



Auditor's Annual Report for Lancaster City Council

DRAFT

Year-ended 31 March 2025

March 2026

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Our audit report will be made solely to the members of Lancaster City Council (the 'Council'), as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014. Our audit work has been undertaken so that we might state to the members of the Lancaster City Council, as a body, those matters we are required to state to them in an auditor's report and for no other purpose.

To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Council and the members of the Council, as a body, for our audit work, for our auditor's report, for this Auditor's Annual Report, or for the opinions we have formed.

External auditors do not act as a substitute for the Council'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.

01

Executive Summary

Executive Summary



Purpose of the Auditor’s Annual Report

This Auditor’s Annual Report provides a summary of the findings and key issues arising from our 2024-25 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 (the ‘Code of Audit Practice’) 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 (the Act). Our responsibilities under the Act, the Code of Audit Practice and International Standards on Auditing (UK) (‘ISAs (UK)’) include the following:



Financial Statements - To provide an opinion as to whether the financial statements give a true and fair view of the financial position of the Council and of its income and expenditure during the year and have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting 2024/25 (‘the CIPFA Code’).



Other information (such as the narrative report) - To consider, whether based on our audit work, the other information in the Statement of Accounts is materially misstated or inconsistent with the financial statements or our audit knowledge of the Council.



Value for money - To report if we have identified any significant weaknesses in the arrangements that have been made by the Council to secure economy, efficiency and effectiveness in its use of resources. We are also required to provide a summary of our findings in the commentary in this report.



Other powers - We may exercise other powers we have under the 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.

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

Findings

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

Financial statements	<p>We issued a disclaimer of opinion on the Council’s financial statements 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.</p> <p>We have provided further details of the key risks we identified and our response on pages 21-23.</p>
Other information	<p>Whilst in our opinion the content of the other information is consistent with the financial statements, we are unable to determine whether there are material misstatements in the other information.</p>
Value for money	<p>We identified two significant weaknesses in respect of the arrangements the Council’s has put in place to secure economy, efficiency, and effectiveness in the use of its resources. Further details are set out on pages 21-23.</p>
Whole of Government Accounts	<p>We are required to perform procedures and report to the National Audit Office in respect of the Council’s consolidation return to HM Treasury in order to prepare the Whole of Government Accounts.</p> <p>As the National Audit Office has not yet informed us that we are not required to perform any further procedures, we are unable to confirm that we have concluded our work in this area.</p>
Other powers	<p>See overleaf.</p>

Executive Summary



There are several actions we can take as part of our wider powers under the 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.

As at the date of this report, 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.

As at the date of this report, we have not applied to the courts.

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 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.

As at the date of this report, we made no recommendations under Schedule 7 of the Act.

As at the date of this report, we have not raised any other recommendations.

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.

As at the date of this report, 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



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 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 Council’s financial statements

We have issued a disclaimer of opinion on the Council’s financial statements on [Date]. We therefore do not express an opinion on the financial statements. The reason for our disclaimer of opinion is as follows:

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 2025 by 27 February 2026 (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 ahead of the Backstop Date. 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 2025.

In addition, we have been unable to obtain sufficient appropriate evidence over a number of areas of the financial statements in relation to the disclosed comparative figures for the year ended 31 March 2024 due to the Backstop Date. These areas were in line with those listed above and the net assets as at 1 April 2023. As a result, we were unable to determine whether any adjustments were necessary to the amounts recorded in relation to these areas as at 31 March 2024, or whether there were any effects on the Authority’s income and expenditure for the years ended 31 March 2024 and 2025.

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 2025, the Collection Fund and on its income and expenditure and cash flows for the years then ended.

Draft wording subject to change.

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

Audit of the financial statements: Council



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

Valuation of land and buildings

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

Our procedures

We have undertaken risk assessment and planning procedures over this balance only, in line with our disclaimed opinion, as noted on Page 7.

Our findings

We were unable to complete the procedures we considered necessary to obtain sufficient appropriate audit evidence in relation to this area.

Valuation of investment property

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.

Our procedures

We have undertaken risk assessment and planning procedures over this balance only, in line with our disclaimed opinion, as noted on Page 7.

Our findings

We were unable to complete the procedures we considered necessary to obtain sufficient appropriate audit evidence in relation to this area.

Management override of controls

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.

Our procedures

We have undertaken risk assessment and planning procedures over this risk only, in line with our disclaimed opinion, as noted on Page 7.

Our findings

We were unable to complete the procedures we considered necessary to obtain sufficient appropriate audit evidence in relation to this area.

Audit of the financial statements: Council



Valuation of post retirement benefit obligations

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.

Our procedures

- We understood the processes the Council have in place to set the assumptions used in the valuation;
- We evaluated the competency, objectivity of the actuaries to confirm their qualifications and the basis for their calculations;
- We performed inquiries of the accounting actuaries to assess the methodology and key assumptions made; including actual figures where estimates have been used by the actuaries, such as the rate of return on pension fund assets;
- We agreed the data within a reasonable tolerance provided by the audited entity to the Scheme Administrator for use within the calculation of the scheme valuation;
- 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;
- 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;
- We confirmed that the accounting treatment and entries applied by the Council are in line with IFRS and the CIPFA Code of Practice;
- Considered the adequacy of the Council's disclosures in respect sensitivity of these assumptions; and
- Assessed the level of surplus or minimum funding that should be recognised by the Council.

