



# Auditor's Annual Report for North Kesteven District Council

Year-ended 31 March 2024

19 December 2024

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This report is addressed to North Kesteven District Council (the Council). We take no responsibility to any member of staff acting in their individual capacities, or to third parties.

External auditors do not act as a substitute for the audited body's own responsibility for putting in place proper arrangements to ensure that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.

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**01**

# **Executive Summary**

# Executive Summary

## Purpose of the Auditor's Annual Report

This Auditor's Annual Report provides a summary of the findings and key issues arising from our 2023-24 audit of North Kesteven District Council (the 'Council'). This report has been prepared in line with the requirements set out in the Code of Audit Practice published by the National Audit Office and is required to be published by the Council alongside the annual report and accounts.

## Our responsibilities

The statutory responsibilities and powers of appointed auditors are set out in the Local Audit and Accountability Act 2014. In line with this we provide conclusions on the following matters:



**Accounts** - We provide an opinion as to whether the accounts give a true and fair view of the financial position of the Council and of its income and expenditure during the year. We confirm whether the accounts have been prepared in line with the CIPFA/LASSAC Code of Practice in Local Authority Accounting ('the Code').



**Narrative report** - We assess whether the narrative report is consistent with our knowledge of the Council.



**Value for money** - We assess the arrangements in place for securing economy, efficiency and effectiveness (value for money) in the Council's use of resources and provide a summary of our findings in the commentary in this report. We are required to report if we have identified any significant weaknesses as a result of this work.



**Other powers** - We may exercise other powers we have under Local Audit and Accountability Act. These include issuing a Public Interest Report, issuing statutory recommendations, issuing an Advisory Notice, applying for a judicial review, or applying to the courts to have an item of expenditure declared unlawful.

In addition to the above, we respond to valid objections received from electors.

## Findings

We have set out below a summary of the conclusions that we provided in respect of our responsibilities.

<b>Accounts</b>	<p>We issued an unqualified opinion on the Council's accounts on 19 December. This means that we believe the accounts give a true and fair view of the financial performance and position of the Council.</p> <p>We have provided further details of the key risks we identified and our response on pages 8 to 12.</p>
<b>Narrative report</b>	<p>We did not identify any significant inconsistencies between the content of the narrative report and our knowledge of the Council.</p>
<b>Value for money</b>	<p>We are required to give an opinion as to whether the Council has appropriate arrangements in place to secure economy, efficiency, and effectiveness in the use of resources.</p> <p>Our opinion is that the Council does have appropriate arrangements in place. We identified no significant weaknesses in respect of arrangements to secure economy, efficiency, and effectiveness in the use of resources. Further details are set out on page 13.</p>
<b>Other powers</b>	<p>See overleaf.</p>

# Executive Summary

There are several actions we can take as part of our wider powers under the Local Audit and Accountability Act:

## Public interest reports

We may issue a Public Interest Report if we believe there are matters that should be brought to the attention of the public.

If we issue a Public Interest Report, the Council is required to consider it and to bring it to the attention of the public.

**We have not issued a Public Interest Report this year.**

## Judicial review/Declaration by the courts

We may apply to the courts for a judicial review in relation to an action the Council is taking. We may also apply to the courts for a declaration that an item of expenditure the Council has incurred is unlawful.

**We have not applied to the courts this year.**

## Recommendations

We can make recommendations to the Council. These fall into two categories:

1. We can make a statutory recommendation under Schedule 7 of the Local Audit and Accountability Act. If we do this, the Council must consider the matter at a general meeting and notify us of the action it intends to take (if any). We also send a copy of this recommendation to the relevant Secretary of State.
2. We can also make other recommendations. If we do this, the Council does not need to take any action, however should the Council provide us with a response, we will include it within this report.

**We made no recommendations under Schedule 7 of the Local Audit and Accountability Act.**

**We have not raised any other recommendations.**

## Advisory notice

We may issue an advisory notice if we believe that the Council has, or is about to, incur an unlawful item of expenditure or has, or is about to, take a course of action which may result in a significant loss or deficiency.

If we issue an advisory notice, the Council is required to stop the course of action for 21 days, consider the notice at a general meeting, and then notify us of the action it intends to take and why.

