

Knowsley Metropolitan Borough Council

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

February 2025



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We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

The Code of Audit Practice issued by the National Audit Office (NAO) requires us to report to you our commentary relating to proper arrangements.

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



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

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Introduction



Purpose of the Auditor's Annual Report

This report brings together a summary of all the work we have undertaken for Knowsley Metropolitan Borough Council Council (the Council) in relation to the financial year 2023/24 as the appointed external auditor. The core element of the report is the commentary on the value for money (VfM) arrangements.

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

Councils report on their arrangements, and the effectiveness of these arrangements as part of their Annual Governance Statement.

Responsibilities of the appointed auditor

Opinion on the financial statements

Auditors provide an opinion on the financial statements which confirms whether they:

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

We also consider the Annual Governance Statement and undertake work relating to the Whole of Government Accounts consolidation exercise.

Value for money

We report our judgements on whether the Council has proper arrangements in place regarding arrangements under the three specified criteria:

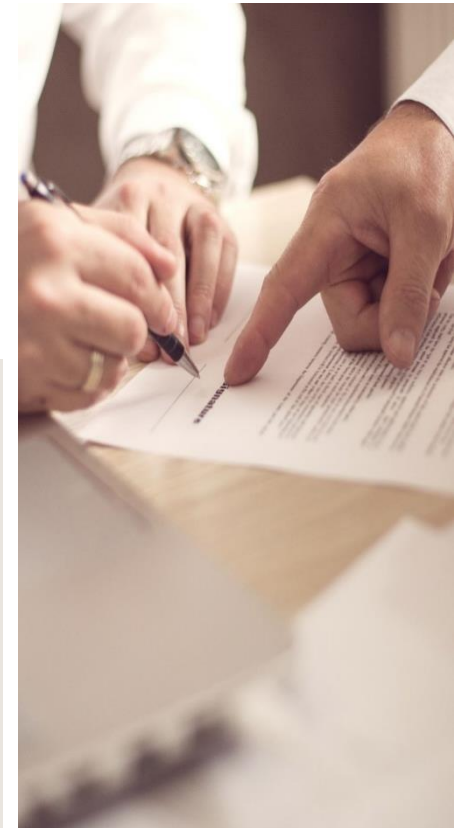
- financial sustainability
- governance
- improving economy, efficiency and effectiveness

The Value for Money auditor responsibilities are set out in Appendix B.

Auditor powers

Auditors of a local authority have a duty to consider whether there are any issues arising during their work that require the use of a range of auditor's powers.

These powers are set out on page 12 with a commentary on whether any of these powers have been used during this audit period.



Executive summary



Executive summary

Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to consider whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. The NAO has consulted and updated the Code to align it to accounts backstop legislation. The new Code requires auditors to share a draft Auditors Annual Report ('the Report') with those charged with governance by a nationally set deadline each year (30 November) and for the audited body to publish the Report thereafter. This new requirement will be introduced from November 2025. As a firm, we are committed to reporting the results of our local audit work on as timely a basis as possible. Our summary findings are set out below. Our recommendations and management responses are summarised in the section starting on page 32.



Financial sustainability

Balancing the 2023/24 budget outturn required £2.8m of reserves including the planned use of £1.4m of one-off resources and the subsequent £1.4m budget deficit at year-end. The resources to fund these contributions had been set aside as part of the budget process with £5.6m identified as available to manage inflation and demand pressures. Within the budget deficit position for 2023/24 there was a net service overspend of £5.3m, driven by a £4.7m overspend in Children's Services, due to the increasing cost, demand and complexity of placements and home to school transport pressures. The revenue budget 2024/25 included significant investment to address spending pressures in adult and children's social care.

The Council did not require the use of reserves to balance recurring expenditure within the 2024/25 budget. The 2024/25 budget was balanced through £2.6m of adult social care savings, £1.4m of operational service budget reductions, £1m vacancy savings and £1m of permanent low impact savings. In addition, one-off resources of £6.6m were identified as available to support the budget, with £2.1m utilised to fund one-off investments while the remaining £4.5m was retained to support emerging pressures or priorities.

As at March 2024, the Council was forecasting budget gaps of £3.1m in 2025/26 and £4.0m in 2026/27.

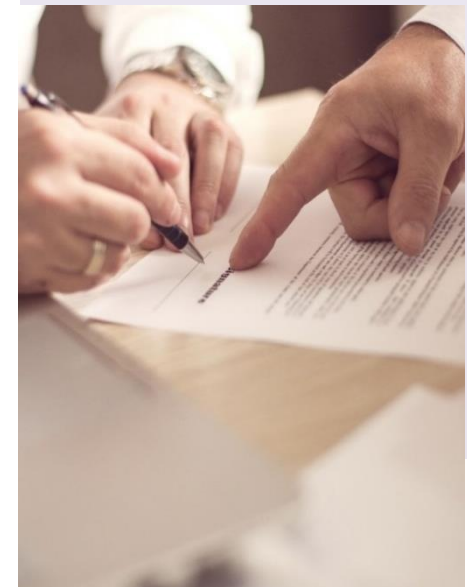
We have not identified any weaknesses with regard to the Council's annual and medium-term financial planning process and financial assumptions appear reasonable. Balancing the 2024/25 budget without the use of reserves is a positive step with regard to financial sustainability.

The Dedicated Schools Grant (DSG) deficit for 2023/24 was £8.1m, providing a cumulative DSG deficit of £12.9m as at 31 March 2024. The DSG Management Plan 2024/25 submitted to the Education and Skills Funding Agency in May 2024 forecast the annual mitigated DSG deficit increasing to £21.5m by 2025/26, for a total cumulative mitigated deficit of £53.2m by 31 March 2026 which is far in excess of the Council's General Fund Balance which stood at £9.0m as at 31 March 2024. While the Schools Forum and Cabinet Member for Children's Services receive detailed updates on the DSG deficit position, financial planning, budget setting, and budget monitoring reports to the Cabinet and Council do not provide Members with any detail on the cumulative or in-year DSG deficit.

We have raised an improvement recommendation that the Council should reduce the forecast increases in the DSG deficit by focussing on the drivers of demand and ensuring sufficiency of places, through continuing to develop the DSG Deficit Management Plan. Early intervention and support mechanisms to reduce the demand for complex high-cost care plans and allow children to remain in mainstream schools are required in addition to ensuring the sufficiency of special-school places. Cabinet and Council should receive detailed updates on the annual and cumulative DSG deficit position to provide oversight and gain assurance over the impact the actions to reduce the deficit are having.



We have completed our audit of your financial statements and will issue a qualified audit opinion, expressing our view that the Council's 2023/24 accounts give a true and fair view of the financial position of the authority as at 31 March 2024 and its income and expenditure for the year then ended, except for the possible effects of a lack of suitable valuations of two of the Council's assets.



Executive summary (continued)



Financial sustainability (continued)

The 2023/24 budget did not include a savings target in order to balance the financial position, as the £1.3m residual budget deficit was the result of inflationary pressures that the Council did not consider to be recurring. The 2024/25 budget was balanced through £6m of low impact savings and efficiencies that were not planned to impact on service delivery. In recent years the Council has not had to develop a Council-wide transformational savings programme in order to balance the budget. The approach to balance the 2025/26 budget gap has already started and Executive Directors are working on savings proposals, with a 5% target as a guide.

The Council can evidence the identification of low impact service savings in order to balance the budget in 2024/25, and there are also longer-term savings and demand management programmes within Children's and Adult Services that are reviewing how services are delivered. The £3.1m budget gap identified for 2025/26 represents 1.3% of the 2024/25 net budget of £239.3m and so, although significant, should represent an achievable target provided the Council acts at pace to identify budget savings proposals for Members to consider.

While the Council moves into a period where more significant budget gaps will require balancing, and as the Council has already identified significant operational and low impact savings in previous years, savings proposals will need to be developed from new ways of working and potentially reduced levels of services.

We have raised an improvement recommendation that the Council should develop Council-wide transformational or cross-cutting savings proposals in order to address the budget gaps identified in the Medium-Term Financial Strategy. A pipeline of savings should be developed that addresses budget gaps in future years.

The Council has arrangements in place to manage financial risk through budget contingencies and reserves, and maintained healthy reserve levels as at 31 March 2024. As part of the budget process for 2024/25, the General Fund Balance was budgeted to increase by £0.4m to £9.0m in view of the greater levels of risk the Council faces as a result of continuing social care pressures and future financial uncertainty. This level of reserves represents 3.8% of the net budget for 2024/25 and is considered a prudent level by the Council, recognising that significant growth was included in the 2024/25 base budget to address the key budget pressures relating to social care. In addition to the General Fund Balance, the Council had £94.3m of earmarked reserves as at 31 March 2024, although repurposing these to address risk could impact on the delivery of Council priorities.

Budget monitoring reports provided to Cabinet Members for their portfolio areas include an overview of levels of reserves available for the portfolio and their spend profile for current and future years. The Council does not however aggregate portfolio or departmental reserve projections to provide a Council-wide view of the total levels of reserves available over the medium-term.

We have raised an improvement recommendation that the Council should provide an aggregated organisation-wide projection of reserve balances over the period of the Medium-Term Financial Strategy within its financial planning reports to provide increased oversight to Members and ensure that prudent levels of reserves are maintained to manage risk and fund future corporate priorities.



Governance

We have not identified any significant weaknesses with regard to arrangements to identify and manage risk. The Council has a Risk Management Policy in place that sets out the Council's approach to risk management, the objectives of risk management and responsibilities for managing risk. Each department maintains a risk register which is presented to Portfolio Holders on a quarterly basis and includes the elements of best practice that we would expect to see. We note that the Cabinet and Governance and Audit Committee were provided with risk update reports and a summary of the Strategic Risk Register once during 2023/24, and that the Strategic Risk Register includes 38 strategic risks.

We have raised an improvement recommendation that the Council should further strengthen risk management reporting arrangements by increasing the frequency that the Strategic Risk Register is reported to the Governance and Audit Committee and by reviewing the number of risks reported in the Strategic Risk Register. This would ensure that those charged with governance have more regular and timely oversight of the management of risk and that there is a focus on the key strategic risks that impact on corporate priorities.

Executive summary (continued)



Governance (continued)

We have not identified any significant weakness with regard to the arrangements for an effective internal audit function, or with regard to the Council's control environment. The Governance and Audit Committee received a progress report on the delivery of the 2023/24 Internal Audit (IA) plan in January 2024, and updates on the implementation of recommendations in June 2023, January 2024 and June 2024. The IA Annual Audit Report 2023/24 provides a substantial level of assurance on the work undertaken, but a moderate level of assurance was provided overall for the year as the full audit plan was not completed due to vacancies in the audit team. We note that the IA Annual Audit Report 2023/24 confirms that 29 audit reviews were undertaken, providing assurance opinions of 8 high, 15 substantial, 5 moderate and 1 reasonable. A variety of systems and processes were reviewed, and no critical priority recommendations made. As at June 2024 85% of IA audit recommendations were fully implemented.

We have raised an improvement recommendation that the Governance and Audit Committee should receive quarterly progress reports on the delivery of the internal audit plan. This would ensure that the Committee have timely assurance and oversight on the delivery of the plan and the strength of the control environment.

We will review the impact of the actions that the Council is currently taking to improve internal audit capacity through promotions of existing audit staff and external recruitment as part of our 2024/25 value for money work.

The Council has an adequate budget setting process and Cabinet receives quarterly revenue budget monitoring reports which provide Members with information on key budget variances, forecasts across service areas and information relating to the use of one-off resources.

