The Chartered Institute of
Public Finance & Accountancy

City of Bradford Metropolitan District Council & Bradford Children & Families Trust

External Assurance Review

October 2023

A Report by:
The Chartered Institute of Public Finance and Accountancy
October 2023

CIPFA, the Chartered Institute of Public Finance and Accountancy, is the professional body for people in public finance. CIPFA shows the way in public finance globally, standing up for sound public financial management and good governance around the world as the leading commentator on managing and accounting for public money.

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1 Executive Summary

1.1 Summary of findings, issues, evidence, and analysis

This is an independent review by CIPFA, commissioned by the Department for Levelling Up, Housing and Communities (DLUHC). The review was carried out during August and September 2023.

The City of Bradford Metropolitan District Council (CBMDC) is planning to balance next year's budget through a series of in-year measures. It is currently forecasting a year-end overspend of **£23 million.** Along with a projected **£45.2 million** overspend by the Bradford Children and Families Trust, the cumulative gross overspend is **£68.2 million** but after mitigations from the Council's 'Pillars' programme, the year-end forecast (Council and Trust) is reported as **£31.2 million.** The Council has evidenced that they have a clear line of sight to balance the budget for 2023-24, but this excludes the increasing levels of in-year overspends being reported from the Bradford Children and Families Trust (BCFT). The Trust is currently forecasting a year-end overspend of **£45.2 million**[1]. From April 2024, the Trust has set out two possible scenarios regarding their opening balances in 2024-25 through to 2026-27. The worst case scenario modelled by the Trust forecasts opening balances of **£42.1 million, £40.7 million and £43 million** respectively[2] giving a three year Medium Term Financial Strategy (MTFS) cumulative overspend of **£125.8 million**.

The Council's indicative MTFS gap (as reported in their Q2 outturn) over the next three years is as follows (and is subject to further change during this financial year): **£29.3 million** in 2024-25, **£7.7 million** in 2025-26 and **£7.7 million** in 2026-27. The Council is currently forecasting reserves of **£72.7 million** by the end of this financial year and continues to look at ways of increasing its reserves to maintain financial sustainability in 2024-25 and beyond.

The Trust has taken what action it can to partly mitigate this year's projected overspend and plans are in place to deliver **£6.42 million** worth of reduction in expenditure (down from an initial target of **£7.5 million)**. Work continues to identify how further reductions in spending can be made including the identification of additional income and changes to care package dates which could further impact the forecast in a positive way.

There is an acceptance within the Council that they own the responsibility for closing the forecasted financial gap and that they need to plan for the future to ensure that such financial losses of this magnitude are avoided in the future. The situation in Bradford has become so acute that it is unlikely, despite the work being done by the Council's finance team to find other ways of balancing its books next year and beyond, they can resolve the financial issues faced by the Trust on their own.

In CIPFA's view (and considering a range of other factors including prior year overspends in Children's Services) the initial contract price of £170 million (excluding inflation) seemed unachievable. We have evidenced a range of papers and reports which document a series of discussions between the shadow Trust officers and the shadow Board suggesting a range of contract prices up to £222 million with a mid-point of £196 million. These numbers were derived from modelling work shared by the Trust. Whilst the parties eventually agreed on a contract price of £170 million, the Trust asserts that there would be flexibilities built into

[1] This includes achieved mitigations of £6.42 million and not the original target of £7.5 million.

[2] These figures include assumptions around grant funding from various Government bodies; they include current assumptions such as likely cumulative savings; they exclude any possible savings from children looked after caseloads and other caseloads; they exclude inflation and pay rises.

the contract to increase the base price for unplanned demand. A number of assumptions were agreed between the parties prior to contract signature but a number of these assumptions did not feature in the final version of the contract. The Council's negotiating team strongly asserts that it did not agree to a higher contract price and that the final contract price was agreed with the support of the Department for Education (DfE). Further, the Council insists that it maintained a strong position (during negotiation) around the affordability of an initial contract price up to £170 million and that a higher price was simply unaffordable. We note that there is provision in the contract to vary the initial contract price using various contractual mechanisms and it is incumbent on the Trust to provide as accurate a forecast as possible now in order that they can explore options for further financial assistance and help from the Council.

On review of the Trust's latest Q2 forecast, the overspend has increased by **£17 million** since Q1. As well as other in-year Trust pressures, we are not convinced that the Trust's assumptions around grants and other income for future years are realistic. We do not believe that some of the Trust's (draft Business Plan) assumptions can be relied upon until the Trust can provide written evidence that these assumptions can be underwritten by those organisations providing the income. This will ensure a higher degree of confidence for next year's budget setting. In discussions with the Trust, we have urged them to draw a line under areas of income and spend that are still "moving parts" such that a more accurate baseline of their numbers can be agreed. We have urged the Trust to undertake further financial due diligence such that it can provide a more accurate set of forecasts in the near future. This activity needs to be undertaken within a matter of weeks and is of the utmost urgency.

Up to the financial year 2022-23, Bradford managed to balance its budget year on year whilst delivering around **£350 million** of savings since 2011. However, through an accumulation of increased service demand in key service areas (eg, Children's and Adult's), the Council started to rely on reserves to balance the budget. Over the last 12 months, reserves have been depleted and the Council is now looking to balance next year's budget through a range of means including changes to its Minimum Revenue Provision (MRP) policy, transferring spend back from the West Yorkshire Combined Authority (WYCA) and through the delivery of an internal cost savings and transformation plan referred to internally as the "Pillars Programme". The Council's plans to change the treatment of its MRP calculations are discussed later in the report and whilst we accept that the Council should be encouraged to look at every possible option of balancing its budget, we do not agree with its proposals to retrospectively recalculate its MRP.

The Council's 2022-23 budget was exceeded significantly. The 2023-24 budget is forecast to overspend again. The overspend in 2022-23 was due to overspends in Children's Services of £50.9 million prior to the establishment of the Trust. We consider that, in addition to the factors above, recurrent overspends have been caused by planning and control weaknesses arising from cuts to Corporate Services in previous years which, in particular, has had negative impacts on commissioning. We also consider that despite a balanced budget (where revenues meet expenditures) being set in 2022-23 and 2023-24, this was based on unrealistic budgeting of Children's Services, in spite of the extensive discussions (pre Trust going live) between the shadow Trust Board and senior officers and Council senior management.

The Council has been politically stable since 2016 and the current Chief Executive has been in post since 2015 but is retiring and making way for a new externally appointed Chief Executive in October 2023. In previous years, the Council was able to accumulate reasonable cash reserves but accelerated demand in Children's Services has required the Council to look at other ways of balancing the books through a series of measures.

For the 2023-24 budget setting process, the Council took the unprecedented step of balancing the budget using £50m from reserves. The General Fund reserve now stands at

£72.7 million. The Council is confident that it has enough reserves to balance the 2024-25 budget, but with political pressure not to increase council tax (every 1% rise would yield an additional £2 million per annum) and significant overspends in the Trust, the Council is at risk of needing to issue a section 114 notice. These numbers exclude the Trust's latest Q2 overspend position of £45.2 million.

This year the Council created a new transformation programme that aims to deliver a small range of savings in-year with further savings planned from 2024-25 to close the gap for the following three years.

The Council has already identified a number of assets that it would put on the market for sale. The Council has recently bolstered its property management capability but it is still unclear on its Disposals Strategy which will be key in identifying how quickly it can realise cash from the sale of key Council assets. We recommend that the Council creates a Disposals Strategy as soon as possible to inform a managed sale of appropriate assets.

It is accepted that the Council is working in a very challenging environment which has seen cuts in staffing; particularly in Corporate Services (Finance, IT, Legal, Transformation, Procurement etc) whilst demand pressures (especially in Children's) have increased. The Council's Transformation Programme has identified these issues and also problems with procurement, project management and contract management. Previous internal and external reviews also identified financial control weaknesses in the Council's recent history. On an ongoing basis this is being corrected and strengthened by the current able and dedicated financial leadership team.

The legacy of the financial control weaknesses, the lack of depth of capacity in the areas identified by the Transformation Programme, combined with broader factors have contributed to overspends across the Council. Bradford Children and Families Trust (BCFT) have identified multiple issues with information transferred to them which have arisen from control weaknesses at the Council. This has contributed to a great deal of uncertainty over the Trust's required budget both during the contracting process and subsequently as issues with financial impact are regularly being uncovered by the Trust. However, the onus is now on the Trust to complete its financial due diligence such that the Trust and the Council can agree a baseline. Absolute predictability of the Trust's numbers is paramount.

In January 2022, Steve Walker (appointed as the Children's Services Commissioner) concluded that the Council on its own could not deliver the improvements required in Children's Services and that direct control of the service should be removed from the Council and that an alternative service delivery model be developed. The Council agreed to voluntarily set-up a Trust to independently deliver Children's Services.

A new Bradford Children and Families Trust was established on 1 April 2023. The Trust has a fully functioning and established Board, a permanent CEO, Finance Director, and Director of HR. The client-side including contract management and some shared commissioning arrangements remains with the Council under the management of the Director for Children's Services (noting that some elements of Children's Social Care are still delivered by the Council). The formal relationship between the Trust and the Council is through a Service Delivery Contract and a series of governance meetings.

During the course of our review, we interviewed key officers from the Council and the Trust and we appreciate the challenges and difficulties faced by all in establishing the Trust. We also understand the significant challenges faced by the Trust to deliver key improvements over the next four years while at the same time putting in place deliverable mitigations to change the profile of the workforce; change the culture of the organisation; make it an attractive place to work; reduce its unit costs in areas such as looked after children and out of area placements etc. All of these factors, if delivered in a timely manner will lead to a more stable operating model for Children's Services and one which will enable the Trust to deliver services within the tolerances of the initial contract price.

However, there are a number of key issues facing the Council and the Trust. Whilst we understand that the Trust is a company owned by the Council, it has been established to operate independently and as such has its own management team and Board. The contract defines the operational and strategic governance protocols between the Trust and the Council and these are being followed. However, levels of trust between the two parties could be better and whilst we do not apportion blame to either party, we strongly recommend that the parties come together to jointly agree how to secure a better understanding of the solutions to the issues facing the Trust.

At the current time, it is difficult to see how the Council and the Trust can work together to reach successful resolution to the financial issues that have arisen in-year.

The key issue is the initial contract price of £170 million the precursor to which were a series of lengthy negotiations between the Trust, the Council and third party advisers. The Trust (and their Board) thought that there would be an opportunity post contract to reconcile their demand and financial assumptions using the contract change mechanisms to effect changes.

The Council's 2023-24 Q1 outturn report was forecasting a year end overspend of £13.8 million. The Trust's Q1 outturn report reported an overspend (less mitigations) of £28 million. The Council took the decision not to include the Trust's Q1 overspend in its formal reporting. The Council's reasoning for this was they felt that given the Trust was in its infancy, they wanted time to verify the numbers and perform due diligence. Despite the Council's reasons for not declaring the Trust's Q1 overspend, CIPFA asserts that the Council should have declared the Trust's Q1 overspend to provide maximum financial transparency. This is a matter that we have discussed with the Council's (then) CEO and leadership team and whilst we do not agree with the course of action, we accept their explanation.

Further, the Trust felt that because they were on a significant improvement journey, that their costs were going to rise further in-year before they were able to deliver a more stable and sustainable operating environment when they expect to see costs reducing. The Council has not asked the Trust to deliver any savings in their first year of operation and the Trust's draft Business Plan sets out plans to deliver efficiency savings from 2024-25.

The Chief Executive of the Trust is very experienced and has a good understanding of the practice and operational issues that need to be improved in the first few years of the Trust. This view was triangulated with the view of the DfE Commissioner ie, that both the Chief Executive, and the Trust Board as advised by her, have a good sight of what needs to be done.

Comparable councils introducing strong practice models, including one in the Council's statistical neighbours' group, have achieved full transformation and a reduction in children in care by using a strong practice model and therefore financial stability in two to three years. This is seen as a reasonable ambition by the Trust CEO and a realistic practice improvement trajectory would be to achieve an Ofsted grade of 'Requires Improvement' by the expected date of full inspection which would be as early as Spring 2026. This could therefore lead to greater financial stability by the end of the financial year 2026-27 but we realise that that the Trust's financial performance and greater grip on its underlying financial position is a matter of urgency and needs to be addressed now.

The Association of Directors of Children's Services (ADCS) recently published details of a 41% in real terms rise in spend in 2021-22 compared to 2009 with a rise in the children's population of 10%. The predictions in the model used by the Trust are therefore likely to be reasonable considering the ADCS position on cost pressures.

On social care practice, Ofsted recently reported progress and there were no immediate concerns about safety, although some about timeliness of response to children. This is often the case at this stage in an improvement journey, and in Bradford this has involved a transfer to another organisation. Current case reviews can lead to children coming into care later than they might have done which will add to cost pressures. On the evidence of interview, early help provision, whilst showing some strengths, is yet to be stabilised, with some uncertainty about the transfer of some functions from the Council to the Trust next year.

The Director of Children's Services in the Council acknowledges that the improvement plan covers the right areas, but would like more pace and clearer outcomes which to some extent is not an unreasonable request. Ofsted undertook a monitoring visit in July 2023, (published in August 2023) and the areas for improvement evidenced in that report fit with the Trust's improvement plan.

Progress has been made in resolving some issues such as the statutory responsible individual role. Based on interview, the continuation of the Social Work Academy built on the work of the Council seems sound. There are secure plans to 'grow their own' social workers and an innovative offer for master's degree students. The Trust has made sensible moves to learn from other councils and assure that visas for international workers name Bradford alone as the corporate body entitled to employ them to mitigate against staff loss. Caseloads for these staff are currently low but will increase.

On the evidence of interview, the Trust is beginning to improve early help provision which will need more resources to help prevent children entering care further down the line. There is not yet a firm agreement about the transfer of some Council-run services for early help which are expected to be transferred to the Trust next year.

We have set out what we think are the key risks and recommendations against each review area which we hope will provide focus for the months ahead.

Key conclusions

Up until last year, Bradford was a financially stable organisation having built-up reserves and cash over previous years, but very rapidly, the Council's financial position has deteriorated. The Council had some significant issues with financial control which are being addressed. They are also experiencing ongoing capacity issues in the areas of procurement, project management and contract management – this is hindering the furtherance of identifying and delivering more savings and efficiencies with the Council citing Procurement as a key area. The Council fully recognise these issues and are developing solutions to resolve these issues.

