Auditor's Annual Report for South Holland District Council - DRAFT

Year-ended 31 March 2024

10 January 2025

Contents

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This report is addressed to South Holland 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.

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 South Holland 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.

Accounts	We issued a disclaimed opinion on the Council accounts on [Date]. This means that we believe the accounts give a true and fair view of the financial performance and position of the Council. We have provided further details of the key risks we identified and our response on pages 8-11.
Narrative report	We did not identify any significant inconsistencies between the content of the narrative report and our knowledge of the Council.
Value for money	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. Our opinion is that the Council does have appropriate arrangements 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.
Other powers	See overleaf.

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

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 and Governance 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 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 a disclaimed opinion on the Group financial statements on [Date].

We have been unable to obtain sufficient appropriate audit evidence over one area of the financial statements as we have been unable to perform the procedures that we consider necessary to form our opinion on the financial statements ahead of the Backstop Date. This area was property, plant and equipment, and as a result the revaluation movements in the comprehensive income and expenditure statement and the revaluation reserve for the year ended 31 March 2024 in relation to both the Group and the Authority.

In addition, we have been unable to obtain sufficient appropriate evidence over the disclosed comparative figures for the year ended 31 March 2023 due to the Backstop Date. Therefore, we were unable to determine whether any adjustments were necessary to the opening balances as at 1 April 2023 or whether there were any consequential effects on the Authority's income and expenditure for the year ended 31 March 2024.

Any adjustments from the above matters would have a consequential effect on the Group's and the Authority's net assets and split of reserves as at 31 March 2024 and 31 March 2023, the Housing Revenue Account, the Collection Fund and on their income and expenditure and cash flows for the years then ended.

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 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
Valuation of Land and Buildings The Code requires that where assets are subject to revaluation, their year end carrying value should reflect the appropriate current value at that date. The Authority performs a full revaluation exercise of all Land & Buildings each year. <u>Land and Buildings</u> For the year-ended 31 March 2024, the Council is utilising an internal valuer to undertake the valuation, Ed Cox (MRICS registered valuer). As per the draft 2023/24 financial statements, the value of the Council's Other Land and Buildings as at 31 March 2024 was £28.7m, of which £27.4m were subject to valuation. Additions purchased in year totalling £1.3m were not subject to valuation. From the valuation report, Ed Cox valued £22.3m of these assets, the remaining £5.1m relates to temporary accommodation assets and were revalued by Wilks Head and Eve. Of the £22.3m valued by Ed Cox, £16.7m (75%) of the revalued land and buildings are valued using the Depreciated Replacement Cost (DRC) model. Due to the level of estimation uncertainty associated with the relevant key assumptions used in the DRC model, specifically obsolescence, BCIS indices and location factors used by the valuer, when valuing the relevant elements of the Authority's estate, this creates a risk that the year-end carrying value of these assets differs materially from their fair value. <u>Council Dwellings</u> As per the draft 2023/24 financial statements, the value of the Council's dwellings as at 31 March 2024 was £264m. From the valuation report, Wilks Head and Eve valued £269m. This is made up of the £264m in Council Dwellings and £5.1m relating to temporary accommodation assets. For the year-ended 31 March 2024 the Council is utilising an external valuer, Wilks Head and Eve to undertake the valuation (MRICS registered valuer). Due to the level of estimation uncertainty associated with relevant key assumptions, specifically the adjustment factors and the comparable transactions for beacon values used by the valuer, when valuing the relevant elements of the Authority's estate, this creates a risk that the year end carrying value of these assets differs materially from fair value.	We have performed the following procedures designed to specifically address the significant risk associated with the valuation: • We critically assessed the independence, objectivity and expertise of Edward Cox, the internal valuer used in developing the valuation of the Council's other land and buildings as at 31 March 2024; • We critically assessed the independence, objectivity and expertise of Wilks Head and Eve, the external valuer used in developing the valuation of the Council's Council Dwellings as at 31 March 2024; For both valuations: • 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; • We evaluated the design and implementation of controls in place for management to review the valuation, and the appropriateness of assumptions used; • We challenged the appropriateness of the valuation of relevant land and buildings, including any material movements from the previous revaluations; • We challenged the key assumptions within the valuation; • Disclosures: We considered the adequacy of the disclosures concerning the key judgements and degree of estimation involved in arriving at the valuation.	We did not identify any material misstatements relating to this risk. Testing over the following significant assumptions used in the DRC calculation - location factor, BCIS indices and obsolescence - were found to be neutral. Testing over the significant assumptions used to value the Council Dwellings – adjustment factors and comparable transactions for beacon values – were found to be neutral. Whilst not directly linked to the significant risk, it is worth noting that based on the data used by the internal valuer, the valuation of the assets sampled were found to be reasonable and appropriate. However, we can not place reliance on the data elements of the valuation relating to the floor areas of the assets under valuation as well as the internal condition of the said buildings, which are fundamental data elements in the valuation. For this reason, we do not have sufficient audit evidence to support the valuation of other land and buildings as a whole.