Our findings

While we are disclaiming our audit opinion on the financial statements, we are still required to identify our audit findings based on the work performed. We have identified the following audit findings:

- As in the prior year, we were unable to identify a suitable and formal management control in respect of key assumptions and inputs that would address the risk that inappropriate assumptions and information have been used by the actuary when calculating the defined benefit obligation. Management believes that the controls in place are sufficient, but we will report if there are any significant process changes in future periods.
- Our specialists have assessed the overall assumptions used by the actuary to be optimistic, but within the reasonable range. All of the individual assumptions were assessed to be balanced with the exception of CPI inflation, which was assessed as optimistic, but within the reasonable range. As the assumptions are within range and this is a difference in estimation approach rather than an error, we have not requested that an amendment is made to the reported balance.
- Our specialists have assessed the asset ceiling calculations and we have concluded that management's proposal to restrict the surplus in respect of funded obligations to nil is appropriate.

03

Value for Money

Value for Money



Introduction

We are required to be satisfied that 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 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

We do not act as a substitute for the Council’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. We are also not required to consider whether all aspects of the Council’s arrangements are operating effectively, or whether the Council has achieved value for money during the year.

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.

Summary of findings

Our work in relation to value for money is complete.

	Financial sustainability	Governance	Improving economy, efficiency and effectiveness
Commentary page reference	13	16	19
Identified risks of significant weakness?	✓ Yes	✓ Yes	✗ No
Actual significant weakness identified?	✓ Yes	✓ Yes	✗ No
2023-24 Findings	Significant weakness identified.	Significant weakness identified.	No significant risks identified.
Direction of travel	↔	↔	↔

Value for Money

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.

Local Government Reorganisation

The Government has announced proposals to restructure local government throughout England. County and District councils (and, in some cases, existing Unitary authorities) will be abolished and replaced with new, larger Unitary authorities, which will (in many cases) work together with peers in a regional or sub-regional Combined Authority. Authorities which are unaffected by these proposals may still see changes in local police and fire authorities and in the Councils they already work in collaboration with.

Restructuring has, in some cases, resulted in differing views on how services should be provided in their regions – with little consensus on how previously separate organisations will be knitted together. Councils will need to ensure that investment decisions are in the long-term interest of their regions, and that appropriate governance is in place to support decision making.

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.

Whilst the Government has indicated an intention to restore multi-year funding settlements, giving Councils greater certainty and ability to make longer-term investment decisions, the Government has also proposed linking grant funding to deprivation. For some authorities this presents a significant funding opportunity, whereas for others this reinforces existing financial sustainability concerns and creates new financial planning uncertainties.

Housing Revenue Account (HRA)

Councils operating HRA are required to keep it out of deficit and manage it separately from their general fund, but HRAs have come under increasing financial pressure in recent years due to high inflation driving up operating and maintenance costs while rent increases have been capped by central government. In parallel, heightened regulatory and public scrutiny following serious safety failures in the social housing sector has led to stricter fire and building safety requirements, increasing remediation costs, causing income loss from void properties during works, and raising the risk of regulatory intervention where improvements are not delivered.

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.
- The Council has proposed to support Local Government Reorganisation through a four-unitary model for Lancashire, under which Lancaster would merge with Preston and Ribble Valley to form a new unitary authority. The proposal has been submitted as part of the county-wide response to Government and is currently subject to public consultation under the national LGR programme.
- For 2024/25, the Council reported a final outturn deficit of £8.7m on the provision of services, primarily reflecting an overspend of £10.4m within Environment and Place services.
- The General Fund (GF) balance reduced by £0.3m during the year, closing at £10.0m. In contrast, GF earmarked reserves increased by £1.7m, rising from £17.0m in 2023/24 to £18.7m in 2024/25.
- HRA usable reserves increased marginally, from £0.75m at the start of the year to £0.8m at 31 March 2025. However, HRA earmarked reserves decreased, falling from £2.8m in 2023/24 to £2.4m in 2024/25.
- During 2024/25, the Council incurred total capital expenditure of £15.2m, comprising £8.8m GF spend against a revised budget of £17.3m, and £6.4m HRA spend against a budget of £8.3m. Of the total capital expenditure, £3.2m was financed through unsupported borrowing.
- The Head of Internal Audit opinion provided 'Limited Assurance' that there is a compromised system of internal control as weaknesses in the design and/or inconsistent application of controls impacts on the overall system of internal control and puts the achievement 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

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 arrangements are structured to support effective financial planning and value for money through the early identification and management of financial risks. The process begins with engagement between service accountants, budget holders, and Heads of Service to assess demand-led pressures, workforce factors, and income assumptions. These assessments inform officer proposals, which are reviewed by the Senior Leadership Team (SLT) to ensure that resources are directed towards agreed priorities and that financial plans support medium-term sustainability.

Budget development follows a defined sequence, starting with an annual baseline review in the autumn, during which existing budgets are reset and subject to challenge. This establishes a transparent 'business as usual' position, which is reported to Cabinet and Council and provides a clear and consistent foundation for subsequent decision-making. Inflationary assumptions are then applied using a combination of internal service information and external economic indicators, supporting the robustness and consistency of financial forecasts.

Savings and growth proposals are developed by services and supported by business cases, enabling Members to consider affordability, deliverability, and alignment with corporate objectives. These proposals are reviewed by SLT and considered by Cabinet Members and wider Member briefings, with updates made to reflect the Local Government Finance Settlement through the Medium-Term Financial Strategy (MTFS). Member oversight and public engagement are embedded through workshops, committee reporting, and the Budget and Performance Panel, with final approval by full Council and ongoing scrutiny provided by the Budget and Performance Panel and the Capital Assurance Group.