The Trust is reliant on joint working agreements with the Council and to meet its savings targets it particularly needs the Council's commissioning services to be robust. For the Council to invest to save in these aspects of the Transformation Programme may be particularly beneficial, since although the savings to the Council from this programme may be relatively small, the financial impacts of improved commissioning may be far higher for the Trust. As a wholly owned subsidiary, the benefits in the Trust will, in essence, also be the Council's realised savings and the contractual boundary between the Trust and the Council should not be allowed to obfuscate this fact.

Prior to Children's Services being transferred to the Trust, Children's Services had overspent for the last five financial years due to a range of issues already documented in separate independent reports leading the Council to voluntarily establish a new Children's

Trust. The Trust budget was set at £170 million per annum, but due to the inherited problems faced by the Trust (higher mix of agency staff, more expensive staff costs, poor practice although improving, increasing demand etc) the initial contract price (as deemed by the Trust) in our view is not sufficient. However, we also accept that the Council faces a series of difficult decisions to find ways of balancing its budget this year and beyond and requires the Trust to reciprocate by providing a sound level of predictable financial certainty.

The Trust is not yet able to improve at the pace required by the Council such that the Trust is not yet able to live within its means. Whilst we acknowledge the basis on which the Trust was established and we understand its steep improvement trajectory, it is untenable for the Trust to take another three years to become financially stable. Whilst we understand the challenges faced by the Trust, we have advised the Trust's Finance Director to seek further financial support/expertise to facilitate the Trust with its financial due diligence and that this be completed as a matter of urgency.

The Trust's draft Business Plan lays the foundations for change which should lead to a more sustainable future operating model. This in turn should lead to a much improved and more reliable financial position, but the Trust needs to work at pace (within weeks) to draw a line under its financial due diligence by clearly and confidently stating a more predictable set of forecasts. At the time of writing, we believe that the Trust has set their end of year forecast at £45.2 million (this being their best case scenario), but there are a range of other 'moving parts' as described later in the report that give us cause for concern, hence the need for the Trust to act urgently to provide a more reliable financial baseline.

Without a more detailed analysis to build an accurate forecast of future Trust spend, we fear that the Trust may run out of money by December 2023 (this has been further evidenced by their recently published cash flow forecast).

The initial contract price remains a key point of difference between the Trust and the Council and both parties should use the mechanisms available to them within the contract to create a negotiating environment which can meet the needs of both parties. More importantly, both parties need to come to the negotiating table with a strong desire to resolve what are serious financial problems facing both organisations.

The final section of this executive summary, documents the key risks as we see them. By their very nature, these risks need to be acted upon immediately.

1.2 Key risks and recommendations

Key risk	Risk rating (see details in Annex 1)	Recommendation (including Timeline)
1. BCFT overspends from Q1 and Q2 will continue to accumulate during the remainder of this financial year.	9	That BCFT create an Emergency Finance Stabilisation Plan (EFSP) to identify all key areas of spend using the EFSP as the vehicle to document a full financial due diligence. **Immediate**
2. That the Council's Q2 forecast overspend/MTFS budget gap (before Pillars) does not exceed £23 million.	4	That the Council forensically reviews its year-end financial projections to ensure that further overspends are minimised and that there is predictability in their forecasting

		including a forensic review of their savings assumptions. **December 2023**
3. The Council and BCFT cannot (on their own) come to an agreement on how to resolve BCFT overspends thus leading to a complete breakdown in trust and relationships between the parties.	6	That both parties appoint a mediator to work with the parties to find a mutual resolution to the issues. That the conclusions of the mediator is binding. **Immediate**
4. That the MRP related element of the Council's financial re-structuring does not meet the expectations of their external auditors.	4	That the Council seeks (with the support of their external auditor) a letter of comfort to confirm to the Council's Executive that the S151's approach to the retrospective application of MRP is within the CIPFA guidance and is within the tolerances as expected and required by the Council's external auditors. **Immediate**
5. That future (Q3 and Q4) Council and Trust overspends (building on the forecasts declared and published at the end of Q2), push the Council into the issuing of a S114.	6	That BCFT lead on the production of an EFSP (acting independently) with support as required by the Council to provide expertise in the areas requiring further investigation. In parallel that the Council ensures that the right resources are focused on delivering an accurate year-end outturn based on the current forecast. That the new Council CEO is satisfied that the current operating model for the Pillars programme and other savings/transformation initiatives is fit for purpose and can deliver the most optimum and sustainable platform for financial sustainability. **Immediate**
6. That BCFT will run out of money in December 2023 (noting their recent cash flow analysis).	9	That the Council and BCFT work together to resolve the cash flow crisis facing the Trust such that BCFT can continue to operate as a going concern. **Immediate**

2 Introduction

2.1 Background

The review was commissioned because the Council approached the Department for Levelling Up, Housing and Communities (DLUHC) (not making a formal request) earlier in 2023 for additional funding to support with costs associated with a Department for Education (DfE) intervention to establish a new Children's Trust.

DLUHC also had some concerns over the Council's articulation of its plan across the medium to long term to ensure its financial sustainability and address forecast budget gaps.

Bradford is the fifth largest Metropolitan local authority district in England. It is the youngest city in the UK, with 22.8% of people aged under 15; 30% are aged 19 or under and the median age of 36.7 is the lowest in West Yorkshire. Its population is growing and projected to reach 551,000 by 2029 with the greatest growth projected to occur among people aged 75+. Ethnic minorities form a third of the total population of the district with over 150 languages spoken within the district. The Council strives to secure better outcomes and equality of opportunity for everyone in the district. It employs more than 8,400 staff.

Bradford is home to high-value production businesses across a wide range of sectors, including food manufacturing, engineering, chemicals, digital technologies, energy, and utilities. Many businesses support international supply chains in sectors such as automotive, construction, finance, and health, making it one of the most internationally connected cities in the UK. The University of Bradford is renowned for its technological innovation.

The district has been identified by Barclays Bank as the best place in Britain to start a business, named as one of the Sunday Times' top 20 places to do business, and identified as the most improved city in the PWC Good Growth 2019 Index.

Whilst the district includes some of the most affluent areas in the north of England, the Bradford District is the fifth most income-deprived in the country. Some 266,000 people live in the poorest areas, and nearly one third of children live in poverty. Fuel poverty affects 13.5% of households. Health inequalities persist and the gap in life expectancy between the wealthiest and poorest areas of the district is around nine years for men and around eight years for women. These levels of poverty and inequality increase the demand for public services.

Band D Council tax is 8% below the average for metropolitan authorities and 80% of households are below Band D.

The 2022-23 financial year has seen the Council face the most severe of financial challenges. Along with the rest of the country, it has dealt with the legacy of the COVID-19 pandemic, there was also a downturn in the national economic position and inflationary pressures affecting both the Council and local residents.

The Council has managed continuing increases in demand for services compared to pre-pandemic levels, especially in Adults and Children's Social Care. Taken together with the significant increase in inflation influencing general prices for goods and materials purchased by the Council, and energy costs which had a much higher and longer impact than expected, has resulted in reserves being required to balance the budget.

2.2 Requirement

The key areas of the review are as follows:

- review the overall financial management and sustainability of the Council assessing key risk factors, pressures, deliverability of savings plans etc.
- review and assess Bradford's assets and investments including their dependence on commercial income.
- review and assess their capital programme and management of related risks including any local authority owned companies.
- review and assess their governance, management processes, leadership, operational culture and assess whether their governance procedures are in place. To review and assess the Council's ability (including capacity and adaptability) to deliver the transformation required.
- review and assess the funding arrangements for the Bradford Children and Families Trust (BCFT). Where there is a reference in this report to 'children's social care services' we are specifically referring to those elements of the service that were transferred to BCFT on 1 April 2023 and not the retained services in the Council.
- develop an improvement plan with recommendations and actions addressed to deliver improvement.

2.3 Methodology

CIPFA's review team consisted of three experienced consultants with relevant backgrounds in all areas of the review's scope including a very experienced Director of Children's Services with a track record in turnaround and improvement of Children's Services in other local authorities.

The review team held a number of group and one-to-one sessions with officers of the Council and the Trust during August and September. These sessions were supplemented by other meetings held by Microsoft Teams. The team analysed over 150 documents and other artefacts that have been shared by the Council and the Trust as being relevant for the review.

The above inputs were then analysed and subjected to our professional and expert judgement. The result is this report.

This report was fact checked as far as possible and is based on the fieldwork completed within the time frame for the review. It was not a comprehensive audit of the Council's or the Trust's finances. As a consequence, the conclusions do not constitute an opinion on the status of the Council's or the Trust's financial accounts.

CIPFA would like to take this opportunity to thank the Council and the Trust for being so amenable and open to meeting with the review team and also for the considerable effort that has been expended in collating and sharing key documents with CIPFA. We also thank everyone involved for their openness, tact, and honesty in what is a challenging time for the Council and the Trust.

3 Areas Reviewed

3.1 Review Area 1 - FINANCIAL MANAGEMENT / SUSTAINABILITY

An assessment of the Local Authority's financial management and management of risk, financial pressures, deliverability of savings plans and efficiency in delivering services including:

The financial management and risk assessment processes adopted by the Local Authority and a view on their appropriateness.

Key findings and analysis

Bradford has a small but experienced finance team working closely with budget holders to identify, manage and mitigate financial risk. The finance team hold regular meetings with budget holders. At a more senior level, the Council's finances are a standing item on Corporate Management Team's (CMT) agenda. The Leader is very focused on finance and strives to ensure that the Council lives within its means and is fiscally responsible and prudent. The current Section 151 officer arrived in Bradford around 12 months ago with the remit of providing a fresh lens on the financial management of the Council.

The Authority has a well embedded monthly timetable of reporting that ensures all senior budget holders play their part in financial management matters. Finance provide a report at Strategic Management Meetings (SMTs)[3] in the second week of the month following period close which includes the latest financial position of each service area along with a range of mitigations. Further, reports are provided to departmental management teams on third week and CMT on the fourth week so that all management teams are aware of the financial position and play a role in its management.

On a monthly basis a virtual meeting is held with all of the Council's senior budget holders, along with the Section 151 officer and their deputy to appraise managers of the Council's financial performance. This forum is also used to re-enforce the message that finance is everyone's responsibility.

In early 2023, the S151 created a new savings and transformation programme called the "Pillars" programme. This programme was designed to reinforce and coordinate existing activity and to look at all financially-related aspects in the Council (and Bradford Children and Families Trust) including maximisation of income streams; the identification of savings that could be delivered over the medium term and examining ways in which the Council could save money through their capital programme including the potential to re-finance some of their loan arrangements to reduce borrowing costs.

The Council also has a number of cross-cutting themes, one of which is "Every pound counts" where the Council adopts effective and value-for-money approaches to service delivery. Their aim is to increase the proportion of Council resources spent locally to help grow the Bradford District economy and develop local supply chains.

Formal engagement with elected members is through the Executive where the Executive receive quarterly reports summarising the Council's financial performance, key changes and an indication of any material factors that may affect financial performance in the next

[3] SMT comprises Assistant Directors and their direct reports

period. A weekly budget meeting is also held with the Leader, the S151 and Executive members to ensure they are closely engaged via Joint Leadership Meetings and where appropriate have an opportunity to question and challenge.

The Council's Medium Term Financial Strategy (MTFS) covers a three year rolling period. The MTFS for 2023-24 is in the process of being drafted and will be presented to the Executive in November 2023.

Table 1 summarises the Council's medium term financial position (as at Q2 2023-24). Their net revenue expenditure requirement is set to increase during the MTFS period. Net budget funding drops next year but increases again in 2025-26 creating a forecasted shortfall of £29.3 million next year and a cumulative shortfall of approximately £44.7 million over the MTFS period.

The Council's current forecasted overspend to current year-end is £23 million (excluding the Trust), but in their Revenue Budget Report, the Council is proposing to use £44.3 million of reserves in 2023-24 which represents a short term response to unprecedented levels of inflation and other cost pressures.

This forecast includes the impact from the "Pillars" programme and also includes the current projected Q2 overspend of the Trust (of £45.2 million net) giving a total year end overspend (Council+Trust) of £68.2 million. However, after mitigations, this reduces to a net £31.2 million gap.

	2023-24	2024-25	2025-26	2026-27
Net Expenditure Requirement	453.0	455.0	519.0	534.0
Net Budget Funding	453.0	-426.0	-511.0	-527.0
Indicative MTFS Budget Gap	0.0	29.3	7.7	7.7
Qtr 2 forecast Council overspend	23.0			
Qtr 2 forecast Trust overspend and 3 year business plan	45.2	42.1	40.7	43.0
Gap before Pillars Programme	68.2	71.4	48.4	50.7
	2023-24	2024-25	2025-26	2026-27
Qtr 2 forecast Council overspend and MTFS Budget Gap	23.0	29.3	7.7	7.7
Impact of Pillars Programme so far	-37.0	-10.7	-13.8	-13.9
Total Council Gap	-14.0	18.6	-6.1	-6.2
Qtr 2 forecast Trust overspend and 3 year business plan	45.2	42.1	40.7	43
Total Council Gap + Trust Gap	31.2	60.7	34.6	36.8

Table 1: MTFS summary 2023-24 through 2026-27 (Source: City of Bradford Metropolitan District Council)

There are a number of binary items that could also create further financial pressures. These include the assumption around MRP "re-engineering" including the in-year impact of £23 million (but relating to the 2021-22 accounts) and the assumption surrounding the re-payment of the Council's previous contributions to the WYCA (West Yorkshire Combined Authority) in respect of regional transport infrastructure. The Council (annually) contributes to the WYCA transport fund but has formally requested a refund on monies paid thus far enabling the Council to shore up its balance sheet and build financial resilience rather than simply to cover core costs. (*UPDATE: Since the original review period in August/September 2023, we now understand that the WYCA has agreed to the return of Bradford's contributions over previous years totalling £12 million.)*

The S151 has informed us that the Council is to press ahead with the retrospective re-engineering of the MRP by way of (already issued) Council Decision Notice. These changes will provide a cumulative in-year impact of £37 million (£23 million MRP + £12 million WYCA + Pillars).

Within the Pillars programme, the financial engineering pillar has the most immediate relevance and the largest impact on the Council's overall budget position for this year. However there are risks:

Changing the accounting policy on MRP to the annuity method – If applied retrospectively, this will have a positive financial impact in the region of £23 million in 2023-24; however guidance suggests that changes to MRP guidance cannot be applied retrospectively. Arlingclose, the independent Treasury advisors appointed by the Council, have advised against this, and advised that the change can only be applied to the 2022-23 financial year resulting in a £5.2 million saving. We understand that legal advice has been sought and discussions are being held with the external auditors. We understand that the Council's legal advice differs from the legal advice sought from their external auditors. This issue is discussed in greater depth in the Capital Programme section of the review. At the time of writing, the Council has informed us that they cannot share their external auditor's KC advice due to the external auditor's internal disclosure and sign-off process.