Audit of the financial statements

Significant financial statement audit risk	Procedures undertaken	Findings
Management override of controls Professional standards require us to communicate the fraud risk from management override of controls as significant. Management is in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. We have not identified any specific additional risks of management override relating to this audit.	Our audit methodology incorporates the risk of management override as a default significant risk. • Assessed accounting estimates for biases by evaluating whether judgements and decisions in making accounting estimates, even if individually reasonable, indicate a possible bias. • Evaluated the selection and application of accounting policies. • In line with our methodology, we evaluated the design and implementation of controls over journal entries and post closing adjustments. • Assessed the appropriateness of changes compared to the prior year to the methods and underlying assumptions used to prepare accounting estimates. • Assessed the business rationale and the appropriateness of the accounting for significant unusual transactions that are outside the Council's normal course of high-risk are otherwise unusual. • We analysed all journals through the year and focused our testing on those with a higher risk, as defined by our high-risk criteria. • We assessed the controls in place for the identification of related party relationships and test the completeness of the related parties identified. We will verify that these have been appropriately disclosed within the financial statements.	We identified misstatements relating to related party transactions which have been corrected by management. These included updates required to the disclosure note seen within the financial statements only and so were not indicative of management override of control. The results of our testing was satisfactory.

Audit of the financial statements

Significant financial statement audit risk	Procedures undertaken	Findings
Valuation of post retirement benefit obligations 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, pension increase 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. 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. The financial statements disclose the assumptions used by the Council in completing the year end valuation of the pension deficit and the year-on-year movements. We have identified this risk in relation to the following pension scheme memberships: Local Government Pension Scheme Also, recent changes to market conditions have meant that more Councils are finding themselves moving into surplus in their Local Government Pension Scheme (or surpluses have grown and have become material). The requirements of the accounting standards on recognition of these surpluses are complicated and requires actuarial involvement	We have performed the following procedures : • Evaluated the competency, objectivity and independence of the actuaries to confirm their qualifications and the basis for their calculations; • Performed inquiries of the actuaries to assess the key assumptions made; • 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; • Challenged, with the support of our own actuarial specialists, the key assumptions applied, being the discount rate, inflation rate, pension increase rate and mortality/life expectancy against externally derived data where possible; • Considered the adequacy of the Council's disclosures in respect of the sensitivity of the deficit/surplus to these assumptions; and • Where applicable, assessed the level of surplus that should be recognised by the entity.	We did not identify any material misstatements relating to this risk. We utilised our own KPMG Actuaries to assess the aforementioned key assumptions. We have received the results from our Actuaries who have evaluated the assumptions, and all assumptions are deemed to be balanced and fall within KPMG's acceptable range. The results of our testing was satisfactory.

Audit of the financial statements

Significant financial statement audit risk	Procedures undertaken	Findings
Group – Valuation of Investment Properties • The Code requires that where assets are subject to revaluation, their year end carrying value should reflect the appropriate current value at that date. • The Authority performs a full revaluation exercise of all Investment Properties each year. • The Group's fair value of investment properties as at 31 March 2024 is £13.4m. Of which, £10m is held by Welland Homes, the Council's wholly owned subsidiary. Due to the level of estimation uncertainty associated with the relevant key assumptions used to value investment properties, specifically the yield and comparable capital market values used by the valuer, this creates a risk that the year-end carrying value of these assets differs materially from their fair value. • The investment properties held by Welland Homes as at 31 March 2024 were valued by Wilks Head and Eve.	We have performed the following procedures designed to specifically address the significant risk associated with the valuation: • We critically assessed the independence, objectivity and expertise of Wilks Head and Eve, the external valuer used in developing the valuation of the relevant Investment Properties as at 31 March 2024; • We inspected the instructions issued to the valuers for the valuation of the relevant Investment Properties to verify they are appropriate to produce a valuation consistent with the requirements of the CIPFA Code; • We evaluated the design and implementation of controls in place for management to review the valuation and the appropriateness of assumptions used; • We challenged the appropriateness of the valuation of relevant Investment Properties, including any material movements from the previous revaluations; • We challenged the key assumptions within the valuation; • Disclosures: We considered the adequacy of the disclosures concerning the key judgements and degree of estimation involved in arriving at the valuation.	We did not identify any material misstatements relating to this risk. We challenged key assumptions within the valuation as part of our audit work, those being: yield and comparable capital market values. Our testing confirmed the assumptions to be neutral. The results of our testing was satisfactory.

