

Auditor's Annual Report on South Lakeland District Council

2021/22

28 February 2023



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

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



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

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Executive summary



Value for money arrangements

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

Auditors are required to report their commentary on the Council's arrangements under specified criteria and 2021/22 is the second year that we have reported our findings in this way. As part of our work, we considered whether there were any risks of significant weakness in the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources. Our conclusions are summarised in the table below.

Important note on local government reorganisation

Under the Cumbria (Structural Changes) Order 2022, South Lakeland District Council will be abolished on 31 March 2023 (along with Cumbria County Council, Barrow Borough Council and Eden District Council). Responsibility for the Council's functions will transfer to a new unitary, Westmorland and Furness Council. It will be for this new Council to establish its own value for money arrangements. However, through this report we identify several instances of notable practice that we consider support strong arrangements at South Lakeland District Council during the year and can equally form part of the Council's new arrangements going forward.

Criteria	Risk assessment	2020/21 Auditor Judgment		2021/22 Auditor Judgment		Direction of travel
Financial sustainability	No risks of significant weakness identified		No significant weaknesses in arrangements identified, but one improvement recommendation made		No significant weaknesses in arrangements identified	↑
Governance	No risks of significant weakness identified		No significant weaknesses in arrangements identified, but three improvement recommendations made		No significant weaknesses in arrangements identified	↑
Improving economy, efficiency and effectiveness	No risks of significant weakness identified		No significant weaknesses in arrangements identified, but one improvement recommendations made		No significant weaknesses in arrangements identified	↑

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

Executive summary



Financial sustainability

The Council has now set its 49th and final budget, maintaining its clear approach to both budgeting and financial reporting. The costs of local government reorganisation contributed directly to the Council forecasting that it would dip slightly below its own risk-based minimum (general) reserve level, but both the Council and we are assured, given the circumstances that reserves were not used to support recurring expenditure. The Council set a balanced budget for 2022/23 and currently is on track to substantively deliver that. Car parking income stabilised after the pandemic but the new Authority will, inevitably, inherit some uncertainty over this key income stream as the “new normal” in term of resident and tourist behaviour and car park usage is still evolving. There was some slippage against the capital programme that, could have been better profiled before the year-end.



Governance

The Council maintained strong governance structures and policies to support standards and good governance. The Council continued to operate a sound system of internal control. We recommend that the Council ensure as many outstanding audit recommendations as possible are completed before the Council ceases to exist and, where this is not possible, should prepare a clear and accurate position statement to ensure the new Audit Committee can follow up any appropriate actions for those that carry over. We did not identify any significant weaknesses in governance arrangements.



Improving economy, efficiency and effectiveness

The Council kept up its track record of regular and relevant performance reporting to Members - and built on this with more visual performance reporting in 2021//22. The Council maintained its active engagement with key partnerships, including with neighbouring authorities in establishing the new Westmorland and Furness Council. The Council adopted a useful protocol governing its partnership working. The scale of work to implement local government reorganisation meant the Council had to pause practical implementation of this framework but it would have provided a strong foundation for the Council's partnership governance. Reorganisation activity impacted to an extent the Council's ability to deliver services at the best possible cost, because it had to rely more on agency staff than it would have liked, given the obvious challenges of recruiting for the long-term. However, despite this our benchmarking data shows the Council's unit costs of services were still lower than many other District Councils. We recommend the Council smooth the transition to the new Authority for service users by ensuring that all key actions arising from complaints – particularly complex complaints – have been identified, and any outstanding actions made clear. We did not identify any significant weaknesses in arrangements to improve economy, efficiency and effectiveness.

Local Government Reorganisation

In July 2021 the Secretary of State for the Ministry for Housing, Communities and Local Government announced their decision to create two new unitary councils in Cumbria. This forms part of a wider series of government decisions in relation to Local Government Reorganisation (LGR) in England and followed submissions to government from existing councils in the Cumbria geography on the form that LGR should take. The six district councils, along with the county council, will be replaced by two new unitary councils. In the geography currently covered by Allerdale Borough Council, Carlisle City Council and Copeland Borough Council a new authority, Cumberland Council, will be created. In the geography currently covered by Barrow-in-Furness Borough Council, Eden District Council and South Lakeland District Council a second new authority, Westmorland and Furness Council, will be created. The fire and rescue service, currently part of Cumbria County Council, will become a separate body and form part of the governance arrangements of the Police and Crime Commissioner (PCC) for Cumbria (to then be called the Police, Fire and Crime Commissioner for Cumbria).

Grant Thornton is the external auditor of all seven local authorities in Cumbria, the Police and Crime Commissioner (PCC) for Cumbria and the Chief Constable of Cumbria. We have undertaken an over-arching local context review of LGR as part of our 2021/22 Value for Money (VfM) work in relation to the seven local authorities. This has included meeting key stakeholders from the two Shadow Authorities, interim and appointed senior officers from the two new unitary councils and other key stakeholders. We have summarised our findings in relation to the activity of the seven local authorities (the sovereign councils) and the new Shadow Authorities in the context of our VfM work. As all seven councils are demising bodies, and given the timing of our reporting, we have taken into account LGR implementation during 2022/23. We have set out our key findings based on this over-arching review on page 5. **Any findings specific to the Council are reported in the main part of this report.** A separate report, including our detailed findings on LGR is presented in a separate report.



We have completed our audit of your financial statements and issued an unqualified audit opinion on 25 November 2022, following the Audit Committee meeting on 10 November 2022. Our findings are set out in further detail on pages 5 and 19.



Local Government Reorganisation- summary findings

The move from seven to two councils provides an opportunity to realise financial benefits and improve service delivery and the financial sustainability of local government in Cumbria. The overall aim is to unlock efficiencies from the rationalisation of council structures and assets and improving systems and processes. However, we recognise that disaggregation of some County services, has required the duplication of some statutory posts.

However, implementing LGR is complex, time consuming and provides some significant challenges. These challenges for Cumbria include a relatively short implementation timescale, the pressures that come from delivering business as usual services by the sovereign councils whilst implementing LGR in parallel, the lack of ownership of some sovereign councils for the approved unitary model and a shared business case, the need to disaggregate county wide finances and services to align to the geographies of the two new unitaries, and undertaking financial and service planning for the new unitaries when many senior officers were not in role in a timely way to make key decisions.