Repatriation to CBMDC of reserves held with WYCA - All of the West Yorkshire local authorities have contributed to the WYCA Large Transport Reserve fund where some of the reserve has not yet been utilised. Repatriating these will result in a £12 million upside to the Council in 2023-24. Bradford are not the only local authority looking to have these reserves returned. WYCA is wholly funded by the amounts contributed by the contributing authorities. The WYCA leadership has agreed that the full £53 million, held on behalf of five local authorities, will be repatriated.

Flexible use of capital receipts - Currently local authorities are allowed to treat, as capital, expenditure on any project that is designed to generate ongoing revenue savings in the delivery or transformation of public services. A number of projects have been identified and set out in the CBMDC 2023-24 Capital Budget which meet this criteria. This was estimated at £3 million in 2022-23 and £3m in 2023-24. It is understood that CBMDC are back dating this into the 2021-22 accounts with a value of £2.8 million and have also back dated this into the 2022-23 accounts. This is still possible due to the accounts not being signed off yet. We understand the accounts have been finalised but are outstanding due to issues impacting the local authority sector such as reporting of infrastructure assets. The value of any such back dating is that it will increase opening reserves in 2023-24. Bradford have indicated that it is virtually certain that capital receipts are available to be used in this way. We understand that the auditors have made no objection to the principle of the action taken by the Council and are undertaking normal audit checks.

Bradford Children and Families Trust - The BCFT is the most significant risk to the Council's financial strategy. This is discussed in Review Area 5. The Trust is a wholly owned subsidiary of the Council and as such its accounts will be subsumed at year end and its budgets built into the forecasts for the Council. The Trust's reported overspend of £28 million in Q1 (post mitigations) was not formally reported in the Council's Q1 forecast as the Council's leadership team took a decision not to report the overspend in its Q1 forecast as it wanted to undertake further due diligence on the numbers on the basis that the Trust was still in its infancy. The Council is now faced with reporting a cumulative Trust overspend of some £45 million in Q2 along with an increase in the Council's overspend from £13.4 million in Q1 to £23 million in Q2.

Risks

1. The Trust's Q1 and Q2 overspends and a likely continuing trend to overspend for the remainder of this financial year are relevant to be included in this section as they ultimately impact on the Council's overall financial resilience. The Council wishes us to note that they have been working closely with the Trust to identify and implement a range of mitigating actions.

2. Notwithstanding the Council's previous track record in delivering £350 million of savings since 2011, based on interview we believe that he Council's savings portfolio is yet to be turned into a fully-fledged programme and at the current time, whilst some savings and efficiencies have been identified for next year, not all savings are locked down. We appreciate that the Council recognises the challenge of delivering cost reductions (with a combination of cuts, income generation and transformation) against a depleted General Fund which requires greater assurance through more robust programme management. We've not seen any evidence of the confidence factor against each saving. Further, that senior management provide more focus on action planning and delivery as we've learnt that there is little follow-up after meetings which is leading to drift within the savings programme.
3. That the Trust will continue to overspend in Q3 and Q4 which places them in a perilous financial position. We are also concerned about the implications for the Trust senior management in their roles as company directors and the potential for the Trust to become insolvent ie, going concern issues within the next quarter.
4. CIPFA cannot make a robust assessment of the MRP issue as the Council are not able to share their external auditor's KC opinion.
5. That the Trust does not have sufficient resources to provide full due diligence to enable it to produce a detailed and reliable financial plan (in year and for future years).

Recommendations

1. That the Council provides more clarity on its savings and transformation proposals for 2024-25 against a detailed savings tracker and as part of a more coherent plan. That the Council demonstrates its capabilities in being able to deliver the savings and longer term transformative interventions through a robust programme framework including a realistic assessment of skills, competencies, and capacity building (where required) to deliver such changes.
2. That the Council prepares a separate mitigation paper on how it is going to meet the current shortfall as reported by the Trust. *(UPDATE: The Council has informed CIPFA that since the review period ended it has reflected the maximum extent to which it can mitigate the current projected Trust shortfall. The Council is creating an emergency response in line with the recommendations.)*
3. CBMDC should seek to resolve the outstanding points with its proposals for financial restructuring and ensure that the Council members and Executive understand and accept the risks associated with the change to the annuity method and retrospective application of the MRP method. Further that the S151 seeks written agreement to the MRP changes from their external auditors by way of the external auditors providing a level of confidence that the changes are within the spirit of the guidance and noting that CIPFA believes that the changes are not within the spirit of the guidance.

The Local Authority's capability and capacity to drive any changes that need to be made in this area.

Key findings and analysis

The Council has an experienced finance team who understand their respective roles and responsibilities. The finance team is organised along the lines of other local authorities in that one team focuses on managing revenue, working with services. The corporate functions (treasury management, end of year closing of accounts and the management of the capital programme) are managed by the Corporate Finance Team.

The Council's risk management approach is predicated on a Corporate Risk Register comprising 21 comprehensively explained risks which is fed from the Delivery Management

Teams (DMT). This number of risks is considered to be a significant number for the senior executive to consider each month and there is a review under way to reduce this. The register is presented to the Executive Team quarterly. Risks are fed from service delivery teams but risk management in the form of a regularly reviewed risk register system is not embedded. The Council has not explicitly defined their risk attitude and tolerance in a risk policy. A formal system of risk registers with regular review at the service delivery level feeding to the delivery management team is not in place. It is considered that risk management could be further embedded across the organisation to drive change at all levels. The Head of Internal Audit attends regularly at DMTs and CMT to support the review of risks.

Risks

1. Every significant risk on the Corporate Risk Register sent to the Corporate Management Team should be discussed in depth during the year. More than ten risks is sometimes considered too many to give sufficient level of review and could lead to mis-prioritisation of risk.
2. Not defining risk attitude and tolerance in a risk policy can lead to a lack of clarity over which risks to accept and which to avoid.
3. Risks at the service delivery level may not be adequately recognised and especially where such risks have an impact on the delivery of savings and wider transformation.

Recommendations

1. The Corporate Risk Register review should continue to identify where it could be reduced in volume of risks to gain better prioritisation allowing fuller consideration by the Corporate Management team.
2. A risk policy should be developed which clearly defines risk attitude and tolerance across CBMDC.
3. Further consideration should be given to embedding risk management deeper across the organisation, particularly at service delivery level.

The underlying drivers of financial fragility and risk

There are a number of underlying drivers of financial fragility in Bradford. Until 2021-22, the Council had historically balanced its budget year on year without the need to use reserves. 2022-23 was different where the Council used £110 million of reserves to cover the extra-ordinary impact of inflation (circa £28 million and a £51 million overspend in Children's Social Care). There were also planned reserve reductions. Use of reserves in this way is not uncommon in many other local authorities, Bradford continued to deal with the impact of COVID-19, a national economic downturn and inflationary pressures affecting both the Council and local residents. The Council have indicated that they are undertaking further analysis of their reserves position as part of (Phase 4) by identifying reserves that are not legally contingent and therefore could be used by the Council in this financial year, but to date there is no indication of what is achievable.

Children's social care budgetary pressures (including £57 million of new spend above the prior year budget) are driven by the increasing costs of placements ie, living accommodation particularly residential care placements (external ie, private sector provision). For example one child staying in this type of accommodation is forecast to cost the Trust (2023-24 Q1 financial forecast) around £312,000 per year or an average of £6,000 per week (this includes all support). By comparison internal fostering costs approximately £450 per week. In unpublished figures, Bradford's cost of residential care placements (external) is at the upper end of average costs by comparison with major cities eg, Liverpool (£5,092 per week), Sheffield (£5,331 per week) , Leeds (£5,797 per week), and Manchester (£6,254 per week) where property, one element of the placement cost, would be anticipated to be more expensive.

Prior to transfer to the Trust, the cost of Children's Services had seen year on year increases over the last four years exceeding budget by: £11.0 million in 2019-20, £6.6 million[4] in 2020-21 (after Covid support of £5.3 million), £16 million in 2021-22 (after Covid support of £10.4 million) and £51.8 million in 2022-23. These pressures were caused by number of factors including an over reliance on agency staff (currently around 48%) because of difficulty in recruiting and high placement costs.

The anticipated costs of funding the expected continuing increase in numbers of children coming into care has been higher than estimated. This is because the anticipated increase in internal placement capacity has not materialised and the higher cost of procuring external residential and foster care placement through agencies has continued at levels greater than budget assumptions.

Work to understand the baseline and cost drivers since the Trust went live is underway and will identify key areas where improvement is needed.

The Trust management team believe that if services were in a stable state the budget allocated for 2023-24 would be sufficient to provide adequate services. Work by Newton Europe confirms this initial impression, indicating that for an area of the size and with the characteristics of the Bradford district, a budget of between £151 million and £177 million is reasonable.

Adult Social Care budgetary pressures (£5 million additional to provide support, above the prior year budget) do arise from an ageing population but Bradford has one of the youngest populations in the country. Pressures on the adult social care budget are mainly increasing as a risk because of the expensive cost of children's social care placements. Children are put on pathway programmes that can last up to age 25. Children's residential care placements (external / private sector provision) are expensive and there is often limited scope to move them to cheaper adult arrangements immediately. This has a knock on effect on the adult social care budget.

The other pressure is inflation. For the Council this has impacted most budget lines but there are particular impacts on costs of maintaining the estate and meeting staff pay demands.

An assessment of Local Authority savings plans including their deliverability and appropriateness.

The local authority has delivered £350m in savings since 2011. However, the Transformation Team are relatively new.

There are two programmes that will act as the main vehicles for savings which inter-relate but are different. These are the Pillars Programme and the Transformation Programme.

The Pillars have four points of focus:

- income (£3.5 million per annum from 2024-25 rising to £4.4 million 2026-27) – this aims to maximise income streams commencing from 2024-25. Currently no risks to this pillar have been identified.

[4] After COVID support of £5.3m

- costs (£5.1 million per annum from 2024-25 rising to £7.3 million in 2026-27) – savings arising from the transformation programme and reduced pension contributions. Risks identified include lack of resources to progress procurement and contracting savings and an agreed operating model for sport and culture delivery model not yet being agreed:
  - the BCFT intended savings from mitigations agreed in the contract from 2023-24 and future years. The significant risks to BCFT achieving mitigations and achieving their budget are discussed in Review Section 5.
  - programmes (£0.6 million from 2024-25 to 2026-27) – capital scheme review. This is currently considered to be achievable.
  - financial and reserves (£37 million in 2023-24 with £1.5 million per annum after that to 2026-27) through financial engineering.
  - risks to the large value saving of £37 million arising from financial engineering in 2023-24 are discussed above.
  - the more minor savings planned for 2024-25 through to 2026-27 of £1.5 million per annum saving are considered to be achievable;
  - there is a further review of reserves which is ongoing “Phase 4” to identify reserves which are not legally contingent and therefore could be used by CBMDC in this financial year; there is yet no indication how much may be available.
- financial re-engineering (including WYCA income and MRP).
- programmes (including the capital programme and the estates strategy).

The Pillars Programme is cross cutting and supports the transformation programme. The Pillars Programme has achieved a saving of £5.2 million by applying the change in MRP policy to the 2022-23 period in its revenue estimates and a £2 million of savings from the flexible use of capital receipts in 2023-24 is anticipated by CBMDC. All other savings are still considered uncertain but with differing risk profiles as explained above.

The revenue estimates propose a further £36 million in 2023-24 of savings including significant savings to be made through the management of vacant posts (£10 million) which will inevitably impact on Council capacity. These are to be made over two years, in 2023-24 £36 million (£10 million vacant posts, £6 million Continuing Health Care (CHC) income, £5 million MRP) and in 2024-25 £34 million (£10 million vacant posts, £6 million CHC income). Other savings include a combination of efficiencies, increased charges to users of services, cuts, and other financial engineering adjustments.

The Transformation Programme is expected to result in savings of £2.5 million per annum from 2024-25 to 2026-27. We accept that the Transformation Programme reflects only one element of the programme which the Council is still in the process of building and the programme is not yet finalised but the Council expects the £2.5 million figure to be higher. It is a programme focused not just on savings but on improving deliverability. The transformation programme includes:

- Service Efficiency & Improvement Programmes (includes Corporate Resource improvements & compliance, development of automation functionality etc)
- Procurement Opportunities/Category Spend Analysis
- Estates Strategy
- Cross-Cutting Opportunities (links to operating model work and Cost Pillar)
- Contact Management (included in Cost Pillar)
- Traded Services / Income (included in Income Pillar but may be further opportunities)
- Communities & Localities (demand management – likely to be mitigation of pressures)
- Governance Framework & Organisational Development (enablers)
- Transport Subsidies - Business Case in development

- Outdoor Learning – Business Case in development
- Energy (solar farms)
- Estates Strategy
- Food Waste – scoping work underway

The overall risk to the transformation programmes success is rated as amber on the Council's Risk Register. This is at least in part due to capacity issues across the organisation.

The Transformation Programme runs alongside the Costs Pillar rather than being reflected in it whereas the Pillars Programme is the framework for identifying future savings and the Transformation Programme is the delivery vehicle for those savings that require programme management input. For instance BCFT is a pillar, to achieve its mitigations it is reliant on CBMDC to procure cost effective placements (accommodation), the transformation programme is responsible for achieving efficiencies in procurement and contracting.

Risks

1. The Procurement Team is under staffed impeding the Council's ability to drive forward further savings and cost transformation across its contract base. However, we note that the Council has recently recruited to several Procurement posts and continues to look at ways of strengthening the skills and capabilities in this team.
2. That because of 1 above, the Council does not yet understand the scope of savings it could make in-year and in future years around the financial re-engineering of high spend contracts including its ability to re-compete and re-negotiate such contracts.
3. That the potential £6 million per annum income from Health will not be forthcoming next year because sufficient work has not been done (Trust and Council) to secure such funding.
4. That the Council's risk management framework is not yet fully embedded across the organisation such that key risks (especially in service areas) may not be reported correctly/accurately into the corporate centre.