Budget monitoring

The Council operates a structured quarterly performance and financial reporting framework, known as Delivering Our Priorities (DoP), which provides Members with regular and comprehensive oversight of revenue and capital performance across both the General Fund (GF) and the Housing Revenue Account (HRA). DoP reports include forecasts of year-end outturns, movements in reserves and balances, and progress against approved capital programmes. Information is presented using a combination of narrative commentary, tables, and visual summaries to support transparency and informed decision-making.

Budget monitoring is embedded within routine financial management arrangements and involves ongoing engagement between service accountants, budget holders, and Chief Officers throughout the quarterly cycle. Service-level variances of £5,000 or more are subject to explanation, with mitigating actions such as budget offsets or virements considered where appropriate and in accordance with annually approved virement rules. In addition, Chief Officers hold regular meetings with their respective Portfolio Holders to review financial and service performance, while the Finance Portfolio Holder receives weekly briefings from the Section 151 Officer on both portfolio-specific matters and the Council's overall financial position.

Governance and oversight arrangements support timely challenge and accountability. Cabinet Members are briefed in advance on all reports, including DoP updates, and work alongside the Senior Leadership Team to consider service-level pressures and agree significant corrective actions. Independent scrutiny is provided by the Budget and Performance Panel, which reviews financial and non-financial performance and can make formal recommendations to Cabinet or request attendance from Chief Officers. The Overview and Scrutiny Committee also retains call-in powers and the ability to request further information, supporting effective governance over budget monitoring and financial performance.



Financial Sustainability (Cont.)

Budget Outturn

For 2024/25, the Council approved a net General Fund revenue expenditure budget of £25m, which included a planned contribution of £1.9m to reserves and OBR savings proposals totalling £1.1m. The budget also reflected the Council's policy to maintain a minimum General Fund balance of £5m. At the end of the financial year, actual revenue expenditure was delivered in line with the approved budget, resulting in a net requirement of c.£0.3m from the GF reserve.

During the year, savings of c.£0.4m were delivered, representing 31% of the savings target set at the start of the financial year.

Borrowing cost

We reviewed the Council's borrowing position, noting that for 2024/25 the ratio of financing costs to net revenue was estimated at 19%, compared with a Lancashire benchmark of 14%. This level of financing costs is comparable with other authorities in the region that are pursuing similar capital investment approaches. Borrowing assumptions and affordability considerations are reflected within the MTFS and are subject to oversight by the Capital Assurance Group, with regular reporting to Cabinet and Council. The Council's borrowing position is therefore monitored through established governance and reporting arrangements, with future borrowing requirements continuing to be considered as part of the Council's medium-term financial planning.

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 close monitoring.

Saving plans

The Council operates an Outcome-Based Resourcing (OBR) framework, through which resources are allocated to support delivery of strategic priorities and statutory responsibilities. The framework also provides the mechanism for identifying expenditure reductions where activity is assessed as contributing less directly to agreed objectives. Progress against approved savings is monitored through the quarterly DoP reporting cycle, which includes reporting on delivery status and any actions identified in response to variances. Oversight of both financial and non-financial performance is provided by the Budget and Performance Panel, which can make recommendations to Cabinet.

For 2024/25, Members approved savings totalling £1.2m as part of the budget-setting process. At year-end, £0.4m of these savings had been delivered.

2025/26 Budget

The Council set a net General Fund revenue expenditure budget of £27.2m. In addition, the Council reaffirmed its commitment to maintaining a minimum General Fund balance of £5m.

Key financial and performance metrics:	2024-25	2023-24
	£'000	
GF Planned surplus/(deficit), before contribution to or from reserves	1,914	(577)
GF Actual surplus/(deficit), before contribution to or from reserves	(299)	(1,351)
Actual HRA surplus/(deficit)	(5,640)	(5,715)
Usable reserves	36,379	35,153
Gross debt compared to the capital financing requirement	0.58	0.58
Year-end borrowings	56,935	57,960
Year-end cash position	16,711	10,784

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.)