It is clear from our work that officers and members at sovereign councils and the Shadow Authorities involved in LGR have been fully committed to a successful transition and implementation – in particular we often heard that officers had gone “above and beyond” what has been expected of them. The relatively short implementation timescale has resulted in a focus on the new unitaries being “safe and legal” on their vesting days.

This focus on ensuring continuity of existing services to residents and businesses in Cumbria has meant that the opportunities that should arise from rationalisation and transformation have not progressed and have largely been deferred for decisions to be taken following vesting day when there should be greater capacity available and senior leadership teams are in place.

It will take several years to fully realise the benefits planned from LGR and will require sustained commitment from senior stakeholders to deliver. There remain inherent risks in any LGR implementation and the new unitary councils will have significant decisions to take post vesting day. In summary, we see a number of critical challenges, in particular the following are key priorities:

- Financial sustainability pressures with reliance on potential additional government financial support and use of capital receipts and /or prudential borrowing to fund revenue expenditure

- Sub-optimal progress on the transformation agenda means the new councils will need to act fast, and fully utilise the PMO resource, to drive transformational change to improve service users’ experience and generate significant savings.

- Organisational structures, cultures and values will need to be agreed and embedded. This will be critical to the effectiveness of the new councils’ governance and performance management frameworks.

- Structures and key personnel put in place need to be proportionate to the significant scaled up challenges and opportunities the new councils will face.

- Specifying, procuring and successfully implementing new financial systems to replace the work around solution of utilising legacy financial systems. Whilst the work around arrangements are understandable in the context, this represents significant challenges in the short and medium term which will incur additional costs and impact on accounts production, audit, and budget monitoring.

- Concluding the outstanding disaggregation of services and associated budgets.

It will be important that elected members of the new unitary councils have appropriate time to fully engage with and scrutinise these key decisions.

At the same time as successfully managing LGR transition, the two new unitary councils will need to manage business as usual challenges affecting Cumbria, which include improving social care provision, managing increasing demographic pressures, recruitment and retention challenges, and improved working with the NHS.

It will also be important that the new unitary councils do not lose best practice arrangements that we have observed over recent years at sovereign councils, which include, but are not limited to:

- Good governance via effective Audit Committees and robust risk management at South Lakeland District Council, Cumbria County Council and Carlisle City Council.

- Strong partnership governance with a focus on demonstrable outcomes at South Lakeland District Council, Carlisle City Council, and Allerdale Borough Council.

Changes to the Fire and Rescue Service resulting from LGR means there are challenges for the service beyond April 2023, including; ensuring its financial sustainability, how it collaborates with the Constabulary, shares assets, and delivers its improvement agenda.

Opinion on the financial statements and use of auditor's powers

We bring the following matters to your attention:

Opinion on the financial statements

Auditors are required to express an opinion on the financial statements that states whether they : (i) present a true and fair view of the Council's financial position, and (ii) have been prepared in accordance with the CIPFA/LASAAC Code of practice on local authority accounting in the United Kingdom 2021/22

We have completed our audit of your financial statements and issued an unqualified audit opinion on 25 November 2022. Our findings are set out in further detail on page 20.

Statutory recommendations

Under Schedule 7 of the Local Audit and Accountability Act 2014, auditors can make written recommendations to the audited body which need to be considered by the body and responded to publicly

We did not issue any statutory recommendations.

Public Interest Report

Under Schedule 7 of the Local Audit and Accountability Act 2014, auditors have the power to make a report if they consider a matter is sufficiently important to be brought to the attention of the audited body or the public as a matter of urgency, including matters which may already be known to the public, but where it is in the public interest for the auditor to publish their independent view.

We did not issue a public interest report.

Application to the Court

Under Section 28 of the Local Audit and Accountability Act 2014, if auditors think that an item of account is contrary to law, they may apply to the court for a declaration to that effect.

We did not apply for a declaration.

Advisory notice

Under Section 29 of the Local Audit and Accountability Act 2014, auditors may issue an advisory notice if the auditor thinks that the authority or an officer of the authority:

We did not issue an advisory notice.

- is about to make or has made a decision which involves or would involve the authority incurring unlawful expenditure,
- is about to take or has begun to take a course of action which, if followed to its conclusion, would be unlawful and likely to cause a loss or deficiency, or
- is about to enter an item of account, the entry of which is unlawful.

Judicial review

Under Section 31 of the Local Audit and Accountability Act 2014, auditors may make an application for judicial review of a decision of an authority, or of a failure by an authority to act, which it is reasonable to believe would have an effect on the accounts of that body.

We did not apply for a judicial review.

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

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

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

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

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



Financial Sustainability

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



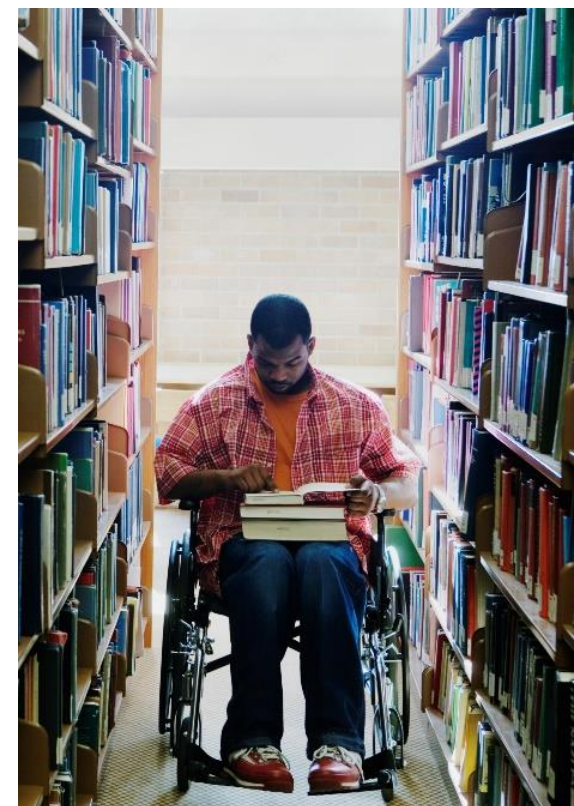
Governance

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



Improving economy, efficiency and effectiveness

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



Our commentary on the Council's arrangements in each of these three areas, is set out on pages 7 to 18. Further detail on how we approached our work is included in Appendix B.