During our review of the financial information that is provided to Full Council and Cabinet within the annual budget setting report we have identified areas where there are opportunities to further strengthen arrangements by providing more detailed information to Members. Areas for consideration include providing more information on key elements of the budget such as the overall General Fund budget by service, a full schedule of savings, the DSG deficit, reserve balances and the results of stakeholder engagement. Providing more detailed information would provide better oversight and allow increased challenge regarding the Council's financial plans.

We have raised an improvement recommendation that the Council should consider where financial reporting can be strengthened by providing more detailed information to Members within the annual budget setting report to provide better oversight and allow increased challenge regarding the Council's financial plans.

The Council implemented a new integrated HR and payroll system in April 2023. We note that there was a hard deadline to go-live on 1 April 2023, and that the implementation timetable was shortened due to the Council being advised to undertake a competitive procurement exercise. Issues were experienced after go-live, resulting in additional staff time required to process transactions and manual workarounds to be developed. We understand that the system is now considered to be fully functional.

We have raised an improvement recommendation that the Council should conduct a lessons learned exercise from the implementation of the HR and payroll system in order to inform the planning and implementation of future IT systems. The Council should also undertake a benefits realisation exercise to ensure that the anticipated benefits of the integrated HR and payroll system are being delivered and that the system is being used to its full functionality

We have found that the Council has adequate arrangements in place to support appropriate and informed decision making and there is an appropriate tone from the top set by senior officers and Members. The Council has arrangements in place to ensure adequate scrutiny of decisions and to ensure compliance with legislative and regulatory requirements. We have not raised any recommendations relating to these areas.

Executive summary (continued)



Improving economy, efficiency and effectiveness

Ofsted undertook an inspection of Children's Services in November 2024, publishing their inspection report in January 2025. Ofsted judged the overall effectiveness of Children's Services as "inadequate". The January 2025 Ofsted Inspection Report highlights that the quality of services for children has not improved since the last inspection in 2021 and that the impact of substantial churn in leadership at Director of Children's Services, senior and middle management levels has seen a significant deterioration on the quality of services and practice. The inspection identified serious and widespread weaknesses in services for disabled children, young carers and care-experienced young people. Ofsted commented that the Council's self-evaluation was not an accurate reflection of the current challenges in Children's Services.

We consider that the Ofsted "inadequate" judgement reflects arrangements and significant weaknesses that were in place during 2023/24 and represent a significant deterioration in quality since the previous Ofsted inspection in 2021. **We have made a key recommendation that the Council should develop and deliver their Children's Services improvement plan to address the significant weaknesses identified by the November 2024 Ofsted inspection and subsequent "inadequate" assessment. Areas where significant improvements are required include leadership capacity, identification and response to risk, quality of social work practice and management oversight.**

The Council has arrangements in place to manage and monitor performance. The Cabinet receives bi-annual Knowsley Council Plan monitoring reports which provide an update on the progress made delivering the priorities as set out in the Council Plan 2022-25 and the Annual Delivery Plan 2023/24. Progress is reported with a detailed narrative against the three priorities set out in the corporate plan. Each department also maintains a performance dashboard which is presented to Portfolio Holders on a quarterly basis. These provide data and Red / Amber / Green rated key performance indicators against priority areas and key service measures with a supporting narrative. We have not identified any significant weaknesses in the Council's arrangements for managing and reporting performance.

We have made an improvement recommendation that the Cabinet should receive formal performance management reports that provide key performance indicators for service performance in addition to the information they receive on the delivery of the Council Plan. Providing service key performance indicators would ensure that all Cabinet Members have adequate oversight of the overall performance of the Council, both operational and strategic, allowing challenge where performance is below target.

The Council entered a collaborative shared services agreement with STAR Procurement in October 2023, joining as a partner with the existing partner local authorities. The Council retains sovereignty for its procurement decisions, including ownership of the strategic approach to procurement, which are delivered through the shared service.

The responsibility for contract management and monitoring sits within service areas. There was no central oversight of contract management or monitoring during 2023/24 by the Council's in-house procurement service (pre-October 2023), and this is not a function provided by STAR Procurement (post-October 2023). The Council does not have assurance that contracts are being monitored as required and that contracts are being delivered in accordance with agreed performance and quality standards.

The Council does not maintain a register of exemptions, and there has been no reporting of exemptions to the Governance and Audit Committee. Therefore, those charged with governance have not been provided with oversight of the number, value and reasons why exemptions are issued, and are therefore unable to challenge why approved competitive procurement processes that are designed to achieve value for money are not followed.

We have not identified a significant weakness with regard to the Council's procurement and contract management processes and we recognise the increased procurement support that the Council receives through its partnership with STAR Procurement. **We have raised an improvement recommendation that the Council should strengthen contract management and procurement arrangements through implementing processes to provide central oversight and assurance that contracts are being monitored and managed effectively. Procurement exemptions should be reported to the Governance and Audit Committee.**

Executive summary (continued)



Overall summary of our Value for Money assessment of the Council's arrangements

Auditors are required to report their commentary on the Council's arrangements under specified criteria and 2023/24 is the fourth year that these arrangements have been in place. The 2023/24 financial year is the first year that Grant Thornton UK LLP has been the appointed external auditor for the Council and so is the first year we have assessed the Council's arrangements to secure economy, efficiency and effectiveness in its use of resources.

The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed for the purpose of completing our work under the NAO Code and related guidance. Our audit is not designed to test all arrangements in respect of value for money. However, where, as part of our testing, we identify significant weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose all irregularities, or to include all possible improvements in arrangements that a more extensive special examination might identify. A summary of our judgements are set out in the table below.

We have identified significant weaknesses within Children's Services and raised a key recommendation to address the weaknesses identified in the recent Ofsted inspection. We have also raised improvement recommendations across the three value for money criteria, which represent best practice to further improve arrangements, but these are not a result of identifying significant weaknesses in the Council's arrangements.

Criteria	2022/23 Auditor judgement on arrangements	2023/24 Risk assessment	2023/24 Auditor judgement on arrangements
Financial sustainability	No significant weaknesses in arrangements identified and no recommendations made.	No risk of significant weakness with regard to arrangements to achieve financial sustainability were identified at the planning stage.	A No significant weaknesses in arrangements identified, but three improvement recommendations have been made. These relate to continuing to work to reduce the dedicated schools grant deficit, developing Council-wide cross cutting savings proposals, and providing an organisational projection of reserve balances over the period of the Medium-Term Financial Strategy.
Governance	No significant weaknesses in arrangements identified and no recommendations made.	No risk of significant weakness with regard to governance arrangements were identified at the planning stage.	A No significant weaknesses in arrangements identified, but four improvement recommendations have been made. These relate to increasing the frequency of reporting of the risk register and the progress of delivering the internal audit plan to the Governance and Audit Committee, providing additional information within budget reports, and undertaking a lessons learned and benefits realisation exercise for the implementation of the new HR and payroll system.
Improving economy, efficiency and effectiveness	No significant weaknesses in arrangements identified and no recommendations made.	No risk of significant weakness with regard to arrangements to improve economy, efficiency and effectiveness were identified at the planning stage.	R We have identified significant weaknesses within Children's Services as a result of the "inadequate" Ofsted inspection assessment published in January 2025. We have raised a key recommendation that the Council should develop and deliver their Children's Services improvement plan to address the significant weaknesses identified. Two improvement recommendations have been made relating to reporting service key performance indicators to Cabinet and strengthening contract management and procurement arrangements.

G

No significant weaknesses in arrangements identified or improvement recommendation made.

A

No significant weaknesses in arrangements identified, but improvement recommendations made.

R

Significant weaknesses in arrangements identified and key recommendations made.

Opinion on the financial statements and use of auditor's powers



Opinion on the financial statements



Audit opinion on the financial statements

A draft version of our Audit Findings Report (AFR) was presented to the Council's Governance and Audit Committee on 10 February 2025, and following conclusion of our outstanding queries the final version of our AFR was discussed with the Chair of the Governance and Audit Committee on 26 February 2025.

We intend to issue a qualified opinion on the Council's financial statements, expressing our view that the Council's 2023/24 accounts, which were approved by the Governance and Audit Committee on 10 February 2025, give a true and fair view of the financial position of the authority as at 31 March 2024 and its income and expenditure for the year then ended, except for the possible effects of a lack of suitable valuations of two of the Council's assets.

The full opinion is included in the Council's Financial Statements for 2023/24, which can be obtained from the Council's website.

Grant Thornton provides an independent opinion on whether the Councils financial statements:

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

We conducted our audit in accordance with:

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

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

Audit Findings Report

We report the detailed findings from our audit in our Audit Findings Report. A draft version of our report was presented to the Council's Governance and Audit Committee on 10 February 2025 and a final version of the report will be shared with members of the Governance and Audit Committee members and discussed with the Chair of the Governance and Audit Committee. Requests for this Audit Findings Report should be directed to the Council.

Use of auditor's powers

We bring the following matters to your attention:

2023/24

Statutory recommendations

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

We did not make any recommendations under Schedule 7 of the Local Audit and Accountability Act 2014.

Public Interest Report

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

We did not issue a public interest report.

Application to the Court

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

We did not make an application to the Court.

Advisory notice

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

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

We did not issue any advisory notices.

Judicial review

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

We did not make an application for judicial review.

Value for Money Commentary on arrangements



The current local government landscape

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



National context

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

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

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

Local government is coming under an increased spotlight in terms of how the sector responds to the financial challenge it faces. Since the start of 2024, the UK government has emphasised the need for increased productivity rather than increased funding. New plans were announced by the Chancellor in March 2024 for public sector productivity to deliver up to £1.8 billion worth of benefits by 2029. Councils have been asked to submit productivity plans, showing how they will improve service performance and reduce wasteful spend.

The general election that took place on 4 July 2024 led to a change in government, and changes to government policy and legislation relating to the sector are emerging at the time of producing this report.



Local context

Knowsley Metropolitan Borough Council serves a population of approximately 152,000. The Council faces significant challenges that impact on the demand and cost of services, including the impact of health inequalities in more deprived areas of the Borough, the cost-of-living crisis, and increases in the number of vulnerable people with complex needs such as increases in mental health referrals to adult social care and the numbers of children requiring education, health and care plans.

The Knowsley Council Plan 2022-25 sets out the Council's key strategic priorities. The Council vision is defined as: "supporting Knowsley's people and communities to thrive" and the Council Plan identifies the following strategic priorities:

- Supporting those most in need;
- Inclusive skills and growth;
- Climate emergency - achieving net zero.

The Council has co-produced the Knowsley 2030 Strategy with strategic partners, residents and businesses. The Council and key partners are committed to delivering the strategic outcomes within the Strategy that will shape the Borough by 2030. Strategic outcomes relate to vibrant and well-connected neighbourhoods, a thriving economy, an active and healthy population, people able to achieve their full potential, and safe communities.

The Council operates under executive arrangements, with a Leader and Cabinet model. The Full Council elects the Leader, and the Leader appoints their Cabinet from amongst the members of the Council. The political make-up of the elected Councillors is as follows: Labour 29; Green 7; Independent 4; Liberal Democrats 3; Labour and Co-Operative Party 2.

Financial sustainability



We considered how the audited body:

Commentary on arrangements

Assessment

ensures that it identifies all the significant financial pressures that are relevant to its short and medium-term plans and builds these into them;

Balancing the 2023/24 budget outturn required £2.8m of reserves including the planned use of £1.4m of one-off resources and the subsequent £1.4m budget deficit at year-end. The resources to fund these reserve contributions had been set aside as part of the budget process with £5.6m identified as available to manage inflation and demand pressures. This strategy was followed by the Council as the inflationary cost pressures were not judged to be recurring and so permanent service savings were not judged necessary when the 2023/24 budget was set.