Recommendations

1. It is considered that risk management could be further embedded across the organisation to drive change at all levels of the organisation.
2. That a capacity plan is developed (for wider Council areas) to ensure that there is the right capacity with the right skills to deliver savings and wider transformation.
3. That a detailed plan to deliver financial re-engineering of high spend contracts is developed for Procurement (see Risk 1 above).
4. That the Council defines its expectations with regard to when the new Procurement expertise will land within Bradford (see Risk 1 above.)
5. That the Trust produce a clear plan (including a stakeholder engagement plan) of how it will secure Health funding for 2024-25.

Compliance with Local Government accounting codes and international financial reporting standards

Key findings and analysis

The External Auditor's report for 2021-22 did not identify any significant areas of non-compliance with International Financial Reporting Standards (IFRS) or other accounting rules. The 2022-23 draft statement of accounts do not note any major diversions from IFRS or other accounting rules. Internal Audit have not raised any compliance with accounting issues in their 2022-23 annual report. Treasury Management reporting which is underpinned by work with Link (the Council's Treasury advisors), did not indicate any compliance issues with the Prudential Code.

Except for the areas identified below compliance with Local Government accounting codes and IFRS appears to be strong.

Internal Audit

A key principle of UK Public Sector Internal Audit Standards is independence: "Organisational independence is effectively achieved when the chief audit executive reports functionally to the board."

Currently the Bradford Head of Internal Audit reports to the Director of Finance. Not fully meeting the Internal Audit Standard is mitigated by the fact that the Head of Internal Audit considers the Board and Chief Executive can be accessed when necessary. However it was noted that around 72 operational reports were completed by Internal Audit in 2022-23 yet these reports did not cover any significant issues such as BCFT implementation, procurement, Bradford Live, contract management, transformation, the pillars programme etc. BCFT are in the process of appointing their own internal audit function.

Minimum Revenue Provision

MRP is set by "Statutory Guidance on Minimum Revenue Provision", as set out in the Local Government Act 2003. ArlingClose, treasury advisors, have reviewed Bradford's MRP policy and note:

"The only part of the Council's current MRP policy that Arlingclose would consider incorrect is the regular application of asset lives over 50 years. Asset lives longer than 50 years are being used which contravenes MRP guidance."

CBMDC plan to change their method of calculating MRP from the straight line to the annuity method. Arlingclose also noted that with regard to this planned change to the application of the MRP policy using the annuity method, that this could be done but should not be applied retrospectively.

"It is clearly the Council's decision as to what year to apply changes in MRP policy from. However Arlingclose would advise against applying MRP policy changes prior to 1st April 2022. Although the legal opinion sought may assist the Council's case for early application, Arlingclose would add that what is technically 'illegal' and what is not allowed by the letter and spirit of the guidance are not the same thing. There has also recently been an increased emphasis on following the spirit of the guidance and not relying on technical 'loopholes' to contravene it."

CBMDC consider that although use of the annuity method lessens MRP in the past and increases it into the future that the time value of money will reduce the impact of this. CBMDC accounting policy states that "MRP is calculated on regulatory principles according to the Council's judgement of what is prudent". This would result in a £5.2m saving in 2022-23 but not allow the full £23 million saving envisaged by the change.

CIPFA considers that statutory guidance directly addresses changing methods for calculating MRP in paragraphs 27 to 29 (extracted below):

> 27. *A local authority may change the method(s) that it uses for calculating part or all of its MRP at any time.*

> 28. *Where a local authority changes the method(s) that it uses to calculate MRP, it should explain in its Statement, why the change will better allow it to make **prudent provision.***
>
> 29. *The calculation of MRP under the new method(s) should be based on the residual CFR at the point the change in method is made (ie, **it should not be applied retrospectively**). Changing the method used to calculate MRP **can never give rise to an overpayment in respect of previous years**, **and should not result in a local authority making a reduced charge or a charge of £nil for the accounting period in which the change is made**, or in any subsequent period, on the grounds that it needs to recover overpayments of MRP relating to previous years.*

Further, paragraph 26 of the statutory guidance states that a reduction can only be made against the current year's prudent provision for overpayment resulting from additional amounts voluntarily set aside in previous years (commonly known as Voluntary Revenue Provision (VRP), that were subsequently identified as an over-provision.

In calculating a prudent provision, local authorities are required to have regard to the statutory guidance. The extracts and commentary **above appear to not support a retrospective application of a change in MRP policy** that results in a reduced MRP charge (or a charge of £nil).

In the time available, CIPFA has not been able to analyse CBMDC's asset base to assess whether an annuity should be charged on all of its assets ie, normal PPE and PFI assets. However, CIPFA have reviewed the Arlingclose report who had more time to assess the asset base and their only finding was the issue of using asset lives longer than 50 years, as explained above.

As noted above the requirement under regulation 28 of the Capital Finance Regulations is to determine for the current financial year an amount of MRP which it considers to be prudent. CIPFA notes that the statutory guidance indicates that the broad aim of prudent provision is to require local authorities to put aside revenue over time to cover their capital financing requirement (CFR). This would be with recourse to the asset base of the council and ensuring that local authorities should align the period over which they charge MRP to one that is commensurate with the period over which their capital expenditure provides benefits.

CIPFA's view is that based on what has been provided to us by the Council that the arguments for charging the new methodology retrospectively are based on the wider finances of the council and not "the charge put aside to cover the CFR". It is not clear therefore that a case has been made for why their approach provides a more prudent charge in accordance with the guidance.

In summary, CIPFA do not agree with the proposed retrospective application of the revised MRP approach.

Bradford Live

Bradford Live is a company limited by guarantee. In the past it had five members including representatives of the Council. The Council obtained the voluntary resignation of all the members other than the Council, in July 2023, effective from 3 August 2023 in accordance with a resolution of the Executive on 6 December 2022 which required the Council to gain control as a pre-condition for providing additional grants to complete the scheme. Since the Council took control, Grant Thornton have been appointed to undertake financial due diligence.

The Council is now the sole member (owner). It paid no money to the resigning members to obtain their resignation nor any benefit in kind. The Council took external legal advice on securing control, and now as sole member, it has control over the company.

The external auditors were content with the approach in 2021-22, and this approach was replicated in 2022-23. The Council is liaising with its external auditors about the accounting treatment in 2022-23, and the Council will make different disclosures in 2023-24 now that control has been gained. The Council has also agreed to undertake a review of all wholly-owned companies with regard to the appropriate CIPFA guidance.

In terms of transparency, we are satisfied that the Council has followed due process in taking control of the company.

Risks

1. The risk of the Head of Internal Audit reporting to the Director of Finance rather than the Chief Executive and Board is that there may not be full scope to perform reports independently.
2. The risk of not following MRP guidance is a downstream risk that in future years it could be deemed that the MRP change is not within the guidance with significant financial implications and the Council's external auditors may not agree with the Council's strategy. The Council has pointed out to us that their MRP policy clearly states the method of calculation used to calculate MRP.

Recommendations

1. It is recommended that the Head of Internal Audit reports directly to the Chief Executive and Board in line with Public Sector Internal Audit Standards, yet we note that this does not prevent the Head of Internal Audit from raising issues directly with the Chief Executive. **By the end of December 2023.**
2. It is recommended that CBMDC re-consider the Arlingclose advice that they received, probably at CMT and consider whether their risk appetite and tolerance for this change meets their accounting policy of prudence with regard to MRP provision. **By the end November 2023**.
3. It is recommended that the Council undertake a review of all wholly-owned companies and by performing a gap analysis against the CIPFA guidance on council-owned companies. **By the end December 2023**.

The ability of the Local Authority to meet pressures through its own resources and thus minimise the need for borrowing including appropriate use of reserves and service efficiencies.

Key findings and analysis

At 31 March 2023 useable reserves stood at £230.7 million (Council £120.9 million, Capital Reserves £59.3 million and Schools £50.6 million), compared to £337.7 million at the end of 2021-22, representing a £107 million decrease in total useable reserves since the previous financial year.

The General Reserves strategy is to minimise to a prudent level and there is no formally documented Reserves Strategy. Based on the 2022-23 accounts there are six reserves with greater than £10 million remaining:

- a £22 million "Financing Reserve"; this has already been drawn down and used for 2023-24.
- a £21 million "Service Reserve – Other"; this is a reserve for Departmental projects.
- PFI – BSF Unitary Charge £15.9 million – this is an earmarked reserve to meet the annual payment for the PFI provider.

- Schools Delegated Balance £49 million this is an earmarked reserve for schools.
- Capital Grants Unapplied £59 million; these are only allowed to fund capital expenditure.
- General Fund Reserves £22.3 million.

The remaining reserves, allocated across various categories, of £41.5 million are earmarked, with the largest being £8.1 million for Integrated Health and Social Care.

The 2023-24 budget has also approved further reserve reductions of £48 million, the impact of which will be a reduction in Council reserves to £72.7 million. This includes £6 million for an Energy Price Volatility Reserve. However the General Fund reserve will be increased by £3.16 million to be in line with recommended practice of holding 5% of the net budget as a General Fund reserve.

CBMDC has gone through a four phase review identifying if there are any reserves remaining to mitigate risk, the fourth phase is currently under way looking for any remaining reserves that can legally be made available to strengthen CBMDC's financial position This review was ongoing at the time this review was completed.

Long term assets (£1.173 billion) exceed long term liabilities (£651 million) by £522 million which accounts for all but £5 million of the reserves. £999.9 million of the long term assets are tied up in Property Plant and Equipment with a net book value of £718.6 million plus infrastructure assets of £281.3 million, this includes £540.5 million of "other land and buildings" and £16.5 million of surplus assets on their balance sheet.

Currently there is no formalised and agreed Asset Disposals Plan. The Assistant Director for Estates and Property has now identified circa £27 million of potential capital receipts from asset disposals over the next three years. An Asset Disposal Plan will be provided to the Executive in early 2024.

Cash has decreased significantly since 2021-22 (£119 million) to the position at the end of 2022-23 (£64.9 million); decreasing at this rate may require increased focus on ensuring that this continues to be sufficient to meet requirements.

The Council say that the remaining Council reserves are currently forecast to be sufficient to cover the needs of the 2023-24 budget only and that reserves are reducing at an unsustainable rate.

BCFT are currently predicting a £45.2 million overspend at Q2. A caveat to this is that these forecast figures may be subject to error or bias.

BCFT is a company and as such is subject to Company Law. BCFT have stated that due to the forecast overspend they may have to declare insolvency in December if no further funding is made available.

In the Q2 2023-24 CBMDC Position Statement, the Council is forecast to overspend its £453m net revenue budget for 2023-24 by £68 million which includes £23 million for non-BCFT Council services (increased from £13.4 million in Q1) and includes the £45.2 million overspend as reported by BCFT.

CBMDC may not succeed, in all respects, with bolstering their reserves. With an anticipated trajectory of overspend at both CBMDC and the Trust, CBMDC may only have sufficient reserves to continue to the end of the financial year. However their reserve contingency, as forecast, makes them vulnerable to unexpected events. BCFT declaring itself insolvent would be such an event.

Risks

1. The risk is that CBMDC will not be able to finance its budgetary pressures and that continued overspends or an unexpected event could cause CBMDC to have to declare a S114 notice.

Recommendations

1. It is recommended that CBMDC continue to look at all available options including the Phase 4 review of their reserves, the viability of the steps in the Pillars Programme and whether there are assets available which could be sold to plug the gap in the budget. **By the end of November 2023.**

3.2 Review Area 2 - COMMERCIAL ASSETS / DEBT

An assessment of the Local Authority's assets and investments including dependence on commercial income, debt costs and other risks including:

The Local Authority's overall position on borrowing and indebtedness and the impact on its longer term sustainability, including liability benchmarking.

Key findings and analysis

CBMDC has short-term borrowings of £62.6 million and long-term borrowings of £408.1 million; it also has on the balance sheet, PFI liabilities of £137.6 million and other minor liabilities less than £5 million. Total liabilities from financing activities at the end of the 2022-23 financial year were £613.99 million. Long term assets (£1.173 billion) exceed long term liabilities (£651 million) by £522 million.

The Council has safeguards in place to ensure that a significant proportion of its borrowing does not mature for repayment at any one time in the future. The Council's policy is to ensure that no more than 20% of loans are due to mature within any financial year, and no more than 40% within any rolling five-year period. £366.8 million of its £466.6 million of its borrowings are with the PWLB; the spread of maturity of loans looks reasonable. £466.6 million was the total outstanding value of the Council's loans as at 31 March 2023.

The Liability Benchmark is effectively the Net Borrowing Requirement of a local authority plus a liquidity allowance. In its simplest form, it is calculated by deducting the amount of investable resources available on the balance sheet (reserves, cash flow balances) from the amount of outstanding external debt and then adding the minimum level of investments required to manage day-to-day cash flow.

CBMDC's Treasury Management report, which is supported by the advice of Link indicates that CBMDC is 'under borrowed' against the Liability Benchmark Prudential Indicator. In the next five years the capital financing requirement increases in line with Prudential borrowing expectations to fund increases to the capital programme before gradually starting to decrease.

Table 2 provides a summary analysis of the capital spend to be funded from borrowing, noting that HRA will be separate from 2023-24 onwards:

	31/03/22 Actual £m	31/03/23 Estimate £m	31/03/24 Estimate £m	31/03/25 Estimate £m	31/03/26 Estimate £m	31/03/27 Estimate £m
General Fund	-	-	232	203	76	134
Housing Revenue Account*	-	-	5	10	10	4
Total Capital Spend	**105**	**191**	**237**	**213**	**86**	**138**
General Fund - Capital Spend not funded from borrowing	70	108	133	121	48	78
Capital spend funded from borrowing	**35**	**83**	**104**	**92**	**38**	**60**

Table 2: Summary of capital spend requiring borrowing, Source: CBMDC, Capital Investment Plan (2023-24 to 2026-27)

There are no indications that the CBMDC debt position will negatively impact on its longer term sustainability.

The Local Authority's approach to asset management and valuation, a judgement on its asset portfolio including the potential use of appropriate asset sales over a reasonable timescale to raise capital receipts and reduce risk where appropriate.

The Council recently appointed a new Assistant Director for Estates and Property who is highly experienced in this area. Whilst the team looks well-staffed, there are a range of personnel and tasking issues that preclude the organisation from maximising the benefits of this team (eg, ageing workforce, not being well led in the past, lack of good data on assets etc). The new head of service, whilst trying to move at pace, is realistic about the challenges and what he can do within a short timeframe.

***Where appropriate, a view on a proposed asset disposal plan (developed in conjunction with the Local Authority) with the understanding that the Local Authority should look to realise the maximum amount of capital assets to minimise borrowing, reduce capital financing requirements, and reduce risk, subject to value for money considerations*.**

The Council does not currently have an approved up-to-date Asset Disposal Plan but the Head of Service has his own "disposals list" which is a good start**.** However, this area requires a significant amount of work.