Financial sustainability



We considered how the Council:

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

2021/22 Outturn and the 2022/23 Budget

The Council's financial outturn for 2021/22 was an underspend of £0.533 million. The Council made a net contribution of £0.515 million to general fund reserves.

February 2022 saw South Lakeland District Council's set its 49th and final budget, covering the 2022/23 financial year. As we noted in 2020/21, the Council has clear processes to recognise, assess and re-evaluate the impact of changes in expenditure drivers, including inflation and reflect these in its budget and other financial plans. The assumptions behind expected pay or contractual uplifts are explained clearly and the emerging budget was scrutinised at Cabinet, Council and Overview and Scrutiny Committees.

The final budget presentation to Full Council in February 2022 noted that the implementation of staffing changes as part of Customer Connect had permanently delivered savings of over £1.5m. However, the Council also had near-term cost pressures from Covid-19 and Local Government Reorganisation, demand pressures and price inflation, particularly on fuel, which created significant new pressures and gaps in the budget.

Despite this, the Council set a balanced budget position for 2022/23 on 22 February 2022, including a Council tax increase of 1.5% (£3.07 for a Band D property). There was no evidence the Council used of capital resources to relieve short term revenue pressures, though it was making greater than usual use of reserves, some of which was directly attributable the costs of local government reorganisation (see page 10). The final budget was accompanied by detailed advice from the Section 151 officer on the robustness of the estimates made and adequacy of reserves.

Inflationary pressures came to bear during 2022/23 and as at the end of Quarter 2 it was reported to Cabinet that the Council's salary budget had increase by £673,000, contributing to a projected year-end net overspend of £116,000 after mitigating actions had been identified.

Medium-term financial planning

Inevitably given the context, the Council's medium-term financial plan is different to how it would have been had the Council been continuing in its current form. However, the Council has retained its focus on the medium-term implications of near-term decisions. For example, the Capital Strategy sets out a base assumption that that no new capital bids will be considered unless they are 'invest to save' schemes, or are unavoidable.

The Council's final Medium Term Financial Plan (MTFP), approved in July 2021, covered the five years to 2025/26; the Budget reviewed by the Cabinet and approved by Full Council in February 2022 covered the period 2022/23 to 2026/27, as did the related capital programme.

Despite presenting a balanced budget for 2022/23, the Council identified significant [notional] deficits from 1 April 2023 – around £2 million each year from 2023/24 combining assumptions around reduced funding from central government assumptions and the impact of Covid-19. With the fairer funding/business rates reviews now delayed until at least April 2024, the relevance of this for this Council diminishes, though of course the timing and extent of funding reform remains a live issue for the new Westmorland and Furness Council.

The Council did, however, identify the potential impact of these changes in its MTFP covering the 2021/22 year, refreshed in July 2021. Accordingly, the General Reserve for this year included a specific element for potential lost grant of £1.99 million, which could have been used to offset a single-year shortfall while longer-term savings were delivered.

Financial Sustainability (2)

Income

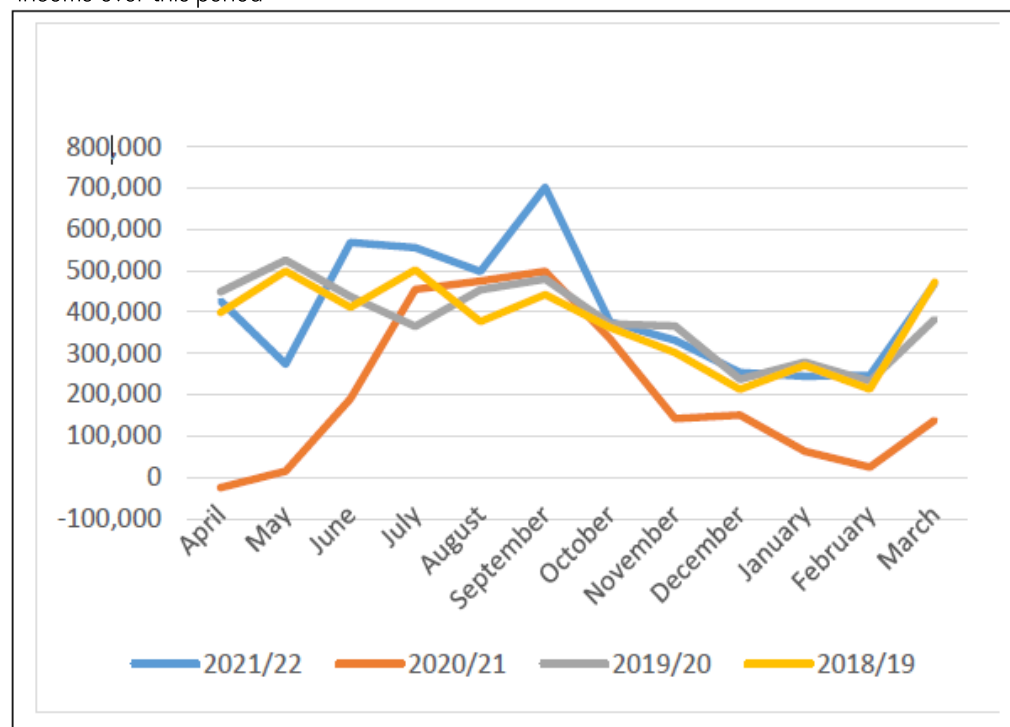
Income from fees and charges remained an important part of the Council's ongoing financial sustainability in 2021/22. The Council generates significant income relative to its service budgets: aside from council tax (£9.3 million in 2021/22) and retained business rates (£5.8 million). The Council's single largest source of income is from car parking (£4.3 million). The Council also generated over £1.4 million of gross income from Lake Windermere, where the Council can charge for moorings and encroachment rents) and Braithwaite Fold caravan site (see below).