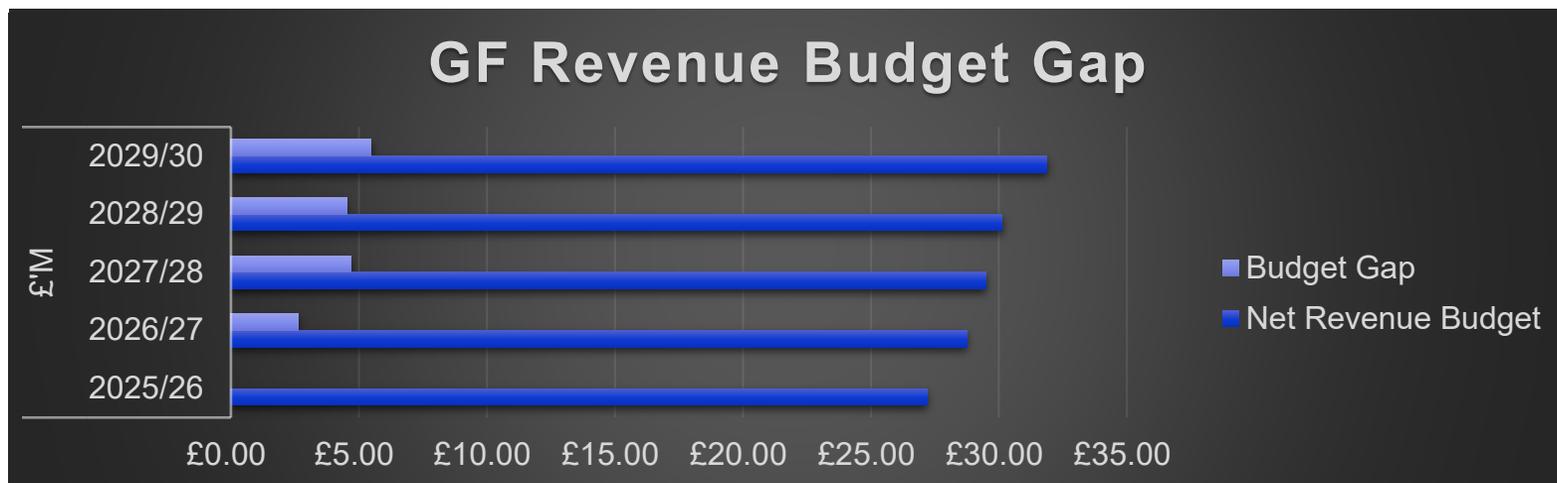


Medium Term Financial Strategy (MTFS) – See Significant Risks details on pages 21-22

The Council's MTFS, agreed by the Cabinet on 11 February 2025, for 2025/26 to 2029/30 identifies a structural budget gap, with projected shortfalls of £2.6m in 2026/27, rising to £4.7m in 2027/28, £4.5m in 2028/29, and reaching £5.5m by 2029/30 - equivalent to up to 17% of the net revenue budget. These gaps are primarily driven by a combination of cost pressures, demand drivers, and income insufficiencies.

Given the Council's reserves position and the governance arrangements in place, we do not consider the projected GF budget gaps to represent a significant weakness. However, if funding gaps or spending pressures increase, alternative measures may be required to maintain financial sustainability.

The Council is also exposed to short- and medium-term financial risks arising from the significant depletion of HRA reserves, which have fallen from £2.5m to £0.8m in the General HRA balance and from £10.3m to £2.4m in HRA earmarked reserves over the last four years, leaving limited capacity to absorb further pressures within the HRA.



Source: MTFS 25/26 – 29/30

Conclusion

Based on the procedures performed, we have identified significant weakness regarding the Council's arrangements for HRA reserves. Please refer to page 21 for further details.



Reserves – See Significant Risks details on pages 21-22

The table below shows the Council's reserves position. While there was a net increase in General Fund reserves between 2023/24 and 2024/25, HRA reserves continued to decline markedly over the same period.

During 2024/25, the General Fund recorded a £299k drawdown, indicating some reliance on reserves to support recurring budget pressures. For the HRA, further unplanned reductions in either the general or earmarked balances would significantly constrain the Council's ability to manage unforeseen pressures and deliver commitments within the 30-year HRA Business Plan.

Reserves	2024-25	2023-24
	£'000	
GF Reserves	10,027	10,326
Earmarked GF Reserves	18,712	17,040
Total GF Reserves	28,739	27,366
HRA Reserves	152	750
Earmarked HRA Reserves	1,981	2,823
Total HRA Reserves	2,133	3,573

Governance



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 sets out a structured process for identifying and assessing risks, using approaches such as workshops, checklists, and brainstorming. Risks arising through service planning or day-to-day operations are reported to Chief Officers and recorded in the GRACE system, where each risk is assigned an owner and unique identifier to support accountability. Risks are evaluated using a consistent four-point scale for likelihood and impact, with the combined score plotted on a matrix and categorised through a red-amber-green rating to support prioritisation and decision-making.

Mitigation actions are documented within GRACE and follow five recognised responses: avoid, accept, transfer, reduce, or exploit. Chief Officers maintain their service-level registers, while the Strategic Risk Register undergoes quarterly review by the SLT and Audit Committee. This provides structured oversight, enables challenge, and supports continuous improvement in the Council's management of risk.

Anti-fraud Controls

The Council has established a comprehensive framework for preventing and responding to fraud, bribery and corruption, set out in its Anti-Fraud, Bribery and Corruption Policy. The framework applies to all employees, Members, contractors and partners, and is supported by relevant governance policies and codes of conduct. It sets out defined roles and responsibilities, and incorporates preventative measures such as recruitment and procurement controls, risk assessments, and staff awareness activities. The policy also outlines procedures for reporting concerns, undertaking investigations in line with legal requirements, and taking action where appropriate. These arrangements are reviewed periodically and informed by internal audit and other assurance sources.

The Council provides an annual update on counter-fraud activity to the Audit Committee through the Corporate Fraud Manager's Annual Counter Fraud Report. This summarises the Council's arrangements, activity and outcomes relating to fraud prevention, detection and investigation, including the work of the Corporate Enquiry Team, partnership activity, and the operation of internal controls and risk management. The report enables the Audit Committee to consider the effectiveness of the Council's counter-fraud arrangements and note any areas requiring further attention

Governance (Cont.)



Financial Plan 2024/25 and budget monitoring

The Council's 2024/25 financial plan, forming part of the MTFs, underwent several stages of review before approval by Council in February 2024. Budget performance is monitored regularly, as outlined in the Financial Sustainability section. Quarterly 'Delivering Our Priorities' reports to Cabinet highlight significant variances, explain movements from previous forecasts, and set out associated mitigating actions. For 2024/25, the Council approved a balanced General Fund revenue budget of £25m; however, delivery of this position at year-end required a £299k drawdown from reserves, indicating some reliance on reserves to address underlying pressures.