Within the budget deficit position for 2023/24 there was a net service overspend of £5.3m, driven by a £4.7m overspend in Children's Services, due to the increasing cost, demand and complexity of placements and home to school transport pressures. The revenue budget 2024/25 included significant investment to address the spending pressures, including £11m children's social care demand, £6.5m adult social care provider fees and £1.5m adult social care package demand.

The Council did not require the use of reserves to balance recurring expenditure within the 2024/25 budget. The 2024/25 budget was balanced through £2.6m of adult social care savings, £1.4m of operational service budget reductions, £1m vacancy savings and £1m of permanent low impact savings. One-off resources of £6.6m were identified as available to support the budget, with £2.1m utilised to fund one-off investments while the remaining £4.5m was retained to support emerging pressures or priorities.

The Council updates its medium-term financial plans during the year. As at March 2024, the Council was forecasting budget gaps of £3.1m in 2025/26 and £4.0m in 2026/27.

We have not identified any weaknesses with regard to the Councils annual and medium-term financial planning process and financial assumptions appear reasonable.

The Dedicated Schools Grant (DSG) deficit for 2023/24 was £8.1m, resulting in a cumulative DSG deficit of £12.9m as at 31 March 2024. The DSG Management Plan 2024/25 submitted to the Education and Skills Funding Agency in May 2024 forecast the annual mitigated DSG deficit increasing to £21.5m by 2025/26, and a total cumulative mitigated deficit of £53.2m by 31 March 2026 which is far in excess of the Council's General Fund Balance which stood at £9.0m as at 31 March 2024. While the Schools Forum and Cabinet Member for Children's Services receive detailed updates on the DSG deficit position, financial planning, budget setting, and budget monitoring reports to the Cabinet and Council do not provide Members with any detail on the cumulative or in-year DSG deficit.

We have raised an improvement recommendation that the Council should reduce the forecast increases in the DSG deficit by focussing on the drivers of demand and ensuring sufficiency of places, through continuing to develop the DSG Deficit Management Plan. Early intervention and support mechanisms to reduce the demand for complex high-cost care plans and allow children to remain in mainstream schools are required in addition to ensuring the sufficiency of special-school places. Cabinet and Council should receive detailed updates on the annual and cumulative DSG deficit position to provide oversight and gain assurance over the impact the actions to reduce the deficit are having.

A

Financial sustainability (continued)



We considered how the audited body:

Commentary on arrangements

Assessment

plans to bridge its funding gaps and identifies achievable savings

The 2023/24 budget did not include a savings target in order to balance the financial position, as the £1.3m residual budget deficit was the result of inflationary pressures that the Council did not consider to be recurring. The 2024/25 budget was balanced through £6m of low impact savings and efficiencies that did not impact on service delivery. As at March 2024, the Council was forecasting budget gaps of £3.1m in 2025/26 and £4.0m in 2026/27.

In recent years the Council has not had to develop a Council-wide transformational savings programme in order to balance the budget. The approach to balance the 2025/26 budget gap has already started and Executive Directors are working on savings proposals, with a 5% target as a guide. The focus is on balancing the 2025/26 budget.

The Council can evidence the identification of low impact service savings in order to balance the budget in 2024/25, and there are also longer-term savings and demand management programmes within children’s and adult services that are reviewing how services are delivered. The budget gap for 2025/26 represents 1.3% of the 2024/25 net budget of £239.3m and so, although significant, should represent an achievable target provided the Council acts at pace to identify budget savings proposals for Members to consider.

We have raised an improvement recommendation that the Council should develop Council-wide transformational or cross-cutting savings proposals in order to address the budget gaps identified in the Medium-Term Financial Strategy. While the Council moves into a period where more significant budget gaps will require balancing, and as the Council has already identified significant operational and low impact savings in previous years, savings proposals will need to be developed from new ways of working and potentially reduced levels of services. A pipeline of savings should be developed that addresses budget gaps in future years.

A

plans finances to support the sustainable delivery of services in accordance with strategic and statutory priorities

The Council can demonstrate a coherent link between assumptions within the budget and corporate priorities. The Council Delivery Plan 2024/25 was approved by Full Council at the same meeting as the budget and sets out the key actions to deliver the priorities in the Council Plan 2022-25. The Medium-Term Financial Strategy is recognised as an enabler of key priorities through the long-term financial stability of the Council with the budget setting process and allocation of resources driven by Council priorities. The 2024/25 budget utilised £2.1m of one-off reserves to fund one-off investments that support corporate priorities, including supporting residents and vulnerable people, climate change and supporting businesses. The Budget Report 2024/25 confirms the principle that one-off investments should be focused where they have a demonstrable impact on performance and outcomes in priority areas and to ensure statutory and regulatory requirements are met.

The Council’s capital programme supports corporate priorities relating to inclusive growth through schemes such as sustainable transport, major development, and the Kirby town centre regeneration scheme. The priority to improve children’s services is supported through the schools programme. Additional bids were approved for 2024/25 relating to Shakespeare North Theatre and the boiler replacement hardship fund. The majority of the capital programme is funded from external capital grants to mitigate the revenue impact of borrowing costs.

G

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

Financial sustainability (continued)



We considered how the audited body:

Commentary on arrangements

Assessment

ensures its financial plan is consistent with other plans such as workforce, capital, investment and other operational planning which may include working with other local public bodies as part of a wider system

The Council can demonstrate that financial planning assumptions are consistent with other key strategies. The Treasury Management Strategy sets out the approach to borrowing, with the objective of striking a balance between securing low interest costs and achieving certainty of cost. The Strategy recognises that while interest rates remain high, it is cost effective to take out short term or internal borrowing. No major borrowing is anticipated for 2024/25. This is consistent with the Capital Strategy and capital programme which forecasts only 9% of the £138.5m programme as at March 2024 is funded from borrowing.

The budget is aligned to workforce assumptions, with new permanent posts required to be put forward as permanent investment proposals with funding identified. The budget strategy recognises the importance of workforce sufficiency to provide services, with recruitment taking into account expected turnover and with the workforce sufficiency fund available to manage short term increases over establishment levels. The one-off investments approved as part of the 2024/25 budget included temporary additions to the workforce to support corporate priorities relating to environmental health officers, the waste partnership manager, homelessness prevention advice and school attendance capacity.

The one-off investments approved as part of the 2024/25 budget also support the Council’s climate change priorities, providing £0.5m match funding for feasibility works to enable the Council to attract grant funding to deliver the Climate Emergency Action Plan.

G

identifies and manages risks to financial resilience, e.g. unplanned changes in demand, including challenge of the assumptions underlying its plans

The Council has arrangements in place to manage financial risk through budget contingencies and reserves, and maintained healthy reserve levels as at 31 March 2024. As part of the budget process 2024/25, the General Fund Balance was budgeted to increase by £0.4m to £9.0m in view of the greater levels of risk the Council faces as a result of continuing social care pressures and future financial uncertainty. This level of GF reserve represents 3.8% of the net budget for 2024/25 and is considered a prudent level by the Council, recognising that significant growth was included in the 2024/25 base budget to address the key budget pressures relating to social care.

In addition to the General Fund Balance, the Council had £94.3m of earmarked reserves as at 31 March 2024, a reduction of £6.1m compared to the balances held at 1 April 2023. These reserves are earmarked for a variety of purposes, including approved budget investments and service commitments as well as the budget strategy reserve and workforce remodelling.

Budget monitoring reports provided to Cabinet Members for their portfolio areas include an overview of levels of reserves available for the portfolio and their spend profile for current and future years. The Council does not however aggregate portfolio or departmental reserve projections to provide a Council-wide view of the total levels of reserves available over the medium-term.

We have raised an improvement recommendation that the Council should provide an aggregated organisation-wide projection of reserve balances over the period of the Medium-Term Financial Strategy within its financial planning reports to provide increased oversight to Members and ensure that prudent levels of reserves are maintained to manage risk and fund future corporate priorities.

A

G

No significant weaknesses in arrangements identified or improvement recommendation made.

A

No significant weaknesses in arrangements identified, but improvement recommendations made.

R

Significant weaknesses in arrangements identified and key recommendations made.

Financial sustainability (continued)



Areas for improvement – dedicated schools grant deficit

The need for additional provision arising from the increased number of education, health and care plans is causing severe financial pressure on the dedicated schools grant (DSG) high needs block. The DSG deficit for 2023/24 was £8.1m, resulting in a cumulative DSG deficit of £12.9m as at 31 March 2024. This position is driven by a £13.4m cumulative deficit on the high needs block. When the 2024/25 budget was set the high needs block was forecast to overspend by a further £19.7m which would result in a cumulative high needs block deficit of £33.1m.

The Council submitted updated Deficit Management Plans to the Education and Skills Funding Agency in October 2023 and May 2024. Actions to reduce the deficit focus on improving capacity to meet increased demand by improving inclusion in mainstream schools and through purchasing or refurbishing additional properties. We understand that the Education and Skills Funding Agency has praised the Council's proactive approach as good practice. A recovery plan has been submitted to the Agency with the intention to use the high needs provision capital allocation to create additional special school placements locally to avoid having to use high cost out of borough independent and non-maintained special schools. The Knowsley SEND Sufficiency plan for 2023-2028 identifies the Council's priorities with a number of measures put in place to meet the growing demand. Over the last three years, over 100 additional special school placements have been created locally and plans are in place to create additional special school placements over the next 12 months.

The DSG Management Plan 2024/25 submitted to the Education and Skills Funding Agency in May 2024 forecast the annual mitigated DSG deficit increasing to £21.5m by 2025/26, and a total cumulative mitigated deficit of £53.2m by 31 March 2026 which is far in excess of the Council's General Fund Balance which stood at £9.0m as at 31 March 2024. Forecasts do not extend beyond 2025/26 but we understand the Council is currently updating the DSG Management Plan to cover three years.

Under a statutory accounting override, the cumulative deficit is allocated to an unusable reserve in the Council's balance sheet. The statutory override is due to end in March 2026, and unless it is extended or the deficit is funded by the Department for Education, then the growing DSG deficit represents a risk to the financial sustainability of the Council.

The Schools Forum and Cabinet Member for Children's Services receive detailed updates on the DSG deficit position. However, during 2023/24 financial planning, budget setting, and budget monitoring reports to the Cabinet and Council did not provide Members with any detail on the cumulative or in-year DSG deficit.

Increasing DSG deficits are a national issue experienced by many upper tier Councils, and are driven by increases in the demand and complexity of care for children with education, health and care plans. The Council's forecasts are that the DSG deficit will continue to grow, and this represents a risk to financial sustainability if the statutory override is not extended. We recognise that the scale of the Council's DSG deficit is not sufficient to place it in either the national Delivering Better Value or Safety Valve programmes, and that the Education and Skills Funding Agency has confirmed the Council's approach as good practice, and therefore we have not identified a significant weakness in arrangements but have raised the following improvement recommendation.

Improvement recommendation 1: The Council should reduce the forecast increases in the DSG deficit by focussing on the drivers of demand and ensuring sufficiency of places, through continuing to develop the DSG Deficit Management Plan. Early intervention and support mechanisms to reduce the demand for complex high-cost care plans and allow children to remain in mainstream schools are required in addition to ensuring the sufficiency of special-school places. Cabinet and Council should receive detailed updates on the annual and cumulative DSG deficit position to provide oversight and gain assurance over the impact the actions to reduce the deficit are having.

