Governance and Audit Committee

SOUTH KESTEVEN DISTRICT COUNCIL

Wednesday, 24 January 2024 at 2.00 pm
Council Chamber - Council Offices, St. Peter's Hill, Grantham. NG31 6PZ

Committee Members: Councillor Tim Harrison (Chairman)
Councillor Paul Wood (Vice-Chairman)

Councillor Patsy Ellis, Councillor Bridget Ley, Councillor Charmaine Morgan, Councillor Rob Shorrock, Councillor Peter Stephens, Councillor Ian Stokes and Councillor Sue Woolley

Agenda Supplement

5. External Audit Findings 2022-2023 (Pages 3 - 46)

External Auditors from Grant Thornton UK will present their findings for the year 2022 – 2023.

6. Value for Money Opinion 2021-22 and 2022-2023 (Pages 47 - 96)

The Annual Audit Report for 2021-2022 and 2022-2023 are to be presented to the Committee.

7. Statement of Accounts and Annual Governance Statement 2022-2023 (Pages 97 - 228)

The Statement of Accounts 2022/23 is presented to the Governance and Audit Committee for approval. This report covers:

Accounts and Audit Regulations 2015
Accounts and Audit (Amendment) Regulations 2022
Section 21(2) Local Government Act 2003
Revised Statement of Accounts
Commentary on the outcome of the audit of the Statement of Accounts

Published and dispatched by democracy@southkesteven.gov.uk on Tuesday, 16 January 2024.
✆ 01476 406080
Karen Bradford, Chief Executive
www.southkesteven.gov.uk

11. **Complaints Statistics: April-November 2023** (deferred to 13 March 2024)

To present the complaints statistics for the period April – November 2023.

13. **LeisureSK Limited - Board of Directors (amended)** (Pages 229 - 233)

The Governance and Audit Committee is requested to consider a recommendation from the Culture and Leisure Overview and Scrutiny Committee regarding a 'Vote of No Confidence' in the Board of Directors.

The Governance and Audit Committee is also requested to consider making appointments to the Board of Directors further to the resignations of Councillor James Denniston, Councillor Charmaine Morgan and South Kesteven District Council Corporate Director Nicola McCoy-Brown.

![Grant Thornton]

The Audit Findings for South Kesteven District Council

Year ended 31 March 2023

24 January 2024

Contents

Your key Grant Thornton team members are:

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This Audit Findings presents the observations arising from the audit that are significant to the responsibility of those charged with governance to oversee the financial reporting process, as required by International Standard on Auditing (UK) 260. Its contents have been discussed with management and the Governance and Audit committee.

Laurelin Griffiths
Grant Thornton UK LLP
24 January 2024

The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit planning process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Council or all weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

1. Headlines

This table summarises the key findings and other matters arising from the statutory audit of South Kesteven District Council ('the Council') and the preparation of the group and Council's financial statements for the year ended 31 March 2023 for the attention of those charged with governance.

Financial Statements

Under International Standards of Audit (UK) (ISAs) and the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion:

- the group and Council's financial statements give a true and fair view of the financial position of the group and Council and its income and expenditure for the year ended 31/03/2023; and
- have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting and prepared in accordance with the Local Audit and Accountability Act 2014.

We are also required to report whether other information published together with the audited financial statements (including the Annual Governance Statement (AGS) and Narrative Report), is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

Our audit work was completed during August 2023 to January 2024. Our findings are summarised on pages 6 to 19. To date, we have not identified any adjustments to the financial statements that would impact the Council's General Fund. We have noted two unadjusted misstatements which are detailed in Appendix D. We have also raised three recommendations for management as a result of our audit work. These are set out in Appendix B. Our follow up of recommendations from the prior year's audit are detailed in Appendix C.

Our work is substantially complete and there are no matters of which we are aware that would require modification of our audit opinion (Appendix H), subject to the following outstanding matters;

- Completion of work on the audit on the Council's group accounts, including reviewing work of the component auditor of Leisure SK Limited;
- Receipt and review of IAS19 assurances from the auditor of Lincolnshire Pension Fund;
- Receipt of a small number of items to complete our work on some transactional testing and disclosure-only elements of the accounts;
- Confirming a small number of disclosures within the narrative report and AGS;
- Final quality reviews by the Audit Manager and Engagement Lead;
- Receipt of management representation letter (see Appendix G); and
- Review of the final set of financial statements.

We have concluded that the other information to be published with the financial statements, is consistent with our knowledge of your organisation and the financial statements we have audited.

Our anticipated financial statements audit report opinion will be unmodified.

We have identified one significant weakness in the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources. A further explanation of the significant weakness we have identified in the Council's arrangements is detailed on page 20 of this report and in our Auditor's Annual Report (AAR).

1. Headlines

Value for Money (VFM) arrangements

Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to consider whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. Auditors are required to report in more detail on the Council's overall arrangements, as well as key recommendations on any significant weaknesses in arrangements identified during the audit.

Auditors are required to report their commentary on the Council's arrangements under the following specified criteria:

- Improving economy, efficiency and effectiveness;
- Financial sustainability; and
- Governance

We have completed our VFM work and our detailed commentary is set out in the separate Auditor's Annual Report, which is presented alongside this report. We identified a significant weakness in the Council's governance arrangements and so are not satisfied that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. Our findings are set out in the value for money arrangements section of this report (Section 3).

Statutory duties

The Local Audit and Accountability Act 2014 ('the Act') also requires us to:

- report to you if we have applied any of the additional powers and duties ascribed to us under the Act; and
- to certify the closure of the audit.

We have not exercised any of our additional statutory powers or duties.

We have completed the majority of work under the Code and expect to be able to certify the completion of the audit when we give our audit opinion.

Significant matters

We did not encounter any significant difficulties during the performance of our audit.

1. Headlines

National context – audit backlog

Nationally there have been significant delays in the completion of audit work and the issuing of audit opinions across the local government sector. Only 12% of local government bodies had received audit opinions in time to publish their 2021/22 accounts by the extended deadline of 30 November. There has not been a significant improvement over this last year, and the situation remains challenging. We at Grant Thornton have a strong desire and a firm commitment to complete as many audits as soon as possible and to address the backlog of unsigned opinions.

Over the course of the last year, Grant Thornton has been working constructively with DLUHC, the FRC and the other audit firms to identify ways of rectifying the challenges which have been faced by our sector, and we recognise the difficulties these backlogs have caused authorities across the country. We have also published a report setting out our consideration of the issues behind the delays and our thoughts on how these could be mitigated. Please see About time? (grantthornton.co.uk)

National context – level of borrowing

All Councils are operating in an increasingly challenging national context. With inflationary pressures placing increasing demands on Council budgets, there are concerns as Councils look to alternative ways to generate income. We have seen an increasing number of councils look to ways of utilising investment property portfolios as sources of recurrent income. Whilst there have been some successful ventures and some prudently funded by councils' existing resources, we have also seen some councils take excessive risks by borrowing sums well in excess of their revenue budgets to finance these investment schemes.

The impact of these huge debts on Councils, the risk of potential bad debt write offs and the implications of the poor governance behind some of these decisions are all issues which now have to be considered by auditors across local authority audits.

2. Financial Statements

Overview of the scope of our audit

This Audit Findings Report presents the observations arising from the audit that are significant to the responsibility of those charged with governance to oversee the financial reporting process, as required by International Standard on Auditing (UK) 260 and the Code of Audit Practice ('the Code'). Its contents have been discussed with management, and the Governance and Audit committee.

As auditor we are responsible for performing the audit, in accordance with International Standards on Auditing (UK) and the Code, which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements.

Audit approach

Our audit approach was based on a thorough understanding of the group's business and is risk based, and in particular included:

- An evaluation of the group's internal control environment, including its IT systems and controls;
- An evaluation of the components of the group based on a measure of materiality considering each as a percentage of the group's gross revenue expenditure to assess the significance of the component and to determine the planned audit response. From this evaluation we determined specified audit procedures for income and expenditure transactions for Leisure SK Limited was required, which was completed by Duncan and Toplis Ltd. We have also determined specified procedures for the material income and expenditure transactions for Gravitas Limited which was completed by our audit team.
- Substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks

Conclusion

We have substantially completed our audit of your financial statements and subject to outstanding queries being resolved, we anticipate issuing an unqualified audit opinion following the Governance and Audit Committee meeting on 24 January 2024 (Appendix H). These outstanding items are highlighted on page 3.

Acknowledgements

We would like to take this opportunity to record our appreciation for the assistance provided by the finance team and other staff.

2. Financial Statements

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Our approach to materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law.

Materiality levels remain the same as reported in our audit plan which was presented to the Governance and Audit Committee in September 2023.

We set out in this table our determination of materiality for the Council and group.

	Group Amount (£)	Council Amount (£)	Qualitative factors considered
Materiality for the financial statements	1,575,000	1,450,000	We have deemed these figures appropriate, as they have been based on gross expenditure; approximately 2.0% and 1.9% of gross expenditure, respectively.
Performance materiality	1,100,000	1,000,000	Our planning work has not identified any significant deficiencies in internal control to date.
Trivial matters	78,800	72,500	This has been taken as a proportion of the materiality threshold, in which we consider that any matters below this threshold would be clearly inconsequential, taken individually, or in aggregate.
Materiality for senior officer's remuneration	N/A	15,000	This is considered to be an area of specific interest to users of the financial statements, and it includes sensitive balances.

2. Financial Statements: Significant risks

Significant risks are defined by ISAs (UK) as risks that, in the judgement of the auditor, require special audit consideration. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood. Significant risks are those risks that have a higher risk of material misstatement.

This section provides commentary on the significant audit risks communicated in the Audit Plan.

Risks identified in our Audit Plan	Commentary
Management override of controls Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. The Authority faces external scrutiny of spending and this could potentially place management under undue pressure in terms of how they report performance. We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as significant risk, which was one of the most significant assessed risk of material misstatement.	We have: • Evaluated the design effectiveness of management controls over journals • Analysed the journals listing and determine the criteria for selecting high risk unusual journals • Tested unusual journals recorded during the year and after the draft accounts stage for appropriateness corroboration • Gained an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness with regards to corroborative evidence • Evaluated the rational for any changes in accounting policies, estimates or significant unusual transactions • Evaluated judgements and estimates made in the consolidation of the Group accounts. • Reviewed and tested transfers between the General Fund and HRA and inter group journals. We have reviewed the Council's material accounting estimates and have found these to be reasonable, with further details on pages 13 to 15. From our review of the journals control environment, we have identified that there is no formal journals authorisation process in place for the posting of transactions onto the ledger. We would expect for each journal to be reviewed by someone other than the poster to ensure that this has been appropriately authorised. The Council also has a number of super users who have the ability to post journals. From a practical point of view this is necessary as it allows them to assist with any issues that the user may be having but the risk is that activity performed by the superuser while acting as the user is not logged against the correct individual, which impedes the integrity of the audit trail. We continue to bring this to the attention of yourselves as those charged with governance as it represents a deficiency in the control environment. From our testing of 71 journals identified as being highest risk, we have not identified any instances of management override of control and all sampled items were appropriately processed, however the two control recommendations mentioned above are outlined in Appendix C.

2. Financial Statements: Significant risks

Risks identified in our Audit Plan	Commentary
Valuation of Land, Buildings and Investment Properties The authority revaluates its land and buildings on a rolling five yearly basis and investment properties are valued annually. The valuations represent a significant estimate by management in the financial statements due to the size of the numbers involved and the sensitivity of this estimate to changes in key assumptions. Additionally, management will need to ensure the carrying value in the authority financial statements is not materially different from the current value or the fair value (for surplus assets) at the financial statements date, where a rolling programme is used. We therefore identified valuation of land and buildings and investment properties, particularly revaluations and impairments, as a significant risk, which was one of the most significant assessed risks of material misstatement	We have: • evaluated the processes, controls and assumptions put in place by management to ensure that the valuation of land and buildings and investment properties are not materially misstated and evaluated the design of these and whether they are sufficient to mitigate the risk of material misstatement; • assessed the competence, capabilities and objectivity of management's experts (valuers) who carried out your PPE and investment property valuations; evaluated the instructions issued by management to their management expert (a valuer) for this estimate and the scope of the valuer's work; • communicated with the valuer to confirm the basis on which the valuation was carried out to ensure that the requirements of the CIPFA code are met • challenged the information and assumptions used by the valuer to assess completeness and consistency with our understanding, particularly around obsolescence of assets, build costs, floor areas for DRC assets and yields and rents/market values for non-specialised properties. • tested revaluations made during the year to ensure they are consistent with the valuer's report and input correctly into the Council's asset register • evaluated the assumptions made by management for those assets not revalued during the year and how management have satisfied themselves that these are not materially different to current value Based on the procedures performed, we selected a total of 38 assets across the different categories for testing. For Council Dwellings, we have noted an error in relation to one beacon, leading to valuations being understated by £135k. This was also reported in our 2021/22 audit findings. This has been reported as an unadjusted misstatement in Appendix D. We have not identified any material issues in respect of the valuation of other land, buildings and investment properties. We have also considered the key judgements and estimates in relation to the valuations. Our findings can be found on pages 13 to 14.

2. Financial Statements: Significant risks

Risks identified in our Audit Plan

Fraudulent revenue and expenditure recognition

Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue.

This presumption can be rebutted if the auditor concluded that there is no risk of material misstatement due to fraud relating to revenue recognition

Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the authority, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:

- There is little incentive to manipulate revenue recognition
- Opportunities to manipulate revenue recognition are very limited
- The culture and ethical frameworks of local authorities, including South Kesteven District Council mean that all forms of fraud are seen as unacceptable

Whilst not a presumed significant risk, we have had regard to Practice Note 10, which comments that for certain public bodies, the risk of manipulating expenditure may well be greater than that of income.

Having considered the risk of improper recognition of expenditure at South Kesteven District Council we are satisfied that this is not a significant risk for the same reasons set out above.

Commentary

Notwithstanding that we have rebutted this risk, we have undertaken a significant level of work on the Council's revenue and expenditure streams, as they are material. We have:

<u>Accounting policies and systems</u>

- Evaluated the Council's accounting policies for recognition of income and expenditure for its various income streams and compliance with the CIPFA Code
- Updated our understanding of the Council's business processes associated with accounting for income

<u>Fees, charges and other service income</u>

- Agreed, on a sample basis, income and year end receivables from other income to invoices and cash payment or other supporting evidence.

<u>Taxation and non-specific grant income</u>

- Income for national non-domestic rates and council tax is predictable and therefore we have conducted substantive analytical procedures
- For other grants we have tested a sample items back to supporting information and subsequent receipt, considering accounting treatment where appropriate.

<u>Expenditure</u>

- Updated our understanding of the Council's business processes associated with accounting for expenditure
- Agreed, on a sample basis, expenditure and year end creditors to invoices and cash payment or other supporting evidence

We have also completed testing to address the risk that income and expenditure may have been misstated by not being recognised in the correct financial year.

No material issues have been noted, however we have identified one error within our testing of the Council's prepayments. The Council has recognised a prepayment in relation to housing benefit expenditure where the majority of the payment is in relation to the 2022/23 financial year and should therefore have been recognised as expenditure. Given that the Council receives a subsidy grant for its housing benefit spend we are satisfied that this has no impact on the net cost of services. For further information see the unadjusted misstatement in Appendix D.

Our work has not identified any matters that would indicate that our risk assessment was incorrect. There were no changes to our assessment as reported in the audit plan that we need to bring to your attention.

2. Financial Statements: Significant risks

Risks identified in our Audit Plan	Commentary
Valuation of the pension fund net liability The pension fund net liability, as reflected in the balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements. The pension fund net liability is considered a significant estate due to the size of the numbers involved and the sensitivity of the estimate to changes in key assumptions. The methods applied in the calculation of the IAS 19 estimates are routine and commonly applied by all actuarial firms in line with the requirements set out in the Code of practice for local government accounting (the applicable financial reporting framework). We have therefore concluded that there is not a significant risk of material misstatement in the IAS 19 estimate due to the methods and models used in their calculation. The source data used by the actuaries to produce the IAS 19 estimates is provided by administering authorities and employers. We do not consider this to be a significant risk as this is easily verifiable. The actuarial assumptions used are the responsibility of the entity but should be set on the advice given by the actuary. A small change in the key assumptions (discount rate, inflation rate, salary increase and life expectancy) can have a significant impact on the estimated IAS 19 liability. In particular the inflation rates and life expectancy. We have therefore concluded that there is a significant risk of material misstatement in the IAS 19 estimate due to the assumptions used in their calculation. With regard to these assumptions, we have therefore identified valuation of the Authority's pension fund net liability as a significant risk.	We have: • Updated out understanding of the process and controls out in place by management to ensure that the Authority's pension fund net liability is not materially misstated and evaluate the design of the associated controls • Evaluated the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work • Assessed the completeness of the information provided by the authority to the actuary to estimate the liability • Tested the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary • Undertaken procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as the auditor's expert) and performing any additional procedures suggested within the report. • Obtained assurances from the auditors of Lincolnshire Pension Fund as to the controls surrounding the validity and accuracy of membership data; contributions data and benefits data sent to the actuary by the pension fund and the fund assets valuation in the pension fund financial statements. At the time of writing this report, we have one query outstanding relating to the pension fund's rate of return on its assets for the year. We anticipate finalising this work by the end of January 2024. The Council has recognised a pension fund net asset for their most recent valuation as at 31 March 2024. We are still working through the accounting treatment to understand if this is compliant with IFRIC14. To date, we have not identified any material issues with regards to the valuation of the pension fund net liability. We have also considered the key judgements and estimates in relation to the valuations. Our findings can be found on page 15.

2. Financial Statements: Key findings arising from the group audit

Component	Component auditor	Findings	Group audit impact
Leisure SK Limited	Duncan & Toplis Ltd	An unqualified audit opinion of Leisure SK Limited was issued by Duncan & Toplis Ltd in December 2023. No issues were identified from the component auditors Audit Findings Report.	We are yet to review the work completed by Leisure SK Limited.
Gravitas Ltd	None Specific procedures performed by GT	We have focussed our testing on the material income and expenditure streams within the Gravitas Ltd financial statements, given that these are the only material transactions to the group within 31 March 2023. No issues have been identified from our testing.	N/A
Consolidation procedures	N/A	We are currently working through the Group accounts to check the consolidation procedures. We have identified some presentational issues relating to the group CIES, but no adjustments to the underlying financial records. As in the previous year, we have noted that the presentation of the group MIRS is not compliant with the requirements of the Code.	From our review of the group MIRS, we have noted that the statement is not fully compliant with the Code. We have reperformed the compilation of the statement from the underlying records and are satisfied that this is not materially misstated, however the statement should be updated to meet all requirements of the Code. The Council has not amended – this has been raised as a disclosure error in Appendix D.

2. Financial Statements – key judgements and estimates

This section provides commentary on key estimates and judgements in line with the enhanced requirements for auditors.

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Land, Building and Council Dwelling valuations – £390.83m	Other land and buildings comprises £65.7m of assets, a number of which are required to be valued at depreciated replacement cost (DRC) at year end, reflecting the cost of a modern equivalent asset necessary to deliver the same service provision. There are also some assets which are not specialised in nature and are required to be valued at existing use in value (EUV) at year end. The remainder of other land and buildings are either additions in year or held at depreciated historic cost and therefore not subject to revaluation in 2022/23. The Council has engaged the Valuation Office Agency to complete the valuation of properties as at 31st March 2023 on a cyclical basis as part of the Council's rolling 5 year cycle. The total year end valuation of land and buildings was £66.307m, a net decrease of £1.751m from 2021/22 (£68.058m). The Council owns 5,848 dwellings and is required to revalue these properties in accordance with DCLG's Stock Valuation for Resource Accounting guidance. The guidance requires the use of beacon methodology, in which a detailed valuation of representative property types is then applied to similar properties. The Council has engaged the Valuation Office Agency to complete the valuation of these properties. The year end net book value of Council Housing was £325.109m, a net increase due to revaluations of £16.885m from 2021/22 (£303.963m), with the remainder of the difference due to additions and disposals.	We have: • evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to the valuation expert and the scope of their work. This provided us with assurance over the completeness and accuracy of the underlying information used to determine the estimate • evaluated the competence, capabilities and objectivity of the valuation expert • written to the valuer to confirm the basis on which the valuations were carried out • tested on a sample basis revaluations of the Council's land and buildings during the year to ensure they have been input correctly into the Council's asset register and financial statements • considered the appropriateness of the source date and key assumptions including comparable rental income and yields for the properties. Our audit work in relation to the valuation of land, building and council dwellings is finished, subject to our internal quality review processes. We have identified an issue in relation to one beacon property, leading to the Council's dwellings being understated by £135k.	We consider management's process is appropriate and key assumptions are neither optimistic or cautious

Assessment

- [Dark Purple] We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- [Blue] We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- [Grey] We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- [Light Purple] We consider management's process is appropriate and key assumptions are neither optimistic or cautious

2. Financial Statements - key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Investment Property Valuation - £5.019m	Council has engaged the Valuation Office Agency to complete the valuation of properties as at 31st March 2023. Investment Properties must be included in the balance sheet at fair value (the price that would be received in an orderly transaction between the market participant at the measurement date). All investment property assets were revalued during 2022/23. The total year end valuation of investment property was £5.019m, a net gain due to revaluations of £0.356m from 2021/22 (£4.950m), the remainder of the difference is due to disposals.	We have: • evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to the valuation expert and the scope of their work. This provided us with assurance over the completeness and accuracy of the underlying information used to determine the estimate • evaluated the competence, capabilities and objectivity of the valuation expert • written to the valuer to confirm the basis on which the valuations were carried out • tested on a sample basis revaluations of the Council's investment properties during the year to ensure they have been input correctly into the Council's asset register and financial statements • considered the appropriateness of the source date and key assumptions including comparable rental income and yields for the properties. Our audit work in relation to the valuation of investment properties is finished, subject to our internal quality review processes. We have not identified any issues to report.	We consider management's process is appropriate and key assumptions are neither optimistic or cautious
Provisions – NNDR Appeals Provision - £2.339m	The Council is responsible for repaying a proportion of successful rateable value appeals. Management use historic data relating to appeal success rates and the latest information about outstanding rates appeals provided by the Valuation Office Agency (VOA) to calculation the level of provision required.	We have not identified any issues with completeness and accuracy of the underlying information used to determine the estimate. Disclosure of the estimate in the financial statements is considered adequate. The Council has used a national estimated percentage to calculate the provision, which reflected the estimated impact of the new appeals process when it was first implemented. The Council have then adjusted this to be more specific to the Council. Management have not provided us with any supporting evidence for the adjustment that was made to the national average and have also not been able to demonstrate that this approach to setting the provision has been reconsidered since its implementation to assess whether it remains the most appropriate estimate. We recommend that the Council gives this some consideration for future years, however we have considered the calculation of the provision and are satisfied that there is not a risk that this balance is materially misstated. This has been reported as a control deficiency in Appendix B.	We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic

2. Financial Statements - key judgements and estimates

<table>
<tr><th>Significant judgement or estimate</th><th>Summary of management's approach</th><th>Audit Comments</th><th>Assessment</th></tr>
<tr>
<td>Net pension asset - £2.932m</td>
<td>The Council's net pension asset at 31 March 2023 is £2.932m (PY net pension liability £48.327m) comprising the Lincolnshire Local. The Council uses Barnett Waddingham LLP to provide actuarial valuations of the Council's assets and liabilities derived from this scheme. A full actuarial valuation is required every three years.

The latest full actuarial valuation was completed in 2022. Given the significant value of the net pension fund liability, small changes in assumptions can result in significant valuation movements. There has been a £51.867m net actuarial gain during 2022/23.</td>
<td>We have:

Undertaken an assessment of management's expert
Reviewed and assessed the actuary's approach taken and detailed work undertaken to confirm reasonableness of approach
Used an auditors expert (PWC) to assess the actuary and assumptions made by the actuary. This led to further detailed discussions with the Pension Fund and Actuary whereby we challenged the assumptions and calculation methods applied
Identified no issues with the completeness and accuracy of the underlying information used to determine the estimate
Confirmed there have been no changes to the valuation method since the previous year, other than the updating of key assumptions

<table>
<tr><th>Assumption</th><th>Actuary Value</th><th>PwC range</th><th>Assessment</th></tr>
<tr><td>Discount rate</td><td>4.8%</td><td>4.8 – 4.85%</td><td>●</td></tr>
<tr><td>Pension increase rate</td><td>2.9%</td><td>2.65 – 2.95%</td><td>●</td></tr>
<tr><td>Salary growth</td><td>3.9%</td><td>2.90 – 5.45%</td><td>●</td></tr>
<tr><td>Life expectancy – Males currently aged 45 / 65</td><td>21.1 / 19.8</td><td>20.9 – 23.4 / 19.5 – 22.1</td><td>●</td></tr>
<tr><td>Life expectancy – Females currently aged 45 / 65</td><td>24.4 / 22.9</td><td>24.3 – 25.9 / 22.9 – 24.5</td><td>●</td></tr>
</table>
At the time of writing this report, we are yet to finalise our work on the pension liability and have one outstanding query relating to the rate of return on the assets of Lincolnshire Pension Fund. We anticipate to receive a response by the end of January 2024.

To date, we have not identified any material issues with the estimate.</td>
<td>We consider management's process is appropriate and key assumptions are neither optimistic or cautious</td>
</tr>
</table>

2. Financial Statements: Information Technology

This section provides an overview of results from our assessment of Information Technology (IT) environment and controls which included identifying risks from the use of IT related to business process controls relevant to the financial audit. This includes an overall IT General Control (ITGC) rating per IT system and details of the ratings assigned to individual control areas.

			ITGC control area rating				
IT application	Level of assessment performed	Overall ITGC rating	Security management	Technology acquisition, development and maintenance	Technology infrastructure	Related significant risks/other risks	Additional procedures carried out to address risks arising from our findings
E-financials	ITGC assessment (design and implementation effectiveness only)					Management override of control	As on page 8, we have identified a number of super-users who are able to post to the ledger. We have therefore targeted admin users through journals testing.

Assessment

- Significant deficiencies identified in IT controls relevant to the audit of financial statements
- Non-significant deficiencies identified in IT controls relevant to the audit of financial statements/significant deficiencies identified but with sufficient mitigation of relevant risk
- IT controls relevant to the audit of financial statements judged to be effective at the level of testing in scope
- Not in scope for testing

2. Financial Statements - other communication requirements

We set out below details of other matters which we, as auditors, are required by auditing standards and the Code to communicate to those charged with governance.

Issue	Commentary
Matters in relation to fraud	We have previously discussed the risk of fraud with the Governance and Audit Committee. We have not been made aware of any other incidents in the period and no other issues have been identified during the course of our audit procedures.
Matters in relation to related parties	We have raised a recommendation in relation to the Council's process for identifying related parties – this is shown within Appendix C.
Matters in relation to laws and regulations	You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work.
Written representations	A letter of representation has been requested from the Council, including representations for the Group (included at Appendix G).
Confirmation requests from third parties	We requested from management permission to send a confirmation request to your bank. This permission was granted and the requests were sent and the appropriate confirmation was obtained.
Accounting practices	We have evaluated the appropriateness of the Council's accounting policies, accounting estimates and financial statement disclosures. Our review found no material omissions in the financial statements.
Audit evidence and explanations/ significant difficulties	No issues noted with respect of audit evidence.

2. Financial Statements - other communication requirements

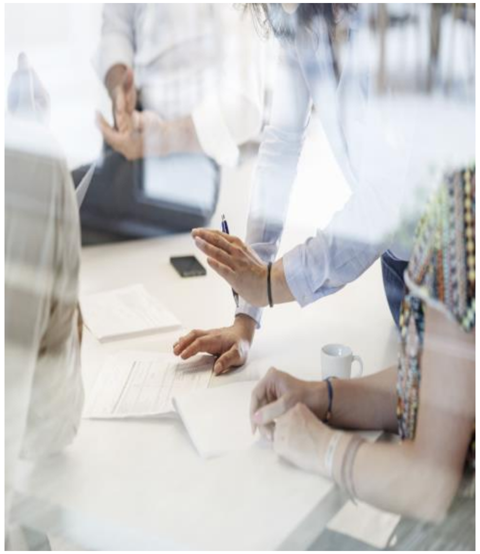
Our responsibility

As auditors, we are required to "obtain sufficient appropriate audit evidence about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the entity's ability to continue as a going concern" (ISA (UK) 570).

Issue	Commentary
Going concern	In performing our work on going concern, we have had reference to Statement of Recommended Practice – Practice Note 10: Audit of financial statements of public sector bodies in the United Kingdom (Revised 2020). The Financial Reporting Council recognises that for particular sectors, it may be necessary to clarify how auditing standards are applied to an entity in a manner that is relevant and provides useful information to the users of financial statements in that sector. Practice Note 10 provides that clarification for audits of public sector bodies. Practice Note 10 sets out the following key principles for the consideration of going concern for public sector entities: • the use of the going concern basis of accounting is not a matter of significant focus of the auditor's time and resources because the applicable financial reporting frameworks envisage that the going concern basis for accounting will apply where the entity's services will continue to be delivered by the public sector. In such cases, a material uncertainty related to going concern is unlikely to exist, and so a straightforward and standardised approach for the consideration of going concern will often be appropriate for public sector entities • for many public sector entities, the financial sustainability of the reporting entity and the services it provides is more likely to be of significant public interest than the application of the going concern basis of accounting. Our consideration of the Council's financial sustainability is addressed by our value for money work, which is covered elsewhere in this report. Practice Note 10 states that if the financial reporting framework provides for the adoption of the going concern basis of accounting on the basis of the anticipated continuation of the provision of a service in the future, the auditor applies the continued provision of service approach set out in Practice Note 10. The financial reporting framework adopted by the Council meets this criteria, and so we have applied the continued provision of service approach. In doing so, we have considered and evaluated: • the nature of the Council and the environment in which it operates • the Council's financial reporting framework • the Council's system of internal control for identifying events or conditions relevant to going concern • management's going concern assessment. On the basis of this work, we have obtained sufficient appropriate audit evidence to enable us to conclude that: • a material uncertainty related to going concern has not been identified • management's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

2. Financial Statements - other responsibilities under the Code

Issue	Commentary
Other information	We are required to give an opinion on whether the other information published together with the audited financial statements including the Annual Governance Statement and Narrative Report, is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. Our review of Other Information is partially complete, and to date, no material inconsistencies have been identified. We plan to issue an unmodified opinion in this respect.
Matters on which we report by exception	We are required to report on a number of matters by exception in a number of areas: • if the Annual Governance Statement does not comply with disclosure requirements set out in CIPFA/SOLACE guidance or is misleading or inconsistent with the information of which we are aware from our audit, • if we have applied any of our statutory powers or duties. • where we are not satisfied in respect of arrangements to secure value for money and have reported [a] significant weakness/es. To date, we have nothing to report on these matters.
Specified procedures for Whole of Government Accounts	We are required to carry out specified procedures (on behalf of the NAO) on the Whole of Government Accounts (WGA) consolidation pack under WGA group audit instructions. Note that work is not required as the Council does not exceed the reporting threshold.
Certification of the closure of the audit	We intend to certify of the closure of the 2022/23 audit of South Kesteven District Council when we give our audit opinion.



3. Value for Money arrangements (VFM)

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Approach to Value for Money work for 2022/23

The National Audit Office issued its guidance for auditors in April 2020. The Code require auditors to consider whether the body has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

When reporting on these arrangements, the Code requires auditors to structure their commentary on arrangements under the three specified reporting criteria.

Improving economy, efficiency and effectiveness

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

Financial Sustainability

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

Governance

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

Potential types of recommendations

A range of different recommendations could be made following the completion of work on the body's arrangements to secure economy, efficiency and effectiveness in its use of resources, which are as follows:

Statutory recommendation

Written recommendations to the body under Section 24 (Schedule 7) of the Local Audit and Accountability Act 2014. A recommendation under schedule 7 requires the body to discuss and respond publicly to the report.

Key recommendation

The Code of Audit Practice requires that where auditors identify significant weaknesses in arrangements to secure value for money they should make recommendations setting out the actions that should be taken by the body. We have defined these recommendations as 'key recommendations'.

Improvement recommendation

These recommendations, if implemented should improve the arrangements in place at the body, but are not made as a result of identifying significant weaknesses in the body's arrangements

3. VFM: our procedures and conclusions

We have completed our VFM work and our detailed commentary is set out in the separate Auditor's Annual Report, which is presented alongside this report.

As part of our work, we considered whether there were any risks of significant weakness in the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources. The risks we identified are detailed in the table below, along with the further procedures we performed and our conclusions. We identified a significant weakness in the Council's arrangements and so are not satisfied that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. Our auditor's report will make reference to this significant weakness in arrangements, as required by the Code.

Risk of significant weakness	Procedures undertaken	Conclusion	Outcome
We identified a significant weakness in relation the Council's use of non-disclosure agreements (NDAs), and the processes and procedures that the Council follows when determining whether to use an NDA.	The Council used a significant, and unusually high, number of NDAs in 2021/22 and 2022/23. From review of key documents, we have identified an instance where the Council's authorisation form could have been clearer as to whether legal advice was sought regarding the case.	We recommend that the Council should complete a review of the historic use of NDAs to consider their use, any overarching themes that might be addressed, and whether or not the Council is satisfied that this was the most appropriate outcome to the process in each case. Following on from this review, the Council should ensure that it reviews the processes and controls in place that are to be followed before arriving at the decision to use a Non-Disclosure Agreements (NDA). This should include a review of the guidance in place regarding when the use of an NDA may be appropriate, and what alternatives should be considered and ruled out; and consideration of whether improvements can be made to the documentation of that process going forward.	We have marked this as a key recommendation within the Auditor's Annual Report.

4. Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Financial Reporting Council's Ethical Standard and confirm that we, as a firm, and each covered person, are independent and are able to express an objective opinion on the financial statements

We confirm that we have implemented policies and procedures to meet the requirements of the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.

Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in May 2020 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

Details of fees charged are detailed in Appendix E.

Transparency

Grant Thornton publishes an annual Transparency Report, which sets out details of the action we have taken over the past year to improve audit quality as well as the results of internal and external quality inspections. For more details see Transparency report 2020 (grantthornton.co.uk)

Audit and non-audit services

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council. The following non-audit services were identified which were charged from the beginning of the financial year to January 2024, as well as the threats to our independence and safeguards that have been applied to mitigate these threats.

Service	2021/22 Fees £	2022/23 Fees £	Threats identified	Safeguards
Audit related				
Pooling of Capital Receipts	6,000	6,000	Self-Interest (because this is a recurring fee) Self review (because GT provides audit services) Management (because findings are shared with management)	The level of these recurring fees taken on their own are not considered a significant in comparison to the total fee for the audit and in particular relative to Grant Thornton UK LLP's turnover overall. Further, each is a fixed fee and there is no contingent element to any of them. These factors all mitigate the perceived self-interest threat to an acceptable level. Our team have no involvement in the preparation of the for which is certified, and do not expect material misstatements in the financial statements to arise from the performance of the certification work. Although related income and expenditure is included within the financial statements, the work required in respect of certification is separate from the work required to audit the financial statements, and is performed after the audit of the financial statements has been completed. The scope of the work does not include making decisions on behalf of management or recommending or suggesting a particular course of action for management to follow. Our team perform these engagements in line with set instructions and reporting frameworks. Any amendments made as a result of our work are the responsibility of informed management
Certification of Housing Benefit Claim	12,000	30,000		
CFO Insights Subscription	3,950	N/A		
There were no non-audit related services				

4. Independence and ethics

As part of our assessment of our independence we note the following matters:

Matter	Conclusion
Relationships with Grant Thornton	We are not aware of any relationships between Grant Thornton and the Company that may reasonably be thought to bear on our integrity, independence and objectivity
Relationships and Investments held by individuals	We have not identified any potential issues in respect of personal relationships with the Group or investments in the Group held by individuals
Employment of Grant Thornton staff	We are not aware of any former Grant Thornton partners or staff being employed, or holding discussions in respect of employment, by the Group as a director or in a senior management role covering financial, accounting or control related areas.
Business relationships	We have not identified any business relationships between Grant Thornton and the Group
Contingent fees in relation to non-audit services	No contingent fee arrangements are in place for non-audit services provided
Gifts and hospitality	We have not identified any gifts or hospitality provided to, or received from, a member of the Group's board, senior management or staff.

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required and consider that an objective reasonable and informed third party would take the same view. The firm and each covered person and network firms have complied with the Financial Reporting Council's Ethical Standard and confirm that we are independent and are able to express an objective opinion on the financial statements

Appendices

A. Communication of audit matters to those charged with governance

Our communication plan	Audit Plan	Audit Findings
Respective responsibilities of auditor and management/those charged with governance	•	
Overview of the planned scope and timing of the audit, form, timing and expected general content of communications including significant risks	•	
Confirmation of independence and objectivity	•	•
A statement that we have complied with relevant ethical requirements regarding independence. Relationships and other matters which might be thought to bear on independence. Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged. Details of safeguards applied to threats to independence	•	•
Significant findings from the audit		•
Significant matters and issue arising during the audit and written representations that have been sought		•
Significant difficulties encountered during the audit		•
Significant deficiencies in internal control identified during the audit		•
Significant matters arising in connection with related parties		•
Identification or suspicion of fraud involving management and/or which results in material misstatement of the financial statements		•
Non-compliance with laws and regulations		•
Unadjusted misstatements and material disclosure omissions		•
Expected modifications to the auditor's report, or emphasis of matter		•

ISA (UK) 260, as well as other ISAs (UK), prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table here.

This document, the Audit Findings, outlines those key issues, findings and other matters arising from the audit, which we consider should be communicated in writing rather than orally, together with an explanation as to how these have been resolved.

Respective responsibilities

As auditor we are responsible for performing the audit in accordance with ISAs (UK), which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance.

The audit of the financial statements does not relieve management or those charged with governance of their responsibilities.

Distribution of this Audit Findings report

Whilst we seek to ensure our audit findings are distributed to those individuals charged with governance, we are also required to distribute our findings to those members of senior management with significant operational and strategic responsibilities. We are grateful for your specific consideration and onward distribution of our report to all those charged with governance.

B. Action Plan – Audit of Financial Statements

To date, we have identified 3 new recommendations for the Council as a result of issues identified during the course of our audit. We have agreed our recommendations with management. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

Assessment	Issue and risk	Recommendations
Medium	**Business rates appeals provision** The Council has used a national estimated percentage to calculate the provision, which reflected the estimated impact of the new appeals process when it was first implemented. The Council have then adjusted this to be more specific to the Council at 2%. Management have not provided us with any supporting evidence for the adjustment that was made to the national average and have also not been able to demonstrate that this approach to setting the provision has been reconsidered since its implementation to assess whether it remains the most appropriate estimate. There is the risk that the most appropriate rate is not being applied by the Council.	We recommend that the Council gives this some consideration for future years, however we have considered the calculation of the provision and are satisfied that there is not a risk that this balance is materially misstated. This is consistent with findings from the prior year. **Management response** For 2023/24 the Council will be using an external organisation to support the calculation of the appeals provision.
Medium	**Bad debt provision** The Council make an estimate annually to write-off debt that they are unlikely to receive. This is typically calculated by applying a percentage to debt based on their age and the likelihood of receiving the monies. Although we are satisfied that the approach taken by the Council is reasonable and not materially misstated, they have been unable to provide supporting calculations based on historical or forward-looking data. There is the risk that their bad debt write-off may be over/under stated.	We recommend that the Council annually completed an exercise to the different steams of debtors to analyse what percentages of debts should be written off based on data collated from their records. **Management response** From 2023/24 onwards the Council will complete the recommended calculation.
Medium	**Valuation of housing stock** The Council has not revalued the housing stock that was constructed in the year, which are held at cost in the balance sheet. As the cost of building an asset is usually in the region of 60-80% of market value, and these assets would have been valued using a specific valuation method (EUV-SH), they are likely over-valued in the balance sheet. As the properties are only £1.1m at cost, there is no risk that this has led to a material misstatement in the balance sheet, however, there remains the risk that the valuation of these assets is not accurate.	We recommend that the Council incorporate the assets constructed in year into the year-end valuation of all housing stock to ensure that the valuations are correctly reflected on the balance sheet. **Management response** This will be implemented from 2023/24.

Controls

- High – Significant effect on financial statements
- Medium – Limited Effect on financial statements
- Low – Best practice

C. Follow up of prior year recommendations

We identified the following issues in the audit of South Kesteven District Council's 2021/22 financial statements, which resulted in 7 recommendations being reported in our 2021/22 Audit Findings report. We have followed up on the implementation of our recommendations and note 6 are still to be completed.

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Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
X	**Super-user access to the ledger** We have noted that there are 5 posters of journals who have super-user access. This access allows the individuals to create new users or to alter existing roles. From our testing, we have not identified any instances of management override of control, however we would not expect any members of the finance team who post journals to have this level of access. This is as there is the risk that new users could be created, who could then post inappropriate journals to the ledger. The Council should review which individuals have super-user access to the ledger and ensure that this is not held by anyone within the finance team who can post journals.	From our journals testing, we have noted that there are still superusers who were able to post onto the ledger in 2022/23. **Management response** This was raised as an action in the 21/22 audit findings report which was received by the Council in September 23, therefore the Council was not able to action this in 2022/23. The Council has now reduced the number of superusers 4 and also issued the remaining superusers with a separate username to use when processing journals in the system.
X	**Lack of journals authorisations** From our review of the journals control environment, we have identified that there are no formal journals authorisation process in place for the posting of transactions onto the ledger. We would expect for each journal to be reviewed by someone in a senior position to the poster to ensure that this has been appropriately authorised. Although journals are reviewed in totality as part of the Council's monthly budget monitoring, there is the risk journals could be inappropriately input onto the ledger. The Council should introduce controls to ensure that each journal posted to the ledger is appropriately authorised by someone more senior to the poster.	The Council has still not implemented controls to authorise postings on the ledger. **Management response** This was raised as an action in the 21/22 audit findings report which was received by the Council in September 23, therefore the Council was not able to action any corrective action for the 2022/23 accounts. For 2023/24 a review will be completed of all journals.
✓	**Valuation of Heritage Assets** The Council received a new Heritage Asset in 2021/22 which has been included within the balance sheet at £0.3m, based on the value provided by the donator. The Council does not have any evidence to support the valuation of this asset. Within the Council's accounting policies, it states 'where no market exists or the assets is deemed to be unique, and it is not practical to obtain a valuation, the asset is not recognised in the Balance Sheet but disclosed in the notes to the accounts'. This accounting policy has not been consistently applied. The Council should obtain a proper valuation for this asset and where this is not possible, the item should be removed from its balance sheet, so that it is consistently applying its accounting policy.	The Council have now removed the asset from the balance sheet to comply with their accounting policies. **Management response** N/A

Assessment

✓ Action completed

X Not yet addressed

C. Follow up of prior year recommendations

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
X	**Completeness of declaration of interests** Our testing of related parties via a search of Companies House identified numerous interests and directorships of senior management and councillors that were not declared or disclosed. Although we are satisfied that no transactions took place with the Council, incomplete declarations of interest lead to the risk that the Council does not understand its related parties. We recommend that at least once per year, the Council should undertake a completeness review of related parties including: • Ensuring all disclosure returns are received from senior management and councillors, including nil declarations and from those that leave their role during the year. • Undertaking searches on Companies House to identify any undeclared directorships.	From our testing, although there has been a reduction in the number of undisclosed interests and directorships, we have noted that there was one member who had not declared an interest. We are satisfied that no transactions took place with the Council, however, note the completeness error. **Management response** Management undertake every effort to ensure responses are received.
X	**Service organisation assurance** The Council (via the payroll service outsourced to North Kesteven District Council) uses iTrent as a service organisation for its HR and payroll software and has not obtained a service auditor report for these services for 2021/22. We understand that iTrent are requesting a fee for this report. The Council should ensure that it has appropriate checks and controls in place to have assurance over these transactions. We are satisfied that this would not lead to a material issue in the financial statements. The Council should ensure that it has appropriate procedures in place to gain assurance that the iTrent systems are working effectively.	The Council have not obtained a service auditors report from iTrent in 2022/23, therefore has not received assurance from its supplier that the payroll software services are working effectively **Management response** This was raised as an action in the 21/22 audit findings report which was received by the Council in September 23, therefore the Council was not able to action any corrective action for the 2022/23 accounts. The Council will follow this up with the system supplier in readiness for the 2023/24 year end process.

Assessment

✓ Action completed

X Not yet addressed

C. Follow up of prior year recommendations

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
X	Depreciation policy We have identified that the Council has several assets within its asset register which are held at a nil net book value. The gross book value of these assets is £6.3m and whilst there is no impact on the balance sheet, this does increase the gross book value and accumulated depreciation in note 19. From the work that we have performed we have assurance that these assets are not materially misstating the financial statements. However, a significant balance of assets being held at nil net book value may indicate that these assets were depreciated prematurely. The Council should consider whether its depreciation policy remains appropriate.	In 2022/23, we have identified that there are still £5.9m worth of assets held at gross book value within the fixed asset register. Although the Council has removed some items from the previous year audit, they should complete a more thorough review of all asset held at nil book value. **Management response** A review is now completed annually to ensure that the assets recorded in the asset register are still held by the Council.
X	Presentation of the Earmarked Reserves note From our review of the accounts, we have noted movements in the Earmarked Reserves note that we would not expect to be presented within this disclosure. Although the requirements from the Code are technically met within Note 34 of the financial statements, this is not to the level of detail that we would expect to see. The Council should review the presentation of the Earmarked Reserves note to ensure that it is in sufficient detail to provide information to users of the accounts.	The Council has presented the Earmarked Reserves note in the same format as 2021/22. **Management response** The draft accounts had already been produced when this issue was raised, as this is not a material error the Council will amend the note from 2023/24 onwards.

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Assessment

✓ Action completed

X Not yet addressed

D. Audit Adjustments

We are required to report all non-trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management.

Impact of adjusted misstatements

To date, we have not identified any misstatements that have been adjusted by the Council.

Misclassification and disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit which have been made in the final set of financial statements.

Disclosure/issue/ Omission	Auditor recommendations	Adjusted?
We have identified various trivial presentation matters.	These items include changes to: references; prior year values to remain consistent with the audited financial statements of the prior year; and corrections to the amounts included in the notes to agree to the primary financial statements.	✓
Note 13 – Officer Remuneration	We have noted an error within the Officer Remuneration note. This related to an omission in relation to one senior officer's compensation package for loss of employment, which has now been adjusted by the Council.	✓
Note 27 – Cash and Cash Equivalents	Within the note, the line relating to 'Cash held by the authority' of £217k, is not actual cash held by the Council, and the majority of this relates to reconciling items. We consider the £214k should be netted off against the 'Bank Current Accounts' line and this would be a more accurate description for users of the accounts. This does not impact the overall cash balance of £17,607k however is a presentational error.	✓
Group Accounts – Movement in Reserves Statement	From our review of the group MIRS, we have noted that the statement is not fully compliant with the Code. We have reperformed the compilation of the statement from the underlying records and are satisfied that this is not materially misstated, however the statement should be updated to meet all requirements of the Code. The Council has not amended.	X
Group Accounts - CIES	We have noted some inconsistencies within the consolidation procedures between the current/prior year and also between the Group/Council accounts. These have been flagged with management.	✓

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D. Audit Adjustments (continued)

Impact of unadjusted misstatements

The table below provides details of adjustments identified during the 2022/23 audit which have not been made within the final set of financial statements. The Governance and Audit Committee is required to approve management's proposed treatment of all items recorded within the table below.

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000	Impact on general fund £'000	Reason for not adjusting
Prepayments The Council made a housing benefits payment in March 2023, which was deferred into 2023/24 by recognising this as a prepayment. The Council's rationale for this treatment is that it follows the requirements of the housing benefits subsidy grant. While we agree that the treatment is correct for subsidy purposes, the Council's financial statements should be prepared on an accruals basis, recognising expenditure in the year to which it relates. In this case, the payment related to the 4 week period beginning 7 March 2023, meaning that 25 of the 28 days that the expenditure related to were in 2022/23. It is our view that the correct treatment would have been to recognise this expenditure in 2021/22 (with a possible adjustment for the last 3 days if it were not de minimis). The Council should also have accrued for the amount of subsidy grant that they expect to receive in relation to this payment in order to offset the impact on the cost of services and the general fund. The same prepayment was made in the 2021/22 accounts, with a value of £666k, reducing the in-year impact on the Council's CIES.	Credit – Expenditure (8) Debit – Income 8	Credit – Prepayments (658) Debit – Debtors 658	No impact	No impact	Not considered material
Council Dwellings From our testing of Council Dwelling beacons, we identified that the incorrect value has been applied to a beacon, which means that dwellings were undervalued by £135k. This is the same issue that was identified in the 2021/22 audit.	Credit – Revaluation of non-current assets (135)	Debit – PPE 135	Increase income (135)	No impact	Not considered material
Overall impact	(135)	135	(135)	-	

D. Audit Adjustments

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Impact of prior year unadjusted misstatements

The table below provides details of adjustments identified during the prior year audit which had not been made within the final set of 2021/22 financial statements

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000	Reason for not adjusting
Prepayments The Council made a housing benefits payment in March 2022, which was deferred into 2022/23 by recognising this as a prepayment. The Council's rationale for this treatment is that it follows the requirements of the housing benefits subsidy grant. While we agree that the treatment is correct for subsidy purposes, the Council's financial statements should be prepared on an accruals basis, recognising expenditure in the year to which it relates. In this case, the payment related to the 4 week period beginning 7 March 2022, meaning that 25 of the 28 days that the expenditure related to were in 2021/22. It is our view that the correct treatment would have been to recognise this expenditure in 2021/22 (with a possible adjustment for the last 3 days if it were not de minimis). The Council should also have accrued for the amount of subsidy grant that they expect to receive in relation to this payment in order to offset the impact on the cost of services and the general fund. The same prepayment was made in the 2020/21 accounts, with a value of £737k, reducing the in-year impact on the Council's CIES.	Credit – Expenditure (71) Debit – Income 71	Credit – Prepayments (666) Debit – Debtors 666	No impact	Not considered material
Council Dwellings From our testing of Council Dwelling beacons, we identified that the incorrect value has been applied to a beacon, which shows that dwellings were undervalued by £135k	Credit – Revaluation of non-current assets (135)	Debit – PPE 135	Increase income (135)	Not considered material
Investment Properties Whilst testing the source data used in the valuations of Investment Properties, we had noted that the floor areas provided to the valuer were different to the floorplans held by the Council, which shows that the assets were understated by £187k	Credit – Income & Expenditure and Movement in Fair Value of Investment Property (187)	Debit – Investment Properties 187	Increase income (187)	Not considered material

Continued on page 33.