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Value for Money

We presented an indicative audit plan to the Committee on 18 July 2024 which included VFM risk assessment commentary. We have therefore included updated wording in green throughout.

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
Commentary page reference	15	19	23
Identified risks of significant weakness?	✕ No	✕ No	✕ No
Actual significant weakness identified	✕ No	✕ No	✕ No
2022-23 Findings	No significant weakness identified.	No significant weakness identified.	No significant weakness identified.
Direction of travel	←→	←→	←→

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. 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

The Council published unaudited financial statements on their website on 19 July 2024, which was after the statutory deadline of 31 May 2024. We note the delays in producing the 2023-24 financial statements were as a result of the knock-on impact of the delayed resolution to significant difficulties faced during the 2021-22 audit of the financial statements.

The 2023-24 financial statements show a £57.9m surplus in total comprehensive income and expenditure for the year ended 31 March 2024. Within the year the Council have had significant gains and losses in the revaluation of council dwellings and other land and buildings which generated a net gain position of £50m, which is largely driving the total surplus.

The Council generated £16.8m rental income on their Housing Revenue Account (HRA) in 2023-24. The Council reported a deficit for the year relating to their HRA services of £33.8m. Within this, the Council’s HRA expenditure statement included a £37.2m charge for the downwards movement on the revaluation of non-current assets, which equates to 71% of the total expenditure in the HRA. Without the loss on revaluation the Council’s HRA would be in surplus of £3.4m.

As noted in the national context, HRAs have experienced financial pressure in recent years and the entity has had an overall deficit in their HRA for the past two years – however, this has been largely as a result of revaluation losses. Therefore, it is deemed important that the Council has a formal HRA plan in place that is fit for purpose to ensure it’s sustainable. Whilst at the time of publication of this report the Council does not have a long-term financial plan for their HRA, we understand that this is currently under review with Savills PLC. During our work, we have focused on the arrangements in place at the Council during the year and have concluded that management has demonstrated a commitment to ensuring appropriate arrangements are in place through commission of this external review.

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

- The budget setting report for 2023/24 comprises a five-year financial strategy. The foreword to the budget sets out the challenges the Council is facing, including inflationary pressures and significant changes in resident, customer and business needs. The spending plan shows budgeted gross expenditure of £58.2m. To meet a balanced budget, the Council identified an efficiency requirement of £885k for the year.
- The Council involves relevant stakeholders, from across the Council, as part of the budget setting process via budget setting meetings and meetings with Members. We inquired with management, however, there were no formal noted meetings.
- Budget assumptions are clearly outlined within the budget setting report. These assumptions are subject to challenge at the Governance and Audit Committee , and Cabinet before they are presented to Council for approval. The capital programme is also reviewed alongside the budgets to ensure it is consistent with the wider-budget setting process. For 2023-24, this was approved by the Council on 2 March 2023.
- Management updates the budgets via reforecasts at the end of each quarter, based on the actuals-to-date, to present the most accurate position in the quarterly finance updates and thus providing assurance that key financial assumptions, upon which the original budget was based, are monitored and revised throughout the year, with any changes reported into the governance structure accordingly.
- Through our document review of the papers presented to the Full Council as part of the budget setting process, we noted this did not include Group figures so does not include the financial performance of its two wholly owned subsidiaries South Holland Homes and Welland Homes or their jointly owned entity, Public Sector Partnerships Ltd (PSPS) .

Developing the 2023/24 efficiency plan

- The Council identified an efficiency target of £885k in the approved budget.
- For the financial year ended 31 March 2024, the Council did not have a formal efficiency programme in place. The Council did have an efficiency long list that was presented to the Senior Leadership Team (SLT) monthly. This is a long list of potential efficiencies to be explored which are allocated to lead officers. This has been used to identify and report efficiencies during 2023-24, and forward planning into 2024-25. However, for the period of audit, there was not a formal programme in place to effectively identify, RAG rate and monitor efficiencies. This also means there are no action logs prepared and monitored by the Council in relation to achieving the efficiencies within the long list.

