

South Kesteven District Council

Value for money risk assessment

Year ended 31 March 2024

January 2025

Value for money

For 2023/24 our value for money reporting requirements have been designed to follow the guidance in the Audit Code of Practice.

Our responsibility to conclude on significant weaknesses in value for money arrangements.

The main output is a narrative on each of the three domains, summarising the work performed, any significant weaknesses and any recommendations for improvement.

We have set out the key methodology and reporting requirements on this slide and provided an overview of the process and reporting on the following pages.

Risk assessment processes

Our responsibility is to assess whether there are any significant weaknesses in the Council's arrangements to secure value for money. Our risk assessment will continue to consider whether there are any significant risks that the Council does not have appropriate arrangements in place.

In undertaking our risk assessment we will be required to obtain an understanding of the key processes the Council has in place to ensure this, including financial management, risk management and partnership working arrangements. We will complete this through review of the Council's documentation in these areas and performing inquiries of management as well as reviewing reports, such as internal audit assessments.

Reporting

Our approach to value for money reporting aligns to the NAO guidance and includes:

- A summary of our commentary on the arrangements in place against each of the three value for money criteria, setting out our view of the arrangements in place compared to industry standards;
- A summary of any further work undertaken against identified significant risks and the findings from this work; and
- Recommendations raised as a result of any significant weaknesses identified and follow up of your previous auditor's recommendations.

The Council will be required to publish the commentary on its website at the same time as publishing its annual report online.

Financial sustainability

How the body manages its resources to ensure it can continue to deliver its services.

Governance

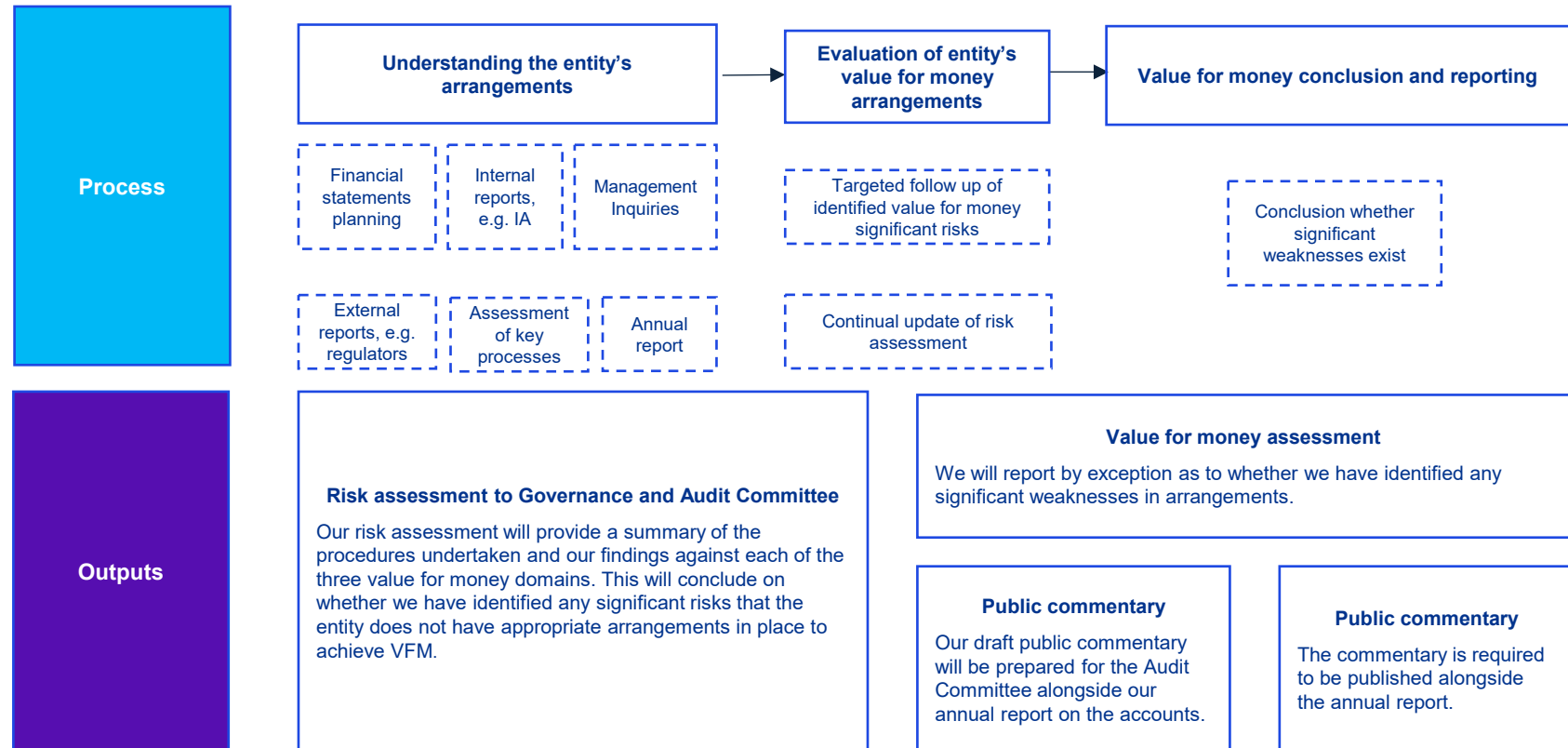
How the body ensures that it makes informed decisions and properly manages its risks.