D. Audit Adjustments

Impact of prior year unadjusted misstatements

The table below provides details of adjustments identified during the prior year audit which had not been made within the final set of 2021/22 financial statements

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000	Reason for not adjusting
Other Land and Building (OLB) revaluations From our testing of the source data, we identified that the incorrect floor sizes had been used in the valuers' calculations, compared to the floorplans. From the testing of 6 key items, we have identified that OLB is overstated by £87,820. From our testing on the residual sample, we have identified errors where we estimate that OLB is overstated by £308,984. In total, we estimate that OLB is overstated by £396,264.	Debit - Revaluation of non-current assets 396	Credit PPE (396)	Decrease income 396	Not considered material
Overall impact	74	(74)	74	

E. Fees and non-audit services

We confirm below our final fees charged for the audit.

Audit fees	Fee per Plan (£)	Final fee (£)
Scale fee published by PSAA for 2022/23	47,651	47,651
Additional work on Value for Money under new NAO Code	9,000	9,000
Increased audit requirements of revised ISAs 540 / 240 / 700	2,100	2,100
Enhanced audit procedures on journals testing	3,000	3,000
Enhanced audit procedures for Payroll – Change of circumstances	500	500
Enhanced audit procedures for Collection Fund – reliefs testing	750	750
Increased audit requirements of revised ISA 315	3,000	3,000
Additional fee relating to Value for Money work		4,500
Additional fee relating to work performed on the Council's net pension asset under IFRIC 14		3,000
Additional fee relating to complexities and delays in revaluations work		6,250
Total audit fees (excluding VAT)	**£66,001**	**£79,751**

Fees are subject to approval by PSAA.

E. Fees and non-audit services

Non-audit fees for other services	Proposed fee
Audit Related Services	
Pooling of Capital Receipts	6,000
Certification of Housing Benefit Claim	30,000
Total non-audit fees (excluding VAT)	**£36,000**

The Audit and Pooling of Capital Receipt fees reconcile to the financial statements; however the Certification of Housing Benefits Claim is stated as £6,000. This is a trivial difference of £24,000 which the Council will not be amending for.

None of the above services were provided on a contingent fee basis

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This covers all services provided by us and our network to the group, its directors and senior management and its affiliates, and other services provided to other known connected parties that may reasonably be thought to bear on our integrity, objectivity or independence. (The FRC Ethical Standard (ES 1.69))

F. Auditing developments

Revised ISAs

There are changes to the following ISA (UK):

ISA (UK) 315 (Revised July 2020) 'Identifying and Assessing the Risks of Material Misstatement'
This impacts audits of financial statement for periods commencing on or after 15 December 2021.
ISA (UK) 220 (Revised July 2021) 'Quality Management for an Audit of Financial Statements'
ISA (UK) 240 (Revised May 2021) 'The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements

A summary of the impact of the key changes on various aspects of the audit is included below:

These changes will impact audit for audits of financial statement for periods commencing on or after 15 December 2022.

Area of change	Impact of changes
Risk assessment	The nature, timing and extent of audit procedures performed in support of the audit opinion may change due to clarification of: • the risk assessment process, which provides the basis for the assessment of the risks of material misstatement and the design of audit procedures • the identification and extent of work effort needed for indirect and direct controls in the system of internal control • the controls for which design and implementation needs to be assess and how that impacts sampling • the considerations for using automated tools and techniques.
Direction, supervision and review of the engagement	Greater responsibilities, audit procedures and actions are assigned directly to the engagement partner, resulting in increased involvement in the performance and review of audit procedures.
Professional scepticism	The design, nature, timing and extent of audit procedures performed in support of the audit opinion may change due to: • increased emphasis on the exercise of professional judgement and professional scepticism • an equal focus on both corroborative and contradictory information obtained and used in generating audit evidence • increased guidance on management and auditor bias • additional focus on the authenticity of information used as audit evidence • a focus on response to inquiries that appear implausible
Definition of engagement team	The definition of engagement team when applied in a group audit, will include both the group auditors and the component auditors. The implications of this will become clearer when the auditing standard governing special considerations for group audits is finalised. In the interim, the expectation is that this will extend a number of requirements in the standard directed at the 'engagement team' to component auditors in addition to the group auditor. • Consideration is also being given to the potential impacts on confidentiality and independence.
Fraud	The design, nature timing and extent of audit procedures performed in support of the audit opinion may change due to: • clarification of the requirements relating to understanding fraud risk factors • additional communications with management or those charged with governance
Documentation	The amendments to these auditing standards will also result in additional documentation requirements to demonstrate how these requirements have been addressed.

G. Management letter of representation

Grant Thornton UK LLP
17th Floor
103 Colmore Row
Birmingham
B3 3AG

[Date]

Dear Grant Thornton UK LLP

South Kesteven District Council

Financial Statements for the year ended 31 March 2023

This representation letter is provided in connection with the audit of the financial statements of South Kesteven District Council and its subsidiary undertakings, Gravitas Housing Ltd and LeisureSK Ltd for the year ended 31 March 2023 for the purpose of expressing an opinion as to whether the group and Council financial statements give a true and fair view in accordance with International Financial Reporting Standards and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2022/23 and applicable law.

We confirm that to the best of our knowledge and belief having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

Financial Statements

i. We have fulfilled our responsibilities for the preparation of the group and Council's financial statements in accordance with International Financial Reporting Standards and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2022/23 ("the Code"); in particular the financial statements are fairly presented in accordance therewith.

ii. We have complied with the requirements of all statutory directions affecting the group and Council and these matters have been appropriately reflected and disclosed in the financial statements.

iii. The Council has complied with all aspects of contractual agreements that could have a material effect on the group and Council financial statements in the event of non-compliance. There has been no non-compliance with requirements of any regulatory authorities that could have a material effect on the financial statements in the event of non-compliance.

iv. We acknowledge our responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud.

v. Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable. Such accounting estimates include Revaluation of Council Dwelling, Other Land and Buildings, Investment Properties and the Net Pension Liability. We are satisfied that the material judgements used in the preparation of the financial statements are soundly based, in accordance with the Code and adequately disclosed in the financial statements. We understand our responsibilities includes identifying and considering alternative, methods, assumptions or source data that would be equally valid under the financial reporting framework, and why these alternatives were rejected in favour of the estimate used. We are satisfied that the methods, the data and the significant assumptions used by us in making accounting estimates and their related disclosures are appropriate to achieve recognition, measurement or disclosure that is reasonable in accordance with the Code and adequately disclosed in the financial statements.

vi. We confirm that we are satisfied that the actuarial assumptions underlying the valuation of pension scheme assets and liabilities for IAS19 Employee Benefits disclosures are consistent with our knowledge. We confirm that all settlements and curtailments have been identified and properly accounted for. We also confirm that all significant post-employment benefits have been identified and properly accounted for.

vii. Except as disclosed in the group and Council financial statements:

a. there are no unrecorded liabilities, actual or contingent

b. none of the assets of the group and Council has been assigned, pledged or mortgaged

c. there are no material prior year charges or credits, nor exceptional or non-recurring items requiring separate disclosure.

viii. Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards and the Code.

ix. All events subsequent to the date of the financial statements and for which International Financial Reporting Standards and the Code require adjustment or disclosure have been adjusted or disclosed.

x. We have considered the adjusted misstatements, and misclassification and disclosures changes schedules included in your Audit Findings Report. The group and Council financial statements have been amended for these misstatements, misclassifications and disclosure changes and are free of material misstatements, including omissions.

xi. We have considered the unadjusted misstatements schedule included in your Audit Findings Report. We have not adjusted the financial statements for these misstatements brought to our attention as they are immaterial to the results of the Council and its financial position at the year-end. The financial statements are free of material misstatements, including omissions.

G. Management letter of representation

xii. Actual or possible litigation and claims have been accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards.

xiii. We have considered whether the Council is required to reflect a liability in respect of equal pay claims within its financial statements. We confirm that we are satisfied that no liability needs to be recognised given that we are not aware of any claims to date and we are monitoring this on an ongoing basis.

xiv. We have no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements.

xv. We have updated our going concern assessment. We continue to believe that the group and Council's financial statements should be prepared on a going concern basis and have not identified any material uncertainties related to going concern on the grounds that :

a. the nature of the group and Council means that, notwithstanding any intention to cease the group and Council operations in their current form, it will continue to be appropriate to adopt the going concern basis of accounting because, in such an event, services it performs can be expected to continue to be delivered by related public authorities and preparing the financial statements on a going concern basis will still provide a faithful representation of the items in the financial statements

b. the financial reporting framework permits the entry to prepare its financial statements on the basis of the presumption set out under a) above; and

c. the group and Council's system of internal control has not identified any events or conditions relevant to going concern.

We believe that no further disclosures relating to the group and Council's ability to continue as a going concern need to be made in the financial statements

xvi. We have considered whether accounting transactions have complied with the requirements of the Local Government Housing Act 1989 in respect of the Housing Revenue Account ring-fence.

xvii. The group and Council has complied with all aspects of ring-fenced grants that could have a material effect on the group and Council's financial statements in the event of non-compliance.

Information Provided

xviii. We have provided you with:

a. access to all information of which we are aware that is relevant to the preparation of the group and Council's financial statements such as records, documentation and other matters;

b. additional information that you have requested from us for the purpose of your audit; and

c. access to persons within the Council via remote arrangements from whom you determined it necessary to obtain audit evidence.

xix. We have communicated to you all deficiencies in internal control of which management is aware.

xx. All transactions have been recorded in the accounting records and are reflected in the financial statements.

xxi. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

xxii. We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and that affects the group and Council, and involves:

a. management;

b. employees who have significant roles in internal control; or

c. others where the fraud could have a material effect on the financial statements.

xxiii. We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the financial statements communicated by employees, former employees, analysts, regulators or others.

xxiv. We have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements.

xxv. We have disclosed to you the identity of the group and Council's related parties and all the related party relationships and transactions of which we are aware.

xxvi. We have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.

G. Management letter of representation

Annual Governance Statement

xxvii. We are satisfied that the Annual Governance Statement (AGS) fairly reflects the Council's risk assurance and governance framework and we confirm that we are not aware of any significant risks that are not disclosed within the AGS.

Narrative Report

xxviii. The disclosures within the Narrative Report fairly reflect our understanding of the group and Council's financial and operating performance over the period covered by the financial statements.

Approval

The approval of this letter of representation was minuted by the Council's Governance and Audit Committee at its meeting on 24 January 2024.

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Yours faithfully

Name…………………………..

Position……………………….

Date…………………………..

Name…………………………..

Position……………………….

Date…………………………..

Signed on behalf of the Council

H. Audit Opinion

Independent auditor's report to the members of South Kesteven District Council

Report on the audit of the financial statements

Opinion on financial statements

We have audited the financial statements of South Kesteven District Council (the 'Authority') and its subsidiaries (the 'group') for the year ended 31 March 2023, which comprise the Comprehensive Income and Expenditure Statement, the Movement in Reserves Statement, the Balance Sheet, the Cash Flow Statement, the Housing Revenue Account Income and Expenditure Statement, the Movement on the Housing Revenue Account Statement, the Collection Fund Account, the Group Movement in Reserves Statement, the Group Comprehensive Income and Expenditure Statement, the Group Balance Sheet and the Group Cash Flow Statement, and notes to the financial statements , including a summary of the significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2022/23.

In our opinion, the financial statements:

• give a true and fair view of the financial position of the group and of the Authority as at 31 March 2023 and of the group's expenditure and income and the Authority's expenditure and income for the year then ended;

• have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2022/23; and

• have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law, as required by the Code of Audit Practice (2020) ("the Code of Audit Practice") approved by the Comptroller and Auditor General. Our responsibilities under those standards are further described in the 'Auditor's responsibilities for the audit of the financial statements' section of our report. We are independent of the group and the Authority in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We are responsible for concluding on the appropriateness of the Chief Finance Officer's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the group and the Authority's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify the auditor's opinion. Our conclusions are based on the audit evidence obtained up to the date of our report. However, future events or conditions may cause the Authority or the group to cease to continue as a going concern.

In our evaluation of the Chief Finance Officer's conclusions, and in accordance with the expectation set out within the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2022/23 that the Authority's and group's financial statements shall be prepared on a going concern basis, we considered the inherent risks associated with the continuation of services provided by the group and the Authority. In doing so we had regard to the guidance provided in Practice Note 10 Audit of financial statements and regularity of public sector bodies in the United Kingdom (Revised 2022) on the application of ISA (UK) 570 Going Concern to public sector entities. We assessed the reasonableness of the basis of preparation used by the group and Authority and the group and Authority's disclosures over the going concern period.

In auditing the financial statements, we have concluded that the Chief Finance Officer's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Authority's and the group's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the Chief Finance Officer with respect to going concern are described in the relevant sections of this report.

Other information

The other information comprises the information included in the Statement of Accounts , other than the financial statements and our auditor's report thereon . The Chief Finance Officer is responsible for the other information. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

H. Audit Opinion

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Other information we are required to report on by exception under the Code of Audit Practice

Under the Code of Audit Practice published by the National Audit Office in April 2020 on behalf of the Comptroller and Auditor General (the Code of Audit Practice) we are required to consider whether the Annual Governance Statement does not comply with 'Delivering Good Governance in Local Government Framework 2016 Edition' published by CIPFA and SOLACE, or is misleading or inconsistent with the information of which we are aware from our audit. We are not required to consider whether the Annual Governance Statement addresses all risks and controls or that risks are satisfactorily addressed by internal controls.

We have nothing to report in this regard.

Opinion on other matters required by the Code of Audit Practice

In our opinion, based on the work undertaken in the course of the audit of the financial statements, the other information published together with the financial statements in the Statement of Accounts for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

Under the Code of Audit Practice, we are required to report to you if:

- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make a written recommendation to the Authority under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit ; or
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or;
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014, in the course of, or at the conclusion of the audit.

We have nothing to report in respect of the above matters.

Responsibilities of the Authority and the Chief Finance Officer

As explained more fully in the Statement of Responsibilities , set out on page 18, the Authority is required to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Chief Finance Officer. The Chief Finance Officer is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2022/23, for being satisfied that they give a true and fair view, and for such internal control as the Chief Finance Officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Chief Finance Officer is responsible for assessing the Authority's and the group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they have been informed by the relevant national body of the intention to dissolve the Authority and the group without the transfer of its services to another public sector entity.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements. Irregularities, including fraud, are instances of non-compliance with laws and regulations. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

We obtained an understanding of the legal and regulatory frameworks that are applicable to the group and Authority and determined that the most significant which are directly relevant to specific assertions in the financial statements are those related to the reporting frameworks (the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2022/23, the Local Audit and Accountability Act 2014, the Accounts and Audit Regulations 2015 and the Local Government Act 2003) .

H. Audit Opinion

We enquired of management and the Governance and Audit Committee, concerning the group and Authority's policies and procedures relating to:

• the identification, evaluation and compliance with laws and regulations;

• the detection and response to the risks of fraud; and

• the establishment of internal controls to mitigate risks related to fraud or non-compliance with laws and regulations.

We enquired of management, internal audit and the Governance and Audit Committee whether they were aware of any instances of non-compliance with laws and regulations or whether they had any knowledge of actual, suspected or alleged fraud.

We assessed the susceptibility of the Authority and group's financial statements to material misstatement, including how fraud might occur, by evaluating management's incentives and opportunities for manipulation of the financial statements. This included the evaluation of the risk management override of controls. We determined that the principal risks were in relation to journal entries, in particular those posted around the reporting date which had an impact on the Comprehensive Income and Expenditure Statement. Our audit procedures involved:

• evaluation of the design effectiveness of controls that management has in place to prevent and detect fraud,

• journal entry testing, with a focus on material, post year-end and unusual journals,

• challenging assumptions and judgements made by management in its significant accounting estimates in respect of land and buildings council dwellings, investment property and defined benefit pensions liability valuations, and

• assessing the extent of compliance with the relevant laws and regulations as part of our procedures on the related financial statement item.

These audit procedures were designed to provide reasonable assurance that the financial statements were free from fraud or error. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error and detecting irregularities that result from fraud is inherently more difficult than detecting those that result from error, as fraud may involve collusion, deliberate concealment, forgery or intentional misrepresentations. Also, the further removed non-compliance with laws and regulations is from events and transactions reflected in the financial statements, the less likely we would become aware of it.

We communicated relevant laws and regulations and potential fraud risks to all engagement team members, including potential for fraud in revenue and expenditure recognition. We remained alert to any indications of non-compliance with laws and regulations, including fraud, throughout the audit.

Our assessment of the appropriateness of the collective competence and capabilities of the group and Authority's engagement team [and component auditors] included consideration of the engagement team's and component auditor's :

• understanding of, and practical experience with audit engagements of a similar nature and complexity through appropriate training and participation

• knowledge of the local government sector in which the group and Authority operates

• understanding of the legal and regulatory requirements specific to the Authority and group including:

o the provisions of the applicable legislation

o guidance issued by CIPFA/LASAAC and SOLACE

o the applicable statutory provisions.

In assessing the potential risks of material misstatement, we obtained an understanding of:

• the Authority and group's operations, including the nature of its income and expenditure and its services and of its objectives and strategies to understand the classes of transactions, account balances, expected financial statement disclosures and business risks that may result in risks of material misstatement.

• the Authority and group's control environment, including the policies and procedures implemented by the Authority and group to ensure compliance with the requirements of the financial reporting framework.

For components at which audit procedures were performed, we requested component auditors report to us instances of non-compliance with laws and regulations that gave rise to a risk of material misstatement of the group financial statements. No such matters were identified by the component auditors.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Report on other legal and regulatory requirements – the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

Matter on which we are required to report by exception – the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

H. Audit Opinion

Under the Code of Audit Practice, we are required to report to you if, in our opinion, we have not been able to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2023.

We have nothing to report in respect of the above matter except on 24 January 2024 we identified a significant weakness in the Authority's governance arrangements. This was in relation to the Authority using a higher number of Non-Disclosure Agreements (NDAs) during 2022/23 than we would expect to see, and higher than we commonly see used by other local authorities. The reasons for these NDAs included redundancies, mutual terminations, grievances, and flexible retirements. The Authority does not have a process in place to rule out other options before proceeding with a NDA. We recommended that the Authority review its processes and controls for making decisions on whether to use NDAs, including the drafting of clear guidance on when use of NDAs may be appropriate and what alternatives should be considered.

Responsibilities of the Authority

The Authority is responsible for putting in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

Auditor's responsibilities for the review of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to be satisfied that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

We undertake our review in accordance with the Code of Audit Practice, having regard to the guidance issued by the Comptroller and Auditor General in January 2023. This guidance sets out the arrangements that fall within the scope of 'proper arrangements'. When reporting on these arrangements, the Code of Audit Practice requires auditors to structure their commentary on arrangements under three specified reporting criteria:

- Financial sustainability: how the Authority plans and manages its resources to ensure it can continue to deliver its services;
- Governance: how the Authority ensures that it makes informed decisions and properly manages its risks; and
- Improving economy, efficiency and effectiveness: how the Authority uses information about its costs and performance to improve the way it manages and delivers its services.

We document our understanding of the arrangements the Authority has in place for each of these three specified reporting criteria, gathering sufficient evidence to support our risk assessment and commentary in our Auditor's Annual Report. In undertaking our work, we consider whether there is evidence to suggest that there are significant weaknesses in arrangements.

Report on other legal and regulatory requirements – Audit certificate

We certify that we have completed the audit of South Kesteven District Council for the year ended 31 March 2023 in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice.

Use of our report

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and as set out in paragraph 44 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the Authority's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

grantthornton.co.uk

Auditor's Annual Report on South Kesteven District Council

2021/22 and 2022/23

January 2024

Contents

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the National Audit Office (NAO) requires us to report to you our commentary relating to proper arrangements.

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

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

Executive summary

Value for money arrangements and key recommendation

Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to consider whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Auditors are required to report their commentary on the Council's arrangements under specified criteria. 2020/21 was the first year that we reported our findings in this way. The NAO have issued guidance to auditors which states that a commentary covering more than one financial year can be issued where it is more efficient and effective to do so. We have decided to report a combined commentary on Council's arrangements for 2021/22 and 2022/23 because this will allow for our Value for Money Assessment to be provided to the Council during 2023 which supports timely reporting. As part of our work, we considered whether there were any risks of significant weakness in the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources. Our conclusions are summarised in the table below.

Criteria	2021/22 Auditor Judgment	2022/23 Auditor Judgment
Financial sustainability	No significant weaknesses in arrangements identified, but one improvement recommendation made.	No significant weaknesses in arrangements identified, but one improvement recommendation made.
Governance	One significant weakness in arrangements identified and six improvement recommendations made.	One significant weakness in arrangements identified and six improvement recommendations made, plus one forward-looking improvement recommendation.
Improving economy, efficiency and effectiveness	No significant weaknesses in arrangements identified, but three improvement recommendations made.	No significant weaknesses in arrangements identified, but three improvement recommendations made.

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

Executive summary

Financial sustainability

The Council, like others, continues to operate in an uncertain financial environment. The Council understands the risks it faces in respect of producing a balanced budget and the impact of inflationary pressures. The Council had to rely on the Budget Stabilisation Reserve to make a balanced revenue budget for 2023/24, this is a short-term solution, as the reserve is not sufficient to fund the ongoing deficits in 2024/25 onwards. The Council intends to find ways to respond to this challenge through the new Corporate Plan which will be updated in 2023.

We have raised one improvement recommendation to further enhance and strengthen the Council's processes. See pages 8-13 of this report for more information on our findings.

Governance

The Council has been on a significant improvement journey over the last three years. The revision of the Constitution has led to greater clarity around decision making and clearer responsibility of delegation. The external LGA Peer review in November 2021 recognised the work that the Council had undertaken in relation to Governance and Leadership with the implementation of the comprehensive action plan.

We recognise that the Council has had a significant shift in its culture over the last three years, with recent staff survey results showing an increase in staff satisfaction and that staff feel that they have more engagement with management.

However, we have identified a significant weakness in relation the Council's use of non-disclosure agreements (NDAs), and the processes and procedures that the Council follows to arrive at the decision to use an NDA. We have therefore made a key recommendation in this area, set out on page 6.

We have also seven improvement recommendations to further enhance and strengthen the Council's processes. See pages 14-32 of this report for more information on our findings.

Improving economy, efficiency and effectiveness

The Council has process in place to monitor and report on key performance metrics linked to its Corporate Plan. We recognise the significant work that the Council has undertaken with the Housing and Social Regulator, since it self-referred in 2021, in order to resolve the health and safety issues identified. Partnership working has been strengthened with the addition of a Partnerships Register providing transparency and oversight.

We have raised three improvement recommendations to further enhance and strengthen the Council's processes. See pages 33-43 of this report for further information on our findings.

2021/22

We have completed our audit of your financial statements and issued an unqualified audit opinion on 6 October 2023, following the Governance & Audit Committee meeting on 26 September 2023.

2022/23

We are nearing the end of our audit of your financial statements and intend to issue an unqualified audit opinion on following the Governance & Audit Committee meeting on 24 January 2024.

Key recommendation

Governance

Key Recommendation	We recommend that the Council should complete a review of the historic use of NDAs to consider their use, any overarching themes that might be addressed, and whether or not the Council is satisfied that this was the most appropriate outcome to the process in each case. Following on from this review, the Council should ensure that it reviews the processes and controls in place that are to be followed before arriving at the decision to use a Non-Disclosure Agreements (NDA). This should include a review of the guidance in place regarding when the use of an NDA may be appropriate, and what alternatives should be considered and ruled out; and consideration of whether improvements can be made to the documentation of that process going forward.
Audit year	2021/22 and 2022/23
Why/impact	NDAs can inhibit organisational learning if due processes are not adhered to.
Auditor judgement	We consider this to be a significant weakness in the Council's arrangements.
Summary findings	The Council used a significant, and unusually high, number of NDAs in the two years covered by this report.
Management Comments	The Council has a robust process in place to ensure that NDAs are only used in exceptional circumstances and they are considered on a case by case basis. All NDAs are presented with a full business case and this is reviewed by all of the Council's statutory officers and further supported by an independent legal opinion where necessary. Only after this, is the NDA business case progressed to a conclusion.

The range of recommendations that external auditors can make is explained in Appendix B.

Securing economy, efficiency and effectiveness in the Council's use of resources

All Councils are responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness from their resources. This includes taking properly informed decisions and managing key operational and financial risks so that they can deliver their objectives and safeguard public money.

The Council's responsibilities are set out in Appendix A.

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

Under the Local Audit and Accountability Act 2014, we are required to be satisfied whether the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

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The National Audit Office's Auditor Guidance Note (AGN) 03, requires us to assess arrangements under three areas:

Financial Sustainability

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

Governance

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

Improving economy, efficiency and effectiveness

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

Our commentary on the Council 's arrangements in each of these three areas, is set out on pages 8 to 44.

The current LG landscape

National context

Local government in England continues to face significant challenges as a sector. These include a high level of uncertainty over future levels of government funding, alongside delays to the Government's plans for reform of the local government finance system, impacting on medium-term financial planning. This is also a time of generationally significant levels of inflation – the UK inflation rate was 7.8% in April 2022, rising to a 41-year high of 11.1% in October 2022, then reducing to 10.1% in March 2023. Inflation levels put pressure on councils' revenue and capital expenditure, as well as the associated cost of living crisis impacting on local communities and businesses, leading to an increase in demand for council services such as children with special education needs with associated transport costs, debt advice, housing needs, and mental health, as well as impacting on some areas of council income such as car parking and the collection rates of council tax, business rates and rents. This follows a significant period of funding reductions by Government (2012 to 2017) and the impacts of Brexit and the COVID-19 pandemic which, for example, have contributed to workforce shortages in a number of council service areas, as well creating supply chain fragility risks.

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The local government finance settlement for 2023/24 was better than many in the sector anticipated demonstrating an understanding by Government of the financial challenges being faced by the sector. However, the Local Government Association, in July 2023, estimated that the costs to councils of delivering their services will exceed their core funding by £2bn in 2023/24 and by £900m in 2024/25. This includes underlying cost pressures that pre-date and have been increased by the pandemic, such as demographic pressures increasing the demand for services such as social care and homelessness.

Over the past decade many councils have sought to increase commercial activity as a way to generate new sources of income which has increased the nature of financial risk, as well as the need to ensure there is appropriate skills and capacity in place to manage such activities.

Local government is coming under an increased spotlight in terms of how the sector responds to these external challenges, including the Government establishing the Office for Local Government (Oflog) and there has been an increase in the number of councils who have laid a Section 114 Notice, or are commenting on the likelihood of such an action, as well as continued Government intervention at a number of councils.

There has also been an increase in the use of auditors using their statutory powers, such as public interest reporting and statutory recommendations. The use of such auditor powers typically derive from Value for Money audit work, where weaknesses in arrangements have been identified. These include:

- a failure to understand and manage the risks associated with commercial investments and council owned companies
- a failure to address and resolve relationship difficulties between senior officers and members
- significant challenges associated with financial capability and capacity
- a lack of compliance with procurement and contract management processes and procedures
- ineffective leadership and decision-making.

Value for Money audit has an important role in providing assurance and supporting improvement in the sector.

Financial sustainability

We considered how the Council:

- identifies all the significant financial pressures that are relevant to its short and medium-term plans and builds them into its plans
- plans to bridge its funding gaps and identify achievable savings
- plans its finances to support the sustainable delivery of services in accordance with strategic and statutory priorities
- ensures its financial plan is consistent with other plans such as workforce, capital, investment and other operational planning which may include working with other local public bodies as part of a wider system
- identifies and manages risk to financial resilience, such as unplanned changes in demand and assumptions underlying its plans.

Outturn 2021/22

The 2021/22 outturn report was presented to the Finance, Economic Development and Corporate Services Overview and Scrutiny Committee on 27 June 2022. This report focused on the more significant variances against budget, being those that were above £20k. These variances were analysed in detail in the 'significant variance analysis' reports presented as appendices to the outturn report. The Council's outturn was favourable, with the General Fund revenue outturn being £1.8m ahead of budget, allowing a transfer to earmarked reserves of £0.6m. There was also a £3.7m surplus on the Housing Revenue Account, £0.2m adverse to budget.

As part of the Council's closedown procedures, officers undertook a review of the usage and levels of the Council's reserves and balances. As a result of this review, it was recommended that the COVID Recovery Reserve, which had been established to protect the Council's finances from unexpected costs, could be closed and the balance redistributed to other reserves to bolster their balances for the future. The creation of an Inflation Reserve was proposed to provide financial resilience to inflationary pressures, utility increases and fuel increases. The balance of the reserve of £1.286m was transferred to the following:

- ICT Reserve (£0.202m)
- Waste and Recycling Reserve (£0.084m)
- Creation of an Inflation Reserve (£0.500m)
- Invest to Save Reserve (£0.500m)

The forecast outturn position was regularly reported to the Finance, Economic Development and Corporate Services Overview and Scrutiny Committee throughout the 2021/22 financial year.

At the last update on 22 February 2022, the forecast outturn for 2021/22 was for an adverse variance on the total cost of provision of services of £528k. However, during the remaining period of the financial year additional income relating to business rates was received, which was not anticipated at the time of the last forecasting report.

Budget Setting

The Council uses the Corporate Plan as its main driver for budget setting and ensures that, where required, resources are allocated to support delivery. Meetings occur in year between Cabinet and Corporate Management Team members to consider key service and budget issues likely to affect the Council in future years, these considerations are then reflected in the Medium-Term Financial Plan and the Budget Proposals.

The budget is developed through discussions held with officers, budget holders and the lead members for individual services within the context of the Corporate Plan and the Medium-Term Financial Plan. Each service area has a dedicated finance business partner and each month they undertake a financial review of the service area budgets, committed spend and projections. They then meet with the budget holders to assess and discuss pressures, issues and work collaboratively on actions to implement.

There are ongoing discussions between the Director of Finance, Deputy Director of Finance, finance business partners and budget holders during the budget setting process, and the budget proposal is first presented to the Budget-Joint Overview and Scrutiny Committee for their initial oversight prior to presentation to Cabinet.

Financial sustainability (continued)

The Council welcomes feedback from key stakeholders such as residents and businesses on the budget proposal, this is done through the online consultation portal, the enquiries email address, or other direct representations. In addition to this, the Council conducts individual equality impact assessments on the budget proposals and a cumulative equality impact assessment on the overall budget to ensure that the impacts were properly understood.

The Council's budget setting arrangements are satisfactory, supported by a suite of budget papers, which include relevant national and local context, a range of key budget assumptions and an assessment of risk and challenges that could influence the Council's financial sustainability.

Budget 2022/23

On 3 March 2022 full Council considered the Budget Proposal for 2022/23. The report described clearly, and in detail, the implications to the Council of the local government financial settlement for the financial year 2022/23. The 2022/23 budget proposal showed a balanced position, with a net budget requirement estimated at £14.407m for 2022/23. There were emerging deficits from 2023/24 resulting from several variables including uncertainty regarding the levels of funding from a national perspective and the costs that will be incurred for financing the refurbishment programme for Deepings Leisure Centre, as approved by Council on 14 December 2021. At the time of compiling the report the specific timing of the refurbishment programme was not finalised, but the indicative cost of £10.663m was included in the 2022/23 capital programme.

The 2022/23 budget report sets out the Council Tax base which had increased by 1.2% compared to the previous year, this higher rate of growth increased the expected Council Tax Income for the year by approximately £0.341m.

The Council's 2022/23 budget itemised proposed savings of £0.174m to support a balanced budget.

Proposed savings were as follows:

- Street Scene – changes to Big Clean staffing arrangements
- Ward Member Grant scheme – cessation of scheme but retain Community Fund scheme
- Festival Programme – retain an annual festival programme budget of £0.080m

The 2022/23 budget proposals contain appropriate assumptions relating to the Council's subsidiary companies: EnvironmentSK Ltd, InvestSK Ltd, and LeisureSK Ltd.

The most significant of these relates to LeisureSK, where the Council pays a management fee for its leisure centres. In 2021/22 this fee was approved at £500k based on the business plan that was provided by external leisure providers, reflecting the challenging operating environment of the leisure sector. At the time of providing the 2021/22 fee proposals, the five-year business plan demonstrated that beyond the first year of trading, LeisureSK Ltd would not require a further management fee as the financial projections showed a balanced trading position. However due to the operating restrictions encountered during 2021/22, the operating environment for LeisureSK Ltd will continue to be challenging for 2022/23 and beyond.

Outturn 2022/23

The 2022/23 outturn report was presented to the Finance, Economic Development and Corporate Services Overview and Scrutiny Committee on 22 June 2023. Again, this report focused on the more significant variances against budget, analysed in detail in the appendices to the outturn report.

As in 2021/22, forecast outturns were regularly reported to the Finance, Economic Development and Corporate Services Overview and Scrutiny Committee. The forecast outturn position as at Quarter 3 was reported on 21 February 2023. At that point, a reduction in the forecast spend, additional projected investment interest and a Minimum Revenue Provision (MRP) reduction resulted in a forecast balanced position. The final outturn was favourable for the Council, the General Fund revenue outturn was a break even after utilising £1.1m of reserves. This was better than the budgeted use of £2.2m of reserves. There was a £5.3m surplus on the Housing Revenue Account, £1.0m better than the Council's budgeted position.

Financial sustainability (continued)

As a result of the Council's review of the usage and levels of reserves and balances this year, £1.5m of the Business Rates Volatility Reserve, and the balance of the Inflation Reserve (£0.500m) were agreed to be to be transferred to the following reserves:

- ICT Reserve increase (£0.150m)
- Property Maintenance Reserve (£0.400m)
- Invest To Save Reserve (£0.150m)
- Budget Stabilisation Reserve (£0.250m)
- Street Scene Reserve (£0.250m)
- Creation of a Climate Change Reserve (£0.300m)
- Creation of a Pay Award Reserve (£0.500m)

The Climate Change Reserve is planned to be used to pump prime initiatives that provide a response to the Council declared climate change emergency and reduce the Council's carbon footprint by 2030.

As the budget was prepared during the autumn of 2021, and approved by Council in March 2022, there was an unforeseen increase in inflation and energy costs. The Committee was updated during the course of the 2022/23 year, and a budget amendment was approved on 24 November 2022.

Budget 2023/24

On 1 March 2023 full Council considered the Budget Proposal for 2023/24. Again, this report described clearly, and in detail, the implications to the Council of the local government financial settlement for the financial year 2023/24. The 2023/24 budget proposal shows a balanced position, with a net budget requirement estimated at £16.800m. This was only possible by utilising £1.534m of the Budget Stabilisation Reserve. This need arose due to increases driven by inflation, energy prices and rising material costs which have not been reflected in the Council's provisional settlement. As the amount that can be met from Council Tax is restricted by an increase of the greater of £5 or 2.99% and the business rates multiplier had been frozen for 2023/24 as announced in November, the report sets out that the Council had limited options available to set a balanced position. The budget for the 2023/24 financial year had to be set by 11 March in the preceding financial year.

The budgetary proposals for 2023/24 contain service changes in order to meet operational demands. As far as possible, increases in costs have been offset by proposals to increase fees and charges, and proposed reductions in other budget areas. Each of the savings proposals required implementation from April 2023 in order to ensure the financial savings are realised.

The Council's 2022/23 budget itemised proposed savings of £0.600m, as follows:

- Street Scene and Waste Services - Service review of processes to reduce operational costs
- Removal of festival programme including grant donations - Cessation of festival programme
- Reduction in printing, postage and stationery - reduction in agenda printing, mailing across services
- Re-location of Council Head Office - Net reduction between running costs of St Peter's Hill and St Catherine's Road offices

InvestSK Ltd ceased trading on 31 March 2023, therefore the company does not feature in the 2023/24 budget.

At the Cabinet meeting on 7 February 2023, it was agreed that the grounds maintenance service, as previously provided by EnvironmentSK, would be insourced at the earliest opportunity. This has been factored into the 2023/24 budget.

The Board of Directors for LeisureSK Ltd have made the Council aware of the difficult trading conditions and the financial challenges that are being experienced. These are predominantly relating to increased utility costs and staffing costs. Whilst proposed actions will address some of these pressures, projections for 2023/24 demonstrate LeisureSK Ltd will again require financial support of circa £0.500m. This amount relates to the uplift in utility costs which cannot be offset by income generation.

In respect of business rates, the Government has announced that from 1 April 2023, there will be a 75% discounted scheme for the retail, hospitality, and leisure sector for the full financial year. Therefore, LeisureSK Ltd will only be required to pay 25% business rates at the three locations which is calculated.

Financial sustainability (continued)

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Reserves

The Council's Chief Finance Officer (CFO) is required to comment on the robustness of the budget estimate and the adequacy of the proposed financial reserves in accordance with the requirements of the Local Government Act 2003, this was done on 03 March 2022 and 01 March 2023. The CFO believes estimates are robust. Employee costs are based on the approved establishment, contractual inflation included, reasonable provision for inflation, interest income is based on the advice of the Council's treasury management advisors and income targets are achievable.

On 1 March 2021 full Council considered the 2021/22 budget proposal, which stated the Council's general fund reserves were forecast to be £14.260m, as of 31 March 2022, which included a Budget Stabilisation Reserve of £3.205m which is intended to support the Council manage revenue implications resulting from any future reductions in government funding, or unexpected increase in costs. The Council actively seek to bolster reserves year on year the inclusion of a Budget Stabilisation Reserve is a practical risk mitigation strategy. On 3 March 2022 full Council considered 2022/23 the budget proposal, which stated Council's general fund reserves were forecast to be £16.412m as of 31 March 2023. As at 31 March 2023 the Budget Stabilisation Reserve had decreased to £2.950m.

The General Fund budgets for 2021/22 to 2025/26 assume that the working balance for the General Fund remains no less that £1.9m throughout the period. The Budget Stabilisation Reserve is an important component of ensuring the Council has the financial resilience to meet the financial impact of escalating inflation, increasing energy prices and the impact of demand on Council services due to the Cost-of-Living Crisis.

The 2023/24 budget explained that a balanced position was only possible by utilising £1.534m of the Budget Stabilisation Reserve. The use of the Budget Stabilisation Reserve to balance the financial year can only be a short-term solution, as the reserve is not sufficient to fund ongoing deficits. We note that at the time of writing this report, the Council is anticipating a contribution to reserves in the 2023/24 financial year. The Council must continue to ensure that it can achieve balanced positions without reliance on reserves as an ongoing mitigation. We have raised an improvement recommendation in this regard.

Since the 2020/21 financial year the Council's Reserves Forecast reports and Outturn reports indicate that the Council has been able to maintain healthy reserve levels, as demonstrated by the table below. It should be noted that, due to the COVID-19 pandemic, the Council held additional reserve balances in the region of £10m at 31 March 2021, which are only now fully unwinding. The ability to balance the revenue budget into the medium term will become increasingly difficult as shown by the future indicative budgets, however, the reserves forecasts from 2023/24 onwards demonstrate that the Council is able to mitigate this challenge by drawing from reserves balances.

General Fund Revenue Reserves	Forecast	Outturn
Forecast per 2021/22 MTFP		
31 March 2021	£14.6m	£28.9m
31 March 2022	£14.0m	£25.3m
31 March 2023	£13.3m	£22.0m
Forecast per 2023/24 MTFP		
31 March 2024	£12.0m	
31 March 2025	£11.7m	
31 March 2026	£11.9m	

Financial sustainability (continued)

Medium Term Financial Plan

On 1 March 2023 full Council considered the current Medium Term Financial Plan, as part of the 2023/24 budget setting process.

The budget proposals are prepared in the context of significant external financial events that are occurring that impact on the Council's financial outlook with escalating inflation, increasing energy prices and employee pay proposals which all add significant cost pressures to the Council's financial position (and the financial position of all councils) for 2023/24 and beyond. In addition, the current cost of living crisis has the potential to increase demand for the Council's services by those who rely on the support provided by local government. These unforeseen and unavoidable pressures have seriously impacted the assumptions that underpin the Medium-Term Financial Plan. From our review of the future indicative budgets, there are increases in expected expenditure and the Council are expecting deficits for 2024/25 and 2025/26. The indicative budgets have not yet identified how these deficits will be manged, however, they are currently not expected to be greater than the Budget Stabilisation Reserve.

The Government has set out the following planning assumptions for the 2024/25 local government settlement:

- The 'Fair Funding Review' and a reset of Business Rates growth will not be implemented in the next two years. At the earliest opportunity this would be potentially 2025/26 or even 2026/27.
- The council tax referendum limits are expected to be at the same level as 2023/24.
- Business rates pooling will continue.
- The Government will set out the future of New Homes Bonus ahead of the 2024/25 local government finance settlement

The Council should consider stating how reported deficits within the indicative budget proposals from 2024/25 onwards will be managed for future years and if the Budget Stabilisation Reserve will need to be relied upon further, we have raised an improvement recommendation to this effect. The CFO confirmed that use of the Budget Stabilisation Reserve to balance the 2023/24 financial year can only be a short-term solution, as the reserve is not sufficient to fund ongoing deficits. We are aware that this should be addressed when the Corporate Plan is reviewed and updated.

Alignment of Financial Plan and the Corporate Plan

The Council's corporate plan has five corporate priorities which are: Growth and our Economy; Housing that Meets the Needs of all Residents; Health and Strong Communities; Clean and Sustainable Environments; and High Performing Council. The Corporate Plan provides clarity and focus to enable financial resources to be directed to support delivery of the key actions that underpin each of the priorities set out above. The Corporate Plan will be reviewed and updated in readiness for the Council responding to the projected financial deficits from 2024/25.

Conclusion

In conclusion we have not identified any significant weaknesses in arrangements to ensure the Council manages risk to its financial sustainability.

Whilst arrangements are deemed appropriate, we recognise that the ability to balance the revenue budget into the medium term will become increasingly difficult as demonstrated by the future indicative budgets. We have raised an improvement recommendation in this regard.

The Corporate Plan will be reviewed and updated in readiness for the Council responding to the projected financial deficits from 2024/25 onwards.

Improvement recommendations

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Financial Sustainability

Recommendation 1	The Council must continue to ensure that it can achieve balanced positions without reliance on reserves as an ongoing mitigation. The Council should also consider clearly setting out how reported deficits within the indicative budget proposals from 2024/25 onwards will be managed for future years and if the Budget Stabilisation Reserve will need to be relied upon further.
Audit year	2021/22 and 2022/23
Why/impact	The CFO has confirmed that use of the Budget Stabilisation Reserve to balance the 2023/24 financial year can only be a short-term solution, as the reserve is not sufficient to fund ongoing deficits.
Auditor judgement	Our work has enabled us to identify a weakness in arrangements which we do not consider to be significant, but have raised a recommendation to support management in making appropriate improvements. We are aware that this should be addressed when the Corporate Plan is reviewed and updated, but we feel it is an improvement that can be made to the Council's arrangements as they stood during the period under review.
Summary findings	The Council's ability to balance the revenue budget into the medium term will become increasingly difficult due to inflationary pressures and other uncertainties, as demonstrated by the future indicative budgets. Reserves forecasts from 2023/24 onwards demonstrate that the Council is able to mitigate this challenge by drawing from reserves balances.
Management Comments	The Council's approach to medium term financial planning has a clear focus on ensuring that budget setting is formulated without any reliance on reserves in order to achieve a balanced sustainable position. However if the scenario planning identifies that budgeted spending projections exceed available resources then the Council will implement a transformation and cost reduction plan.

Governance

We considered how the Council:

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

Risk Management

The Council has a risk management framework in place that is adequately documented and supported by oversight from the Governance and Audit Committee (G&AC).

Risk management is fundamental to the Council's achievement of its strategic objectives, and this is supported by its Risk Management Framework 2021-2023. The Framework sets out the Councils arrangements for Risk management and outlines and clarifies roles and responsibilities and the governance structure. The current Risk Management Framework 2021-2023 was revised and approved by G&AC at its meeting on 9 June 2021, having last been reviewed in Sept 2018. The Framework provides details of the risk environment that the Council operates within, and the controls and mechanisms that are in place to ensure risk is sufficiently managed by both officers and members.

The terms of reference of the G&AC include a requirement to produce an annual report on risk management summarising the work delivered during the year. The Council produced a Risk Management Annual Report for the period 2021/22 which was presented to G&AC in June 22. It was reported that during the period of 2021/22, risk management activities had been undertaken in accordance with the Framework. At the time of our review the risk management annual report for 2022/23 had not yet been presented to G&AC.

Our review of the Framework shows that it is detailed and provides guidance on subjects such as what constitutes a risk, areas of risk, and levels of assurance. Detailed roles and responsibilities are also included, a degree of transparency. The Framework is clear in outlining the importance of effective risk management and the role it plays in strengthening the health of the Council to secure effective corporate governance.

We established that no changes to the Risk Management Framework were made in 2022/23. However, we were informed that the Council is currently going through a refresh and detailed review of its Risk Management Framework and Strategic Risk Register. Workshops have been provided by an external facilitator RSM. At the time of our review, the results of this exercise are not available.

Overall, internal audit found that risk is appropriately managed and that the relevant processes currently in place are operating effectively to reduce the impact of risk, supported through several areas of good practice.

The Council's Risk Appetite has been developed to encourage structured thinking by staff around risk, allowing the Council to reach an informed conclusion as to whether risks can be accepted, and to what extent, to achieve desired outcomes. We note that the Framework emphasises that all risks should be considered in the context of the Council's risk appetite. To assist this further there are seven strategic risks and for each one there is a summary of why they are a strategic risk, current circumstances, effects of risk realisation, existing controls and actions to be taken to enhance or expand those controls.

Governance (continued)

The themes are:

- Ensuring efficient and effective internal control/compliance
- Achieving Council transformation
- Supporting communities
- Achieving future financial resilience
- Creating the right culture, capacity and capability
- Ability to be agile and shift focus in response to policy and political change
- Ensuring robust security measures to protect the Council's data and network from external threats.

The Council has a two-level assurance process in place, with the Strategic Risk Register first being presented to the Corporate Management Team who is responsible for responsible for reviewing and monitoring the strategic risks, including the actions on the register, quarterly. A detailed covering report is then presented to G&AC alongside the Strategic Risk Register on a biannual basis for review and oversight. The scrutiny of risk by the Council is multi-layered with appropriate mechanisms in place for scrutiny and challenge.

Our review of the Council's Strategic Risk Register, for both 2021/22 and 2022/23, highlighted that risks are categorised under the seven themes as indicated above. Risks are monitored and recorded using software 4risk which enables controls and actions to be tracked and monitored. The system allows for the progress of risk actions to be tracked through to implementation and outcome and provides a complete picture of the risk, controls and assurance environment.

The Council's Strategic Risk Register includes the internal controls required to evaluate, treat, monitor, and control the risks. However, there are some improvements that the Council should consider to further strengthen its risk management review:

- The register should include designated risk owner to ensure that all identified risks are accounted for and appropriately monitored.
- The register should show direction of travel of each risks to show the change in movement in the risk score for a more visual interpretation. This can either be increasing, static or reducing.
- There are no target scores to provide an indication of what level of risk is tolerable and show how far the existing arrangements are from achieving.
- Risk should be linked to the corporate objectives that are outlined in the Councils corporate plan.
- Mitigating actions should be made explicitly clear to show whether they are on or off track and any gaps in existing controls assurances should be highlighted.
- Mitigating actions should be reviewed to ensure that they are SMART.

We have raised an improvement recommendation to suggest that the Council considers strengthening the both the format of the risk register, as detailed above, and also considers whether there could be a greater level of oversight of the key strategic risks by G&AC.

Governance (continued)

Internal Audit

Each year the Council receives an annual internal audit report from its appointed internal auditors that provides an opinion on the adequacy and effectiveness of the Council's systems of internal control, governance and risk management and the body of evidence to support the opinion. We note that there was change in the provision of internal audit services to the Council for 2022/23, and we have set out below the internal audit arrangements for each year.

2021/2022

The Council's Internal Audit function in 2021/22 was provided by RSM, a well-established provider within the sector. RSM's most recent external quality assessment having been (conducted in 2021) concluded that they were compliant with the Public Sector Internal Audit (PSIA) standards.

A one-year internal audit plan was developed for 2021/22, as the Council would be retendering for the provision of Internal Audit Services in 2021/22. The plan was approved by the G&AC on 18 March 2021. Internal Audit progress reports were presented to 5 out of 6 meetings of the G&AC, and we note from the minutes of the meetings that there was active engagement of Members in assessing internal audit activity, demonstrating effective oversight.

The Head of Internal Audit Opinion for 2021/22 concluded that, based on the work undertaken: "There are weaknesses in the framework of governance, risk management and control such that it could become inadequate and ineffective."