Compliance with laws and regulations

The Monitoring Officer is responsible for overseeing compliance with applicable legal and regulatory requirements. In accordance with the Constitution, the Monitoring Officer, in consultation with the Section 151 Officer, must report to Council if any proposal, decision or omission is considered unlawful or may give rise to maladministration. Issuing such a report prevents implementation until formally considered. Management inquiries confirmed that there were no breaches of legislation or regulatory standards during the year that resulted in investigation by any legal or regulatory body.

Standards of behaviour

The Council's Code of Conduct sets out expected standards of behaviour, including requirements relating to respect, integrity, and the management of personal interests. The Raising Concerns Policy provides confidential routes for reporting malpractice or breaches of standards, and outlines the processes for escalation and referral to designated officers or external bodies. The Constitution includes specific provisions for managing conflicts of interest for Cabinet members and officers. Where an officer with delegated authority has a conflict, decision-making reverts to the delegating officer or is otherwise managed under the Code. Where all members of a Cabinet or committee have a conflict, dispensations may be granted by the Monitoring Officer, Standards Committee or Chief Executive.

Decision making process – See Significant Risk details on pages 21 -22

The Council's decision-making arrangements are set out in its Constitution, which requires the Cabinet to make decisions in accordance with approved policies and budgets, with specific notice and consultation requirements for key executive decisions, including those involving expenditure above £250,000. Under these provisions, the Leader may delegate executive functions to the Cabinet, which in turn may sub-delegate to Committees, individual Cabinet Members or Officers. Current financial authorisation limits permit the Chief Executive to approve expenditure up to £200,000 and Chief Officers up to £100,000, with decisions over £50,000 requiring consultation with the relevant Cabinet Member.

While these arrangements provide a clear governance framework, their effectiveness depends on consistent application and strong project-level controls. Our review indicates that these principles were not fully embedded within the Mainway Estate regeneration project, leading to a significant value-for-money weakness (see pages 21-22). Approved by Cabinet in February 2022, Phase 1 of the project represents a major strategic investment. However, despite £3.8m of expenditure incurred up to 2024/25—including £2.3m revenue and £1.5m capital relating to site acquisition, master planning and demolition—there remains no defined delivery plan, agreed milestones, or measurable outcomes.

Governance (Cont.)



	2024-25	2023-24
Control deficiencies reported in the Annual Governance Statement	3 (Procurement, Financial sustainability and Reserves & Balances)	3 (Risk Management, Procurement and Financial sustainability)
Head of Internal Audit Opinion	Limited Assurance	Moderate Assurance
Local Government Ombudsman findings	<p>Complaints upheld: no investigations in period.</p> <p>Satisfactory remedy provided by the organisation: The Ombudsman did not uphold any complaints in this period</p> <p>Compliance with Ombudsman recommendations: No recommendations were due for compliance in this period.</p>	<p>Complaints upheld = 100%</p> <p>Satisfactory remedy provided by the organisation = 0%</p> <p>Compliance with Ombudsman recommendations = 100%</p>
Housing Ombudsman findings	<p>Determinations: 1</p> <p>Maladministration Rate: Not available.</p>	<p>Determinations: 2</p> <p>Maladministration Rate: 100%</p>

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 21-23 for further details.

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

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 quarterly 'Delivering Our Priorities' (DoP) reporting cycle that brings together performance, project and financial monitoring. Corporate and service-level KPIs are reviewed regularly by Chief Officers, Portfolio Holders and Cabinet, with the Project & Performance Team ensuring alignment between KPIs, service plans and strategic priorities. Performance information is presented in a structured format, combining narrative analysis with data tables and graphics to support transparency. Oversight and challenge are provided through the Budget & Performance Panel and the Overview and Scrutiny Committee, which receive DoP updates, can request further information, and may call in decisions where necessary. This framework supports continuous monitoring, scrutiny and improvement across Council services.

The Q3 2024/25 DoP monitoring shows continued budget pressures across several services, although the overall projected General Fund variance remains modest. Within Environment & Place, operational issues persist, including sickness-related disruption and higher transport and premises costs, alongside income shortfalls at Salt Ayre Leisure Centre. Housing & Property continues to face pressures linked to homelessness demand and compliance activity, offset in part by staffing vacancies. Planning & Climate Change is experiencing significant overspends driven by reduced fee income—around 40% below expected levels—and the ongoing need for external consultancy support. People & Policy remains affected by workforce restructuring, contributing to staffing variances. Conversely, Communities & Leisure broadly maintains service delivery but continues to experience income challenges, including at Morecambe Market.

Benchmarking

The Council undertakes benchmarking across key service areas using external datasets, including APSE Performance Networks, CIPFA, the LGA, and regional professional networks such as Lancashire Chief Finance Officers. Chief Officers review comparative cost and performance information for their services, supported by corporate oversight and participation in thematic benchmarking exercises. Findings from benchmarking inform budget setting and service planning, with areas showing material variance subject to further challenge and review.

APSE benchmarking for 2024/25 indicates that refuse collection and recycling services perform strongly on several cost and efficiency measures. Lancaster ranks in the top quartile for investment per household (PI 02c, PI 27) and per head of population (PI 02d), and shows low net investment in recycling compared with peers (PI 03i). Fuel usage per 1,000 population is also favourable relative to other councils (PI 35a). Customer assurance processes score well, with quality and consultation indicators placed in higher quartiles (PI 15). However, performance on trade waste growth is mixed, and missed collection rates, while not ranked due to APSE thresholds, sit above top-quartile levels, indicating scope for improved operational reliability. Benchmarking insights continue to feed into performance monitoring and service improvement activity.