The Council's income from car parking fluctuated significantly during the Pandemic (see Figure 1). We reported in our 2020/21 AAR that, the Council had incurred a reduction in its income of £2.898 million, over 70% of which was due to a decrease in car parking income collected and the restrictions introduced to limit the spread of Covid-19. The Council considers that future income flows from car parking may change further – for example, the balance between demand from tourism/retail and commuters is expected to change in the future. This therefore remains a key source of uncertainty in the Council's income and, by extension, a source of uncertainty in the income base of the new Westmorland and Furness Council.

Unlike some other Councils, South Lakeland District Council does not rely on significant income from other commercial property or retail investments or ventures. The Council reviewed its investment property portfolio in 2021/22 and changed the classification of 14 properties, which it did not hold primarily for yield or capital gains. This left only 11 investment properties (5 retail, 5 other commercial properties and 1 trading/industrial site with a combined fair value of £2.541 million. All are within the Council's own boundaries. After expenses the Council earned £119,000 income from the 11 properties compared to £322k for the same properties in 2020/21. This gave a return on investments of 4.67% in 2021/22 (13.41% in 2020/21. This is mainly as a result of the caravan site not being able to open in 2021/22, due to the Covid-19 pandemic and planned works onsite.

Figure 1: Car parking income by month: 2018/19 to 2021/22

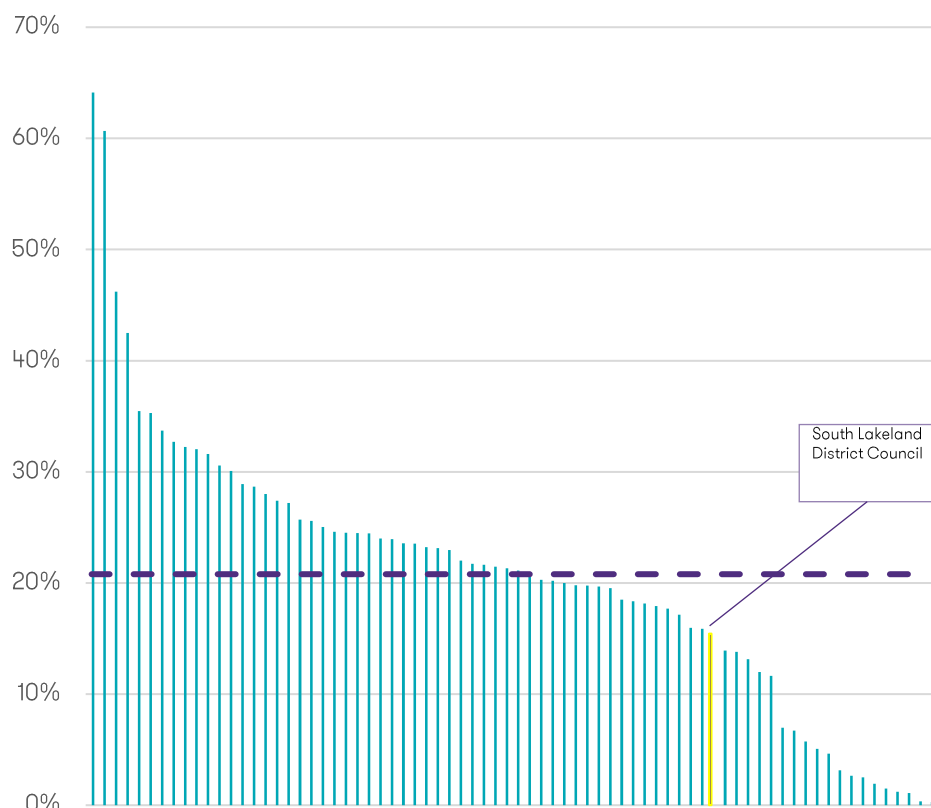
Car parking income fluctuated notably during the pandemic, contributing significantly to lost income over this period



Source: South Lakeland District Council

Financial Sustainability (3)

Figure 2: Long-term borrowing as a proportion of long-term assets (%)



Source: Grant Thornton CFOi benchmarking data for 2021/22

Capital strategy and borrowing

The Council's Capital Strategy is usually agreed annually and sets out how use of capital contributes to delivery of the Council's objectives, how capital is allocated, and how capital projects should be managed and monitored. The most recent Capital Strategy was approved by Council in February 2022.

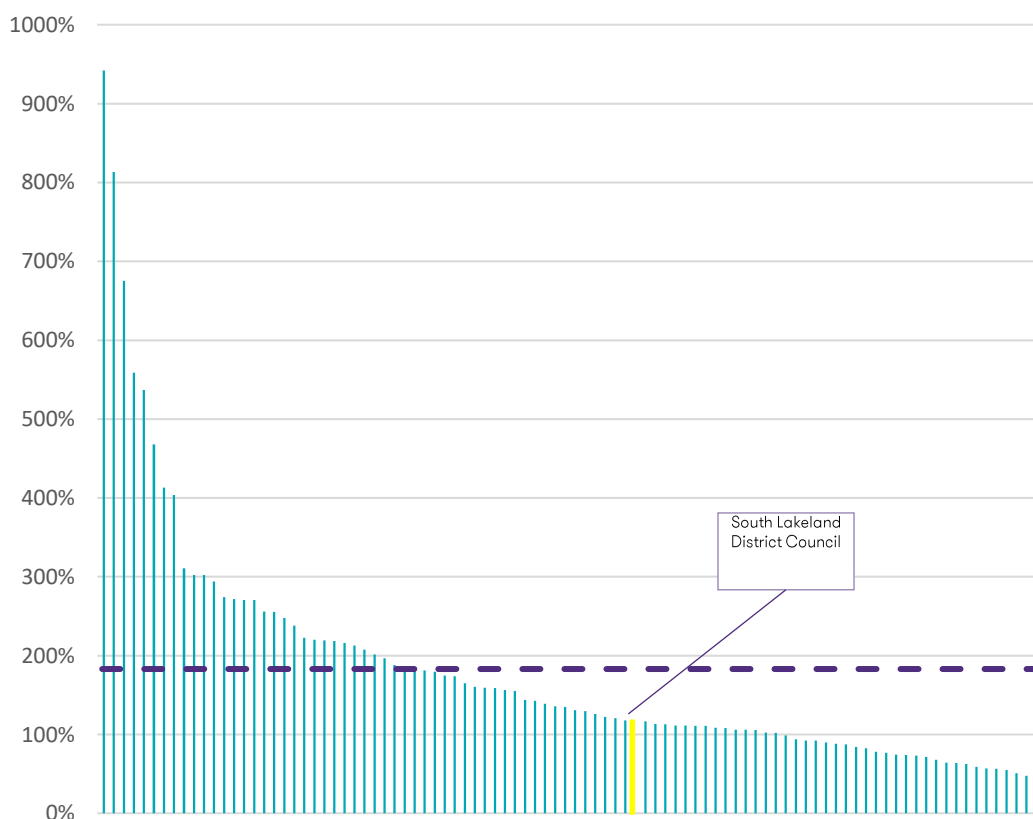
In 2021/22 Capital Expenditure was £10.9 million against a revised programme budget of £15 million, giving an underspend of £4.1 million. The final underspend on capital was larger than anticipated at the end of Quarter 3 of 2021/22, at which time reprofiling of only £0.44 million was anticipated. Only £4.9 million of the budget of £14.6 million had been spent at that point, indicating a £9.7 million spending target for Q4, which appears to have been ambitious. We set out more commentary in this regard on page 12.