Financial Sustainability

- A significant challenge to the Council's budget is the Drainage Board Levy. The levy has risen 14% in 2023-24 to £3.1m. The Council has forecasted a steady increase in these costs rising to £6.3m by 2027-28. We confirmed via inquiry the Council is liaising with the local Internal Drainage Boards to work towards limiting future increases where possible.
- As described on the previous page, management updates the budgets and forecasts through the quarterly finance reports. As part of this exercise, when management identifies certain budgets are not required, these are offset against the savings target. During quarter one, the Council had identified £556k of potential savings against the savings target of £885k and further areas have since been identified for detailed. At quarter three, the Council had met £656k of the original £885k savings target but were forecasting a deficit of £340k. The Council achieved a small surplus of £116k against the general fund budget at the end of 2023-24. In the quarter four outturn report presented to the Audit and Governance Committee, the Council reported achieved savings of £695k against their target (78%). We requested a breakdown of the £695k achieved efficiencies, however, the efficiency long list is updated in real-time at the monthly SLT meetings which means this has since been overwritten and cannot be retrospectively reconciled.
- The Council has an Innovation, Transformation and Efficiency Board. This is chaired by the Section 151 officer. There is a terms of reference dated May 2023 in place which outlines that the purpose of the Board is to develop, coordinate and manage innovation, transformation and efficiency activity across the Council and ensure that service improvements and savings are delivered in line with the Delivery Plan and Medium-Term Financial Plan.

Consistency between the financial plan for 2023/24 and workforce and operational plans

- The budget setting report is presented to the Governance and Audit Committee, Cabinet and the Full Council alongside other key strategies for the entity such as the: Capital Strategy, Treasury Management Policy Statement, Treasury Management Strategy, MRP Policy and Annual Investment Strategy, Medium Term Financial Plan (5 years) and the Annual Delivery Plan.
- These are all developed, challenged and approved at the same time to ensure all the activities of the Council are aligned prior to the start of the financial year.

Assessing risks to financial sustainability

- The Council has a risk management framework in place. The Council has a strategic risk register, and a risk management report is presented to the Governance and Audit Committee on a quarterly basis. The Council has identified a strategic risk relating to the long-term balancing of the budget and related constraints.

Key financial and performance metrics:	2023-24 £'000	2022-23 £'000
Actual surplus/(deficit) **against general fund budget*	116	(850)
Actual HRA surplus/(deficit)	(33,801)	(326)
Planned gross expenditure	58,239	39,954
Actual gross expenditure*	111,975	78,638
Planned capital budget	24,319	8,795
Actual capital additions to Property, Plant and Equipment	20,207	9,616
Usable reserves	40,768	45,277
Year-end borrowings	67,482	67,482
Capital Financing Requirement	83,712	77,131
Gross debt compared to the capital financing requirement	0.81	0.87
Year-end cash position	2,762	6,459

**Actual gross expenditure cannot be directly compared with the planned gross expenditure. The actual gross expenditure includes technical adjustments such as revaluation movements and other technical accounting entries that are not required to be budgeted for by the Council.*

HRA: Housing Revenue Account, a ring-fenced fund relating to social housing

Gross debt compared to the capital financing requirement: Authorities are expected to have less debt than the capital financing requirement (i.e. a ratio of under 1 : 1) except in the short term, else borrowing levels may not be considered prudent.

Financial Sustainability

- As part of the budget setting process, the budget includes the Medium-Term Financial Plan (5 years). As such the projected budgets allows management and the full Council to assess the risk to achieving a balanced budget in the immediate, short and medium term. From the approved budget, the savings requirement of the Council is £1.5m in 2024-25 and £1.8m in 2025-26, £1.9m in 2026-27 and £1.6m in 2027-28, outlining the challenges the Council continues to face in the upcoming years in relation to the identification of recurrent efficiency savings.

Processes in place for managing identified financial sustainability risks

- At quarter three, the Council's Strategic Risk of "Council Financial Positions" including balancing the budget in future periods has a risk score of 15 (High) which remained unchanged throughout the year until quarter four when it was increased to a risk score of 16 (High). The Council is treating this risk but there is not a target risk score shown in the Strategic Risk Register report presented quarterly to the Governance and Audit Committee. The target risk score in the Strategic Register is 9 (Medium). There are no planned mitigations or actions against this risk in the risk register despite the current score being higher than the target score. The Governance relating to budget monitoring is detailed on page 21.