Improving economy, efficiency and effectiveness (Cont.)



Partnership

The Council continues to work through a wide range of partnerships to support service delivery, community outcomes and economic development. Collaborative activity during 2024/25 has included engagement with local anchor institutions—such as universities, NHS bodies, further-education providers, and voluntary-sector organisations—through strategic forums including the Lancaster District Strategic Partnership and the Bay Anchor Network. These partnerships help coordinate work on key priorities such as health and wellbeing, inclusive growth, climate action and community resilience. The Council also collaborates with institutions such as Lancaster and Morecambe College on skills development and low-carbon initiatives, and works with voluntary and community groups to support programmes in culture, regeneration and public health.

Operationally, the Council participates in regional and national programmes, including initiatives funded through the UK Shared Prosperity Fund, and works with specialist organisations on areas such as biodiversity, sustainable transport and community engagement. Partnerships such as the Community Safety Partnership and local community networks strengthen joint working on crime prevention, cohesion and neighbourhood priorities. Across these collaborations, the Council seeks to draw on external expertise and shared resources, supporting efficient, effective and locally responsive service delivery.

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



1 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.

This issue was also identified as a value for money risk in the prior year.

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 reduced substantially over the past four years, with the general HRA balance falling from £2.5m in 2021/22 to £0.8m in 2024/25—only marginally above the Council's minimum threshold of £0.75m. Earmarked HRA reserves have similarly declined, from £10.3m to £2.4m over the same period. This deterioration reflects external pressures including increased depreciation linked to rising asset values, the impact of energy and cost-of-living inflation, higher repairs expenditure, and increased compliance costs arising from national standards.
- Additional strain has arisen from decisions to use HRA resources to support regeneration-related activity, including the Mainway Estate project, the acquisition of the former Skerton School site, and the buy-back of leasehold properties. These commitments have materially reduced the financial headroom available to manage unforeseen repairs, compliance obligations or urgent housing needs, creating a significant risk to the Council's ability to sustain statutory housing services and deliver essential capital investment. As at year-end 2024/25, the reserve position is not underpinned by a clear recovery strategy or a stress-tested HRA Business Plan that aligns future pressures with the MTFS.

Significant Value for Money Risk



1 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.

This issue was also identified as a value for money risk in the prior year.

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 position is further compounded by the Mainway Estate regeneration project, where approximately £3.8m has been incurred on site acquisition and master planning activities, yet no approved delivery plan, programme milestones or comprehensive governance framework is in place. The absence of a defined approach means the financial implications of potential redevelopment options are not fully understood or reflected within the HRA Business Plan, limiting the Council's ability to align housing priorities with long-term financial sustainability.
- While management has begun exploring a range of corrective measures—including reviewing asset valuation methodologies, reassessing useful lives, considering loan funding and payment options, and strengthening governance for Mainway through a Cross-Party Councillor Board and early market engagement—these initiatives commenced after year-end and remain at a formative stage. As such, they do not evidence robust arrangements in place as at 31 March 2025.

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

2

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 has faced the challenge of preparing and concluding several years of accounts and audits concurrently (2020/21 to 2024/25), creating a sustained risk to the timely delivery of statutory financial reporting and to the effective resourcing of the accounts and audit process.

Although the Council met the publication deadline for its 2024/25 draft accounts, the 2023/24 audit was not completed by the statutory backstop date of February 2025. This delay compressed the timetable for the 2024/25 audit, restricts the ability to progress work in a timely manner, and demonstrates that the Council has not yet restored a stable cycle of on-time audit completion.

The recurrence of missed backstop deadlines across successive years indicates an ongoing weakness in the Council's financial reporting arrangements.

This issue was also identified as a value for money risk in the prior year.

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 introduced national measures to address the local audit backlog, including amendments to the Accounts and Audit Regulations and the NAO Code permitting auditors to issue disclaimed opinions for incomplete audits up to 31 March 2025, with a delivery deadline of 27 February 2026.
- Despite these mitigations, the Council was unable to conclude the 2023/24 audit by the statutory backstop date. This delay had a direct knock-on effect on the 2024/25 audit, delaying its commencement and constraining progress towards timely completion.
- While these circumstances explain the timing pressures, they highlight a significant weakness in the Council's arrangements for ensuring sufficient experienced capacity and maintaining robust governance over the financial reporting and audit process.

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:

#	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 four years, dropping to level only marginally above 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"> • A clear delivery plan for Mainway Estate with milestones, governance, and measurable outcomes. • Evaluation of financial implications for all redevelopment options and incorporation into the HRA Business Plan and MTFs. • A sustainable reserve recovery strategy supported by stress-tested financial planning. 	<p>Like all Councils, Lancaster City is experiencing increased financial pressures and heightened uncertainty and has had a significant impact on key areas of expenditure. The challenges are especially acute within the Housing Revenue Account (HRA), which has faced rising costs, sustained high demand for services, and a reduction in income due to the effective capping of rent increases.</p> <p>In response to these pressures, substantial work has been carried out throughout the year to preserve the integrity of the HRA and to maintain an appropriate level of reserves. This includes specific efforts to address the increase in the depreciation charge by applying a 35% Existing Use Value – Social Housing adjustment factor with effect from 2025/26. In addition, actions have been taken to repay self-financing loan principal amounts using the Major Repairs Reserve.</p> <p>For the 2024/25 financial year, the Section 151 Officer established a minimum level of HRA unallocated balances at £0.750 million. This benchmark is intended to safeguard the integrity of the HRA and provide a buffer against unforeseen financial challenges. In practice, the recommendation of a minimum level of unallocated reserves serves as an early indicator that the Council may be encountering financial pressures. Should the reserves approach or fall below this threshold, it signals the need for prompt action to address any deterioration in the Council's financial position.</p> <p>As a result of the work undertaken the HRA's level of unallocated reserves increased to £0.803M which exceeds the stated £0.750M minimum and so does provide a degree of resilience. In addition, these factors have been modelled into the HRA's 30-year business plan which show a stabilising of reserve levels over the short and medium term with a marked increase from 2030/31 as the full benefit of the 10-year rent settlement allowing rent increases of CPI +1.0% filters through.</p> <p><i>(Continued on next page)</i></p>

Value for Money: Recommendations (Cont.)