The 2022/23 Capital Programme was approved in February 2022 and was £15.9 million, reprofiled to £20.9 million by summer 2022 taking account of carry-forward and new requests. The remaining capital programme (covering 2021/22 to 2025/26) is inevitably focused on the nearer term, peaking in 2022/23 at around £20.8 million before reducing to an estimated £2.3 million in the final year. This indicates that the council has adhered to its capital policy (see page 8). Within the programme as a whole, £7.4 million relates to the replacement of Ulverston Leisure Centre and £5.4m to the refurbishment of South Lakeland House and Kendal Town Hall. The Council was planning to borrow in years after 2019/20 to fund these projects with revenue savings but this has not been necessary for South Lakeland House project (the Ulverston Leisure Centre project has not yet started). The Council's long-term borrowing, relative to long-term assets remains low compared to other District Councils.

The capital programme also includes projects in which the Council has acted in an enabling role: it Council is acting as accountable body for: a £5.3 million flood prevention scheme in Kendal, working with the Environment Agency; and acted in a similar capacity to delivery the Cross-a-moor Junction Improvement Scheme (completed during summer 2022) in partnership with National Highways.

Financial Sustainability (4)

Figure 3: General fund and non-schools earmarked general fund reserves as a percentage of net service revenue expenditure (%)



Source: Grant Thornton CFOi benchmarking data for 2021/22

Use of Reserves

The Council's usable reserve position (general fund and earmarked reserves, not including capital reserves) at the start of the 2021/22 year was £29.4 million. This included the Council's 'working balance' of £1.5 million, used to help cushion against uneven cash-flows and avoid unnecessary borrowing. The total useable reserves balance in 2020/21 was, however, particularly high due to the receipt of Section 31 Covid-19 related grants, which the Council used to smooth the timing effects of business rate reliefs and the resulting lost income in 2021/22 and 2022/23. At the end of the 2021/22 financial year, total usable reserves had reduced to £24 million per its statement of accounts. This included a further £9 million of Section 31 Covid-19 related grants to be repaid in February 2023. The Council's contributed £1.6 million to a county-wide local government reorganisation implementation reserve, which was set up at £19 million to fund the cost of setting up the new unitary authorities. By their nature, these costs do not recur, so we are satisfied that there has been no use of reserves to fund recurring expenditure. Similarly, while we might usually look to see explicit plans to rebuild reserve levels, this is less relevant to a Council that will not exist after the end of the 2022/23 financial year. Moving forward, it will be for the new Westmorland and Furness Council to determine the adequacy and sustainability of its reserve position, including the risk-based level of minimum reserves it considers prudent.

At the time of setting the 2022/23 budget, the Council forecast that the usable reserves balance would reduced further to £11.3 million by the end of the 2022/23, updated to £13.3 million as at the end of Quarter 2 2022/23. Our analysis the Council's reserve levels at the outturn of 2021/22 indicates that while the Council's combined general fund and earmarked reserves are below the mean average of other district councils, being closer to the median level and remained over 100% of the net service revenue expenditure (Figure 3).

The Council has also demonstrated good capacity to identify its risk exposure and risk appetite by performing a bespoke, risk-based calculation of its minimum balances for "general" reserve balance (that is, general fund reserves that were not earmarked for specific purposes). It has identified the minimum level as £4.656 million. In setting its 2022/23 budget, the Council warned that by the end of 2022/23 the overall general fund balance, including the working balances, would fall to £4.5m million – to just below its recommended minimum level. In line with legislation, the Section 151 officer provided advice on the adequacy of these reserve levels in setting the budget in February. This clear advice noted the reserves position but, ultimately, the Section 151 officer considered that the overall level of reserves was adequate given: the one-off nature of use of reserves to fund the establishment of the new Westmorland and Furness Council through a contribution to the LGR implementation reserve (as set out above); and the fact that 2022/23 was the Council's final budget.

Governance



We considered how the Council:

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

Risk and performance management

We are satisfied that the Council has robust arrangements in place to identify and record strategic risks through their Risk Management Process Framework.

The Council has a Performance Management Framework and Risk Management Process, which are both reviewed annually. The Council Plan, adopted by Full Council in February 2021 and reviewed February 2022, has been taken into consideration as part of the annual review of these documents. The Performance Management Framework describes how the Council monitors its performance and reflects the performance monitoring structures and schedules. The Performance Management Framework 2022 has been aligned with the updated Council Plan.

The Risk Management Process describes how the Council identifies and manages operational and strategic level risks. The Risk Management Process 2022 has been reviewed to include reference to the Risk Training Programme - and the 'essential status' of training for key roles. The level of clarity regarding positive risks (opportunities) and negative risks has also been enhanced since we issued our 2020/21 AAR.

The Strategic Risk Register is reviewed by Corporate Management Team each quarter as part of quarterly performance monitoring and reporting arrangements. Risks above the line of 'risk appetite' are a priority and so are reviewed every quarter; those below risk appetite are reviewed once a year. This indicates that Cabinet is focused on key risks, and the Council is not unduly diverting strategic focus by reporting on too many risks.