Performance for the year to date against the financial plan

- As part of our planning and risk assessment we reviewed the quarter three finance report up to 31 December 2023. As part of this report, the Council was forecasting a deficit of £340k despite achieving higher than expected investment income for the period budgeted at £1.8m compared to actuals of £2.2m. The largest adverse variance to the revenue budget is within the Finance Directorate at £426k, over half of which relates to rent allowances and rent rebates where the full support was not covered by subsidy. Within the outturn report for 2023-24, the Council achieved a surplus of £116k. Budget pressures faced by the services was offset by additional investment income earned due to high interest rates.
- We have confirmed through our minute review, the financial performance of the entity is reported consistently in the format of a finance report that is presented to the Governance and Audit Committee, Cabinet and Full Council during the year.
- The Capital Programme for 2023-24 has been revised during the year due to delays to capital projects. The total General Fund Capital Programme for 2023/24 was £27m which was subsequently revised to £9.2m. The Council spent £7m against the revised budget (76%). The total HRA Capital Programme for 2023/24 was £23.9m which was subsequently revised to £17m. The Council spent £16.5m against the revised budget (97%). Performance against the capital programme was reported consistently in the governance structure in quarterly finance reports.

Investment in Subsidiaries

- At the start of the financial year, the Council held a long-term investment at fair value of £4.2m in Welland Homes. During the year, the Council purchased two lots of Share Capital in the Company totalling £566k. Despite the purchase of additional shares, the Council's fair value of investment in Welland Homes was reduced to £4.14m (capped at the total equity of the subsidiary). Fair value was therefore written down in the year by £624k.
- The investment held at fair value remains £840k higher than the cost of the equity of £3.3m.
- The Council has also made loans to the subsidiary of £1m in 2023-24. Through inquiry with management, the increased investment into the subsidiary within 2023-24 is for a clear business purpose such as the purchase of additional homes. This is supported by evidence of approval of such decision through the Council's governance structure.
- We have reviewed one loan agreement made in year to the subsidiary for a total of £621k. We confirmed this was signed by the S151 officer on behalf of the Council. The loan confirmed the purpose of the loan was for the borrower to use the proceeds of each loan only to help fund the acquisition of a prescribed set of properties. Interest is charged on the loan at 5.25% fixed rate per annum. The loan clearly states the loan will be repaid in full on the termination date. There is a term of the agreement that means if the subsidiary sell any of the prescribed properties whilst this loan is outstanding, the subsidiary must apply any consideration received in respect of the disposal to repay the loan. For this reason, we are satisfied there is appropriate governance arrangements in place at the Council to provide loans with clear business purpose to the subsidiary. We note the business decisions have been for long-term investment into the subsidiary, therefore expectations are that the fair value of the investments will grow in the future following the purchase of these properties.

Financial Sustainability

Housing Revenue Account

- The Council generated £16.8m rental income on their Housing Revenue Account (HRA) in 2023-24. The Council reported a deficit for the year relating to their HRA services of £33.8m. Within this, the Council's HRA expenditure statement included a £37.2m charge for the downwards movement on the revaluation of non-current assets, which equates to 71% of the total expenditure in the HRA. Without the loss on revaluation the Council's HRA would be in surplus of £3.4m.
- As noted in the national context, HRAs have experienced financial pressure in recent years and the entity has had an overall deficit in their HRA for the past two years – however, this has been largely as a result of revaluation losses. Therefore, it is deemed important that the Council has a formal HRA plan in place that is fit for purpose to ensure it's sustainable. Whilst at the time of publication of this report the Council does not have a long-term financial plan for their HRA, we understand that this is currently under review with Savills PLC. During our work, we have focused on the arrangements in place at the Council during the year and have concluded that management has demonstrated a commitment to ensuring appropriate arrangements are in place through commission of this external review

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.