Improving economy, efficiency and effectiveness

How the body uses information about its costs and performance to improve the way it manages and delivers its services.

Value for money

Approach we take to completing our work to form and report our conclusion:



Summary of risk assessment

Summary of risk assessment

As set out in our methodology we have evaluated the design of controls in place for a number of the Council's systems, reviewed reports from external organisations and internal audit and performed inquiries of management.

Based on these procedures the table below summarises our assessment of whether there is a significant risk that appropriate arrangements are not in place to achieve value for money at the Trust for each of the relevant domains:

Domain	Significant risk identified?
Financial sustainability	No significant risk identified.
Governance	No significant risk identified.
Improving economy, efficiency and effectiveness	No significant risk identified.

As a result of our risk assessment, we have not identified any significant risks at this stage. Details of our findings for the three domains can be found on the following pages.

We have identified a number of other recommendations and points for improvement within our risk assessment. These are all detailed in Appendix 1.

VfM risk assessment

We note that management's responses to our initial VfM risk assessment requests were delayed due to a number of competing pressures being experienced by the finance team. An introductory meeting took place during November 2023 but we were informed that the Council was still supporting the audit of the 2022/23 accounts and so the team would be unable to undertake responses to the initial VfM questions. Although an initial management questionnaire response was submitted in September 2024, further information was requested. This was delayed due to the team being focused on budget setting for 2024/25, the implementation of a new finance system and responding to the audit of the 2023/24 accounts.

The initial completed questionnaire was also lacking detailed responses in some areas and was primarily focused on financial performance. We raised our concerns with the Chief Executive and the s151 Officer and subsequent meetings were then arranged, further detailed information was provided, thus enabling us to conclude the VfM risk assessment.

Going forward, we recommend a named individual is assigned ownership of the VfM work within the Council. Their role would include oversight of the completeness of the VfM management questionnaire, collation of supporting documentation, liaison across the Council directorates to give a balanced perspective of arrangements in place, and act as the point of contact for the audit team. Recommendation 1 (Appendix 1).

Value for money arrangements

Financial sustainability

In assessing whether there was a significant risk of financial sustainability we reviewed:

- The processes for setting the 2023/24 financial plan to ensure that it is achievable and based on realistic assumptions;
- How the 2023/24 efficiency plan was developed and monitoring of delivery against the requirements;
- Processes for ensuring consistency between the financial plan set for 2023/24 and the workforce and operational plans;
- The process for assessing risks to financial sustainability;
- Processes in place for managing identified financial sustainability risks; and;
- Performance for the year to date against the financial plan

Summary of risk assessment

The budget setting process is a rolling process as part of the medium-term financial plan, this usually starts in the autumn of the previous year. For 2023/24, the preparation of the budget began in October 2022 with draft budgets approved in January 2023. A detailed timetable is agreed by Executive and Council to ensure appropriate scrutiny and challenge can occur throughout the process.