In total thirteen reviews were completed in the year, these included five assurance reviews, four continuous assurance reviews, four follow-up reviews and one advisory review. No assurance reviews received minimal assurance, two received partial assurance, one reasonable and two substantial assurances. The Council reported in its year end Annual Governance Statement that action plans had been put in place to address these findings, in particular in those areas where management concerns have also been raised and further work is required to strengthen the control framework. We recognise the significant improvement the Council made to improving its internal control framework in the year with no minimal assurance reports, a reduction in the number of partial assurance reports and an increase in the number of substantial assurance reports. The G&AC also welcomed this positive direction travel in the strengthening of the Council's control framework.

We report that RSM raised a total of 73 management recommendations in 2021/22 compared to 112 actions that were raised and agreed with management in the prior year. This reduction in recommendations is further evidence of the Council showing improvements in its overall internal control framework. The last internal audit progress report from RSM was presented to G&AC on 16 March 2022 which summarized the work that had been completed in the year. It was confirmed that all reviews had been completed and finalised in alignment with the audit plan for the year.

Figure 1:
Summary of Internal Audit Assurance Ratings

Assurance Rating	2021/22	2020/21	2022/23
Minimal assurance	0	2	0
Partial assurance	2	3	1
Reasonable assurance	1	2	0
Substantial assurance	2	1	6
No assurance	8	5	1
Total Reviews	**13**	**13**	**8**

Governance (continued)

2022/23

The Council's Internal Audit function in 2022/23 was provided by Assurance Lincolnshire (AL). AL's most recent external quality assessment (conducted in 2022) concluded that they were also compliant with the PSIA standards.

The Internal Audit plan for 2022/23 was presented to the G&AC on 16 March 2022 by AL, and members approved the original audit plan of 142 days. We note that in the year members received internal audit progress updates at four out of the seven meetings held. At 31 March 2023, AL had delivered 97% of the revised plan. It was reported that a small number of audits were removed from the original audit plan leaving 130 days in the revised plan. This was due to reprioritising audit resources to those areas of highest risk in consultation with management. The reviews that were removed from the original plan were Housing Income and HRA Building Programme and were to be included in the 2023/24 Internal Audit Plan.

The Head of Internal Audit Opinion (HoIA) for 2022/23 by AL reported that based on the work delivered and wider information obtained from other assurance sources, the HoIA's opinion on the adequacy and effectiveness of the Council's arrangements for governance, risk management and control were deemed as "performing adequately."

Eight assurance reviews were undertaken during 2022/23 and one consultancy review. Six assurance reviews resulted in Substantial Assurance. Of the remaining two reviews, Housing Voids Management resulted in a split assurance of Substantial/Limited and the Key Control review of Accounts Receivable (debtors) resulted in a Low Assurance. A low assurance rating indicates that there are either gaps in the control framework managing the key risks, or the controls have been evaluated as not adequate, not appropriate or are not being effectively operated, meaning that the risk of the activity not achieving its objectives is high. In response, we note that management have confirmed the action plan is due to form part of the 2023/24 G&AC work plan to allow oversight and monitoring of improvement action from the previous financial year.

Overall, Internal audit made 94 high, medium and low priority recommendations for improvement and 66 actions were agreed to address these (the difference in number is due to some management actions covering more than one audit recommendation). Our review highlighted that at September 2023 the Council had only implemented 53% of the agreed 66 actions. In our view, management should consider whether the due dates agreed for internal audit recommendations going forward are realistic, so that they are confident that these can be delivered.

Since the end of the 2022/23 financial year, LA have terminated their contract for internal audit services. The Head of Internal Audit reported that concerns had been raised with the Head of Paid Service in June 2023 regarding interactions and conduct between the Audit Team and Council Officers, and that during a review being performed in August 2023 behaviour observed by AL resulted in a material breach to the Audit Charter.

AL's appointment as the Council's internal auditor ended on 27 September 2023, following G&AC on 26 September 2023. RSM have since been re-appointed to complete the planned schedule for work as originally agreed by the G&AC in March 2023.

It is important that the Council works with RSM to ensure that the change in internal audit provider does not negatively impact on the delivery of the 2023/24 Internal Audit Plan, and that where changes to the plan are necessary, these are appropriately consulted on and approved. We have raised an improvement recommendation in this regard.

Governance (continued)

Whistleblowing

With whistleblowing regulation on the rise, and a new age of accountability and transparency converging with flexible working trends, it is more important than ever that, not only does the organisation have a Whistleblowing Policy in place but also understands how the effectiveness of the policy is being assured and how the Council are sighted on issues raised.

Those charged with governance should ensure that:

- Whistleblowing arrangements are effective, accessible and inclusive to all staff groups in all premises.
- All staff know how to raise concerns and do not experience detriment as a result.
- There are arrangements in place to allow triangulation of whistleblowing concerns with wider performance and delivery of a service, and
- The Council are sufficiently sighted on all whistleblowing concerns and the actions taken to investigate and respond.

As the National Audit Office has reported, concerns raised by staff can be an important source of information on which to base improvements. However, to raise concerns or 'blow the whistle' can make people vulnerable. Alongside clear, comprehensive and accessible policies to support and reassure staff at what is likely to be a stressful time, these policies must be backed up by a culture of transparency and openness, so that employees feel enabled to raise concerns.

Counter Fraud

Counter fraud is fundamental to the Council's achievement of its strategic objectives. The G&AC approved a new Counter Fraud Framework on 26 January 2022. The previous Counter Fraud Strategy 2018/20 was last revised in September 2018 and we recognise that the Council has revised the Framework in a timely manner. The Council's revised Counter Fraud Strategy outlines the Council's stance of zero tolerance to all forms of fraud, theft and corruption and the Council's response to fraud under the five pillars of activity of Govern, Acknowledge, Prevent, Pursue and Protect. The new framework includes a:

- Counter Fraud Strategy
- Counter Fraud and Anti-Corruption Policy
- Whistleblowing Policy
- Fraud Response Plan
- Anti-Money Laundering Policy.

The terms of reference of the G&AC require an annual report to be produced on the counter fraud arrangements in place and the activities undertaken. The Chief Finance Officer presented the 2021/22 report to G&AC members in June 2022 and the 2022/23 report in September 2023. Each report details the various aspects of work delivered during the course of the year. In 2021/22 and 2022/23, it was reported that the Council participated in the Lincolnshire Counter Fraud Partnership (LCFP) which was hosted by Lincolnshire County Council. All Lincolnshire District authorities gave a financial contribution to the partnership which oversaw and jointly collaborated with all the districts in Lincolnshire to share good practice and share resources on counter fraud initiatives. The Council also took part in the Government's National Fraud Initiative which was a central and proactive piece of work that involved data matches and finding discrepancies between information held by the Council and other data registers and data bases. A 2023/24 action plan has been developed and we note that the Council will conduct a fraud risk assessment through facilitated workshops. A key consideration going forwards is for the Committee to monitor and review the counter fraud arrangements currently in place and the activities that are being undertaken to mitigate those risks.

Whistleblowing

Assurance Lincolnshire manages the Confidential Reporting Line on behalf of the Lincolnshire Counter Fraud Partnership and acts as a central point of contact for the Council. The Whistleblowing Policy forms part of the Counter Fraud Strategy and outlines the processes that are in place to respond to any whistleblowing reports received. It includes the scope, process, how the Council will respond and how the matter is progressed. The policy is supported by a Whistleblowing Process Flowchart that shows the various stages and decision points of a whistleblowing issue.

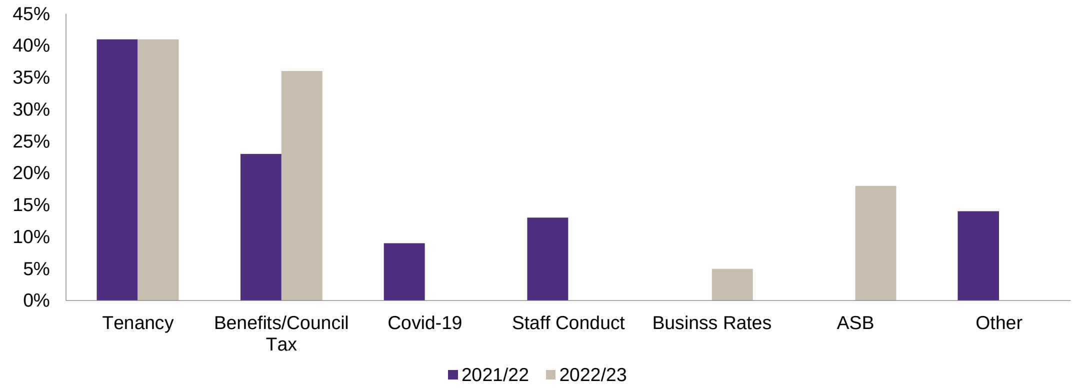
Governance (continued)

As reported in the Counter Fraud Annual report for both years the main type of district referrals relate to benefits, council tax and housing tenancy. See Figure 2 which breaks down the whistleblowing incidents into the different categories for both years. In 2021/22, 56 district referrals were received by the Confidential Reporting Line of which 20 related to the Council and subsequently in 2022/23 the Council received the same number of referrals from a total of 52 district referrals. We note that overall, the Council has seen a reduction in the reporting of whistle blowing incidents from prior year by 35% (31 incidents were reported in 2020/21.)

In addition to the 20 whistleblowing allegations to the Confidential Reporting Line, the Council received two allegations in 2021/22 were reported direct in relation to staff conduct. All 22 whistleblowing allegations have been investigated and action taken where appropriate. The G&AC were provided with verbal updates in the year in relation to the whistleblowing incident that was received by the Council in May 2020 in relation to theft of fuel. The investigating officer found that there was enough evidence that supported the whistle-blower's allegations, and this was subsequently reported to the Police in June 2020. and the Police investigation concluded in July 2021. We note that as a result of the whistleblowing investigation the Council have implemented specific actions to ensure that fuel management and its monitoring is more efficient, for example through the use of CCTV cameras to cover fuel tanks, spot checks being undertaken, and a review of the arrangements in place regarding how fuel is accessed.

In August 2023 Internal Audit conducted a review of the Council's whistleblowing arrangements on the back of concern raised about the Council's whistleblowing activity not being in line with the Council's policy. Internal Audit issued a report with a 'no assurance' rating for the Council's whistleblowing arrangements, reporting a significant number of high-risk areas that are not compliant with the requirements of effective and transparent delivery around whistleblowing investigations. A total of 17 recommendations we made of which ten were rated as High and one as Critical, which indicates a '**fundamental breakdown in internal control; significant risk of fraud, irregularity, impropriety. These must be addressed as a matter of urgency.**'

Figure 2: Number of whistleblowing incidents for 2021/22 and 2022/23



Although this work by Internal Audit does not fall into the period upon which we are reporting, we do note that the Council's Chief Executive has informed us that a number of lessons learned have been identified as a result Internal Audit's report on the Council's whistleblowing arrangements.

These lessons include giving clarity to elected members on the processes that are required to be followed in whistleblowing allegations, training for officers and staff on dealing with whistleblowing complaints and how to record them, and to increase awareness that the consideration of whistleblowing allegations should not necessarily be limited to fraud considerations but that there can be wider issues impacting the case. The Chief Executive plans to implement a new process whereby a final report is required to be provided on each evaluation form that is completed for every whistleblowing case to the Statutory Officers Group for oversight. It is the responsibility of the three statutory officers to then sign off the whistleblowing report to confirm that they are satisfied with the investigation and the findings.

We acknowledge the above steps were outlined by the Chief Executive in strengthening whistle blowing arrangements at the Council but not yet fully embedded within the Council.

Governance (continued)

Decision Making

The Council's Constitution details its decision-making processes. The Council's Leader is elected by members. The Leader under their jurisdiction appoints an Executive. The Executive is at the heart of the day-to-day decision making process and has a key role in proposing the budget and policy framework to the Council. All decisions made by Council, Executive, Executive members and other committees, and all reports, agendas and minutes of all committee meetings are available online showing transparency in the process of making decisions.

Each year at its annual meeting, the Council will approve a timetable for all public meetings to which the public are welcome to attend. The Council's Annual Governance Statement sets out the key elements of the Councils Governance Framework outlining the role of each committee within the framework.

Since 2021, the Council has as started on a continuous improvement journey to strengthen governance arrangements, and this has involved a detailed and thorough review of its Constitution. At its meeting on 30 September 2021, Full Council agreed to undertake a comprehensive review of the Constitution. It was deemed that the previous Constitution was difficult to understand and included duplication. For example, rules on how to elect a chairman for the G&AC were ambiguous as there were four different ways a Chairman could be elected in accordance with the Constitution all appearing to contradict each other. It was also felt that the scheme of delegation which ensures that officers of the Council are provided with professional guidance to implement decisions and deliver services to be carried out in accordance with the Procedure for Officer Delegated Decisions was not clear enough. The review of the Constitution included a complete rewrite to present the content in a logical order and ensure that no duplication existed, and a revised scheme of delegation which is detailed in the revised Constitution.

The Council's Monitoring Officer led the review and confirmed that workshops were held with Councillors so any changes that were being proposed were clearly communicated to members. A document mapping process was implemented through a constitution control log and was maintained by the Monitoring Officer to record any proposed additions, deletions or amendments to the current Constitution, with recorded dates to ensure that there was a rationale to demonstrate where changes have been made and the reason for those changes.

The work carried out on the review of the Constitution demonstrates that fundamental principles of openness, transparency and engagement with members have been considered.

Oversight of this work at the time was under the remit of the Council's Constitution Committee which was decommissioned on 18 May 2023 at the Council's Annual General Meeting. The G&AC is now responsible for the previous remit of that Committee.

The revised Constitution was adopted by the Council on 26 May 2022 following a comprehensive review of the document. Management confirmed that as the Constitution is a live document it will continue to be reviewed at least annually and amended as necessary demonstrating good practice.

Further aiding the Council's decision-making arrangements is the Statutory Officer Group which meets on a monthly basis. Key officers sit on that group which includes the Head of Paid Service, the Monitoring Officer, Section 151 Officer, and their deputies. We established that key items such as Human Resources related issues or any issues relating to elections from the Head of Paid Service in their role as Electoral Registration Officer are discussed. The Monitoring Officer will provide an update on code conduct cases, subject access requests, freedom of Information requests and review performance figures. Discussion with management confirmed data breaches and any escalated to the Information Commission Officer (ICO) are also reported through the Group. If any breach is deemed significant it will then get reported to the G&AC, however if it is not significant then members do not necessarily get informed.

We recommend that Officers provide G&AC members with a formal, annual update on all data breaches (including any nil returns), and performance figures for FOIs and subject access requests to ensure there is full transparency in the process and members are fully informed. We also recommend that information on the number of corporate complaints received is reported to the relevant O&S committee on a regular basis.

Other items discussed as part of the monthly meetings include any outstanding ombudsman cases, corporate complaints, and monitoring of how many corporate complaints the Council has had and which service areas they relate to. The Section 151 Officer will provide a report on whistle blowing cases, safeguarding reports, and updates on the external and internal audit plans and items from a financial perspective.

Governance (continued)

We established that no minutes of the statutory group are taken but there is a live action log that is populated and updated as and when actions have been addressed. This means that there is no record of previous actions or discussions. In our view, best practice would be to keep such records, and we have also raised an improvement recommendation on this.

We noted that the Council's Data Protection policies had not been reviewed since 2018. At the May 2021 Cabinet meeting a report was presented to members to approve a review of these policies in response to recommendation made from a GDPR audit in August 2020. We have been informed that the policies have been reviewed to ensure that they are aligned with ICO reporting requirements and current legislation, despite not having been formally reviewed and approved.

Audit Committee

The Council's G&AC work is key to delivering good governance throughout the authority. It provides independent assurance and challenge on the effectiveness of the Council's overall arrangements for corporate governance and internal control, including risk management. The committee, in line CIPFA's recommended good practice, produces an annual report which is presented to Full Council which provides members the work of the G&AC in the year and key outcomes delivered. It also includes the indicative work plan and timetable for the next financial year for approval. For both financial years 2021/22 and 2022/23 an annual report was presented to Full Council in the subsequent May.

The G&AC met 6 and 7 times in 2021/22 and 2022/23 respectively. We confirm that there we no issues relating to attendance at audit committee meetings during either year, and apologies were duly noted when members did not attend. The G&AC's annual reports confirm that training is an essential element for an Audit Committee, and we note in both years committee members had received annual refresher training, local government finance training and treasury management training.

Assurance was given that the G&AC found no areas of significant duplication or omission in the systems of governance in the authority that had come to the Committee's attention during 2021/22 and 2022/23 that were not being adequately resolved.

We refer to the concerns raised by Internal Audit in their 2022/23 annual report about members' conduct during several audit committee meetings. They reported that G&AC meetings held in June, September and November 2022 and January 2023 were each disrupted by members of the Committee and members who were not part of the Committee interrupting each other and interrupting officers, with instances of arguing and disrespectful language being used in a public forum.

Internal Audit recommended that training for members of the Governance and Audit Committee should include a focus on conduct and best practice in what makes an effective committee, and we agree that this would be appropriate.

Overview and Scrutiny

Scrutiny is a key tool for promoting the best interests and wellbeing of the area and seeks to ensure that local people receive high quality services that meet their needs.

For the period covered by this report, the Council had four Overview and Scrutiny Committees in the following areas:

1. Finance, Economic Development and Corporate Services
2. Culture and Visitor Economy
3. Environment
4. Rural and Communities

An additional overview and scrutiny committee for Housing was introduced in May 2023. Housing is a significant service area as the Council was put under notice by the Housing Regulator in 2021 and this arrangement provides an additional layer of scrutiny and allows for the strengthening of the ability for council to hold executive to account.

The above committees act as a 'critical friend' to the Cabinet, holding decision makers to account and providing challenge where necessary, and can add real value before a final decision is made by Cabinet. Although there are detailed papers available online for each Overview and Scrutiny committee meeting, we could not establish an overarching single document summarising the work of each committee undertaken in the year. This is a requirement as per the Councils Constitution (Article 2 paragraph 6.4) where it explicitly states that "Overview and Scrutiny Committees must report annually to Full Council the work they have carried out over the previous municipal year."

We recommend that, going forward, the Council ensures that annual reports are produced for each of its Overview and Scrutiny committees, in line with the requirements of the Council's Constitution. This has been included as an improvement recommendation.

Governance (continued)

In July 2021, the Council invited the Centre for Governance and Scrutiny to undertake a review of its overview and scrutiny function. The intention was that this would advise and support its members and officers in the review of the Council's scrutiny function to ensure that it is effective in providing a quality contribution in accountability, policy and decision making, delivery of Council plans and overall improvement. G&AC Members were presented with the findings and endorsed the associated action plan at the meeting on 28 September 2022. Overall, the report summarised that 'the conditions for successful scrutiny are present at SKDC; there is a clear commitment to scrutiny and the value that it can bring from the political and officer leadership, there is support from senior officers and the governance team, Cabinet recognises the benefits scrutiny can bring and Scrutiny Members dedicate time to the role and want to improve outcomes.' Members agreed that further work was required on the action plan and that this should be informed by a Councillor workshop which was subsequently held on 30 November 2022 and revised action plan was submitted for consideration at its January 2023 meeting.

One of the recommendations from the Centre for Governance and Scrutiny review was the development and publication of a Cabinet and Overview & Scrutiny Protocol, setting out the relationship between the two functions and associated roles and responsibilities. A draft Cabinet and Overview & Scrutiny Protocol was developed and presented to members at the June 2023 meeting where it was recommended to Full Council for the adoption of the Cabinet and Overview & Scrutiny Protocol as part of the Council's Constitution under Part 5 (Codes of Protocols).

An internal audit on good governance was undertaken in September 2022 by Assurance Lincolnshire and resulted in a 'substantial assurance' report, indicating some improvements needed in the application of controls to manage risks. The controls have been evaluated as adequate, appropriate and operating sufficiently so that the risk of the activity not achieving its objectives is medium to low. The report acknowledged the significant progress the Council had made to date and the action plan developed recommended improvements which were already either planned or in the process of being developed. We note that the action plan has now been fully implemented and the G&AC were satisfied with the outcomes delivered.

Standards and Behaviours

Our work highlighted that the Council has historically had challenges relating to leadership and culture, and two high-profile cases in 2021/22. We acknowledge that the Council has made great progress in improving the culture between members and officers within the Council since these events.

The cases are as follows:

- In 2021/22 a Councillor had used a derogatory term in G&AC meeting that led to 22 complaints been filed against him. An investigation was undertaken and the Councillor apologised and a censure notice was put on his profile. In addition, it was recommended that he attend equality and diversity training which is part of the Council's annual induction programme. We note that the Councillor attended the training in 2021/22, but not in 2022/23. This training is required on an annual basis. As a result of this case the Council received a Freedom of Information request asking how many Councillors had attended equality & diversity training. In 2021/22, only 15 out of 56 attended, but in 2022/23 the numbers were significantly improved, with only five members having not attended. We have identified that there is no clear guidance on whether this training is mandatory for members, and we have raised an improvement recommendation that the Council ensures that this is clarified going forwards.
- In March 2022 code of conduct complaints were made against a Councillor for serious allegations against senior officers. The complaint was investigated in accordance with due processes and resulted in an external hearing. Discussions with management have indicated that the hearing was a long process and resulted in a censure notice and the Councillor attending specialist training provided by an external legal firm. The lessons learned from this case resulted in the formation of the Standards Committee and the requirement that processes need to be strengthened and made more transparent.

Governance (continued)

A significant change to the Council's Committee structure was the introduction of Standards Committee in 2023. At the meeting of Full Council in May 2023 the Standards Committee was introduced to the Council's committee structure, and the first meeting of the committee was held 6 September 2023. We confirmed that the Constitution has been updated to reflect the new Committee (Article 10 of the Constitution.)

Prior to its implementation, oversight of code of conduct cases was limited and was not reported formally to any committee, though they were all recorded by the Monitoring Officer and his team. We established that many code of conduct cases prior to 2021/22 were sent out to external legal providers usually even to undertake an initial assessment. This would have had a cost impact to the Council, although this has not been the case since June 2021. There is an agreed procedure for dealing with complaints against Councillors and all code of conduct complaints are now dealt with by the Monitoring Officer and their team who assess every individual complaint received unless there is a conflict of interest.

We recognise that the Council has had a significant shift in its culture over the last three years, with recent staff survey results showing an increase in staff satisfaction and that staff feel that they have more engagement with management. The Council was the only Council in the country to have been put forward for the national HR awards taking place in November 2023, and was a finalist for 'most improved council' in the national MJ awards 2022/23 – both of which are further testament to the work the Council has undertaken.

Code of Conduct Training

Ongoing training is a key mechanism by which the Council ensures that quality and standards in decision making are upheld, and the Council has undertaken a great deal of training with members. We note that the Council adopted the Local Government Association's new model Councillor Code of Conduct at its meeting on 25 November 2021 and subsequent training for Members on the Code has taken place through a number of workshops. All Members were provided with slides of the training and a link to guidance on the LGA website.

The Council had a comprehensive induction and development programme from May to September 2023. As part of the new induction program in June 2023 all Councillors whether re-elected or newly elected had code of conduct training. As training is mandatory, we confirmed the training figures and found that 51 out of the 56 Councillors attended the code of conduct training in 2022/23. We were not provided comparative figures for 2021/22. It is imperative that all Councillors undertake appropriate training as high standards of conduct in local government are needed to demonstrate that those decisions are taken in the public interest and to maintain public confidence. We have raised an improvement recommendation to this effect.

In line with the adoption of the new code of conduct the Monitoring Officer has outlined a revised procedure for dealing with code of conduct complaints, which was endorsed by the Standards Committee at its inaugural meeting. It was considered that the revised procedure was easier to follow and understand, setting out clearly the different stages a complaint may progress through and the procedure that will be followed in the event that a Code of Conduct Hearing is necessary, which was highlighted as missing from the current procedure. Any allegations of breaches will be dealt with in accordance with this procedure for dealing with complaints against Councillors which mirrors the LGA guidance.

The document is not made publicly available and is only shared with individuals who make a complaint. As recommended by the Monitoring Officer, the Standards Committee presented this for consideration by Full Council, and on 23 November 2023 it was approved that the procedure be included in Part 5 Constitution, Codes and Protocols to confirm what the processes are that should be followed if there was a complaint.

Governance (continued)

Compliance and Complaints

Historically the Council has had to deal with a significant number of complaints against District Councillors. The Standards Committee was provided with a summary report of the complaints received over the two financial years. In 2021/22, 49 complaints against District Councillors were received, 23 of which found that a breach of the Code of Conduct had occurred. It was noted that 22 of these complaints related to the same incident. Similarly, in 2022/23, 26 complaints against District Councillors were received, resulting in the finding of one breach. At 29 August 2023, six complaints against District Councillors had been received with no breaches found - however, the Monitoring Officer has conducted two investigations outside of receiving a formal complaint which resulted in two breaches of the Code of Conduct having been found.

The introduction of a Standards Committee is a positive step and will ensure that the Council's Monitoring Officer, who is responsible for considering complaints against Councillors where allegations of a breach of the Code of Conduct are made, is fully supported. There is no requirement for the Monitoring Officer to provide an annual report on Code of Conduct cases to Full Council and therefore the creation of the Standards Committee will assist with demonstrating that there is effective oversight and accountability in the process. The Committee will also help promote positive behaviours and improve relationships between members and officers.

Ombudsman

In 2021/22, 15 complaints were considered by the Ombudsman. We note that the Ombudsman carried out no detailed investigations during this period and no recommendations were due for compliance in this period nor any upheld decisions.

In contrast, a total of ten complaints were considered by the Ombudsman during the period between 1 April 2022 to 31 March 2023. Of these ten complaints three detailed investigations were undertaken by the Ombudsman, of which one decision was upheld. This compares to an average of 59% in similar organisations where complaints were investigated and upheld. The Ombudsman ruled that the Council was at fault for a delay in responding to the enforcement complaint, but that it did not cause significant injustice and there was no fault in the Council's decision-making.

Non-Disclosure Agreements

Our review found that the number of non-disclosure agreements (NDAs) executed by the Council was significantly higher than we would expect to see, and higher than we see at other authorities. The reasons for these NDAs, in both 2021/22 and 2022/23, included redundancies, mutual terminations, grievances and flexible retirements. We note that the Council had a major restructure at Director level following the appointment of the current Chief Executive Officer, and service-level restructures have taken place in 2021/22, inevitably resulting in some redundancies.

Discussions with officers have confirmed that the case for each NDA is determined on its own merit. The Council uses an authorisation form to ascertain the views of different statutory officers based upon the business case put forward, prior to a final decision being made by the Head of Paid Service.

In our view, the Council should complete a review of the historic use of NDAs to consider their use, any overarching themes that might be addressed, and whether or not the Council is satisfied that this was the most appropriate outcome to the process in each case.

Following on from this review, the Council should ensure that it reviews the processes and controls in place that are to be followed before arriving at the decision to use a Non-Disclosure Agreements (NDA). This should include a review of the guidance in place regarding when the use of an NDA may be appropriate, and what alternatives should be considered and ruled out; and consideration of whether improvements can be made to the documentation of that process going forward.

Due to the high number of NDAs used by the Council over the course of the financial years under review, we consider there to be a significant weakness in the Council's arrangements. We have therefore raised a Key Recommendation in this area, as per page 5 of this report.

Governance (continued)

Gifts and Hospitality

The Council's Gifts & Hospitality Policy is part of the Member and Employee Codes of Conduct included within the Constitution and we are satisfied that appropriate arrangements for the recording and oversight of members' gifts and hospitality are in place at the Council. The Monitoring Officer is responsible for producing and maintaining the register of gifts and hospitability received by officers and members. Directors are responsible for maintaining an up-to-date list of gifts, hospitality and interests within their Service in adherence with the principles in the guidance.

Declarations of Interests

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As included in the Council's Constitution, all members are required by the members' Code of Conduct to declare any disclosable pecuniary interests or other registerable interests and non-registerable interests which have not already been declared in the Council's Register of Interests. Members are required within 28 days of becoming a member or re-election or re-appointment to office to register with the Monitoring Officer the interests which are clearly stated in the Constitution. The onus is on the individual members to ensure that the register of interests is updated and to notify the Monitoring Officer of any changes.

We confirm that there is a standing agenda item at all meetings for members to make such declarations, and our review of committee papers shows references to members asking to declare any interests. All members and chief officers are required to complete an annual statement relating to third party transactions and a register of members' interests is maintained.

The register of interests for members is a public document and is available to view on the Council website via a link on each of the Councillors' profiles. We reviewed profiles of 5 members and confirmed that the register of interests was updated as at September and October 2022 and declarations were clearly stated.

We note that since 2021/22 an annual refresh of the declarations register has been introduced whereby before every annual meeting, Councillors are given a new form and their existing form to complete. Nil returns are also required to be signed for publication. This is notable practice and demonstrates that the Council are reviewing the information annually ensuring it is current and up to date and we are satisfied with the arrangements in place.

Conclusion

We have identified a significant weaknesses in arrangements relating to the Council's use of NDAs during the years 2021/22 and 2022/23, and have raised a key recommendation in this area.

We have also made a number of improvement recommendations where we consider that the Council's arrangements can be improved, as detailed over the following pages.

Improvement recommendations

Governance

Recommendation 2	It is noted that work is underway to review the Council's Risk Management Framework and Strategic Risk Register. As part of this review, the Council should consider whether there could be greater level of oversight of the strategic risks impacting the Council if the format of the strategic risk register was updated.
Audit year	2021/22 and 2022/23
Why/impact	An updated strategic risk register with a greater level of information and detail would enhance existing risk management arrangements.
Auditor judgement	Our work has enabled us to identify a weakness in arrangements which we do not consider to be significant but have raised a recommendation to support management in making appropriate improvements.
Summary findings	The Council's Strategic Risk Register effectively includes the internal controls required to evaluate, treat, monitor, and control the risks. However, there are some improvements that the Council should consider to further strengthen its risk management review.
Management Comments	The Strategic Risk register has been reviewed in 2023/24, a draft version of the register was presented to the Governance and Audit committee on 29 November and the final version will be presented to the committee on 13 March 2024 for approval.

Improvement recommendations

Governance

Recommendation 3	The Council should work with RSM to ensure that the change in internal audit provision does not impact on delivery of the agreed 2023/24 Internal Audit Plan and ensure that any amendments to the plan are developed in consultation with G&AC taking into account the Council's key aims and objectives and any associated risks.
Audit year	Forward-looking
Why/impact	Internal Audit plays an important part in the Council's internal control environment and it is critical that the 2023/24 Internal Audit Plan is delivered in a timely manner.
Auditor judgement	Our work has enabled us to identify a weakness in arrangements which we do not consider to be significant but have raised a recommendation to support management in making appropriate improvements.
Summary findings	The Council's original Internal Audit provider, Assurance Lincolnshire, terminated their contract with the Council in September 2023.
Management Comments	The Council has monthly meetings with RSM to review the progress of the 2023/24 Audit Plan. All planned audits are on target for delivery by 31 March 2024.

Improvement recommendations

Governance

Recommendation 4	Officers should provide G&AC members with a formal, annual update on all data breaches (including any nil returns), and performance figures for FOIs and subject access requests to ensure there is full transparency in the process and members are fully informed. We also recommend that information on the number of corporate complaints received is reported to the relevant O&S committee on a regular basis.
Audit year	2021/22 and 2022/23
Why/impact	The Council does not have formal oversight of all data breaches (including any nil returns), performance figures for FOIs and subject access requests and information on number of corporate complaints received including whistleblowing cases and formally reporting the same to G&AC would enhance transparency.
Auditor judgement	Our work has enabled us to identify a weakness in arrangements which we do not consider to be significant but have raised a recommendation to support management in making appropriate improvements.
Summary findings	Discussion with management confirmed that information is only reported to G&AC if it is deemed significant. If it is not deemed to be significant, members may not receive any update.
Management Comments	This is a sensible recommendation which would strengthen the Council's openness and transparency regarding is data and information governance responsibilities.

Improvement recommendations

Governance

Recommendation 5	The Council should consider keeping a record of discussions, or formal minutes, for meetings of the Statutory Officers Group for accountability and transparency purposes.
Audit year	2021/22 and 2022/23
Why/impact	The minuting of statutory officers group meeting would enhance decision making processes with the Council.
Auditor judgement	Our work has enabled us to identify a weakness in arrangements which we do not consider to be significant but have raised a recommendation to support management in making appropriate improvements.
Summary findings	We have established that no minutes of the statutory group are taken but there is a live action log that is populated and updated as and when actions have been addressed. This means that there is no record of previous actions or discussions.
Management Comments	The Statutory Officer Group is a discretionary internal group of the Council's three Statutory Officers and their deputies. The group therefore reserves the right to operate in a way which they feel is appropriate. Please be reassured that action notes have always been and continue to be taken and monitored.

Improvement recommendations

Governance

Recommendation 6	The Council should ensure that an annual report is produced for each of its Overview and Scrutiny committees detailing the work undertaken by the committee in the year is produced and presented to Full Council.
Audit year	2021/22 and 2022/23
Why/impact	An annual report of the work of the Overview & Scrutiny committees would enhance transparency and be in adherence to the requirements of the Council's Constitution (Article 2 paragraph 6.4).
Auditor judgement	Our work has enabled us to identify a weakness in arrangements which we do not consider to be significant but have raised a recommendation to support management in making appropriate improvements.
Summary findings	Although there are detailed papers available online for each Overview and Scrutiny committee meeting, we could not establish an overarching single document summarising the work of each committee undertaken in the year.
Management Comments	Management agree with this recommendation and will ensure that an annual report on the Council's Overview and Scrutiny activities is reported to Full Council every year.

Improvement recommendations

Governance

Recommendation 7	The Council should ensure that there is clear guidance on which training is and is not mandatory as part of the annual training programme so there is a clear expectation of what is required from members.
Audit year	2021/22 and 2022/23
Why/impact	The Council should make it clear to Members the expectation placed upon them in respect to training.
Auditor judgement	Our work has enabled us to identify a weakness in arrangements which we do not consider to be significant but have raised a recommendation to support management in making appropriate improvements.
Summary findings	We have identified that there is no clear guidance on whether this training is mandatory for members.
Management Comments	The Council's Governance and Audit Committee will be requested to give due consideration as to what training should be mandatory for all Members and make a recommendation to Full Council in respect of necessary constitutional changes.

Improvement recommendations

Governance

Recommendation 8	The Council should ensure that all members attend the mandatory code of conduct training, so Councillors are aware of the expected models of behaviour and to provide check and balance in their conduct.
Audit year	2021/22 and 2022/23
Why/impact	The code of conduct for members is an important document describing required standards of behaviour and the Council should ensure that all members have completed the required training.
Auditor judgement	Our work has enabled us to identify a weakness in arrangements which we do not consider to be significant, but have raised a recommendation to support management in making appropriate improvements.
Summary findings	51 out of the 56 Councillors attended code of conduct training in 2022/23. We were not provided comparative figures for 2021/22.
Management Comments	It is a requirement of the Councillor Code of Conduct for Councillors to attend training on the Code of Conduct. Since this audit was undertaken four additional Members attended the training. Further offers of training will be made throughout the year to ensure 100% compliance.

Improving economy, efficiency and effectiveness

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We considered how the Council:

- uses financial and performance information to assess performance to identify areas for improvement
- evaluates the services it provides to assess performance and identify areas for improvement
- ensures it delivers its role within significant partnerships and engages with stakeholders it has identified, in order to assess whether it is meeting its objectives
- where it commissions or procures services assesses whether it is realising the expected benefits.

Performance information

The South Kesteven Corporate Plan 2020-23 was approved by full Council on 1 October 2020. It was agreed by the Council that actions, Key Performance Indicators (KPIs) and targets would be developed by the relevant overview and scrutiny committee, which would retain oversight of the performance management arrangements at a strategic level. These performance arrangements were presented to the Finance and Economic Overview and Scrutiny Committee and agreed on 23 February 2021. A mid-year report for 2021/22 was presented to the Finance, Economic Development and Corporate Services Overview and Scrutiny Committee   In December 2021 and outlined the performance against the Corporate Plan for the financial year to date, included the first annual review of all Corporate KPIs, and contained recommendations for changes, additions, and removals.

Each of the Overview & Scrutiny Committees report their year-end performance on specific KPIs and metrics. The Council's 2021/22 performance against its Corporate Plan Finance KPIs was reported in the Finance, Economic Development & Corporate Services Overview & Scrutiny committee in July 2022 and 2022/23 performance was presented at the June 2023 meeting.

Reported performance as at 31 March 2022 and 31 March 2023 is shown below.

2021/22	2022/23	Action RAG Status
56% (9/16) of KPIs were rated Green.	56% (6/11) of KPIs were rated Green.	G: actions which were on, or above target as planned
44% (7/16) of KPIs were rated Amber.	45% (5/11) of KPIs were rated Amber	A: actions off target by less than 10%.
0 actions were rated Red.	0 actions were rated Red.	R: actions falling significantly below target or overdue with no specific resolution date planned.

For both years it was concluded that there were no areas of significant under-performance, and that positive improvements were shown, especially when comparing 2021/22 to the previous report which had 1 action rated as 'red'. Within the report there is a summary for each action that details quarterly performance, and the measures to be achieved by each quarterly target. Performance for each indicator is RAG rated and a narrative on performance is included if actual performance differs from the target.

In March 2022, Cabinet was presented with a report that outlined a revised action plan within the revised version of the Corporate Plan with new actions and the removal of some actions due to completion. An action control list shows the list of remaining actions, their relevant Cabinet Member, and the scrutiny committee to which they will be reported. It should be noted 2023/24 is the final year of monitoring these existing KPIs due to the imminent introduction of the new Corporate Plan.

We are satisfied that the Council provides sufficient performance information to enable monitoring of the Council's performance and identify areas for improvement.

Improving economy, efficiency and effectiveness (continued)

Benchmarking

Our discussions with management have indicated that any benchmarking used by the Council is dependent on, and varies significantly by, service area. Officers also use data provided by the Office for Local Government (Oflog), a new performance body for local government to measure service performance. The Council has produced a 'State of District' report which includes a lot of statistical information that has been taken from Oflog and benchmarks the Council against other Lincolnshire authorities.

The State of District report is the Councils first an annual report on the performance of the Council against key socio-economic indicators was presented to Cabinet at the September 2023 meeting. Using the latest available statistics, the report provides an up to date, balanced, objective and comprehensive description of the social and economic performance of the district of South Kesteven. It highlights the unique characteristics of the area, its strengths and positive trends, but also flags the key issues and challenges that the district will face over time.

The report provides part of the evidence base that informs the Corporate Plan and the other policies, strategies and initiatives actioned by the Council. The report also aims to be a useful resource for all stakeholders: partners, businesses, civil society organisations and members of the public, whether resident to the district or beyond who wish to learn more about South Kesteven.

The report is intended to provide all stakeholders, internal and external, with useful information in order to learn more about South Kesteven; it is proposed that the report will be updated annually and will be made available in full to all members of the Council.

Our review of service performance on Oflog's website shows that service data is available for waste management, adult social care, adult skills and finance for 2021/22. The Council's household waste recycling rate was 39.7% and the performance of councils in the comparative group was 40.2%. For recycling contamination waste the Council performed better than its comparator group with 16.4% being recycled against the median comparator performance of 6.3%; for recycling residual household waste a measure of waste collected that is not recycled, the Council performed better than the England median at 517kg compared to 501.1kg per household. The best environmental outcome is a reduction in the amount of household waste being produced so this metric is important for local authorities to inform waste management performance.

We established that benchmarking is carried out in individual departments such as within Finance and Housing. However, benchmarking is not formalised across the Council, and benchmarking data is not presented to Cabinet for information and oversight to allow them to benchmark service delivery.

We recommend that the Council considers formalising its use of benchmarking across directorates, and have raised an improvement recommendation in this area.

External reviews

The Council took part in the Local Government Association (LGA) Peer Review process in November 2021. The findings of which were reported to Cabinet at its meeting on 8 February 2022. We note that the findings of the Corporate Peer Challenge (CPC) were largely positive, highlighting a number of strengths for the Council whilst also identifying some areas for focus and improvement.

An action plan was developed for the nine recommendations made following the findings of the Peer Challenge, detailing the work the Council had already undertaken in response, confirmation as to the next steps and associated timelines for implementation and delivery. The LGA CPC Panel was invited back to the Council on 21 September 2022 as part of a six-month progress review against the findings of the Peer Challenge and the recommendations made. The Panel found that the Council had made significant progress and had advanced with a programme of improvement to address the recommendations.

At the time of our review a final summary document was in process of being produced, capturing all actions taken as a result of the Peer Review, and any final outstanding actions to address any areas where further improvements were suggested

Improving economy, efficiency and effectiveness (continued)

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Housing Regulatory Notice

In February 2021 the Chief Executive determined, in consultation with the Leader and Cabinet Member for Housing and Planning, to self-refer the Council to the Regulator of Social Housing for its failure to comply with a range of legally required safety checks to protect its tenants with year-on-year failures in respect of gas, electricity and fire prevention measures. As a local authority registered provider, the Council is required to comply with the consumer standards, including the Home Standards. The Regulator found the Council's case to be in breach of part 1.2 of the Home Standards which requires registered providers to have a cost-effective repairs and maintenance service and to meet all applicable statutory requirements that provide for the health and safety of occupants in their homes. The Regulator's assessment of the information they had received through the self-referral from the Council was that it had failed to meet statutory health and safety requirements; specifically, the requirements in relation to fire safety, the safety of heating appliances, electrical safety, and asbestos safety.

The Council put in place a programme to rectify these failures to provide assurance to the Regulator that the breach of the standard was being remedied. The Council established a specific Housing Overview and Scrutiny Committee in May 2023 to oversee the work that was being undertaken against the Notice with the Regulator, and update reports on progress were provided at each meeting. We note Housing was previously part of the terms of reference for the Rural and Communities Overview and Scrutiny Committee.

Monthly meetings took place with the Regulator, with current performance and plans shared at these meetings. This allowed the Regulator to work with Officers in a constructive and helpful way.

At the September 2023 Housing Overview and Scrutiny Committee it was reported that a full tenant consultation exercise was undertaken – "The Big Listen" – in 2022. This involved several questions on both the current experience of tenants in terms of the services the Council offers as a landlord, and what they would like to see prioritised in the Housing Revenue Account Business Plan. In July 2023, a second annual Tenant Satisfaction survey was completed, the results of which will be shared at the next Housing Overview and Scrutiny Committee as reported at the September 2023 meeting.

An external Housing compliance audit was carried out to validate the work done by the Council, following which the Regulator removed the notice. Following the development of a comprehensive action plan no further recommendations were made. Members were provided with a KPI overview document which showed the starting position of compliance performance at the point of notice and performance as at July 2023. Our review of this document highlights the significant work the Council has undertaken to work towards the Notice being removed. The decision was withdrawn by the Regulator on 25 October 2023.

As the Regulator is satisfied with the action that the Council has taken, we are satisfied that appropriate arrangements were in place during the 2021/22 and 2022/23 financial years, demonstrated by the significant progress that has been made over the two financial years.

Partnership Working

The Corporate Plan (2020-2023) acknowledges how the Council works together with other public sector partners across Lincolnshire and the wider region so that individually and collectively they deliver for their residents and businesses. Working in partnership with others is a key area that the Council is developing as it continues to embed and strengthen its approach to partnership working. Evidence of this is the creation of the Partnership Governance Policy which was presented to the G&AC at its April 2022 meeting. The policy was developed in response to a review carried out by Internal Audit where it was identified that the Council should have a Partnership Policy in place as best practice. This would help to ensure a consistent approach to how the Council managed partnerships.

The policy provides guidance and ensures there is consistency when entering into key partnerships and ensures for example the Council's formal partnership arrangements promote at least one of the corporate priorities. It also aims to ensure that the Council maintains a structured approach to entering into partnerships and ensuring appropriate governance of its partnerships, providing a framework to allow robust challenge and scrutiny.

Improving economy, efficiency and effectiveness (continued)

In 2021/22 work had started on the process of developing a Partnership Register to confirm arrangements the Council had in place with partners and shared working arrangements and was reported at the April 2022 G&AC that a Partnership Register would be established. However, at the time of our review, we report that the Partnership Register had not been published and was still in draft for final approval by Central Management team (CMT). Once approved the Register will be refreshed annually and oversight and monitoring of the Register will sit under each Overview and Scrutiny Committee, which will oversee those partnerships pertinent to their respective areas of responsibility in terms of the service areas under their remit. The Partnership Register will be a live document that will be recirculated and discussed by the senior leadership team for monitoring and oversight to ensure any additions and amendments are made accordingly. All partnerships must have a nominated lead officer from the Council who is responsible for the day-to-day relationship with any partner organisation, to ensure there is effective accountability for that partnership and maintenance of the risk register for each partnership.

The Register outlines the terms of reference in place for each partnership, that clearly sets out what that partnership should be doing, and a commitment from each partner involved ensuring that there is an emphasis on driving service improvement and performance with the onus on the partnership ensuring that it is working effectively.

The Council continued to be part of the of the Lincolnshire Counter Fraud Partnership in both the 2021/22 and 2022/23 years. The Partnership was established to create the framework for a county-wide anti-fraud approach and includes all councils within Lincolnshire who work to develop and deliver proactive exercises and investigate fraud. This has been delivered through targeted fraud awareness campaigns and the sharing of fraud intelligence. The Partnership also provides and manages the whistleblowing Confidential Reporting Line as reported earlier.

We are satisfied that the Council had adequate processes in both years for managing its Partnerships as evident from the requirements detailed in the Policy which feeds into enhancing the Governance Framework of the Council.

We make one improvement recommendation in this area - the Partnerships Register should be finalised and published on the Council's website.

Local Authority Companies

In both the 2021/22 and 2022/23 years, the Council had a number of subsidiary companies that supported the delivery of specific Council objectives. We established that in 2022/23, the services provided by both Environment SK and InvestSK were brought back in house.

EnvironmentSK was wholly owned by the Council and provided facilities management focused on grounds maintenance, arboriculture and horticultural services. We note that six-monthly updates were provided to the Companies Committee on the performance of the company, and the Companies Committee was also responsible for approving the projected budget for 2022/23 and associated Business Plan. During 2022/23 a significant amount of work was undertaken to ensure that the mapping of grounds maintenance responsibilities were accurately recorded in a new Geographic Information System, and a new grounds maintenance specification was developed. These key pieces of information formed the basis of an options appraisal looking at the future of grounds maintenance provision across the district.

We confirmed that a full options appraisal was undertaken prior to the decision to bring EnvironmentSK back in-house. The results of the options appraisal were presented to a joint scrutiny meeting of the Environment Overview and Scrutiny Committee and Rural and Communities Overview and Scrutiny Committee on 6 February 2023. Cabinet then endorsed the decision that the grounds maintenance service be insourced from 1 April 2023.

InvestSK was an economic development company owned by the Council. At its January 2022 meeting, members of the Companies Committee were presented with a report highlighting the options and recommendations relating to efficiencies and financial considerations of insourcing InvestSK. Our review of the committee minutes indicate there was effective scrutiny of the decision being proposed. It was approved that the company be dissolved and the activity transferred to the Council's Growth and Culture Directorate at the end of March 2022. The development of a communication plan was requested by members for both external and internal announcements by the outgoing InvestSK Board of Directors. It was reported at the October 2022 Companies Committee meeting that members noted the successful transfer of all InvestSK staff into the Council's Growth and Culture Directorate, and progress made in dissolving the company. Audited accounts for InvestSK up to March 2022 were presented at the companies committee meeting in December 2022.

Improving economy, efficiency and effectiveness (continued)

Oversight and monitoring of the Council's companies was previously under the remit of the Council's Companies Committee, demonstrating there was an effective mechanism in place that ensured that the work of the companies was held to account and scrutinised. We note that the Companies Committee was decommissioned on 4 May 2023, oversight of the two services above now sits with the relevant Overview & Scrutiny committee. InvestSK under the Finance and Economic Overview and Scrutiny Committee and EnvironmentSK under Environment Overview and Scrutiny Committee. Monitoring of performance will be carried out via the Corporate Plan KPIs which are both set by and reported to the relevant Overview and Scrutiny Committee.

LeisureSK was established in September 2020 and took over the management of the Council's leisure facilities in January 2021. There is a leisure contract in place between the company and the Council which details the level of service to be provided and includes key performance indicators to measure and monitor performance. Under the terms of the contract, LeisureSK is responsible for the provision of a high quality, accessible leisure service across the district which is attractive to residents and visitors.

The Council's leisure contract arrangement with LeisureSK covers three leisure centres in Grantham, Stamford and Bourne. In July 2021, the Council closed the Deepings Leisure Centre as, due to its age and condition, it posed significant health and safety risks. Prior to its closure the Leisure Centre had been impacted by COVID-19 recovery so there was limited impact on service delivery between years. Deepings Leisure Centre was removed from the contract with the building being handed back to Lincolnshire County Council in January 2023.

LeisureSK has a Council appointed Board of Directors, which includes a Non-Executive Director, who are responsible for the operational and financial performance of the company. The Board of Directors meet monthly to consider a range of issues including financial updates. Operational issues are recorded on a balanced scorecard for assessment by the Board. In addition, the company delivers an annual business plan which is assessed by the Culture and Leisure Overview and Scrutiny Committee.

There are contract monitoring arrangements in place to ensure that LeisureSK delivers on its contract objectives and key performance indicators. The contract in place between the Council and LeisureSK is accompanied by a leisure specification which sets out the level of service to be provided. The Council's Leisure Team perform regular planned visits and spot checks are undertaken to the leisure centers with any required rectifications provided to site managers with agreed timescales for completion. In addition, quarterly client monitoring meetings take place between the Contract Manager for LeisureSK and senior managers within the Councils team for Leisure, Parks and Open Spaces to ensure that the company is delivering the Council's objectives and to identify any issues in service delivery.