**We have not issued an advisory notice this year.**

In addition to these powers, we can make performance improvement observations to make helpful suggestions to the Council. Where we raise observations we report these to management and the Audit Committee. The Council is not required to take any action to these, however it is good practice to do so and we have included any responses that the Council has given us.

**02**

# **Audit of the financial statements**

# Audit of the financial statements

## **KPMG provides an independent opinion on whether the North Kesteven District Council's financial statements:**

- Give a true and fair view of the financial position of the Group and Council as at 31 March 2024 and of the Group's and the Council's income and expenditure for the year then ended; and
- Have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2023/24.

We conduct our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. We also fulfil our ethical responsibilities under, and ensure we are independent of the Group in accordance with, UK ethical requirements including the FRC Ethical Standard. We are required to ensure that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

## **Our audit opinion on the financial statements**

We have issued an unqualified opinion on the Group financial statements on 19 December 2024.

The full audit report is included in the Council's Annual Report and Accounts for 2023/24 which can be obtained from the Council's website.

Further information on our audit of the financial statements is set out overleaf.

# Audit of the financial statements

The table below (and up to page 11) summarises the key financial statement audit risks that we identified to our audit opinion as part of our risk assessment and how we responded to these through our audit.

Significant financial statement audit risk	Procedures undertaken	Findings
<p><b>Valuation of Land and Buildings</b></p> <p><b>The carrying amount of revalued Land and Building differs materially from the fair value.</b></p> <p>The Council own Council Dwellings with a value of £183m as at 31 March 2023, Other Land and Buildings of £29m which the Code require are subject to revaluation. Their year end carrying value should reflect the appropriate current value at that date.</p> <p>Any asset valuation carries with it risks of estimation uncertainty. The Council's revaluation plan is designed to cover all assets over a 5 year period. This creates a further risk that the carrying value of assets not revalued in year differs materially from the year end current fair value.</p> <p>The size of the land and buildings balance relative to our expected materiality means that the risk of a material difference between carrying value and fair value is increased.</p>	<ul style="list-style-type: none"> <li>• We critically assessed the independence, objectivity and expertise of the Valuer management used in developing the valuation of the Council's properties at 31 March 2024;</li> <li>• We inspected the instructions issued to the valuers for the valuation of land and buildings to verify they are appropriate to produce a valuation consistent with the requirements of the CIPFA Code.</li> <li>• We compared the accuracy of the data provided to the valuers for the development of the valuation to underlying information;</li> <li>• We evaluated the design and implementation of controls in place for management to review the valuation and the appropriateness of assumptions used;</li> <li>• We challenged the appropriateness of the valuation of land and buildings; including any material movements from the previous revaluations. We challenged key assumptions within the valuation as part of our judgement;</li> <li>• We agreed the calculations performed of the movements in value of land and buildings and verify that these have been accurately accounted for in line with the requirements of the CIPFA Code;</li> <li>• We utilised our own valuation specialists to risk assess the valuation report prepared by the Council's valuers to confirm the appropriateness of the methodology utilised;</li> <li>• We critically challenged the Council's judgements why the assets not revalued in year are still carried at fair value at 31 March 2024; and</li> <li>• We considered the adequacy of the disclosures concerning the key judgements and degree of estimation involved in arriving at the valuation.</li> </ul>	<p>We did not identify any material misstatements relating to this risk.</p> <p>We considered the estimate to be balanced based on the procedures performed.</p> <p>Auditing standards require auditors to identify a management review control where there is a significant audit risk. In the case of the valuation of land and buildings we were not able to identify a management review control and raised a recommendation in this area.</p>