Internal control and internal audit

The Council has an adequate and effective Internal Audit function in place to monitor and assess the effective operation of internal controls. The work of Internal Audit is overseen by the Audit Committee and has been provided by an external Internal Audit function TIAA since 2016. The 2021/22 Internal Audit plan was approved by Committee in April 2021. In approving the Annual Plan, the Committee also approved the Audit Charter, which it is required to do annually.

The delivery of the internal audit work for 2021/22 was not significantly impacted by the pandemic. All of the planned 200 days of internal audit coverage and 100% of the planned audits contained in the annual plan were delivered and completed. Regular Internal Audit progress updates against recommendations and progress updates were provided to Audit Committee during the year. The Audit Committee also considered Internal Audit's Annual Report on the 2021/22 financial year in July 2022. The Head of Internal Audit's overall opinion was that, for the areas reviewed during the year, South Lakeland District Council has reasonable and effective risk management, control and governance processes in place.

The report presented to Audit Committee in July 22 showed that of the 35 recommendations from past reports being tracked, only 34% had been implemented. The 23 remaining recommendations were due to slip beyond the original implementation date, due to the effects of COVID-19 and Local Government Reform. Although the Council will want to minimise the number of recommendations inherited by the new Authority, it should ensure that any that need to carry over are accompanied by a rigorous assessment of progress, and any residual risk, including implementation dates for outstanding actions - and clear reasons for non-implementation where appropriate.

Governance (2)

Budget setting and control

Budget-setting

As we reported in 2020/21, the Council has a multi-layered and thorough budget-setting process. The MTFP and budget are considered at Overview and Scrutiny Committee, then Cabinet and then approved at Council. There are multiple milestones in the budget-setting process at which members were able to engage with the emerging budget - these start well in advance of budget-setting and integrate consideration of the Budget and MTFP (longer-term budgeting strategy). On 27 July 2021 Full Council agreed to the proposed Budget Strategy for the current year's budget process as part of the Medium Term Financial Plan (MTFP). The Budget Strategy set the key principles which used in the preparation of the 2022/23 – 2026/27 Budget. In December 2021 Cabinet considered the first draft budget proposal. A further update was provided to the Cabinet meeting on the 9th February 2022. Finally, Full Council agreed the budget on 22 February 2022.

The Council has identified that the demands of Local Government Reorganisation and COVID-19 have impacted the capacity of staff in the Council, including within the finance team. As a result the Council acknowledges that the 2022/23 has not been checked to the same extent it would normally. We did not within the scope of this review identify, however, any significant consequences of these changes to the usual quality assurance process, and note that the Council appears to be on track to deliver a substantively balanced budget in 2022/23 (though at this time of course we cannot pre-judge year-end results or the findings of our audit of the Council's 2022/23 financial statements.)

An MTFP is prepared July each year at the start of the budget process for the next financial year: includes impact of the outturn of the preceding year (the MTFP for 2022/23 budgets was approved in July 2021). with regular updates as part of the quarterly Corporate Finance Update process. Regular updates are also provided to Cabinet during the budget setting process so the final 2022/23 MTFP projections are included in the February 2022 budget report. Members are therefore well-engaged in budget setting through the formal process, and are asked to consider options for savings put forward.

We recommended in 2020/21 that the Council improve its external engagement within the budget setting process. The Council reported that there was limited scope to implement this recommendation because the then-current budget round for 2022/23, will be the last to be conducted by this Council. The new Westmorland and Furness Council shadow authority will set its own Budget for 2023/24 and is undertaking its own public consultation.

The Council's MTFP includes some sensitivity analysis and scenario planning including various scenarios continue relate to unexpected increases in inflation, pension contributions, inflation on contracts, borrowing rates and decreases in income. A 1% benchmark was used to illustrate the impact of variations in key assumptions over the period of the MTFP. However, the Covid-19 pandemic and the levels of inflation experienced during 2022, for example, demonstrate that unexpected events (where the risk and its impact can be inherently hard to identify and mitigate) can and do happen - and that under those scenarios the impact may well not be limited to a 1% variance. We continue to consider therefore that the Council's planning in this area, could have been enhanced by including more specific scenarios, consideration of the impact of those scenarios on priority services, revenues and reserves.

Budget monitoring

Budget monitoring works well. The process is similarly structured to the budget-setting process and also allows ample engagement by members with the emerging and updated budgetary position throughout the year. The process is underpinned by quarterly updates which cover capital and revenue position, as well as borrowing and treasury management. These reports include a service-area level list of on variances to the proposed budget, along with a supporting narrative.

As set out on page 10, there was a £4.1 million capital underspend. The majority of the underspend related to timing adjustments, with several requests to carry forward key budgets. Some of the timing differences were (relatively) minor but impacted when payments fell across financial years, meaning the Quarter 3 report was not as clear a guide to the year-end position as it could have been. For example, as at end Quarter 3, the South Lakeland Town Hall redevelopment was expected to be complete by February 2022. In the event, the Council reported in its final accounts that work was largely completed by March 2022 and were completed in the first quarter of 2022/23. In our 2020/21 AAR, we acknowledged the challenging times the Council faced but also noted scope to improve the profiling of capital spend by closer working with partners to come up with more realistic timeframes and related capital spend profiles.

We suggest that the Council should prepare accurate and up-to-date and realistic position statements on capital projects ahead of the transfer to the new Authority, to support it in accurate financial planning from the outset.

Governance (3)

Maintaining standards

The Council generally maintains a clear and up-to-date set of policies aimed at promoting high standards of governance and ethical behaviour. The Council's Codes of Conduct for both members and officers are clearly incorporated into its Constitution, which was itself revised in July 2022. The Code of Conduct for Employees includes a policy on gifts and hospitality and sets out that a register which is maintained by Monitoring Officer. An annual report is also produced. The Code of Conduct for Members and Co-opted Members of the Authority includes instructions on registering pecuniary interests and conflicts of interest. The Council has also adopted a protocol to improve the governance of key partnerships – see page 17.

The Council employs a corporate specialist for anti-fraud who works with both revenues and benefits staff and finance staff in tackling fraud and leads on raising the profile of anti-fraud and corruption in the authority. The Anti Fraud Policy was reviewed and updated in December 2021 against the CIPFA "Code of Practice on Managing the Risk of Fraud and Corruption: Counter Fraud Assessment."