We are satisfied that the council has robust oversight and monitoring arrangements, both of those services that have been brought back in house and of its leisure services.

Stakeholder consultation

The Council reports in its Annual Governance Statement for both years that it will comply with the principle of ensuring openness and comprehensive stakeholder engagement as per the CIPFA/Solace Framework. All meetings are open to the public with agenda papers, reports and decisions published on the Council's website, with exemption of those determined as exempt from publication. The Council's Constitution sets out how the authority engages with stakeholders and partners via the oversight of the Overview and Scrutiny Committees.

The Council has aimed to take a proactive approach in relation to stakeholder consultations during both 2021/22 and 2022/23, and how the authority engages with stakeholders and partners is set out in the Council's Constitution. During both years we note that several key stakeholder consultations were carried out. For example, in 2021/22, a consultation was undertaken on the River Witham/Slea Blue Green Corridor to measure the degree of support for the project which included the creation of wetland areas, wildflower meadows and in-channel berms in the River Witham. A total of 482 responses were received and 90% of respondents believed that the Blue Green Corridor was important for wildlife and 74% agreed with the proposal to improve elements of Grantham's Blue Green Corridor.

Improving economy, efficiency and effectiveness (continued)

Another significant public consultation was carried out in March 2022, being the Community Governance Review Consultation with the residents of Grantham and surrounding parishes, along with key stakeholders. The aim of the review was to establish if key stakeholders supported the creation of a new town council. An additional element of targeted consultation was undertaken with residents in three parishes on the periphery of the Grantham boundary. Total responses received were 1,487 and 66% of respondents thought a town or parish council should be set up to serve the town of Grantham and 64% thought any new town or parish council should be divided into wards based on the existing ward boundaries.

We note that the results of both these consultation exercises were reported to Full Council on 1 March 2023.

The Council's website provides information on consultation and how residents can get involved and included in the decisions that the Council make. To date residents have been asked about the Council's priorities, levels of council tax, the Council's website and the different ways residents are able to contact the Council. The Council has a published Consultation Framework and Toolkit dated 2013-2016.

As per the Council's website this was to be replaced by the revised 2017-2020 toolkit, however this has not yet been uploaded, and neither toolkit reflects the current consultation periods. We confirmed that there was no up to date version of the Consultation Toolkit available. We have raised an improvement recommendation that the Council should ensure that out of date policies are removed from its website and replaced with current versions.

Procurement

We made specific queries of the Council in relation to procurement, to which we have received no response. The below assessment is based on publicly available information and reporting.

The Council's Contract Procedure Rules form part of the Constitution. At its April 2022 meeting, G&AC members were informed of the updated Contract Procedure Rules which had last been updated in January 2020. The document was confirmed as having been reviewed regularly, but since it had last been updated changes had been made in relation to procurement best practice and legislation following the United Kingdom leaving the European Union. The adoption of the proposed rules would ensure that the Council has rules that reflect the current procurement legislation, provide clarity to procurement officers, and ensure there is consistency across service areas.

The purpose of these Contract Procedure Rules is to set out the principles, roles and processes involved in procurement at the Council and to ensure that procurements realise value for money through the optimum combination of whole life costs and quality of outcome.

Procurement arrangements for both financial years have been provided through the Council's shared procurement service, Welland Procurement, which provides operational and strategic procurement services. Contracts are awarded via procurements compliant with Public Contract Regulations (2015). The Council does not operate an Approved List of Suppliers. Instead, for contracts up to £75,000, they run a 'request for quotation' process, for contracts valued between £75,000 and £181,000, 'Invitations to Tender' are published via the online Contracts Finder or East Midland Transfer portal available online on the Council's website. Contracts valued over £181,000 will be procured in accordance with EU Regulations.

An annual service plan is agreed by the Council for the financial year and work is allocated through the Welland Procurement team. Updates are provided to the Council through the Section151 Officer who is the responsible lead officer. Welland circulates updates, best practice and relevant information on a regular basis. There are quarterly Welland Board meetings, and annual reports are produced along with staff briefing notes.

We have not identified any particular areas of concern in the Council's procurement arrangements.

Improving economy, efficiency and effectiveness (continued)

Carbon reduction

The UK government has a target of 100% reduction in 1990 greenhouse gas emissions by 2050. Many of the carbon budgets set by the government are relevant to Local Authorities. By June 2022, more than 250 English Local Authorities in England had declared Climate Change Emergencies and set carbon reduction targets of their own.

To deliver value for money whilst also implementing carbon reduction, Local Authorities need strong processes. Carbon reduction costs need to be reflected within medium-term financial plans; funding needs to be consistent with other strategic priorities; costs need to be accurately recorded and monitored; and the relative costs of acting versus not acting need to be evaluated on an ongoing basis.

Climate change is often already reflected in local authority risk registers and where local authorities set themselves strategic goals around carbon reduction, effective processes for monitoring progress against those goals is needed. Training should be kept up to date both for executives and for members overseeing climate change and carbon reduction risk and performance. As legal requirements are evolving and new sources of funding and grants continue to come forward, horizon scanning for new duties and opportunities will also need to be vigilant.

Climate Change

The Council's Climate Action Strategy sets out the proposed approach to address carbon emissions and climate change within the district. The Council made a formal declaration of climate emergency on 26 September 2019 with cross-party support.

Alongside this, the Council confirmed the political ambition to reduce the organisation's carbon footprint by at least 30% by 2030, and to endeavour to become net-zero as soon as viable before 2050. Over three-quarters of local authorities in the UK have now taken the step of declaring a climate emergency and the development of a Climate Strategy is a welcomed and progressive step by the Council.

The Climate Action Strategy was presented to the Environment Overview and Scrutiny Committee at its March 2023 meeting. The purpose of this Strategy is to provide a framework for action for South Kesteven to reduce carbon emissions and safely adapt to the unavoidable impacts of climate change. Our review of the Strategy highlights that the Council have proposed eight distinct policy areas to focus upon regarding climate change:

- Built Environment
- Power
- Growing our green economy
- Natural Environment
- Transport
- Resources
- Communities
- Decision making

The Climate Action Strategy proposes a three-part framework for action: short term (2023-2025), medium term (2025-2030) and longer term (2030 and beyond). This timeframe reflects the Council's own aspiration to reduce carbon emissions from Council operations by at least 30% by 2030.

The Council is driving forward its significant programme to achieve its target of net zero by 2050. Such initiatives have included the securing of £1.2m of funding to deliver energy efficiency upgrades to targeted homes within the district and 152 properties have received upgrades to low-carbon heating systems, which will make homes warmer and reduce energy costs for tenants.

Improving economy, efficiency and effectiveness (continued)

Conclusion

Overall, although we have identified areas for improvement in arrangements, these represent actions to be taken to ensure best practice in ensuring resources are managed effectively and do not represent a weakness in current arrangements.

The Council's arrangements remain fit for purpose and improvements have been evidenced, especially on the work of Partnerships since the prior year, demonstrating a positive direction of travel.

In particular we note the significant work the Council has undertaken with the Regulator of Social Housing.

Improvement recommendations

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Improving economy, efficiency and effectiveness

Recommendation 9	The Council should consider formalising the use of benchmarking data across directorates, and implementing regular reporting to ensure that Cabinet has the information that it needs to drive performance and inform service delivery.
Audit year	2021/22 and 2022/23
Why/impact	The use of benchmarking data will not only enhance performance reporting but will allow for improvements in service delivery to be identified.
Auditor judgement	Our work has enabled us to identify a weakness in arrangements which we do not consider to be significant but have raised a recommendation to support management in making appropriate improvements.
Summary findings	The Council does not use local benchmarking in a formal and consistent approach, but we recognise it is service dependant. Incorporating benchmarking data in performance information reports to Cabinet will provide greater clarity in service delivery performance.
Management Comments	This will be reviewed by the Council and benchmarking data used where it is considered the information will improve performance and service delivery.

Improvement recommendations

Improving economy, efficiency and effectiveness

Recommendation 10	We recommend that the Partnership Register is finalised and approved to be published on the Council's website.
Audit year	2021/22 and 2022/23
Why/impact	The publication of the Partnership Policy will allow for greater transparency and oversight.
Auditor judgement	Our work has enabled us to identify a weakness in arrangements which we do not consider to be significant but have raised a recommendation to support management in making appropriate improvements.
Summary findings	The Council started the process in 2021/22 in developing a comprehensive Partnerships Register but we report that in 2022/23 this has not been completed for publication.
Management Comments	The Council's Partnerships Register is finalised and available for viewing on the Council's website.

Improvement recommendations

Improving economy, efficiency and effectiveness

Recommendation 11	The Council should ensure out of date policies are removed from the Council's website and replaced with current policies if available.
Audit year	2021/22 and 2022/23
Why/impact	Outdated policies can leave the Council at Risk and may not address new principles or guidance.
Auditor judgement	Our work has enabled us to identify a weakness in arrangements which we do not consider to be significant but have raised a recommendation to support management in making appropriate improvements.
Summary findings	The Council's Consultation Framework and Toolkit that can be access from its website is dated 2013-2016 and has not been replaced with a revised current version. We confirmed with management and report that an up-to-date version is not available.
Management Comments	A review of policies was undertaken as part of the implementation of the new website. An annual review process will be implemented.

Follow-up of previous recommendations

	Recommendation	Type of recommendation	Date raised	Progress to date	Addressed?	Further action?
1	The Council needs to consider whether its existing strategies in relation investments property portfolio and operational estate are appropriate. In particular the Council should review whether changes in working practices and service provision arising from Covid-19 have impacted on the operational assets it holds.	Improvement	May 2022	The Council approved an Assets Disposal Strategy in December 2021 in order to systematically review the asset portfolio and consider which assets can be disposed of where there is no operational need to retain ownership or where the costs of holding the asset outweighs either the objective need or the income generation opportunity	Yes	No
2	The following improvements to the Strategic Risk Register should be considered: • There should be a linkage to the Council's objectives as set out in the Corporate Plan 2020-23; • A target score could be identified to provide an indication of what level of risk is tolerable and show how far the existing arrangements are from achieving this; and • Each risk has a number of actions planned but these should be SMART (specific, measurable, achievable, realistic, and timely).	Improvement	May 2022	We have re-raised an improvement recommendation on the enhancement of the Strategic Risk Register as this work is being completed in 2023/24.	In progress at the time of this report	

Opinions on the financial statements for 2021/22 and 2022/23

Audit opinion on the financial statements

We gave an unqualified opinion on the Council's financial statements for the 2021/22 year on 6 October 2023.

We anticipate giving an unqualified opinion on the financial statements for the 2022/23 year following the Governance & Audit Committee meeting on 24 January 2024.

Audit Findings Report

More detailed findings can be found in our Audit Findings Reports, which were published and reported to the Council's Governance & Audit Committee on 26 September 2023 and 24 January 2024 respectively.

Whole of Government Accounts

To support the audit of the Whole of Government Accounts (WGA), we are required to review and report on the WGA return prepared by the Council.

We are not required to undertake detailed work at the council as the expenditure is below the deminimus level set by the NAO.

Preparation of the accounts

The Council provided draft accounts and supporting working papers in line with the agreed timetable for each year.

Issues arising from the accounts:

There were no significant matters arising from the audits.

Grant Thornton provides an independent opinion on whether the accounts are:

- True and fair
- Prepared in accordance with relevant accounting standards
- Prepared in accordance with relevant UK legislation

Appendices

Appendix A – Responsibilities of the Council

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

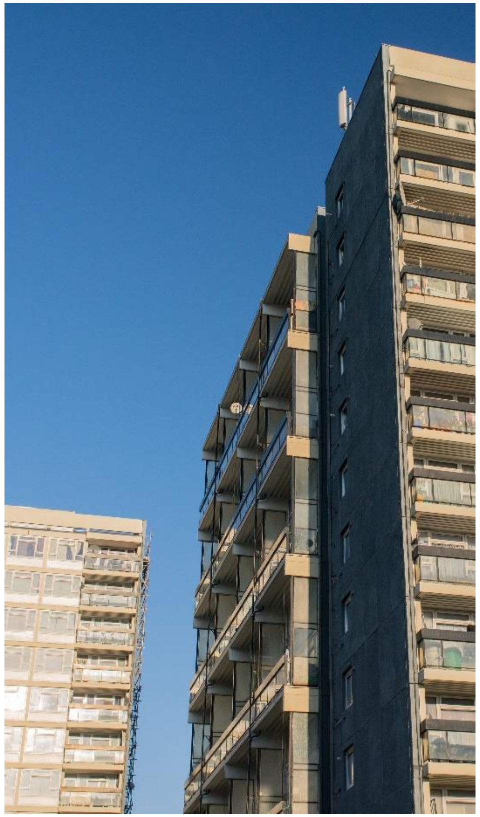
Financial statements are the main way in which local public bodies account for how they use their resources. Local public bodies are required to prepare and publish financial statements setting out their financial performance for the year. To do this, bodies need to maintain proper accounting records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

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

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

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

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



Appendix B – An explanatory note on recommendations

A range of different recommendations can be raised by the Council's auditors as follows:

Type of recommendation	Background	Raised within this report	Page reference
Statutory	Written recommendations to the Council under Section 24 (Schedule 7) of the Local Audit and Accountability Act 2014.	No	
Key	The NAO Code of Audit Practice requires that where auditors identify significant weaknesses as part of their arrangements to secure value for money they should make recommendations setting out the actions that should be taken by the Council. We have defined these recommendations as 'key recommendations'.	Yes	Page 5
Improvement	These recommendations, if implemented should improve the arrangements in place at the Council, but are not a result of identifying significant weaknesses in the Council's arrangements.	Yes	Financial Sustainability – Page 13 Governance – Pages 26-32 Improving Economy, Efficiency and Effectiveness – Pages 41-43

Appendix C – Use of auditor's powers

We bring the following matters to your attention:

	2021/22	2022/23
Statutory recommendations Under Schedule 7 of the Local Audit and Accountability Act 2014, auditors can make written recommendations to the audited body which need to be considered by the body and responded to publicly	We did not issue statutory recommendations in relation to 2021/22.	We did not issue statutory recommendations in relation to 2022/23.
Public Interest Report Under Schedule 7 of the Local Audit and Accountability Act 2014, auditors have the power to make a report if they consider a matter is sufficiently important to be brought to the attention of the audited body or the public as a matter of urgency, including matters which may already be known to the public, but where it is in the public interest for the auditor to publish their independent view.	We did not issue a public interest report in relation to 2021/22.	We did not issue a public interest report in relation to 2022/23.
Application to the Court Under Section 28 of the Local Audit and Accountability Act 2014, if auditors think that an item of account is contrary to law, they may apply to the court for a declaration to that effect.	We did not apply to the court in relation to 2021/22.	We did not apply to the court in relation to 2022/23.
Advisory notice Under Section 29 of the Local Audit and Accountability Act 2014, auditors may issue an advisory notice if the auditor thinks that the authority or an officer of the authority: • is about to make or has made a decision which involves or would involve the authority incurring unlawful expenditure, • is about to take or has begun to take a course of action which, if followed to its conclusion, would be unlawful and likely to cause a loss or deficiency, or • is about to enter an item of account, the entry of which is unlawful.	We did not issue an advisory notice in relation to 2021/22.	We did not issue an advisory notice in relation to 2022/23.
Judicial review Under Section 31 of the Local Audit and Accountability Act 2014, auditors may make an application for judicial review of a decision of an authority, or of a failure by an authority to act, which it is reasonable to believe would have an effect on the accounts of that body.	We did not apply for judicial review in relation to 2021/22.	We did not apply for judicial review in relation to 2022/23.

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SOUTH KESTEVEN DISTRICT COUNCIL

Governance and Audit Committee

24 January 2024

Report of Councillor Ashley Baxter, Deputy Leader of the Councillor

Statement of Accounts and Annual Governance Statement 2022/23

Report Author

Alison Hall-Wright, Deputy Director (Finance & ICT) and Deputy S151 Officer

Alison.hall-wright@southkesteven.gov.uk

Purpose of Report

The Statement of Accounts 2022/23 is presented to the Governance and Audit Committee for approval. This report covers:

Accounts and Audit Regulations 2015
Accounts and Audit (Amendment) Regulations 2022
Section 21(2) Local Government Act 2003
Revised Statement of Accounts
Commentary on the outcome of the audit of the Statement of Accounts

Recommendations

It is recommended that the Governance and Audit Committee:

1. **Notes the outcome of the audit work undertaken to date by the Council's external auditors Grant Thornton.**
2. **Delegates authority to the Chief Finance Officer to make any final wording changes and accounting adjustments following the conclusion of any outstanding audit queries.**
3. **Delegates approval of the audited Statement of Accounts and the Letter of Representation to the Chairman on behalf of the Governance and Audit Committee in consultation with the Chief Finance Officer**

following the completion of the audit of the 2022/23 Statement of Accounts.

Decision Information	
Does the report contain any exempt or confidential information not for publication?	No
What are the relevant corporate priorities?	High performing Council
Which wards are impacted?	All

1. Implications

Taking into consideration implications relating to finance and procurement, legal and governance, risk and mitigation, health and safety, diversity and inclusion, safeguarding, staffing, community safety, mental health and wellbeing and the impact on the Council's declaration of a climate change emergency, the following implications have been identified:

Finance and Procurement

1.1 The financial considerations are contained in the report and the Statement of Accounts for 2022/23.

Completed by: Richard Wyles, Deputy Chief Executive and s151 Officer

Legal and Governance

1.2 In accordance with the Accounts & Audit (Amendment) Regulations 2022 the target date for the Statement of Accounts to be approved by the Governance and Audit Committee was 30 November 2023. The reasons why the accounts have not been finalised in accordance with the target date are explained in the report.

Completed by: Graham Watts, Assistant Director (Democratic and Public Protection) and Monitoring Officer

2. Background to the Report

2.1 The external audit process has not currently been completed as there is an outstanding query with the Actuary relating to the pension information and the audit of the group accounts needs to be finalised. The Statement of Accounts has been updated to reflect the changes agreed to date with our external auditors, Grant Thornton.

2.2 The target date for completing the 2022/23 audit and publishing the final accounts was 30 November 2023 which the Council did not meet due to delays beyond its control. These delays are commonplace amongst local authorities with many authorities unable to meet the 30 November deadline for similar reasons.

2.3 The ‘Narrative Report’ section of the Statement of Accounts provides a guide to the most significant matters reported. It explains the Council’s financial position and assists in the interpretation of the accounting statements. It provides information about the district, including issues and challenges affecting the Council and its accounts, the political composition, the ambitions of the Council and an overview of the many achievements that have been made to improve the quality of life of the residents, businesses and visitors.

2.4 Pages iv to xviii of the Narrative Report provide a review of the core statements.

2.5 The Council is required to produce an Annual Governance Statement (AGS) in accordance with the CIPFA/SOLACE framework “Delivering Good Governance in Local Government” in order to meet the statutory requirement set out in Regulation 6 of the Accounts and Audit Regulations 2015. The statement is an open and transparent review of the effectiveness of the Council’s system of governance, risk management and internal control, including performance across all its activities.

2.6 Group accounts have been prepared to reflect the Council’s relationship with Gravitas Housing Ltd and LeisureSK Ltd, these have been included in the Statement of Accounts at pages 67 - 72.

Accounts and Audit Regulations 2015

2.7 The external auditor must complete their audit and issue the relevant audit opinion. The external auditor’s draft report is a separate item on this agenda. The purpose of the external audit of the financial statements is to give an opinion on:

4. whether they present a true and fair view of the financial position of the audited body and its expenditure and income for the year in question
5. whether they have been prepared properly in accordance with relevant legislation and applicable accounting standards.

Auditors must provide reasonable assurance that, subject to the concept of materiality, the financial statements:

- are free from material misstatements, whether caused by fraud or other irregularity or error
- comply with the statutory and other requirements applicable to the accounts of the audited body and
- comply with all relevant requirements for accounting presentation and disclosure.

Section 21(2) Local Government Act 2003

2.8 Section 21(2) of the Local Government Act 2003 requires that the Statement of Accounts is prepared in accordance with the statutory framework established by the Accounts and Audit Regulations (England) 2015. The Statement of Accounts which accompanies this report has been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2022/23 based on International Reporting Standards (the Code) produced by CIPFA which sets out proper accounting practices.

Statement of Accounts

2.9 The draft Statement of Accounts was published on 20 October 2023. The Statement of Accounts has been amended to reflect the changes identified to date and which are listed at table 1. An updated set of draft accounts is shown at Appendix A and a commentary setting out the main findings from the audit and subsequent amendments is provided for members consideration.

2.10 Audit Adjustments

Table 1 shows the amendments that have made to the draft accounts to date:

Table 1 - Notes

Page	Note	Description
16	13	**Officer Remuneration** Omission in relation to one senior officer's compensation for loss of employment. This was due to the payment being made in 2023/24.
35	27	**Cash and Cash Equivalents** 'Cash held by authority' included £214k of cash in transit this has been transferred to the 'Bank Current Accounts' line. This does not affect the overall total balance of the note.
69	Group Accounts	**Comprehensive Income and Expenditure Statement** Transactions relating to Gravitas Ltd were included in the Finance Directorate in 2021/22 and in the Housing and Property Directorate in 2022/23, this has been corrected to the Finance Directorate. This does not affect the overall balances on the statement.

3. Reasons for the Recommendations

3.1 Section 21(2) of the Local Government Act 2003 requires the Statement of Accounts to be prepared in accordance with the statutory framework established by the Accounts and Audit Regulations (England) 2015. In accordance with the Accounts and Audit (Amendment) Regulations 2022 once the accounts have been audited, they must be published.

The Council’s Statement of Accounts must be prepared, audited and published in accordance with the following legislation:

Section 21(2) of the Local Government Act 2003
Accounts and Audit Regulations (England) 2015.
Accounts and Audit (Amendment) Regulations 2022

4. Appendices

4.1 Appendix A – 2022/23 Draft Statement of Accounts

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Statement of accounts

2022/23

SOUTH KESTEVEN DISTRICT COUNCIL

C O N T E N T S

Notes to the Accounts

Notes to the HRA

Notes to the Collection Fund

Group Accounts **Page Number**

Narrative Statement

Introduction

The Statement of Accounts for the year ended 31 March 2023 has been prepared in accordance with the requirements of the Chartered Institute of Public Finance and Accountancy (CIPFA).

The Statement of Accounts provides information to enable members of the public, Councillors, partners, stakeholders and other interested parties to:

- Understand the financial position and outturn for 2022/23
- Have confidence that public money has been accounted for in an appropriate manner.
- Be assured that the financial position of the Council is sound and secure.

The Narrative report provides information about the district, including issues and challenges affecting the Council and its accounts, the political make up, the ambitions of the Council and an overview of the many achievements that have been made to improve the quality of life of our residents, businesses and visitors.

Information about the Council

Political Structure

The Council has 30 Wards represented by 56 Members. The political composition of the Council following the election on 4 May 2023 is as follows: 24 Conservatives, 7 Democratic Independents, 7 Grantham Independents, 5 Independents, 4 Green Party, 4 Liberal Democrats, 3 South Kesteven Independents and 2 Labour and Co-operative. The Conservative and South Kesteven Independent Group have formed the South Kesteven Coalition Group which consists of 27 members, the remaining groups have formed a majority coalition of 29 members.

The Council operates with a Cabinet structure, six Overview and Scrutiny Committees and a Governance and Audit Committee responsible for corporate governance and approval of the Statement of Accounts. There is also an Alcohol, Entertainment and Late Night Refreshment Licensing Committee, Employment Committee, Licensing Committee, Planning Committee and Standards Committee.

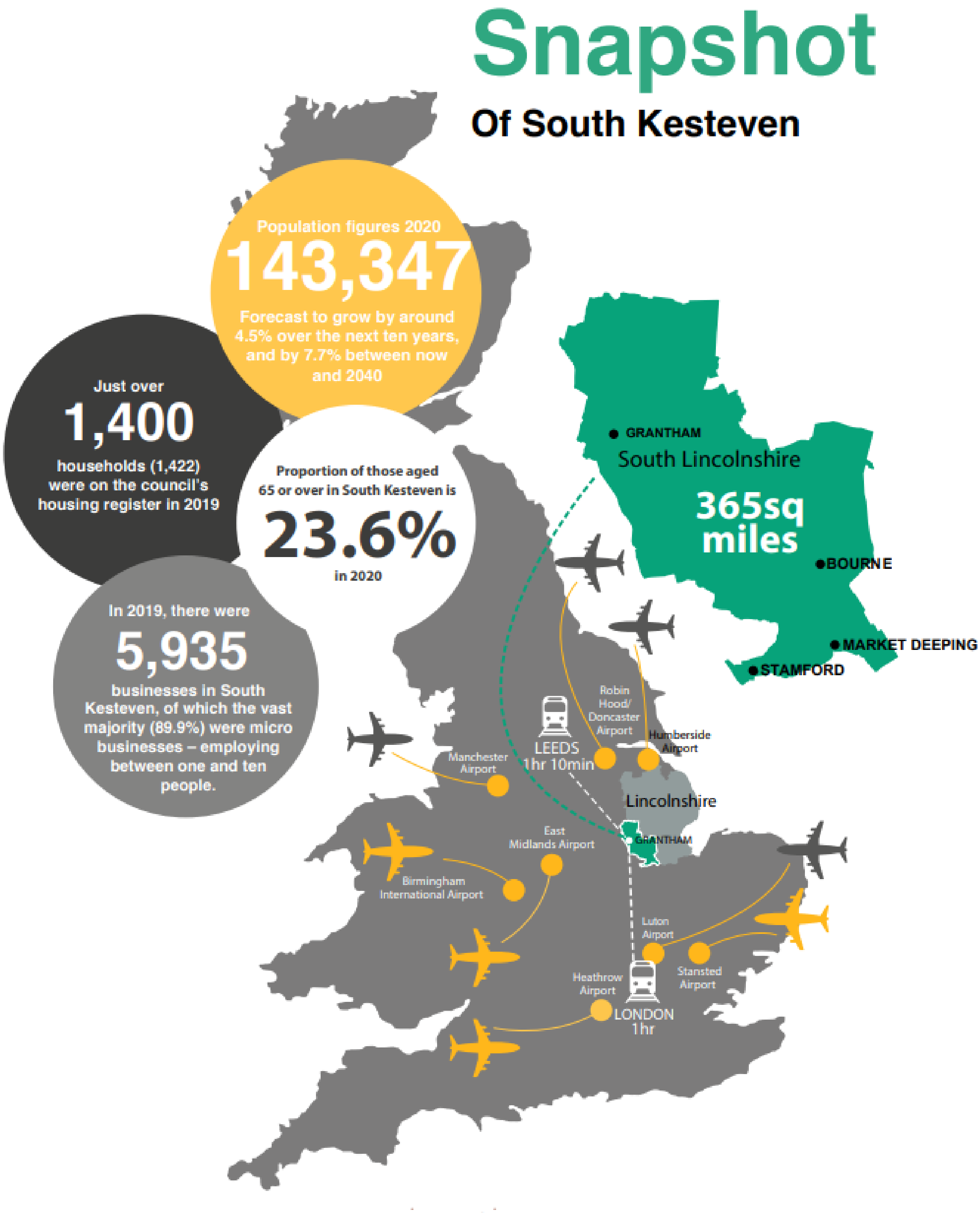
The Cabinet is chaired by the Leader of the Council with each member of the Cabinet being allocated a portfolio, or area of the Council's business, through the Leader's Scheme of Delegation. The Cabinet has executive decision-making powers and meets on a monthly basis.

In line with legislation and the Constitution, a number of areas of decision making are the responsibility of the Cabinet and senior officers, with Council retaining ultimate responsibility for the Policy and Budgetary Framework of the Council.

All Council public meetings can be viewed live online which can be accessed via details on each agenda pack.

About the District

South Kesteven is a largely rural district located in the south-west corner of Lincolnshire incorporating the four distinctive market towns of Grantham, Stamford, Bourne and The Deepings and over 80 rural villages.



Services Provided by the Council

SKDC has a reputation of being an outward looking Council that is keen to engage and partner with external organisations and stakeholders. It provides a range of services to the population of approximately 143,400 residents which includes:

- Providing a comprehensive arts and leisure offer
- Providing high quality street scene services

- Providing high quality grounds maintenance through its wholly owned company – EnvironmentSK Ltd. EnvironmentSK Ltd ceased operating on 31 March 2023 and the services it provided were transferred back to the Council.
- Providing high quality leisure centre services through its wholly owned company – LeisureSK Ltd
- Providing Customer and Community Access Hubs
- Supporting residents manage their bills by providing housing benefit and council tax support Landlord services for approximately 5,850 social rented properties which includes the provision of a repairs and maintenance service for all the Council properties.
- Providing homelessness support to those most in need
- Considering and administering Planning and Building Control applications
- Managing car parks and public conveniences
- Compiling and maintaining the electoral register and administering elections

The Council also provides a number of services which support these operational functions including Human Resources, Financial Services, Legal Services, Democratic Services and Communications.

The Council's Outlook

Financial Environment

As with most authorities financial planning remains challenging with continued uncertainty surrounding future funding arrangements alongside inflationary pressures which are significantly increasing the cost of fuel, utilities and construction. The Council received a one-year settlement for 2023/24 and high-level planning assumptions for 2024/25 which will assist with medium term financial planning. The 2023/24 budget was approved by Council on 1 March 2023 which set out a three-year position detailing the funding challenges alongside the changes to the national funding arrangements. In the medium term, the exact timing of the funding challenges remains unclear, due to unknown funding settlement information and the spend profile of key priority projects. The Council is not complacent and is already modelling the sensitivity of future financial pressures will enable plans to be produced to reduce operating expenditure and create financial headroom in order to meet the challenges ahead.

Governance and Risk

In accordance with the Local Code of Corporate Governance and best practice, the Council's Annual Governance Statement (AGS) covers all significant corporate systems, processes and controls spanning the whole range of the Council's activities. It provides an overview of the Council's key governance systems and explains how they are tested and the assurances that can be relied on to show that the systems are working effectively. The AGS has been prepared in accordance with the Chartered Institute of Public Finance and Accountancy (CIPFA) Delivering Good Governance in Local Government Framework and conforms to the Council's Local Code of Corporate Governance and covers all significant corporate systems, processes and controls across all of the Council's activities.

The Council has an effective risk and performance management framework which is embedded across all areas of business activity. Risk registers are maintained at a corporate and service area level. Corporate risks are reported to the Corporate Management Team and to the Governance and Audit Committee biannually. We have focussed performance management arrangements on the Corporate Plan actions which enables effective monitoring, control and reporting across the programmes of activity and also supports managers and leading officers with training and project management tools, techniques and performance management advice. In accordance with the Local Government Transparency Code, we publish how we spend our money, how we use our assets, how we make decisions and have regard to issues important to local people.

The Council's internal auditors, Assurance Lincolnshire, identified that Governance, Risk and Internal Controls were performing adequately across the Council and that Financial Control was performing inadequately. The performance rating for Financial Control was based on three internal audits that were completed during 2022/23, the Capital Programme and Accounts Payable audits both received a rating of substantial assurance and Accounts Receivable which received a rating of low assurance. Action plans have been put in place to address all outstanding actions particularly in those areas where management concerns have also been raised and further work is required to strengthen the control framework. The completion of the identified actions is monitored by internal audit on a quarterly basis.

Key 2022/23 Achievements

Council approved the 2020-2023 South Kesteven Corporate Plan on 1 October 2020. The Corporate Plan sets out the strategic vision to "*Be the best district in which to live, work and visit"* and the 5 key priorities of the Council are:

The Corporate Plan underpins the Council's strategic focus and provides the performance framework for managing the delivery of the actions and priorities in the Plan. It is good practice for a public sector organisation seeking to deliver a wide set of aims and objectives to set out a Corporate Plan and regularly review the activity and achievements against it. The key achievements against the plan are summarised below:

Environment

- In 2022/23 the Council delivered the Garden Waste service to 36,839 customers against a target of 36,252.
- The commercial waste service was delivered an average of 744 customers during 2022/23 compared with 676 customers in 2021/22.
- Levels of recycling have reduced across the district, at 35.10% compared with 42.38% in 2021/22. This is just below the minimum target level for recycling of 42.5%, we are working with our Lincolnshire Waste Partnership authorities to improve this position. A countywide campaign seeks to reduce the proportion of non-recyclable materials collected in 2022/23 the Council achieved 27.58% (2021/22 29.7%) which exceeds the target set of less than 30% for non-recyclable materials.
- There are twelve electric vehicle charging points in South Kesteven District Council car parks. In 2022/23 the target for number of miles generated was 35,000, this was exceeded as 56,287 (2021/22 42,879) was achieved. The carbon tonnes saved was 10.75 (2021/22 8.3) against a target of 7 and the Charging Point Utilisation was 16.44% (2021/22 11.65%) against a target of 10%.
- Following the acquisition of land to build a new, modern depot a design team have been appointed, the project is at detailed design stage with a revised scope to include the grounds maintenance service. A planning application will be submitted in October 2023.

Corporate

- Full Council approved a balanced financial plan for 2032/24 on 1 March 2023.
- Savings of £0.704m (2021/22 £0.142m) were achieved which will assist the Council with delivering a balanced, sustainable plan over the medium term.
- The Council provided 11 (2021/22 15) apprenticeships against a target of 10.
- In 2022/23 the Council achieved spend of 23% with local suppliers which is a reduction on the spend in 2021/22 of 55%
- Business Rates Relief of £3.773m was awarded during the year following the extension of the scheme by Government.
- Household Support Fund payments of £0.594m against a target of £0.592m were awarded during the year.
- The Mental Health Working Party continued to work collaboratively across the district to promote positive mental health in our communities and colleagues. Mental Health First Aid training was delivered to 28 staff and 7 councillors.
- The amounts collected from Council Tax 98.48% (2021/22 98.64%), Non-Domestic Rates 97.95% (2021/22 98.32%)
- 2.72% of arrests were achieved for incidents where CCTV was proactively used against a target of 3%

Growth & Culture

- In 2022/23 the Council achieved 73 newly engaged visitor economy attractions against a target of 40 which included the delivery of a Tourism Networking Event in quarter 4.
- There was an increased focus on increasing the uptake of the HelloSK app, by quarter 4 200 businesses and over 1,000 residents had signed up to the app.
- The visitor economy spend target of £113.344 target was significantly exceeded as spend of £168.630m was achieved.
- Following the adoption of the Sports and Physical Activity Strategy excellent working relationships have been developed with partners including LeisureSK Ltd, Active Lincolnshire and Lincs Inspire. Officers are working closely with LeisureSK Ltd to identify alternative ways to engage with residents outside of a traditional leisure centre setting. Recent successes have been the expansion of the healthy walks programme and the introduction of a fitness class in the Deepings which was funded by Active Lincolnshire.
- The Heritage Action Zone programme in Grantham achieved £328k of public sector grant spend in 2022/23 against a target of £372k and leveraged £286k of private sector investment against a target of £45k. By the end of quarter 4 6 projects were in progress which includes the works at Westgate Hall and 2 had been completed.
- The Council supported 115 businesses against a target of 60 and 6 business received specific support which resulted in them relocating into the district against of target of 2.
- In 2022/23 100% of major planning applications were determined in time against a target of greater than 60% and 80% of non-major planning applications were determined in time against a target of greater than 70%.
- The Local Plan was adopted on 30 January 2020. The number of new houses completed was 642 (2021/22 485) against a target of 650. The new houses delivered included 151 (2021/22 116) affordable homes against a target of 100.
- The Council supported 123 community groups who provide volunteering opportunities against a target of 98.

Housing & Property

- There were 471 (2021/22 460) empty homes in the district which is under the average for East Midlands of 624 during the same period.
- The average housing void rate was 106.74 days compared with 83.46 days in 2021/22.
- 94.77% (2021/22 94.26%) of the Council Housing stock met the decent homes standard against a target of 100%.
- 99.2% of properties had a valid gas certificate in 2022/23 against a target of 100%.
- The Council prevented 14 homelessness cases against a target of 47. The prevailing housing market, access into the private sector continues to be a huge challenge and is placing pressure on homelessness and homelessness prevention.
- The amounts collected from Housing Rent 97.66% (2021/22 97.75%) against a target of 97.35%.
- The Council has replaced over 150 solid fuel heating systems with modern efficient storage heaters or air source heat pumps which were funded through the LAD2 programme.

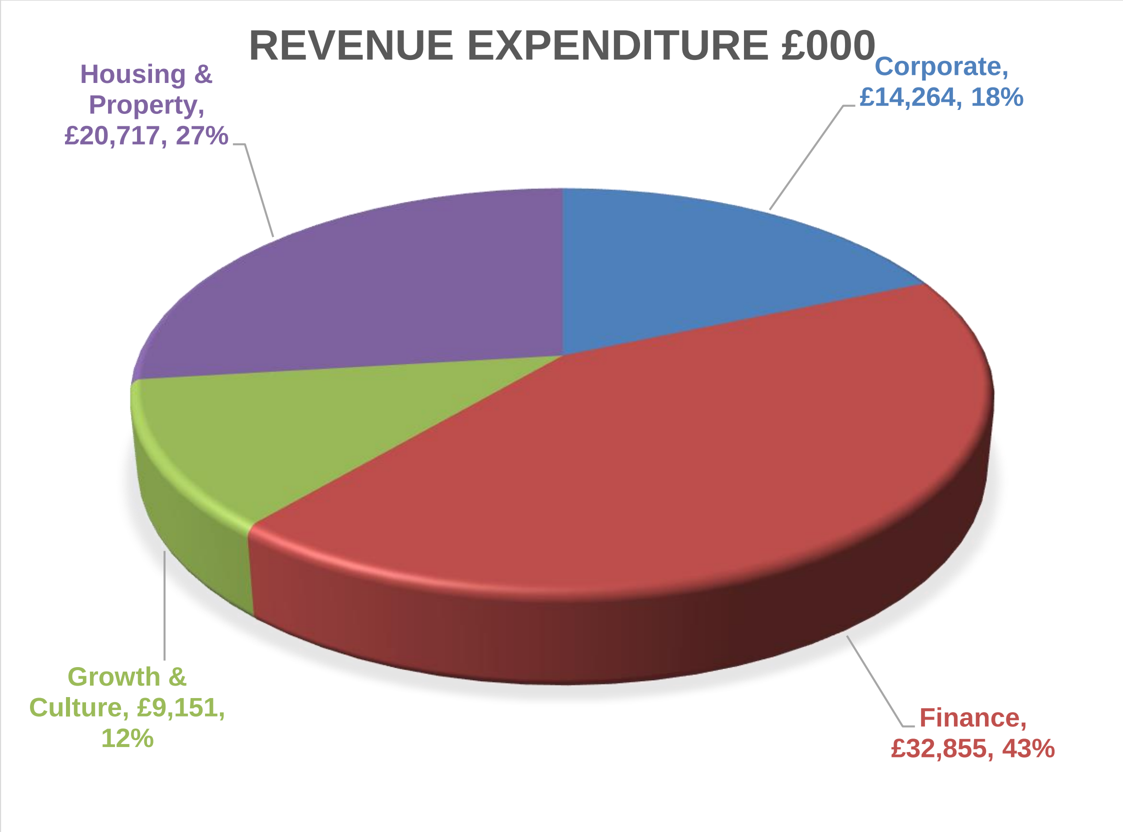
2022/23 Financial Performance

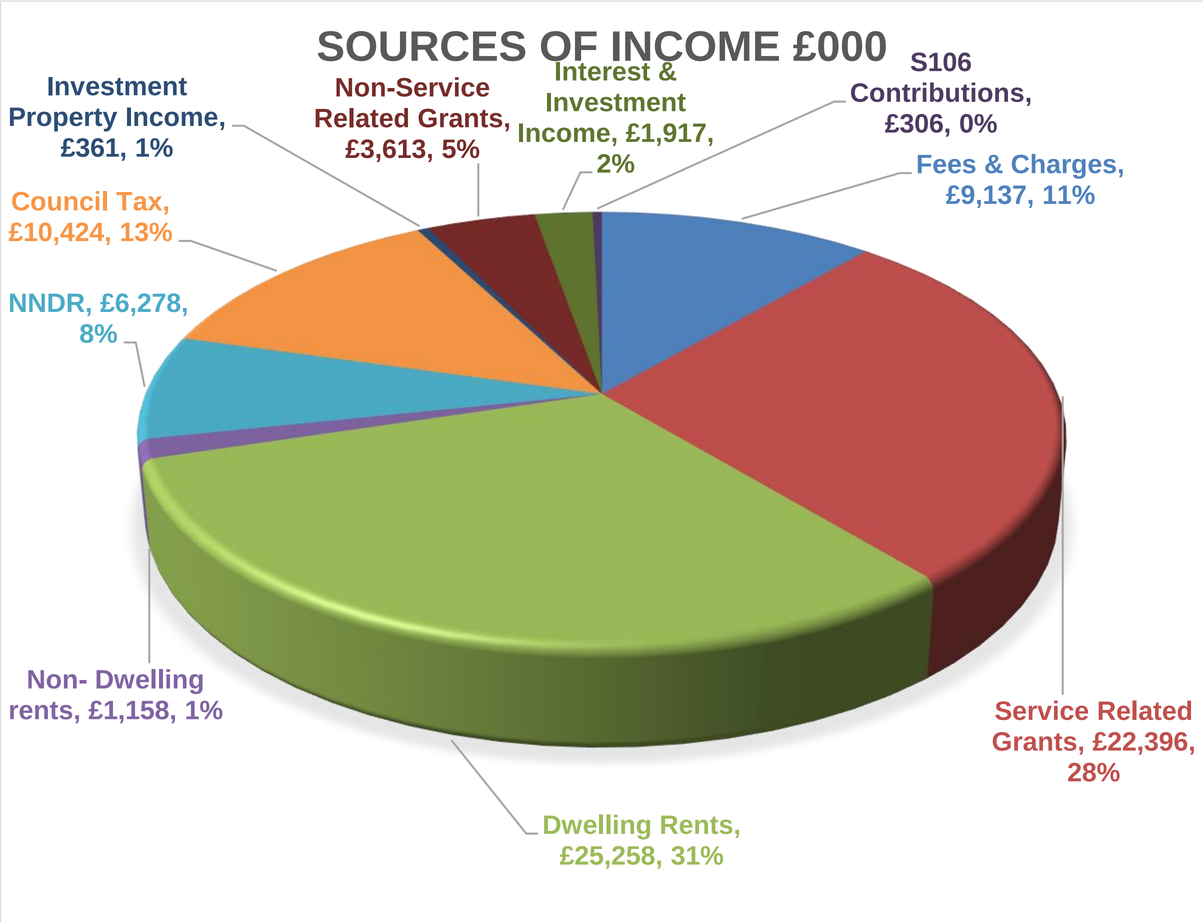
From a financial perspective, 2022/23 has continued to be a challenging year due to the increased financial pressure due to the significant increase in inflation. As part of the 2021/22 outturn report the Council created a £500k Inflation Reserve to absorb any costs pressures during the year. There was no requirement to use this reserve during 2022/23 due to revenue savings achieved during the year and the increased income received from investments. This reserve has since been reallocated to the Council's budget stabilisation reserve,

Revenue Expenditure and Income

Revenue expenditure is generally on items that are consumed within a year and is financed by Council Tax, Government Grants, National Domestic Rates and other income. Gross Revenue expenditure in 2022/23 totalled £76.987m compared with £77.081m in 2021/22. Although the gross expenditure has remained consistent between financial years there have been movements in the gross expenditure incurred in the Corporate, Growth and Culture and Housing Property Directorates. Expenditure in the Growth and Culture Directorate has reduced by £2.699m between 2021/22 and 2022/23, this difference primarily relates to a reduction in employee expenses, capital charges and third-party payments. The expenditure in the Housing and Property Directorate has increased by £3.394m between 2021/22 and 2022/23 which primarily relates to an increase in capital charges, supplies and services and premises expenses which is offset by a reduction in employee and transport expenditure. Expenditure in the Corporate Directorate has reduced by £0.905m between 2021/22 and 2022/23 which primarily relates to a reduction in employee expenses of £0.962m. Gross Revenue income in 2022/23 totalled £57.950m compared with £61.590m in 2021/22. This difference is due to a decrease in government grants and contributions income of £4.705m which is due to a reduction of £0.460m in Housing Benefit income, and a £4.5m reduction in income from government grants which relates to grant income the council received in 2021/22 to fund expenditure relating to the Household Support Fund, Discretionary Business Grants, Test and Trace and the Leisure Recovery Fund.

The following charts show the spend in each directorate during 2022/23 and the sources of funding which the Council received:


REVENUE EXPENDITURE £000
Housing & Property, £20,717, 27%
Corporate, £14,264, 18%
Growth & Culture, £9,151, 12%
Finance, £32,855, 43%


SOURCES OF INCOME £000
Investment Property Income, £361, 1%
Non-Service Related Grants, £3,613, 5%
Interest & Investment Income, £1,917, 2%
S106 Contributions, £306, 0%
Fees & Charges, £9,137, 11%
Council Tax, £10,424, 13%
NNDR, £6,278, 8%
Non- Dwelling rents, £1,158, 1%
Service Related Grants, £22,396, 28%
Dwelling Rents, £25,258, 31%

Revenue Budget

Each year the Council produces a 3-year budget which is approved by Full Council in March, this budget is then monitored and adjusted throughout the year to reflect where expenditure is expected to be incurred and as new priorities are approved. Table 1 shows the adjusted revenue budget compared with the actual net expenditure by directorate at 31 March 2023:

Table 1 - Revenue Outturn Position

Directorate	2022/23 Current Budget £'000	2022/23 Adjusted Budget £'000	2022/23 Outturn £'000	2022/23 Variance £'000
Corporate	9,843	9,504	9,744	240
Finance	5,095	4,957	4,432	(525)
Growth & Culture	6,979	6,554	5,429	(1,125)
Housing & Property	3,079	2,021	3,746	1,725
Housing Revenue Account Recharge	(2,787)	(2,787)	(2,787)	0
Sub-total	**22,209**	**20,249**	**20,564**	**315**
Housing Revenue Account	(6,121)	(6,428)	(1,888)	4,540
Net Cost of Services	**16,088**	**13,821**	**18,676**	**4,855**
Investment Property*			361	
Adjusted Net Cost of Services Total			**19,037**	

*The net cost of service is adjusted at year end to transfer these items below the line as per accounting regulations

General Fund Outturn

The outturn position shown at table 1 details a net overspend of £0.315m when compared with the adjusted budget. This underspend includes a number of statutory accounting adjustments which are reversed out to ensure there is no impact on the taxpayer. The outturn position following the removal of the accounting adjustments results in an underspend of £0.796m. There are several under and overspends which account for this variance, detailed explanations are provided in Appendix B of the Outturn Report for 2022/23 which can be accessed via the following link.

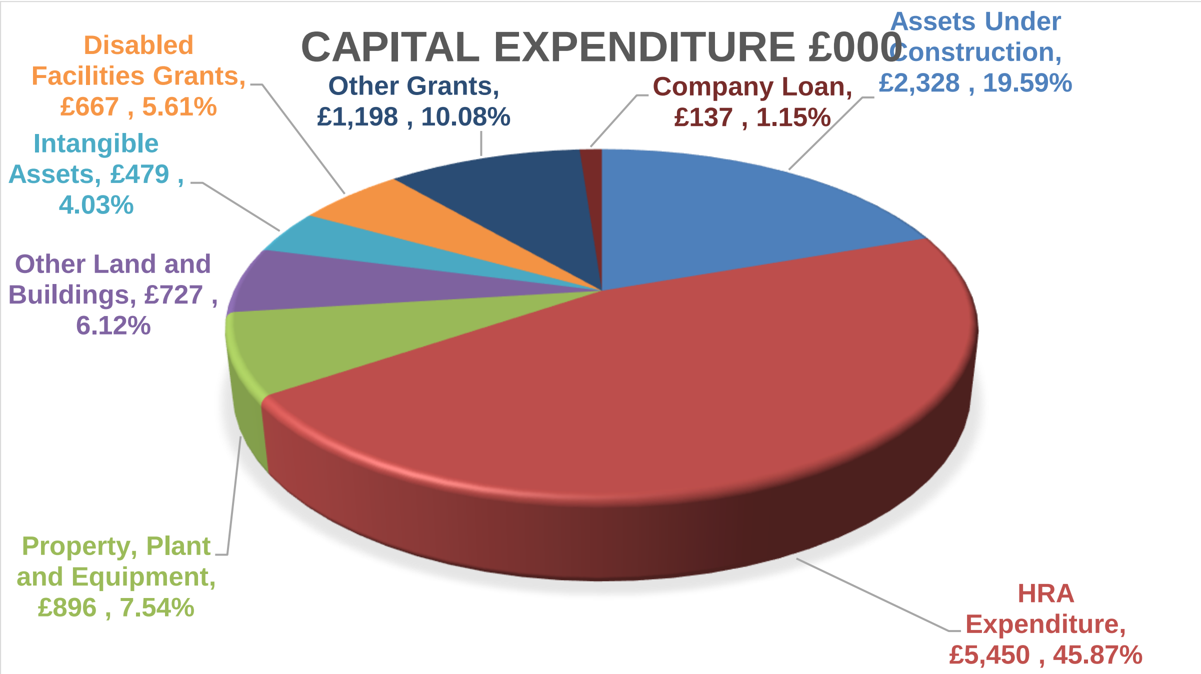
Outturn report - Appendix B - 2022-23 General Fund Revenue Significant Variance Analysis.pdf

Housing Revenue Account (HRA) Outturn

The outturn position for the HRA shown at table 1 details a decreased in year surplus of £4.540m (2022/23 £0.637m decreased surplus) when compared with the adjusted budget. The difference between 2021/22 and 2022/23 mainly relates to a reduced revaluation gain in 2022/23 of £1.694m compared with a gain of £6.902m in 2021/22, a reduced impairment charge of £5.450m in 2022/23 compared with £6.485m in 2021/22 these are reversed using statutory accounting adjustments so there is no impact on Council resources.