Budgets are initially prepared at a service level with budget holders producing initial expectations of requirements using their knowledge of the directorate through ongoing budget planning meetings. This is then presented to the Finance team for challenge of assumptions. Individual budget lines are analysed by finance looking at the previous three years to establish trends which are then discussed with budget holders to ensure pressures or potential savings are identified at an early stage. These savings are then incorporated into the plan. Our discussions with finance team and services identified that detailed analysis on both demographic pressures and inflationary pressures for each directorate are considered during the initial budget preparation stage. Communications take place prior to setting the budgets to allow review and challenge of any assumptions. The Budget Joint Scrutiny Overview and Scrutiny Committee provide cross party challenge of the budget and budget proposal.

Financial Performance is reported to the Finance and Economic Overview and Scrutiny Committee ahead of reporting to Cabinet on a quarterly basis. Forecasts are developed with budget holders using year to date performance and commitments to help inform the forecasting. The Finance team meet with budget holders to agree forecast outturn positions these are then agreed with Directors. These are detailed through the quarterly monitoring reports. The overall position is then presented to the S151 Officer for agreement prior to reporting to Members.

For 2023-24, the Council set a balanced budget, with a planned use of £1,534k from the Budget Stabilisation Reserve. Throughout the year there were lower than expected adjustments to budget however the Council ultimately reported a net underspend of £1,958k against the adjusted budget with no need to use the Budget Stabilisation Reserve. The key drivers of these positive movements in the forecast were an underspend on Utilities (£757k) and Fuel (£173k) driven by lower than expected increases and improved investment income (£832k) due to higher interest rates. Overall, the Council is expecting closing General Fund reserves of £25.3m, which is above the Council's stated prudent minimum.

Value for money arrangements

Financial sustainability

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- How the 2023/24 efficiency plan was developed and monitoring of delivery against the requirements;
- Processes for ensuring consistency between the financial plan set for 2023/24 and the workforce and operational plans;
- The process for assessing risks to financial sustainability;
- Processes in place for managing identified financial sustainability risks; and;
- Performance for the year to date against the financial plan

The Council's budget for 2023-24 included the requirement to deliver savings of £600k. Savings plans are developed as part of the overall budget setting process and therefore encounter the same levels of challenge, scrutiny and approval as the budget. Actions were identified where there were risks in financial performance for each service through the year. Savings are not separately reported but key savings identified in year are detailed in the reporting on significant variances to budget, for example, as a result of the corporate restructure. This demonstrates the Council's arrangements are operating effectively however we have raised a recommendation in relation to savings. There will be increased financial pressures in 2024/25 with a focus on achieving specific savings therefore we recommend management consider separately monitoring achievements against savings targets as part of quarterly financial reporting (Recommendation 2 in Appendix 1).

Under the medium-term financial plan, the Council has identified outstanding savings total for 2024/25 and 2025/26. Overall, as per the Corporate plan to 2027, the Council has identified a savings requirement of £1.15m. The objectives of the corporate plan, including key capital projects, are identified within the budget setting process to ensure consistency.

The Council's Risk Management Policy details a clear process and reporting structure in how the entity is to respond and manage risks. Various risks relating to financial sustainability have been identified by the Council including risks related to future financial deficits, continued inflationary pressures and requirement to fund capital projects. Actions identified to mitigate these include regular monitoring of overspend and use of sensitivity to identify worst case scenarios for inflation. The Council has also identified savings plans and is modelling the impact of any borrowing that might be undertaken.

The Council continues to support its wholly owned subsidiary Leisure SK Ltd. Leisure SK was in a deficit position through 2023/24 due to increased staff costs, utilities and an issue around irrecoverable VAT. In January 2024 subsidiary management requested an additional contribution from the Council of £273k. This was brought to the Culture and Leisure Overview and Scrutiny Committee in January 2024 and approved by Cabinet in February 2024. As part of this decision, Cabinet requested management prepare a viable financial plan for 2024/25 that would put the company on a sustainable footing, this would then undergo an independent review. We have identified a recommendation in relation to Leisure SK, to ensure the Council has appropriate oversight of the subsidiary to avoid unplanned financial contributions. This could include training for Directors appointed to Leisure SK board from the Council members. (Recommendation 3 in Appendix 1).