Financial sustainability (continued)



Areas for improvement – transformational and cross-cutting savings plans

The 2023/24 budget did not include a savings target in order to balance the financial position. The Council utilised £1.4m of reserves to balance the budget when it was set as it judged the inflationary cost pressures to be of a temporary nature and so did not require recurring savings to be delivered.

The 2024/25 budget was balanced through low impact savings and efficiencies that did not impact on service delivery. These savings related to adult social care savings, operational service budget reductions, vacancy savings and other low impact savings for a total of £6m.

As at March 2024, the Council was forecasting budget gaps of £3.1m in 2025/26 and £4.0m in 2026/27. In recent years the Council has not had to develop a Council-wide transformational savings programme in order to balance the budget. The approach to balance the 2025/26 budget gap has already started, with all services expected to play their part to deliver efficiencies in order to balance the position. Executive Directors are working on savings proposals, with a 5% target as a guide, and a list of proposals will be compiled for Member consideration. Savings proposals will be prioritised to indicate their impact on service delivery, from efficiencies to high impact proposals. The focus is on balancing the 2025/26 budget.

The Council is experiencing cost and demand pressures with regard to adults and children's social care, as are many unitary councils nationally. The Council has a 3-year Children's Financial Strategy, which is currently being updated. The 2024/25 budget reflects the impact of demand and cost modelling for children's services and includes growth of £11m for social care demand. The Children's Social Care Sufficiency Strategy aims to ensure that the right services are in place to support children while managing demand and mitigating financial pressures. Investment in preventative services is recognised as positively impacting on numbers of looked after children, although complexity of care is increasing. Significant pressures continue with regard to placement costs and the Sufficiency Strategy 2022-2025 includes a focus on in house fostering, market management, residential strategy and demand management.

The 2024/25 budget includes growth to reflect financial pressures in adult services, including £6.5m adult social care provider fees and £1.5m adult social care package demand. The savings approved for adult social care as part of the 2024/25 budget process relate to reviewing packages of care and investing in assistive technology and specialist equipment. These savings are forecast to reach £6.2m per annum by 2026/27, funded from £0.9m of one-off resources as invest to save initiatives.

The Council is also undertaking a joint adults and children's services transport review with options due to be developed for consideration as part of the 2025/26 budget setting process. Potential options include increasing in-borough placements, increasing capacity for independent travel trainers, and a Liverpool City Region-wide route optimisation transport system.

Therefore, the Council can evidence the identification of low impact service savings in order to balance the budget in 2024/25, and there are also longer-term savings and demand management programmes within children's and adult services that are reviewing how services are delivered. The budget gap for 2025/26 represents 1.3% of the 2024/25 net budget of £239.3m and so, although significant, should represent an achievable target provided the Council acts at pace to identify budget savings proposals for Members to consider.

We have raised an improvement recommendation that the Council should develop Council-wide transformational or cross-cutting savings proposals in order to address the budget gaps identified in the Medium-Term Financial Strategy. While the Council moves into a period where more significant budget gaps will require balancing, and as the Council has already identified significant operational and low impact savings in previous years, savings proposals will need to be developed from new ways of working and potentially reduced levels of services. A pipeline of savings should be developed that addresses budget gaps in future years.

Improvement recommendation 2: The Council should develop Council-wide transformational or cross-cutting savings proposals in order to address the budget gaps identified in the Medium-Term Financial Strategy. A pipeline of savings should be developed that addresses budget gaps in future years.

Financial sustainability (continued)



Areas for improvement – reserve projections

The Council delivered a budget outturn deficit of £1.4m for 2023/24, a significant improvement compared to the Quarter 3 estimate of a £4m deficit and Quarter 2 estimate of a £5m deficit. This improved position, although still a deficit, demonstrates the effectiveness of the actions taken by managers to mitigate the overspend and reduce non-essential spend.

The Council is provided with the S151 Officer's Section 25 Statement on the Robustness of Estimates and Adequacy of Reserves when the budget is set, and this sets out the Council's approach to uncertainty and risk. Areas of uncertainty that impact financial planning include levels of government funding, inflation, interest rates, service demand and unforeseen events. These uncertainties and risks are managed through setting aside contingency budgets and targeted monitoring of volatile budgets to identify required mitigating actions by management.

The Budget 2024/25 includes £30.8m of contingency budgets relating to inflation or other specific contingencies relating to demand and cost pressures in areas such as social care. Service managers are judged as having little control over these areas and so the actual amount of resource required is uncertain. Therefore, the S151 Officer manages and allocates these budgets during the year on a Council-wide basis according to need.

The Council also holds reserves that can be used to mitigate overspends or unforeseen events. As part of the budget process for 2024/25, £6.6m of one-off reserves were identified as available to support the budget, of which £2.1m were allocated to fund one-off investments in corporate priorities. The remaining £4.5m was retained to allocate once there was greater clarity over funding levels and demand pressures identified in the Medium-Term Financial Strategy.

The Council maintains a General Fund Balance of unallocated reserves available to manage financial risk. As part of the budget process 2024/25, the General Fund Balance was budgeted to increase by £0.4m to £9.0m in view of the greater levels of risk the Council faces as a result of continuing social care pressures and future financial uncertainty. This level of reserves represents 3.8% of the net budget for 2024/25 and is considered a prudent level by the Council, recognising that significant growth was included in the 2024/25 base budget to address the key budget pressures relating to social care.

In addition to the General Fund Balance, the Council had £94.3m of earmarked reserves as at 31 March 2024, a reduction of £6.1m compared to the balances held at 1 April 2023. These reserves are earmarked for a variety of purposes, including approved budget investments and service commitments as well as the budget strategy reserve and workforce remodelling.

Budget monitoring reports provided to Cabinet Members for their portfolio areas include an overview of levels of reserves available for the portfolio and their spend profile for current and future years. The Council does not however aggregate portfolio or departmental reserve projections to provide a Council-wide view of the total levels of reserves available over the period of the Medium-Term Financial Strategy. Projecting the level of reserves the Council will have over the medium term is an important financial planning tool to ensure that prudent levels of reserves are maintained to manage risk and fund future corporate priorities. Such projections allow mitigating strategies to be developed where reserves are forecast to fall below prudent levels.

The Council has arrangements in place to manage financial risk through budget contingencies and reserves, and maintained healthy reserve levels as at 31 March 2024. We have raised an improvement recommendation that the Council should provide an aggregated Council-wide projection of reserve balances over the period of the Medium-Term Financial Strategy within its financial planning reports to provide increased oversight to Members and ensure that prudent levels of reserves are maintained to manage risk and fund future corporate priorities.

Improvement recommendation 3: The Council should provide an aggregated organisation-wide projection of reserve balances over the period of the Medium-Term Financial Strategy within its financial planning reports to provide increased oversight to Members and ensure that prudent levels of reserves are maintained to manage risk and fund future corporate priorities.

Governance



We considered how the Audited Body:

Commentary on arrangements

Assessment

monitors and assesses risk and gains assurance over the effective operation of internal controls, including arrangements to prevent and detect fraud

We have not identified any significant weaknesses with regard to arrangements to identify and manage risk. The Council has a Risk Management Policy in place that sets out the Council’s approach to risk management, the objectives of risk management and responsibilities for managing risk. Each department maintains a risk register which is presented to Portfolio Holders on a quarterly basis and includes the elements of best practice that we would expect to see including risk title, description, mitigations, risk score, and with risks assigned to a lead officer. Risks are aligned to the Knowsley Council Plan 2022-25 priorities. The Cabinet and Governance and Audit Committee were provided with risk update reports and a summary of the Strategic Risk Register once during 2023/24. We note that the summary Strategic Risk Register reported to the Governance and Audit Committee in January 2024 included 38 strategic risks, comprising 16 high RAG rated risks, 17 medium RAG rated and 5 low rated.

We have made an improvement recommendation to further strengthen risk management reporting through more frequent reporting of the risk register to the Governance and Audit Committee to ensure that those charged with governance have more regular and timely oversight of the management of risk. The Council should also review the number of strategic risks reported on the Strategic Risk Register to ensure that they cover only the key strategic risks facing the Council and allow for a proper consideration of strategic risk at the Committee.

We have not identified any significant weakness with regard to the arrangements for an effective internal audit function, or with regard to the Council’s control environment. The Governance and Audit Committee received a progress report on the delivery of the 2023/24 IA plan in January 2024, and updates on the implementation of recommendations in June 2023, January 2024 and June 2024. The IA Annual Audit Report 2023/24 provides a substantial level of assurance on the work undertaken, but a moderate level of assurance was provided overall for the year as the full audit plan was not completed due to vacancies in the audit team. We note that the IA Annual Audit Report 2023/24 confirms that 29 audit reviews were undertaken, providing assurance opinions of 8 high, 15 substantial, 5 moderate and 1 reasonable. A variety of systems and processes were reviewed, and no critical priority recommendations made. As at June 2024 85% of IA audit recommendations were fully implemented.

We have raised an improvement recommendation that the Governance and Audit Committee should receive quarterly progress reports on the delivery of the internal audit plan to ensure that they have timely assurance and oversight on the delivery of the plan and the strength of the control environment.

approaches and carries out its annual budget setting process

The Council has an adequate budget setting process. Budget assumptions are informed by budget monitoring information from the current year. The Council’s budget is built up from detailed service budgets which adjust the current year’s budgets for known changes to costs and income, including pay awards and increments and savings proposals. Budget proposals consider the expected impact on performance and sustainability of service delivery.

A

G

G

No significant weaknesses in arrangements identified or improvement recommendation made.

A

No significant weaknesses in arrangements identified, but improvement recommendations made.

R

Significant weaknesses in arrangements identified and key recommendations made.

Governance (continued)



We considered how the Audited Body:

Commentary on arrangements

Assessment

ensures effective processes and systems are in place to ensure budgetary control; to communicate relevant, accurate and timely management information; supports its statutory financial reporting; and ensures corrective action is taken where needed, including in relation to significant partnerships

During our review of the financial information that is provided to Full Council and Cabinet within the annual budget setting report we have identified areas where there are opportunities to further strengthen arrangements by providing more detailed information to Members. Areas for consideration include providing more information on key elements of the budget such as the overall General Fund budget by service, a full schedule of savings, the DSG deficit, reserve balances and the results of stakeholder engagement. Providing more detailed information would provide better oversight and allow increased challenge regarding the Council's financial plans.

We have raised an improvement recommendation that the Council should consider where financial reporting can be strengthened by providing more detailed information to Members within the annual budget setting report.

The Council implemented a new integrated HR and payroll system in April 2023. We note that there was a hard deadline to go-live on 1 April 2023, and that the implementation timetable was shortened due to the Council being advised to undertake a competitive procurement exercise. Issues were experienced after go-live, resulting in additional staff time required to process transactions and manual workarounds to be developed. We understand that the system is now considered to be fully functional.

We have raised an improvement recommendation that the Council should conduct a lessons learned exercise from the implementation of the HR and payroll system in order to inform the implementation of future IT systems. The Council should undertake a benefits realisation exercise to ensure that the anticipated benefits of the system are being delivered and that the system is being used to its full functionality.

A

ensures it makes properly informed decisions, supported by appropriate evidence and allowing for challenge and transparency, including from audit committee

Arrangements are in place to support appropriate and informed decision making and there is an appropriate tone from the top set by senior officers and Members. Key decisions are supported by sufficiently detailed papers, with clear evidence of agenda items requiring decisions and no indication of inappropriate decision making at Cabinet level. Material business decisions are discussed in advance by the Executive Management Team and all material decisions requiring formal approval must have first been considered by the Executive Director (Resources). Internal audit undertook a review of the Council's formal decision-making systems, identifying that the Council is "very open and transparent in its decision-making processes" with substantial assurance provided that procedures were operating effectively.