The Local Authority's commercial investment portfolio and forward strategy, including dependence on commercial income, exposure to debt costs, and providing recommendations on whether and how the Local Authority should take steps to reduce its exposure to investment risk. This should not be limited to commercial property.

The Council's income and dependence on commercial income is very low. The Council has a historic portfolio of investment property. This has been expanded with two investments in property, with the intention of making a profit that will be spent on local public services. These assets fall under the definition of Investment Properties in the CIPFA Accounting Code and are valued at fair value in the accounts in accordance with IFRS13.

The value of the Council's investment property as at 31 March 2022 was £51.9 million, making a return of 3.0%. The historic investment property has been revalued upwards above its purchase cost, so taking this into account, the return would be higher. This means historic spend on investment property is supporting the current revenue estimates.

No new acquisitions were completed in 2021-22 and one of the recent investment acquisitions is no longer in this category due to a change in operational use. This asset is not included in current Prudential indicators.

The Debt to Net Service Expenditure (NSE) ratio is a key indicator that measures the gross debt associated with the recent property investment as a percentage of the Council's Net

Expenditure Requirement, where the Net Expenditure Requirement is a proxy for the size and financial strength of a Council.

The indicator shows the proposed debt level for the Council's recent investments. It shows that the debt ratio from investment in the property portfolio will be approximately less than 2% of the Council's net revenue budget if the investment in this property is funded solely from borrowing which is line with CIPFA's expectations. There is no specific debt that can be identified against the Council's historic portfolio. No additional investments are assumed in the indicator at present, as per DLUHC guidance. A summary of the Council's debt to NSE ratio is provided in Table 3:

	2021/22 Actual £000	2022/23 Estimate £000	2023/24 Estimate £000
Gross Debt	6,219	6,111	6,000
Net Service Expenditure	432,935	388,000	441,000
Debt to NSE Ratio	1.4%	1.6%	1.4%

Table 3: Debt to NSE ratio, Source: CBMDC, Capital Investment Plan (2023-24 to 2026-27)

Further, the income generated from all property investments will fund 0.6% of the Council's net service expenditure over the medium term. This shows that the Council's reliance on income from property investments is low as summarised in Table 4:

	2021/22 Actual £000	2022/23 Estimate £000	2023/24 Estimate £000
Commercial Income	2,200	2,500	2,500
Net Service Expenditure	432,935	388,000	441,000
Commercial Income to NSE Ratio	0.5%	0.6%	0.6%

Table 4: Commercial income to NSE ratio, *Source: CBMDC, Capital Investment Plan (2023-24 to 2026-27)*

The Council has maintained a good track record of property occupation with a year on year target of 0%. Void periods will be factored into financial appraisals as part of the assessment criteria where relevant, therefore this indicator may be revised once investments have been made.

The Council's Capital Investment Plan (CIP) 2023-24 to 2026-27 provides an overview of the Council's rolling programme of capital investment and schemes. Table 5 summarises the Council's Capital Investment Plan for Q2, 2022-23:

Scheme Description	Q2 Re-profiled Budget 2022-23	Changes	Re profile Budget 2022-23	Spend 31 Dec 2021	Budget 23-24	Budget 24-25	Budget 25-26 onwards	Total
	£m	£m	£m	£m	£m	£m	£m	£m
Health and Wellbeing	3.0	0.3	3.3	1.0	2.5	3.3	4.8	13.9
Children's Services	13.6	0	13.6	6.6	11.6	3.3	1.2	29.7
Place - Economy & Development Services	51.1	0	51.1	18.4	46.6	27.3	10.4	135.4
Place - Planning, Transport & Highways	40.9	16.6	57.5	35.5	72.1	38.0	120.2	287.8
Place - Other	18.8	0.1	18.9	9.6	26.7	23.1	14.8	83.5
Corp Service – Estates & Property Services	39.9	4.5	44.4	31.4	13.1	10.4	4.8	72.7
TOTAL - Services	**167.3**	**21.5**	**188.8**	**102.5**	**172.6**	**105.4**	**156.2**	**623.0**
Reserve Schemes & Contingencies	3.1	-0.5	2.6	0	72.7	108.1	79.3	262.7
TOTAL	**170.4**	**21.0**	**191.4**	**102.5**	**245.3**	**213.5**	**235.5**	**885.7**

Table 5: Summary of Capital Investment Plan, Source: CBMDC, Capital Investment Plan (2023-24 to 2026-27)

The purpose of the CIP is to review schemes on an ongoing basis to enable the Council to review its investment portfolio and progress against plan. It also enables the Council to make changes to the CIP by bringing new projects on-board but also allowing projects to be deferred or removed as appropriate. The CIP identifies a number of new schemes for the current financial year including:

Scheme	**Total budget (£,000)**	**Notes**
Children's Residential Care	5,200	The investment would cover 'small group' homes, staying close provision for 17+ year olds, and emergency provision. The capital cost is expected to be c£5.2m and would be funded by savings that will result from the freeing up of capacity and reduced need for costly external residential provision. It would replace a current reserve scheme with a budget of £3.149m. CIPFA also understands from our review that Phase 1 (refurbishment of 4 existing homes) and replacement for the Willows with an Edge of Care facility (Phase 2) was agreed in July. These two phases are estimated to cost £2.4m, so of the £5.2m allocation, £2.8m is uncommitted and will require further business cases presented to PAG for PAG to consider and approve.
PCS2 Area office – Children's Services	800	New area office accommodation funded by corporate borrowing.
Bereavement Strategy – Phase 2	6,000	This is continuation of the delivery of the Bereavement Strategy. It will be funded by corporate borrowing.

PCS4 City Centre Regeneration	18,000	Additional funding for regeneration purposes. The additional costs will be funded through corporate borrowing.
Inflation contingency	10,000	The existing capital programme has been impacted by inflationary price increase with some substantial increases in construction related activity. BCIS indicate an 8% annual increase in costs as at Quarter 3 2022. The anticipated trend at the moment is for the increase to continue, with an easing of price increases only anticipated to show around the end of 2024. The Inflation Contingency is proposed to be allocated to schemes where value engineering or other options are not able to mitigate cost pressures and retain the scheme viability and secure desired outcomes.
IT Software	965	Three schemes to implement new technologies to reduce the associated cyber security risks and to increase the level of protection for Council networks, systems, and data.
Total	**40,965**	

Table 6: New proposed schemes for 2023-24, Source: CBMDC, Capital Investment Plan (2023-24 to 2026-27)

On the face of it, these proposed schemes seem sensible and are at different stages of the Council's internal governance processes. The first two schemes in the table related to Children's Services and will, in time, mitigate other Trust costs by providing more in-borough accommodation.

Due to the challenging financial situation, and the need to ensure the revenue impact of the capital programme is reduced, the Council has reviewed the level of capital investment needed and has been able to identify reductions in some areas of the existing capital budget. There is the potential to free up resources in the CIP by either deleting or delaying some of these projects.

The proposals include the removal and/or reduction of budget for a number of schemes. A description of these schemes is provided in Table 7.

Scheme	Total budget (£,000)	Notes
Laptops	1,800	Originally included to invest capital funding in Digital Inclusion for Disadvantaged Children & Young People by investing in an infrastructure to support the programme. It is proposed to reduce the budget to £0.4m over two years.

Digital strategy	400	Original budget of £1.2m was approved in 2020 to provide electronic devices to disadvantaged children. Part of the budget has been used but where possible, alternative funding sources were used. It is proposed to reduce the budget to £0.3m over the next three years.
Alternative fuel centre and vehicles	6,030	Remove in full from the CIP the Alternative Fuel Centre scheme costed at £6.0m, following an alternate private sector led proposal.
Blight sites	675	£0.465 m of the £1.14m Budget for Blight Sites will be used on the former Manor House site, Manningham, and Cragg Street schemes. The remaining budget will be removed and any future schemes will be developed as separate capital bids.
King George V playing fields	1,020	Currently no plans are in place for this scheme so it is proposed that it is removed completely from the CIP. It will be revisited once plans are developed.
District heat system	12,815	Plans for a district heat network in Bradford City Centre are now being implemented by a private developer. A scheme completed by the Council is no longer required, however some amounts the capital programme to enable the conversion of council buildings to receive heat from the district heat network.
Strategic acquisitions	23,460	Changes to the Prudential Code mean that it is no longer possible to invest in schemes, that are solely income generating ones. CIP Reserve Schemes currently include £43.5m for Strategic Acquisitions and it is proposed that this is reduced to £20m. Any new approved schemes for the remaining budget will need to meet the new Code requirements. Also any new scheme would still need to be invest to save on the funding.
Keighley One Public Estate	17,000	Now included as part of another scheme. A reduced budget of £1m will remain for potential Council works.
Museum Store	500	A new proposal linked to the City of Culture is to be developed and a

		replacement for the Museum Store will be considered as part of this.
City Hall	4,500	Budget reduction of £4.5m is proposed due to the original scheme no longer going ahead. A revised scheme is being developed and the budget will be revisited once plans are further developed
Total	**68,200**	

Table 7: Proposed budget reductions from the capital schemes under consideration this financial year, Source: CBMDC, Capital Investment Plan (2023-24 to 2026-27)

The proposed CIP includes £865m of capital investment in the District (£836 million General Fund and £29 million Housing Revenue Account). The profile of capital expenditure will continue to be updated as projects develop through the stages and/or if the resourcing position changes.

The Local Authority's approach to mitigating risk, such as the use of risk reserves or sinking funds to offset fluctuations in commercial income or debt costs.

CBMDC's investment priorities are security first, portfolio liquidity second and then yield, (return). CBMDC aims to achieve the optimum return (yield) on its investments commensurate with proper levels of security and liquidity and within the tolerances of the Council's risk appetite. In the current economic climate, CBMDC consider it appropriate to keep investments short term to cover cash flow needs. However, where appropriate (from an internal as well as external perspective), CBMDC also consider the value available in periods up to 12 months with high credit rated financial institutions, as well as wider range fund options.

CBMDC currently has no sinking funds, dilapidations reserves etc. Where previously held, these have already been used to support the Council.

CBMDC doesn't rely on income from commercial properties it has interests in and in the 2022-23 financial year CBMDC raised £2.6 million from its commercial portfolio by way of income.

The Local Authority's exposure to refinancing and other risks as a result of its chosen borrowing strategy.

As discussed above, there do not appear to be any key risks with the CBMDC borrowing strategy. There is an under borrowed position according to the Liability Benchmark Prudential Indicator and maturity of loans seems to be well spread.

Risks

1. The Council does not have an approved and up-to-date Asset Disposals List but the Council has acknowledged that it is working at pace to produce one.
2. The Council does not have an up-to-date Asset Management Plan or Asset Register which make it difficult for the Council to access reliable and up-to-date information on its assets.

Recommendations

1. Turn the informal disposals list in to a formal Disposals Strategy. **By the end of November 2023.**
2. Bring the asset management data up-to-date so that the underlying data can be relied upon for potential future asset sales. **By the end of November 2023.**

3.3 Review Area 3 - CAPITAL PROGRAMME / COMPANIES

An assessment of the Local Authority's capital programme and management of related risks including arrangements with Local Authority Owned Companies

The Local Authority's governance of its capital programme, including the adequacy of its internal processes, scrutiny of investment decisions, use of sufficient expertise, and adequacy of ongoing monitoring of performance.

Key findings and analysis

CBMDC has established procedures for governance of its capital programme. This is made up of:

- a Council Plan which sets out strategic priorities.
- approval by the Executive of the Capital Strategy, Treasury Management Strategy and Capital Investment Programme, including the prudential indicators referred to within them.
- the Capital Investment Plan (CIP): Each scheme in the CIP is approved by both the Executive and Full Council. The CIP is monitored by the appropriate responsible officer, Finance, and the Project Appraisal Group (PAG) in order to detect and deal with any variances to the plan. Updates are reported to the Executive on a regular basis.
- the Council's Financial Regulations: Under these regulations the PAG assess unfunded capital expenditure proposals. Schemes funded from capital grants or direct revenue financing can be progressed and approved directly by the Director of Finance. Any new capital expenditure proposals that are not wholly funded from capital grants or by the proceeds of sale of land must be either financed directly from the revenue expenditure or be formally authorised from an identified capital scheme or approved additional borrowing.
- a mandatory Capital Business Case to identify the projected running costs and financing costs of the relevant asset and assess its affordability.
- the PAG: Currently its membership comprises Finance, Legal, Procurement, project management and property expertise and it is chaired by the Director of Finance. Its prime responsibility is to review the Capital business cases.
- investment assets are subject to specific approval processes, involving the Investment Advisory Group. This group is chaired by the Council Leader. Its members comprise the portfolio holder for Regeneration, Planning and Transportation; representatives from the opposition parties, strategic directors of the Council including the main statutory postholders and other officers attend as per the business cases that are under review.
- there is also discussion and a review underway to develop the support provided around project delivery as well as processes around contract management.
- the Council has ongoing monitoring processes that are reported to Council departments and the Council's Executive through Quarterly Finance Position Statements.

Improvements to capital monitoring processes are a main priority in the Finance Plan for 2023-24, these include:

- moving on to Power BI to match the effective process CBMDC have developed for revenue monitoring. Currently CBMDC use Excel spreadsheets, following a download of the information from the Finance system. This will be developed to make it easier for project managers to keep track of the spend on their projects.

- additionally the Finance team are continuing to request better information to complete the forecasts for the full year spend. In 2023-24 £230 million expenditure is planned in the programme but currently only £197 million expenditure is forecast, resulting in an underspend of £33m. In 2022-23 the Council was forecasting £197 million expenditure with an actual spend of £154 million which meant an underspend of £43 million. CBMDC do not see this as out of line with comparator local authorities.

These improvements will further strengthen grip by the Finance team in completing the cash flow forecasts.

Risks

1. The risk is that capital programme projects continue to be underspent by material amounts leading to inefficient allocation of resources.

Recommendations

1. That CBMDC continue to develop and strengthen the systems used for capital monitoring and use this to ensure project managers provide better information on a timely fashion to more accurately utilise spend. **By the end of December 2023.**

Whether the Local Authority is accurately classifying investments within its capital programme, e.g. whether it is pursuing any investments primarily for yield, whether regeneration projects are achieving wider socioeconomic benefits etc.