# Audit of the financial statements

Significant financial statement audit risk	Procedures undertaken	Findings
<p><b>Valuation of Investment Property (Group only)</b></p> <p><b>The carrying value of revalued Investment Property differs materially from the fair value.</b></p> <p>The Code defines an investment property as one that is used solely to earn rentals or for capital appreciation or both. The Council wholly owns a market rental housing company, Lafford Homes Limited which carries Tangible Assets, Investment Property of £18.9m as at 31 March 2023.</p> <p>On consolidation into the North Kesteven District Council Group accounts, these assets are classified as Investment Properties and per the Code require an annual valuation to reflect the current market valuation.</p> <p>The Investment properties held are all freehold property available to rent. Significant judgement and estimation is required to assess fair value, thus there is a risk that the value is materially misstated.</p>	<ul style="list-style-type: none"> <li>• We critically assessed the independence, objectivity and expertise of the Valuer management used in developing the valuation of the Group’s investment property at 31 March 2024;</li> <li>• We inspected the instructions issued to the valuers to verify they are appropriate to produce a valuation consistent with the requirements of the CIPFA Code;</li> <li>• We compared the accuracy of the data provided to the valuers for the development of the valuation to underlying information;</li> <li>• We evaluated the design and implementation of controls in place for management to review the valuation and the appropriateness of assumptions used;</li> <li>• We challenged the appropriateness of the valuation; including any material movements from the previous revaluations. We challenged key assumptions within the valuation as part of our judgement;</li> <li>• We agreed the calculations performed of the movements and verify that these have been accurately accounted for in line with the requirements of the CIPFA Code;</li> <li>• We utilised our own valuation specialists to inform our risk assessment and to review the valuation report prepared by the Council’s valuers to confirm the appropriateness of the methodology utilised; and</li> <li>• We considered the adequacy of the disclosures concerning the key judgements and degree of estimation involved in arriving at the valuation.</li> </ul>	<p>We did not identify any material misstatements relating to this risk.</p> <p>The disclosures around the investment properties were enhanced following the audit.</p> <p>We considered the estimate to be optimistic based on the procedures performed due to the Individual Market Value approach being used.</p> <p>Auditing standards require auditors to identify a management review control where there is a significant audit risk. In the case of the valuation of investment property we were not able to identify a management review control and raised a recommendation in this area.</p>

# Audit of the financial statements

Significant financial statement audit risk	Procedures undertaken	Findings
<p><b>Valuation of Post Retirement benefit obligations</b></p> <p><b>An inappropriate amount is estimated and recorded for the defined benefit pension obligations</b></p> <p>The valuation of the post retirement benefit obligations involves the selection of appropriate actuarial assumptions, most notably the discount rate applied to the scheme liabilities, inflation rates and mortality rates. The selection of these assumptions is inherently subjective and small changes in the assumptions and estimates used to value the Council's pension liability could have a significant effect on the financial position of the Council.</p> <p>The effect of these matters is that, as part of our risk assessment, we determined that post retirement benefits obligation has a high degree of estimation uncertainty.</p>	<ul style="list-style-type: none"> <li>• We understand the processes the Council have in place to set the assumptions used in the valuation;</li> <li>• Evaluated the competency, objectivity of the actuaries to confirm their qualifications and the basis for their calculations;</li> <li>• Performed inquiries of the accounting actuaries to assess the methodology and key assumptions made, including actual figures where estimates have been used by the actuaries, such as the rate of return on pension fund assets;</li> <li>• Agreed the data provided by the audited entity to the Scheme Administrator for use within the calculation of the scheme valuation;</li> <li>• Evaluated the design and implementation of controls in place for the Council to determine the appropriateness of the assumptions used by the actuaries in valuing the liability;</li> <li>• Challenged, with the support of our own actuarial specialists, the key assumptions applied, being the discount rate, inflation rate and mortality/life expectancy against externally derived data;</li> <li>• Confirmed that the accounting treatment and entries applied by the Group are in line with IFRS and the CIPFA Code of Practice;</li> <li>• Considered the adequacy of the Council's disclosures in respect of the sensitivity of the deficit or surplus to these assumptions; and</li> <li>• Assessed the level of surplus that should be recognised by the entity.</li> </ul>	<p>We did not identify any material misstatements relating to this risk.</p> <p>We have assessed the level of surplus recognizable and agree with management's view of the asset ceiling and the presentation of this and the minimum funding requirement.</p> <p>We have assessed the overall assumptions used by management as balanced relative to our central rates and within our reasonable range. All of the individual assumptions were also balanced and within our reasonable range</p> <p>Auditing standards require auditors to identify a management review control where there is a significant audit risk. In the case of the valuation of post retirement benefit obligations we were not able to identify a management review control and raised a recommendation in this area.</p>