Identification, monitoring and management of risk

- The Council has a Risk Management Framework in place. The policy, although formal, does not have a review date. This has well-documented processes in place to identify, monitor and manage risk. This outlines the Council's overriding attitude to risk: to operate in a culture that is open to all potential options in which all risks are identified, understood and proportionately managed, rather than avoided.
- The Council manages risk at three governance levels: strategic, operational and project management. Each has their own risk management responsibilities as outlined in the Risk Management Framework. At the time of Therefore, we understand the entity is holding risk workshops with the Deputy Chief Executives and their Assistant Directors to review strategic, operational, partnership and fraud risks for quarter four reporting, as at the end of March 2024. We have confirmed quarterly risk reports have been reported to the Audit and Governance Committee throughout 2023/24, and the quarter four report included fraud risks.
- The Council maintains a Strategic Risk Register to identify and assess the severity of risks using a matrix model which Therefore, the impact and likelihood of the risk. A risk management report covering the strategic risks is presented to the Governance and Audit Committee quarterly and is attended by the s151 Officer. The minutes of the Audit and Governance meetings are presented to the Council meetings and is attended by the Chief Executive and s151 Officer.
- In the risk management report, each strategic risk has a lead risk owner, with a current risk score. There is not a target risk score within these reports. Where planned actions/mitigations are documented in the report, these are general rather than specific, with no due dates**.**
- For example, in the quarter three risk management report presented to G&A Committee on 14 March 2024, there was a risk (SHDC08) "*Failure to deliver Capital Programme"* that had a risk score of 6 (medium). The planned mitigation detailed in the report was *"continued robust project management".* In the quarter three finance report presented to the G&A Committee, the Council is significantly behind their capital plan with slippage of £18.2m into future year from the 2023-24 capital programme. Therefore, the entity would benefit from specific actions to mitigate the risk identified.
- From our minute review of the Governance and Audit Committee in March 2024 we noted members had requested the Risk Management quarterly report be reformatted so that the content was more easily readable when printed. From attendance at Governance and Audit Committee the risk reports are presented differently where possible for the ease of the members.

Governance

Controls in place to prevent and detect fraud

- The Council has relevant policies in place, for example, Code of Conduct for all members and staff, Disciplinary Policy, Whistleblowing Policy, Counter Fraud Bribery and Corruption, and Conflicts of interests.
- Our inquiries with management identified the maintenance of the register of interests occurs annually. From our walkthrough of the process, this commenced on 18 March 2024 with a request for declarations from the Senior Leadership Team and Councillors. Councillors were provided with guidance at the same time of the request. The declaration forms are designed to capture interests of the individuals and their family members.
- The Council have a Counter Fraud, Corruption and Bribery policy dated February 2021. In the year, the Council has commissioned an external review of arrangements.

Internal audit

- The Council engages Lincolnshire County Council as their internal auditors. They are independent to the Council and provide assurance over their internal controls, including core financial controls. We note for the Head of Internal Audit (HoIA) opinion 2022-23, financial control improvement was needed. The Head of Internal Audit (HoIA) opinion 2023-24 was adequate. Therefore, this does not give rise to an indication of significant risk of weakness in the Council's arrangements.
- In March 2024, internal audit presented a progress report to the Governance and Audit Committee that confirmed the counter-fraud mapping was in progress. They provided support and advisory services on the councils refresh of its counter fraud policies. Helping the council to update polices in line with best practice and counter fraud standards.. Therefore, we expect fraud risks to be monitored as business as usual from 2024/25.
- From our inquiries with Internal Audit in December 2023, we became aware an internal investigation was underway following suspected fraud at the Council (which is part of the South East Lincolnshire Council Partnership (SELCP)). As a result, an internal audit report was commissioned by management which resulted in a 'No Assurance' opinion being provided in relation to the Financial Procedures and Procurement Card Policy over the use of Procurement cards (P-cards) across the SELCP. At the time of the report, South Holland had 157 registered cardholders with an average spend of £1k per card per year, therefore the maximum estimated error for the use of P-Cards is approximately £157k.
- The report was received by the Governance and Audit Committee in March 2024 along with a substantial management response. The report identifies required actions management has agreed to implement, the actions have due dates and responsible officers. These actions are followed up and reported to the Governance and Audit Committee by Internal Audit as part of their follow-up review thus providing sufficient action taken on a report of significant weakness in internal control.
- Since this review we have assurances from attendance at the Governance and Audit Committee meeting in March 2024 that the partnership is implementing a new P-card solution that is more accessible and easier for colleagues to use – along with updated communications, guidance and training.
- Due to the action we have seen from management in response to this issue, the immaterial total value of annual estimated P-Card expenditure (£157k) and evidence of sufficient reporting through the governance structure, we have not identified a significant weakness to our VFM opinion.
- Internal audit performed a Procurement Card Audit follow-up that completed in August 2024. The audit report found that P-card Governance has improved since the no assurance report was issued. The follow-up report gives an adequate assurance opinion.