The Council has arrangements in place to ensure adequate scrutiny of decisions. There are five themed Scrutiny committees in place, each with its own areas of responsibility that have been aligned with the priorities of the Council's Corporate Plan.

G

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

Governance (continued)



We considered how the Audited Body:

Commentary on arrangements

Assessment

monitors and ensures appropriate standards, such as meeting legislative/regulatory requirements and standards in terms of staff and board member behaviour and where it procures and commissions services.

The Council has robust arrangements for reporting legislative and regulatory requirements, compliance monitoring, and communicating expected behaviours to staff and elected Members. We are not aware of any breaches of legislation or standards during the year, and the Council ensures compliance through mechanisms outlined in the Constitution. The Financial and Contract Procedure Rules are regularly reviewed and detail the procurement process, with contracts accessible on the Council website.

G

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

Governance (continued)



Areas for improvement – risk management

The Council has a Risk Management Policy in place that sets out the Council's approach to risk management, the objectives of risk management and responsibilities for managing risk. Each department maintains a risk register which is presented to Portfolio Holders on a quarterly basis and includes the elements of best practice that we would expect to see including risk title, description, mitigations, risk score, and with risks assigned to a lead officer. Risks are aligned to the Knowsley Council Plan 2022-25 priorities to provide a clear understanding of how risk impacts on the delivery of corporate objectives. We note that internal audit undertook a strategic review of risk management during 2023/24 and provided substantial assurance to the Council's Executive Management Team that appropriate controls in place for key strategic risks.

The Cabinet and Governance and Audit Committee were provided with risk update reports and a summary of the Strategic Risk Register once during 2023/24 (December 2023 and January 2024 respectively). This report provides a summary of each strategic risk, the corporate priority it impacts on, and a Red / Amber / Green risk rating. We note that the summary Strategic Risk Register reported to the Governance and Audit Committee in January 2024 included 38 strategic risks, comprising 16 high RAG rated risks, 17 medium RAG rated and 5 low rated.

We have not identified any significant weaknesses with regard to arrangements to identify and manage risk. Arrangements to report risk management could be strengthened through more frequent reporting of the risk register to the Governance and Audit Committee to ensure that those charged with governance have more regular and timely oversight of the management of risk at the Council. The Council should also review the number of strategic risks reported on the Strategic Risk Register to ensure that they cover only the key strategic risks facing the Council and allow for a proper consideration of strategic risk at the Governance and Audit Committee. We consider 38 strategic risks to be a high number to allow for a detailed focus on strategic risk and note that 5 strategic risks reported in January 2024 were green RAG rated.

We have raised an improvement recommendation that the Council should further strengthen risk management reporting arrangements by increasing the frequency that the Strategic Risk Register is reported to the Governance and Audit Committee and by reviewing the number of risks reported in the Strategic Risk Register.

Improvement recommendation 4: The Council should further strengthen risk management reporting arrangements by increasing the frequency that the Strategic Risk Register is reported to the Governance and Audit Committee and by reviewing the number of risks reported in the Strategic Risk Register.

Areas for improvement – internal audit progress reports

The Governance and Audit Committee approve the annual audit plan which demonstrates sufficient coverage across the Council's key systems. The Committee received a progress report on the delivery of the 2023/24 plan in January 2024, and updates on the implementation of recommendations in June 2023, January 2024 and June 2024. The IA Annual Audit Report 2023/24 provides a substantial level of assurance on the work undertaken, but a moderate level of assurance was provided overall for the year as the full audit plan was not completed due to vacancies in the audit team. We note that the IA Annual Audit Report 2023/24 confirms that 29 audit reviews were undertaken, providing assurance opinions of 8 high, 15 substantial, 5 moderate and 1 reasonable. A variety of systems and processes were reviewed, and no critical priority recommendations made. As at June 2024 85% of IA recommendations were fully implemented.

We have not identified any significant weakness with regard to the arrangements for an effective internal audit function, or with regard to the Council's control environment. We have raised an improvement recommendation that the Governance and Audit Committee should receive quarterly progress reports on the delivery of the internal audit plan to ensure that they have timely assurance and oversight on the delivery of the plan and the strength of the control environment.

Improvement recommendation 5: The Governance and Audit Committee should receive quarterly progress reports on the delivery of the internal audit plan.

Governance (continued)



Areas for improvement – budget information reported to Members

Cabinet receives quarterly revenue budget monitoring reports and a year-end outturn report which provide Members with detailed information on key budget variances and forecasts across service areas and information relating to the use of one-off resources. These reports provide for a clear understanding of the Council's financial position and for oversight and challenge by Members.

Cabinet also receive Capital Programme monitoring reports during the year which provide detail regarding scheme delivery, new scheme approvals and rephasing of expenditure.

During our review of the financial information that is provided to Full Council and Cabinet within the annual budget setting report we have identified areas where there are opportunities to further strengthen arrangements by providing more detailed information to Members in order to provide better oversight and allow increased challenge regarding the Council's financial plans.

The annual budget setting report should include a General Fund summary at service level that details proposed and current year budgets and an analysis of changes between the years. We would also expect to see a schedule of all savings included within the budget, as well as information relating to reserve balances, and the dedicated schools grant deficit. The report should include the results of engagement and consultation with stakeholders regarding spending priorities.

We have raised an improvement recommendation that the Council should consider where financial reporting can be strengthened by providing more detailed information to Members within the annual budget setting report.

Improvement recommendation 6: The Council should consider where financial reporting can be strengthened by providing more detailed information to Members within the annual budget setting report to provide better oversight and allow increased challenge regarding the Council's financial plans. Budget setting reports should include a service-level General Fund summary, a schedule of savings, reserve projections, the DSG forecast, and the results of budget consultation.

Governance (continued)



Areas for improvement – human resources and payroll system implementation

The Council has implemented a new integrated human resources (HR) and payroll system that went live in April 2023. From discussion with officers we understand that some issues were experienced when the system went live which included self-service not working as anticipated and issues with the calculation of statutory sick pay, maternity pay and overtime payments. These issues required additional staff time to process some transactions, required manual workarounds to be developed, and placed additional pressure on staff within the HR and payroll teams.

The Council had a hard deadline to migrate to the new HR and payroll system as the legacy system was no longer supported by the previous supplier from April 2023. While we understand that planning for the implementation of a new system started well in advance of the deadline, the process of awarding the contract to the new supplier took longer than envisaged with regard to developing the specification, and due to the requirement to use a competitive procurement framework rather than a direct award, on the advice of the Council's procurement support. The contract award was made in May 2022 which shortened the project implementation timetable and impacted the amount of testing and training that could be undertaken, although the payroll module was tested during February and March 2023.

Support mechanisms were put in place after go live to address the system and process issues. Working groups were put in place with representatives from HR, payroll, finance and service users, and the Council continued to work with its implementation partner Namos, to resolve outstanding issues. Since January 2024 the Oracle finance system administration team have been responsible for the administration of the HR and payroll system and bring existing knowledge and skills for maintaining the system. A dedicated payroll manager post has been added to the establishment to create additional capacity. Overall, the approved budget for the project of £1.2m was overspent by £0.2m due to the requirement for additional consultancy time, staff overtime and additional requirements that were not in the original plan such as access to legacy databases.

The Council's implementation partner, Namos, was commissioned to review the system implementation to advise whether the system is working as designed. Their report, issued in April 2024 notes the "extremely aggressive time frame" resulting in "some testing phases of the project being shorter than the project team would ideally have liked". To resolve ongoing payroll issues the report identified that some configuration changes were needed as well as increased understanding of the system and correction of some data.

We understand that the system is now considered fully functional and has entered a "business as usual" phase, with only a small number of fixes now required. The next phase of development is to ensure that the full functionality of the system is utilised so that the full benefits of an integrated human resources and payroll system can be realised.

We have raised an improvement recommendation that the Council should conduct a lessons learned exercise from the implementation of the HR and payroll system in order to inform the planning and implementation of future IT systems. The Council should also undertake a benefits realisation exercise to ensure that anticipated benefits of the integrated HR and payroll system are being delivered and that the system is being used to its full functionality.

Improvement recommendation 7: The Council should conduct a lessons learned exercise from the implementation of the HR and payroll system in order to inform the planning and implementation of future IT systems. The Council should also undertake a benefits realisation exercise to ensure that anticipated benefits of the integrated HR and payroll system are being delivered and that the system is being used to its full functionality.

Improving economy, efficiency and effectiveness



We considered how the audited body:

Commentary on arrangements

Assessment

uses financial and performance information to assess performance to identify areas for improvement

The Cabinet receives bi-annual Knowsley Council Plan monitoring reports which provide an update on the progress made delivering the priorities as set out in the Council Plan 2022-25 and the Annual Delivery Plan 2023/24. Progress is reported with a detailed narrative against the three priorities set out in the corporate plan. Each department also maintains a performance dashboard which is presented to Portfolio Holders on a quarterly basis. These provide data and Red / Amber / Green rated key performance indicators against priority areas and key service measures with a supporting narrative.

We have not identified any significant weaknesses in the Council's arrangements for managing and reporting performance. We have made an improvement recommendation that arrangements would be strengthened if Cabinet received formal performance management reports that provide key performance indicators for service performance in addition to the information they receive on the delivery of the Council Plan. This would ensure that all Cabinet Members have adequate oversight of the overall performance of the Council, both operational and strategic, and can challenge areas where service performance is below target.

A

evaluates the services it provides to assess performance and identify areas for improvement

Ofsted undertook an inspection of Children's Services in November 2024, publishing their inspection report in January 2025. Ofsted judged the overall effectiveness of Children's Services as "inadequate".

The January 2025 Ofsted Inspection Report highlights that the quality of services for children has not improved since the last inspection in 2021 and that the impact of substantial churn in leadership at Director of Children's Services, senior and middle management levels has seen a significant deterioration on the quality of services and practice. Ofsted identify that there has been little progress in the areas requiring improvement since the last inspection and two subsequent focused visits in 2022 and 2024, with a lack of sufficiently experienced senior and middle leaders to drive improvement and strategic and operational oversight has not ensured appropriate standards of practice.

The inspection identified serious and widespread weaknesses in services for disabled children, young carers and care-experienced young people. Ofsted commented that the Council's self-evaluation was not an accurate reflection of the current challenges in Children's Services.

We consider that the Ofsted "inadequate" judgement reflects arrangements and significant weaknesses that were in place during 2023/24 and represent a significant deterioration in quality since the previous Ofsted inspection in 2021. We have made a key recommendation that the Council should develop and deliver their Children's Services improvement plan to address the significant weaknesses identified by the November 2024 Ofsted inspection and subsequent "inadequate" assessment.

R

G No significant weaknesses in arrangements identified or improvement recommendation made.

A No significant weaknesses in arrangements identified, but improvement recommendations made.

R Significant weaknesses in arrangements identified and key recommendations made.

Improving economy, efficiency and effectiveness (continued)



We considered how the audited body:

Commentary on arrangements

Assessment

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

The Council can demonstrate that it engages with partners and stakeholders to develop and deliver strategic priorities.