# Audit of the financial statements

Significant financial statement audit risk	Procedures undertaken	Findings
<p><b>Management Override of Controls</b></p> <p><b>Professional standards require us to communicate the fraud risk from management override of controls as significant.</b></p> <p>We have not identified any specific additional risks of management override relating to this audit.</p>	<ul style="list-style-type: none"> <li>Assessed accounting estimates for biases by evaluating whether judgements and decisions in making accounting estimates, even if individually reasonable, indicate a possible bias.</li> <li>Evaluated the selection and application of accounting policies.</li> <li>In line with our methodology, evaluated the design and implementation of controls over journal entries and post closing adjustments.</li> <li>Assessed the appropriateness of changes compared to the prior year to the methods and underlying assumptions used to prepare accounting estimates.</li> <li>Assessed the business rationale and the appropriateness of the accounting for significant transactions that are outside the component’s normal course of business, or are otherwise unusual.</li> <li>We analysed all journals through the year using data and analytics and focus our testing on those with a higher risk, such as journals impacting expenditure recognition posted during the final close down.</li> </ul>	<p>We did not identify any material misstatements relating to this risk.</p> <p>We did not identify any significant unusual transactions.</p> <p>Auditing standards require auditors to identify a management review control where there is a significant audit risk. We were not able to identify a management review control that addressed this significant risk and we have raised a recommendation.</p>
<p><b>Fraud risk from expenditure recognition</b></p> <p><b>Practice Note 10 states that the risk of material misstatement due to fraudulent financial reporting may arise from the manipulation of expenditure recognition is required to be considered.</b></p> <p>The Council has a statutory duty to balance their annual budget. Where budgets are underspent there could be a potential incentive for budget holders to accrue to budget, thus a fraud risk to record inappropriate expenditure in 2023-24.</p>	<ul style="list-style-type: none"> <li>We evaluated the design and implementation of controls for accruing expenditure at 31 March 2024; and</li> <li>We tested the accrued expenditure as at 31 March 2024 to confirm the existence of expenditure for the year ended 31 March 2024.</li> </ul>	<p>We did not identify any material misstatements relating to this risk.</p> <p>Auditing standards require auditors to identify a management review control where there is a significant audit risk. We were not able to identify a management review control that addressed this significant risk and we have raised a recommendation.</p>

**03**

# **Value for Money**

# Value for Money

## Introduction

We are required to consider whether the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources or ‘value for money’. We consider whether there are sufficient arrangements in place for the Council for the following criteria, as defined by the National Audit Office (NAO) in their Code of Audit Practice:



**Financial sustainability:** How the Council plans and manages its resources to ensure it can continue to deliver its services.



**Governance:** How the Council ensures that it makes informed decisions and properly manages its risks.



**Improving economy, efficiency and effectiveness:** How the Council uses information about its costs and performance to improve the way it manages and delivers its services

## Approach

We undertake risk assessment procedures in order to assess whether there are any risks that value for money is not being achieved. This is prepared by considering the findings from other regulators and auditors, records from the organisation and performing procedures to assess the design of key systems at the organisation that give assurance over value for money.

Where a significant risk is identified we perform further procedures in order to consider whether there are significant weaknesses in the processes in place to achieve value for money.

We are required to report a summary of the work undertaken and the conclusions reached against each of the aforementioned reporting criteria in this Auditor’s Annual Report. We do this as part of our commentary on VFM arrangements over the following pages.

We also make recommendations where we identify weaknesses in arrangements or other matters that require attention from the Council. We make performance improvement observations where we identify opportunities to improve in areas where we have not identified any weaknesses.

## Summary of findings

	Financial sustainability	Governance	Improving economy, efficiency and effectiveness
<b>Commentary page reference</b>	14	17	20
<b>Identified risks of significant weakness?</b>	x No	x No	x No
<b>Actual significant weakness identified?</b>	x No	x No	x No
<b>2022-23 Findings (predecessor auditor)</b>	No significant weakness identified	No significant weakness identified	No significant weakness identified
<b>Direction of travel</b>	↔	↔	↔

# Value for Money

## National context

We use issues affecting Councils nationally to set the scene for our work. We assess if the issues below apply to this Council.

### Financial performance

Over recent years, Councils have been expected to do more with less. Central government grants have been reduced, and the nature of central government support has become more uncertain in timing and amount. This has caused Councils to cut services and change the way that services are delivered in order to remain financially viable.

Some Councils have initiated innovative plans to raise new funds, such as through increasing commercial activity. Examples have included purchasing commercial assets such as shops and offices with a view to generate rental income, others have set up novel joint ventures to deliver regeneration schemes. Some have questioned whether commercialisation activities open Councils to excessive risk or could be a poor use of taxpayer monies.