The Council also reviewed its existing Anti-Bribery, Fraud and Corruption Policy in 2021/22. This policy links very closely with the Whistleblowing Policy which is normally reviewed bi annually. Our review of committee papers for the year showed that the scheduled review of the Whistleblowing policy review in 2021/22 was not undertaken. The existing Whistleblowing policy was last reviewed 2017/18. A review was due in 2019/20 but was delayed due to pressures of the Customer Connect Programme and Covid-19. The Council's Annual Governance Statement action plan is where the shows that the due date changed four times and subsequently in October 2022 it was reported that the review of the Whistleblowing Policy would effectively be delayed indefinitely due to the limited time available to update the Policy with vesting day of the new Westmorland and Furness Council in April 2023. A whistleblowing policy is a critical element of a internal control system and it will of course be important that, on the establishment of the new authority, a revised Whistleblowing Policy is implemented promptly to ensure all that staff are aware of the policy and procedures in place.

The Council reported to us that there were no whistleblowing incidents during 2021/22. The Council further reported to us that data breaches that were reportable to the Information Commissioner's office, had occurred during 2021/22 but were not significant.

Conclusion

Overall we found that during 2021/22 the Council maintained good governance arrangements to gain assurance over its system of internal control, had effective budget monitoring, and adequate arrangements in place to monitor its adherence the standards expected of officers and members. We found no significant weaknesses.

We suggest that the Council will wish to ensure accurate reporting of capital expenditure and forecasts in handing over to the new Authority, to support it in accurate financial planning from the outset. As many audit recommendations as possible should be completed before the Council ceases to exist and, where this is not possible officers should prepare a clear and accurate position statement to ensure the new Audit Committee can follow up any appropriate actions for those that do carry over.



Improving economy, efficiency and effectiveness



We considered how the Council:

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

Measuring and monitoring performance

We reported in 2020/21 that the Council had a strong performance management system. A revised framework was approved at Audit Committee in April 2021, along with the revised Risk Management Framework. The Council has a Performance Management Framework in place which was last reviewed in December 2021. The Council built on this further in 2021/22. During the year, Cabinet received quarterly performance monitoring reports, which means performance was measured frequently, in line with the priorities set out in the Council Plan. Responding to Cabinet's request that data be presented in graphical format to facilitate interpretation performance data is more easily identifiable and performance across each Quarter is visible, supporting members' challenge and discussion of performance.

Performance as at Quarter 4 2021/22 as reported in the outturn report for the year, showed targets listed under four priorities: Working Across Boundaries; Delivering A Balanced Community; Delivering A Fairer South Lakeland; and Addressing the Climate Emergency. The performance report summarised the performance of a number of targets that had shown good performance in the context of the Covid-19 Pandemic. The Council highlights delivery of 566 affordable homes for rent during the period 2014 to Q4 of 2021 to 2021, leaving 434 affordable homes remaining of its "1000 homes to rent" target between 2014 to 2025. In line with national trends and the influence of Covid-19 the number of homeless households living in temporary accommodation was outside target in 2021/22.

The Council notes that its planned evolution from detailed service plans to "plans on a page" to support further scrutiny of detailed plans was delayed by work to support LGR

Procurement and contract management

As we noted in our 2020/21 AAR, The Council has a procurement strategy covering 2021-2026, which sets out its procurement approach. From September 2021 the property services team have been in-sourced and the transition is operating as planned. During 2021/22 Internal Audit reviewed procurement within the Council. Overall, reasonable assurance was reported within this review, with four category 2 actions points.

Internal Audit also reported on the Council's contract management in 2021/22, focusing on the South Lakeland House renovation project. Their report returned a "reasonable assurance" opinion overall. Contract Procedure Rules had been contravened in that no written quotations or tenders were invited in relation to a supply of materials outside the main contract for the £62,000 supply of curtains for the project. The report also found, however, that costs, including valuations and variations, were properly supported and coded correctly in the finance system.

Improving economy, efficiency and effectiveness (2)

Partnership working

We reported a number of positive findings in relation to the Council's approach to partnership working in 2020/21, noting the Council's active membership of key partnerships including the Cumbria Local Enterprise Partnership and various health related partnerships including Morecambe Bay Place Partnership, Population Health Strategic Group and the South Lakeland Health and Wellbeing Partnership.

During 2021/22, the Council was also fully engaged throughout with Local Government Reorganisation and this remains the case in 2021/22. The Council agreed to host the Westmorland and Furness Joint Committee (established in accordance with the Structural Changes Order).

The Council also began work during 2021/22 to establish a clear governance framework for partnerships, which is a notable example of a mature approach which recognises both the benefits and challenges of working in partnership. The guidance, adopted by the Council in December 2021, establishes a requirement for any new partnership activity to be reported in a standard format to the Corporate Management Team, setting out a clear business case for the activity.

The guidance recognised the importance of a 'golden thread' for partnership activity covering, for example, the need to set clear objectives, establish robust financial and performance monitoring, evaluate outcomes and set a clear exit strategy. Importantly, it establishes a framework for 3-yearly review of important partnerships, defined as those where the Council's contribution is £150,000 more or the "turnover" of the partnership is £500,000 or more over 3 years, or the partnership is particularly important strategically or politically. This is a good example of setting a framework for partnerships activity and insuring against 'mission creep' and reflects some of the practices established in central government for the governance of Arm's Length Bodies by sponsor Departments, for example.

Although the Council paused roll-out of this new approach due to Local Government Reorganisation, this approach provides a clear and effective basis on which the new Authority may wish to set out its own approach to Partnership working.

Managing customer feedback

The Council has clear reporting measures around complaints. All complaints are analysed and broken down by priority and service area for oversight by the Standards Committee. The Council's Standards Committee also received an annual report summarising complaints and compliments received from April 2021 to March 2022. In 2021/22, the council received a total of 658 complaints and enquiries through the different complaints channels - an increase of 22% on 2020/21. Of these, 315 were actual complaints received by service areas. It was reported that the reasons for complaints were varied and that there was no underlying trend, although during 2021/22, the complexity of a significant amount of complaints increased due to the impact of COVID 19 pandemic, and the challenges in delivering refuse services (which was the reason for 107 complaints). There were also significant increases in complaints about council tax and business rates, and environmental protection. There were also 94 compliments.