Key findings and analysis

Bradford's Capital Strategy has the following guiding principles for investments:

- to ensure the efficient use of all its assets the Council will not permit any project to be included in its Capital Investment Plan (CIP) unless it furthers its strategic priorities and objectives. These strategic priorities include the statutory duties that the Council is responsible for undertaking.

- overall, the following principles apply to all capital investment decisions:

  - they should reflect the priorities identified in the Council Plan and its supporting strategies.
  - they will be prioritised by availability of resources and allocated funding and supported by a business case review.
  - priority will be given to schemes financed from capital grants or Invest to Save income streams.
  - the cost of financing each capital scheme will be incorporated into the relevant annual policy, resources strategy and budget (e.g. Capital Investment Plan 2023-24 to 2026-27).
  - commissioning and procuring for capital schemes will be legally compliant, which be established by early and appropriate due diligence.
  - to classify investments Bradford use CIPFA Guidance to classify asset classes for the statement of accounts and PWLB Guidance to ensure they are not investing in something primarily for yield.

- Bradford Council does not currently have any capital investments which are primarily for yield and would fall within the commercial category and the current Capital Investment Plan does not have any commercial schemes.
- the Capital Plan 2023-24 does include various regeneration projects eg, One City Park, Bradford Live and the former Odeon, City Centre Market . None of these investments are primarily for yield.

Our review of the 2022-23 draft accounts, Companies House website, external audits latest completion report and the results of internal audits did not identify any issues with classification of investments.

It is considered that CBMDC are accurately classifying investments within their capital programme.

Risks

None identified.

Recommendations

None identified.

The delivery and governance of major investments, whether directly or through wholly or partly owned companies, including the transparency of such arrangements to council members and externally.

Key findings and analysis

CBMDC has adopted the core principles of the CIPFA/Solace framework - "Delivering Good Governance in Local Government, 2016" to ensure good governance across investments. CBMDC has also adopted the "CIPFA Financial Management Code" and performed a self-assessment which identified no material gaps. This provides a strong framework against which Bradford delivers and governs major investments.

Decisions around major investments are further monitored by the controls via the Governance and Audit Committee and the Internal Audit function.

There are strong systems of internal reporting including an overarching Quarterly Financial Statement which is presented to the Council's Executive Committee. The Annual Governance Statement provides further assurance over governance controls and is in line with best sector practice.

Investments go through a number of different levels of review and approval completing with the Executive team. For sufficiently major investments, Full Council decisions are taken by elected members and where commercial confidentiality allows, are subject to disclosure in the public domain.

The Capital Team engage at least weekly with the Finance function. All major investments are assigned a Finance lead as well as close involvement of the Capital Team. It is our view that procurement, project management and contract management functions need strengthening through additional resource and internal training.

There are issues with ensuring that value for money is achieved in contracting and there is a review programme to address it but little capacity to further embed contract management skills across CBMDC. Complementary to this are weaknesses in Procurement which will improve once their recruitment strategy comes to fruition by increasing capacity.

Risk Management is not covered by a regularly reviewed risk register system at the service delivery level but the Capital Team are covered by the broad risk management programme which they feed into via the meetings with the Finance team.

Overspends of 10% or £100,000 have to be identified and communicated and commitments beyond approved thresholds on the spend are not allowed. Feeding in risks through various financial management meetings as set out in the briefing note. The PAG will also flag risks.

Internal and external audit teams have not raised any issues with regard to delivery and governance of major investments.

CBMDC have recently successfully delivered or near delivered several major projects:

- Bereavement Strategy, a £12 million investment to replace a crematoria, delivered on time and budget.
- a £30 million delivery of the Darley Street Market which is progressing well but subject to cost inflation.
- One City Park, a £16.5 million investment through a delivery partner nearing completion.

Delivery and governance of the major investments in BCFT is discussed in Review Section 5 of the report.

CBMDC appear to manage major investments well.

Risks

1. There is a risk that lack of transparency could lead to failures in the governance and delivery of major investments and reduce the opportunity to learn from the outcomes.

2. That the procedures built to ensure effective governance and delivery are not functioning as anticipated.

Recommendations

1. That risk management is reviewed to ensure that it covers all key areas of Finance operations including capital.

Whether the Local Authority is following best practice regarding arrangements with Local Authority Owned Companies, including ongoing monitoring and scrutiny arrangements.

Key findings and analysis

CBMDC are aware of the requirements of the “CIPFA guidance on Local Authority Owned Companies – A Practical Guide”. The Council has a small number of companies set out in Annex 4 of this report, with the biggest being BCFT.

Given the value and nature of the Council’s companies portfolio only BCFT and Bradford Live are sufficiently large to pose a significant risk to CBMDC. Consideration of arrangements with BCFT are considered in more depth in review Section 5.

We understand that CBMDC have followed the CIPFA guidance with regard to each Council-owned company, producing a business case, considering options, making appropriate governance arrangements often having Bradford Council officers involved as Directors with due regard to conflicts of interest and ensuring regulations with regard to registering at Companies House are followed and financial reporting is performed on time etc.

CBMDC has also been looking at investing in a district energy system and solar farms but as yet there is no formally established company to deliver these initiatives and it is only a potential capital scheme amongst a number of other proposals.

Risks

1. The risk is that the CIPFA Local Authority Owned Company guidance is not being followed with resulting risks to value for money.

Recommendations

1. It is recommended that CBMDC perform a gap analysis against CIPFA's Local Authority Owned Company guidance to identify where and how procedures can be strengthened. **By the end of December 2023.**

The Local Authority's risk management processes, both for individual investments and the capital programme as a whole, and adequacy and timeliness of mitigation actions.

Key findings and analysis

The Council's activities expose it to a variety of financial risks including:

- Credit Risk - the possibility that other parties might fail to pay amounts due to the Council.
- Liquidity Risk - the possibility that the Council might not have funds available to meet its commitments to make payments.
- Market Risk – the possibility that financial loss might arise for the Council as a result of changes in such measures as interest rate movement.

To mitigate these risks, CBMDC produces three main treasury reports each year, which incorporate a variety of policies, estimates and actuals.

Prudential and Treasury Indicators and Treasury strategy - The first, and most important report is forward looking and covers:

- The capital plans (including prudential indicators).
- A MRP policy (how residual capital expenditure is charged to revenue over time).
- The Treasury Management Strategy, (how the investments and borrowings are to be organised) including treasury indicators.
- An Investment Strategy (the parameters on how treasury investments are to be managed).

A Mid-Year Treasury Management Report – This is primarily a progress report and provides an update to members on the capital position, amending Prudential indicators as necessary, and whether any policies require revision.

An Annual Treasury Report – This is a backward-looking review document and provides details of a selection of actual Prudential and treasury indicators and actual treasury operations compared to the estimates within the strategy.

These reports are extensive and before going to Full Council approval they are scrutinised by the Governance and Audit Committee and cover the Council's treasury position, borrowing and investment strategies and performance and debt rescheduling.

In addition to the three major reports detailed above, from 2023-24 quarterly finance reporting is also carried out. However, these additional reports do not have to be reported to Full Council or the Executive Board but are required to be adequately scrutinised. It is understood that this role is undertaken by the Executive Committee as part of Quarterly Finance Reporting. The Council's treasury management function also reviews its performance in line with CIPFA's guidance in this area including against prudential indicators.

Members with responsibility for treasury management are required to undertake training and we understand that such training has been completed for relevant members. The CIPFA Treasury Management Code requires that the training needs of treasury management officers are periodically reviewed and training given as needed. CBMDC are aware that they will need to maintain a formal record of the training received by officers central to the Treasury function and that similarly a formal record of the treasury management/capital finance training received by members will also need to be maintained.

Link Group will continue to be retained by CBMDC as its external treasury management advisors whilst recognising that responsibility lies with CBMDC.

These are sufficient and robust procedures to mitigate capital programme risks and it was noted that the wider risk management process embedded by the risk register system is not in place at service delivery Level and that there may be value in adopting this formally. Currently, capital programme risks are fed into the broader Finance team risks via regular weekly finance team meetings.

CBMDC risk management process do not define risk attitude or risk tolerance and the risk management system is not embedded across the organisation; however there is a system of regular meetings in delivery teams that allow risks to be escalated which feeds into programme delivery side via DMT and CMT and over the whole capital programme the work treasury management procedures appear to mitigate risk.

BCFT is a wholly owned subsidiary of CBMDC. This means that BCFT's accounts will be merged with CBMDC and any profit, loss, asset, or liability is in effect CBMDC's from an accounting perspective.

We understand the Trust agreed to the £170m financial model in the contract on the basis that it met the Council's need to agree with their budgeting requirements and recognising that there were in-built flexibilities in the contract to modify the initial contract price for unseen demand. There was also recognition that these flexibilities would be looked on reasonably if the anticipated trajectory of spend was to increase. We also want to point out that the Council did not agree the initial contract price by agreeing it in advance with Full Council re the 2023-24 budget discussions in February 2023. The Council has asserted their position on the contract price very vigorously during our review and we understand the basis on which the £170 million was agreed in the final version of the contract.

From an accounting perspective the Trust and the Council are in essence the same entity so the risk management of transferring the risk of a large overspend on Children's Services from the Council to the Trust through negotiation is a false one from a financial perspective.

Risks

1. The risk is that CBMDC risk management processes are not sufficiently robust or embedded to allow adequate and timely mitigations; particularly at the level of individual investments.

Recommendations

1. That suitable training records be maintained for officers and members involved in treasury management activities. **By the end of December 2023.**

Whether and to what extent the Local Authority is complying with statutory guidance relevant to its capital programme, including but not limited to investment guidance, MRP guidance, and accounting codes.

Key findings and analysis

The Council's draft 2022-23 accounts state that the Council complies with all relevant statutory guidance. These comprise the "Code of Practice on Local Authority Accounting in the United Kingdom 2021-22" supported by International Financial Reporting Standards (IFRS) and statutory guidance issued by HM Government.

The Council sets and manages a range of indicators covering the level of capital expenditure and the cost of financing it, to ensure borrowing is responsible and affordable. One such measure is the Council's CFR, which represents the amount of Council's capital expenditure funded by internal or external borrowing (see Table 8).

	2021-22 Actual £m	2022-23 Estimate £m	2023-24 Estimate £m	2024-25 Estimate £m	2025-26 Estimate £m	2026-27 Estimate £m
Opening Capital Financing Requirement	**699**	**709**	**773**	**854**	**920**	**930**
General Fund - Increase in borrowing	35	83	104	92	38	60
General Fund - Less MRP and other financing movements	-25	-19	-23	-26	-28	-29
Closing Capital Financing Requirement	**709**	**773**	**854**	**920**	**930**	**961**

Table 8: Capital Financing Requirement summary 2021-22 to 202-27, Source: CBMDC, Capital Investment Plan (2023-24 to 2026-27)

The Council's management of treasury risks actively works to minimise the Council's exposure to the unpredictability of financial markets and to protect the financial resources available to fund services. The Council has fully adopted the CIPFA Code of Treasury Management Practice. Each year the Director of Finance presents to the Governance and Audit Committee an Annual Treasury Management Report which covers the Council's current treasury position, borrowing and investment strategies and performance and debt rescheduling.

The Annual Treasury Management Strategy which incorporates Prudential indicators was reviewed by Governance and Audit Committee in November 2022 and approved by Council in January 2023. Actual performance is also reported after each year.

The Prudential and Treasury Management Code are adhered to using the Link Treasury advisers with whom the capital team have regular meetings. This ensures the Prudential indicators are met which is recorded in the following three key Treasury reports as described earlier in this report.

These reports are reported to the Governance & Audit Committee and are also formally presented to Full Council.

Arlingclose, have reviewed Bradford's MRP policy and note; their view is explained under the section "Compliance with Local Government accounting codes and international financial reporting standards".

Risks

1. The only risks identified are with regard to accounting codes which are discussed in the section on compliance with accounting codes. No further risks were identified.

Recommendations

As above, there are no further recommendations.

3.4 Review Area 4 - GOVERNANCE

An assessment of the Local Authority's governance / management processes, leadership, operational culture, whether it has the appropriate governance procedures in place, and the capability and capacity to make any necessary transformation including:

The adequacy of the Local Authority's internal processes and sense of strategic vision and direction.

Key findings and analysis

Bradford has a clear sense of direction and strategic focus as directed by the Labour administration. It has a strong Leader with a very clear sense of vision for the Council. This vision and purpose is fully understood by the Chief Executive and the Corporate Leadership team, some of whom we met during the course of the review. The Corporate Plan was updated in the last 12 months and senior managers have reflected that it is now more focused on the strategic needs of the district and that it will also address the key challenges that the Authority faces over the medium term.

The Council has a robust process for developing and delivering its Forward Plan which is framed in three monthly cycles to provide focus to in-year priorities. The Forward Plan process is also flexible enough to accommodate urgent items and special provisions in-year. The Council has created a "Pillars" transformation programme designed to address the future financial sustainability of the Council. This is an organisational transformation programme with a focus on income, costs, the Children's Trust, financial sustainability delivered through a cross-organisational delivery approach. It is led by the Finance Director and a new Head of Transformation.

Over the next 12-18 months, the Council is embarking on a refresh of key Council documents under the aegis of the Governance Transformation Programme which aims to deliver a more up-to-date and refreshed governance framework. This will include a review and updating of the constitution, schemes of delegation, the development of a policy framework, training, guidance and embedding a culture around decision making and compliance, an update to the service planning approach and a review of procedures and controls in the areas of Procurement and Finance.

The Council has identified a number of issues with its internal processes, particularly around Corporate Services via the work of the transformation programme in its latest update which include:

- capacity in Corporate Services is very low particularly in HR but also Finance, IT, Legal and Transformation.
- Corporate Services are fragmented across the organisation. Due to past experience of lack of corporate service delivery, shadow teams have formed who fill in where corporate services haven't. The transformation team believe this capacity could be consolidated but have to find a way to do it efficiently.

- as discussed above and at least partly due to lack of capacity in Corporate Services there is now a lack of consistency accessing corporate support due to a lack of trust or positive experience from historic experiences.
- the transformation programme has identified a culture of non-compliance with corporate processes. To address this issue, the Council has created a Governance workstream as part of the programme to provide assurance and identify any areas requiring improvement.
- issues with having a good digital offer to manage contacts and avoiding manual effort to resolve issues.
- lack of integration between IT systems meaning that CBMDC is not able to build data sets, analyse and gain insights in ways that would drive efficiencies.
- lack of business analyst capacity meaning CBMDC is data rich but insight poor.
- service planning (yet to be agreed) needs to be better coordinated to drive efficiencies and performance. The will be done by putting in place SLAs clarifying the support departments receive, with a performance framework to measure compliance against these SLAs. At the time of writing, we understand that the SLAs between the Council and the Trust have been agreed.