Capital Expenditure

Capital expenditure is defined as expenditure over £10k incurred on assets which have a life exceeding one year. The Council incurred expenditure totalling £11.882m in 2022/23 compared with £13.974m in 2021/22. This difference mainly relates to a decrease of £1.485m in expenditure on HRA major repair works in 2022/23. A £2.155m reduction in expenditure in 2022/23 on assets under construction which mainly relates to a reduction in expenditure of £1.451m on new builds, £0.397m expenditure on the new depot site compared with £2.591m expenditure in 2021/22 and £1.539m expenditure on the St Martin's Park project. An increase in the expenditure on intangible assets of £0.456m which primarily relates to the expenditure on the new Housing Management System. An increase in the expenditure on other grants of £1.115m which relates to the Retail Enhancement, Future High Streets Fund and Sustainable Warmth Grant capital schemes. The following chart details the capital expenditure incurred in 2022/23.



It can be seen from the chart that 19.59% of the capital expenditure was on assets under construction. This expenditure primarily relates to £1.539m on St Martins Park, Stamford, £397k on design works for the new depot, and £391k has been invested in developing new homes in the HRA.

Expenditure on the HRA accounts for 45.86% of the total capital expenditure, the £5.450m incurred related to enhancing Council dwellings, for example replacing roofs, kitchens and bathrooms.

Other Land and Buildings accounts for 6.12% of the capital expenditure incurred. This expenditure relates to improvements works of £0.064m on the Grantham Meres Leisure Centre, £0.247m on Stamford Arts Centre and £0.119m at Welham Street Car Park Grantham.

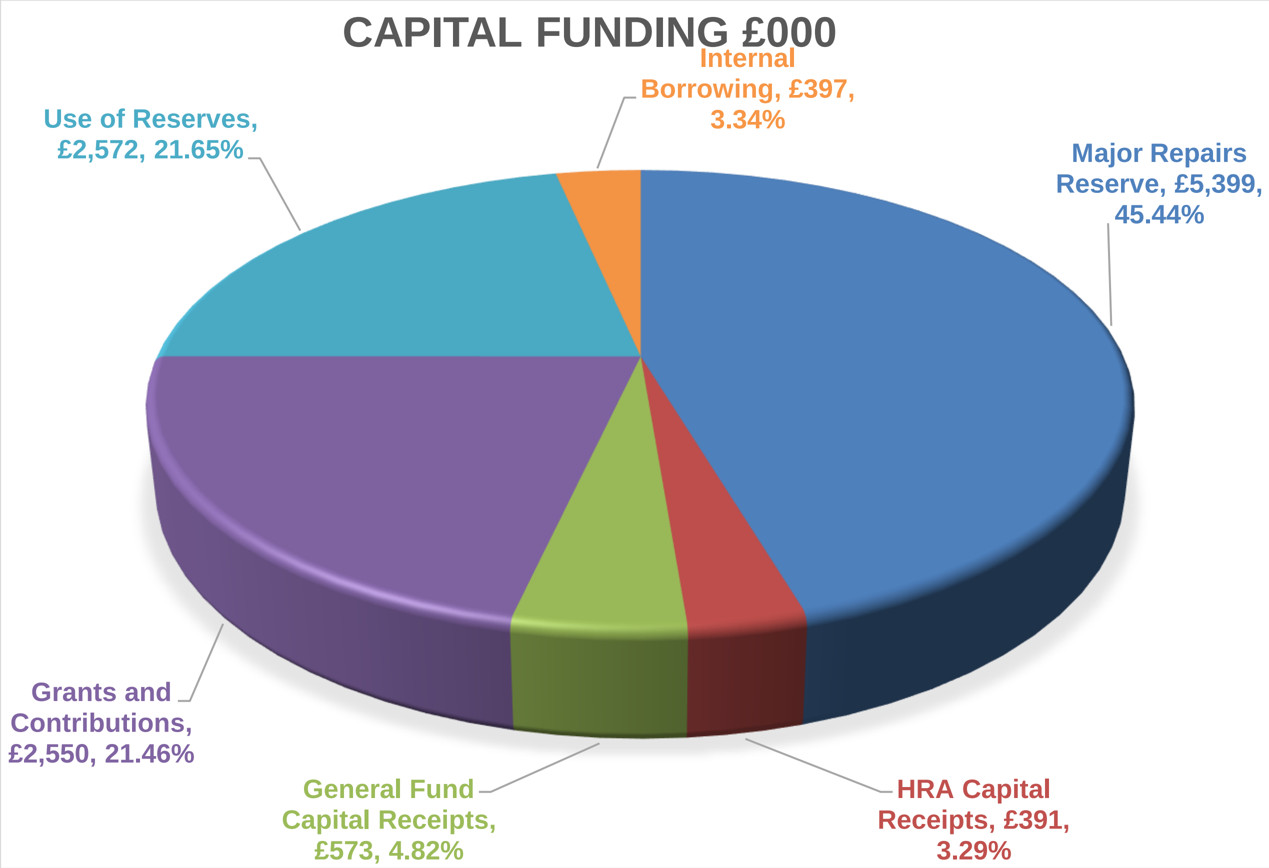
Property, Plant and Equipment accounts for 7.55% of the expenditure incurred. This expenditure includes £0.724m on vehicles, £0.195m was invested in new equipment which includes £0.121m on wheelie bin replacement and £0.055m on park equipment.

The other forms of capital expenditure relate to capital grants released to finance capital assets owned by third parties, heritage and intangible assets. £667k was incurred on Disabled

Facilities Grants, £0.741m on Retail Enhancements and the Future High Streets and £0.452m on Sustainable Warmth Grant which are financed by Government Grants.

Capital Financing

The Council has funded the 2022/23 Capital Programme from Capital Receipts, Government Grants, the Major Repairs Reserve, Other Grants and Contributions and Use of Reserves. The following charts details the financing of the capital expenditure:



Note - £3.222m of HRA loan repayment and £0.136m Minimum Revenue Provision were also financed from working balances.

The Non-Enhancing Capital expenditure incurred by the HRA has been financed by the Green Homes Grant and the Major Repairs Reserve which is ring-fenced to finance HRA capital expenditure and HRA debt repayment. The assets that are currently being constructed were financed using the HRA capital receipts received from the disposal of HRA assets.

The Council released £2.572m of reserves to finance 21.65% of the remaining expenditure. The main use of these reserves was to finance the St Martin's Park Development (£1.289m), wheelie bin replacement (£0.121m), replacement Housing Management system (£0.450m), improvement works at Stamford Arts Centre (£0.194k) and Welham Street Car Park (£0.119m) and equipment and replacement vehicles (£0.224m).

The council utilised £2.550m of grants and contributions of which £0.667m was used to finance the disabled facilities grants, £0.311m was used to finance retail enhancements, £0.298m for the Future High Street Fund project, £0.600m on sustainable warmth, £0.250m contribution towards the cost of the St Martin's Park development and £0.285m S106 contribution to fund the acquisition of a Council Dwelling.

The Council internally borrowed £0.397m to fund the works and the associated design works for the new depot site.

General Fund Capital Receipts were utilised finance the replacement costs of vehicles (£0.383m), the cost of the Loan to LeisureSK for replacement gym equipment at Bourne Leisure Centre (£0.137m) and to part finance the works at Stamford Arts Centre (£52k).

At 31 March 2023 the balance on the ring-fenced Major Repairs Reserve was £19.553m which will be invested in continuing to enhance Council dwellings and other HRA assets. The balance of £12.156m on the HRA capital receipts reserve will be used to increase Council housing stock. The General Fund capital receipts reserve had a balance of £3.501m. The Council continues to generate its own resources through the disposal of assets deemed to be surplus. During 2021/22 £3.625m of HRA capital receipts were received which mainly relate to the sale of Council dwellings.

Capital and Revenue Budget Monitoring

The Council monitors its capital and revenue budgets on a monthly basis and produces quarterly monitoring reports which are presented to the Finance, Economic Development and Corporate Services Overview and Scrutiny Committee and Cabinet. These reports highlight significant under and overspends so that members are aware of any potential financial pressures that may arise from these variances. Any financial pressures which are expected to impact on future years are incorporated into the Medium-Term Financial Plan and the budget report for the following year. The 2022/23 Revenue and Capital Outturn report presented to Finance, Economic Development and Corporate Services Overview and Scrutiny Committee, Cabinet and Governance and Audit Committee provides further detail on the variances between the adjusted budget and actual spend.

LOOKING FORWARD

Strategic Direction - Vision

Following the approval of the Corporate Plan in October 2020, the budget setting and medium-term financial planning underpins and supports the delivery of the stated ambitions as set out in the Plan. This clarity of focus and purposes allows the Council to be clear on how its funding will be prioritised and enable disinvestment or re-allocation from non-priority areas. The Plan now sets out the core of the Council's overarching strategic planning framework which includes the Medium-Term Financial Plan, Local Plan and arrangements for delivering good governance. The Corporate Plan is in the process of being updated so priorities could change which will then need to be reflected in the medium-term financial plan to ensure that the Council budget is allocated to support the achievement of priorities.

Sustainable Financial Autonomy

In order to ensure that the Medium-Term Financial Plan demonstrates a financially sustainable outlook a number of actions are in place:

- An ongoing, robust and detailed review of the assumptions that underpin the Medium-Term Financial Plan supporting by scenario planning linked to the timing of the national funding changes and expected inflationary pressures. Ensuring a balanced budget position is achieved through the transformation, modernisation and service review programme, which is designed to reduce costs, drive efficiencies and ensure that resources are deployed effectively and directed to where they are most needed.
- Delivering budget reductions and savings included within annual budgets.
- Maximising key income streams, including council tax, business rates, fees and charges, investment income, etc.
- The prudent use of reserves and balances, as these can only be used once.

- Ensuring that the Capital investment ambitions are supported by robust business cases that demonstrate value for money and support the Corporate Plan. The Capital programme is supported by a robust governing framework that includes details of the capital cost and financing of each of the capital investments.
- Commissioning services that are relevant to the community and valued by those who use them.
- Reviewing the costs and performance of operating assets and identifying those that are classified as surplus to requirements or can be disposed of to generate capital receipts.

The Housing Revenue Account relates to the management of the Council's social housing stock. Given the issues identified in the delivery of landlord health and safety compliance, considerable improvement plans were put in place between 2020/2021 and 2022/23 as part of the engagement with the Regulator of Social Housing. Significant improvements have been made in the service area over the last 3 years, the budgets were reviewed as part of the 2023/24 budget setting process to ensure that there was sufficient budget for all areas of expenditure, and it is anticipated that full compliance will be achieved during 2023/24.

EXPLANATION OF THE FINANCIAL STATEMENTS

The 2022/23 Statement of Accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting 2022/23, issued by the Chartered Institute of Public Finance and Accountancy and the Accounts and Audit Regulations 2023. The Code requires that core and supplementary statements are produced together with disclosure notes and the style and format of the accounts complies with the local authority accounting standards. As recommended by CIPFA and our external auditors the Council continues to 'de-clutter 'the accounts by annually reviewing the content and removing unnecessary detail.

The accounts give a true and fair view of South Kesteven's financial position for the financial year 2022/23. The accounting policies are outlined on pages 73 to 84 and have been fairly and consistently applied. Proper and up-to-date accounting records are maintained, and all reasonable steps are taken to prevent and detect fraud and other irregularities.

The Chief Finance Officer is the statutory officer responsible for the proper administration of the Council's financial affairs. They are required by law to confirm that the Council's system of internal controls can be relied upon to produce an accurate statement of accounts. The statement of assurance for 2022/23 (known as the Statement of Responsibilities) appears on page 1 of this document.

The Core Financial Statements are:

- **Comprehensive Income and Expenditure Statement (Page 2) -** this shows the accounting cost in the year of providing services in accordance with IFRS rather than the amount to be funded from taxation.

  The Net Cost of Service has increased from £15.491m in 2021/22 to £19.037m in 2022/23. Expenditure in the Growth and Culture Directorate has reduced by £2.699m between 2021/22 and 2022/23, this difference primarily relates to a reduction in employee expenses, capital charges and third-party payments. The expenditure in the Housing and Property Directorate has increased by £3.394m between 2021/22 and 2022/23 which primarily relates to an increase in capital charges, supplies and services and premises expenses, this is offset by a reduction in employee and transport expenditure. Expenditure in the Corporate Directorate has reduced by £0.905m between 2021/22 and 2022/23 which primarily relates to a reduction in employee expenses of £0.962m. There has been a reduction in income received from government grants and contributions of £4.705m, this is due to a reduction of £0.460m in Housing Benefit income, and a £4.5m reduction in income from government grants which relates to grant income the council received in 2021/22 to fund expenditure relating to the Household Support Fund, Discretionary Business Grants, Test and Trace and the Leisure Recovery Fund.

The movement in Financing and Investment Income and Expenditure is technical in nature. The decrease of £2.619m consists, a reduction of £1.129m on net interest on the pension liability, a movement of £0.751m in the fair value of investment property, an increase of £1.589m on investment income and a £0.519m movement in the value of the property fund investment due to a decrease in value during 2022/23.

There has been an increase of £0.212m in the income received from taxation and non-specific grants. There were increases in Council tax of £0.411m, Non-Domestic Rates of £0.800m and New Homes Bonus of £0.187m. The Council received £1.024m of Section 31 grants in 2022/23 when compared with £2.016m of grant in 2021/22. This is primarily due to the increased funding government provided during 2020/21 to fund the cost of COVID-19. Section 106 contributions totalling £0.306m were used as funding towards the purchase of a Council Dwelling and replacement CCTV. a Green Homes Grants for the replacement of boilers of £0.600m, the Council received £630m grant from the Local Authority Housing Fund which will be used to fund the acquisition of properties for Ukrainian and Afghan Refugees, £0.297m of expenditure was incurred on the Future High Street Fund Scheme, the Council received £80k from the Changing Places Fund and a contribution of £0.250m was received from Burghley Homes towards the demolition costs incurred at St Martins Park. The Council were required to repay £0.500m to the Local Enterprise Partnership which relates to a grant received in 2018/19 due to the conditions of the grant no longer being met.

The combination of these variances means there has been a surplus of £0.211m on the 'Provision of Services'. Non-current assets have been revalued during the year and this has resulted in a surplus of £26.896m (Surplus of £37.064m in 2021/22) being recognised in the CIES. This surplus mainly relates to the upward revaluation of Council Dwellings. Changes in actuarial assumptions in the pension fund have resulted in a gain of £51.867m (2021/22 gain of £22.720m) mostly resulting from a significant improvement on the actuarial gains arising on changes in financial assumptions.

- **Movement in Reserves Statement (Page 3) –** this shows the movement in the year of the different reserves held by the Council, analysed into 'usable reserves' (i.e., those that can be applied to fund expenditure) and 'unusable reserves' (those that an authority is not able to utilise to provide services).

- **Balance Sheet (Page 4) –** The Balance Sheet shows the Council's assets and liabilities at 31 March each year, in accordance with the Council's Accounting Policies. There is an inverse relationship between the Council's net worth and in particular pension liabilities i.e., as pension liabilities increase the Council's net worth reduces and vice versa. The net assets have increased by £55.547m largely due to:

    - an increase of £19.839m in Property, Plant and Equipment which relates to revaluation gains and the acquisition of new assets.
    - a reduction of £2.541m in long term investments which is primarily due to a £520k reduction in the value of the Councils investment with the CCLA Property Fund and the transfer of a £2m investment to short term investments as the date of maturity is less than 12 months.
    - a reduction in short-term investments of £17.590m which is due to the repayment of the balances of the COVID-19 grant funding the Council received during 2020 and 2022 to support businesses and the payment of the £8m Council Tax Energy Rebate grant the Council received in March 2022 to eligible customers.

- a decrease of £22.881m in Short Term Creditors, £14.5m relates repayment of the balances of the COVID-19 grant funding the Council received during 2020 and 2022 to support businesses and the payment of the Council Tax Energy Rebate grant to eligible customers and a £9.5m reduction in the Business Rates Creditor with Central Government.
- a decrease of £51.259m in other long-term liabilities which relates to a decrease in the net pension liability.

- **Cash-flow Statement (Page 5)** – this shows the inflows and outflows of cash arising from transactions with third parties for revenue and capital purposes**.**

- **Notes (pages 6) –** these provide supporting context to the above Statements.

Supplementary Financial Statements

- **Housing Revenue Account (pages 57)** - This reflects a statutory obligation to account separately for the Council's housing landlord function. It details the major elements of housing revenue expenditure – maintenance, administration and capital financing costs and how these are met by rents and other income. It is noted that the surplus was £2.871m in 2022/23 (£4.456m in 2021/22) this decrease is mainly due to a revaluation gain in 2022/23 of £1.694m compared with a gain of £6.902m in 2021/22 and a reduced impairment charge of £5.551m in 2022/23 compared with £6.485m in 2021/22. Investment income has increased by £1.079m between 2021/22 and 2022/23 as interest rates significantly increased during the year as an impact on bank rate increase. A reduction of £0.840m contribution to the Housing Capital receipts pool as the Council has signed an agreement with government that 100% of the capital receipts from the sale of Council Dwellings will be invested in new build schemes and property acquisitions to increase housing stock levels.

- **Collection Fund (pages 64) –** this reflects the statutory requirement for the Council to maintain a separate account providing details of receipts of Council Tax and Business Rates and any associated payments to precepting authorities and central government. It is noted that the deficit has reduced to £1.252m on the Business Rates section of the Collection Fund compared with a deficit of £7.887m in 2021/22. There are a number of variables which affect the deficit including valuation appeals by businesses to the Valuation Office and collection rates. The deficit is distributed as follows: £0.661m Central Government, £0.459m South Kesteven District Council and £0.132m Lincolnshire County Council. The increased deficit 2021/22 relates to an in-year reduction in the net business rates collectible following the award of additional reliefs to support businesses recovery following the COVID-19 pandemic which were funded by Section 31 grants. The Council received the Section 31 grant to fund the additional reliefs in both years but due to the technical nature of the Collection Fund they will be used to fund the deficit in future years.

- **Statement of Group Accounts (page 67)** – according to statutory requirements the Council is required to produce Group Accounts where it has subsidiaries, joint ventures or associates. The Council has three wholly owned companies (EnvironmentSK, Gravitas Housing Ltd, and LeisureSK) whose accounts require consolidation. However, the transactions relating to EnvironmentSK are not material as they receive the majority of their funding from the Council. Therefore, only the company accounts of Gravitas Ltd and LeisureSK have been consolidated with the Council's.

- **Glossary of Terms (page 85) –** This explains key terms used throughout the document further.

<u>Further Information</u>

Further information about the Statement of Accounts is available from accountancy@southkesteven.gov.uk or Finance Team, Council Offices, The Picture House, St Catherine's Road, Grantham, NG31 6TTIn addition, members of the public have a statutory right to inspect the accounts before the annual audit is completed. The availability of the accounts for inspection is advertised on our website at http://www.southkesteven.gov.uk/index.aspx?articleid=8920

STATEMENT OF RESPONSIBILITIES FOR THE STATEMENT OF ACCOUNTS

The Council's Responsibilities

The Council is required to:

- make arrangements for the proper administration of its financial affairs and to secure that one of its officers has responsibility for the administration of those affairs. In this Council, that officer is the Chief Finance Officer.

- manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets.

- approve the Statement of Accounts.

The Chief Finance Officer's Responsibilities

The Chief Finance Officer is responsible for the preparation of the Council's Statement of Accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom (the Code).

In preparing this Statement of Accounts, the Chief Finance Officer has:

- selected suitable accounting policies and applied them consistently

- made judgements and estimates that were reasonable and prudent

- complied with the Local Authority Code

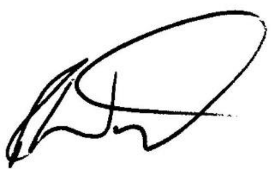
The Chief Finance Officer has also:

- kept proper accounting records which were up-to-date

- taken reasonable steps for the prevention and detection of fraud and other irregularities.

CHIEF FINANCE OFFICER'S CERTIFICATE

I certify that the accounts set out in this document present a true and fair view of the financial position of the Council at the accounting date and its income and expenditure for the year ended 31 March 2023.



Richard Wyles CPFA, ACMA, FCMA
CHIEF FINANCE OFFICER
5 October 2023

COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT

2021/22 Restated					2022/23		
Gross Expenditure	Gross Income	Net Expenditure		Note	Gross Expenditure	Gross Income	Net Expenditure
£'000	£'000	£'000			£'000	£'000	£'000
15,169	(4,630)	10,539	Corporate		14,264	(4,456)	9,808
32,739	(48,959)	(16,220)	Finance		32,855	(44,952)	(12,097)
11,850	(4,054)	7,796	Growth & Culture		9,151	(3,722)	5,429
17,323	(3,947)	13,376	Housing & Property		20,717	(4,820)	15,897
77,081	**(61,590)**	**15,491**	**Cost Of Services**		**76,987**	**(57,950)**	**19,037**
			Other Operating Expenditure				
0	(578)	(578)	(Gain)/Loss Disposal of Fixed Assets		0	(1,667)	(1,667)
2,591	0	2,591	Precepts & Levies	9	2,741	0	2,741
844	0	844	Contribution Housing Capital Receipts to the Pool	HRA6	4	0	4
0	(42)	(42)	Other Operating Income & Expenditure		0	(73)	(73)
3,435	**(620)**	**2,815**			**2,745**	**(1,740)**	**1,005**
			Financing and Investment Income and Expenditure				
2,432	0	2,432	Interest Payable on Debt		2,334	0	2,334
1,237	0	1,237	Net Interest on the net defined benefit liability (asset)	32	108	0	108
0	(331)	(331)	Interest & Investment Income		0	(1,917)	(1,917)
0	120	120	Income & Expenditure and Movement in Fair Value of Investment Property	10	0	(676)	(676)
0	(471)	(471)	Movement in the value of property fund income		519	0	519
3,669	**(682)**	**2,987**			**2,961**	**(2,593)**	**368**
0	**(20,409)**	**(20,409)**	**Taxation and Non-Specific Grant Income**	11	**500**	**(21,121)**	**(20,621)**
		884	**(Surplus) or Deficit on Provision of Services**				**(211)**
		(37,064)	(Surplus) or deficit on revaluation of non-current assets				(26,896)
		(22,720)	Remeasurement of Defined Pension Liability	32			(51,867)
		(59,784)	**Other Comprehensive Income and Expenditure**				**(78,763)**
		(58,900)	**TOTAL COMPREHENSIVE INCOME & EXPENDITURE**				**(78,974)**

The prior year comparators have been restated to reflect the Council's new reporting structure.

MOVEMENT IN RESERVES STATEMENT

	Note	General Fund Balance (including Earmarked Reserves)	Housing Revenue Accounts (including Earmarked Reserves)	Capital Receipts Reserve	Major Repairs Reserve	Total Usable Reserves	Unusable Reserves	Total Reserves
		£'000	£'000	£'000	£'000	£'000	£'000	£'000
Balance at 31 March 2022 carried forward		(25,458)	(17,289)	(11,379)	(18,527)	**(72,653)**	(237,744)	**(310,397)**
Movement in reserves during 2022/23								
Total Comprehensive Income & Expenditure		2,660	(2,871)	0	0	**(211)**	(78,763)	**(78,974)**
Transfers between Reserves		0	1,872	(412)	(1,872)	**(412)**	412	**0**
Adjustments between accounting basis & funding basis under regulations	17	315	1,112	(3,864)	846	**(1,591)**	1,591	**0**
(Increase) or decrease in 2022/23		2,975	113	(4,276)	(1,026)	**(2,214)**	(76,760)	**(78,974)**
Balance at 31 March 2023 carried forward		**(22,483)**	**(17,176)**	**(15,655)**	**(19,553)**	**(74,867)**	**(314,504)**	**(389,371)**

	Note	General Fund Balance (including Earmarked Reserves)	Housing Revenue Accounts (including Earmarked Reserves)	Capital Receipts Reserve	Major Repairs Reserve	Total Usable Reserves	Unusable Reserves	Total Reserves
		£'000	£'000	£'000	£'000	£'000	£'000	£'000
Balance at 31 March 2021 carried forward		(29,237)	(19,329)	(10,252)	(17,900)	**(76,718)**	(174,779)	**(251,497)**
Movement in reserves during 2021/22								
Total Comprehensive Income & Expenditure		5,340	(4,456)	0	0	**884**	(59,784)	**(58,900)**
Transfers between Reserves		0	2,381	(1,565)	(2,339)	**(1,523)**	1,523	**0**
Adjustments between accounting basis & funding basis under regulations	17	(1,561)	4,115	438	1,712	**4,704**	(4,704)	**0**
(Increase) or decrease in 2021/22		3,779	2,040	(1,127)	(627)	**4,065**	(62,965)	**(58,900)**
Balance at 31 March 2022 carried forward		**(25,458)**	**(17,289)**	**(11,379)**	**(18,527)**	**(72,653)**	**(237,744)**	**(310,397)**

BALANCE SHEET

At 31 March 2022 £'000		Note	At 31 March 2023 £'000
387,931	Property Plant & Equipment	18	407,770
842	Heritage Assets	20	690
4,950	Investment Property	21	5,019
97	Intangible Assets	22	426
6,293	Long Term Investments	23	3,752
480	Long Term Debtors	25	172
400,593	**Long Term Assets**		**417,829**
590	Current Assets Held for Sale	26	1,090
66,089	Short Term Investments	23	48,499
41	Inventories		17
7,474	Short Term Debtors	25	8,439
17,086	Cash and Cash Equivalents	27	17,607
91,280	**Current Assets**		**75,652**
(3,245)	Short Term Borrowing	23	(3,245)
(36,304)	Short Term Creditors	29	(13,423)
(304)	Provisions	31	(219)
(39,853)	**Current Liabilities**		**(16,887)**
(2,037)	Provisions	31	(2,286)
(86,213)	Long Term Borrowing	23	(82,991)
(48,327)	Other Long Term Liabilities	32	2,932
(5,046)	Capital Grants Receipts in Advance	11	(4,878)
(141,623)	**Long Term Liabilities**		**(87,223)**
310,397	**Net Assets**		**389,371**
£'000			£'000
72,653	Usable Reserves	33	74,867
237,744	Unusable Reserves	34	314,504
310,397	**Total Reserves**		**389,371**

CASH FLOW STATEMENT

Cash outflows are shown as negative figures in the cash flow statement to allow the movement in cash & cash equivalents to match the signage convention on the balance sheet.

2021/22 £'000		Notes	2022/23 £'000
	Operating Activities		
(884)	Net surplus or (deficit) on the provision of services		211
23,405	Adjustments to net surplus or deficit on the provision of services for non-cash movements	35	(9,426)
(5,817)	Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities	35	(8,619)
16,704	**Net cash flows from Operating Activities**		**(17,834)**
(48,092)	Net cash flows from investing activities	36	18,217
6,595	Net cash flows from financing activities	37	138
(24,793)	**Net increase or (decrease) in cash and cash equivalents**		**521**
41,879	Cash and cash equivalents at the beginning of the reporting period		17,086
17,086	Cash and cash equivalents at the end of the reporting period	27	17,607
(24,793)			**521**

NOTES TO THE CORE FINANCIAL STATEMENTS

1. ACCOUNTING STANDARDS THAT HAVE BEEN ISSUED BUT NOT ADOPTED

The Code of Practice on Local Authority Accounting in the United Kingdom 2022/23 (the Code) requires the disclosure of information relating to the expected impact on the accounting change that will be required by a new standard that has been issued but not yet adopted by the Code for the relevant financial year. This applies to the adoption of the following new or amended standards within the 2023/24 code:

- IFRS 16 Leases – This standard will require the Council as Lessee to recognise most leases on the balance sheet as right of use assets with corresponding lease liabilities (excepting low value and short-term leases). The adoption of this standard is not required until the 2024/25 code and the Council intends to adopt this standard with effect from 1 April 2024.

2. CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

There are no critical judgements.

3. ASSUMPTIONS MADE ABOUT THE FUTURE AND OTHER MAJOR SOURCES OF UNCERTAINTY

The Statement of Accounts contains estimated figures that are based on assumptions made by the Council about the future, or that are otherwise uncertain. Estimates are made taking account of historical experience, current trends and other relevant factors. However, because balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates.

The items in the Council's Balance Sheet at 31 March 2023 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

Item	Uncertainties	Consequences of difference from Assumption
Valuation of Property	The Council's external valuers provided valuations as at 31 March 2023.	A reduction in the estimated valuations would result in reductions to the Revaluation Reserve and a loss recorded in the Comprehensive Income and Expenditure Statement. If the value of the Council's property assets were to reduce by 10% this would result in a charge of approximately £40m to the Comprehensive Income and Expenditure Statement and the Revaluation Reserve.
Pension Liability	Estimation of the net liability to pay pensions depends on several complex judgements relating to the discount rate used, the rate at which salaries are projected to increase,	A 0.1% decrease in the discount rate will increase the net pension liability by £2.009m; A 0.1% increase in the assumed level of pension increases will

	changes in retirement ages, mortality rates and expected returns on Pension Fund investments. The Council has engaged Barnett Waddingham to provide expert advice about the assumptions applied.	increase the net pension liability by £1.958m

4. EVENTS AFTER THE REPORTING PERIOD

The Statement of Accounts was authorised for issue by the Chief Finance Officer on 5th October 2023. Events taking place after this date are not reflected in the financial statements or notes. Where events taking place before this date provided information about conditions existing as at 31 March 2023, the financial statements and notes have been adjusted in all material respects to reflect the impact of this information.

5. PRIOR PERIOD ADJUSTMENT

There were no prior period adjustments.

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NOTES TO THE COMPREHENSIVE INCOME & EXPENDITURE STATEMENT

6. EXPENDITURE AND FUNDING ANALYSIS

The Expenditure and Funding Analysis shows how annual expenditure is used and funded from resources (government grants, rents, council tax and business rates) by local authorities in comparison with those resources consumed or earned by authorities in accordance with generally accepted accounting practices. It also shows how this expenditure is allocated for decision making purposes between the council's services. Income and expenditure accounted for under generally accepted accounting practices is presented more fully in the Comprehensive Income and Expenditure Statement.

Adjustments between Funding and Accounting Basis 2022/23

	Net Expenditure Chargeable to the General Fund and HRA Balances	Adjustments between the Funding and Accounting Basis	Net Expenditure in the Comprehensive Income and Expenditure Statement
	£'000	£'000	£'000
Corporate	9,142	(666)	9,808
Finance	(16,192)	(4,095)	(12,097)
Growth & Culture	3,467	(1,962)	5,429
Housing & Property	12,481	(3,416)	15,897
Net Cost of Services	**8,898**	**(10,139)**	**19,037**
Other Income & Expenditure	(7,682)	11,566	(19,248)
(Surplus) or Deficit on Provision of Services	**1,216**	**1,427**	**(211)**

	Total	General Fund	HRA
	£'000	£'000	£'000
Opening General Fund and HRA Balance	(42,747)	(25,458)	(17,289)
Less/Plus Surplus or (Deficit) on General Fund and HRA Balance in Year	1,216	2,975	(1,759)
Transfers to/ from reserves	1,872	0	1,872
Closing General Fund and HRA Balance	**(39,659)**	**(22,483)**	**(17,176)**

Adjustments between Funding and Accounting Basis 2021/22 (Restated)

	Net Expenditure Chargeable to the General Fund and HRA Balances	Adjustments between the Funding and Accounting Basis	Net Expenditure in the Comprehensive Income and Expenditure Statement
	£'000	£'000	£'000
Corporate	8,488	(2,051)	10,539
Finance	(12,804)	3,417	(16,220)
Growth & Culture	3,667	(4,129)	7,796
Housing & Property	8,974	(4,402)	13,376
Net Cost of Services	**8,325**	**(7,165)**	**15,491**
Other Income & Expenditure	(4,887)	9,720	(14,608)
(Surplus) or Deficit on Provision of Services	**3,438**	**2,555**	**883**

	Total	General Fund	HRA
	£'000	£'000	£'000
Opening General Fund and HRA Balance	(48,566)	(29,237)	(19,329)
Less/Plus Surplus or (Deficit) on General Fund and HRA Balance in Year	3,438	3,779	(341)
Transfers to/ from reserves	2,381	0	2,381
Closing General Fund and HRA Balance	**(42,747)**	**(25,458)**	**(17,289)**

The prior year comparators have been restated to reflect the Council's new reporting structure.

7. NOTE TO THE EXPENDITURE AND FUNDING ANALYSIS

Adjustments between Funding and Accounting Basis 2022/23

Adjustments from General Fund to arrive at the Comprehensive Income and Expenditure Statement amounts	Adjustments for Capital Purposes (Note a)	Net change for the Pensions Adjustments (Note b)	Other Differences (Note c)	Total Adjustments
	£'000	£'000	£'000	£'000
Corporate	(1,490)	808	16	(666)
Finance	(2,876)	(1,227)	8	(4,095)
Growth & Culture	(2,310)	335	13	(1,962)
Housing & Property	(4,018)	584	18	(3,416)
Net Cost of Services	**(10,694)**	**500**	**55**	**(10,139)**
Other Income and expenditure from the Expenditure and Funding Analysis	10,001	(1,108)	2,673	11,566
Difference between General Fund surplus or deficit and Comprehensive Income and Expenditure Statement Surplus or Deficit on the Provision of Services	**(693)**	**(608)**	**2,728**	**1,427**

Adjustments between Funding and Accounting Basis 2021/22 (Restated)

Adjustments from General Fund to arrive at the Comprehensive Income and Expenditure Statement amounts	Adjustments for Capital Purposes (Note a)	Net change for the Pensions Adjustments (Note b)	Other Differences (Note c)	Total Adjustments
	£'000	£'000	£'000	£'000
Corporate	(257)	(1,776)	(18)	(2,051)
Finance	2,675	748	(6)	3,417
Growth & Culture	(3,348)	(772)	(9)	(4,129)
Housing & Property	(3,111)	(1,278)	(13)	(4,402)
Net Cost of Services	**(4,041)**	**(3,078)**	**(46)**	**(7,165)**
Other Income and expenditure from the Expenditure and Funding Analysis	4,923	(1,236)	6,033	9,720
Difference between General Fund surplus or deficit and Comprehensive Income and Expenditure Statement Surplus or Deficit on the Provision of Services	**882**	**(4,314)**	**5,987**	**2,555**

The prior year comparators have been restated to reflect the Council's new reporting structure.

a) Adjustments for Capital Purposes – this column adds in depreciation and impairment and revaluation gains and losses in the services line and for:

- **Other Operating expenditure** – adjusts for capital disposals with a transfer of income on disposal of assets and the amounts written off for those assets.
- **Financing and investment income and expenditure** – the statutory charges for capital financing i.e. Minimum Revenue Provision and other revenue contributions are deducted from other income and expenditure as these are not chargeable under generally accepted accounting practices.
- **Taxation and non-specific grant income and expenditure** – capital grants are adjusted for income not chargeable under generally accepted accounting practices. Revenue grants are adjusted from those receivable in the year to those receivable without conditions or for which conditions were satisfied throughout the year, The Taxation and Non Specific Grant Income and Expenditure line is credited with capital grants receivable in the year without conditions or for which conditions were satisfied in the year.

b) Net Change for the Pension Adjustments – the removal of pension contributions and the addition of IAS 19 Employee Benefits pension related expenditure and income:

- **For services** this represents the removal of the employer pension contributions made by the authority as allowed by statute and the replacement with current service costs and past service costs.
- **For Financing and investment income and expenditure –** the net interest on the defined benefit liability is charged to the Comprehensive Income and Expenditure Statement (CIES).

c) Other Differences between amounts debited/credited to the CIES and amounts payable/receivable to be recognised under statute:

- Adjustment involving **Accumulated Absences Account** represents the amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements.

8. EXPENDITURE AND INCOME ANALYSED BY NATURE

2021/22 £'000	Expenditure/Income	2022/23 £'000
	Expenditure	
25,127	Employee benefits expenses	22,988
42,293	Other services expenses	38,751
9,660	Depreciation, amortisation, impairment	15,247
77,080	**Total expenditure**	**76,986**
	Income	
(8,831)	Fees, charges and other service income	(9,137)
(27,101)	Government grants and contributions	(22,396)
(24,519)	Dwelling Rents	(25,258)
(1,138)	Non- Dwelling rents	(1,158)
(61,589)	**Total income**	**(57,949)**
15,491	**Net cost of services**	**19,037**

9. PRECEPTS AND LEVIES

2021/22 £'000		2022/23 £'000
1,849	Parish Council Precepts	1,937
742	Drainage Board Levies	804
2,591		**2,741**

10. INCOME AND EXPENDITURE AND MOVEMENT IN FAIR VALUE OF INVESTMENT PROPERTIES

2021/22 £'000		2022/23 £'000
(275)	Income & Expenditure from investment properties	(320)
395	Movements in relation to changes in the fair value of investment properties	(356)
120		**(676)**

11. NON SERVICE RELATED GOVERNMENT GRANTS

2021/22 £'000		2022/23 £'000
(10,013)	Council Tax	(10,424)
(5,478)	Non-Domestic Rates	(6,278)
(1,045)	New Homes Bonus	(1,232)
(2,016)	S31 Grant	(1,024)
(900)	S106 Contribution	(306)
(651)	Capital Grants	(1,857)
(306)	Donated Asset	0
0	Local Enterprise Partnership Grant Repayment	500
(20,409)		**(20,621)**

12. GRANT INCOME

The Council credited the following grants and contributions to the Cost of Services in the Comprehensive Income and Expenditure Statement in 2022/23

2021/22 £'000		2022/23 £'000
17,383	Benefits Subsidy	16,924
140	Local Council Tax Admin Subsidy	126
291	Housing Benefits Admin Grant	292
215	Discretionary Housing Payment	144
87	Welfare Reform	55
42	IER Funding	0
150	Cyber Resilience Grant	0
40	Neighbourhood Planning Grant	20
975	Disabled Facilities Grant	975
406	Homelessness	348
350	Rough Sleeping	920
4,724	COVID 19 Grants	0
92	Heritage Action Zone	405
466	Arts and Recreation Grants	281
322	Leisure Recovery Grant	0
308	Household Support Fund	510
205	Welcome Back Fund	8
43	Future High Street Fund	0
0	Afghan Resettlement	43
0	Homes for the Ukraine	484
0	UK Shared Prosperity Fund	20
0	ERDF - Blue Green Corridor	206
233	Other Grants	180
26,472		**21,941**

The Council has received a number of grants and contributions that have yet to be recognised as income as they have conditions attached to them that will require the money to be returned.

The balances at the year end are as follows:

2021/22 £'000	Capital Grants Receipts in Advance	2022/23 £'000
2,166	Receipts in Advance	1,287
2,880	S106 Contributions	3,591
5,046		**4,878**

13. OFFICER REMUNERATION

The number of employees whose remuneration was £50,000 or more, (excluding those classed as senior employees with strategic responsibility and shown separately in the second table below) in bands of £5,000 were:

2021/22 No. of officers	Remuneration Band	2022/23 No. of officers
5	£50,000 - £54,999	6
1	£55,000 - £59,999	0
1	£60,000 - £64,999	3
1	£65,000 - £69,999	1
2	£70,000 - £74,999	0
0	£75,000 - £79,999*	4
0	£80,000 - £84,999**	2
10		**16**

The remuneration of senior employees (i.e. those with strategic responsibility for the Council) is shown below:

		Salary, Fees & Allowances	Bonuses & Expenses Allowances	Compensation for Loss of Employment	Employers Pension contribution	Any other emolument	Total
		£'000	£'000	£'000	£'000	£'000	£'000
Chief Executive	2022/23	135	15	0	24	13	187
	2021/22	133	39	0	23	0	195
Strategic Director	2022/23	0	0	0	0	0	0
	2021/22	92	14	115	16	0	237
Strategic Director	2022/23	96	0	56	17	0	169
	2021/22	95	0	0	17	0	112
Strategic Director	2022/23	96	0	0	17	0	113
	2021/22	86	0	0	15	0	101
Chief Finance and S151 Officer	2022/23	103	4	0	18	4	129
	2021/22	102	2	0	18	0	122
Monitoring Officer (1) **	2022/23	0	0	0	0	0	0
	2021/22	32	5	81	6	0	124
Deputy Chief Executive Monitoring Officer (2)	2022/23	106	0	0	19	0	125
	2021/22	99	8	0	18	0	125
Assistant Chief Executive	2022/23	0	0	0	0	0	0
	2021/22	85	0	0	15	0	100
Interim Director*	2022/23	41	2	0	7	2	52
	2021/22	0	0	0	0	0	0
Interim Montioring Officer**	2022/23	13	0	0	2	0	15
	2021/22	0	0	0	0	0	0

* commenced in post 5 October 2023

** Monitoring Officer 2 statutory responsibility ended 26 January 2023, Interim Monitoring Officer statutory responsibility commenced 26 January 2023

14. TERMINATION BENEFITS

Exit Package cost bands (including special payments)	Number of compulsory redundancies		Total number of exit packages by cost band		Total cost of exit packages in each band	
	2021/22 No.	2022/23 No.	2021/22 No.	2022/23 No.	2021/22 £'000	2022/23 £'000
£0-£20,000	0	0	15	19	132	142
£20,001 - £40,000	0	0	3	4	90	117
£40,001 - £60,000	0	0	0	1	0	56
£60,001 - £80,000	0	0	1	0	71	0
£80,001 - £100,000	0	0	1	0	81	0
£100,001 - £150,000	0	0	1	0	115	0
£150,000 and above	0	0	0	0	0	0
Total Cost included in bandings	0	0	21	24	489	315
Amounts provided for in CIES not included in bandings					0	0
Total Cost included in CIES					**489**	**315**

15. MEMBERS' ALLOWANCES

The Local Authorities (Members' Allowances) Regulations 2003 requires local authorities to publish the amounts paid to members under the Members' allowance scheme.

The Council had 55 elected Councillors as at 31 March 2023.

Members' allowances and expenses paid during the year amounted to £532,759 (2021/22 £521,705). The figure includes basic allowance, special responsibility, and other related allowances.

16. JOINT OPERATIONS

South Kesteven District Council are members with Newark and Sherwood District Council and Rushcliffe Borough Council of the Building Control Partnership. The partnership's net expenditure in 2022/23 is £197,029 of which £65,676 is attributable to South Kesteven District Council which has been accounted for within the Council's Comprehensive Income and Expenditure Statement.

South Kesteven District Council have a collaboration agreement with Burghley Land Ltd. The joint agreement's net expenditure in 2022/23 is £75,072 of which £37,536 is attributable to South Kesteven District Council and accounted for within the Council's Comprehensive Income and Expenditure Statement.

NOTES TO THE MOVEMENT IN RESERVES STATEMENT

17. ADJUSTMENTS BETWEEN ACCOUNTING BASIS AND FUNDING BASIS UNDER STATUTE

This note details the adjustments that are made to the total comprehensive income and expenditure recognised by the Council in the year in accordance with proper accounting practices, to the resources that are specified by statutory provisions as being available to the Council to meet future capital and revenue expenditure.

The descriptions of the reserves that the adjustments are made against are as follows:

General Fund Balance

The General Fund is the statutory fund into which all the receipts of a Council are required to be paid and out of which all the liabilities are to be met, except to the extent that statutory rules might provide otherwise. These rules can also specify the financial year in which liabilities and payments should impact on the General Fund Balance, which is not necessarily in accordance with proper accounting practice. The General Fund Balance therefore summarises the resources that the Council is statutorily empowered to spend on its services or on capital investment (or the deficit of resources that the Council is required to recover) at the end of the financial year however the balance is not available to be applied to HRA services.

Housing Revenue Account Balance

The Housing Revenue Account Balance reflects the statutory obligation to maintain a revenue account for local authority council housing provision in accordance with Part VI of the Local Government & Housing Act 1989. It contains the balance of income and expenditure as defined by the 1989 Act that is available to fund future expenditure in connection with the Council's landlord function or (if in deficit) that is required to be recovered from tenants.

Major Repairs Reserve

The Council is required to maintain the Major Repairs Reserve which funds capital investment in HRA assets or the financing of historical capital expenditure by the HRA. The balance shows the capital resources that have yet to be applied at year end.

Capital Receipts Reserve

The Capital Receipts Reserve holds the proceeds from the disposal of land or other assets which are restricted by statute from being used other than to fund new capital expenditure or to be set aside to finance historical capital expenditure. The balance on the reserve shows the resources that have yet to be applied for these purposes as at the year-end.

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Adjustments between Accounting Basis and Funding Basis under Regulations (Continued)

2022/23	General Fund £'000	HRA £'000	Capital Receipts Reserve £'000	Major Repairs Reserve £'000	Total Usable Reserves £'000	Unusable Reserves £'000
Adjustments primarily involving the Capital Adjustment Account						
Depreciation of non-current assets	(3,054)	0	0	(4,553)	(7,607)	7,607
Amortisation of intangible assets	(60)	(90)	0	0	(150)	150
Revaluation gains/losses on PPE	(1,468)	1,705	0	0	237	(237)
Impairments charged to CIES	(306)	(5,450)	0	0	(5,450)	5,756
Movements in market value of investment properties	367	(11)	0	0	356	(356)
Revenue expenditure funded from capital under statute (REFCUS)	(1,866)	0	0	0	(1,866)	1,866
Financing of REFCUS	1,866	0	0	0	1,866	(1,866)
Capital expenditure	2,372	4,105	965	5,399	12,841	(12,841)
Statutory provision for financing of capital investment	131	0	0	0	131	(131)
Profit/Loss on disposal of non-current assets	598	1,069	(4,833)	0	(3,166)	3,166
Assets under construction discontinued	(5)	(101)	0	0	(106)	106
Adjustments primarily involving the Collection Fund Adjustment Account						
Adjustment to council tax income	(23)	0	0	0	(23)	23
Adjustment to NNDR income	2,696	0	0	0	2,696	(2,696)
Adjustments primarily involving the Pension Fund						
Adjustment of IAS 19 retirement entries for actual contributions	(483)	(125)	0	0	(608)	608
Adjustments primarily involving the Accumulating Compensated Absences Account	41	14	0	0	55	(55)
Adjustments relating to the value of Financial Instruments						
Financial Instruments	(491)	0	0	0	(491)	491
Adjustments between Usable Reserves						
Payments to Housing Capital Receipts Pool	0	(4)	4	0	0	0
Total Adjustments	**315**	**1,112**	**(3,864)**	**846**	**(1,285)**	**1,591**

Adjustments between Accounting Basis and Funding Basis under Regulations (Continued)

2021/22	General Fund £'000	HRA £'000	Capital Receipts Reserve £'000	Major Repairs Reserve £'000	Total Usable Reserves £'000	Unusable Reserves £'000
Adjustments primarily involving the Capital Adjustment Account						
Depreciation of non-current assets	(4,845)	0	0	(4,159)	(9,004)	9,004
Amortisation of intangible assets	(107)	0	0	0	(107)	107
Revaluation gains/losses on PPE	(321)	6,894	0	0	6,573	(6,573)
Impairments charged to CIES	0	(6,485)	0	0	(6,485)	6,485
Movements in market value of investment properties	(403)	8	0	0	(395)	395
Revenue expenditure funded from capital under statute (REFCUS)	(730)	0	0	0	(730)	730
Financing of REFCUS	730	0	0	0	730	(730)
Capital expenditure	570	4,774	2,659	5,871	13,874	(13,874)
Statutory provision for financing of capital investment	136	0	0	0	136	(136)
Profit/Loss on disposal of non-current assets	(151)	729	(3,065)	0	(2,487)	2,487
Donated Asset	306	0	0	0	306	(306)
Adjustments primarily involving the Collection Fund Adjustment Account						
Adjustment to council tax income	102	0	0	0	102	(102)
Adjustment to NNDR income	5,932	0	0	0	5,932	(5,932)
Adjustments primarily involving the Pension Fund						
Adjustment of IAS 19 retirement entries for actual contributions	(3,271)	(951)	0	0	(4,222)	4,222
Adjustments primarily involving the Accumulating Compensated Absences Account	(37)	(10)	0	0	(47)	47
Adjustments relating to the value of Financial Instruments						
Financial Instruments	528	0	0	0	528	(528)
Adjustments between Usable Reserves						
Payments to Housing Capital Receipts Pool	0	(844)	844	0	0	0
Total Adjustments	**(1,561)**	**4,115**	**438**	**1,712**	**4,704**	**(4,704)**

NOTES TO THE BALANCE SHEET

18. PROPERTY PLANT AND EQUIPMENT (PPE)

Non-current assets owned and assets leased by the Council include the following:

Council Dwellings £'000	Other Land & Buildings £'000	Vehicles, Plant & Equipment £'000	Surplus Assets £'000	Assets Under Construction £'000	Total PPE £'000	Movement on Balances	Council Dwellings £'000	Other Land & Buildings £'000	Vehicles, Plant & Equipment £'000	Surplus Assets £'000	Assets Under Construction £'000	Total PPE £'000
Movement in 2021/22							**Movement in 2022/23**					
						Cost or Valuation						
266,377	**70,039**	**17,473**	**197**	**8,131**	**362,217**	**at 1 April 2021 / at 1 April 2022**	**303,983**	**68,058**	**18,330**	**140**	**10,950**	**401,461**
6,935	317	1,486	0	4,483	13,221	Additions	5,735	441	897	0	2,328	9,401
32,906	(1,981)		5		30,930	Revaluation increases/(decreases) recognised in the Revaluation Reserve	21,084	(147)				20,937
(1,001)	(317)				(1,318)	Revaluation increases/(decreases) recognised in the Surplus/Deficit on Provision of Services	(4,199)	(1,604)				(5,803)
(2,245)		(630)	(62)		(2,937)	Derecognition (Assets under construction)/Disposals	(2,548)	(193)	(1,763)		(106)	(4,610)
84					84	Assets reclassified (to)/from Held for Sale (see Note 27)	0	(500)				(500)
927				(1,664)	(737)	Assets reclassified (to)/from Assets Under Construction	1,073				(1,073)	0
303,983	**68,058**	**18,329**	**140**	**10,950**	**401,460**	**at 31 March 2022 / at 31 March 2023**	**325,128**	**66,055**	**17,464**	**140**	**12,099**	**420,886**
						Accumulated Depreciation & Impairment						
(31)	**(212)**	**(12,414)**	**0**	**0**	**(12,657)**	**at 1 April 2021 / at 1 April 2022**	**(20)**	**(304)**	**(13,205)**	**0**	**0**	**(13,529)**
(3,768)	(3,931)	(1,289)	(16)		(9,004)	Depreciation charge	(4,258)	(2,150)	(1,185)	(14)		(7,607)
2,477	3,641		16		6,134	Depreciation written out to the Revaluation Reserve	3,831	1,961		14		5,806
7,787	198				7,985	Depreciation written out to the Comprehensive Income & Expenditure Statement	5,878	161				6,039
(6,485)					(6,485)	Derecognition of Non Enhancing Capital Expenditure	(5,450)					(5,450)
		498			498	Derecognition - Disposals			1,625			1,625
(20)	**(304)**	**(13,205)**	**0**	**0**	**(13,529)**	**at 31 March 2022 / at 31 March 2023**	**(19)**	**(332)**	**(12,765)**	**0**	**0**	**(13,116)**
						Net Book Value						
303,963	**67,754**	**5,124**	**140**	**10,950**	**387,931**	**at 31 March 2022 / at 31 March 2023**	**325,109**	**65,723**	**4,699**	**140**	**12,099**	**407,770**
266,346	**69,827**	**5,059**	**197**	**8,131**	**349,560**	**at 1 April 2021 / at 1 April 2022**	**303,963**	**67,754**	**5,125**	**140**	**10,950**	**387,932**

Property, Plant & Equipment (Continued)

Valuation Assumptions

The significant assumptions applied in estimating the current values by the Valuer are as follows:

- No potentially deleterious or hazardous materials were used in the construction of the assets and none has subsequently been incorporated.