Some Councils have issued what are known as “section 114” notices, in this instance a declaration that they cannot generate sufficient resources to meet the costs they need to incur. In some instances, this has resulted in a need for exceptional financial support from central government (such as approval to sell council buildings to meet costs) and severe cutbacks to services.

### Housing Revenue Account (HRA)

Councils which operate a HRA are required by law to prevent the account running into deficit, and must operate it independently of the main operations of the Council. HRAs have experienced financial pressure over the past few years on account of high inflation rates increasing the cost of operating housing, whilst central government cap rent increases at or below the rate of inflation.

Following tragic deaths in housing estates in Kensington and Rochdale, there has been increased focus on the safety of social homes. Landlords are required to take remedial action to ensure homes are compliant with fire safety legislation and new regulations to improve building safety more generally. These regulations have increased the costs faced by landlords, caused loss of income where properties were void for repairs, and increased the risk of regulatory action should improvements not be made.

## Local context

Against the national context outlined on this page North Kesteven District Council has not had first hand experience of significant cost savings or needed to make significant cuts to services. This has enabled it to look to the future with investment in mind, particularly via its key strategic priorities as set out in its NK Plan 2023-26.

It is investing both in Social Housing and also through its subsidiary Lafford Homes in market value rental and affordable rental accommodation.

It is investing in industrial sites to help facilitate additional businesses into the area, one example is the continued development of Sleaford Moor Enterprise Park.

The Council has invested in a capital plan that looks to improve the local tourism offering, including the purchase in March 2024 of the Carre Arms Hotel in Sleaford.

There has been no significant negative major inspectorate findings against the Council.

The HRA satisfaction survey results are very positive, with the exception of complaints handling and 100% achievement of the health and safety checks made on Council Houses, supporting the understanding that HRA tenants confirm the Council is providing quality services.

# Financial Sustainability

## How the Council plans and manages its resources to ensure it can continue to deliver its services.

We have considered the following in our work:

- How the Council ensures that it identifies all the significant financial pressures that are relevant to its short and medium-term plans and builds these into them;
- How the Council plans to bridge its funding gaps and identifies achievable savings;
- How the Council plans finances to support the sustainable delivery of services in accordance with strategic and statutory priorities;
- How the Council ensures that 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; and
- How the Council identifies and manages risks to financial resilience, e.g. unplanned changes in demand, including challenge of the assumptions underlying its plans.

## Setting the 2023/24 Financial Plan

- We have reviewed the budget holders guide to budget management, which outlines the overall process for budget setting. The 2023-24 budget setting process is led by the budget holders who are responsible for identifying any potential legislative, demographic or service issues that might impact on the future budgets, whether these are favourable or unfavourable. Budgets are initially set using the principals of incremental budgeting, taking the previous year's budget and adjusting this for known changes that budget holders have identified. The Financial Services team pull together the overall base budget from these incremental budgets and compare these to the resources available to understand the overall position.
- Growth bids are made via a business plan, which will be subject to a project appraisal, affordability test and scored and prioritised in line with the Council's main Corporate Aims and Strategic Priorities. Savings and efficiency plans are drawn up where budget holders identify areas to save, using the three dimensions of performance, cost and customer satisfaction.
- Through discussions with the Financial Services team budget holders are challenged as to how realistic the budget is for the year ahead, to ensure that all assumptions are as accurate as possible. Financial Services facilitate the overall budget and this is presented to the Executive Board for scrutiny, challenge and proposals to Full Council. The Full Council then, at the budget setting meeting, approve the Full Budget, Capital Plan, Council Tax levels, Housing Rents and Fees and Charges for the coming year.

## 2023/24 Financial Budget

- Full Council approved the 2023/24 balanced budget on 2 March 2023, the General Fund budget was balanced with no use of reserves or without management having to identify any savings. The Housing Revenue Account balanced budget was set with some use of reserves to fund capital spending. The capital programme was set for £42.7m in 2023/24 of which £22.1m were schemes in progress and the remainder of schemes at the planning stage.
- The base budget included assumptions on cost pressures including pay award of 2%, utilities and fuel costs of 10%, staff vacancy factors providing a saving of 1% and refuse vehicles being bought rather than leased. Council tax was increased, this was below the 5% cap set by Central Government and housing rents were increased by the 7% set in the Chancellors Autumn Statement.
- As the Council start their budgets from the bottom up, and done incrementally these budgets will generally align to the workforce and operational plans unless there is significant growth bids, these bids are made via a business plan, including impact assessments and alignment to the Corporate Aims and Strategy of the Council.