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

#	Grading	Issue, Impact and Recommendation	Management Response/Officer/Due Date					
1	Other		£m	2024/25	2025/26	2026/27	2027/28	2028/29
			HRA Unallocated Reserves	804	770	1,296	875	802
			HRA Earmarked	2,371	1,354	1,511	1,784	2,054
			Total	3,174	2,125	2,807	2,660	2,856
				2029/30	2030/31	2031/32	2032/33	2033/34
			HRA Unallocated Reserves	1,369	3,085	4,976	7,302	10,078
			HRA Earmarked	2,317	2,556	2,790	3,024	3,258
			Total	3,686	5,641	7,766	10,325	13,336

As with all long-term projections there is a degree of uncertainty the further into the future, they progress however the business plan modelling is agile and does enable a degree of sensitivity analysis and stress testing to be undertaken. Several alternative scenarios have been developed should balances fall below the minimum level or there are other clear indicators of financial distress.

Mainway Estate Progress

Despite several challenges key milestones have been achieved and governance processes strengthened through cross-council meetings, quarterly reporting, and a Cross-Party Board. The Pre Market Engagement (PME) exercise is due to conclude shortly which will help inform the Councils direction as it remains committed to balancing financial resilience with strategic regeneration priorities

Value for Money: Recommendations (Cont.)



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

#	Grading	Issue, Impact and Recommendation	Management Response/Officer/Due Date
2	Other	<p>The Council has continued to face challenges in achieving timely statutory financial reporting, linked to the concurrent preparation and audit of several years' accounts (2020/21 to 2024/25). While the Council met the publication deadline for its 2024/25 draft accounts, the 2023/24 audit was not completed by the statutory backstop date of February 2025, indicating that a stable cycle of on-time audit completion has not yet been fully re-established.</p> <p>Repeated slippage against statutory deadlines across successive years highlights an ongoing weakness in the Council's financial reporting arrangements. Delays in audit completion compress subsequent audit timetables, constrain effective resourcing, and reduce transparency and assurance over the Council's financial position, increasing exposure to external scrutiny.</p> <p>This recommendation is therefore carried forward. While progress has been made in meeting the 2024/25 draft accounts publication deadline, the Council should continue to strengthen governance, capacity, and resilience within the financial reporting function through improved planning, oversight of the closedown and audit process, and robust contingency arrangements to support consistent compliance with statutory reporting deadlines.</p>	<p>The Council acknowledges that the statutory backstop deadlines were not met but does not agree that this reflects a failure in timely financial reporting. The Council complied with its statutory requirements for the preparation and publication of the financial statements, as well as for budget setting and Council Tax determination.</p> <p>Audit progress was adversely affected by delays in responses from the External Auditors to a number of queries, including a significant issue (objections / HRA/ VFM approach) affecting both the 2023/24 and 2024/25 accounts that has remained unresolved for over 12 months despite repeated follow up.</p> <p>An Audit Committee meeting was convened on 18 February 2026 to support delivery of the February backstop deadline. All requested information was provided; however, the External Auditors were unable to complete their work, and the meeting was cancelled at their request.</p>

Value for Money: Recommendations

Below we have set out our findings from following up recommendations raised in respect of significant weaknesses identified in prior periods:

#	Issue, Impact and Recommendation	Management Response/Officer/Due Date	Update as of March 2026
1	<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"> A clear delivery plan for Mainway Estate with milestones, governance, and measurable outcomes. Evaluation of financial implications for all redevelopment options and incorporation into the HRA Business Plan and MTFS. A sustainable reserve recovery strategy supported by stress-tested financial planning. 	<p>HRA Reserves</p> <p>As a Council we have experienced significant pressures over recent years and will continue to do so in the future. These pressures are particularly prevalent within the Housing Revenue Account (HRA) and include factors such as</p> <ul style="list-style-type: none"> Increases in depreciation charges due to increasing property values. Cost of living crisis (energy inflation) Increase in repairs expenditure due to the rising cost of labour and materials. Above inflationary level salary increases. Rent increase cap of 7.0% for existing tenants for 2023/24, against CPI of 10.1% Increased compliance expenditure to address national issues such as Awaab's law, and Expenditure to address the situation within the Mainway Estate <p>As noted, we are not alone in the current financial challenges we are facing. According to the current Social Rent Convergence consultation the government has out at the moment: How to implement Social Rent convergence - GOV.UK reports: In aggregate across all 162 Local Authority Registered Providers (LARPs) with Housing Revenue Accounts, spending has exceeded turnover in 4 of the past 5 years, leading to a corresponding decrease in aggregate reserves as they are used to cover the shortfall in the ring fenced account</p> <p>Reserve levels and use of reserves are an important part of the budget framework. It is important that the Council maintains a healthy level of reserves in order to maintain financial resilience but balances this with the careful use of those reserves, usually on 'one-off' items in order to support corporate priority projects or emergency situations.</p> <p>The Local Government Act 2003 places explicit requirements on the s151 Officer to provide a statement on the adequacy of the Council's reserves and provisions. In February 2023, the s151 Officer advised that HRA unallocated reserves should be increased from £0.500M to £0.750M with effect from 1 April 2023 to provide a degree of resilience against unforeseen pressures.</p> <p><i>(Continued on next page)</i></p>	<p>Based on our review, we note that management has begun to consider a range of corrective actions—including reviewing asset valuation methodologies, reassessing useful lives, exploring loan funding and payment options, and strengthening governance for the Mainway project through a Cross-Party Councillor Board and early market engagement.</p> <p>However, these activities commenced after year-end and remain at an early stage of development. They do not demonstrate that robust arrangements were in place as at 31 March 2025.</p> <p>Accordingly, this recommendation is assessed as outstanding.</p>