- That the properties are not subject to any unusual or especially onerous restrictions, encumbrances or outgoings and good titles can be shown.

- The properties and their values are unaffected by any matters which would be revealed by a local search or inspection of any register and that use and occupation are both legal.

- The inspection of those parts which have not been inspected would cause the Valuer to alter their opinion of value.

- The land and properties are not contaminated nor adversely affected by radon.

- No allowances have been made for any rights obligations or liabilities arising from the Defective Premises Act 1972.

- The Council carries out a full revaluation of its properties on a rolling basis over a five year period. In the years where an asset is not subject to a full revaluation a review is carried out by appointed valuers Valuation Office Agency in accordance with the methodologies and basis for estimation set out in the professional standards of the Royal Institute of Chartered Surveyors (RICS). Valuations of vehicles, plant and equipment are based on depreciated cost.

- A full year of depreciation is charged in the year of acquisition and none in the year of disposal.

19. CAPITAL EXPENDITURE AND CAPITAL FINANCING

The total amount of capital expenditure incurred in the year is shown in the table below together with the resources that have been used to finance it. Where capital expenditure is to be financed in future years by charges to revenue as assets are used by the Council, the expenditure results in an increase in the Capital Financing Requirement (CFR), a measure of the capital expenditure incurred historically by the Council that has yet to be financed. The CFR is analysed in the second part of this note.

2021/22 £'000		2022/23 £'000
107,868	**Opening Capital Finance Requirement**	107,101
	Capital Investment	
450	Council Dwellings	285
317	Other land & buildings	441
1,486	Vehicles, plant & equipment	897
4,483	Assets under construction	2,328
6,485	Capital expenditure	5,587
23	Intangible Assets	479
730	Revenue expenditure charged to capital under statute	1,866
	Sources of Finance	
(2,659)	Capital receipts	(965)
(1,438)	Capital grants & contributions	(2,526)
(10,644)	Sums set aside from revenue	(11,347)
107,101	**Closing Capital Financing Requirement**	**104,146**
	Explanation of movements in year	
(767)	Increase/(Decrease) in underlying need to borrow (supported by government financial assistance)	(2,955)
(767)	**Increase/ (Decrease) in Capital Financing Requirement**	**(2,955)**

20. HERITAGE ASSETS

Reconciliation of the carrying value of tangible Heritage Assets held by the Council

	Assets held at value		Assets held at cost	Total Assets
	Antiques	Miscellaneous Artefacts	Art Installation	
	£'000	£'000	£'000	£'000
Cost or Valuation				
1st April 2021	238	264	35	537
Revaluations	0	0	0	0
Additions in year	0	0	305	305
Disposals in Year	0	0	0	0
31st March 2022	238	264	340	842
Revaluations	19	134	(305)	(152)
Additions in year	0	0	0	0
Disposals in Year	0	0	0	0
31st March 2023	**257**	**398**	**35**	**690**

It is not practicable to report any transactions relating to Heritage Assets before 1 April 2010, as such transactions were not distinguished from those relating to operational assets.

a. Antiques
The Council's collection of antiques is reported in the Balance Sheet at insurance valuation which is based on market values. The collection includes items such as the chandeliers and mirrors at Stamford Arts Centre and two large Japanese bronze koros in the civic suite at Grantham. The collection also includes an 18th Century portrait of Catherine Manners, Lady Huntingtower on view at Guildhall Arts Centre, Grantham.

b. Miscellaneous Artefacts
Items of note in this collection include civic regalia and a Victoria Cross medal. Items in this collection are reported in the Balance Sheet at insurance valuation which is based on market values. The collection is held at Grantham.

Valuations were undertaken in May 2023 for insurance purposes by Anthony Marriott, Fine Art Consultant & Valuer.

c. Art Installations
The Orrery sculpture in Grantham Market Place and the light installation on St Peter's Hill are reported at cost. The statue of Baroness Thatcher donated in year by the Public Memorials Appeal is reported at the estimated cost provided by the donor.

d. Historic
The Council has a collection of assets that are of historic significance but are not reported on the balance sheet as their value cannot be reliably established. This collection is made up of the following:

St Leonard Priory, Stamford	12th Century Priory listed ancient monument
Conduit, Grantham	16th Century Well Head
St Wulfram's War Memorial, Grantham	World War 1 memorial

Dysart Park Band Stand, Grantham	Victorian wrought iron band stand
Wyndham Park Shelter, Grantham	World War 1 memorial shelter
Statue, St Peter's Hill, Grantham	Baroness Thatcher of Kesteven

Currently the Council has no intangible Heritage Assets

More details on the Heritage Assets held by the Council including their location and any public access allowed is held on the Council's Heritage Asset schedule.

21. INVESTMENT PROPERTIES

The following items of income and expense have been accounted for under Financing and Investment Income and Expenditure in the Comprehensive Income & Expenditure Statement:

2021/22 £'000		2022/23 £'000
(285)	Rental income from investment property	(361)
10	Direct operating expenses arising from investment property	41
(275)		**(320)**

There are no restrictions on the Council's ability to realise the value inherent in its investment property or on the Council's right to the remittance of income and the proceeds of disposal. The Council has no contractual obligations to purchase, construct or develop investment property, or repairs, maintenance or enhancement.

The following table summarises the movement in the fair value of investment properties over the year:

2021/22 £'000		2022/23 £'000
5,198	**Balance at start of year**	4,950
247	Additions - Purchases	0
(395)	Net gains/losses from fair value adjustments	356
(100)	Disposals/Transfers to Assets Held for Sale	(287)
4,950	**Balance at end of year**	**5,019**

The fair value of investment property was determined by external, independent property valuers, having appropriate recognised professional qualifications. Fair value measurement for investment property has been categorised as Level 2 fair value based on information from observable market transactions of comparable property with no significant adjustments.

22. INTANGIBLE ASSETS

The Council accounts for its software licences as intangible assets where the software is not an integral part of a particular IT system. The intangible assets included in the balance sheet only include purchased licences. They are held at historic cost.

All licences are given a finite useful life, based on assessments of the period the software is expected to be of use to the Council.

Movements on Intangible Assets during the year were as follows:

2021/22 £'000		**2022/23 £'000**
	Balance at start of year:	
818	Gross carrying amount	841
(637)	Accumulated amortisation	(744)
181	Net carrying amount at start of year	97
23	Additions	479
(107)	Amortisation for the period	(150)
(84)		**329**
0	Disposals	(77)
0	Amortisation written back	77
0		**0**
97	Net carrying amount at end of year	426
Comprising		**Comprising**
841	Gross carrying amount	1,243
(744)	Accumulated amortisation	(817)
97		**426**

None of the intangible assets are individually material to the financial statements.

23. FINANCIAL INSTRUMENTS

A financial instrument is a contract that gives rise to a financial asset of one entity and a financial liability or equity instruments of another entity. Non exchange transactions, such as those relating to taxes and government grants, do not give rise to financial instruments. The following categories of financial instrument are carried in the Balance Sheet:

Financial Assets

	Non Current				Current			
	Investments		Debtors		Investments		Debtors	
	31-Mar-23	31-Mar-22	31-Mar-23	31-Mar-22	31-Mar-23	31-Mar-22	31-Mar-23	31-Mar-22
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Amortised Cost								
Principal	2,632	5,173	172	480	48,000	66,008	3,846	3,160
Investment Accrued Interest	0	0	0	0	499	81	0	0
Cash and cash equivalents (CCE)	0	0	0	0	17,607	17,086	0	0
Fair value through other comprehensive income - other	1,120	1,120	0	0	0	0	0	0
Total financial assets	**3,752**	**6,293**	**172**	**480**	**66,106**	**83,175**	**3,846**	**3,160**
Non financial assets	0	0	0	0	0	0	4,593	4,314
Total	**3,752**	**6,293**	**172**	**480**	**66,106**	**83,175**	**8,439**	**7,474**

Financial Liabilities

	Non Current		Current			
	Investments		Investments		Creditors	
	31-Mar-23	31-Mar-22	31-Mar-23	31-Mar-22	31-Mar-23	31-Mar-22
	£'000	£'000	£'000	£'000	£'000	£'000
Amortised Cost						
Principal	82,991	86,213	3,223	3,222	3,752	4,947
Interest	0	0	22	23	0	0
Total financial liabilities	**82,991**	**86,213**	**3,245**	**3,245**	**3,752**	**4,947**
Non financial liabilities	0	0	0	0	9,671	31,357
Total	**82,991**	**86,213**	**3,245**	**3,245**	**13,423**	**36,304**

Designated to fair value through other comprehensive income

The Council has a 100% shareholding in Gravitas Housing Limited which is a wholly owned Local Authority Controlled Company. These shares were purchased on 22 March 2019. The adoption of accounting standard IFRS 9 Financial Instruments requires that investments in equity are classified as fair value through profit and loss unless there is an irrevocable election to designate the asset as fair value through other comprehensive income. The investment in Gravitas Housing Limited is an equity instrument and as such, the default valuation method is any gains and losses on changes in fair value would be recognised through profit and loss.

The Gravitas Housing Limited shareholding is a strategic investment to stimulate housing growth in the District and are not held for trading and therefore the Council has opted to designate it as fair value through Other Comprehensive Income. This means that there is no impact on the revenue budget and the decision to designate to fair value through other comprehensive income is irrevocable. Any gains or losses on the valuation of the shareholding will therefore be transferred to a Financial Instruments Revaluation Reserve. The fair value is deemed to be the purchase price. The investment will be revalued at the end of each reporting year taking into consideration the assets and liabilities of the company.

Description	31-Mar-23 £'000	31-Mar-22 £'000
Gravitas Housing Limited	1,120	1,120
Total	**1,120**	**1,120**

The Fair Values of Financial Assets and Financial Liabilities that are not measured at Fair Value

Except for the financial assets carried at fair value (described in the table above), all other financial liabilities and financial assets represented by amortised cost and long-term debtors and creditors are carried on the balance sheet at amortised cost. Their fair value can be assessed by calculating the present value of the cash flows that take place over the remaining life of the instruments, using the following assumptions:

- For loans from the Public Works Loan Board (PWLB) and other loans payable, premature repayment rates from the PWLB have been applied to provide the fair value under PWLB debt redemption procedures.
- For loans receivable prevailing benchmark market rates have been used to provide the fair value.
- No early repayment or impairment is recognised.
- Where an instrument has a maturity of less than 12 months or is a trade or other receivable the fair value is taken to be the carrying amount or the billed amount.
- The fair value of trade and other receivables is taken to be the invoiced or billed amount.

	31-Mar-23		31-Mar-22	
	Carrying Amount £000	Fair Value £000	Carrying Amount £000	Fair Value £000
PWLB	86,236	79,982	89,458	98,543
Short Term Creditors	3,752	3,752	4,947	4,947
Total	**89,988**	**83,734**	**94,405**	**103,490**

The fair value of the liabilities is less than the carrying amount because the Council's portfolio of loans includes a number of fixed rate loans where the interest rate payable is lower than the rates available for similar loans in the market at the Balance Sheet date. This shows a notional future loss (based on economic conditions at 31 March 2023) arising from a commitment to pay interest to lenders below current market rates.

The fair value of Public Works Loan Board (PWLB) loans of £79.982m measures the economic effect of the terms agreed with the PWLB compared with estimates of the terms that would be offered for market transactions undertaken at the Balance Sheet date. The difference between the carrying amount and the fair value measures the reduced interest that the authority will pay over the remaining terms of the loans under the agreements with the PWLB, against what would be paid if the loans were at prevailing market rates.

The authority has a continuing ability to borrow at concessionary rates from the PWLB rather than from the markets. A supplementary measure of the reduced interest that the authority will pay as a result of its PWLB commitments for fixed rate loans is to compare the terms of these loans with the new borrowing rates available from the PWLB. If a value is calculated on this basis, the carrying amount of £86.236m would be valued at £73.876m. But, if the authority were to seek to realise the projected gain by repaying the loans to the PWLB, the PWLB would raise a penalty charge for early redemption in addition to giving a discount for the reduced interest income that will be avoided. The exit price for the PWLB loans including the penalty charge would be £79.982m.

	31-Mar-23		**31-Mar-22**	
	Carrying Amount £000	**Fair Value £000**	**Carrying Amount £000**	**Fair Value £000**
Cash and Cash Equivalents	17,607	17,607	17,086	17,086
Short Term Investments	48,000	48,000	66,000	66,018
Long Term Investments	2,632	2,632	5,152	5,129
Short Term Debtors	3,846	3,846	3,160	3,160
Long Term Debtors	172	172	480	480
Total	**72,257**	**72,257**	**91,878**	**91,873**

The fair value measurement of the financial assets and liabilities are all hierarchy level 2 - other significant observable inputs.

24. NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS

The Council’s activities expose it to a variety of financial risks. The key risks are:

- 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;
- Re-financing risk – the possibility that the Council might be requiring to renew a financial instrument on maturity at disadvantageous interest rates or terms;

- Market risk - the possibility that financial loss might arise for the Council as a result of   prior to the commencement of the year to which it relates. This strategy sets out the parameters for the management of risks associated with financial instruments.

The Council's Treasury Management Strategy for 2022/23 is available on the Council's website at

http://moderngov.southkesteven.gov.uk/documents/s32638/Appendix%20G%20-%202022-23%20Treasury%20Management%20Strategy%20Statement.pdf

The strategy also includes an Annual Investment Strategy for the forthcoming year, setting out the Council's criteria for both investing and selecting investment counterparties.

These strategies are implemented by the central treasury department. The Council maintains written principles for overall risk management, as well as written policies covering specific areas, such as interest rate risk, credit risk, and the investment of surplus cash through Treasury Management Practices (TMPs). These TMPs are a requirement of the Code of Practice and are reviewed periodically.

Credit risk

Credit risk arises from deposits with banks and financial institutions, as well as credit exposures to the Council's customers.

This risk is minimised through the Annual Investment Strategy, which is available on the Council's website.

The Council's credit risk management practices are set out on pages 12 to 13 of the Annual Investment Strategy. With particular regard to determining whether the credit risk of financial instruments has increase significantly since initial recognition.

The Annual Investment Strategy requires that deposits are not made with financial institutions unless they meet identified minimum credit criteria, in accordance with the Fitch, Moody's and Standard and Poor's Credit Ratings Services. The Annual Investment Strategy also considers maximum amounts and time limits with a financial institution located in each category.

The Council uses the creditworthiness service provided by Link. This service uses a sophisticated modelling approach with credit ratings from all three rating agencies – Fitch, Moody's and Standard and Poors, forming the core element. However, it does not rely solely on the current credit ratings of counterparties but also uses the following as overlays:

- Credit watches and credit outlooks from credit rating agencies
- Credit Default Swap spreads to give early warning of likely changes in credit ratings.
- Sovereign ratings to select counterparties from only the most creditworthy countries

The full Investment Strategy was approved by Full Council on 1 March 2022 and is available on the Council's website.

Customers for goods and services are assessed, taking into account their financial position, past experience and other factors, with individual credit limits being set in accordance with internal ratings in accordance with parameters set by the Council.

The Council's maximum exposure to credit risk in relation to its investments in banks, building societies, property fund and money market funds of £68.266m cannot be assessed generally as the risk of any institution failing to make interest payments or repay the principal sum will be specific to each individual institution. Recent experience has shown that it is rare for such entities to be unable to meet their commitments. A risk of irrecoverability applies to all of the Council's deposits, the Council has £3m invested with the property fund and at 31 March 2022 this was valued at £2.632m.

Amounts Arising from Expected Credit Losses

We have assessed the Council's short and long term investments and concluded that the expected credit loss is not material therefore no allowances have been made.

A summary of the credit quality of the Council's investments at 31 March 2023 is shown below, along with the potential maximum exposure to credit risk, based on experience of default and uncollectability.

	Link Asset Services - Colour banding	Lowest Long Term Rating	Balance at 31 March 2023 £'000	Historical Experience of Default %	Estimated maximum exposure to default and uncollectability at 31 March 2023 £'000
Deposits with Banks and Financial Institutions					
Standard Chartered Bank	Red	A+	4,000,000	0.003%	104
Standard Chartered Bank	Red	A+	5,000,000	0.016%	779
SMBC Bank International PLC	Red	A-	3,000,000	0.013%	404
Landesbank Hessen-Thueringen Girozentrale (Helaba)	Orange	A+	2,000,000	0.018%	356
Landesbank Hessen-Thueringen Girozentrale (Helaba)	Orange	A+	2,000,000	0.023%	450
Goldman Sachs International Bank	Red	A+	4,000,000	0.003%	104
Close Brothers Ltd	Red	A-	2,000,000	0.003%	119
Close Brothers Ltd	Red	A-	3,000,000	0.010%	304
Close Brothers Ltd	Red	A-	2,000,000	0.015%	292
Lloyds Bank Plc	Red	A+	2,000,000	0.000%	10
Lloyds Bank Plc	Red	A+	3,000,000	0.020%	597
Wakefield District Council	Yellow	AA-	5,000,000	0.003%	0
Leeds City Council	Yellow	AA-	5,000,000	0.011%	0
Cambridge City ouncil	Yellow	AA-	2,000,000	0.018%	0
West Dunbartonshire Council	Yellow	AA-	4,000,000	0.021%	0
CCLA Property Fund	Not Rated	Not Rated	3,000,000		
BNP Paribas MMF*	Yellow	AAA	5,000,000		
CCLA MMF*	Yellow	AAA	5,000,000		
LGIM MMF	Yellow	AAA	5,000,000		
Aberdeen Standard Investments MMF*	Yellow	AAA	2,509,000		
Total Investments			**68,509,000**		**3,519**

*Money Market Funds

No credit limits were exceeded during the reporting period and the Council does not expect any losses from non-performance by any of its counterparties in relation to deposits and bonds.

The Council does not generally allow extended credit for its trade debtors, but some of the current balance is past its due date for payment. The past due but not impaired amount can be analysed by age as follows:

	At 31 March 2023 £'000	At 31 March 2022 £'000	At 31 March 2021 £'000
Under 30 Days	132	113	108
30-60 days	2,521	1,392	1,689
60-90 days	122	128	152
Over 90 Days	639	507	471
Total	**3,414**	**2,140**	**2,420**

During the reporting period the Council held no collateral as security.

Liquidity risk

The Council manages its liquidity position through the risk management procedures above (the setting and approval of prudential indicators and the approval of the treasury and investment strategy reports), as well as through a comprehensive cash flow management system, as required by the CIPFA Treasury Management Code of Practice. This seeks to ensure that cash is available when needed.

The Council has ready access to borrowings from the money markets to cover any day to day cash flow need, and the PWLB and money markets for access to longer term funds. The Council is also required to provide a balanced budget through the Local Government Finance Act 1992, which ensures sufficient monies are raised to cover annual expenditure. There is therefore no significant risk that it will be unable to raise finance to meet its commitments under financial instruments.

The maturity analysis of financial assets, excluding sums due from customers, is as follows:

	At 31 March 2023	At 31 March 2022	At 31 March 2021
	£'000	£'000	£'000
Less than one year	65,509	83,286	64,460
Between one and two years	2,632	5,152	2,681
Total	**68,141**	**88,438**	**67,141**

Re-financing and Maturity Risk

The Council maintains a significant debt and investment portfolio. Whilst the cash flow procedures above are considered against the refinancing risk procedures, longer term risk to the Council relates to managing the exposure to replacing financial instruments as they mature. This risk relates to both the maturing of longer term financial liabilities and longer term financial assets.

The approved treasury indicator limits for the maturity structure of debt and the limits on investments placed for greater than one year in duration are the key parameters used to address this risk. The Council approved treasury and investment strategies address the main risks and the central treasury team address the operational risks within the approved parameters. This includes:

- Monitoring the maturity profile of financial liabilities and amending the profile through either new borrowing or the rescheduling of the existing debt; and
- Monitoring the maturity profile of investments to ensure sufficient liquidity is available for the Council's day to day cash flow needs, and the spread of longer term investments provide stability of maturities and returns in relation to the longer term cash flow needs.

The maturity analysis of financial liabilities is as follows:

	At 31 March 2023 £'000	At 31 March 2022 £'000	At 31 March 2021 £'000
Less than one year	3,245	3,245	3,245
Between one and two years	3,222	3,222	3,222
Between two and five years	9,665	9,665	9,665
Between five and ten years	16,109	16,109	16,109
Between ten and fifteen years	41,109	41,109	41,109
Over Fifteen Years	12,886	16,108	19,330
Total	**86,236**	**89,458**	**92,680**

Market risk

Interest rate risk

The Council is exposed to interest rate movements on its borrowings and investments. Movements in interest rates have a complex impact on the Council, depending on how variable and fixed interest rates move across differing financial instrument periods. For instance, a rise in variable and fixed interest rates would have the following effects:

- Borrowings at variable rates – the interest expense charged to the Comprehensive Income and Expenditure Account will rise;
- Borrowings at fixed rates – the fair value of the borrowing will fall (no impact on revenue balances);
- Investments at variable rates – the interest income credited to the Comprehensive Income and Expenditure Account will rise; and
- Investments at fixed rates – the fair value of the assets will fall (no impact on revenue balances).

Borrowings are not carried at fair value on the balance sheet, so nominal gains and losses on fixed rate borrowings would not impact on the Surplus or Deficit on the Provision of Services or Other Comprehensive Income and Expenditure. However, changes in interest payable and receivable on variable rate borrowings and investments will be posted to the Surplus or Deficit on the Provision of Services and affect the General Fund Balance. Movements in the fair value of fixed rate investments that have a quoted market price will be reflected in Other Comprehensive Income and Expenditure.

The Council has a number of strategies for managing interest rate risk. The Annual Treasury Management Strategy draws together the Council's prudential and treasury indicators and its expected treasury operations, including an expectation of interest rate movements. From this Strategy a treasury indicator is set which provides maximum limits for fixed and variable interest rate exposure. The central treasury team will monitor market and forecast interest rates within the year to adjust exposures appropriately. For instance during periods of falling interest rates, and where economic circumstances make it favourable, fixed rate investments may be taken for longer periods to secure better long term returns, similarly the drawing of longer term fixed rates borrowing would be postponed. If all interest rates had been 1% higher (with all other variables held constant) the financial effect would be:

	£'000
Increase in interest payable on variable rate borrowings	0
Increase in interest receivable on variable rate investments	238
Impact on Surplus or Deficit on the Provision of Services	238
Decrease in fair value of fixed rate borrowing liabilities (no impact on the Surplus or Deficit on the Provision of Services or Other Comprehensive Income and Expenditure)	18,164

The approximate impact of a 1% fall in interest rates would be as above but with the movements being reversed. These assumptions are based on the same methodology as used in the Note – Fair value of Assets and Liabilities carried at amortised Cost.

Price risk

The Council, excluding the pension fund, does not generally invest in equity shares or marketable bonds but does have shareholdings in the Gravitas Housing Limited which is a wholly owned Local Authority Controlled Company. Whilst these holdings are generally illiquid, the Council is consequently exposed to losses arising from movements in the prices of the shares.

As the shareholdings have arisen in the acquisition of specific interests, the Council is not in a position to limit its exposure to price movements by diversifying its portfolio. Instead it only acquires shareholdings in return for "open book" arrangements with the company concerned so that the Council can monitor factors that might cause a fall in the value of specific shareholdings.

The shares in Gravitas Housing Limited have been elected as Fair Value through Other Comprehensive Income, meaning that all movements in prices will impact on gains and losses recognized in the Financial Instruments Revaluation Reserve. A general shift of 5% in the general price of the shares (positive or negative) would have resulted in a £56k gain or loss being recognised in the Financial Instrument Revaluation Reserve.

Foreign exchange risk

The Council has no financial assets or liabilities denominated in foreign currencies. It therefore has no exposure to loss arising from movements in exchange rates.

25. DEBTORS

An analysis of Debtors is shown below

At 31 March 2022 £'000		At 31 March 2023 £'000
	Current Debtors	
2,514	Government Departments	1,716
1,340	Other Local Authorities	2,084
19	NHS	19
3,601	Other entities and individuals	4,620
7,474		**8,439**
	Long Term Debtors	
480	Other	172
480		**172**

26. ASSETS HELD FOR SALE

The details of the assets held for sale are shown below.

2021/22 £'000		2022/23 £'000
132	Balance at start of year	590
	Assets newly classified as held for sale:	
590	Property, Plant & Equipment	500
(48)	Assets sold	0
(84)	Withdrawn sales transferred back to PPE	0
590		**1,090**

27. CASH AND CASH EQUIVALENTS

The balance of cash and cash equivalents is made up of the following elements:

At 31 March 2022 £'000		At 31 March 2023 £'000
189	Cash held by the authority	3
(389)	Bank current accounts	95
17,286	Short Term Deposits	17,509
17,086	**Total Cash & Cash Equivalents**	**17,607**

Some instant access accounts are used for short-term investments where the rate of interest achieved is better than for a short-term investment. However, due to the requirements of the Code they are included as Cash and Cash Equivalents on the Balance Sheet.

28. BORROWING

Non-Current Borrowing represents borrowing repayable within a period in excess of one year.

2021/22 £'000	Analysis of Loans by Source	2022/23 £'000
86,213	PWLB	82,991
86,213		**82,991**

£'000	Analysis of Loans by Maturity	£'000
3,222	Between 1 and 2 Years	3,222
9,665	Between 2 and 5 Years	9,665
16,109	Between 5 and 10 Years	16,109
41,109	Between 10 and 15 Years	41,109
16,108	Over 15 years	12,886
86,213		**82,991**

Current Borrowing represents borrowing repayable within one year.

2021/22 £'000		2022/23 £'000
3,245	Balance at start of year	3,245
(3,245)	Borrowing repaid during year	(3,244)
3,222	Transferred from Non-Current Borrowing	3,222
23	Accrued interest at end of year	22
3,245	Balance at end of year	**3,245**

29. CREDITORS

An analysis of Creditors is shown below:

At 31 March 2022 £'000		At 31 March 2023 £'000
28,366	Government Departments	6,437
55	Other Local Authorities	453
7,883	Other entities and individuals	6,533
36,304	**Total**	**13,423**

30. LEASES

a. Council as Lessee

Finance Leases

The Council has acquired a number of buildings under finance leases on a peppercorn basis. Typically the annual payments for these buildings are less than £1 per annum, so the future minimum lease payments due are immaterial. The assets acquired under these leases are carried as Property, Plant & Equipment in the Balance Sheet at the following net book values.

At 31 March 2022 £'000	Carrying Value	At 31 March 2023 £'000
2,945	Other Land & Buildings	**2,816**

None of these properties are sublet.

b. Council as Lessor

Finance Leases

The Council has leased out HRA shops and the Crematorium at Grantham on finance leases with the remaining terms being between 65 and 70 years. The Council has a gross investment in the lease, made up of the minimum lease payments expected to be received over the remaining term and the residual value anticipated for the property when the lease comes to an end. The minimum lease payments comprise settlement of the long-term debtor for the interest in the property acquired by the lessee and finance income that will be earned by the Council in future years whilst the debtor remains outstanding. The gross investment is made up of the following amounts:

At 31 March 2022 £'000	Gross Investment in the Lease	At 31 March 2023 £'000
	Finance Lease Debtor (net present value of minimum lease payments)	
12	Non-Current	11
52	Unearned finance income	52
1,740	Unguaranteed residual value of property	1,740
1,804	Gross Investment in the Lease	**1,803**

The gross investment in the lease and the minimum lease payments will be received over the following periods:

	Gross Investment in the Lease		Minimum Lease Payments	
	At 31 March 2023	At 31 March 2022	At 31 March 2023	At 31 March 2022
	£'000	£'000	£'000	£'000
Not later than one year	1	1	0	0
Between one & five years	5	5	1	1
Later than 5 years	1,797	1,798	11	12
	1,803	**1,804**	**12**	**13**

	Gross Investment in the Lease		Minimum Lease Payments	
	At 31 March 2022	At 31 March 2021	At 31 March 2022	At 31 March 2021
	£'000	£'000	£'000	£'000
Not later than one year	1	1	0	0
Between one & five years	5	5	1	1
Later than 5 years	1,798	1,800	12	12
	1,804	**1,806**	**13**	**13**

No allowance for uncollectible amounts has been set aside as at 31 March 2023.

The minimum lease payments do not include rents that are contingent on events taking place after the lease was entered into, such as adjustments following rent reviews. In 2022/23 no contingent rents were receivable by the Council.

Operating Leases

The Council leases out property under operating leases for the following purposes

- For the provision of community services such as leisure and community services.
- For economic development services to provide suitable affordable accommodation for local businesses.

The future minimum lease payments receivable under non-cancellable leases in future years are shown below:

At 31 March 2022 restated £'000		At 31 March 2023 £'000
685	Not later than one year	738
1,965	Between one & five years	1,657
3,713	Later than 5 years	3,594
6,363		**5,989**

The minimum lease payments receivable do not include rents that are contingent on events taking place after the lease was entered into, such as adjustments following rent reviews. In 2022/23 no contingent rents were receivable by the Council.

31. PROVISIONS

All of the personal injury and property damage compensation claims are individually insignificant. They relate to personal injury or property damage sustained where the Council is alleged to be negligent. Provision is made for those claims where it is deemed probable that the Council will have to make a settlement, based on reserves set by the Council's insurer. Of the £166k provided at 31st March 2023 £123k is expected to be settled in 2023/24.

	Injury & Damage Compensation Claims	Business Rates Appeals	Total
2022/23	**£'000**	**£'000**	**£'000**
Balance at 1 April 2022	293	2,048	2,341
Additional provisions made in 2022/23	72	321	393
Amounts used in 2022/23	(143)	(30)	(173)
Unused amounts reversed in 2022/23	(56)	0	(56)
Total	**166**	**2,339**	**2,505**
Split between:			
Short-term provisions	123	96	219
Long-term provisions	43	2,243	2,286
	166	**2,339**	**2,505**
2021/22			
Balance at 1 April 2021	167	1,911	2,078
Additional provisions made in 2021/22	192	426	618
Amounts used in 2021/22	(18)	(289)	(307)
Unused amounts reversed in 2021/22	(48)	0	(48)
Total	**293**	**2,048**	**2,341**
Split between:			
Short-term provisions	178	126	304
Long-term provisions	115	1,922	2,037
	293	**2,048**	**2,341**

The Council has a provision for any potential liabilities as a result of Business Rate Payers appeals against rateable valuations. The Council is responsible for a 40% share of this liability along with Government who a responsible for 50% and Lincolnshire County Council being responsible for a 10%.

32. DEFINED BENEFIT PENSION SCHEME

a. Participation in Pension Scheme

As part of the terms and conditions of employment of its officers and other employees, the Council makes contributions towards the cost of post-employment benefits. Although these benefits will not actually be payable until employees retire, the Council has a commitment to make the payments for those benefits and to disclose them at the time that employees earn their future entitlement.

The Council participates in the Local Government Pension Scheme administered by Lincolnshire County Council.

- This is a funded defined benefit final salary scheme, meaning the Council, and employees, pay contributions into a fund, calculated at a level intended to balance the pension's liabilities with investment assets.

- Arrangements for the award of discretionary post-retirement benefits upon early retirement are an unfunded defined benefit arrangement, under which liabilities are recognised when awards are made. However, there are no investment assets built up to meet these pension liabilities, and cash has to be generated to meet actual pension payments as they eventually fall due.

- The Lincolnshire County Council pension scheme is operated under the regulatory framework for the Local Government Pension Scheme and the governance of the scheme is the responsibility of the pensions committee of Lincolnshire County Council. Policy is determined in accordance with the Pension Fund Regulations.

- The principal risks to the Council of the scheme are the longevity assumptions, statutory changes to the scheme, structural changes to the scheme (i.e. large scale withdrawals from the scheme), changes to inflation, bond yields and the performance of the equity investments held by the scheme. These are mitigated to a certain extent by the statutory requirements to charge to the General Fund and Housing Revenue Account the amounts required by statute as described in the accounting policies note.

Discretionary Post-retirement benefits on early retirement are an unfunded defined benefit arrangement, under which liabilities are recognised when awards are made. There are no plan assets built up to meet these pension liabilities.

b. Transactions Relating to Post-Employment Benefits

The Council recognises the cost of retirement benefits in the cost of services when they are earned by employees, rather than when the benefits are eventually paid as pensions. However, the charge the Council is required to make against council tax is based on the cash payable in the year, so the real cost of post-employment/retirement benefits is reversed out of the General Fund and Housing Revenue Account via the Movement in Reserves Statement. The reversal of the IAS19 transactions ensures that there is no effect on the amounts to be met from government grant and the local taxpayers. The following transactions have been made in the Comprehensive Income and Expenditure Statement and the General Fund Balance via the Movement in Reserves Statement during the year.

2021/22 £'000		2022/23 £'000
	Comprehensive Income and Expenditure Statement	
	Cost of Services	
6,679	- current service cost	4,414
115	- past service cost	262
85	Administration fee	97
	Financing & Investment Income & Expenditure	
3,361	- Net interest expense	4,706
(2,124)	-Expected return on assets in the scheme	(4,598)
8,116	Total Post-employment benefits charged to the Surplus or Deficit on the Provision of Services	4,881
	Other Post-employment benefits charged to the Comprehensive Income and Expenditure Statement	
	Remeasurement of the net defined benefit liability comprising:	
(10,437)	-return on plan assets (excluding the amount included in the net interest expense)	7,752
(7,165)	-Actuarial gains and losses arising on changes in demographic assumptions	0
(7,650)	-Actuarial gains and losses arising on changes in financial assumptions	(74,437)
2,625	-Other	14,818
(14,511)	**Total Post Employment Benefit charged to the Comprehensive Income and Expenditure Statement**	**(46,986)**
	Movement in Reserves Statement	
(4,222)	Reversal of net charges made to the Surplus or Deficit for the Provision of Services for post employment benefits in accordance with the Code	**(608)**
	Actual amount charged against the General Fund Balance for pensions in the year.	
3,894	- Employers' contributions payable to scheme.	**4,273**

c. Pensions Assets and Liabilities Recognised in the Balance Sheet

The amount included in the Balance Sheet arising from the Council's obligation in respect of the defined benefit plans is as follows:

2021/22 £'000		2022/23 £'000
179,825	Present Value of the defined benefit obligation	125,708
(131,498)	Fair value of plan assets	(128,640)
48,327	Sub-total	(2,932)
48,327	**Net liability arising from defined benefit obligation**	**(2,932)**

d. Reconciliation of the Movements in the Fair Value of Scheme (Plan) Assets

2021/22 £'000		2022/23 £'000
118,060	Opening fair value of scheme assets	131,648
2,124	Interest income	4,603
	Remeasurement gain/ (loss):	
10,590	The return on plan assets, excluding the amount included in net interest	(7,907)
3,894	Contributions from employer	4,273
923	Contributions from employees into the scheme	953
(3,855)	Benefits paid	(4,833)
(88)	Administration Expense	(97)
131,648	**Closing fair value of scheme assets**	**128,640**

e. Reconciliation of Present Value of the Scheme Liabilities (Defined Benefit Obligation)

2021/22 £'000		2022/23 £'000
184,792	Opening balance at 1 April	179,825
6,679	Current Service Cost	4,414
3,361	Interest cost	4,706
923	Contributions from scheme participants	953
	Remeasurement (gains) and losses:	
(7,165)	Actuarial gains/ losses arising from changes in demographic assumptions	0
(7,650)	Actuarial gains/ losses arising from changes in financial assumptions	(74,437)
2,625	Other	14,818
115	Past Service cost	262
(3,855)	Benefits paid	(4,833)
179,825	**Closing Balance at 31 March**	**125,708**

f. Local Government Pension Scheme assets comprised

2021/22 £'000	Fair Value of Scheme Assets	2022/23 £'000
95,231	Equities	71,838
16,502	Bonds	17,015
13,801	Property	9,694
5,964	Cash	4,103
	Infrastructure	4,857
	Absolute return fund	21,133
131,498	**Total Assets**	**128,640**

All scheme assets have quoted prices in active markets.

g. Basis of Estimating Assets and Liabilities

Liabilities have been assessed on an actuarial basis using the projected unit cost method, an estimate of the pensions that will be payable in future years dependant on assumptions about mortality rates, salary levels etc.

Both the Local Government Pension Scheme and discretionary benefits liabilities have been estimated by Barnett Waddingham, an independent firm of actuaries, estimates for the Lincolnshire County Council Fund being based on the latest full valuation of the scheme as at 31 March 2022.

The significant assumptions used by the actuary have been:

2021/22		2022/23
	Long term expected rate of return on assets in the Scheme	
	Mortality Assumptions	
	Longevity at 65 for current pensioners:	
21.2	Men	19.8
23.7	Women	22.9
	Longevity at 65 for future pensioners:	
22.1	Men	21.1
25.1	Women	24.4
3.6%	Rate of increase in salaries	3.9%
3.3%	Rate of Increase in Pensions	2.9%
2.6%	Rate for discounting scheme liabilities	4.8%

The estimate of the defined benefit obligations is sensitive to actuarial assumptions set out in the table above. The sensitivity analyses below have been determined based on reasonably possible changes of the assumptions occurring at the end of the reporting period and assumes for each change that the assumption analysed changes while all the other assumptions remain constant. The assumptions in longevity, for example, assume that life expectancy increases or decreases for men and women. In practice, this is unlikely to occur, and changes in some assumptions may be interrelated. The estimations in the sensitivity analysis have followed the accounting policies for the scheme, i.e. on an actuarial basis using the projected unit credit method. The method and types of assumptions used in preparing the sensitivity analysis below do not change from those used in the previous period.

	Increase in Assumption £'000	Decrease in Assumption £'000
Longevity (increase or decrease in 1 year)	103	100
Rate of increase in salaries (increase or decrease by 0.1%)	2	2
Rate of increase in pensions (increase or decease by 0.1%)	96	93
Rate of discounting scheme liabilities (Increase or decrease by 0.1%)	92	95

h. Impact on the Council’s Cash Flows

The objectives of the scheme are to keep employers’ contribution at as constant a rate as possible. Funding levels are monitored on an annual basis. The last triennial valuation was dated 31 March 2022.

The Council is anticipated to pay £3.769m expected contributions to the scheme in 2023/24.

The weighted average duration of the defined benefit obligation for scheme members is 17 years.

Further information can be found in Lincolnshire County Council's Pension Fund Annual Report which is available upon request from the Pension Fund Manager, Lincolnshire County Council, County Offices, Newland, Lincoln, LN1 1YL (Tel: 01522 553656).

33. USABLE RESERVES

Movements in the Council’s usable reserves are detailed in the Movement in Reserves Statement and below:

	Balance at 31 March 2021 £'000	Transfer To Reserve £'000	Transfer From Reserve £'000	Balance at 31 March 2022 £'000	Transfer To Reserve £'000	Transfer From Reserve £'000	Balance at 31 March 2023 £'000
GF Capital Receipts Reserve	2,195	257		2,452	1,049		3,501
HRA Capital Receipts Reserve	8,057	869		8,926	3,230		12,156
Major Repairs Reserve	17,900	627		18,527	1,026		19,553
Earmarked GF Revenue Reserves	26,422		(3,798)	22,624		(3,217)	19,407
General Fund Unapplied Revenue Grants	488	164		652		(88)	564
Earmarked HRA Revenue Reserves	2,036			2,036		(2,036)	0
Earmarked GF Capital Reserve	315		(142)	173		(121)	52
Earmarked HRA Capital Reserves	13,523			13,523	1,891		15,414
Housing Revenue Account Balance	3,772		(2,041)	1,731	31		1,762
General Fund Balance	2,010	(1)		2,009	449		2,458
	76,718	**1,916**	**(5,981)**	**72,653**	**7,676**	**(5,462)**	**74,867**

34. UNUSABLE RESERVES

At 31 March 2022 £'000		At 31 March 2023 £'000
92,227	Revaluation Reserve	109,714
197,111	Capital Adjustment Account	202,892
(48,327)	Pensions Reserve	2,932
(3,146)	Collection Fund Adjustment Account	(473)
(259)	Accumulated Absences Adjustment Account	(204)
15	Deferred Capital Receipts	10
(29)	Financial Instruments Adjustment Account	0
152	Financial Instruments Revaluation Reserve	(367)
237,744		**314,504**

a. Revaluation Reserve

The Revaluation Reserve contains the gains made by the Council arising from increases in the value of its Property, Plant & Equipment. The balance is reduced when assets with accumulated gains are:

- Re-valued downwards or impaired and the gains are lost
- Used in the provision of services and the gains are consumed through depreciation or
- Disposed of and the gains are realised

The Reserve contains only revaluation gains accumulated since 1 April 2007, the date the Reserve was created. Accumulated gains arising before that date are consolidated into the balance on the Capital Adjustment Account.

2021/22 £'000		2022/23 £'000
56,863	Balance at start of year	92,227
41,433	Upward revaluation of assets	29,841
(4,369)	Downward revaluation of assets and impairment losses not charged to the Surplus/Deficit on Provision of Services	(2,945)
93,927	Surplus/Deficit on revaluation of non-current assets not posted to Surplus/Deficit on Provision of Services	119,123
(1,700)	Difference between fair value depreciation and historical cost depreciation	(9,380)
0	Accumulated gains on assets sold or scrapped	(29)
(1,700)	Amounts written off to the Capital Adjustment Account	(9,409)
92,227	Balance at end of year	**109,714**

b. Capital Adjustment Account (CAA)

The Capital Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for the consumption of non-current assets and for financing the acquisition, construction or enhancement of those assets under statutory provisions. The account is debited with the cost of acquisition, construction or enhancement as depreciation, impairment losses and amortisation are charged to the Comprehensive Income and Expenditure Statement (with reconciling postings from the Revaluation Reserve to convert current value figures to a historical cost basis). The Account is credited with the amounts set aside by the Council as finance for the costs of acquisition, construction and enhancement.

The Account contains accumulated gains and losses on Investment Properties and also contains revaluation gains accumulated on Property, Plant & Equipment before 1 April 2007, the date that the Revaluation Reserve was created to hold such gains.

35b CAA Continued

2021/22 £'000		2022/23 £'000
195,320	Balance at start of year	197,111
	Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income & Expenditure Statement	
(9,004)	Charges for depreciation of non-current assets	(7,607)
(6,485)	Charges for impairment of non-current assets	(5,450)
(1,652)	Revaluation losses on Property, Plant & Equipment	(2,383)
8,318	Revaluation gains reversing previous impairments charged to the Comprehensive Income & Expenditure Statement	2,209
(107)	Amortisation of intangible assets	(150)
(730)	Revenue expenditure funded from capital under statute	(1,866)
(2,487)	Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income & Expenditure Statement	(3,137)
183,173		178,727
808	Adjusting amounts written out of the Revaluation Reserve	9,380
183,981	Net written out amount of the cost of non-current assets consumed in the year	188,107
	Capital financing applied in the year	
2,659	Use of the Capital Receipts Reserve to finance new capital expenditure	965
5,871	Use of the Major Repairs reserve to finance new capital expenditure	5,399
1,437	Capital grants and contributions credited to the Comprehensive Income & Expenditure Statement that have been applied to capital financing	2,220
136	Statutory provision for the financing of capital investment charged against the General Fund & HRA balances	131
3,783	Self-financed capital expenditure	5,343
(1,520)	Long Term Debtor written down	(409)
853	Capital expenditure charged against the General Fund and HRA balances	780
13,219		14,429
(395)	Movements in the market value of Investment Properties debited or credited to the Comprehensive Income & Expenditure Statement	356
306	Movement in the donated assets account credited to the Comprehensive Income and Expenditure Statement	0
197,111	Balance at end of year	**202,892**

c. Pensions Reserve

The Pensions Reserve absorbs the timing differences arising from the different arrangements for accounting for post-employment benefits and for funding benefits in accordance with statutory provisions. The Council accounts for post-employment benefits in the Comprehensive Income and Expenditure Statement as the benefits are earned by employees accruing years of service, updating the liabilities recognised to reflect inflation, changing assumptions and investment returns on any resources set aside to meet the costs. However, statutory arrangements require benefits earned to be financed as the Council makes employer's contributions to pension funds or eventually pays any pensions for which it is directly responsible. The balance on the Pensions Reserve therefore shows a substantial shortfall in the benefits earned by past and current employees and the resources the Council has set aside to meet them. The statutory arrangements will ensure that the funding will have been set aside by the time the benefits come to be paid.

2021/22 £'000		2022/23 £'000
(66,732)	Balance at start of year	(48,327)
22,627	Remeasurement of the net defined benefit liability/ (asset)	51,867
(8,116)	Reversal of items relating to retirement benefits debited or credited to the Surplus or Deficit on Provision of Services	(4,881)
3,894	Employer's pensions contributions and direct payments to pensioners payable in the year	4,273
(48,327)	Balance at end of year	**2,932**

d. Collection Fund Adjustment Account

The Collection Fund Adjustment Account manages the differences arising from the recognition of council tax and non-domestic rates income in the Comprehensive Income and Expenditure Statement as it falls due from council tax payers and business rates payers compared with the statutory arrangements for paying across amounts to the General Fund from the Collection Fund.

2021/22 £'000		2022/23 £'000
(9,180)	Balance at start of year	(3,146)
102	Amount by which council tax income credited to the Comprehensive Income & Expenditure Statement is different from council tax income calculated in accordance with statute	(23)
5,932	Amount by which NNDR income credited to the CIES is different from NNDR income calculated for the year in accordance with statutory requirements	2,696
(3,146)	Balance at end of year	**(473)**

e. Accumulated Absences Account

The Accumulating Compensated Absences Account absorbs the differences that would otherwise arise on the General Fund Balance from accruing for compensated absences earned but not taken in the year e.g. annual leave entitlement carried forward at 31 March. Statutory arrangements require that the impact on the General Fund Balance is neutralised by transfers to or from the account.

2021/22 £'000		2022/23 £'000
(212)	Balance at start of year	(259)
	Amounts accrued at the end of the current year	
(47)	Amount by which officer remuneration charged to the Comprehensive Income & Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statute	55
(259)	Balance at end of year	**(204)**

f. Deferred Capital Receipts

The Deferred Capital Receipts Reserve holds the gains recognised on the disposal of non-current assets but for which cash settlement has yet to take place. Under statutory arrangements, the Council does not treat these gains as usable for financing new capital expenditure until they are backed by cash receipts. When the deferred cash settlement eventually takes place, amounts are transferred to the Capital Receipts Reserve.

2021/22 £'000		2022/23 £'000
18	Balance at start of year	15
(3)	Repayments received in year	(5)
15	Balance at end of year	**10**

g. Financial Instruments Adjustment Account

The Financial Instruments Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for income and expenses for certain financial instruments and for bearing losses or benefiting from gains as per statutory provisions. This reserve is used for accounting for monies advanced by the Council at less than the market interest rate (soft loans).