## 2023/24 Financial Performance

- The General Fund was set as a balanced budget in 2023/24. The budgeted spending requirement was £23.7m, compared to the draft financial statements showing actual spend of £23.9m which includes a contribution to reserves of £3.5m. The HRA outturn is showing a £0.3m surplus for the year against a balanced budget.
- Budget Monitoring during the year outlined a similar position of small underspends in net cost of service and capital slippage. Our review of budget monitoring reports noted that they provided the reason for the variances and slippage.

# Financial Sustainability

## How the Council plans and manages its resources to ensure it can continue to deliver its services.

We have considered the following in our work:

- How the Council ensures that it identifies all the significant financial pressures that are relevant to its short and medium-term plans and builds these into them;
- How the Council plans to bridge its funding gaps and identifies achievable savings;
- How the Council plans finances to support the sustainable delivery of services in accordance with strategic and statutory priorities;
- How the Council ensures that 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; and
- How the Council identifies and manages risks to financial resilience, e.g. unplanned changes in demand, including challenge of the assumptions underlying its plans.

## Sustainability

- The 2023/24 Local Government Financial Settlement was for a single year with some indications going into 2024/25 and therefore there is still uncertainty going forward within the projections for the future. The planned reforms to the Local Government Finance system have been further delayed.
- In order to help smooth the financial position for the General Fund the Council operates an Income Volatility Reserve, This is projected, in the *MTFS Financial Sustainability Strategy - Aug 2023*, to be £5.2m in-year 31 March 2024, increasing during 2024/25 to £6.4m and then reducing in 2025/26 and 2026/27. Current position per management is that without any actions being taken, there is a shortfall of £1.4m by 31 March 2027, carrying an in-year deficit of £2.9m into 2027/28.
- Although the Income Volatility Reserve looks to be under pressure as noted above, overall usable reserves are projected at £20.6m at 31 March 2028 to support the financial sustainability of the Council.
- The financial sustainability strategy is based on maintaining the Council's long-term financial position through maximising income generation, outcome-based investment approach, proactively using reserves to exploit opportunities including grant funding, aiming to be low cost and make efficiency savings where identified, and needed.
- Financial analysis of the delivery of the sustainability strategy up to 2026-27 shows that there is an underlying deficit position of £3.8m. The Council have outline plans in place to address this position which includes a mixture of cost reductions due to investment in automation, and increased income from investments in Housing, regeneration and green energy. The Council have a number of workstreams ongoing looking to deliver the savings / income generation needed over the life of the three-year strategy to return the long term in-year financial position to balance.

## Overall Conclusions

We have not identified any significant weaknesses in the Council's arrangements to manage its resources to ensure that it can continue to deliver its services.



# Governance

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

We have considered the following in our work:

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

## Risk management and monitoring arrangements

- The Council has an established risk management framework and systems in place which is embedded into the governance structure of the Council. There is an approved Risk Management Policy which includes the Council's risk appetite, roles and responsibilities of officers and members.
- The Council review each of its strategic risks individually and sets a risk appetite for each risk. Each directorate maintains and updates its own Risk Register on an electronic risk system, each risk has an owner and is scored on a probability and impact matrix. Where controls are put in place to mitigate the risk these are also documented in the risk register. The risk owners are responsible for identifying new and emerging risks, evaluating and identifying appropriate mitigation actions to reduce the risk to an acceptable level, The NK Plan risk matrix is reviewed periodically by the S151 officer.
- Every six months the Governance Risk and Assurance Board receive strategic and operational risk register reports to allow them to challenge operational risk performance, identify any new and emerging risks and opportunities, support the development of the Councils risk management arrangements and receive assurance on the effectiveness of the Council's systems and arrangements.
- The Audit Committee will receive copies of the strategic risk register at least every six months to maintain effective governance and oversight of the evaluation and treatment of the strategic risks.