Risks

1. That capacity continues to be an issues leading particularly to weaknesses in procurement and contract management.
2. That cultural issues persist; particularly with long serving staff who have seen multiple transformation programmes.
3. That IT systems cannot be linked up in ways that would drive efficiencies.

Recommendations

1. That the transformation programme be given full support from the top of the organisation and the programme team is given any further resource that is required to drive through change. **By the end of November 2023.**
2. That the Council publishes a clear plan to track the re-drafting and completion of key documents including its constitution, schemes of delegation, updated policy framework, revised decision making protocols, review of procedures etc. **By the end of December 2023.**
3. Review the capacity requirements of Corporate Services in relation to the challenges the Council faces in financial terms and address key skills gaps. **By the end of December 2023.**
4. Increase compliance with corporate processes (especially the processes focused on the identification and delivery of savings). **By the end of November 2023.**
5. Notwithstanding the capacity issues in ICT, develop a plan that enables the Council to start addressing its data and integration issues to ensure that key data-related risks can be resolved in-year. Some of these solutions could be initially framed as workarounds in the absence of a longer-term strategy. **By the end of December 2023.**
6. Consider re-energising the wider culture programme in the Council (using the opportunity of a new CEO) to refresh the council's vision and purpose to ensure that all managers have a clear understanding of their roles and obligations in the longer-term change process required. **By the end of December 2023.**

The Local Authority's capacity and capability to improve and transform, including through acknowledgement of problems, openness, and collaboration with sector support.

Key findings and analysis

In previous years, whilst the Council has successfully managed to balance its books, some senior managers commented that the Council lacked a formal programme approach to change and transformation. However, we acknowledge the success of the recent transformation in Adult Social Care Demand Management Project. 12 months ago, the Council appointed a Head of Transformation to lead the Transformation Programme which is complementary to the Pillars Programme which is run by the Director of Finance. The Pillars programme is seen by all as a really positive step in creating a more formal and transparent architecture to deliver more sustainable change in the future.

We are confident that the Authority's senior management team are aware of their key challenges and that they are looking at creative ways of solving key problems.

As indicated above, the Council has a clear plan with a clear set of priorities aligned to their Council Plan. The Council Plan 2022-25 sets out the Council's approach to achieving its overarching ambition of an inclusive and sustainable district that works for everyone. The priority outcomes are better skills, growing the economy, creating a great start in life and a good school, better health, better lives, safe and active communities, decent affordable homes, and an enabling council which is a great place to work. We are aware that, with the advent of a new CEO, the Council plans to refresh the Council Plan in the next 12-18 months.

Working with partners, the Council has also developed The Bradford District Plan 2021-25 which focuses on five shared priority outcomes that aim to drive the collective efforts of local partners with clear links to the Council Plan.

The capacity and capability of Local Authority leadership, including that all senior posts are filled with permanent appointments.

The Council's Management Team members are all permanent appointments except for the S151. With the imminent arrival of a new CEO in mid-October 2023, we understand that the Council will then embark on a recruitment exercise for a permanent S151.

Strong working culture and working relationships between councillors and officers, senior leadership and junior staff, and openness to challenge and change.

The CEO has a relaxed, open, and engaging style which engenders openness to propose new ideas and to challenge senior management. The senior managers we spoke to felt empowered to deliver the outcome for their areas of responsibility. There appears to be alignment and sense of purpose around the Council's financial challenges and members of CMT and other managers were on-board and committed to delivering the Pillars programme.

In terms of the strong working culture element, some managers felt that the organisation was too process heavy and one commented that there are too many programme boards and other meetings

The review team engaged mainly with senior managers and some heads of services at predominantly Tier 3 and Tier 4 levels and we cannot comment on the working culture with more junior members of staff. However, a number of senior managers confirmed that the Council's priorities are well understood by staff across the organisation and that these priorities are used to frame the Council's service planning approach. Notwithstanding the above, some senior officers felt that there needs to be more focus on action planning around identification of savings.

Risks

1. That the Pillars Programme will not deliver on its promises to clearly identify savings for 2024-25 onwards as a way of enabling the Council to balance its books in future years.
2. That the messaging and tasking around saving money and offering more by way of savings is sufficiently translated down through CMT for the messaging to Tier 4 officers (and beyond) to be as effective as it can be. We have not fully tested this and some at a senior level think that more needs to be done to ensure that the key messages around financial sustainability are regularly tested to check wider organisational understanding.
3. That the Transformation Programme lacks sufficient capacity and skills within the organisation to deliver longer term transformation. This is not helped by a lack of experienced personnel in the Procurement area, but we acknowledge the work the Council is doing to close this gap.

Recommendations

1. For senior management to check that there is a clear understanding of the urgency and pace required by all key stakeholders and staff in the pursuit of savings to ensure future financial sustainability of the Council. **By the end of October 2023.**
2. Review the effectiveness and appropriateness of the current programme board set-up to ensure that the governance (and processes) are fit for purpose and so as to avoid duplication of effort. This plays to an organisational imperative to reduce the gap between savings identification and delivery. **By the end of October 2023.**
3. To take the key success factors from the Adult Social Care Demand Management Project and apply these to the wider Pillars and Transformation programmes. **By the end of October 2023.**
4. To consider whether the Transformation programme ought to be led by the appointment of a (Tier 2) Transformation Director to give the role more weight and prominence within the organisation. **By the end of November 2023.**

3.5 Review Area 5 – CHILDREN'S SERVICES

An assessment specifically around the Local Authority's relationship with the Bradford Children and Families Trust including:

The assessment of demand and the pressures it places on the Children's Social Care Services[1] budget.

Key findings and analysis

The Bradford Children and Families Trust will publish its financial schedule in the updated Business Plan. In this plan and in future reports, cost reduction will be referenced by the numbers of placements that have been projected. Cost reduction is not limited to the number of placements and includes other areas including improvement in practice, improved demand management, improving value for money, prevention etc. Children's Services improvement journeys usually take two to three years to show good effect. The need for time for this Trust was corroborated by the DfE commissioner in interview. There is legitimate expectation that improved practice will lead to more financial stability in future years. The Chief Executive of the Trust predicted in August 2023 that the current financial envelope from the Council (£170m plus inflation) would be achievable by 2026-27 but not before. This difference is explained because the start point for the Council is that a levelled off rather than increasing number of 120 children per year should come into care, so leading to the calculation of the initial budget for the Trust of £170 million.

The Trust however maintains that this 'levelling off' regarding numbers coming into care is not realistic and does not build in capacity for the Trust to take a view on existing practice and establish its own thresholds for care. There is, to date, little practice-based evidence to support the expectation of an immediate levelling off.

Currently the Trust is projecting that the number of children coming into care will continue to increase until 2024 and will then reduce for the subsequent three years as a result of reshaping of services (see Figure 1) the Trust should be given time to review and revise its projections during this first financial year as practice standards are established and they understand better the nature of the childcare issues in order for them to define their own thresholds for entering care for which they will be held to account.

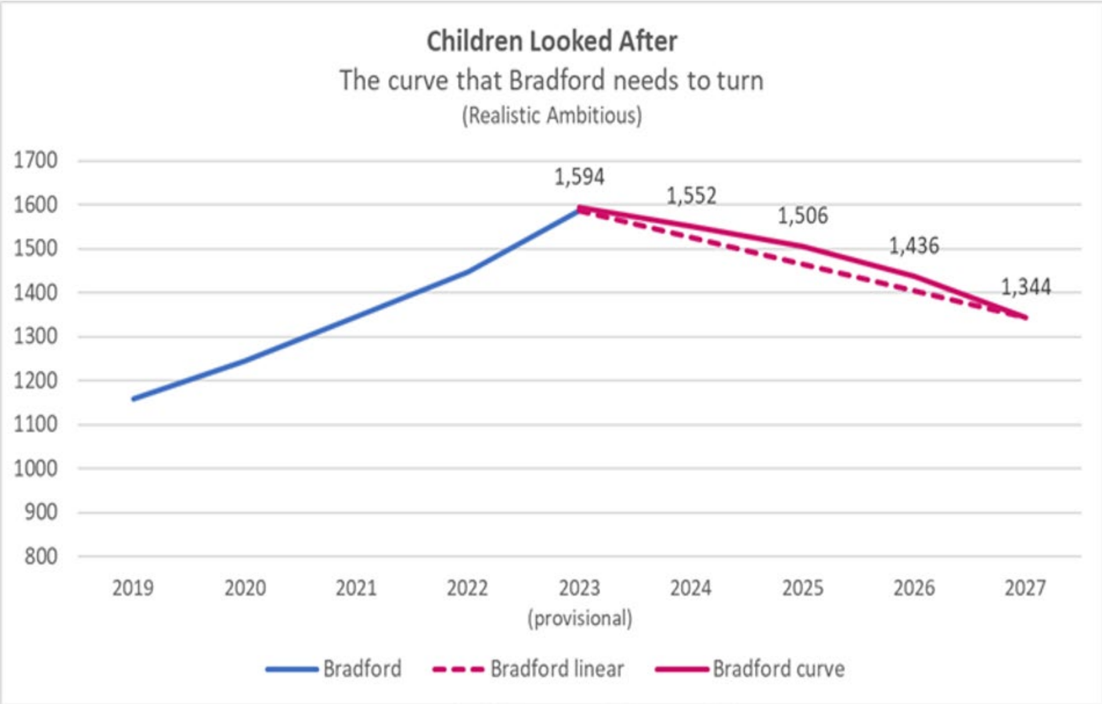

Figure 1: Children Looked After projections to 2027 reduced to statistical neighbours' average level, Source: Bradford Children & Families Trust Draft Business Plan (Draft 3, Version 5)

Bradford is shown by comparable Ofsted reports to have specific challenges compared to other councils related to previous social care practice and therefore it is not unusual that open cases will be statutory in nature as opposed to being handled at an early intervention stage at this time in the development of the Trust.

In Bradford, the change in 'children in care' starts rates, particularly since 2018, rose from below the national average to almost 50% higher. This figure was taken from a comparison provided by Newton Europe based on 2021 comparable data. At the time of writing, the Trust has not submitted their 903 return. Further, more children have been entering care than leaving care which is the reverse for the average of statistical neighbours at -14%.

A review of the Trust's KPIs shows a gradual improvement, in that social care practice has improved and that thresholds for care are understood which will allow monitoring of numbers of children coming into care to be more closely scrutinised at the regular meetings between the Trust and the Council in future. Senior staff in the Trust have good experience of using thresholds to balance risk so at this early stage their view should be respected. The current KPIs should be sufficient if improved agreements and response to challenge at the meetings means that the partnership between the Council and a backdrop of a new Trust becomes stronger.

The key risks and adequacy of management and mitigations

On future risks for the Trust in year, the major ones are on placement costs, agency staff, obtaining health contributions and some additional risk regarding short breaks provision for children with disabilities. On placement costs, the Trust is working with the Council on ensuring improvements in the quality of the internal residential estate to save on expensive external placements. To accelerate savings on placements the 54 most expensive children's placements have been reviewed with a view to making savings. The ambition set at Q1 for a target of £2.5 million contribution when the cases have been reviewed and £2.56 million has been achieved and reported in the Q2 position.

On agency staff, cost reductions in the four year Business Plan include an ambition to reduce agency staff occupying social work related roles to 20% by March 2026. The in-year target of reductions in agency spend is £1m with any other expectations for savings on the Trust being unrealistic in our view. On income from health £6 million of additional contributions were assumed in the contract price with a more realistic figure currently being projected by the Trust of £1.59 million at Q2, which increases by a further £2 million in 2024-25 and flat lines to 2026-27. We note that the Trust is actively building relationships with Health colleagues to maximise Trust income from next year.

On spend on children with disabilities, the Q2 report sets out there is a pressure of £2.0 million which is consistent with the previous year. An impediment to progress is that the possibility of reinvesting funds to continue to improve robust family support may not be possible in the light of predicted overspends, which would impede practice improvements and in turn the future achievement of savings.

On management mitigations, the Trust's draft Business Plan has identified seven priorities ranging from practice to the culture of the Trust. The priorities are reasonable when read against current performance and the recent Ofsted outcomes. In our view, the improvement challenges are achievable within the agreed improvement trajectory of the first four years of the Trust being in operation. However, the Trust and the Council have not yet agreed the affordability of this trajectory. Staff in the Trust are experienced with no notable skills gaps at the senior level when posts are appointed and are able to lead this, providing the planned management structure remains in place.

The Trust had hoped to bid for the next round of Family First Pathfinders to be announced by the DfE for financial year 2024-25 but is unable to do so due to the eligibility criteria. This could bring a ring-fenced grant of £1.3 million to £1.5 million each year for three years and alternative sources of funding for innovation and improvement will be important for the trust to obtain if possible.

The financial management and risk assessment processes adopted by the Trust and a view on their appropriateness, including whether these arrangements support the Trust to act as an independent body

To support good management and risk assessment processes there needs to be a clearer agreement between the Trust and the Council that there are significant practice challenges. As evidenced by interviews, there is little agreement yet about strategic planning, nor the accuracy of case projections so leading on to disagreements about agreed budget projections and focus. Nevertheless, the Trust management has a clear view about what needs to be done to manage finances in the future and their actions appear to appropriately take account of risk.

The agreements in the contract with the Council (and specifically Schedule 5) appear to be sufficient to allow good corporate governance, although there is some concern from the Trust about rectifications notices mentioned in conversation as a possibility, but no notices have been raised to date. The SLA framework covers all the areas required and makes commitments to partnership planning clear. On the evidence of the Q2 monitoring report the Trust is taking account for the need for funding to deliver the budget to the actual position ie, £45.2 million overspend with mitigation, as opposed to the contractual position of the Trust.

It is taking sufficient action to focus on the drivers of the future expenditure which will affect the Trust in future years. Whilst agency numbers are currently high, the latest Ofsted letter comments positively on increasing staff confidence and stability so the Trust's plans to address social worker permanency could be achieved. On placement costs, the exercise to review the cost of the most expensive 54 children has led to some early decisions on placements leading to financial mitigation. These savings can be immediate if the child is reviewed and can be found an alternative placement quickly, but each review takes skill and time. The ambition to place children more locally is reasonable, but this will require some planned re-modelling of in-house provision to come to fruition. There are also some possible savings on procurement which will require cooperation with the commissioning team in the Council which could be valued at £1 million to £2 million. This line of enquiry needs to be urgently addressed.