Risk assessment conclusion

Based on the risk assessment procedures performed to date, we have not identified a significant risk associated with financial sustainability.

Value for money arrangements

Governance

In assessing whether there was a significant risk relating to governance we reviewed:

- Processes for the identification, monitoring and management of risk;
- Controls in place to prevent and detect fraud;
- The review and approval of the 2023/24 financial plan by the Authority, including how financial risks were communicated;
- Processes for monitoring performance against budgets and taking actions in response to adverse variances;
- How compliance with laws and regulations is monitored;
- Processes in place to monitor officer compliance with expected standards of behaviour, including recording of interests, gifts and hospitality; and
- How the Authority ensures decisions receive appropriate scrutiny.

Summary of risk assessment

- Risks are identified in line with the Council's Risk Management Strategy. There are several levels of risk management identified - Strategic, Service and Project – and these are monitored through regular review by the register owners, Corporate Management Team (CMT), Heads of Service and Governance and Risk Officer. Assessing the impact and likelihood of each risk is done through a matrix which uses a likelihood/impact model to calculate a risk score. The score is assigned as per the strategy guidance. Challenge comes through a range of officer involvement through project boards. Support is also bought in from the Risk Management Group as required to provide further support and challenge.
- The Strategic risk register is presented to Governance and Audit Committee twice a year for review. As at 31 March 2024, there were 15 risks contained within the strategic risk register; 12 were rated high (almost certain/critical) and 3 were rated medium (probable/major). The development of actions is completed using the risk management framework guidance. Actions use the Treat, Tolerate, Transfer, Terminate matrix to evaluate responses to the risk depending on the severity and likelihood. Monitoring is undertaken through either project management teams or boards. When reported to Governance and Audit committee, members are asked to consider the register and report any comments/issues to CMT and Cabinet who also receive the register. Committee reports for all key decisions are mandated to set out the key risk associated with the proposed decision.
- The Council undertake a number of measures to prevent and detect fraud. There is a Counter Fraud policy and strategy which complies with the requirements of the Code, this sets out key actions for the Council to ensure compliance. We note a review is currently underway of the policy and strategy. The Council also receives assurance through the work of internal audit, and all staff are required to complete the e-learning on fraud which is held centrally. An annual fraud report is presented to the Governance and Audit Committee including the counter fraud action plan and fraud risk register.
- The 2023/24 financial plan, as part of the medium-term financial plan, went through several levels of review prior to approval by the Council in March 2023. The financial plan includes a risk assessment of the key financial risks that the Council faces over the period. These risks are modelled to include increased utility and fuel costs, impact of national pay award, changes to council tax base, business rates base, interest rates etc. The analysis identifies a likelihood percentage and risk value amount, with a worst-case scenario impact on the current reserves.