## Budget approval, monitoring, and review

- The 2023/24 budget was reviewed and challenged by the Executive Board, and then proposed to Full Council for approval in March 2023.
- Budget management is detailed in the budget holders guide to budget management which identifies and documents. Budget monitoring starts immediately by the budget holders, supported by the finance team. Budget monitoring reports are produced monthly with regular meetings between budget holders and finance team to discuss the financial performance and forecasts. Reporting of budget variances are laid out in the rules, alongside the requirement to operate with the service cash limit budgets. Similar monitoring arrangements are in place to monitor the development and control of the capital programme.
- Quarterly Financial Performance reporting are presented, alongside a Treasury Management performance report to the Resources Scrutiny Committee for scrutiny and challenge, and then on to the Executive Board. These cover a number of areas including: General Fund and Housing Revenue Account outturn; Fees and charges income; Service Expenditure; Usable Reserves movements; and Capital Expenditure position.
- The narrative of the reporting provides details of the variances and a recommendation of action needed to take, whether this is budget virements or reprofiling of the future budgets for capital spend, and where additional resources are needed the reserves that will be funding any overspends.
- Budget monitoring reports are fully supported by detailed reports on the financial risk register where risks are documented to allow decision makers to know the likelihood and impact of the various financial risks underpinning the budget monitoring projections

# Governance

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

We have considered the following in our work:

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

## Controls in place to prevent and detect fraud

- The Council has a Fraud and Corruption, Bribery and Money Laundering strategy in place. This strategy and the Council's response has been benchmarked by the Council against the "National Fighting Fraud and Corruption Locally" checklist, and found to be compliant. The Council has a whistleblowing policy to help facilitate potential fraud and corruption to be highlighted, the Council uses the Lincolnshire Counter Fraud Partnership to maintain the whistleblowing arrangements independently of the Council. The governance of Fraud and Corruption is carried out through the Annual Fraud Report that is presented to the Audit Committee for assurance and challenge.

## Compliance with laws and regulations

- The Council has a service arrangement with Lincolnshire County Council to receive professional legal support. To ensure that the Council complies with all laws and regulations the Council carry out an annual assurance mapping exercise, it has a compliance framework, supported by an internal work plan, including maintaining a legal register, and legislation tracker.

## Standards

- The Council has an officer Code of Conduct, supported by a Behaviour Outside of Work policy, these policies aim to assist in the effective performance of the officers duties and responsibilities. Elected Council members also have a Code of Conduct to follow to facilitate their performance. The Council has an a Standards committee as a formal committee of the Council which is responsible for responding to standards issues and complaints.

## Annual Governance Statement

- In the Annual Governance Statement the Council declare areas it deems requiring action to ensure a cycle of continuous improvement in relation to its governance arrangements.

	2023-24	2022-23
<b>Control deficiencies reported in the Annual Governance Statement</b>	6 significant governance issues raised	5 significant governance issues raised
<b>Head of Internal Audit Opinion</b>	Adequate	Performing well

# Governance

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

We have considered the following in our work:

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

## Significant Decisions

- During the year the Council made a decision to buy the Land and Buildings and Management Company of the Carre Arms Hotel. This decision was made on the basis of delivering future benefits, improvements and development of the Sleaford area.
- We have reviewed the governance arrangements the Council established to support this significant decision and have no issues to report. The Council carried out legal due diligence, they engaged a company who are professional assessors of Hotel and Catering business to carry out a full review of the assets, the business history and to outline the potential of the site. A full medium term financial plan, including the required short and medium term maintenance and capital plans were drawn up. A professional valuation of the Land and Buildings was commissioned to support the value of the Business case. The business case was presented to the Executive in November 2023 with outline agreement, subject to further due diligence and plans to then be presented back to the Executive in February 2024 where the decision was taken to proceed with the purchase.

### *Lafford Homes Limited*

- During the year the Council agreed a share restructure for Lafford Homes Limited, the impact was that it diluted the value of the Ordinary Shares from £2m to £500k. This value was replaced with 1.5m £1 Preference Shares. The Council still own 100% of all shares. The rationale for this change in structure was to enable the Council as shareholder to generate returns on its investment.

### *Sleaford Moor Enterprise Park*

- During 2023-24 the Sleaford Moor Enterprise Park continued to be developed and the first units were completed and became available to rent. The Council also agreed to implement the Sleaford Moor Enterprise Park Business Plan Framework to inform decisions associated with the continued delivery of the development.