Governance

Review and approval of the 2023-24 financial plan

- The budget had appropriate scrutiny and approval within the Committee structure. We confirmed via minute review that the budget was presented to the Cabinet (14 February 2023) and approved by the Council (2 March 2023) before the start of the 2023-24 financial year.
- The approved budget has a section for Risk and Sensitivity (Section 14) which outlines the key risks to achieving the balanced budget. There is a corresponding strategic risk on their register called 'Council's Financial Position' (SHDC08). The risk is around the long term balancing of the budget and related constraints. This risk is monitored and reported through the Governance and Audit Committee. The current risk score (15 – High) with a target risk score of nine.

Budget Monitoring

- Financial performance is monitored against budget. As part of our risk assessment, we have reviewed the quarterly Finance Reports and Treasury Management updates reported to the Governance and Audit Committee and Council in 2023-24. The Council has reported a deficit throughout the year, forecasting it to be £340k as at 31 December 2023, however achieved a small surplus of £116k at the year-end.
- Budget managers must complete a quarterly monitoring action plan for the budgets they are responsible for. This is a standard proforma detailing concerns/issues raised by their business partner plus standard required checks on grants, reserves and contracts. Any required actions are listed with a responsible officer and deadline. This should be signed by the business partner and the budget manager. For our planning and risk assessment, we obtained two of the monthly budget monitoring plans for December 2023. These were dated 10 and 11 January respectively. These were both completed, explained variances and included actions with due dates. However, these were only signed by the business partner and not the budget manager. However, the reports are completed with sufficient detail to explain the variances.

Monitoring compliance with laws and regulations

- The Council has a legal service who is responsible for regularly reviewing regulatory change. Service areas are also responsible for being aware of new regulatory changes in their area and these are communicated for implementation as appropriate.
- Furthermore, all papers in relation to key decisions such as plans, proposals and procurements for senior officer groups or member committees are required to consider the implications of constitutional and legal, corporate priorities, reputation, equality/human rights/safeguarding and environmental legislation as standard. We have seen this proforma is used consistently as part of our minute review of the Governance and Audit Committee, Cabinet and Council. 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.

Monitoring officer compliance with expected standards of behaviour

- All councillors are bound by the Constitution which is derived from statute and decisions of the Council. All councillors are required to agree to the Constitution and the Monitoring Officer, as the delegated official, is responsible for overseeing training, awareness and complaints surrounding the Code of Conduct.
- The Council's Code of Conduct communicates values and expected behaviours of staff. This is communicated to staff as part of the recruitment process and is available on the staff intranet. This also covers requirements with regards to gifts and hospitality and conflicts of interests.
- The Council has a Whistleblowing policy in place to raise concerns of behaviour that do not meet the Code of Conduct. This sets out the actions the Council will take in the event of a whistleblowing incident.

Governance

Ensuring decisions receive appropriate scrutiny

- Governance for key decisions is outlined in the Council's constitution. This includes the definition of, and requirements to be followed for key decisions. The Council has a Key Decision Plan that shows all key decisions that the Council is likely to make over the next twelve months. This was presented to the Council in February 2024. The Council also has oversight of the Cabinet's Key Decision Plan.
- Our risk assessment procedures and management inquiries confirm that the Council has appropriate arrangements in place to ensure scrutiny, challenge and transparency of decision making.
- Key decision making is subject to discussion and scrutiny at Cabinet level and relevant sub-committees, followed by formal approval by the Council. We have reviewed evidence of this through a review of meeting minutes and corresponding papers for the review of HRA Capital Programme relating to housing delivery, and to present a business case for the acquisition of 17 S106 Affordable Homes. The business case relating to this decision was sufficiently detailed, including commentary on economic considerations, financial impact and overall benefits. This was initially presented to the Cabinet on 12 September 2023 and then to the Full Council on 27 September 2023.

- We did not identify significant deficiencies from our audit work.
- The Head of Internal Audit Opinion for 2023-24 is adequate and has remained consistent from the prior year.
- The Council has had one finding from the Local Government Ombudsman in 2023-24. The complaint made was regarding the Council's handling of planning applications. The upheld decision was that the complainant received poor customer service from the planning service. Due to this being the only upheld complaint by the Local Government Ombudsman in the year, this does not indicate there is a significant weakness in the Council's arrangements. We did not identify any relevant Housing Ombudsman findings in 2023-24.