Value for money arrangements

Governance

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 - Processes for monitoring performance against budgets and taking actions in response to adverse variances;
 - How compliance with laws and regulations is monitored;
 - Processes in place to monitor officer compliance with expected standards of behaviour, including recording of interests, gifts and hospitality; and
 - How the Authority ensures decisions receive appropriate scrutiny.
- Financial performance is monitored against budget regularly as outlined in the Financial Sustainability section. As part of reporting to Overview and Scrutiny Committee, variances against budget are clearly identified and explained. Any mitigating actions are also identified. During 2023/24 the Council has been able to manage increases in costs with increased investment income and car park income to mitigate the need for using the Budget Stabilisation Reserve.
 - The Monitoring Officer is responsible for monitoring compliance with all relevant/applicable legal requirements. All Executive reports are subject to mandatory consultation with the Chief Executive, Section 151 Officer and Monitoring Officer. Where required Executive Reports are supported by Equality Impact Assessments. Management inquiries have confirmed there have been no breaches of legislation or regulatory standards that has led to an investigation by any legal or regulatory body during the year.
 - The Council's Code of Conduct communicates values and expected behaviours of staff and Council members, this is covered through the Code of Conduct and Disciplinary Policy. This is communicated to staff as part of the recruitment process and is available on the staff intranet. This also covers requirements with regard to gifts and hospitality and the register of interests. There are a number of other policies available to view on the Council's website as well as the Constitution which details the Terms of Reference for each committee and the responsibilities of key officers.
 - We reviewed a number of key decisions made by the Council in year to assess the effectiveness of the arrangements in place. Key decision making is subject to discussion and scrutiny at executive team level and relevant sub-committees such as Governance and Audit and Overview and Scrutiny, followed by formal approval by the Council. All key decision records are available to view on the Council's website.
 - One such decision was to sell land at St Martin's Park. The Council purchased this land in 2019 as part of it's economic development strategy. A demolition programme commenced in 2022 to remove the former factory on the site. This identified significantly higher levels of remediation work than initially planned for and as a result the costs of restoring the site was seen as a financial risk. In October 2023, the Council engaged an independent Valuer to perform an options appraisal of the project. These were presented to the Finance and Economic Overview and Scrutiny Committee in January 2024 and recommendations were sent to Cabinet for approval in February 2024.

Value for money arrangements

Governance

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- Processes for the identification, monitoring and management of risk;
- Controls in place to prevent and detect fraud;
- The review and approval of the 2023/24 financial plan by the Authority, including how financial risks were communicated;
- Processes for monitoring performance against budgets and taking actions in response to adverse variances;
- How compliance with laws and regulations is monitored;
- Processes in place to monitor officer compliance with expected standards of behaviour, including recording of interests, gifts and hospitality; and
- How the Authority ensures decisions receive appropriate scrutiny.

- The decision was taken by the Council to proceed with the disposal of the land and a number of actions were agreed to ensure the overall project would be delivered. This would help mitigate the deficit on the project. We have identified a recommendation for management to undertake a 'lessons learnt' exercise following the sale of the land focusing on the need for completing appropriate due diligence for similar transactions. (Recommendation 4 in Appendix 1).
- The Council had also made key decisions in year in relation to new IT projects with a new Housing and Finance system due to be introduced in year.
 - From inquiries with the housing team we confirmed there was a project plan in place for the delivery of the project, with weekly meetings to ensure actions on each area were progressing. The go-live date for this project was January 2024 and no significant issues were identified in the initial roll-out. Some issues were noted in relation to the reporting from the system and this was one of the contributing factors in the delay in production of the Council's statement of accounts.
 - The Council had planned to implement a new finance system from April 2024, however a decision was made to postpone this to April 2025 due to changes in key finance team members, to enable the Council to engage specialist support for the roll-out to mitigate any risks. It is also a lower risk if a new system is implemented at the commencement of the new financial year. The Council extended the software licence for its existing finance system and the additional cost was approved as part of the 2024/25 budget. We recommend the Council ensures there is appropriate project management in place to introduce the new finance system for the planned April 2025 go-live and avoid any further delay and associated cost (recommendation 5 in Appendix 1).
- During the year, there have been some changes in senior staffing. The Interim Director of Housing left in October 2023, with the Chief Executive taking on this role until March when the Deputy s151 officer at the time seconded to the Housing role. An interim replacement was appointed to the Deputy s151 role. The Council has subsequently confirmed the Housing Director position and a permanent replacement for s151 has been agreed.
- The change in the finance team impacted on the production of the draft annual statement of accounts, and they were published in September 2024 rather than the planned May 2024 deadline. We recommend management review the accounts production processes and timetable for 2024/25 to ensure they have necessary capacity to meet the regulatory deadline and reporting timetable (Recommendation 6 in Appendix 1).

Risk assessment conclusion

Based on the risk assessment procedures performed to date, we have not identified a significant risk associated with governance.

Value for money arrangements

Improving economy, efficiency and effectiveness

In assessing whether there was a significant risk relating to improving economy, efficiency and effectiveness we reviewed:

- The processes in place for assessing the level of value for money being achieved and where there are opportunities for these to be improved;
- How the performance of services is monitored and actions identified in response to areas of poor performance;
- How the Council has engaged with other stakeholder and wider partners in development of the organisation;
- How the performance of those partnerships is monitored and reported; and
- The monitoring of outsourced services to verify that they are delivering expected standards.