On outputs from the children's transformation document provided for the Trust from Newton Europe (August 2023) the suggested engagement pathway from diagnostic to design and implementation appears robust. The projection from 2016-17 at £89.5 million has been updated with a predicted net spend of a mid-point of £144.2 million 2022-23 (range £132.5 million to £155.9 million) and a mid-point of £163.8 million (range £150 million to £177 million). The Newton Europe analysis suggests that this range would be reasonable for a service operating in a steady state context. This fits with the evidence projections from other statistically comparable councils which were referenced in the Newton Europe model and used by the Trust. The Newton Europe report went on to state that "the model does not take account of the specific trajectory, trends, or 'momentum' of spend that a local authority might be experiencing".

The assessment of demand and the pressures it places on the children's services budget

The Trust maintains however that the 'levelling off' regarding numbers coming into care is not realistic and does not build in capacity for the Trust to take a view on existing practice and establish its own thresholds for care. There is, to date, little practice-based evidence to support the expectation of an immediate levelling off.

In order to turn the curve, Figure 2 shows the required throughput of those coming into care and those leaving care and the Trust's ambitions for the next four years and the consequent reduction in the number in care.

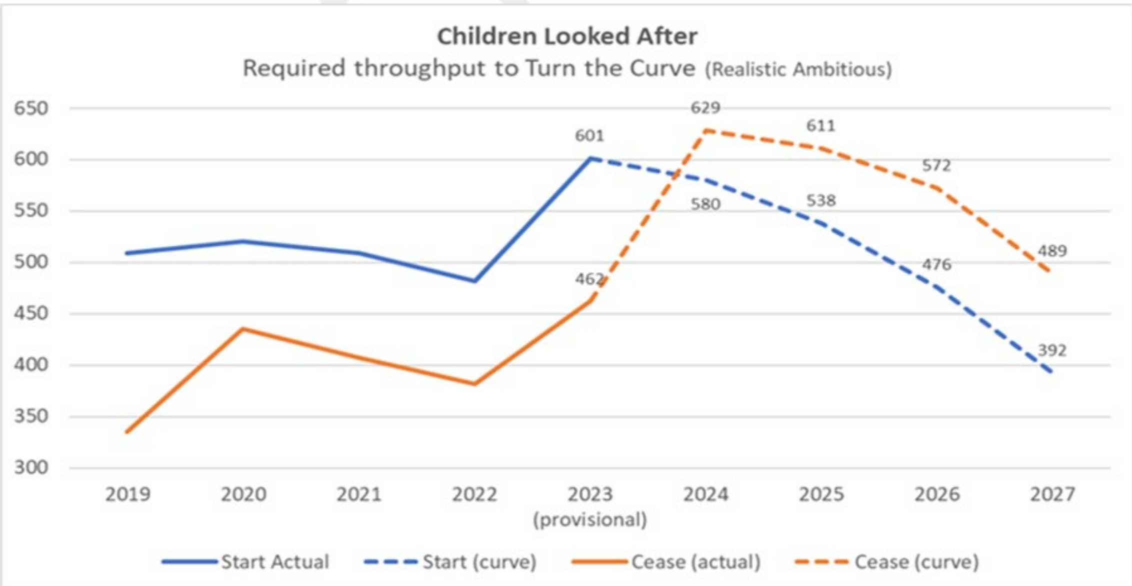

Figure 2: Children coming into and out of care 2019-2027, Source: Source: Bradford Children & Families Trust Draft Business Plan (Draft 3, Version 5)

The Trust should be given time to review and revise its projections during this first financial year as practice standards are established and they understand better the nature of the childcare issues in order for them to define their own thresholds for entering care for which they will be held to account.

The Trust's draft Business Plan notes:

"The anticipated costs of funding the expected continuing increase in numbers of children coming into care has been higher than estimated, because the anticipated increase in internal placement capacity has not materialised and the higher cost of procuring external residential and foster care placement through agencies has continued at levels greater than budget assumptions.

The average rate of children coming into care in the first five months of the year is lower than that experienced in 2022-23. Since April, there has been a net average increase of 1.6 children per month compared to the net average increase of 11.6 in 2022-23. However, the placement mix is different to that assumed in the budget. Numbers of external placements are much higher than that assumed."

Risks

1. That the Trust will continue to overspend in Q3 and Q4 which places them in a perilous financial position. We are also concerned about the implications for the Trust senior management in their roles as company directors and the potential for the Trust to become insolvent ie, going concern issues within the next quarter. This is now a live risk given the Trust's in-year cash flow projections.
2. The work on cost reduction on outside placements does not provide the anticipated value.
3. Consistency of Trust leadership is not maintained (related to Risk 1 above), leading to uncertainty for staff and partners.
4. The number of agency staff does not reduce in line with Trust forecasts.
5. Disagreements between the Trust and the Council on profiling numbers and pace of improvement impede good relationships and the ability to move forward to resolve the critical financial issues facing the Council and the Trust.
6. The Trust's financial position will continue to worsen in the last two quarters of this financial year, potentially rendering the Trust insolvent (see earlier references to the Trust's latest cash flow forecasts).
7. That the Trust does not receive the level of grant funding (from various sources) from 1 April 2024 causing future year pressures.

Recommendations

1. That the Trust seeks insolvency advice in light of its recent cash flow forecasts showing that the Trust will run out of money before the end of Q3. **By the end of October 2023. (We understand that this recommendation has been discharged and that the Trust has sought such advice.)**
2. That the Trust provides (to the Council) a more forensic quarterly and year-end forecast with mitigations. **By the end of November 2023**.
3. That the Trust provides a detailed plan of how it will deliver in-year savings including the definition of a series of specific interventions to generate further savings for 2024-25 (eg, reducing charges in placements, joint commissioning, reducing agency staff, improving procurement spend etc). **By the end of November 2023. (We understand this this recommendation has been partly discharged insofar as the Trust has provided a 21 point plan to the Council for their review.)**

4. That the Council and the Trust meet as soon as is practicable to develop an Emergency Finance Stabilisation Plan to limit future overspends and to end up with a jointly agreed position on the Trust's year-end financial position (noting that the Council's position is that the £170m contract price is achievable). The purpose of this recommendation is to enable the Trust to set out its plans to remain solvent given its cash flow position and to continue to look at ways to reduce its overspend with continuing support and co-operation from the Council. **By mid-November 2023.**
5. Related to 3 above, that the Trust considers the drafting of a Type 1 Business Case for consideration by the Council as per the contractual provisions in Schedule 5 of the Service Delivery Contract. **By mid-November 2023.**
6. Work on reducing the cost of high value placements should be monitored carefully and the reductions in spend and plans to improve internal provision be subject to clear targets and timescales. **By the end of December 2023.**
7. The Trust Chief Executive has made this a priority, taking steps to secure permanent staff through its workforce development plan set out in the Business Plan . A sharp focus on the numbers of agency staff at performance meetings should continue. **Ongoing.**
8. A clear agreement between the Trust Chief Executive and the Trust on the efficacy and security of the practice model in reducing the numbers of children in care and statutory provision is needed. **By the end November 2023**.
9. A more detailed plan from the Trust on how it is going to make savings in joint commissioning activity with the Council. **By the end November 2023**.
10. That the Trust urgently appoints sufficiently skilled staff to support its ongoing due diligence with financial, procurement and contract management matters. **By the end of October 2023.**
11. That the Trust completes its financial due diligence. **By the end of November 2023.**
12. That the Trust, the Council and DfE jointly consider amending the terms of reference to the Children's Services Improvement Board so that it includes an obligation to review the Trust's financial sustainability in line with the Trust's objectives to further the purpose of the Trust's mission to provide the best possible outcomes for the children of Bradford. **By the end November 2023**.
13. That the Trust's Finance Director secure 'heads of terms' or 'agreement in principle/statement of intent' letters from key grant providers to underpin some of the key income assumptions as documented and relied upon in future years financial projections in the Trust Business Plan. **By the end of November 2023**.

4 Improvement Plan

This section summarises a short number of key improvements that we suggest forms a key improvement plan for CBMDC and BCFT.

This section should be read in conjunction with the key risks described in the Executive Summary and the key recommendations described in each section of the report.

Improvement number	Proposed improvement
1	That BCFT create an Emergency Finance Stabilisation Plan (EFSP) as soon as possible to draw a line under the Trust's financial due diligence and that this plan (in the form of a report) is shared with the Council to facilitate an agreed way forward with regard to the Trust's financial stability and future financial outlook. **This is the most important and central proposed improvement of this report.** We have provided a proposed list of contents for the EFSP immediately below this table for the BCFT's Finance Director to lead on this work with immediate effect.
2	That the Council continues to focus on improving its financial forecasts and projections including a review of the Pillars programme and other improvement initiatives such that the Council's financial outlook for the remainder of the year has a higher level of predictability.
3	That CBMDC publishes an objective set of evaluation criteria to inform BCFT of the basis on which the Council will sign-off the BCFT (draft) Business Plan. Further, that the parties then agree the BCFT Business Plan. In light of 1 above, BCFT may need to further review the current draft of the Business Plan before the parties can sign it off.
4	That, where it is practicable to do so, CBMDC accelerates the identification and delivery of savings in Procurement.
5	That CBMDC continues to develop (at pace) their Asset Disposal Strategy. That CBMDC updates their Asset Management Plan and Asset Register at the same time.

Proposed list of contents for the BCFT EFSP

We expect this important document to be created by BCFT (acting independently) with support and the fullest co-operation as required by Council colleagues.

- list of key financial risks and mitigations as seen by BCFT in Q3.
- list of key areas of financial uncertainty including a clear list of spend areas which have exceeded the budget forecast – these should be in order of spend quantum and priority and are likely to include a key focus on placement contracts (and individual placement agreements), a clear position on costs that have not yet hit the BCFT ledger but where such costs have been backdated. To include a complete inventory of purchase orders.
- changes to demand and volume assumptions that may affect the year-end forecast (if these are different to the demand modelling in the draft Business Plan).
- details of any new areas of identified spend (not previously captured in the Trust's forecasts) which may have a negative financial impact in-year.

- a review of the BCFT general ledger to ensure that the costs hitting the ledger are consistent with BCFT's financial plan and expectations. To call out costs which are not expected and need to be reversed out of the ledger.
- a review of headcount to form a more accurate picture of the establishment versus the payroll and to agree a reconciliation process with the Council.

Annexes

A1 Risk Assessment – Method

Impact

Likelihood	Critical:3	Moderate:2	Marginal:1
Probable:3	High - 9	High - 6	Medium - 3
Occasional:2	High - 6	Medium - 4	Low - 2
Improbable:1	Medium - 3	Low - 2	Low - 1

Likelihood:

- Improbable – possible, but unlikely to happen
- Occasional – might happen, might not happen, in the order of 50/50
- Probable – most likely will happen

Impact:

- Marginal – some minor (less than £1000) costs involved, possible minor operating difficulties largely contained within the council, some awareness / action may be required by Members
- Moderate – financial losses / costs up to £100k, operating impacts hitting services for some of the community, a significant issue for Members to deal with
- Critical – major financial losses / costs in excess of £100k, subsequent intervention by DLUHC or other third parties, reaches national press interest, major political embarrassment for Members.

A2 Documents Reviewed

The review team has reviewed over 150 different documents and artefacts kindly provided to them by the Council and the Trust.

A full list is available on request.

A3 Interviews conducted

Name of interviewee	Role
Kersten England	CEO
Joanne Hyde	Strategic Director, Resources
Christopher Kinsella	S151
Asif Ibrahim	Director of Legal and Governance, Monitoring Officer
Susan Hinchcliffe	Leader of the Council
Marium Haque	Bradford Council Director of Children's Services
Andrew Cross	Head of Finance
Richard Hoyle	Risk Manager
Michael Watkins	Head of Estates Management
Gemma Emmett	Head of Transformation
Celia Yang	Head of Financial Accounting
Mark St Romaine	Head of Internal Audit
Lynsey Simenton	Capital Accountant
Julie Crellin	Finance Director, BCFT
Charlotte Ramsden	CEO, BCFT
Steve Walker	DfE Commissioner for BCFT
Nigel Smith	Principal Executive Officer

A4 CBMDC Local Authority Owned Companies

Name of Local Authority Owned Company	Purpose	Status
Bradford Children And Families Trust Ltd	To provide high quality services with partners that help safeguard, support, and promote the welfare of children, young people, and families across the Bradford District	Wholly Owned Subsidiary
Integrated Bradford LEP Ltd	The company was set up to deliver the capital investment programme in Bradford secondary schools funded through the government initiative Building Schools for the Future. (net assets £418k)	10% shareholder of the company as at 31.12.21
CCBMDC Building Schools for the Future	the sole purpose to make a loan to Integrated Bradford LEP Fin Co One Ltd	Significant Control Micro Company
Bradford District Apprenticeship Training Agency	To promote employment. The company ceased trading and was dissolved on 9th August 2022.	Dissolved
Active Bradford Ltd	working together to increase the number of people being active and playing sport across the Bradford District	Micro Company. CBMDC does not own as the company is limited by guarantee
Canal Road Urban Village Ltd	Established to create a high quality destination in Bradford, where people can live, work, and enjoy leisure activities via delivery of a major mixed use regeneration scheme. The project is known as New Bolton Woods. (net assets £1.3m).	CBMDC is a minority shareholder. Urbo Regeneration Ltd the major shareholder.
The Moors Management Company Ltd	Part of the acquisition of the Moors and Dalesway retail schemes in Ilkley - to receive service charge contributions from the tenants and administer repairs on behalf of the landlord.(net assets - £8,000)	Significant Control (small company)
Leeds Bradford Airport	1 Special Share, is owned by Leeds City Council and City of City of Bradford Metropolitan District Council. Note 19 in latest Airport accounts says the special share has no right to dividend returns or distributions and right to £1 in the event of a company wind up. Can attend special airport meetings or general meetings where S15 1.1	Special Share

	(wind up of the company) or 1.6 (to adopt new articles of association or change the rights of the Special Share) are considered, see revised Articles of Association 2nd May 2007	
Bradford Live	the restoration and repurposing of the former Odeon building as a modern live events and conference facility, and is a key part of the Council's plans for the regeneration of the City Centre area. The Council has made a substantial loan to the Company to enable the project to progress, and has reserved specific security rights through the terms of a loan agreement with the Company, which provides it with a variety of options for managing financial risk.	Significant Control
New Choices	to provide a platform of financial and operational stability in readiness to deliver the Council's Reimagining Day Services Strategy.	Significant Control. Dormant as at 31 March 22.

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