2021/22 £'000		2022/23 £'000
(87)	Balance at start of year	(29)
(4)	Soft Loan Cost	0
62	Repayments received in year	29
(29)	Balance at end of year	**0**

h. Financial Instruments Revaluation Reserve

The Financial Instruments Revaluation Reserve contains the gains made by the Council arising from increases in the value of its investments which are measured at fair value through profit and loss. The balance is reduced when investments with accumulated gains are:

- Revalued downwards or impaired and gains are lost
- Disposed of and the gains are realised

Statutory override on pooled investments

The Council holds £3m of pooled investments. The Council is using the temporary statutory override agreed by DLUHC (5 years commencing from April 2018) to account for any changes in the fair value on its pooled investments.

2021/22 £'000		**2022/23 £'000**
(319)	Balance at start of year	152
471	Downward Revaluation of Investments	(519)
152		**(367)**
0	Accumulated gains or losses on assets sold and maturing assets written out to the CIES as part of Other Investment Income	0
152	Balance at end of year	**(367)**

NOTES TO THE CASH FLOW STATEMENT

35. CASH FLOW STATEMENT – OPERATING ACTIVITIES

The adjustments to the net surplus or deficit on the provision of services for non-cash movements can be analysed as follows;

2021/22 £'000		2022/23 £'000
9,004	Depreciation	7,607
(181)	Impairment & downward valuations	5,624
107	Amortisation	150
7,066	Increase/(Decrease) in Creditors	(24,376)
749	(Increase)/Decrease in Debtors	(2,528)
(16)	(Increase)/Decrease in Stock	24
4,313	Movement in pension liability	608
2,487	Carrying amount of non-current assets and non-current assets held for sale, sold or de-recognised	3,137
(124)	Other non-cash items charged to the net surplus or deficit on the provision of services	328
23,405	**Adjustment to surplus or deficit on the provision of services for noncash movements**	**(9,426)**

Adjustments to the net surplus or deficit on the provision of services that are investing or financing activities:

2021/22 £'000		2022/23 £'000
(3,065)	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	(4,833)
(2,752)	Other items for which the cash effects are investing or financing cash flows	(3,786)
(5,817)	**Adjustment for items included in the net surplus or deficit on the provision of services that are investing and financing activities**	**(8,619)**

The cash flows for operating activities include the following items:

2021/22 £'000		2022/23 £'000
287	Interest Received	1,499
(2,433)	Interest Paid	(2,336)
(2,146)		**(837)**

36. CASH FLOW STATEMENT – INVESTING ACTIVITIES

2021/22 £'000		2022/23 £'000
(12,988)	Purchase of property, plant and equipment, investment property and intangible assets	(10,449)
(65,000)	Purchase of short-term and long-term investments	(46,000)
0	Other payments for investing activities	(199)
3,068	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	4,838
21,712	Proceeds from short-term and long-term investments	66,000
5,116	Other receipts from investing activities	4,027
(48,092)	**Net cash flows from investing activities**	**18,217**

37. CASH FLOW STATEMENT – FINANCING ACTIVITIES

Cash flow Financing Activities:

2021/22 £'000		2022/23 £'000
0	Cash receipts of short- and long-term borrowing	
(3,221)	Repayments of short- and long-term borrowing	(3,221)
9,816	Other payments for financing activities	3,359
6,595	**Net cash flows from financing activities**	**138**

OTHER DISCLOSURE NOTES

38. INTEREST IN OTHER COMPANIES AND ENTITIES

South Kesteven District Council wholly owns Gravitas Housing Ltd, LeisureSK Limited and EnvironmentSK Limited. Group accounts have been produced for Gravitas Housing Ltd and LeisureSK Limited and these are available on page 67 onwards.

EnvironmentSK Limited

The registered name of the company is Environment SK Limited, and this is a wholly owned subsidiary of South Kesteven District Council which ceased trading on 31 March 2023. The company was incorporated on 1 March 2019 and was created to "offer a range of quality, environmental services".

The net liabilities of the Company as at 31 March 2023 are £0.228m (net assets £0.380m 2021/22). The accounts can be obtained from EnvironmentSK Limited, Council Offices, The Picture House, St Catherine's Road, Grantham, Lincolnshire, NG31 6TT.

During 2022/23 the Council spent £1.032m (£1.039m 2021/22) on services with Environment SK Ltd. At the 31 March 2023 the Council owed £48k (£15k 2021/22) to EnvironmentSK Ltd and EnvironmentSK Ltd owed £26k (£13k 2021/22) to the Council.

The Council provided a loan to EnvironmentSK Ltd of £0.571m during 2019/20 of which £0.510m was the balance outstanding at 31 March 2023.

39. EXTERNAL AUDIT COSTS

The Council has incurred the following costs in relation to the external audit of the Statement of Accounts, certification of grant claims and other audit work. The Council has not made any payments for non-audit services to its external auditors and not incurred any costs for statutory inspections.

2021/22 £'000		2022/23 £'000
67	Fees payable to the external auditors with regard to external audit services carried out by the appointed auditor.	66
6	Fees payable to the external auditors for the certification of grant claims.	6
4	CFO Insights	0
12	Fees payable to external auditors for the certification of returns	12
89		**84**

40. RELATED PARTIES

The Council is required to disclose material transactions with related parties – bodies or individuals that have the potential to control or influence the Council or to be controlled or influenced by the Council. Disclosure of these transactions allows readers to assess the extent to which the Council might have been constrained in its ability to operate independently or might have secured the ability to limit another party's ability to bargain freely with the Council.

Central Government has effective control (significant influence) over the general operations of the Council. It is responsible for providing the statutory framework within which the Council operates, provides the majority of its funding in the form of grants and prescribes the terms of many of the transactions the Council has with third parties e.g. housing benefits. Details of transactions with government departments are set out in Notes 11 and 12 relating to grant income.

Members of the Council have direct control over the Council's financial and operating policies. Guidance has been issued to make Members, Chief Officers and senior managers aware of the requirements to declare all interests relevant to the Council including interests of families, partners and entities controlled by them. Also all Members, Chief Officers and senior managers have been requested to complete a Related Party Transaction declaration. Upon analysis of completed returns no material items were identified that required separate disclosure. The Council maintains a Register of Interests which is complete and up to date on the basis of information received.

Wholly owned companies of the Council have members and senior officers on the board of Directors. The boards are constituted as follows:

Gravitas Limited – Chief Finance Officer, Assistant Director of Finance and Vice Chairman of Licensing Committee
EnvironmentSK – Leader of the Independent Party, Assistant Director of Finance and Head of Revenues, Benefits and Customer Services
LeisureSK –Director – Growth and Culture, Acting Director of Housing, Vice Chairman of Culture and Leisure Overview and Scrutiny Committee and Vice Chairman of Planning Committee

Note 39 provides details of the transactions with EnvironmentSK and InvestSK.

Precept & Levying bodies, town councils, parish councils and drainage boards levy demands on the Council Tax, and the transactions are detailed below.

Payments made during the year were as follows:

2021/22 £'000		2022/23 £'000
1,849	Town and Parish Councils	1,937
140	Upper Witham Drainage Board	149
61	Black Sluice Drainage Board	63
541	Welland and Deepings Drainage Board	592
2,591		**2,741**

41. AUTHORISATION OF ACCOUNTS FOR ISSUE

The date that the Statement of Accounts was authorised for issue was xxxxx. This is the date up to which events after the Balance Sheet date have been considered. The name of the person who gave the authorisation was Richard Wyles (Chief Finance Officer).

HOUSING REVENUE ACCOUNT

INCOME AND EXPENDITURE STATEMENT FOR THE YEAR ENDED 31 MARCH 2023

The HRA Income and Expenditure Statement shows the economic cost in the year of providing housing services in accordance with generally accepted accounting practices, rather than the amount to be funded from rents and government grants. Authorities charge rents to cover expenditure in accordance with regulations; this may be different from the accounting cost. The increase or decrease in the year, on the basis on which rents are raised, is shown in the Movement on the Housing Revenue Account Statement.

2021/22 £'000		2022/23 £'000
	Income	
	Gross Rental Income	
(24,514)	- Dwelling Rents	(25,248)
(289)	- Non-Dwelling Rents	(288)
(690)	Charges for Services and Facilities	(741)
(117)	Other Income	(229)
(25,610)	**Total Income**	**(26,506)**
	Expenditure	
9,183	Repairs and Maintenance	9,111
3,877	Supervision and Management	3,922
110	Rent, rates, taxes and other charges	4
337	Increase/(Decrease) in Prov'n for Doubtful Debts	296
3,750	Depreciation and impairment of Non-Current Assets	8,489
35	Debt Management Costs	35
17,292		**21,857**
(8,318)	**Net Cost of HRA Services**	**(4,649)**
2,759	HRA share of Corporate and Democratic Core	2,787
(5,559)	**Net Cost of HRA Services as included in the whole authority Comprehensive Income and Expenditure Statement**	**(1,862)**
(729)	(Gain)/loss on sale of HRA assets	(1,069)
844	Contribution Housing Capital Receipts to the Pool	4
(42)	Other operating income (Right to Buy Discount Repaid)	0
2,432	Interest payable and similar charges	2,335
(147)	Interest and Investment Income	(1,226)
(27)	Investment Property Income and Expenditure	(13)
267	Pension Interest Costs and Expected Return on Assets	23
(1,495)	Recognised capital grants and contributions	(1,063)
(4,456)	**(Surplus)/Deficit for the year on HRA services**	**(2,871)**

MOVEMENT ON THE HOUSING REVENUE ACCOUNT STATEMENT

2021/22 £'000		Note	2022/23 £'000
(3,771)	Balance on the HRA at the end of the previous year		(1,731)
(4,456)	(Surplus)/Deficit for the year on the HRA Income & Expenditure Statement		(2,871)
4,115	Adjustments between Accounting Basis and Funding Basis under statute	7	662
(341)	**Net (increase) or decrease before transfers to or from reserves**		**(2,209)**
2,381	Transfers to or (from) reserves	7	2,177
(1,731)	Balance on HRA at the end of the current year		**(1,763)**

NOTES TO THE HOUSING REVENUE ACCOUNT

The Housing Revenue Account reflects a statutory obligation to maintain a revenue account for local Council housing provision in accordance with part 6 of the Local Government and Housing Act 1989. The Act sets the framework for "ring fencing" the Housing Revenue Account (HRA). The account has to be self-financing and there is a legal prohibition on cross subsidy to or from the General Fund.

1. HOUSING STOCK

The Council was responsible for managing on average 5848 dwellings during 22/23. The housing stock and changes during the year are as follows:

	At 1 April 2022	Additions	Disposals /Sales	At 31 March 2023
Rentable Stock				
- Houses	3,047	1	(33)	3,015
- Bungalows	1,499	5	(5)	1,499
- Flats	1,316	0	(4)	1,312
Shared Ownership	22	0	0	22
Total	**5,884**	**6**	**(42)**	**5,848**

2. LAND HOUSES AND OTHER PROPERTY

Analysis of Housing Fixed Assets

The vacant possession value of dwellings at 31 March 2023 was £772.746m (£721.887m at 31 March 2022). Each council dwelling owned, in full or part, by the Council has been valued by the Valuation Office Agency in accordance with the guidance issued by DCLG. The vacant possession value of dwellings must be adjusted to reflect the social housing status of local authority dwellings i.e. that social housing is available to tenants at less than open market rents. The predetermined adjustment factor for social housing in the East Midlands is 42%.

	Operational Assets			Non Operational Assets		
	Dwellings	Other Land and Buildings	Vehicles, Plant & Equipment	Investment Properties	Assets Under Construction	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Cost or Valuation at 1 April 2022	303,983	4,225	1,487	461	1,810	311,966
Additions	5,735	0	97	0	391	6,223
Revaluation increases/(decreases) recognised in the Revaluation Reserve	21,084	85	0	0	0	21,169
Revaluation increases/(decreases) recognised in the Surplus/Deficit on Provision of Services	(4,199)	(25)	0	(11)	0	(4,235)
Derecognition - Disposals	(2,548)	(3)	0	0	(101)	(2,652)
Assets reclassified to/from Assets Held for Sale	0	0	0	0	0	0
Assets reclassified to/from Assets Under Construction	1,073	0	0	0	(1,073)	0
Gross Book Value as at 31 March 2023	325,128	4,282	1,584	450	1,027	332,471
Depreciation & Impairments						
At 1 April 2022	(20)	0	(1,482)	0	0	(1,502)
Depreciation charge	(4,258)	(212)	(83)	0	0	(4,553)
Depreciation written out to the revaluation reserve	3,831	162	0	0	0	3,993
Depreciation written out to the CI&E	5,878	50	0	0	0	5,928
Impairment losses/(reversals) recognised in the Surplus/Deficit on Provision of Services	(5,450)	0	0	0	0	(5,450)
Derecognition - Disposals	0	0	0	0	0	0
At 31 March 2023	(19)	0	(1,565)	0	0	(1,584)
Balance Sheet Amount at 31 March 2023	**325,109**	**4,282**	**19**	**450**	**1,027**	**330,887**
Balance Sheet Amount at 31 March 2022	**303,963**	**4,225**	**5**	**461**	**1,810**	**310,464**

3. HRA REVALUATION LOSS

When assets are re-valued, the increase or decrease is an "unrealised gain or loss" until the asset is sold. These unrealised gains and losses are held in the revaluation reserve. If an asset is revalued upward, then in subsequent years re-valued downward, the revaluation loss is set against the original gain in the reserve, so reducing it. Once any gains in the reserve are reduced to zero, any further loss must be charged as expenditure to the Housing Revenue Account in the year.

Due to accounting rules, the Revaluation Reserve was set up with an opening balance of zero at 1 April 2007. The closing position on the Reserve at 31 March 2023 therefore only shows revaluation gains accumulated since 1 April 2007 together with depreciation adjustments to comply with accounting rules. Any revaluation gains (and losses) on non-current assets prior to 1 April 2007 are accounted for in the Capital Adjustment Account.

2021/22 £'000		**2022/23 £'000**
4,159	Depreciation	4,553
(6,902)	Revaluation Loss/(Gain)	(1,694)
6,485	Impairment Losses	5,551
3,742		**8,410**

4. MAJOR REPAIRS RESERVE

The Major Repairs Reserve is maintained to meet HRA capital expenditure. Movements on the Reserve were:

2021/22 £'000		**2022/23 £'000**
17,900	Opening balance on the Major Repairs Reserve	18,527
	Transfer to/ (from) the Major Repairs Reserve	
4,159	Transfer from HRA equal to depreciation	4,553
2,339	Additional contribution from HRA	1,872
(5,871)	Financing of Capital Expenditure	(5,399)
18,527	**Closing balance on the Major Repairs Reserve**	**19,553**

5. FINANCING CAPITAL EXPENDITURE

The capital expenditure on land, houses and other assets in the HRA together with its financing is shown below:

2021/22 £'000		2022/23 £'000
	Expenditure	
6,935	Council Dwellings	5,735
0	Plant and Equipment	97
0	Intangible Assets	450
1,842	Assets Under Construction	391
8,777	**Total**	**6,673**
	Financed from:	
5,871	Major Repairs Reserve	5,399
1,354	Capital Receipts	391
0	HRA Earmarked Reserves	450
1,552	Capital Grants and Contributions	433
8,777	**Total**	**6,673**

Supported Capital Expenditure allowances are issued by the Government as part of The Prudential Code for Capital Finance in Local Authorities.

6. CAPITAL RECEIPTS

The sale of HRA assets during the year is detailed in the following table. Following the reinvigoration of the Right to Buy (RTB) the split between useable and unusable poolable receipts is now recalculated by use of a complex procedure imposed by the Department of Communities and Local Government.

	Receipt in Year £'000	Element Pooled £'000	Useable Element £'000
Sale of Land	0	0	0
Sale of Vehicles	4	0	4
Sale of Council Dwellings	3,616	0	3,616
Repayment of discounts	0	0	0
Mortgage Repayments	5	(4)	1
Total	**3,625**	**(4)**	**3,621**

A transaction cost of £1,300 per completed RTB sale has been deducted before calculating the apportionment between pooled and useable plus a deduction for the debt supported by those properties sold.

7. ANALYSIS OF RECONCILING ITEMS IN MOVEMENT ON THE HOUSING REVENUE ACCOUNT STATEMENT

2021/22	Movement on the Housing Revenue Account Statement	2022/23
£'000		£'000
	Adjustments between Accounting and Funding Basis:	
(1,775)	IAS 19	(1,023)
824	- Pension Costs Charged to Rent Income	898
(6,485)	- Non-Enhancing Capital Expenditure	(5,551)
4,678	Capital Expenditure	4,105
729	Gains/losses on disposal of non current assets	1,069
6,902	Revaluation gains/(losses) on PPE	1,694
(844)	Payments to Housing Capital Receipts Pool	(4)
0	Depreciation of non-current assets	(90)
(10)	Compensated absences	14
42	Other Adjustment	0
4,061		**1,112**
	Transfers to/from Earmarked Reserves:	
	- Transfers to/(from) reserves	305
2,339	- Transfers to/(from) Major Repairs Reserve	1,872
2,339		**2,177**

8. RENT ARREARS

An analysis of rent arrears is shown below:

At 31st March 2022 £'000		At 31st March 2023 £'000
1,102	Current Tenants	1,045
977	Former Tenants	888
2,079	**Gross Rent Arrears**	**1,933**

COLLECTION FUND INCOME AND EXPENDITURE ACCOUNT
FOR THE YEAR ENDED 31 MARCH 2023

The Collection Fund is an agent's statement that reflects the statutory obligation for billing authorities to maintain a separate Collection Fund. The statement shows the transactions of the billing authority in relation to the collection from taxpayers and distribution to local authorities and the Government of council tax and non-domestic rates.

2021/22 Business Rates £'000	2021/22 Council Tax £'000	2021/22 Total £'000		Note	2022/23 Business Rates £'000	2022/23 Council Tax £'000	2022/23 Total £'000
			Income				
0	89,076	89,076	Council Tax Payers		0	94,165	94,165
35,461	0	35,461	Business Ratepayers		40,040		40,040
			Apportionment of Previous Year Deficit -				
11,244	0	11,244	Central Government		3,226	0	3,226
9,001	51	9,052	South Kesteven District Council		2,581	0	2,581
2,249	335	2,584	Lincolnshire County Council		645	0	645
0	63	63	Lincolnshire Police & Crime Commissioner		0	0	0
57,955	89,525	147,480	**Total Income**		46,492	94,165	140,657
			Expenditure				
42,093	88,424	130,517	Precepts and Demands	3	38,695	93,606	132,301
174	0	174	Costs of Collection		173	0	173
(8)	0	(8)	Transitional Protection Payment		(103)	0	(103)
			Bad and doubtful Debts -				
0	85	85	Write Offs		0	138	138
530	105	635	Provisions		367	186	553
343	0	343	Appeals		725	0	725
			Apportionment of Previous Year Surplus -				
0	0	0	Central Government		0	0	0
0	0	0	South Kesteven District Council		0	359	359
0	0	0	Lincolnshire County Council		0	63	63
0	0	0	Lincolnshire Police & Crime Commissioner		0	54	54
43,132	88,614	131,746	**Total Expenditure**		39,857	94,406	134,263
14,823	911	15,734	**Movement on Fund**		6,635	(241)	6,394
(22,710)	-796	(23,506)	Balance at the Beginning of the Year		(7,887)	115	(7,772)
(7,887)	115	(7,772)	**Surplus/(Deficit) on Fund at End of Year**		(1,252)	(126)	(1,378)
			Allocated to -				
(3,943)	0	(3,943)	Central Government		(661)	0	(661)
(3,155)	9	(3,146)	South Kesteven District Council		(459)	(13)	(472)
(789)	86	(703)	Lincolnshire County Council		(132)	(95)	(227)
0	20	20	Lincolnshire Police & Crime Commissioner		0	(18)	(18)
(7,887)	115	(7,772)			(1,252)	(126)	(1,378)

NOTES TO THE COLLECTION FUND

1. COUNCIL TAX

Council Tax income derives from charges raised according to the value of residential properties that have been classified into eight Valuation Bands (A to H). Individual charges are calculated by estimating the amount of income required to be taken from the Collection Fund by Lincolnshire County Council, Office of the Police and Crime Commissioner for Lincolnshire and South Kesteven District Council together with each parish requirement and dividing this by the Council Tax base i.e. the number of properties in each valuation band converted to an equivalent number of band D dwellings and adjusted for discounts.

The Council Tax base for 2022/23 increased to 48706.7 (48,122.4 in 2021/22)

The Council Tax base was calculated as follows:

Band	Estimated No. of Taxable Properties After Effect of Discounts	Ratio	Band D Equivalent Dwellings
A	13,256.13	6/9	8,837.4
B	12,274.28	7/9	9,546.7
C	10,117.78	8/9	8,993.6
D	8,609.01	9/9	8,609.0
E	5,485.09	11/9	6,704.0
F	2,824.78	13/9	4,080.2
G	1,046.42	15/9	1,744.0
H	68.20	18/9	136.4
Band A entitled to Disabled Relief Reduction	21.14	5/9	11.7
			48,663.0
Ministry of Defence Properties			43.7
Council Tax Base			**48,706.7**

2. BUSINESS RATES

Under this scheme SKDC keeps the total non-domestic rates due, less certain reliefs and deductions and then redistributes the rates collected based on estimates at the start of the year. The redistribution of the central and local shares is based on the ratio of 50:40:10 for Central Government, SKDC and Lincolnshire County Council. The business rates retention scheme is designed to encourage economic growth and incentivise Councils by allowing them to keep a proportion of any business rates growth achieved during the year.

Under the arrangements for Non-Domestic Rates, the Council collects rates for its area based upon local rateable values (determined by the Valuation Office Agency, an executive agency of HM Revenue & Customs) multiplied by the multiplier (determined by Government). For 2022/23 there are two multipliers:

Full	51.2p (51.2p for 2021/22)
Small Business	49.9p (49.9p for 2021/22)

The total Non-Domestic Rateable Value at 31 March 2023 was £111.616m (31 March 2022 £111.235m).

3. PRECEPTS AND DEMANDS

2021/22				2022/23		
£'000	£'000	£'000		£'000	£'000	£'000
Council Tax	Business Rates	Total		Council Tax	Business Rates	Total
0	20,934	20,934	Central Government	0	19,235	19,235
65,647	4,187	69,834	Lincolnshire County Council	69,756	3,847	73,603
12,815	0	12,815	Lincs Police & Crime Commissioner	13,458	0	13,458
9,962	16,972	26,934	South Kesteven District Council	10,392	15,613	26,005
88,424	**42,093**	**130,517**		**93,606**	**38,695**	**132,301**

STATEMENT OF GROUP ACCOUNTS

INTRODUCTION

The statement of group accounts consolidates South Kesteven District Council accounts with those of its subsidiaries:

- Gravitas Housing Limited - Company Registration No.10590597 (England and Wales)
- LeisureSK Limited – Company Registration No.12888724 (England and Wales)

The Council has three wholly owned companies (EnvironmentSK Limited (ceased trading 31 March 2023), Gravitas Housing Limited (ceased trading as project complete) and LeisureSK Limited) whose accounts require consolidation. However, the transactions relating to EnvironmentSK Limited are not material as they receive the majority of their funding from the Council. Therefore only the company accounts of Gravitas Limited and LeisureSK Limited have been consolidated with the Council's.

Further details regarding EnvironmentSK Limited can be found in Note 39 to the Council's Statement of Accounts.

Gravitas Housing Limited has been established by the Council to deliver new housing outside the Housing Revenue Account. LeisureSK Limiterd has been formed to deliver the Council's Leisure Management contract. The companies are wholly owned by the Council and the aggregation of accounts has been completed on a line-by-line basis with intra-group transactions removed.

Group accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2022/23 (the Code) published by the Chartered Institute of Public Finance and Accountancy (CIPFA).

The aim of the statement of group accounts is to provide the reader with an overall view of the material economic activities of the Group. It provides a summary of the group's financial position and details of material items that have impacted on the accounts during the year. The same accounting policies have been applied to both the Council and Group Accounts.

The main differences between the Group and single entity accounts are seen in the balance sheet:

- £1.12m intercompany investment has been removed from long term investments
- £127k intercompany loan has been removed from short term debtors (£27k) and long-term debtors (£100k)

GROUP MOVEMENT IN RESERVES STATEMENT

This statement shows the movement in the year on the reserves held by the Group, analysed into usable and unusable reserves. The Total Comprehensive Income & Expenditure line shows the true economic cost of providing the Groups services, this is further detailed in the Comprehensive Income and Expenditure Statement. These are different from the statutory amounts required to be charged to the General Fund and Housing Revenue Account for Council Tax setting and dwelling rent setting purposes.

	Total Usable Reserves	Unusable Reserves	Total Authority Reserves	Gravitas Housing Ltd	LeisureSK Ltd	Total Group Reserves
	£'000	£'000	£'000	£'000	£'000	£'000
Balance at 31 March 2022 brought forward	(72,560)	(237,837)	(310,397)	268.00	36.00	(310,093)
Movement in reserves during 2022/23						
Total Comprehensive Income & Expenditure	(211)	(78,763)	(78,974)	51	197	(78,726)
Transfers between Reserves	(412)	412	0	0	0	0.00
Adjustments between accounting basis & funding basis under regulations	(1,591)	1,591	0	0	0	0.00
(Increase) or decrease in 2022/23	(2,214)	(76,760)	(78,974)	51	197	(78,726)
Balance at 31 March 2023 carried forward	(74,774)	(314,597)	(389,371)	319	233	(388,819)

	Total Usable Reserves	Unusable Reserves	Total Authority Reserves	Gravitas Housing Ltd	LeisureSK Ltd	Total Group Reserves
Restated	£'000	£'000	£'000	£'000	£'000	£'000
Balance at 31 March 2021 brought forward	(76,718)	(174,779)	(251,497)	(4)	40	(251,461)
Movement in reserves during 2021/22						
Total Comprehensive Income & Expenditure	884	(59,784)	(58,900)	272	(4)	(58,632)
Transfers between Reserves	(1,523)	1,523	0	0	0	0
Adjustments between accounting basis & funding basis under regulations	4,797	(4,797)	0	0	0	0
(Increase) or decrease in 2021/22	4,158	(63,058)	(58,900)	272	(4)	(58,632)
Balance at 31 March 2022 carried forward	(72,560)	(237,837)	(310,397)	268	36	(310,093)

GROUP COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT

This statement shows the accounting costs of providing services in the year.

2021/22 Restated				2022/23		
Group Gross Expenditure	Group Gross Income	Group Net Expenditure		Group Gross Expenditure	Group Gross Income	Group Net Expenditure
£'000	£'000	£'000		£'000	£'000	£'000
15,169	(4,608)	10,561	Corporate	15,616	(4,445)	11,171
34,009	(49,978)	(15,969)	Finance	32,845	(44,921)	(12,076)
14,064	(6,317)	7,747	Growth & Culture	12,622	(7,030)	5,592
17,323	(3,947)	13,376	Housing & Property	20,717	(6,121)	14,596
80,565	**(64,850)**	**15,715**	**Cost Of Services**	**81,800**	**(62,517)**	**19,284**
			Other Operating Expenditure			
0	(578)	(578)	(Gain)/Loss Disposal of Fixed Assets	0	(1,667)	(1,667)
2,591	0	2,591	Precepts & Levies	2,741	0	2,741
844	0	844	Contribution Housing Capital Receipts to the Pool	4	0	4
0	(42)	(42)	Other Operating Income and Expenditure	0	(73)	(73)
3,435	**(620)**	**2,815**		**2,745**	**(1,740)**	**1,005**
			Financing and Investment Income and Expenditure			
2,432	0	2,432	Interest Payable on Debt	2,335	0	2,335
1,236	0	1,236	Net Interest on the net defined benefit liability (asset)	108	0	108
0	(287)	(287)	Interest & Investment Income	0	(1,917)	(1,917)
120	0	120	Income & Expenditure and Movement in Fair Value of Investment Property	0	(676)	(676)
0	(471)	(471)	Movement in the value of property fund income	519	0	519
3,788	**(758)**	**3,030**		**2,962**	**(2,593)**	**369**
0	**(20,409)**	**(20,409)**	**Taxation and Non-Specific Grant Income**	**0**	**(20,621)**	**(20,621)**
		1,151	**(Surplus) or Deficit on Provision of Services**			**37**
		0	Tax expenses of subsidiaries			**0**
		1,151	**Group (Surplus)/Deficit on Provision of Services**			**37**
		(37,064)	(Surplus) or deficit on revaluation of non-current assets			(26,896)
		(22,720)	Remeasurement of Defined Pension Liability			(51,867)
		(59,784)	**Other Comprehensive Income and Expenditure**			**(78,763)**
		(58,633)	**TOTAL COMPREHENSIVE INCOME & EXPENDITURE**			**(78,726)**

The prior year comparators have been restated to reflect the Council's new reporting structure.

GROUP BALANCE SHEET

The Group Balance Sheet summarises the financial position of the Council and its subsidiary, as a whole. It shows the value of group assets and liabilities at the end of the financial year.

At 31 March 2022 £'000		Note	At 31 March 2023 £'000
387,938	Property Plant & Equipment		407,857
842	Heritage Assets		690
4,950	Investment Property		5,019
97	Intangible Assets		426
5,173	Long Term Investments		2,632
480	Long Term Debtors		72
399,480	**Long Term Assets**		**416,696**
590	Current Assets Held for Sale		1,090
66,085	Short Term Investments		48,499
1,340	Inventories	G1	35
7,256	Short Term Debtors		8,417
17,170	Cash and Cash Equivalents	G2	18,568
92,441	**Current Assets**		**76,609**
(3,245)	Short Term Borrowing		(3,245)
(36,571)	Short Term Creditors		(13,810)
(390)	Provisions		(219)
(40,206)	**Current Liabilities**		**(17,274)**
(2,037)	Provisions		(2,286)
(86,213)	Long Term Borrowing		(82,994)
(48,327)	Other Long Term Liabilities		2,932
(5,046)	Capital Grants Receipts in Advance		(4,878)
(141,623)	**Long Term Liabilities**		**(87,226)**
310,092	**Net Assets**		**388,805**
£'000			**£'000**
72,348	Usable Reserves		74,301
237,744	Unusable Reserves		314,504
310,092	**Total Reserves**		**388,805**

GROUP CASH FLOW STATEMENT

The Group Cash Flow Statement summarises the cash flows of the Council and its subsidiary during the year.

2021/22 £'000		Notes	2022/23 £'000
	Operating Activities		
(1,151)	Net surplus or (deficit) on the provision of services		(37)
23,992	Adjustments to net surplus or deficit on the provision of services for non-cash movements	G3	(7,930)
(5,828)	Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities		(8,619)
17,013	**Net cash flows from Operating Activities**		**(16,586)**
	Investing Activities		
(49,592)	**Net cash flows from Investing Activities**		17,843
6,595	**Net cash flows from Financing Activities**		141
(25,984)	**Net increase or (decrease) in cash and cash**		**1,398**
43,154	Cash and cash equivalents at the beginning of the reporting period		17,170
17,170	Cash and cash equivalents at the end of the reporting period		18,568
25,984			**(1,398)**

NOTE G1 – INVENTORIES

Gravitas	South Kesteven District Council		Gravitas	South Kesteven District Council
Property Constructed for Sale	Consumables		Property Constructed for Sale	Consumables
2021/22 £'000			2022/23 £'000	
2,442	**25**	Balance outstanding at start of year	**1,298**	**41**
101	691	Purchases		
(1,245)	(675)	Recognised as an expense in year	(1,298)	(6)
1,298	**41**	Balance outstanding at year-end	**0**	**35**

NOTE G2 – CASH & CASH EQUIVALENTS

At 31 March 2022 £'000		At 31 March 2023 £'000
189	Cash held by the authority	217
(305)	Bank current accounts	842
17,286	Short Term Deposits	17,509
17,170	**Total Cash & Cash Equivalents**	**18,568**

NOTE G2 – CASH FLOW

2021/22 £'000		2022/23 £'000
9,004	Depreciation	7,607
(181)	Impairment & downward valuations	5,624
107	Amortisation	150
7,009	Increase/(Decrease) in Creditors	(24,260)
584	(Increase)/Decrease in Debtors	(2,364)
1,127	(Increase)/Decrease in Stock	1,304
4,313	Movement in pension liability	608
2,487	Carrying amount of non-current assets and non-current assets held for sale, sold or de-recognised	3,137
(458)	Other non-cash items charged to the net surplus or deficit on the provision of services	264
23,992		**(7,930)**

ACCOUNTING POLICIES

I. GENERAL PRINCIPLES

The Statement of Accounts summarises the Council's transactions for the 2022/23 financial year and its position at the year-end of 31 March 2023. The Council is required to prepare an annual Statement of Accounts by the Accounts and Audit Regulations 2015. These regulations require the Statement of Accounts to be prepared in accordance with proper accounting practices. These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2022/23 and supported by International Financial Reporting Standards (IFRS).

The accounting convention adopted in the Statement of Accounts is principally historical cost, modified by the revaluation of certain categories of non-current assets and financial instruments.

II. ACCRUALS OF INCOME AND EXPENDITURE

Activity is accounted for in the year that it takes place, not simply when cash payments are made or received. In particular:

- Revenue from the sale of goods is recognised when the Council transfers the significant risks and rewards of ownership to the purchaser and it is probable that economic benefits or service potential associated with the transaction will flow to the Council.

- Revenue from the provision of services is recognised when the Council can measure reliably the percentage of completion of the transaction and it is probable that economic benefits or service potential associated with the transaction will flow to the Council.

- Supplies are recorded as expenditure when they are consumed – where there is a gap between the date supplies are received and their consumption, they are carried as inventories on the Balance Sheet.

- Expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received rather than when payments are made.

- Interest receivable on investments and payable on borrowings is accounted for respectively as income and expenditure on the basis of the effective interest rate for the relevant financial instrument, rather than the cash flows fixed or determined by the contract.

- Where revenue and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where debts may not be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.

- The impact of IFRS15: Revenue from Contracts with customers has been considered and deemed to have no material impact.

III. CASH AND CASH EQUIVALENTS

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are highly liquid investments that mature in 30 days or less from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

In the Cash Flow Statement, cash and cash equivalents are shown net of bank overdrafts that are repayable on demand and form an integral part of the Council's cash management.

IV. CHARGES TO REVENUE FOR NON-CURRENT ASSETS

Services, support services and trading accounts are debited with the following amounts to record the cost of holding non-current assets during the year.

- Depreciation attributable to the assets used by the relevant service.
- Revaluation and Impairment losses on assets used by the service where there are no accumulated gains in the Revaluation Reserve against which the loss can be written off.
- Amortisation of intangible assets attributable to the service.

The Council is not required to raise council tax to fund depreciation, revaluation and impairment losses or amortisation. However, it is required to make an annual contribution from revenue towards the reduction in its overall borrowing requirement equal to an amount calculated on a prudent basis determined by the Council in accordance with statutory guidance. Depreciation, revaluation and impairment losses and amortisation are therefore replaced by the contribution in the General Fund Balance by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

V. COUNCIL TAX AND NON-DOMESTIC RATES

Billing authorities act as agents, collecting council tax and non-domestic rates (NDR) on behalf of major preceptors (including government for NDR) and, as, principals, collecting council tax and NDR for themselves. Billing authorities are required by statute to maintain a separate fund (i.e. the Collection Fund) for the collection and distribution of amounts due in respect of council tax and NDR. Under the legislative framework for the Collection Fund, billing authorities, major preceptors and central government share proportionately the risks and rewards that the amount of council tax and NDR collected could be less or more than predicted.

Accounting for Council TAX and NDR

The council tax and NDR included in the Comprehensive Income and Expenditure Statement is the Council's share of accrued income for the year. However, regulations determine the amount of council tax and NDR that must be included in the Council's General Fund. Therefore, the difference between the income included in the Comprehensive Income and Expenditure Statement and the amount required by regulation to be credited to the General Fund is taken to the Collection Fund Adjustment Account and included as a reconciling item in the Movement in Reserves Statement.

The Balance Sheet includes the council's share of the end of year balances in respect of council tax and NDR relating to arrears, impairment allowances for doubtful debts, overpayments and prepayments and appeals.

VI. EMPLOYEE BENEFITS

Benefits Payable during Employment

Short-term employee benefits are those due to be settled within 12 months of the year end. They include such benefits as wages and salaries, paid annual leave and paid sick leave, bonuses and non-monetary benefits for current employees. These expenses are charged on an accruals basis to the relevant service line of the Comprehensive Income and Expenditure Statement.

Termination Benefits

Termination benefits are amounts payable as a result of a decision by the Council to terminate an officer's employment before the normal retirement date or an officer's decision to accept voluntary redundancy in exchange for those benefits. They are charged on an accruals basis to the appropriate service, or where applicable, to the Non Distributed Costs line in the Comprehensive Income and Expenditure Statement at the earlier of when the Council can no longer withdraw the offer of those benefits or when the council recognises costs for a restructuring.

Post-Employment Benefits

Employees of the Council are members of the Local Government Pension Fund, administered by Lincolnshire County Council. The scheme provides defined benefits to members (retirement lump sums and pensions), earned as employees worked for the Council.

The Council recognises the cost of retirement benefits in the revenue account when employees earn them, rather than when the benefits are eventually paid as pensions.

Local Government Pension Scheme

The Local Government Scheme is accounted for as a defined benefit scheme:

- The liabilities of the Lincolnshire County Council pension scheme attributable to the Council are included in the Balance Sheet on an actuarial basis using the projected unit method – i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, etc, and projected earnings for current employees.

- The assets of the Lincolnshire County Council pension fund attributable to the Council are included in the balance sheet at their fair value.

The change in the net pensions liability is analysed into the following components:

- Service Cost comprising:

  - Current service cost – the increase in liabilities as a result of years of service earned this year – allocated in the Comprehensive Income and Expenditure Statement to the revenue accounts of services for which the employees worked.

  - Past service cost – the increase in liabilities as a result of a scheme amendment or curtailment whose effect relates to years of service earned in earlier years – debited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs.

- Net interest on the net defined pension liability (asset) i.e., net interest expense for the Council – the change during the period in the net defined benefit liability (asset) that arises from the passage of time charged to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. Remeasurement comprising:

  - The return on plan assets – excluding amounts included in net interest on the defined benefit liability (asset) charged to the Pension Reserve as Other Comprehensive Income and Expenditure.

  - Actuarial gains and losses – changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumption – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure.

  - Contributions paid to the Lincolnshire County Council pension fund – cash paid as employer's contributions to the pension fund in settlement of liabilities; not accounted for as an expense.

In relation to retirement benefits, statutory provisions require the General Fund Balance to be charged with the amount payable by the Council to the pension fund or directly to pensioners in the year, not the amount calculated according to the relevant accounting standards.

In the Movement in Reserves Statement, this means that there are transfers to and from the Pensions Reserve to remove the notional debits and credits for retirement benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end. The negative balance that arises on the Pensions Reserve thereby measures the beneficial impact to the

General Fund of being required to account for retirement benefits on the basis of cash flows rather than as benefits are earned by employees.

Discretionary Benefits

The Council has restricted powers to make discretionary awards of retirement benefits in the event of early retirements. Any liabilities estimated to arise as a result of an award to any member of staff are accrued in the year of the decision to make the award and accounted for using the same policies as are applied to the Local Government Pension Scheme.

VII. FINANCIAL INSTRUMENTS

Financial Liabilities

Financial Liabilities are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value and carried at their amortised cost. Annual charges to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument. The effective interest rate is the rate that exactly discounts estimated future cash payments over the life of the instrument to the amount at which it was originally recognised.

For all of the borrowing that the Council has, this means that the amount presented in the Balance Sheet is the outstanding principle repayable (plus accrued interest) and interest charged to the Comprehensive Income and Expenditure Account is the amount payable for the year in the loan agreement.

Financial Assets

Financial assets are classified based on a classification and measurement approach that reflects the business model for holding the financial assets and their cashflow characteristics. There are three main classes of financial assets measured at:

- amortised cost
- fair value through profit or loss (FVPL), and
- fair value through other comprehensive income (FVOCI).

The Council's business model is to hold investments to collect contractual cash flows. Financial assets are therefore classified as amortised cost, except for those whose contractual payments are not solely payment of principal and interest (ie where the cash flows do not take the form of a basic debt instrument).

Financial Assets Measured at Amortised Cost

Financial assets measured at amortised cost are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value. They are subsequently measured at their amortised cost. Annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement (CIES) for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for Statements the instrument. For most of the financial assets held by the Council, this means that the amount presented in the Balance Sheet is the outstanding principal receivable (plus accrued interest) and interest credited to the CIES is the amount receivable for the year in the loan agreement.

Interest is credited to the Financing and Investment Income and Expenditure line in the CIES at a marginally higher effective rate of interest than the rate receivable from the voluntary organisations, with the difference serving to increase the amortised cost of the loan in the Balance Sheet. Statutory provisions require that the impact of soft loans on the General Fund Balance is the interest receivable for the financial year – the reconciliation of amounts debited and credited to the CIES to the net gain required against the General Fund Balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Movement in Reserves Statement.

Any gains and losses that arise on the derecognition of an asset are credited or debited to the Financing and Investment Income and Expenditure line in the CIES.

Expected Credit Loss Model

The Council recognises expected credit losses on all of its financial assets held at amortised cost, either on a 12-month or lifetime basis. The expected credit loss model also applies to lease receivables and contract assets. Only lifetime losses are recognised for trade receivables (debtors) held by the Council.

Impairment losses are calculated to reflect the expectation that the future cash flows might not take place because the borrower could default on their obligations. Credit risk plays a crucial part in assessing losses. Where risk has increased significantly since an instrument was initially recognised, losses are assessed on a lifetime basis. Where risk has not increased significantly or remains low, losses are assessed on the basis of 12-month expected losses.

Financial Assets Measured at Fair Value through Profit or Loss

Financial assets that are measured at FVPL are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured and carried at fair value. Fair value gains and losses are recognised as they arrive in the Surplus or Deficit on the Provision of Services.

The fair value measurements of the financial assets are based on the following techniques:

- instruments with quoted market prices – the market price
- other instruments with fixed and determinable payments – discounted cash flow analysis.

The inputs to the measurement techniques are categorised in accordance with the following three levels:

- Level 1 inputs – quoted prices (unadjusted) in active markets for identical assets that the Council can access at the measurement date.
- Level 2 inputs – inputs other than quoted prices included within Level 1 that are observable for the asset, either directly or indirectly.
- Level 3 inputs – unobservable inputs for the asset.

Any gains and losses that arise on the derecognition of the asset are credited or debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

VIII. GOVERNMENT GRANTS & OTHER CONTRIBUTIONS

Whether paid on account, by instalments or in arrears, government grants and third party contributions and donations are recognised as due to the Council when there is reasonable assurance that:

- The Council will comply with the conditions attached to the payments, and
- The grants or contributions will be received.

Amounts recognised as due to the Council are not credited to the Comprehensive Income and Expenditure Statement until conditions attached to the grant or contributions have been satisfied. Conditions are stipulations that specify that the future economic benefits or service potentially embodied in the asset in the form of the grant or contribution are required to be consumed by the recipient as specified, or future economic benefits or service potential must be returned to the transferor.

Money advanced as grants and contributions for which conditions have not been satisfied are carried in the Balance Sheet as creditors. When conditions are satisfied, the grant or contribution is credited to the relevant service line (attributable revenue grants and contributions) or Taxation and Non Specific Grant Income (non ring-fenced revenue grants and all capital grants) in the Comprehensive Income and Expenditure Statement.

IX. HERITAGE ASSETS

Heritage assets are held or maintained principally for their contribution to knowledge and culture. They are initially recognised at cost if this is available. If cost is not available, values are only included in the Balance

Sheet where the cost of obtaining valuation is not disproportionate to the benefit derived. For most of the Council's heritage assets, insurance valuations are used. Where no market exists or the asset is deemed to be unique, and it is not practicable to obtain a valuation, the asset is not recognised in the Balance Sheet but disclosed in the notes to the accounts.

Heritage assets are depreciated over their useful life if this can be established. If an asset is considered to have an indefinite life, no depreciation is charged. Disposals, revaluation gains and losses and impairments of heritage assets are dealt with in accordance with the Council's policies relating to property, plant and equipment.

The cost of maintenance and repair of heritage assets is written off in the year incurred.

X. INTANGIBLE ASSETS

Expenditure on non-monetary assets that do not have physical substance but are identifiable and controlled by the Council (e.g. software licences) is capitalised when it is expected that future economic benefits or service potential will flow from the intangible asset to the Council.

Expenditure on the development of the Council's website is not capitalised.

Intangible Assets are measured initially at cost. Amounts are only revalued where the fair value of the assets held by the Council can be determined by reference to an active market. In practice, no intangible asset held by the Council meets this criterion, and they are therefore carried at amortised cost. The depreciable amount of an intangible asset is amortised over its useful life to the relevant service line(s) in the Comprehensive Income and Expenditure Statement. An asset is tested for impairment whenever there is an indication that the asset might be impaired – any losses recognised are posted to the relevant service line(s) in the Comprehensive Income and Expenditure Statement. Any gains or losses arising on the disposal or abandonment of an intangible asset is posted to the Other Operating Expenditure Line in the Comprehensive Income and Expenditure Statement.

Where expenditure on intangible assets qualifies as capital expenditure for statutory purposes, amortisation, impairment losses and disposal gains and losses are not permitted to have an impact on the General Fund Balance. The gains and losses are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account and (for any sale proceeds greater than £10,000) the Capital Receipts Reserve.

The useful life of intangible assets is assessed by the Chief Finance Officer at the time of acquisition. Intangible assets are derecognised when no future economic benefits are expected from them.

XI. INTERESTS IN COMPANIES AND OTHER ENTITIES

The Council has a material interest in LeisureSK, InvestSK and EnvironmentSK. The nature of these relationships has been assessed and they are deemed to be subsidiaries. The Council is not currently required to produce group accounts on the grounds of materiality. In respect of Gravitas the Council produces Group Accounts.

XII. INVENTORIES AND LONG TERM CONTRACTS

Inventories are included in the Balance Sheet at the lower of cost and net realisable value.

Long term contracts are accounted for on the basis of charging the Surplus or Deficit on the provision of services with the value of works and services received under the contract during the financial year.

XIII. INVESTMENT PROPERTY

Investment properties are those that are used solely to earn rentals and/or for capital appreciation. The definition is not met if property is used in any way to facilitate the delivery of services or production of goods or is held for sale.

Investment properties are measured initially at cost and subsequently at fair value, being the price that would be received to sell such an asset in an orderly transaction between market participants at the measurement date. As a non-financial asset investment properties are measured at highest and best use. Properties are not depreciated but are revalued annually according to market conditions at the year end. Gains and losses on revaluation are posted to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The same treatment is applied to gains and losses on disposal.

Rentals received in relation to investment properties are credited to the Financing and Investment Income line and result in a gain for the General Fund Balance. However, revaluation and disposal gains and losses are not permitted by statutory arrangements to have an impact on the General Fund Balance. The gains and losses are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account and (for any sale proceeds greater than £10,000) the Capital Receipts Reserve.

XIV. LEASES

Leases are classified as finance leases where the terms of the lease transfer substantially all the risks and rewards incidental to the ownership of the property, plant or equipment from the lessor to the lessee. All other leases are classified as operating leases.

Where a lease covers both land and buildings, the land and buildings elements are considered separately for classification.

Arrangements that do not have the legal status of a lease but convey a right to use an asset in return for payment are accounted for under this policy where fulfilment of the arrangement is dependent on the use of specific assets.

The Council as Lessee

Finance Leases:

Property, plant and equipment held under finance leases is recognised on the Balance Sheet at the commencement of the lease at its fair value measured at the leases inception (or the present value of the minimum lease payments, if lower). The asset recognised is matched by a liability for the obligation to pay the lessor e.g. payments net of financing costs. Initial direct costs of the Council are added to the carrying amount of the asset. Premiums paid on entry into the lease are applied to writing down the lease liability. Contingent rents are charged as expenses in the period in which they are incurred.

Lease payments are apportioned between:
- A charge for the acquisition of the interest in the property, plant or equipment – applied to write down the lease liability, and
- A finance charge (debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement).

Property, Plant and Equipment recognised under finance leases is accounted for using the policies applied generally to such assets, subject to depreciation being charged over the lease term if this is shorter than the assets estimated useful life (where ownership of the asset does not transfer to the Council at the end of the lease period).

Operating Leases

Rentals paid under operating leases are charged to the Comprehensive Income and Expenditure Statement as an expense of the services benefitting from use of the leased property, plant or equipment. Charges are made on a straight line basis over the life of the lease, even if this does not match the patterns of payments (e.g. there is a rent free period at the commencement of the lease).

The Council as Lessor

Finance Leases

Where the Council grants a finance lease over a property or an item of plant or equipment, the relevant asset is written out of the Balance Sheet as a disposal and replaced by a long-term debtor in the Balance Sheet valued on the future income due under the finance lease.

Operating Leases

Where the Council grants an operating lease over a property or an item of plant or equipment, the asset is retained in the Balance Sheet. Rental income is credited to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Credits are made on a straight-line basis over the life of the lease, even if this does not match the pattern of payments (e.g. there is a premium paid at the commencement of the lease).

XV. OVERHEADS AND SUPPORT SERVICES

The costs of overheads and support services are charged to service segments in accordance with the Council's arrangements for accountability and financial performance.

XVI. PROPERTY, PLANT AND EQUIPMENT

Assets that have physical substance and are held for use in the production or supply of goods and services, for rental to others, or for administrative purposes and that are expected to be used during more than one financial year are classified as Property Plant and Equipment.

Recognition:

Expenditure on the acquisition, creation or enhancement of Property, Plant and Equipment is capitalised on an accruals basis, provided that it is probable that the future economic benefits or service potential associated with the item will flow to the Council, over more than one year and that the cost of the item can be measured reliably. Expenditure that maintains but does not add to an assets potential to deliver future economic benefits or service potential (i.e. repairs and maintenance) is charged as an expense when it is incurred.