Summary of risk assessment

- We note that the Council takes part in national benchmarking exercises but does not routinely use benchmarking in reviewing performance. The Council does have processes in place to support it in using information about costs, through financial monitoring, and performance to improve the way services are managed and delivered, with a focus on the level of value for money being achieved. This is reported quarterly through Overview and Scrutiny Committee and Cabinet.
- The Council reviews its corporate performance measures as part of the three-year Corporate Plan through a target setting process. The process is co-ordinated by the Corporate Management team, with input from all directorates. Target setting incorporates benchmarking, assessment of local conditions, and national indicators/reporting requirements.
- The Council's performance framework is driven by the Corporate Plan priorities: Healthy & Strong Communities, Growth & Our economy and High Performing Council. The most recent performance reports is that for Q4, with monitoring of actions split across the different Overview and Scrutiny Committees. The Finance and Economic committee had 22 actions. Of those within Council control, 17 had been achieved and 1 was outstanding – this related to investment in new leisure centres. For those deemed either substantially or significantly outside Council control 1 had been achieved and 3 were outstanding – these related to delivery of St Martin's Park development scheme, opening of the University Centre in Grantham and the opening of the Grantham Southern relief road.
- The Finance and Economic Overview and Scrutiny committee also reviews financial performance on a quarterly basis and this covers key services, helping to identify any services off target and what actions are being taken to address/mitigate the financial risks. Quarterly reports are also presented to the Cabinet.
- The Council has a number of key partnerships to help deliver support and services, such as the Building Control Partnership with Newark and Sherwood District Council and Rushcliffe Borough Council, where a partnership agreement is in place and performance is monitored through this arrangement. The council also has an collaboration agreement in place with Burghley Land Ltd in relation to the land at St Martin's park. There is a partnership policy that details the governance framework for partnership working and all partnerships are recorded in the partnerships register held by Governance team. Monitoring is performed through reporting through relevant Overview and Scrutiny committees.

Value for money arrangements

Improving economy, efficiency and effectiveness

In assessing whether there was a significant risk relating to improving economy, efficiency and effectiveness we reviewed:

- The processes in place for assessing the level of value for money being achieved and where there are opportunities for these to be improved;
- How the performance of services is monitored and actions identified in response to areas of poor performance;
- How the Council has engaged with other stakeholder and wider partners in development of the organisation;
- How the performance of those partnerships is monitored and reported; and
- The monitoring of outsourced services to verify that they are delivering expected standards.

- The Council engages with key stakeholders to help develop the Council as an organisation. There have been numerous consultation with the public around Community Governance in year and Council tax and rate payers were consulted on proposed changes. In preparing the Council's Corporate Plan, residents are encouraged to comment on the Council's priorities, for example in relation to sustainability. Response rates are published in the plan and the 2023/24 narrative report to the accounts.
- The Council has robust arrangements in place to deal with residents' complaints, FOI requests, Subject Access Requests, data breaches and whistleblowing allegations. The Council also engages with other local partners such as Legal Services Lincolnshire, Lincolnshire Police, Lincolnshire County Council. We note there has been no outsourcing of services in year.

Risk assessment conclusion

Based on the risk assessment procedures performed to date, we have not identified a significant risk associated with improving economy, efficiency and effectiveness.

Recommendations

We raised the following recommendations as part our value for money risk assessment procedures.