	2023-24	2022-23
Head of Internal Audit Opinion	Adequate	Adequate
Local Government Ombudsman findings (upheld decisions only)	1	2
Housing Ombudsman findings	0	0

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 the level of VFM being achieved and improvement opportunities

- On 1 October 2021, the Council formed the South & East Lincolnshire Councils Partnership (SELCP) with South Holland District Council and South Holland District Council.
- For 2023-24, the SELCP has an Annual Delivery Plan (ADP) that was approved alongside the budget by the Council on 2 March 2023. The activities flow from the Partnerships three-year work programme, agreed by each Council. This includes strategic ambition, corporate and local priorities. Minutes from the Council meeting on 2 March 2023 show the budget setting process considered using the SELCP as a driver for innovation and efficiency.
- The first SELCP sub-regional strategy has been approved by each of the three Councils in 2023-24. This covers 2024-25 to 2028-29 which reflects the original business case of the Partnership, which identified opportunities to increase the efficiency and effectiveness across each of the three Councils.

Performance of services

- The Council has a Performance Monitoring Panel that sits as a Committee for overview and scrutiny. The purpose of the panel is to hold the Cabinet to account and look in depth at how services are provided.
- The Council has a Performance and Governance Framework in place. Quarterly monitoring reports are presented to the Performance Monitoring Panel. The report is a standard template that is updated for each quarter including key performance indicators (KPIs) with commentary to support performance and rating based on the achievement of targets (red/amber/green). The report also includes risks with scores and any changes since the last report within the appendices. We have inquired with service areas where the KPIs for a quarter have not been met to understand the corrective action taken by management.
- The Council has a Customer Care Charter and has a section on their website where the public can have their say through the *"Compliments, complaints & feedback section*" that highlight areas performing well and areas that require improvement.
- There is no evidence of reporting of Group performance within the minutes for the meetings we have reviewed throughout the period to date (G&A, Cabinet and the Council).

Improving economy, efficiency and effectiveness

Engagement with other stakeholders and wider partners

- The Council works closely with other organisations locally to support delivering economy, efficiency and effectiveness, namely with Boston Borough Council and East Lindsey District Council as part of the SELCP.
- From our minute review of the Full Council, there was evidence of a report being presented on updates from SHDC's representative to the Health Scrutiny Committee for Lincolnshire. The Scrutiny Committee includes representatives from Lincolnshire Country Council and it's District Councils, plus attendees from various NHS Foundation Trusts based in Lincolnshire.

Performance of partnerships

- The Council's largest partnership is the South & East Lincolnshire Partnership. The Council has an annual delivery plan that is monitored by the Joint Strategy Board to support the Partnership in delivering on its priorities, as well as sovereign Council ambitions.
- The Council receives a six monthly update on the South & East Lincolnshire Partnerships Performance report. We confirmed through minute review this was presented to the Council in September 2023 and February 2024. In the February 2024 report this is reporting end of quarter three position. Of the 226 activities in the ADP for the year, 78% are already complete or on plan. Delivery is being managed and reported by Assistant Directors. Where an action is off-plan in terms of delivery, mitigations are put in place, with some actions rolled forward to the 24/25 plan where required.

Monitoring of outsourced services

Public Sector Partnerships Ltd (PSPS)

- The Council outsources their finance function to PSPS, a local authority trading company owned by the three Council's in the SELCP. An independent review of the finance service delivery arrangements provided by PSPS for the delivery to the three Councils comprising the South & East Lincolnshire Partnership was prepared by CIPFA in October 2023, commissioned by PSPS. An action plan has been put in place to continue to improve efficiency and effectiveness of arrangements.
- As part of the scoping, PSPS identified four main areas of focus for the review: Client Service Delivery, Client Relationship and Engagement, Resourcing Skills Recruitment and Retention, and Technology. The findings were categorised under these headings and 13 recommendations were made. We have confirmed all recommendations made in the review were included on the Improvement Action Plan. Recommendations were not given priority ratings (e.g. high/medium/low) but they have been assigned an owner and implementation date. We have seen evidence of a Review Action Plan completed in January and April 2024.
- There was a focus on the lack of any formal Service Level Agreement (SLA) in place to outline responsibilities, with a recommendation made for one to be drafted and put in place. The April 2024 action plan confirms the SLA is now complete and is in place for 2024/25.
- Due to the action we have seen from management in regard to commissioning of an external report and creating an action plan covering all recommendations made, we are satisfied this does not result in a significant weakness for VFM arrangements. We also note, the Council has themselves identified a key risk within the budget setting report for 2023-24, that PSPS may be unable to deliver an effective service within the agreed price. The likelihood rated as low, and impact medium. This risk remains unchanged in the 24-25 budget indicating the risk is ongoing.

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