Value for Money: Recommendations

Below we have set out our findings from following up recommendations raised in respect of significant weaknesses identified in prior periods:

#	Issue, Impact and Recommendation	Management Response/Officer/Due Date	Update as of March 2026
1		<p>HRA Reserves (Continued)</p> <p>Separate decisions around the use of the Business Support Reserve for the project costs relating to development at Mainway and Coopers Field, along with the purchase of the former Skerton School site and buy back of leasehold properties on the Mainway estate have resulted in the diminishing of its balance. This has therefore reduced the available buffer within HRA reserves.</p> <p>The level of reserves and wider financial health of the HRA is being carefully monitored and detailed plans developed to address the situation, including.</p> <ul style="list-style-type: none"> • Consideration of the methodology used in reaching a valuation that reflects the current use of the assets (social housing, EUV-SH). • Reassessment of useful lives or impairment, disposals, and acquisitions of HRA assets. • Review of funding of the self-financing loan with a view to utilising the Major Repairs Reserve for annual principal repayment. <p>These reviews will feed into the 2026/27 budget process and provide a clear updated net financial position which will allow the opportunity to inform decision making over the medium term.</p> <p>Mainway Estate</p> <p>It is worth noting that development of this nature does take a significant amount of time to come forward and there are other such projects which are still to come to fruition such as Canal Quarter and the Eden Project. The Skerton School site was purchased in 2023/24 with Secretary of State approval obtained immediately prior to purchase</p> <p>In the time frame considered and to the end of 2024 – a regular bi-weekly cross council meeting was established, the neighbouring school site was bought with the intention of being then able to unlock the redevelopment / regeneration of the neighbouring Mainway estate, planning for the Skerton High School site was achieved as a significant milestone (delays were the result of an initial expectation of a hybrid application – which Planners then requested to become a full application, as well as prolonged discussions with Sports England – at statutory consultee on the planning application), a successful BLFR application which has supported with the demolishing of the school – making the site development ready. A masterplan for the Mainway site has also been achieved.</p>	



Value for Money: Recommendations (Cont.)



Below we have set out our findings from following up recommendations raised in respect of significant weaknesses identified in prior periods:

#	Issue, Impact and Recommendation	Management Response/Officer/Due Date	Update as of March 2026
2	<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>We like many other Council's across the Country Lancaster City Council has been significantly impacted by the much-publicised failures within the Public Sector Audit regime, resulting in a backlog of 100's of unsigned or disclaimed audit opinions and a loss of confidence in the sector.</p> <p>The specific challenges the Council has faced are well documented and the s151 Officer has presented a Statement of Accounts Update at each Audit Committee meeting since November 2021.</p> <p>At its meeting 20th March 2024 the Audit Committee endorsed the s151 Officers proposal to delay publication of the 2023/24 Statement of Accounts until August 2024 so that the priority would be to focus on concluding the outstanding statements ahead of the February 2025 deadline.</p> <p>Agenda for Audit Committee on Wednesday, 20th March 2024, 6.00 p.m. - Lancaster City Council.</p> <p>The s151 Officers prioritisation of these accounts rather than 2023/24 audit allowed the Finance Team the space required to address and successfully clear the 3 years of outstanding Statement of Accounts (2020/21, 2021/22 and 2022/23) whilst fulfilling its statutory duties around revenue and capital budget setting, medium term financial planning, council tax setting etc. These are substantial pieces of work starting mid-October and concluding February each year. which was in conflict with the audit backstop deadline 25th February 2025.</p> <p>The Finance Team have recently recruited and increased resilience across key areas and so going forward every effort will be made to ensure that the audits are concluded in a timely manner. However, should similar timing conflicts arise given and the repercussions of failing to set its budget or levy council tax the s151 Officer will always recommend the prioritisation of these over the audit of the Council's financial statements.</p>	<p>Based on our review, we note that the Council has taken steps to improve the timeliness of its financial reporting, including meeting the statutory publication deadline for the 2024/25 draft financial statements. However, the audit of the 2023/24 financial statements was not concluded by the statutory backstop date, which had a direct adverse impact on the commencement and progression of the 2024/25 audit.</p> <p>During this period, additional value for money enquiries required significant management input, and management was awaiting KPMG's response in relation to its proposed approach to addressing the MRR.</p> <p>As at 31 March 2025, the Council had not evidenced that a structured audit readiness plan was in place, including clearly defined timelines and designated responsible officers, and therefore has not yet demonstrated that it has re-established a stable and timely accounts and audit cycle. Accordingly, this recommendation remains outstanding.</p>



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