Examples include the Learning and Skills Partnership and development of the Learning and Skills Strategy 2023-27 that aims to provide effective transitions across all stages of education and improve the life chances of young people. The Adult Social Care Transformation Plan 2024-27 was developed through a range of consultation and engagement with stakeholders and sets out how care services will continue to transform to meet care needs effectively with a focus on early intervention and prevention. The Care for Children Strategy 2023-26 and Care Experienced People Strategy 2023-26 were developed through significant consultation including surveys, focus groups and partner workshops. The Knowsley Better Together programme was developed to encourage greater partnership working between the Council, businesses, residents and stakeholders in order to deliver the Knowsley 2030 Strategy to promote vibrant and well-connected neighbourhoods, a thriving economy and a healthy population. Efforts to reduce health inequalities are also demonstrated through partnership working such as the implementation of a targeted pilot programme in Northwood led by the Knowsley Healthier Together Board.

The Council works with many other partners, including Livv Housing, the Liverpool City Region Combined Authority and the Cheshire and Merseyside Integrated Care Board in order to deliver strategic priorities.

G

commissions or procures services, assessing whether it is realising the expected benefits

The Council entered a collaborative shared services agreement with STAR Procurement in October 2023, joining as a partner with the existing partner local authorities. The Council retains sovereignty for its procurement decisions, including ownership of the strategic approach to procurement, relevant policies, and contract procedure rules, which are delivered through the shared service.

The responsibility for contract management and monitoring sits within service areas. There was no central oversight of compliance with contract standing orders for contract management during 2023/24 by the Council's in-house procurement service (pre-October 2023), and this is not a function provided by STAR Procurement (post-October 2023). The Council does not have assurance that contracts are being monitored as required and that contracts are being delivered in accordance with agreed performance and quality standards.

The Council does not maintain a register of exemptions, and there has been no reporting of exemptions to the Governance and Audit Committee. Therefore, those charged with governance have not been provided with oversight of the number, value and reasons why exemptions are issued, and are therefore unable to challenge why approved competitive procurement processes that are designed to achieve value for money are not followed.

We have not identified a significant weakness with regard to the Council's procurement and contract management processes and we recognise the increased procurement support that the Council receives through its partnership with STAR Procurement. We have raised an improvement recommendation to further strengthen arrangements with regard to central oversight of contract management and reporting procurement exemptions to the Governance and Audit Committee.

A

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

Improving economy, efficiency and effectiveness (continued)



Significant weakness identified – Ofsted inspection of Children’s Services

Ofsted inspected Children’s Services in October 2021 and provided an overall “requires improvement to be good” judgement with five areas for improvement identified. The Ofsted focussed visit to Children’s Services in November 2022 looked at the local authority’s arrangements for children in need or children subject to a child protection plan. Headline findings were that since the last inspection in October 2021, senior leaders had continued to prioritise improvement in Children’s Services and that children in Knowsley benefited from a more effective range of support and services than was the case previously. However, the quality of social work practice was found to remain variable and areas for improvement were recognised by the Council relating to the quality of management oversight, and the consistent quality of care plans. A further focussed Ofsted visit in March 2024 reviewed arrangements for care leavers and noted that while some progress had been delivered relating to service development and corporate parenting, the quality of practice was variable. Areas for improvement were identified relating to the quality of pathway plans, the quality of management oversight and the level of quality assurance.

To drive improvement following the Ofsted inspections the Council developed an Inspection Improvement Plan, with delivery overseen by an Improvement Board to ensure scrutiny and assurance across the service. Improvements to Children’s Services are also monitored through the Knowsley Council Plan monitoring reports presented to Cabinet.

Ofsted undertook a further inspection of Children’s Services in November 2024, publishing their inspection report in January 2025. Ofsted judged the overall effectiveness of Children’s Services as “inadequate”. The impact of leaders on social work practice, the experiences and progress of children who need help and protection, and the experiences and progress of care leavers were all judged “inadequate”. The experiences and progress of children in care was judged as “requires improvement”.

The January 2025 Ofsted Inspection Report highlights that the quality of services for children has not improved since the last inspection in 2021 and that the impact of substantial churn in leadership at Director of Children’s Services, senior and middle management levels has seen a significant deterioration on the quality of services and practice. Ofsted identify that there has been little progress in the areas requiring improvement since the last inspection and two subsequent focused visits in 2022 and 2024, with a lack of sufficiently experienced senior and middle leaders to drive improvement and strategic and operational oversight has not ensured appropriate standards of practice.

The inspection identified serious and widespread weaknesses in services for disabled children, young carers and care-experienced young people. Areas identified by Ofsted for improvement include leadership capacity, identification and response to risk, quality of social work practice and management oversight. Ofsted commented that the Council’s self-evaluation was not an accurate reflection of the current challenges in Children’s Services, with senior leaders not knowing about the young carers waiting list, the premature closure of care experienced young people over 21 and the lack of management grip.

We consider that the Ofsted “inadequate” judgement reflects arrangements and significant weaknesses that were in place during 2023/24 and represent a significant deterioration in quality since the previous Ofsted inspection in 2021. We have therefore raised the following key recommendation.

Key Recommendation 1: The Council should develop and deliver their Children’s Services improvement plan to address the significant weaknesses identified by the November 2024 Ofsted inspection and subsequent “inadequate” assessment. Areas where significant improvements are required include leadership capacity, identification and response to risk, quality of social work practice and management oversight. The Council should ensure that the delivery of the plan is closely monitored and reported to those charged with governance and that monitoring accurately reflects progress made and challenges remaining to improve Children’s Services.

Improving economy, efficiency and effectiveness (continued)



Areas for improvement – performance management

The Cabinet receives bi-annual Knowsley Council Plan monitoring reports which provide an update on the progress made delivering the priorities as set out in the Council Plan 2022-25 and the Annual Delivery Plan 2023/24. Progress is reported with a detailed narrative against the three priorities set out in the corporate plan of: supporting those most in need; inclusive skills and growth, and climate emergency. Key areas of focus for the next six-month period are set out in the report. As at June 2024 these included reducing health inequalities through the All Fairer Together programme, ensuring sufficiency of school places, addressing the demand for temporary accommodation, continuing to progress improvement in Children's Social Care, and reviewing the medium-term financial plan.

Each department also maintains a performance dashboard which is presented to Portfolio Holders on a quarterly basis. These provide data and Red / Amber / Green rated key performance indicators against priority areas and key service measures with a supporting narrative.

We have not identified any significant weaknesses in the Council's arrangements for managing and reporting performance. We have made an improvement recommendation that arrangements would be strengthened if Cabinet received formal performance management reports that provide key performance indicators for service performance in addition to the information they receive on the delivery of the Council Plan. This would ensure that all Cabinet Members have adequate oversight of the overall performance of the Council, both operational and strategic, and can challenge areas where service performance is below target.

Improvement recommendation 8: The Cabinet should receive formal performance management reports that provide key performance indicators for service performance in addition to the information they receive on the delivery of the Council Plan.

Improving economy, efficiency and effectiveness (continued)



Areas for improvement – procurement and contract management

The Council entered a collaborative shared services agreement with STAR Procurement in October 2023, joining as a partner with the existing partner local authorities. The Council retains sovereignty for its procurement decisions, including ownership of the strategic approach to procurement, relevant policies, and contract procedure rules, which are delivered through the shared service. The decision followed a procurement service review and options appraisal including benchmarking of the Council's in-house procurement function, against the background of difficulties in recruiting and retaining procurement staff.

The Council's Contract Procedure Rules set out the approval process for contracts, procurement options, and the process for exemptions and declarations of interest. Contracts must have a contract manager who is responsible for reviewing, monitoring and evaluating the contract to ensure services are being performed in compliance with the specification, including cost and performance requirements. The responsibility for contract management and monitoring sits with the relevant service area. There was no central oversight of compliance with contract standing orders for contract management during 2023/24 by the Council's in-house procurement service [pre-October 2023], and this is not a function provided by STAR Procurement (post-October 2023).

Since October 2023 Procurement Initiation Documents (PID) are completed by a service prior to commencing a procurement exercise supported by STAR Procurement. The PID sets out how the contract will be managed and what level of monitoring is required depending on whether the contract is rated gold, silver or bronze. While STAR can provide advice and support on good practice for the performance management of contracts, they do not have a formal role in contract management.

Therefore, the Council does not have processes in place to gain assurance that contracts are being monitored as required, or that contracts are being delivered in accordance with agreed performance and quality standards. The Procurement Act 2023 came into effect in October 2024 requires increased transparency with regard to the management and reporting of contract performance and so corporate oversight of compliance with contract monitoring procedures will be necessary to ensure compliance with the Act.

The Contract Procedure Rules detail the procurement exemption process. All relevant procurement decisions are published on the Council's website, including where competitive procurement processes were not followed. Published decisions include an assessment of risk and value for money and are signed off by the S151 Officer. The Council does not however maintain a register of exemptions, and there has been no reporting of exemptions to the Governance and Audit Committee. Therefore, those charged with governance have not been provided with oversight of the number, value and reasons why exemptions are issued, and are therefore unable to challenge why approved competitive procurement processes that are designed to achieve value for money are not followed. The contract register, maintained by STAR Procurement since October 2023, includes the route to market that includes procurement breaches or exemptions, and we understand that this will form the basis of an annual report to the Governance and Audit Committee going forward.

We have not identified a significant weakness with regard to the Council's procurement and contract management arrangements and recognise the increased procurement support that the Council receives through its partnership with STAR Procurement. We have raised an improvement recommendation to further strengthen arrangements in relation to implementing processes to gain assurance and central oversight over contract management and in reporting procurement exemptions to the Governance and Audit Committee.

Improvement recommendation 9: The Council should strengthen contract management and procurement arrangements through implementing processes to provide central oversight and assurance that contracts are being monitored and managed effectively. Procurement exemptions should be reported to the Governance and Audit Committee to provide oversight and allow challenge where procurement activity does not follow approved processes.

**Value for Money
Recommendations raised in
2023/24**



Recommendations raised in 2023/24

Recommendation	Type of recommendation *	Criteria impacted	Evidence	Impact or possible future impact	Actions agreed by Management
<p>KR1 The Council should develop and deliver their Children's Services improvement plan to address the significant weaknesses identified by the November 2024 Ofsted inspection and subsequent "inadequate" assessment. Areas where significant improvements are required include leadership capacity, identification and response to risk, quality of social work practice and management oversight. The Council should ensure that the delivery of the plan is closely monitored and reported to those charged with governance and that monitoring accurately reflects progress made and challenges remaining to improve Children's Services.</p>	Key	Improving economy, efficiency and effectiveness	<p>Ofsted undertook an inspection of Children's Services in November 2024, publishing their inspection report in January 2025. Ofsted judged the overall effectiveness of Children's Services as "inadequate".</p> <p>The inspection identified serious and widespread weaknesses in services for disabled children, young carers and care-experienced young people. Ofsted commented that the Council's self-evaluation was not an accurate reflection of the current challenges in Children's Services.</p>	<p>We consider that the Ofsted "inadequate" judgement reflects arrangements and significant weaknesses that were in place during 2023/24 and represent a significant deterioration in quality since the previous Ofsted inspection in 2021.</p> <p>The Council should develop and deliver their Children's Services improvement plan to ensure that the weaknesses identified in the Ofsted inspection are addressed.</p>	<p>Actions:</p> <p>The OFSTED report itself acknowledges that swift action was taken during the course of the visit under a number of the action points. Copies of a number of decisions already made have been provided to Grant Thornton.</p> <p>The Council is committed to delivering sustainable improvements at pace. It should be noted that taking Children's Services out of inadequate will take time if improvements are to be sustained. The Ofsted monitoring visits will be over a period of approximately 30 months until a full re-inspection takes place.</p> <p>The report to the Cabinet on 12 February 2025 provides an update on the actions taken since the Ofsted Inspection of Children's Social Care in November 2024 and the publication of the report on 20 January 2025.</p> <p>The report also sets out the plan to regularly update Members on the progress of the ongoing programme of improvements. A copy of the first Monthly Update has been provided to Grant Thornton which provides full details of the various programmes of work that are in place.</p> <p>Responsible Officer: Executive Director (Children's Services)</p> <p>Executive Lead: Executive Director (Children's Services)</p> <p>Due Date: Ongoing until next Ofsted inspection</p>

* Explanations of the different types of recommendations which can be made are summarised in Appendix B.