The Council has a de-minimis of £10,000 for capital expenditure, with the exception of the purchase of motor vehicles. Where the total cost of an asset is higher than £10,000 but only part of the expenditure has occurred within a financial year that expenditure would be included in the balance sheet even if it was below the de minimis level.

Measurement

Assets are initially measured at cost, comprising:

- the purchase price.
- any costs attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

The Council does not capitalise borrowing costs incurred while assets are under construction.

The cost of assets acquired other than by purchase is deemed to be its fair value, unless the acquisition does not have commercial substance (i.e. it will not lead to a variation in the cash flows of the Council). In the latter case, where an asset is acquired via an exchange, the cost of the acquisition is the carrying amount of the asset given up by the Council.

Assets are then carried in the Balance Sheet using the following measurement bases:

- Dwellings – current value determined using the basis of existing use value for social housing (EUV-SH). The social housing discount applied in 2020/21 is 42%.
- Community assets and assets under construction – historic cost.
- Plant, Vehicles & Equipment – depreciated historical cost.

- All other classes of assets – current value, unless there is no market-based evidence of fair value because of the specialist nature of the asset. In this case fair value is estimated using the Depreciated Replacement Cost method.

Assets included in the Balance Sheet at current value are re-valued where there have been material changes in the value, but as a minimum every five years. Valuations of property assets are carried out by the District Valuer, an external, qualified valuer, who is independent of the Council. The method of valuations is as recommended by CIPFA and in accordance with the principles and guidance notes issued by the Royal Institute of Chartered Surveyors. Operational assets constructed or acquired during the year will be re-valued on 31 March of the following year.

Increases as a result of revaluations are debited to the appropriate asset account, with the opposite entry going to the Revaluation Reserve to recognise unrealised gains, except to the extent where it reverses a previous revaluation loss that was charged to a service revenue account within the Comprehensive Income & Expenditure Statement. In this case the revaluation gain will first be used to offset the previous loss and any further gain is then taken to the Revaluation Reserve. Revaluation gains charged to Surplus or Deficit on Provision of Services are transferred to the Capital Adjustment Account and reported in the Movement in Reserves Statement.

Decreases as a result of revaluation, which are not specific to one asset but affect several, are revaluation losses as opposed to impairments. The decrease is recognised in the Revaluation Reserve up to the balance in respect of each asset affected and then in Surplus or Deficit on Provision of Services. Any such charge taken to Surplus or Deficit on Provision of Services is then transferred to the Capital Adjustment Account and reported in the Movement in Reserves Statement.

The Revaluation Reserve contains revaluation gains recognised since 1 April 2007 only, the date of its formal implementation. Gains arising before that date have been consolidated into the Capital Adjustment Account.

Impairment

Assets are assessed at each year-end as to whether there is any indication that an asset may be impaired. Where indications exist and any possible differences are estimated to be material, the recoverable amount of the asset is estimated and, where this is less than the carrying amount of the asset, an impairment loss is recognised for the shortfall.

Where impairment losses are identified, they are accounted for by:

- Where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains)
- Where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line(s) in the Comprehensive Income and Expenditure Statement.

Where an impairment loss is reversed subsequently, the reversal is credited to the relevant service line(s) in the Comprehensive Income and Expenditure Statement, up to the amount of the original loss, adjusted for depreciation that would have been charged if the loss had not been recognised.

Depreciation

Depreciation is provided for on all Property, Plant and Equipment assets by the systematic allocation of their depreciable amounts over their useful lives. An exception is made for assets without a determinable finite useful life (i.e. freehold land and certain Community Assets) and assets that are not yet available for use (i.e. assets under construction).

Depreciation is calculated on the following bases:

- Land is not depreciated as it will not have a finite life.

- Council Dwellings and Other Buildings are depreciated using the straight line method. The finite useful life is assessed by the District Valuer at the time of revaluation but for Council Dwellings is usually 50 years, and for other buildings is between 1 and 60 years.

- Plant and Equipment are also depreciated by the straight line method. Useful life is assessed by the Chief Finance Officer at the time of acquisition, usually between 3 and 10 years. Some assets have a longer life span, up to 30 years.

- Vehicles are depreciated using the reducing balance method at a rate of 25% per annum.

- Non-current assets held-for sale are not depreciated.

Where an item of Property, Plant and Equipment asset has major components whose cost is significant in relation to the total cost of the item, the components are depreciated separately.

Revaluation gains are also depreciated with an amount equal to the difference between current value depreciation charged on assets and the depreciation that would have been chargeable based on their historic cost being transferred each year from the Revaluation Reserve to the Capital Adjustment Account.

Componentisation

Only assets with a carrying amount more than or equal to £500,000 at the beginning of the financial year are considered for componentisation. To be recognised as a component the value of the part of the asset being considered must be more than or equal to 10% of the value of the asset, and have a life less than or equal to half that of the main asset. When a component is replaced, the carrying amount of the old component is derecognised and the new component is recognised. If the carrying amount of the old component is not known, this is estimated by indexing back from the cost of the new component and adjusting for depreciation and impairment over the old component's useful life. The Building Costs Index will be used.

The depreciation calculated is charged to the service revenue accounts, central support service accounts and trading accounts.

Revaluation gains are also depreciated, with an amount equal to the difference between current value depreciation charged on assets and the depreciation that would have been chargeable based on their historical cost being transferred each year from the Revaluation Reserve to the Capital Adjustment Account.

Disposals and Non-current Assets Held for Sale

When it becomes probable that the carrying amount of an asset will be recovered principally through a sale transaction rather than through its continuing use, it is classified as an Asset Held for Sale. The asset is revalued immediately before reclassification and then carried at the lower of this amount and fair value less costs to sell. Where there is a subsequent decrease to a fair value less costs to sell, the loss is posted in the Other Operating Expenditure line in the Comprehensive Income and Expenditure statement. Gains in fair value are recognised only up to the amount of any previous losses recognised in the Surplus or Deficit on Provision of Services. Depreciation is not charged on Assets Held for Sale.

If assets no longer meet the criteria to be classified as Assets Held for Sale, they are reclassified back to non-current assets and valued at the lower of their carrying amount before they were classified as held for sale; adjusted for depreciation, amortisation or revaluations that would have been recognised had they not been classified as Held for Sale, and their recoverable amount at the date of the decision not to sell.

Assets that are to be abandoned or scrapped are not reclassified as Assets Held for Sale.

When an asset is disposed of or decommissioned, the carrying amount of the asset in the Balance Sheet (whether Property, Plant and Equipment or Assets Held for Sale) is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. Receipts from disposals (if any) are credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal). Any revaluation gains accumulated for the asset in the Revaluation Reserve are transferred to the Capital Adjustment Account.

Amounts for a disposal in excess of £10,000 are categorised as capital receipts. A proportion of receipts related to housing disposals is payable to the Government. The balance of receipts remains within the Capital Receipts Reserve and can then only be used for new capital investment or set aside to reduce the Council's underlying need to borrow (the capital financing requirement).

The written-off value of disposals is not a charge against council tax, as the cost of non-current assets is fully provided for under separate arrangements for capital financing.

XVII. PROVISIONS, CONTINGENT ASSETS AND CONTINGENT LIABILITIES

Provisions

Provisions are made where an event has taken place that gives the Council a legal or constructive obligation that probably requires settlement by a transfer of economic benefits or service potential, and a reliable estimate can be made of the amount of the obligation.

Provisions are charged as an expense to the appropriate service line in the Comprehensive Income and Expenditure Statement that the Council becomes aware of the obligation, and are measured at the best estimate at the balance sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.

When payments are eventually made, they are charged to the provision carried in the Balance Sheet. Estimated settlements are reviewed at the end of each financial year - where it becomes less than probable that a transfer of economic benefits will now be required (or a lower settlement than anticipated is made), the provision is reversed and credited back to the relevant service.

Where some or all of the payment required to settle a provision is expected to be recovered from another party (e.g. from an insurance claim), this is only recognised as income for the relevant service if it is virtually certain that reimbursement will be received if the obligation is settled.

The Council has made a provision for settling the self-insured element of Public Liability insurance claims.

Contingent Liabilities

A contingent liability arises where an event has taken place that gives the Council a possible obligation whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Council. Contingent liabilities also arise in circumstances where a provision would otherwise be made but either it is not probable that an outflow of resources will be required or the amount of the obligation cannot be measured reliably.

Contingent liabilities are not recognised in the Balance Sheet but disclosed in a note to the accounts.

Contingent Assets

A contingent asset arises where an event has taken place that gives the Council a possible asset whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Council.

Contingent assets are not recognised in the Balance Sheet but disclosed in a note to the accounts where it is probable that there will be an inflow of economic benefits or service potential.

XVIII. RESERVES

The Council sets aside specific amounts as reserves for future policy purposes or to cover contingencies. Reserves are created by appropriating amounts out of the General Fund Balance in the Movement in Reserves Statement. When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service in that year to score against the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement. The reserve is then transferred back into the General

Fund Balance in the Movement in Reserves Statement so that there is no net charge against council tax for the expenditure.

Certain reserves are kept to manage the accounting processes e.g. for non-current assets, retirement and employee benefits and do not represent usable resources for the Council – these reserves are explained in the relevant policies.

XIX. REVENUE EXPENDITURE FUNDED FROM CAPITAL UNDER STATUTE

Expenditure incurred during the year that may be capitalised under statutory provisions but does not result in the creation of a non-current asset has been charged as expenditure to the relevant service in the Comprehensive Income and Expenditure Statement in the year. Where the Council has determined to meet the cost of this expenditure from existing capital resources or by borrowing, a transfer in the Movement in Reserves Statement from the General Fund Balance to the Capital Adjustment Account then reverses out the amounts charged so that there is no impact on the level of council tax.

XX. VAT

VAT is included as an expense only to the extent that it is not recoverable from Her Majesty's Revenue and Customs. VAT receivable is excluded from income.

XXI. FAIR VALUE MEASUREMENT

The Council measures some of its non-financial assets such as surplus assets and investment properties at fair value at each reporting date. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement assumes that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The council measures the fair value of an asset or liability using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

When measuring the fair value of a non-financial asset, the council takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

GLOSSARY OF TERMS

Accounting Period - The length of time covered by the Council's accounts. This is twelve months commencing on 1 April. The end of the accounting period is the balance sheet date.

Accrual Concept – Revenue and capital income and expenditure are recognised as they are earned or incurred, not as money is received or paid. Transactions are treated on an accruals basis with income and expenditure due as at 31 March brought into the accounts.

Actuarial Gains and Losses - For a defined pension scheme, the changes in actuarial deficits or surpluses that arise because:

(a) events have not coincided with the actuarial assumptions made for the last valuation (experience gains and losses), or
(b) the actuarial assumptions have changed.

Amortisation - The writing down in value of intangible assets, which is charged to service revenue accounts to reflect the cost of such assets, used in the provision of those services. This is the equivalent of depreciation for non-current assets.

Annual Governance Statement – Identifies the systems the Council has in place to ensure that it's business is conducted in accordance with the law and proper standards ensuring public money is safeguarded.

Asset - An asset is something that the Council owns that has monetary value. Assets are either "current" or "non-current".

- A **current asset** is one that will be used or cease to have material value by the end of the next financial year e.g. stock or debtors.
- A **non-current asset** provides benefits for a period of more than one year e.g. Council Offices.
- An **intangible asset** is a non-monetary asset that cannot be seen, touched or physically measured and which is created through time and/or effort e.g. IT software.

Audit of Accounts - An examination by an independent expert of an organisation's financial affairs to check that the relevant legal obligations and codes of practice have been followed.

Bad Debt Provision - Outstanding amounts owed to the Council which are highly unlikely to be collected.

Balance Sheet - The Balance Sheet summarises the Council's financial position at the end of each financial year i.e. 31st March.

Budget - The Council's plans set out in financial terms. Both revenue and capital budgets are prepared and are used to control and monitor expenditure and performance.

CAA - Capital Adjustment Account. This account contains the amounts that are required by Statute to be set aside from capital receipts and revenue for the repayment of external loans as well as amounts of revenue, useable capital receipts and contributions that have been used to fund capital expenditure. It also accumulates depreciation, impairment and write-off of non-current assets on disposal.

Capital Charges - A charge to service revenue accounts to reflect the cost of non-current assets used in the provision of services, i.e. depreciation.

Capital Expenditure - Expenditure on the acquisition of a non-current asset or expenditure which adds to and not merely maintains the value of an existing non-current asset.

Capital Receipts - Money received from the disposal of a non-current asset. Capital receipts cannot be used to fund revenue services.

Carrying Amount - The value of an asset or liability as shown in the Balance Sheet.

Cash Flow Statement - A statement that forms part of the Core Financial Statements and summarises the cash flows within the Council's bank accounts that have taken place within the financial year.

CIES - Comprehensive Income & Expenditure Statement.

CIPFA - The Chartered Institute of Public Finance and Accountancy. The professional accounting body concerned with Local Government and the Public Sector.

Code (the) - The Code of Practice on Local Authority Accounting in the UK: A Statement of Recommended Practice.

Collection Fund - A separate account to record the income and expenditure collected from council tax and Non-Domestic Rates, including outstanding community charges.

Community Assets - Assets that the Council intends to hold in perpetuity that have no determinable useful life and that may have restrictions regarding their sale. Examples of such items are parks and historic buildings.

Current Service Cost -The increase in the present value of the pension scheme liabilities expected to arise from employee service in the current period.

Curtailment - the cost of the early payment of pension benefits if any employee has been made redundant in the previous financial year.

Council Tax - This is a banded property tax set by local authorities in order to meet their budget requirements. There are eight bands (Band A-Band H), set by the District Valuer according to the value of the property. The amount of tax each household pays depends on the band of the property.

Creditors - Amounts owed by the Council for work done, goods received or services rendered before the end of the accounting period but for which payment was not made by the end of the accounting period.

Current Liabilities - Amounts payable that become due during the next financial year.

Debtors - Amounts due to the Council for goods or services provided before the end of the accounting period, for which actual payments had not been received by the end of the accounting period.

Deferred Charges - Expenditure that may properly be deferred but which does not result in, or remain matched with, assets controlled by the Council.

Deferred Credits - These transactions arise when non-current assets are sold and the amounts owed by the purchasers are repaid over a number of years, such as by way of mortgages. The balance is reduced by the principal amounts repayable in any financial year.

Depreciation - An estimate of the loss in value of a non-current asset due to age, wear and tear or obsolescence over a period of time.

Emoluments - Sums paid to an employee and sums due by way of expenses allowances and the money value of any other benefits received other than in cash. Pension contributions payable are excluded.

Earmarked Reserves - These are reserves set aside for specific purposes, a type of service or type of expenditure.

Expected Rate of Return - The average rate of return expected over the remaining life of the related obligation on the actual assets held by the pension scheme.

Finance Leases - Arrangements whereby the lessee is treated as the owner of the leased asset and is required to include such assets within the non-current assets on the Balance Sheet.

Financial Year - The period over which the Council reports its financial activity. Currently this is 1st April to 31st March.

FRS - Financial Reporting Standards, a reference to the accounting treatments that companies in the UK (and Local Authorities) would generally be expected to apply in the preparation of the Financial Statements.

General Fund - The total services of the council except for the Housing Revenue Account and Collection Fund. The day to day spending on services is met from the fund.

Government Grants - Grants made by central government towards either revenue or capital expenditure to help with the cost of providing services and capital projects. Some government grants have restrictions on how they may be used whilst others are general purpose.

Housing Benefits - This is a national system for giving financial assistance to individuals towards certain housing costs. The cost of the service is subsidised by central government.

Housing Revenue Account (HRA) - A separate account to the General Fund recording all the transactions relating to the provision of social housing.

Joint Operation - This is an arrangement whereby all parties have joint control of the assets and liabilities to the operation.

IAS - International Accounting Standards, a reference to accounting treatments that companies in the UK (and Local Authorities) would generally be expected to apply in the preparation of the Financial Statements.

IFRS - International Financial Reporting Standards, a reference to accounting treatments that companies in the UK and Local Authorities would generally be expected to apply in the preparation of the Financial Statements.

Impairment Losses - A reduction in the value of a non-current asset to below its carrying amount on the Balance Sheet, as a result of damage, obsolescence or a general decrease in market value.

Intangible Assets - Capital expenditure that does not result in the creation of a tangible asset but which gives the Council a controllable access to future economic benefit , e.g. computer software licences.

Interest on Pension Scheme Liabilities - The increase in the present value of the pension scheme liabilities expected to arise from employee service in the current period.

Key Prudential Indicator - One of the indicators required under the Prudential Code for the measuring of the Council's Treasury Management activities.

Liability - A liability arises when the Council owes money to others and it must be included in financial statements. There are two types of liability:

- A **current liability** is a sum of money that will or might be payable during the next accounting period e.g. creditors or cash overdrawn.
- A **deferred liability** is a sum of money that will not become payable until some point after the next accounting period or is paid off over a number of accounting periods.

Long Term Debtor - Amounts due to the Council more than one year after the Balance Sheet date.

Materiality - This is one of the main accounting concepts. It ensures that the statement of accounts includes all the transactions that, if omitted, would lead to a significant distortion of the financial position at the end of the accounting period.

DLUHC - Department of Levelling Up, Housing and Communities.

Minimum Revenue Provision (MRP) - The minimum amount which must be charged to the Council's revenue accounts each year and set aside for debt repayment.

MIRS - Movement in Reserves Statement.

MRR - Major Repairs Reserve.

Net Book Value (NBV) - The value of a non-current asset less the accumulated amount of depreciation/amortisation.

Non Distributed Costs - These are overheads for which no user benefits and should not be apportioned to services.

Non Domestic Rates - Tax charged on the rateable value of non-domestic properties (business properties). The rate of tax is set by the Government.

Operating Leases - A lease where the lessor retains all the risks and rewards of ownership of a non-current asset.

Past Service Cost - Discretionary benefits awarded on early retirement are treated as past service costs. This includes added years and unreduced pension benefits covered by the rule of 85.

Pension Fund - An employee's pension fund maintained by a Council or group of councils in order to primarily make pension payments on the retirement of participating employees. It is financed by contributions from the employing authority, the employees and investment income.

PPE - Property, Plant & Equipment. Assets other than Council dwellings, Assets under Construction and Investment Properties.

Precepts - The amount of Council Tax income that Councils, Police Authorities, Parish Councils and Fire Authorities need to provide their service. The amount for all local authorities providing services in an area appears on council tax bills.

Provisions - This is a sum of money that has been put aside in the accounts for liabilities that are due but where the amount or the timing of the payment is not known with any certainty.

PWLB - Public Works Loans Board. A central government agency that provides lending facilities to local authorities.

Related Party Transactions - A related party transaction is the transfer of assets or liabilities or the performance of services by, to or for a related party irrespective of whether a charge has been made.

Reserves - Amounts set aside to meet capital or revenue expenditure which do not fall under the definition of Provisions.

Revaluation Reserve - The Revaluation Reserve records the accumulated gains from the increase in the revaluation of assets. It also records any reduction in the value of assets subject to the limits of the previous increases in value of the same asset.

Revenue Expenditure – The day-to-day running costs a Council incurs in providing services.

Revenue Expenditure Funded from Capital Under Statute - This is expenditure treated as capital expenditure but which does not result in a non-current asset belonging to the council. An example of this is a Disabled Facilities Grant paid to a homeowner to fund adaptations to their own home.

Revenue Support Grant (RSG) - A general grant paid by central government to local authorities as a contribution towards the cost of their services.

Soft Loan - A soft loan is a loan with a below market rate of interest.

Treasury Management - The process by which the Council manages its day to day cash requirements.

Independent auditor's report to the members of South Kesteven District Council

Annual Governance Statement Draft

Grantham

SOUTH
KESTEVEN
DISTRICT
COUNCIL

Foreword

Welcome to South Kesteven District Council's Annual Governance Statement for the period 1 April 2022 to 31 March 2023.

The Council has a duty to ensure that its business is conducted to a high standard in accordance with law and that our finances are safeguarded and properly accounted for, and the purpose of this Statement is to demonstrate that the right systems and processes are in place.

As in the previous 12 months, 2022-23 presented a huge set of unprecedented challenges to which the Council responded positively and proactively, thereby ensuring that residents and businesses could continue to access essential services, and that support and advice were available throughout.

The Council has adapted and continued to show flexibility in its response to the changing environment, whilst also meeting the requirement of the Local Government Act 1999 of planning for continuous improvement in the way services are delivered, and ensuring value for money for residents.

As part of this, alongside our governance framework we have a Corporate Plan 2020-2023 in place to bring focus and clarity to our vision and priorities for South Kesteven to be the best district in which to live, work and visit.

The Annual Governance Statement has been prepared and published in accordance with the Chartered Institute of Public Finance and Accountancy (CIPFA) Delivering Good Governance in Local Government Framework and meets the statutory requirement to review governance arrangements at least once a year.

It conforms to the Council's Local Code of Corporate Governance and covers all significant corporate systems, processes and controls across all Council activities.

The statement details the Council's key governance arrangements, explaining how they are tested and the assurances that can be relied on to show that the systems are working effectively. It also allows us to identify areas for improvement in our internal control framework and implement any necessary changes.

The Council is committed to continuous improvement and is confident that it has established robust foundations enabling it to continue to develop and strengthen governance arrangements.

Karen Bradford
Chief Executive
South Kesteven
District Council

Cllr Richard Cleaver
Leader of the Council
South Kesteven
District Council

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linkedin.com/company/south-kesteven-council

Key elements of the Council's Governance Framework 2022/23

Full Council	• Approves amendments to the Constitution and all associated Procedure Rules, Protocols and Codes • Approves Strategies, Policies and Plans which make up the Policy Framework, including • Full Council the Corporate Plan and the Local Development Plan • Approves the Council's budget and Medium Term Financial Strategy, including the setting of Council Tax • Holds meetings in public unless exemptions apply. All decisions are publicly available in minutes of its meetings
Cabinet	• Takes the majority of the Council's decisions on matters outside of the Council's budget and policy frameworks • Sets priorities in line with the Council's Vision and recommends budget proposals to underpin delivery • Reviews the Council's financial performance, performance of services and risk management • Holds meetings in public unless exemptions apply. All decisions are publicly available in minutes of its meetings
Governance and Audit Committee	• Scrutinises and approves Financial Statements on behalf of the Council • Reviews Financial Regulations, Contract Procedure Rules and the Treasury Management Strategy • Reviews and scrutinises governance arrangements, including Local Code of Corporate Governance, internal and external audit reports and management of risk • Reviews annual reports for Safeguarding, Health & Safety, Business Continuity and complaints made to the Local Government Ombudsman • Holds meetings in public unless exemptions apply. All decisions are publicly available in minutes of its meetings
Overview and Scrutiny Committees	• Provides a critical friend challenge to the Cabinet and holds decision-takers to account • Makes recommendations to decision-takers as part of pre-decision scrutiny • Makes recommendations to decision-takers as part of policy or strategy development • Can hold calls for evidence from internal or external stakeholders • Holds meetings in public unless exemptions apply. All decisions are publicly available in minutes of its meetings
Companies Committee	• Considers proposals on the creation of any new company or joint venture, making recommendations to Cabinet • Provides oversight of companies, joint venture partnerships or other such collaborative arrangements whether wholly or jointly owned by the Council • Provides the scrutiny function for investments, outcomes against funding, property disposals and other resourcing decisions made in relation to companies • Holds meetings in public unless exemptions apply. All decisions are publicly available in minutes of its meetings
	• Reviews performance management and projects including progress against milestones, resource allocation, risks and performance • Completes Annual Assurance Statements and contributes to the effective corporate management and governance of the Council
Risk	• Reviews risk registers for strategic, operational and fraud risks. Strategic risks considered by senior managers quarterly and Governance and Audit Committee biannually
Internal Audit	• Sets the Internal Audit Strategy to meet the Council's overall strategic direction and provide assurance on risk management, governance and internal control arrangements • Undertakes annual programme of audits and presents progress reports against the plan • Makes recommendations for improvement in systems and controls and value for money

How we comply with the Chartered Institute of Public Finance and Accountancy (CIPFA) Solace Framework

The Council has approved and adopted a Local Code of Corporate Governance based on the requirements of the CIPFA/Solace Delivering Good Governance in Local Government Framework 2016. Set out below is how the Council has complied with the seven principles set out in the CIPFA/Solace Framework during 2022/23.

Principle A

Behaving with integrity, demonstrating strong commitment to ethical values and respecting the rule of law

The Council has defined and communicated the standards of conduct and personal behaviour expected of elected Members and Officers through its Member and Officer Codes of Conduct, together with a Member/ Officer Protocol, included as part of its Constitution to ensure integrity.

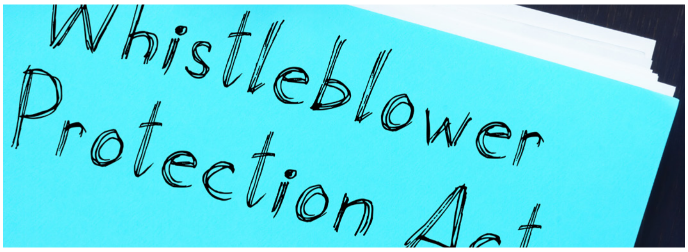
Member Code of Conduct training formed part of the comprehensive induction programme for Members following the quadrennial elections in May 2019, with further refresh sessions being held throughout the term of office.

Additionally, the Council adopted the Local Government Association's new model Councillor Code of Conduct at its meeting on 25 November 2021 and subsequent training for Members on the Code has taken place. This training has been extended to Parish and Town Councils who have been encouraged to adopt the model Code.

There is a complaints process in place in relation to alleged breaches of the Member Code of Conduct, with any such complaints investigated by the Council's Monitoring Officer, in accordance with the a specific procedure for dealing with such complaints.

A Counter Fraud Framework is in place which incorporates bribery and corruption, and a Whistleblowing Policy which provides protection for individuals to raise concerns in confidence and ensures that any concerns raised are investigated.

The Council's Customer Feedback Process provides members of the public with an avenue to raise any concern or complaint as well as provide compliments to specific service areas or individual members of staff.



The governance framework brings together an underlying set of legislative requirements, good practice principles and management processes. It comprises the systems, processes, culture and values by which the Council is directed and controlled, and through which it is accountable to, engages with and informs the local community. It enables the Council to monitor the achievement of its strategic objectives.

Whenever the Council makes a decision at its meetings it ensures legal implications are considered. To assist with this, all reports include legal and governance implications, which are signed off by the Monitoring Officer or Deputy Monitoring Officer, Legal Executive or a legal representative from the Legal Services Lincolnshire Partnership.

Principle B

Ensuring openness and comprehensive stakeholder engagement

All meetings are open to the public with agenda papers, reports and decisions being published on our website, except those determined as exempt from publication.

The Council is able to exclude the press and public from meetings for reasons set out in Schedule 12A of the Local Government Act 1972 (as amended).

The Council has robust arrangements in place to deal with residents complaints, FOI requests, subject access requests, data breaches and whistleblowing allegations.

The Council's Constitution sets out how the authority engages with stakeholders and partners.

A Partnerships Register is in development to confirm arrangements the Council has in place with partners and shared working practices. During 2022/23 a number of consultations were undertaken.

This included a significant public consultation with the residents of Grantham, and surrounding parishes, along with key stakeholders, to establish if they supported the creation of a new parish council via the Community Governance Review process.

An additional element of targeted consultation was undertaken with residents in three parishes on the periphery of the Grantham boundary and the results of both consultation exercises were reported to Full Council on 1 March 2023.

Consultations were undertaken on Wyndham, Dysart and Queen Elizabeth parks to capture local residents views of the facilities.

There was also a consultation on the proposal to increase council tax by £5 per Band D property for the financial year 2023/24.

Following the consultation in relation to the options associated with the investment, re-design and refurbishment of the Deepings Leisure Centre, the outcomes were presented to meetings of the relevant Overview and Scrutiny Committee, Cabinet in April 2022 and Full Council on 24 November 2022.

Principles C and D

Defining outcomes in terms of sustainable economic, social and environmental benefits and determining the interventions necessary to optimise the achievement of the intended outcomes

South Kesteven District Council has a number of Council owned companies that support the delivery of specific Council objectives

EnvironmentSK Ltd, a company wholly owned by the Council, provides facilities management focused on grounds maintenance, arboriculture and horticultural services to the Council, other authorities, parish and town councils, businesses, and the public. Six monthly updates have been provided to Companies Committee on the performance of the company, and Companies Committee were also responsible for approving the projected budget for 2022/23 and associated Business Plan. During 2022/23 a significant amount of work was undertaken to ensure that the mapping of grounds maintenance responsibilities were accurately recorded in a new Geographic Information System, and a new grounds maintenance specification was developed. These key pieces of information formed the basis of an options appraisal looking at the future of grounds maintenance provision across the district. Three options were identified including EnvironmentSK Ltd continuing to provide the service, options around a commercial contract through a procurement exercise, or whether the grounds maintenance service should be insourced and integrated with other Council functions. The results of the options appraisal were presented to a joint scrutiny meeting of the Environment and Rural and Communities Overview and Scrutiny Committees on 6 February 2023. Following their recommendation Cabinet decided that the grounds maintenance service should be insourced from 1 April 2023, the service being integrated with Street Scene as soon as possible within the financial year 2023/24.

LeisureSK Ltd was established in September 2020 and took over the management of the Council's leisure
facilities in January 2021. There is a leisure contract in place between the company and the Council which details the level of service to be provided and includes key performance indicators to measure and monitor performance. Under the terms of the contract, LeisureSK Ltd is responsible for the provision of a high quality, accessible leisure service across the district which is attractive to residents and visitors. The main aim of the arrangement is to facilitate the improvement of the health and wellbeing of the district through a range of outcomes, including increasing levels of physical activity across the district, attracting increasing numbers of users to the leisure facilities, providing a high standard of customer care, and identifying opportunities to engage with residents outside of traditional leisure activities.

The Council's leisure contract arrangement with LeisureSK Ltd now covers three leisure centres in Grantham, Stamford and Bourne. Deepings Leisure Centre was closed in July 2021 as, due to its age and condition, it posed significant health and safety risks. Subsequently Deepings Leisure Centre was removed from the contract with the building being handed back to its owner, Lincolnshire County Council in January 2023..

There is a Council appointed Board of Directors for LeisureSK Ltd which comprises senior officers. The Board is responsible for overseeing the strategic direction of the company and its financial and operational performance. Membership of the Board of Directors is complemented by a Non-Executive Director who was recruited in recognition of his significant leisure knowledge and experience.

There are robust contract monitoring arrangements in place to ensure that LeisureSK Ltd deliver on the contract objectives and key performance indicators.

Principle E

Developing the entity's capacity, including the capability of its leadership and the individuals within it

The Council has adopted a People Strategy which is built around three themes:

- Attract the right people, retain and develop excellent skills, define and embed the right culture
- Engaging and valuing our people in order to run our business effectively
- Effective leadership to encourage, inspire and navigate change

The aim of the People Strategy is to provide an immediate and on-going and long-term framework for engaging, sustaining, developing and managing our people to be fit for purpose in supporting the Council's vision, goals and the aspirations outlined in the Corporate Plan. In order to address this, we will:

- Attract and recruit high calibre staff regionally
- Develop and support our staff to fulfil their potential and help us deliver our aspirations
- Engage to create an inspired workforce
- Improve the equality, diversity and inclusion of the Council
- Retain and reward our staff through recognising their contribution
- Create and maintain a progressive, collaborative and healthy working environment

The Council has a scheme of delegation that sets out how decisions are made within the Council both at Member level and officer level. This was reviewed and adopted by the Council on 27 January 2022 as part of a comprehensive review of the Council's Constitution. The Council has effective arrangements for the discharge of the statutory Monitoring Officer and Head of Paid Service functions and complies with the relevant requirements of the Chartered Institute of Public Finance and Accountancy (CIPFA) statement on the Role of the Chief Financial Officer in Local Government.

Principle F

Managing risks and performance through robust internal control and strong public financial management

The Council has effective risk management which is embedded across all areas of business activity. The authority recognises that risk management is an integral part of all activities and must be considered in all aspects of decision making.
The Council's Risk Management Framework sets out its approach to identifying and controlling risks. Risk registers are maintained at strategic and service area level. Strategic risks are reviewed by the Corporate Management Team and reported to the Governance and Audit Committee biannually.

The Council's project methodology ensures that all risks are captured and monitored to enable the successful delivery of projects. These are reported every two months to Corporate Management Team.

The Council's Counter Fraud Framework, structured on the CIPFA Code of Practice on Managing the Risk of Fraud and Corruption, sets out the importance of achieving intended outcomes, whilst acting in the public interest, and being seen to do so.

The Council continues to be a part of the Lincolnshire Counter Fraud Partnership which was established to create the framework for a county-wide anti-fraud approach. The Partnership provides a forum for counter fraud specialists and subject area experts from Lincolnshire County Council and the seven district councils in Lincolnshire to develop and deliver proactive exercises and investigate fraud.

Financial management is a key element of the structure and processes that comprise the Council's governance arrangements and it will be undertaking an assessment against the CIPFA Financial Management Code and developing an action plan.

Underpinning the delivery of the Council's Corporate Plan and priorities is the ethos of a well-run Council. This includes effective financial management to achieve efficiencies and savings in the short and medium terms.

Strategic Risks 2022/23

1. Ensuring efficient and effective internal control/ compliance
2. Achieving Council transformation
3. Supporting communities
4. Achieving future financial resilience
5. Creating the right culture, capacity and capability
6. Ability to be agile and shift focus in response to policy, national political change, and changes to the external environment
7. Ensuring robust security measures to protect the Council's data and assets from external threats

Principle G

Implementing good practices in transparency, reporting and audit to deliver effective accountability

The Council is open and accessible to the community, service users and employees. It is committed to openness and transparency in all that it does, and this is underpinned by the Corporate Plan. The Council ensures that clear channels of communication are in place with all sections of the community and other stakeholders, and we monitor these to ensure that they are operating effectively.

Every effort is made to ensure that information is concise and easy to understand. In accordance with the Local Government Transparency Code the Council publishes how we spend its money, how it uses its assets, how it makes decisions and have regard to issues important to local people.

The Council has a comprehensive consultation process for published reports which ensures senior management and Members own the contents.

The Council is committed to publishing information on its performance in a timely manner and report performance against targets and financial targets on a regular basis to committees.

The Council has an internal audit services, commissioned through Assurance Lincolnshire, that reports directly to the Governance and Audit Committee on all aspects of its work, including tracking the implementation of management actions. The Committee also has the opportunity to suggest items for the annual internal audit work programme.

The Council welcomes peer challenge, reviews and inspections from regulatory bodies and it participates in national benchmarking exercises to obtain comparative data on performance. It has recently undertaken external reviews in relation to the Planning Service and the role and functions of the Planning Committee, the review of the Council's Scrutiny Function carried out by the Centre for Governance and Scrutiny and the Local Government Association Corporate Peer Challenge. Action plans have been developed and implemented with necessary constitutional amendments approved by Full Council to put these in place where necessary.

Governance Framework for 2022/23

The Governance Framework shown below has been in place throughout the financial year which ended on 31 March 2023 and continues to be in place up to the date of the approval of the Statement of Accounts.

Assurances Required

- Delivery of Council's aims and objectives
- Services deliver value for money
- Engagement with stakeholders and public accountability
- Budget and financial management
- Roles and responsibilities of Members and Officers
- Standards of conduct and behaviour
- Compliance with laws, regulations, internal policies and procedures
- Management of risk
- Effectiveness of internal controls

Sources of Assurance

- Constitution; Scheme of Delegation, Financial Regulations, Contract Procedure Rules and specific Rules of Procedure for the Council's bodies
- Council, Cabinet and Committees including Governance and Audit and Overview and Scrutiny Committees
- Statutory Officers Group
- Corporate Information Governance Group
- Medium Term Financial Strategy
- Human resources policies and procedures
- Whistleblowing and counter fraud procedures
- Risk management and internal control frameworks
- Performance management framework
- Partnership governance arrangements
- Codes of Conduct
- Corporate Management Team
- Annual Assurance Statements
- Customer complaints system

Assurances Received

- Statement of Accounts
- External audit reports
- Internal audit reports
- Risk management reports
- Counter fraud reports
- Independent and external sources
- Local Government Ombudsman reports
- Reviews by Overview and Scrutiny Committees and Governance and Audit Committee
- Member/officer working groups
- Customer feedback eg complaints
- Freedom of Information requests
- Data Subject Access Requests
- Whistleblowing reports

Review of Effectiveness

Internal audit

The Council's internal auditors, Assurance Lincolnshire, are required to provide an opinion on the overall adequacy and effectiveness of the Council's risk management, governance and internal control arrangements.

Eight assurance reviews were undertaken during 2022/23 and one consultancy review. Six assurance reviews resulted in Substantial Assurance, one resulted in a split assurance of Substantial/Limited and one resulted in Low Assurance.

For the twelve months ended 31 March 2023, based on the work undertaken, internal audit's opinion below details the adequacy and effectiveness of the Council's governance, risk, internal control and financial control arrangements:

Opinion	Suggested actions
Governance Performing adequately	• Governance and Audit Committee should receive training that includes a focus on conduct and best practice in what makes an effective committee • The Council and Chairman should review attendance for any non-committee members and consider whether their involvement at the committee supports or impairs the effectiveness of carrying out its remit
Risk Performing adequately	• Governance and Audit Committee should receive an update on the Council's fraud risk register as part of the reporting of risk
Internal control Performing adequately	• Governance and Audit Committee should receive updates on the implementation of audit actions
Financial control Performing inadequately	• Governance and Audit Committee should receive updates on the implementation of actions from the Accounts Receivable audit

External audit

TBC

Combined Assurance

Red 3%	Amber 39%	Green 58%
High impact on resources, significant costs likely, high impact on service delivery	Medium- or short-term impact on resources, costs covered within existing financial plans, low impact on service delivery	Monitor and be aware, activity to mitigate risk within existing service delivery plans

The overall assurance of activities has been compiled for 2022/23 and is shown in the graphic above.

Combined assurance is a structured means of identifying and mapping the main sources and types of assurance within the Council and co-ordinating them to best effect. It enhances risk management by providing an effective and efficient framework of sufficient, regular, and reliable evidence of assurance on organisational stewardship and management of major risks to the Council's success.

Combined assurance includes three lines of assurance ie management, corporate and third party, and internal audit. This enables the assurance to be triangulated and tested for reasonableness, and then summarised within a report which is presented to senior management.

The overall assurance rating is an open and honest assessment of the Council's overall assurance levels that has been compiled following discussions with senior officers representing all service areas. Work will continue to ensure the amber and red assurance levels are reduced whilst maintaining the green assurance levels.

More information of the "Red" assurance areas is captured below:

Culture and Leisure: Key Risks and Emerging Issues

Engagement with volunteers – the process needs to be formalised by the Council to ensure volunteers know what they can expect and what is expected of them.

Planning and Economic Development: Key Risks and Emerging Issues

Building Control - inability to deliver the service due to new staff competencies required by law. Inflationary cost pressures – labour and materials

Operations and Public Protection: Critical Activities

Workshop and fleet maintenance – The service also faces ongoing difficulties recruiting qualified HGV mechanics. Posts are filled by a combination of agency and permanent staff with recruitment ongoing.

Key Projects

St Martin's Park – The development of St Martins Park Stamford has currently been categorised as Red due to the complexity of bringing the site to development standard and the high number of stakeholder objectives that will need to be met.

Key Partnerships

Building Control – There is a need to review the partnership and branding to ensure it continues to improve on the single authority provider model and deliver better value for money through sharing management, skills, and experience.

Governance and Audit Committee is well established with its terms of reference complying fully with CIPFA guidance.

The key areas covered by the Committee's terms of reference are:

- accounts and financial reporting
- financial regulations
- treasury management
- internal and external audit activity
- risk management
- governance
- counter fraud and bribery
- contract procedure rules
- regulatory framework
- the ombudsman process

In addition, Committee receives annual reports on:

- Business Continuity
- Health & Safety
- Safeguarding

Follow-up on last year's key areas of focus

Last year's Annual Governance Statement identified six areas of focus and the table below sets out the action taken to address those areas:

Key area of focus identified for 2022/23	Action taken
Seek removal of the statutory housing regulator improvement notice	An improvement plan, agreed with the Regulator of Social Housing, has been implemented and the Council is now in a position of compliance in terms of landlord health and safety. Continuous improvement across all compliance areas remains a key focus. Work is ongoing to seek removal of the Regulatory Notice at the earliest opportunity.
Undertake an annual review of the Council's Constitution	Following the comprehensive review, a revised Constitution for the authority was approved and adopted by Full Council on 26 May 2022. The Monitoring Officer is required to keep the document under regular review and will report any necessary changes into the relevant Committee at the appropriate time. All Members of the Council also have the ability to highlight aspects of the Constitution which they feel require review, which would also result in consideration by the relevant Committee and presentation to Council.
Undertake a six-month assessment of the Peer Review	A six-month review of progress made against the recommendations set out in the Local Government Association Corporate Peer Challenge was undertaken in September 2022 and a revised action plan is in place to address areas identified for further areas of improvement. The Peer Review Team reported that significant progress had been made by the Council in response to the recommendations put forward in the initial report and commended the authority for the work undertaken.
Develop an action plan to respond to the Council's Scrutiny Review	An action plan, in response to the Centre for Governance and Scrutiny's final report, following its review of the Council's Overview and Scrutiny function, was endorsed by the Governance and Audit Committee on 30 January 2023 and presented to Council on 1 March 2023.
Undertake a further review of the Council's companies to ensure they are fit for purpose	Independent reviews of companies, and the services they deliver for the Council, are undertaken on a case-by-case basis. This has resulted in decisions to dissolve three of the Council's wholly owned companies.

Governance Issues

Key area of focus for 2023/24	Action Owner	Deadline
Delivery of a comprehensive induction process for newly elected and re-elected Councillors following all-out elections in May 2023	Assistant Director of Governance	To be completed by September 2023
Ensure delivery of the Scrutiny Review Action Plan	Assistant Director of Governance	December 2023
Ensure delivery of the Local Government Association Corporate Peer Challenge Action Plan	Corporate Management Team	May 2024
Governance and Audit Committee should receive training that includes a focus on conduct and best practice in what makes an effective committee	Assistant Director of Governance	Date TBC
The Council and Chairman should review the attendance for any non-committee members and consider whether their involvement at the committee supports or impairs the effectiveness of carrying out its remit	Assistant Director of Governance	Date TBC

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Contact Details

Alternative formats are available on request:
audio, large print and Braille

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SOUTH
KESTEVEN
DISTRICT
COUNCIL

SOUTH KESTEVEN DISTRICT COUNCIL

Governance and Audit Committee

24 January 2024

Report of Councillor Philip Knowles, Cabinet Member for Corporate Governance and Licensing

LeisureSK Limited – Board of Directors

Report Author

Graham Watts, Assistant Director (Governance and Public Protection) and Monitoring Officer

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Purpose of Report

The Governance and Audit Committee is requested to consider a recommendation from the Culture and Leisure Overview and Scrutiny Committee regarding a 'Vote of No Confidence' in the Board of Directors.

The Governance and Audit Committee is also requested to consider making appointments to the Board of Directors further to the resignations of Councillor James Denniston, Councillor Charmaine Morgan and South Kesteven District Council Corporate Director Nicola M^{c}Coy-Brown.

Recommendations

That the Governance and Audit Committee:

1. **Considers a 'Vote of No Confidence' in the Board of LeisureSK Ltd recommended by the Culture and Leisure Overview and Scrutiny Committee.**
2. **Considers making appointments to the Board of Directors on LeisureSK Limited to vacancies on the Board.**

3. **Recommends an amendment to the Council's Constitution, for clarity, to include the removal of Directors of Council-owned Companies under the terms of reference of the Council's Governance and Audit Committee.**

Decision Information	
Does the report contain any exempt or confidential information not for publication?	No
What are the relevant corporate priorities?	Growth and our economy Healthy and strong communities
Which wards are impacted?	All wards

1. Implications

Taking into consideration implications relating to finance and procurement, legal and governance, risk and mitigation, health and safety, diversity and inclusion, safeguarding, staffing, community safety, mental health and wellbeing and the impact on the Council's declaration of a climate change emergency, the following implications have been identified:

Finance

There are no financial implications arising from this report.

Completed by: Richard Wyles, Chief Finance Officer

Legal and Governance

1.1 It is strongly recommended that Cabinet Members or Statutory Officers of the Council are not appointed as Directors of Council-owned companies given their roles on 'Council-side' decision-making and the personal responsibilities Statutory Officers hold in the interests of the authority.

1.2 The Articles of Association for LeisureSK Ltd provide the Council with the ability to appoint and remove Directors from its Board. The Council's Constitution is silent on the removal of Directors to Council-owned companies, with provision for appointments being included within the terms of reference for the Governance and Audit Committee. There is currently no alternative provision in the Constitution to remove Directors, which is contradictory to the Articles of Association for LeisureSK Limited. Given that the Governance and Audit Committee has the power to appoint Directors, it is reasonable to expect that the Governance and Audit Committee also has the power to remove Directors in accordance with the

Articles of Association for LeisureSK Limited. To ensure clarity, the Committee is recommended to consider rectifying this in in the Council's Constitution.

1.3 The requirements of the Companies Act 2006 in respect of company Directors is set out in the body of the report.

Completed by: Graham Watts, Assistant Director (Governance and Public Protection) and Monitoring Officer

2. Background to the Report

2.1 Three vacancies have recently arisen on the Board of the Council-owned company, LeisureSK Limited, in addition to a vacancy which has not been filled by the South Kesteven Coalition Group since the beginning of the municipal year. The Governance and Audit Committee is requested to consider making appointments to fill these vacancies.

2.2 The Governance and Audit Committee is also invited to consider a 'Vote of No Confidence' in the existing Board of LeisureSK Ltd from the Culture and Leisure Overview and Scrutiny Committee.

3. Key Considerations

3.1 Councillors James Denniston, Charmaine Morgan and Nicola McCoy-Brown have resigned from the Board of LeisureSK Limited. Debbie Roberts (The Council's Head of Corporate Projects, Performance and Climate Change), who was only appointed to the Board on 29 November 2023, and David Monkhouse (Non-Executive Director) continue to oversee the operational and financial performance of the company as existing Directors. The Company is currently quorate in accordance with the provisions of the Companies Act 2006 and its own Articles of Association, which specify that at least one Director must be appointed to the Board. The quorum for meetings of Directors, where decisions can be taken relating to the Company, is two Directors.

3.2 A vacancy for a Councillor from the South Kesteven Coalition Group was still in place at the last meeting of the Governance and Audit Committee. At that meeting, a period of two weeks was provided in order for the vacancy to be filled by the SK Coalition Group via delegated authority granted to the Group Leader earlier in the year. No appointment from the South Kesteven Coalition Group was made during this period, so this vacancy remains on the Board, together with the three further vacant Director positions. This means that there are currently four vacancies on the Board.

3.3 The Governance and Audit Committee is therefore invited to consider any nominations for appointment to the Board of LeisureSK Limited.

3.4 The Council's Culture and Leisure Overview and Scrutiny Committee considered an item on LeisureSK Limited at its meeting on 9 January 2024 and agreed to submit a 'vote of no confidence' in the Board to the Governance and Audit

Committee. This was in response to a request for an additional management fee from the Council and concerns regarding the company's management and performance. The Governance and Audit Committee is invited to give due consideration to the 'Vote of No Confidence'.

3.5 It should be noted that James Denniston resigned from the Board prior to the Cultural and Leisure Overview and Scrutiny Committee's 'Vote of No Confidence', whereas Councillor Charmaine Morgan and Nicola McCoy Brown confirmed their resignations subsequent to the Overview and Scrutiny Committee.

3.6 Under the Companies Act 2006 a private company must have at least one Director. The Articles of Association for LeisureSK Ltd also specify that the minimum number of Directors for the company is one, however, a quorum for any Directors' meetings is two. In circumstances whereby a quorum cannot be achieved for a meeting of Directors, no decisions can be taken by the Directors of the company.

3.7 Should the Governance and Audit Committee take a decision to remove all Directors from the LeisureSK Ltd Board without appointing at least one Director in their place, the company will be in breach of some of the provisions of the Companies Act 2006 relating to Directors. This would make it extremely difficult for the company to be able to operate, with no Directors in place to manage the company's day to day affairs. The company would also be unlikely to be able to comply with any of its contractual or statutory obligations.

3.8 A company with no Directors would therefore be in breach of the Companies Act 2006 and the Secretary of State could make a direction under Section 156 of the Act. The direction would specify:

- The statutory requirement the company appears to be in breach of;
- What the company must do in order to comply with the direction;
- The period within which the company must comply with the direction;
- The consequences of the company failing to comply with the direction.

3.9 It should be noted that the Council's Statutory Officers would not automatically take over responsibility for the company should no Directors be appointed and it is strongly recommended that they do not intervene in the company.

4. Other Options Considered

4.1 The Governance and Audit Committee could opt not to make further appointments to the Board of LeisureSK Limited.

4.2 The Governance and Audit Committee could remove Directors from the Board of LeisureSK Limited. In such a scenario, the Committee is strongly recommended to ensure that a sufficient number of replacement Directors are appointed to ensure that the company is quorate and not in breach of the Companies Act 2006.

5. Reasons for the Recommendations

5.1 To ensure that LeisureSK Limited is properly constituted in terms of Board membership in order that it is quorate, can take decisions and operate in accordance with the Companies Act 2006 and its Articles of Association.

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