

# Auditor's Annual Report on South Kesteven District Council

2021/22 and 2022/23

January 2024



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

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



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

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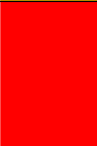
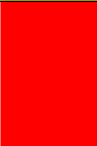


# Executive summary






## 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.

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.

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 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)

## 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 than £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 managed, 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



## 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 Council's 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 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
<b>Total Reviews</b>	<b>13</b>	<b>13</b>	<b>8</b>

# 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, and 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.

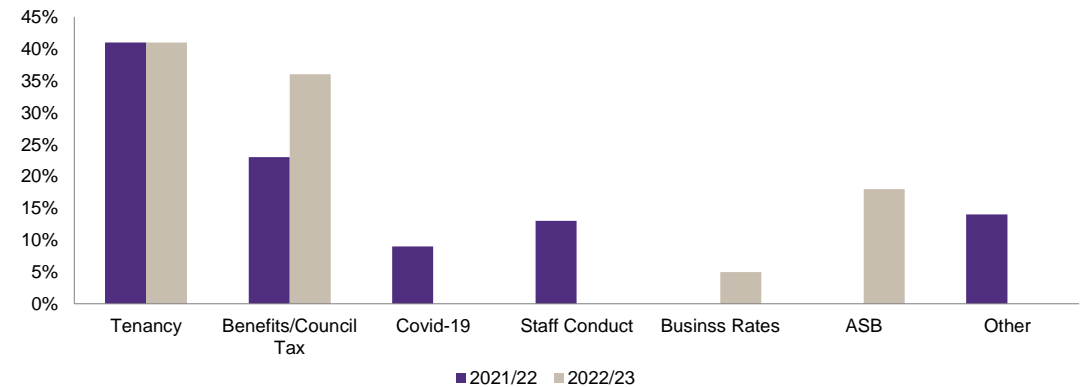
# Governance (continued)

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 were 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 hospitality 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

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 its 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



## 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 Council's first 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)

## 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 Council's 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.

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# Improving economy, efficiency and effectiveness (continued)

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## 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



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

<b>Recommendation 10</b>	We recommend that the Partnership Register is finalised and approved to be published on the Council's website.
<b>Audit year</b>	2021/22 and 2022/23
<b>Why/impact</b>	The publication of the Partnership Policy will allow for greater transparency and oversight.
<b>Auditor judgement</b>	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.
<b>Summary findings</b>	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.
<b>Management Comments</b>	The Council's Partnerships Register is finalised and available for viewing on the Council's website.

# Improvement recommendations



Improving economy, efficiency and effectiveness

<b>Recommendation 11</b>	The Council should ensure out of date policies are removed from the Council's website and replaced with current policies if available.
<b>Audit year</b>	2021/22 and 2022/23
<b>Why/impact</b>	Outdated policies can leave the Council at Risk and may not address new principles or guidance.
<b>Auditor judgement</b>	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.
<b>Summary findings</b>	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.
<b>Management Comments</b>	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: <ul style="list-style-type: none"> <li>• There should be a linkage to the Council's objectives as set out in the Corporate Plan 2020-23;</li> <li>• 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</li> <li>• Each risk has a number of actions planned but these should be SMART (specific, measurable, achievable, realistic, and timely).</li> </ul>	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 de minimus 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.

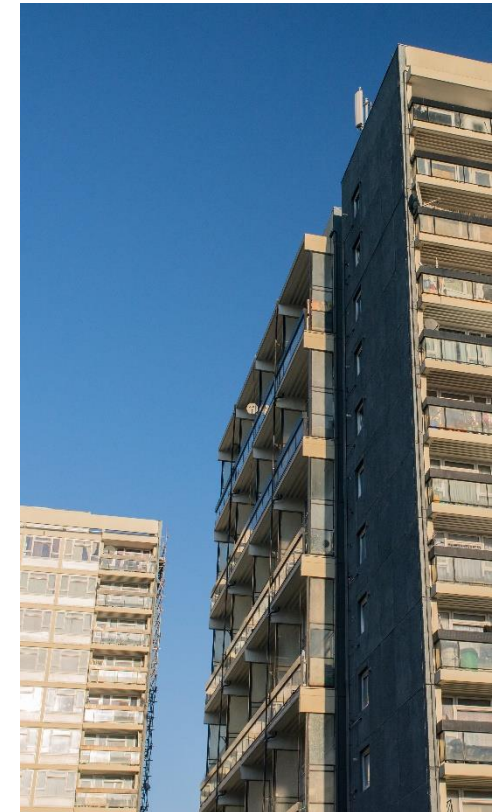
Financial statements are the main way in which local public bodies account for how they use their resources. Local public bodies are required to prepare and publish financial statements setting out their financial performance for the year. To do this, bodies need to maintain proper accounting records 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
<p><b>Statutory recommendations</b></p> <p>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</p>	We did not issue statutory recommendations in relation to 2021/22.	We did not issue statutory recommendations in relation to 2022/23.
<p><b>Public Interest Report</b></p> <p>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.</p>	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.
<p><b>Application to the Court</b></p> <p>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.</p>	We did not apply to the court in relation to 2021/22.	We did not apply to the court in relation to 2022/23.
<p><b>Advisory notice</b></p> <p>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:</p> <ul style="list-style-type: none"> <li>is about to make or has made a decision which involves or would involve the authority incurring unlawful expenditure,</li> <li>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</li> <li>is about to enter an item of account, the entry of which is unlawful.</li> </ul>	We did not issue an advisory notice in relation to 2021/22.	We did not issue an advisory notice in relation to 2022/23.
<p><b>Judicial review</b></p> <p>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.</p>	We did not apply for judicial review in relation to 2021/22.	We did not apply for judicial review in relation to 2022/23.