Recommendations raised in 2023/24

Recommendation	Type of recommendation *	Criteria impacted	Evidence	Impact or possible future impact	Actions agreed by Management
<p>IR1 The Council should reduce the forecast increases in the DSG deficit by focussing on the drivers of demand and ensuring sufficiency of places, through continuing to develop the DSG Deficit Management Plan. Early intervention and support mechanisms to reduce the demand for complex high-cost care plans and allow children to remain in mainstream schools are required in addition to ensuring the sufficiency of special-school places. Cabinet and Council should receive detailed updates on the annual and cumulative DSG deficit position to provide oversight and gain assurance over the impact the actions to reduce the deficit are having.</p>	Improvement	Financial sustainability	<p>The DSG deficit for 2023/24 was £8.1m, resulting in a cumulative DSG deficit of £12.9m as at 31 March 2024.</p> <p>The DSG Management Plan 2024/25 submitted to the Education and Skills Funding Agency in May 2024 forecast the annual mitigated DSG deficit increasing to £21.5m by 2025/26, and a total cumulative mitigated deficit of £53.2m by 31 March 2026 which is far in excess of the Council's General Fund Balance which stood at £9.0m as at 31 March 2024.</p>	<p>Increasing DSG deficits are a national issue experienced by many upper tier Councils, and are driven by increases in the demand and complexity of care for children with education, health and care plans.</p> <p>The Council's forecasts are that the DSG deficit will continue to grow, and this represents a risk to financial sustainability if the statutory override is not extended.</p> <p>We recognise that the scale of the Council's DSG deficit is not sufficient to place it in either the national Delivering Better Value or Safety Valve programmes, and that the Education and Skills Funding Agency has confirmed the Council's approach as good practice, and therefore we have not identified a significant weakness in arrangements.</p>	<p>Actions:</p> <p>Agreed.</p> <p>The Council is aware of the need to reduce the DSG deficit. This is a national issue affecting a large number of local authorities and is not specific only to Knowsley.</p> <p>The Council will continue to develop its DSG Deficit Management Plan and will investigate all possible actions to reduce demand and improve sufficiency of places.</p> <p>The Council has held regular meetings with the Education and Skills Funding Agency (ESFA) to discuss and develop the Deficit Management Plan. The ESFA has provided very positive feedback on the Council's approach and has praised it as good practice. The Council will continue to develop the Deficit Management Plan under future arrangements established by the Department for Education.</p> <p>While the Council will continue to work to address the deficit, the only way to resolve this national issue fully, without local authorities across the country immediately becoming unsustainable, is for a future Government to increase the level of High Needs Block funding.</p>

* Explanations of the different types of recommendations which can be made are summarised in Appendix B.

Recommendations raised in 2023/24

Recommendation	Type of recommendation *	Criteria impacted	Evidence	Impact or possible future impact	Actions agreed by Management
<p>(continued)</p> <p>The Council should reduce the forecast increases in the DSG deficit by focussing on the drivers of demand and ensuring sufficiency of places, through continuing to develop the DSG Deficit Management Plan. Early intervention and support mechanisms to reduce the demand for complex high-cost care plans and allow children to remain in mainstream schools are required in addition to ensuring the sufficiency of special-school places. Cabinet and Council should receive detailed updates on the annual and cumulative DSG deficit position to provide oversight and gain assurance over the impact the actions to reduce the deficit are having.</p>	Improvement	Financial sustainability	<p>The DSG deficit for 2023/24 was £8.1m, resulting in a cumulative DSG deficit of £12.9m as at 31 March 2024.</p> <p>The DSG Management Plan 2024/25 submitted to the Education and Skills Funding Agency in May 2024 forecast the annual mitigated DSG deficit increasing to £21.5m by 2025/26, and a total cumulative mitigated deficit of £53.2m by 31 March 2026 which is far in excess of the Council's General Fund Balance which stood at £9.0m as at 31 March 2024.</p>	<p>Increasing DSG deficits are a national issue experienced by many upper tier Councils, and are driven by increases in the demand and complexity of care for children with education, health and care plans.</p> <p>The Council's forecasts are that the DSG deficit will continue to grow, and this represents a risk to financial sustainability if the statutory override is not extended.</p> <p>We recognise that the scale of the Council's DSG deficit is not sufficient to place it in either the national Delivering Better Value or Safety Valve programmes, and that the Education and Skills Funding Agency has confirmed the Council's approach as good practice, and therefore we have not identified a significant weakness in arrangements.</p>	<p>(continued)</p> <p>Actions:</p> <p>The matter was reported in detail to the Cabinet as part of 2024/25 budget monitoring (20 November 2024).</p> <p>The issue is also reported in detail to the Portfolio Holder and the Schools Forum - which is a public meeting and is the main decision-making body for Schools. The Schools Forum includes Members of the Council's Cabinet.</p> <p>Responsible Officer: Head of Inclusion / Head of Finance</p> <p>Executive Lead: Executive Director Children's Services</p> <p>Due Date: Ongoing</p>

* Explanations of the different types of recommendations which can be made are summarised in Appendix B.

Recommendations raised in 2023/24

Recommendation	Type of recommendation *	Criteria impacted	Evidence	Impact or possible future impact	Actions agreed by Management
IR2 The Council should develop Council-wide transformational or cross-cutting savings proposals in order to address the budget gaps identified in the Medium-Term Financial Strategy. A pipeline of savings should be developed that addresses budget gaps in future years.	Improvement	Financial sustainability	<p>The 2023/24 budget did not include a savings target in order to balance the financial position, as the £1.3m residual budget deficit was the result of inflationary pressures that the Council did not consider to be permanent. The 2024/25 budget was balanced through low impact savings and efficiencies that did not impact on service delivery.</p> <p>As at March 2024, the Council was forecasting budget gaps of £3.1m in 2025/26 and £4.0m in 2026/27.</p>	<p>The budget gap for 2025/26 represents 1.3% of the 2024/25 net budget of £239.3m and so, although significant, should represent an achievable target provided the Council acts at pace to identify budget savings proposals for Members to consider.</p> <p>While the Council moves into a period where more significant budget gaps will require balancing, and as the Council has already identified significant operational and low impact savings in previous years, savings proposals will need to be developed from new ways of working and potentially reduced levels of services.</p>	<p>Actions: Agreed.</p> <p>The financial strategy already includes a range of cross-cutting savings measures: - Council wide challenge of non-essential spend - Council wide vacancy management targets - Council-wide review of fees and charges.</p> <p>Council-wide transformational or cross-cutting savings proposals will be explored as part of the Council's future financial strategy.</p> <p>A "pipeline" of future savings will also be considered as the Council's future funding position is clarified by the Government.</p> <p>Responsible Officer: Head of Finance Executive Lead: Executive Director (Resources) Due Date: Ongoing</p>

* Explanations of the different types of recommendations which can be made are summarised in Appendix B.

Recommendations raised in 2023/24

Recommendation	Type of recommendation *	Criteria impacted	Evidence	Impact or possible future impact	Actions agreed by Management
<p>IR3 The Council should provide an aggregated organisation-wide projection of reserve balances over the period of the Medium-Term Financial Strategy within its financial planning reports to provide increased oversight to Members and ensure that prudent levels of reserves are maintained to manage risk and fund future corporate priorities.</p>	Improvement	Financial sustainability	<p>The Council maintains a General Fund Balance to manage financial risk. As part of the budget process 2024/25, the General Fund Balance was budgeted to increase by £0.4m to £9.0m in view of the greater levels of risk the Council faces.</p> <p>In addition, the Council had £94.3m of earmarked reserves as at 31 March 2024.</p> <p>Budget monitoring reports provided to Cabinet Members for their portfolio areas include an overview of levels of reserves available for the portfolio and their spend profile for current and future years. Financial planning reports do not however provide a Council-wide view of the total level of reserves available over the medium term.</p>	<p>Projecting the level of reserves the Council will have over the medium term is an important financial planning tool to provide increased Member oversight and to ensure that prudent levels of reserves are maintained to manage risk and fund future corporate priorities. Such projections allow mitigating strategies to be developed where reserves are forecast to fall below prudent levels.</p>	<p>Actions:</p> <p>Agreed - already implemented.</p> <p>An overview of all reserves was reported to the Cabinet 20 November 2024. The Council will continue to report this information to Members as part of the ongoing financial strategy. Details of all reserves are also presented in the Council's annual Statement of Accounts.</p> <p>Information on reserves is reported to Cabinet as part of budget monitoring process.</p> <p>Responsible Officer: Head of Finance</p> <p>Executive Lead: Executive Director (Resources)</p> <p>Due Date: Ongoing</p>

* Explanations of the different types of recommendations which can be made are summarised in Appendix B.

Recommendations raised in 2023/24

Recommendation	Type of recommendation *	Criteria impacted	Evidence	Impact or possible future impact	Actions agreed by Management
IR4 The Council should further strengthen risk management reporting arrangements by increasing the frequency that the Strategic Risk Register is reported to the Governance and Audit Committee and by reviewing the number of risks reported in the Strategic Risk Register.	Improvement	Governance	<p>Cabinet and the Governance and Audit Committee were provided with risk update reports and a summary of the Strategic Risk Register once during 2023/24 (December 2023 and January 2024 respectively). This report provides a summary of each strategic risk, the corporate priority it impacts on, and a Red / Amber / Green risk rating.</p> <p>The summary Strategic Risk Register reported to the Governance and Audit Committee in January 2024 included 38 strategic risks, comprising 16 high RAG rated risks, 17 medium RAG rated and 5 low rated.</p>	<p>Arrangements to report risk management could be strengthened through more frequent reporting of the risk register to the Governance and Audit Committee to ensure that those charged with governance have more regular and timely oversight of the management of risk at the Council.</p> <p>The Council should also review the number of strategic risks reported on the Strategic Risk Register to ensure that they cover only the key strategic risks facing the Council and allow for a proper consideration of strategic risk at the Governance and Audit Committee.</p>	<p>Actions:</p> <p>Agreed.</p> <p>The independent Chair of the Governance and Audit Committee will be consulted on whether the Committee should receive more frequent updates.</p> <p>The number of risks on the register reflects the current assessment of the risks which the Council faces. Given the nature of these risks, it is unlikely that their status would change much on a quarterly basis. The status of the Council's risks are reported by exception quarterly to portfolio holders as part of regular performance management updates.</p> <p>As part of the development of the new Knowsley Council Plan, risks will again be assessed and consideration will be given to where risks could be managed at a department level, which would result in the reduction of the number of risks included on the Strategic Risk Register.</p> <p>Responsible Officer: Service Manager - Performance, Business Intelligence & Risk</p> <p>Executive Lead: Executive Director (Resources)</p> <p>Due Date: September 2025</p>

* Explanations of the different types of recommendations which can be made are summarised in Appendix B.