#	Recommendation	Management Response
1	<p>Management response to VfM</p> <p>We note that managements response to our initial VfM risk assessment requests was significantly delayed – the process was initially started in November 2023 but we were only able to start our detailed review from October 2024 onwards due to delayed receipt of the completed management questionnaire and supporting documentation. The completed questionnaire was also was lacking sufficient detail, in-depth responses and was focused on financial performance. Thus, the opportunity for the Council to promote itself and share insight on good examples of VFM arrangements was lost somewhat.</p> <p>We recommend a named individual is assigned ownership of the VfM work within the Council. Their role would include oversight of the completeness of the VfM management questionnaire, collation of supporting documentation, liaison across the Council directorates to give a balanced perspective of arrangements in place, and act as the point of contact for the audit team.</p>	<p>Response: The Council's s151 Officer will be the primary contact for receiving and coordinating the response to the VFM and liaising with colleagues to ensure a comprehensive response.</p> <p>Officer responsible: s151 Officer</p> <p>Action Date: April 2025</p>
2	<p>Reporting on financial savings</p> <p>We recognise that there will be significant financial pressures in future years due to cost pressures and we expect the Council will have a greater focus on achieving specific savings to meet its financial targets, as identified in the Corporate plan. Currently we note that while savings are highlighted within quarterly financial reporting, achievement is not separately reported against savings plans.</p> <p>We recommend management consider separately monitoring achievements against savings targets as part of quarterly financial reporting to better understand the effectiveness of Council's savings plans.</p>	<p>Response: There is currently no savings built into the 2024/25 budget framework. However, should there be savings built into future budgets, then appropriate monitoring will be put in place.</p> <p>Officer responsible: s151 Officer</p> <p>Action Date: n/a</p>
3	<p>Leisure SK Ltd</p> <p>The Council as parent company has overall responsibility for the governance and performance of its subsidiary Leisure SK. Due to Leisure SK's financial difficulties in recent years, its management had to request additional unplanned contribution from the Council for 23/24. We note that Leisure SK also had significant changes in its Board of Directors through the year with a number of directors resigning and being replaced.</p> <p>We recommend the Council takes measures to ensure it has appropriate oversight of the subsidiary to avoid unplanned financial contributions and become help the company become financially sustainable. This could include tailored training for Directors appointed to Leisure SK board (from Council members) to improve their understanding of the company's financial position and performance.</p>	<p>Response: An action plan has already been put in place following the request for additional funding to further strengthen the governance and financial controls.</p> <p>Officer responsible: s151 Officer</p> <p>Action Date: January 2025</p>

Recommendations

We raised the following recommendations as part our value for money risk assessment procedures.

#	Recommendation	Management Response
4	<p>St Martin's Park land purchase</p> <p>The purchase of the land at St Martin's Park in 2019 and subsequent identification of unplanned remediation costs posed a significant financial impact to the Council. The Council engaged external independent commercial assets consultants to detail options on the way forward to ensure the project was delivered and would meet the agreed objectives, including the mitigation of the deficit on the project. These were presented to the Council in February 24 and actions agreed.</p> <p>We recommend management undertake a 'lessons learnt' exercise following the sale of the land at St Martin's Park, focusing on the need for completing appropriate due diligence for similar transactions.</p>	<p>Response: A lessons learnt report will be undertaken once the project has been successfully completed.</p> <p>Officer responsible: s151 Officer</p> <p>Action date: June 2025</p>
5	<p>Implementation of new finance system</p> <p>The Council made the decision in year to delay the introduction of a new finance system (Unit 4) and have proposed a go-live date in April 2025. This will be a significant piece of work at a time when there have been changes in senior staff.</p> <p>We recommend the Council ensures there is appropriate project management in place to introduce the new finance system for the planned April 2025 date and avoid any further delay and associated cost.</p>	<p>Response: Robust project management is already in place and the Council has further strengthened this by engaging with an external project management consultancy firm to ensure successful system implementation of April 2025.</p> <p>Officer responsible: s151 Officer</p> <p>Action date: January 2025</p>
6	<p>Accounts preparation</p> <p>The change in the finance team impacted on the production of the annual statement of accounts for 2023/24, and they were published in draft in September 2024 rather than the planned May 2024 deadline.</p> <p>We recommend management review the accounts production processes and timetable for 2024/25 to ensure they have necessary capacity to meet the regulatory deadline and reporting timetable</p>	<p>Response: The timetabling and resource allocation for the closure and preparation of the draft 2024/25 accounts is already in place and interim support has also been implemented.</p> <p>Officer responsible: s151 Officer</p> <p>Action date: January 2025</p>