evaluated the arrangements the Council has put in place to ensure compliance with its statutory financial reporting responsibilities.

### Our findings

We identified:

- The Government has introduced measures to address the national backlog in local government financial reporting, including amendments to the Accounts and Audit Regulations and the NAO Code of Audit Practice, allowing auditors to issue disclaimed opinions for incomplete audits up to 31 March 2023. These were required to be delivered by 13 December 2024.
- Despite these mitigations, the Council experienced delays in providing information necessary for audit completion, primarily due to the significant administrative burden of preparing multiple years' accounts and managing queries from two audit firms concurrently.
- While these operational challenges explain the delays, they highlight a significant weakness in arrangements to allocate sufficient experienced staffing and maintain robust governance over financial reporting.

#### Conclusion

Based on the findings above we have determined that there is a significant weakness in arrangements relating to governance.

# Value for Money: Recommendations

The recommendations raised as a result of our work in respect of significant value for money weaknesses in the current year are as follows:

**DRAFT**

#	Grading	Issue, Impact and Recommendation	Management Response/Officer/Due Date
1	Other	<p>The Council's Housing Revenue Account (HRA) reserves have fallen significantly over the past three years, dropping below the minimum threshold and reducing financial resilience. This decline is compounded by the expenditure on the Mainway Estate regeneration project, which lacks a clear delivery plan, defined milestones, and robust governance. The absence of an integrated strategy linking regeneration plans to HRA financial planning has hindered the development of a sustainable reserve strategy and alignment with long-term housing objectives.</p> <p>Without a clear and integrated approach, the Council faces heightened financial risk within the HRA. Current reserves provide minimal flexibility to manage unforeseen repairs, compliance obligations, or emergency housing needs. Uncertainty around Mainway Estate regeneration options means financial consequences are not understood or reflected in the HRA Business Plan and MTFS, exposing the Council to escalating costs, inefficient resource use, and potential failure to deliver statutory housing services and strategic regeneration goals.</p> <p>The Council should develop a comprehensive strategy that integrates HRA financial planning with regeneration priorities. This should include:</p> <ul style="list-style-type: none"> <li>A clear delivery plan for Mainway Estate with milestones, governance, and measurable outcomes.</li> <li>Evaluation of financial implications for all redevelopment options and incorporation into the HRA Business Plan and MTFS.</li> <li>A sustainable reserve recovery strategy supported by stress-tested financial planning.</li> </ul>	<p>The Council faces ongoing financial pressures within the HRA, including rising depreciation costs, inflationary impacts on repairs and compliance, capped rent increases, and regeneration commitments. These challenges mirror national trends where expenditure has exceeded income, reducing reserves.</p> <p>To maintain resilience, the s151 Officer raised the minimum HRA reserve to £0.750M in 2023. However, strategic investments—such as Mainway regeneration, Skerton School acquisition, and leasehold buybacks—have further depleted reserves. Active measures include reviewing asset valuations, funding strategies, and loan repayment options, feeding into the 2026/27 budget for a sustainable medium-term plan.</p> <p>Mainway Estate Progress: Despite inflation and funding constraints, key milestones have been achieved: site acquisition and clearance, masterplan completion, and strengthened governance through cross-council meetings, quarterly reporting, and a Cross-Party Board. Pre-market engagement is underway to secure a delivery partner. The Council remains committed to balancing financial resilience with strategic regeneration priorities.</p>
2	Other	<p>The Council faced significant challenges in meeting statutory financial reporting deadlines due to the simultaneous preparation and audit of multiple years' accounts (2020/21 to 2023/24). This indicates weaknesses in governance and resource allocation within the finance function.</p> <p>Delays in completing accounts and audits undermine compliance with statutory requirements, reduce transparency, and increase the risk of modified or disclaimed audit opinions. They also erode stakeholder confidence and expose the Council to external scrutiny.</p> <p>The Council should strengthen governance and financial reporting capacity by assigning sufficient experienced resources, implementing contingency plans for statutory deadlines, and enhancing oversight of the accounts and audit process to ensure timely compliance.</p>	<p>Delays in finalising year-end accounts reflect sector-wide issues caused by failures in the public audit regime, resulting in significant backlogs nationally. The Council has kept Audit Committee informed through regular updates since 2021. In March 2024, the Committee approved prioritising clearance of three outstanding Statements of Accounts (2020/21–2022/23) ahead of the February 2025 backstop deadline, deferring 2023/24 publication to August 2024.</p> <p>This approach ensured statutory duties for budget setting and financial planning were met while resolving historic audits. Additional staff have been recruited to strengthen resilience, and every effort will be made to meet future deadlines. However, if conflicts arise, statutory budget-setting will remain the priority over audit completion.</p>





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