Recommendations raised in 2023/24

Recommendation	Type of recommendation *	Criteria impacted	Evidence	Impact or possible future impact	Actions agreed by Management
IR5 The Governance and Audit Committee should receive quarterly progress reports on the delivery of the internal audit plan.	Improvement	Governance	The Governance and Audit Committee received a progress report on the delivery of the 2023/24 plan in January 2024, and updates on the implementation of recommendations in June 2023, January 2024 and June 2024.	The Governance and Audit Committee should receive quarterly progress reports on the delivery of the internal audit plan to ensure that they have timely assurance and oversight on the delivery of the plan and the strength of the control environment.	<p>Actions:</p> <p>Agreed in part.</p> <p>New professional standards are to be published shortly – to be applicable from April 2025. Any new requirements will be considered to ensure that the Council conforms to the standards.</p> <p>Responsible Officer: Head of Finance</p> <p>Executive Lead: Executive Director (Resources)</p> <p>Due Date: September 2025</p>

* Explanations of the different types of recommendations which can be made are summarised in Appendix B.

Recommendations raised in 2023/24

Recommendation	Type of recommendation *	Criteria impacted	Evidence	Impact or possible future impact	Actions agreed by Management
<p>IR6 The Council should consider where financial reporting can be strengthened by providing more detailed information to Members within the annual budget setting report to provide better oversight and allow increased challenge regarding the Council's financial plans.</p> <p>Budget setting reports should include a service-level General Fund summary, a schedule of savings, reserve projections, the DSG forecast, and the results of budget consultation.</p>	Improvement	Governance	<p>There are opportunities to further strengthen arrangements by providing more detailed information to Members in the annual budget setting report.</p> <p>The annual budget setting report should include a General Fund summary at service level that details proposed and current year budgets and an analysis of changes between the years. We would also expect to see a schedule of all savings included within the budget, as well as information relating to reserve balances, and the dedicated schools grant deficit. The report should include the results of engagement and consultation with stakeholders regarding spending priorities.</p>	<p>Providing more detailed information to Members relating to key areas of the budget in financial planning reports will provide better oversight and allow increased challenge regarding the financial plans of the Council.</p>	<p>Actions:</p> <p>Agreed in part.</p> <p>The Council will report further details of budgets at a service level as part of the future budget setting process.</p> <p>The Council will develop information for the Cabinet and Council that reports proposed budgets at a service level, along with an analysis of changes from the previous year.</p> <p>All Service Savings approved by the Council are already detailed in each year's budget resolutions.</p> <p>Reserve projections are already included in Budget Monitoring reports to the Cabinet.</p> <p>As set out in IR1, DSG forecasts are reported to the Cabinet as part of budget monitoring reports.</p> <p>Responsible Officer: Head of Finance</p> <p>Executive Lead: Executive Director (Resources)</p> <p>Due Date: February 2026</p>

* Explanations of the different types of recommendations which can be made are summarised in Appendix B.

Recommendations raised in 2023/24

Recommendation	Type of recommendation *	Criteria impacted	Evidence	Impact or possible future impact	Actions agreed by Management
IR7 The Council should conduct a lessons learned exercise from the implementation of the HR and payroll system in order to inform the planning and implementation of future IT systems. The Council should also undertake a benefits realisation exercise to ensure that anticipated benefits of the integrated HR and payroll system are being delivered and that the system is being used to its full functionality.	Improvement	Governance	<p>There were some issues experienced with the new HR and payroll system post go-live in April 2023 that required additional staff time to process some transactions, required manual workarounds to be developed, and placed additional pressure on staff.</p> <p>The process of awarding the contract to the new supplier took longer than envisaged with regard to developing the specification, and due to the requirement to use a competitive procurement framework rather than a direct award. The contract award was made in May 2022 which shortened the project implementation timetable and impacted the amount of testing and training that could be undertaken.</p>	<p>Now that the system is considered to be operating in a “business as usual” state, the Council should ensure that lessons learned from the implementation are applied to future IT projects.</p> <p>The Council should ensure that it is realising the envisaged benefits of the integrated HR and payroll system and that the system is being used to its full functionality.</p>	<p>Actions: Agreed.</p> <p>The Council will conduct a review of the implementation to inform future projects of this nature.</p> <p>The Council has recently appointed two new managers within HR who will directly manage the HR/Payroll system. Together with their colleagues in the Oracle Team, they will review whether the anticipated benefits of the HCM system are being realised and produce an appropriate action plan to ensure that this is the case.</p> <p>Responsible Officer: Head of Workforce Executive Lead: Executive Director (Resources) Due Date: March 2025</p>

* Explanations of the different types of recommendations which can be made are summarised in Appendix B.

Recommendations raised in 2023/24

Recommendation	Type of recommendation *	Criteria impacted	Evidence	Impact or possible future impact	Actions agreed by Management
IR8 The Cabinet should receive formal performance management reports that provide key performance indicators for service performance in addition to the information they receive on the delivery of the Council Plan.	Improvement	Improving economy, efficiency and effectiveness	<p>The Cabinet receives bi-annual Knowsley Council Plan monitoring reports which provide an update on the progress made delivering the priorities as set out in the Council Plan 2022-25 and the Annual Delivery Plan 2023/24.</p> <p>Each department also maintains a performance dashboard which is presented to Portfolio Holders on a quarterly basis. These provide data and Red / Amber / Green rated key performance indicators against priority areas and key service measures with a supporting narrative.</p>	Providing service key performance indicators would ensure that all Cabinet Members have adequate oversight of the overall performance of the Council, both operational and strategic, and can challenge areas where service performance is below target.	<p>Actions: Agreed.</p> <p>This recommendation was anticipated and discussed with the auditors. In light of the appointment of a new Chief Executive and the launch of a new Knowsley Council Plan in 2025, the Council's performance and assurance framework is currently being reviewed. The approach, as outlined in the recommendation, will be implemented during 2025/26.</p> <p>Responsible Officer: Service Manager - Performance, Business Intelligence & Risk</p> <p>Executive Lead: Executive Director (Resources)</p> <p>Due Date: September 2025</p>

* Explanations of the different types of recommendations which can be made are summarised in Appendix B.

Recommendations raised in 2023/24

Recommendation	Type of recommendation *	Criteria impacted	Evidence	Impact or possible future impact	Actions agreed by Management
<p>IR9 The Council should strengthen contract management and procurement arrangements through implementing processes to provide central oversight and assurance that contracts are being monitored and managed effectively. Procurement exemptions should be reported to the Governance and Audit Committee to provide oversight and allow challenge where procurement activity does not follow approved processes.</p>	Improvement	Improving economy, efficiency and effectiveness	<p>The responsibility for contract management and monitoring sits with the relevant service area. There was no central oversight of compliance with contract standing orders for contract management during 2023/24 by the Council's in-house procurement service (pre-October 2023), and this is not a function provided by STAR Procurement (post-October 2023).</p> <p>The Council does not maintain a register of exemptions, and there has been no reporting of exemptions to the Governance and Audit Committee.</p>	<p>The Council does not have processes in place to gain assurance that contracts are being monitored as required, or that contracts are being delivered in accordance with agreed performance and quality standards.</p> <p>Those charged with governance have not been provided with oversight of the number, value and reasons why exemptions are issued, and are therefore unable to challenge why approved competitive procurement processes that are designed to achieve value for money are not followed.</p>	<p>Actions:</p> <p>Agreed.</p> <p>In response to the National Procurement Framework requirements, and with the support of our colleagues in STAR Procurement, the Council will review its contract management arrangements and provide central capacity to ensure that oversight of contract management obligations is being delivered.</p> <p>The Council will review its contract management arrangements and provide central capacity to ensure that our contract management duties are being delivered.</p> <p>Responsible Officer: Head of Scrutiny, Procurement and Projects</p> <p>Executive Lead: Executive Director (Resources)</p> <p>Due Date: April 2025</p>

* Explanations of the different types of recommendations which can be made are summarised in Appendix B.

Appendices

Appendix A: Responsibilities of the Council

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

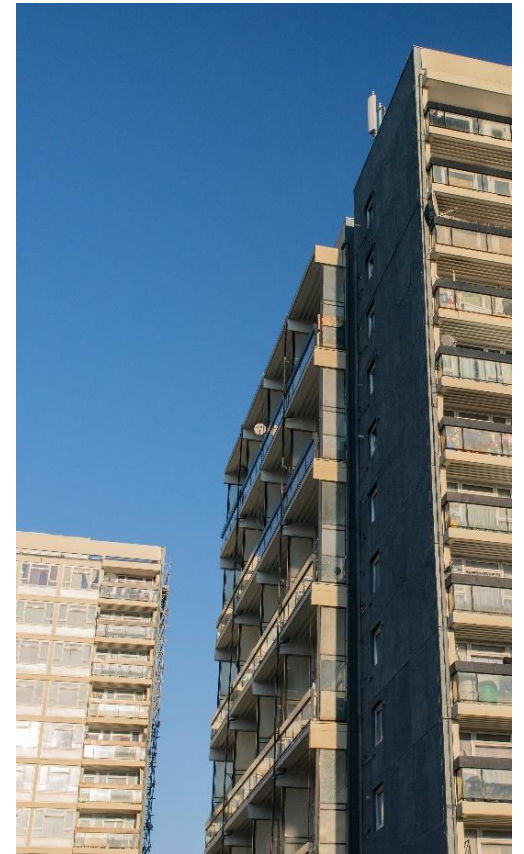
Financial statements are the main way in which local public bodies account for how they use their resources. Local public bodies are required to prepare and publish financial statements setting out their financial performance for the year. To do this, bodies need to maintain proper accounting records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

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

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

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

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



Appendix B: Value for Money Auditor responsibilities



Value for Money arrangements work

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

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

Under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The National Audit Office (NAO) Code of Audit Practice ('the Code'), requires us to assess arrangements under three areas:

Financial Sustainability

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

Governance

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

Improving economy, efficiency and effectiveness

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

2023/24 is the fourth year of the Code, and we undertake and report the work in three phases as set out in the Code.

Phase 1 – Planning and initial risk assessment

As part of our planning we assess our knowledge of the Council's arrangements and whether we consider there are any indications of risks of significant weakness. This is done against each of the reporting criteria and continues throughout the reporting period

Information which informs our risk assessment	
Cumulative knowledge and experience of the audited body	Annual Governance Statement and the Head of Internal Audit annual opinion
Interviews and discussions with key stakeholders	The work of inspectorates and other regulatory bodies
Progress with implementing recommendations	Key documents provided by the audited body
Findings from our opinion audit	Our knowledge of the sector as a whole

Phase 2 – Additional risk-based procedures and evaluation

Where we identify risks of significant weakness in arrangements we will undertake further work to understand whether there are significant weaknesses. We use auditor's professional judgement in assessing whether there is a significant weakness in arrangements and ensure that we consider any further guidance issued by the NAO.

Phase 3 – Reporting our commentary and recommendations

The Code requires us to provide a commentary on your arrangements which is detailed within this report. Where we identify weaknesses in arrangements we raise recommendations. A range of different recommendations can be raised by the Council's auditors as follows:

- **Statutory recommendations** – actions which should be taken where significant weaknesses are identified with arrangements. These are made under Section 24 (Schedule 7) of the Local Audit and Accountability Act 2014 and require discussion at full Council and a public response.
- **Key recommendations** – actions which should be taken by the Council where significant weaknesses are identified within arrangements.
- **Improvement recommendations** – actions which should improve arrangements in place but are not a result of identifying significant weaknesses in the Council's arrangements.

Appendix C: Follow-up of previous recommendations

Recommendation	Type of recommendation *	Date raised	Progress to date	Addressed?	Further action?
The Council's previous external auditor did not raise any recommendations relating to value for money for 2022/23.					

*Explanations of the different types of recommendations which can be made are summarised in Appendix B.



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