## Overall Conclusions

We have not identified any significant weaknesses in the arrangements the Council has in place to ensure that it makes informed decisions and properly manages its risks.

# Improving economy, efficiency and effectiveness

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

We have considered the following in our work:

- how financial and performance information has been used to assess performance to identify areas for improvement;
- how the Council evaluates the services it provides to assess performance and identify areas for improvement;
- how the Council 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; and
- where the Council commissions or procures services, how it assesses whether it is realising the expected benefits.

## Assessing level of value for money being achieved

- The Council has agreed a set of Standing Financial Instructions, supported by a procurement policy which are designed to both ensure that the Council follows public procurement legislation and also achieves value for money through its procurement activities. These activities include working with the Lincolnshire Procurement Partnership to allow the Council access additional specialist procurement services, to those it has in-house.
- The Local Government VFM profiles for the Council show historical trends against the average for English District Councils, overall the Council is spending below the average for most of the indicators and following the national trends, with the exception of housing services where the Council has now begun to spend more than the national average, however this aligns to a Key Objective of the Council.

## Performance of services monitored and actions identified for poor performance

- The Council has set out its strategic vision in the NK Plan 2023-26 and this outlines the key ambitions for the Council. These being:
  - Our Communities - Promote participation and engagement within our communities, to deliver a clean, safe and inclusive district;
  - Our Environment - Champion greenhouse gas reduction, both within the Council and across the district;
  - Our Economy - Acknowledge the challenging economic situation; supporting business where possible, alongside the protection of existing jobs and the creation of new jobs;
  - Our Homes - Facilitate the provision of community infrastructure to align to the housing growth; and
  - Our Council - Deliver high quality, value for money and sustainable services, underpinned by effective workforce planning.
- In 2022/23 the Council approved a performance framework which mapped the Key Performance Indicators (42 KPI's) to the 5 strategic vision areas above, thus aiming that members and officers understand whether the vision is being delivered.
- The performance monitoring report is presented quarterly to the Resources Scrutiny Committee then on to the Executive Board as part of the governance and scrutiny arrangements in relation to the Council performance. The minutes of the Resources Scrutiny Committee document the challenge and discussion over the quarterly performance report, both challenging and discussing the reasons for the KPI's off track, and also whether new or further mitigating actions needed to allow performance to be maximised.
- Current discussions with management has identified that the Council are looking to review the KPI's that are currently being monitored to confirm that these are still appropriate to monitor the delivery of their key strategic ambitions.
- The Housing Service monitor detailed KPIs on a regular basis to understand the key issues, with actions taken where performance is not as expected.

# Improving economy, efficiency and effectiveness

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- where the Council commissions or procures services, how it assesses whether it is realising the expected benefits.

## Engagement with Stakeholder in the development of the Council

- The Council has produced the NK Plan 2023-2026 which outlines the Council strategic vision, outlining the priorities, purpose and services for the upcoming years. This plan is developed through positive engagement from partners, residents, colleagues and Council Members. The Council has also received a Corporate peer challenge which confirmed the clarity of purpose and vision, supported by the coherent plans to deliver the proposed projects.
- The Council engage an external facilitated Council House Satisfaction survey to provide the Council necessary feedback from Council House tenants, the results are positive on the services and safety of the Council Housing provided.

## Performance of Partners

- The Council have a number of significant partnership arrangements with neighbouring Councils, (for example shared revenue and benefits services, payroll contracts, Information Technology). There are governance frameworks in place for these partnership arrangements, mainly through the shared services Boards and service level agreements, and the Council keeps its role in these activities under review.
- Although not a formal partnership, the Council has set up an investment arrangement with Lafford Homes Limited (100% owned subsidiary) which is designed to support both income generation and housing provision in the district. The Council via the Resources Scrutiny Committee and the Executive Board, receive the Lafford Homes Business plan with annual financial reporting feeding into the Group Financial Statements.

## Monitoring of outsourced services

- The Council has outsourced a number of areas of service including: HRA maintenance contract and leisure services contract. These services are monitored both in terms of effectiveness of the services provided, and also in terms of the financial performance of the service, with the leisure sector under pressure to deliver the financial return initially expected due to covid, followed by the cost-of-living crisis.

## Overall Conclusions

We have not identified any significant weaknesses in the Council's arrangements to improving economy, efficiency and effectiveness of the resources used.