The Council's complaints policy aims to respond to all formal complaints within 10 working days. We note that a total of 61% (192) complaints were responded to within 10 working days. Of the 39% (123) falling outside of this time, it was reported that these were more complex complaints requiring detailed investigations and on some occasions, required a site visit.

The Council's process reflects good practice whereby Officers involved in complaint resolution apply lessons learned to identify opportunities for continuous improvement. The Council's annual report on complaints also highlights some examples of service improvements made following complaints. However, the annual report does not systematically report the changes made (or confirm that following investigation no changes were required) as a result of complaints. This would provide greater assurance that improvement actions were being undertaken in areas with high levels of complaints, and particularly in the relatively high proportion of complaints cases that involved detailed investigations (see above).

The annual Ombudsman letter for 2021/2022 confirmed no decisions were upheld against the Council as the Ombudsman did not find any evidence that the Council acted with maladministration. As a comparison, an average of 51% of decisions for similar councils are upheld.

We noted that Members expressed a desire for the Council's standards and practices to be forwarded on to the new authority for additional consideration and learning. Members indicated that they were looking to make future comparisons with other councils.

We therefore suggest that the Council and the new Authority supplement regular complaint reporting with a more systematic, service-area-level analysis of the outcomes of complaints - particularly complex cases - and confirm the actions identified (or whether no action was required).

Improving economy, efficiency and effectiveness (3)

Benchmarking and cost-effective delivery

We recommended in 2020/21 that Council further improve its performance management arrangements by introducing more benchmarking of costs and performances against similar bodies, to identify areas for improvement. The Council reported to us that due to pressures of local government re-organisation and the work to prepare base budgets for the new Authority, this has not been a priority. However, the preparation of two new authorities has required some extensive benchmarking through the process of identifying and cataloging priorities, service offers and costs, and contracts, for example.

As recognised in the Council's MTFP, the Council's reduced ability to attract and retain skilled staff in the context of local government reorganisation from April 2023 has resulted in direct additional costs because it has necessitated greater use of agency staff, who are much more expensive than direct employees. Agency costs were a key source of unavoidable additional costs identified in the 2022/23 budget, totalling around £0.75 million, split across 2021/22 and 2022/23.

Nonetheless, our benchmarking of the cost of the Council's core services against comparators indicates that the Council has delivered service at a relatively low unit-cost compared to others. All of the key service areas listed rank low in compared to other councils aside from the costs of central services. Inevitably, the process of local government reorganisation has resulted in some additional administration and staffing costs for the Council. We set out on page 11, for example, the direct financial contribution of the Council to the cost of establishing the new Authority, on page 13 to the impact on the budget-setting process and on page 16 on the investment in partnerships required.

Service area	Relative position in 2022/23
Housing Services	VERY LOW
Environmental & regulatory	VERY LOW
Planning & development	VERY LOW
Highways & transport	VERY LOW
Cultural & related	VERY LOW
Central services	VERY HIGH

Follow-up of previous recommendations

	Recommendation	Type of recommendation	Date raised	Progress to date	Addressed?	Further action?
1	Financial sustainability – Provide a clear distinction between controllable and non-controllable spending in the budgetary information to members and ensure it is published on the website.	Improvement	December 2021	The Council has concentrated their resources in preparing service blueprints for the new authorities including base budget information for 2022/23 rather than this analysis. If there are resources this work will be carried out during 2022/23 but that currently seems unlikely.	No	No - The Council has already set its final budget for 2022/23
2	Governance – Improve proactive external engagement and deploy empowerment strategies during the budget setting process.	Improvement	December 2021	The 2022/23 budget setting process had limited public consultation but the 2023/24 budget process [for the new Authority] has already incorporated dates for consultation and a methodology is being prepared.	No	No - The Council has already set its final budget for 2022/23
3	Governance – Integrate relevant non-financial performance related information into financial reports and within the end of year financial statements narrative report.	Improvement	December 2021	The Council has both performance monitoring and finance monitoring reports presented quarterly to Overview & Scrutiny Committee and Cabinet although only the finance monitoring is also reported to Council. Members in practice spend much more time examining the performance monitoring report than the finance report. In an ideal world we would include more cross-references between the two reports but at the moment resources do not allow this.	No	No
4	Governance – Develop the Council's risk maturity and duality of risk by formally considering opportunities to exploit as well as a focus on downside risks.	Improvement	December 2021	The Council's risk management process (approved by Audit Committee in April 2022) has been updated to give improved clarity regarding positive and negative risks.	Yes	No
5	Improving economy, efficiency and effectiveness – Introduce arrangements to benchmark costs and performance against similar bodies.	Improvement	December 2021	As part of preparing service blueprints for the new authorities (including base budget information for 2022/23) benchmarking has been undertaken, although mostly between the 7 existing authorities. Formal cost benchmarking was not introduced for the Council itself, but there is limited scope now to do so given the transition to the new Authority	Partly	No - The Council has already set its final budget for 2022/23

Opinion on the financial statements



Audit opinion on the financial statements

We gave an unqualified opinion or we qualified the opinion on the Council's financial statements on 25 November 2022.

Audit Findings Report

More detailed findings can be found in our AFR, which was published and reported to the Council's Audit Committee on 10 November 2022. We have concluded that the other information published with the financial statements, including the Narrative report and Annual Governance Statement, was consistent with our knowledge of the Council and the financial statements we have audited.

Preparation of the accounts

The Council provided draft accounts in line with the national deadline and provided a good set of working papers to support it.

Issues arising from the accounts:

We have identified two adjustments to the financial statements that have resulted in a £739k adjustment for 2021/22 and £891k adjustment for 2020/21 to the Council's Comprehensive Income and Expenditure Statement, decreasing its deficit in 2021/22 and decreasing its surplus in 2020/21. The key issues related to the accounting for \$106 grants in advance and accurate reporting of the Council's infrastructure assets.

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

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



Appendices

Appendix A – Responsibilities of the Council

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

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

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

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

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

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



Appendix B – An explanatory note on recommendations

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

Type of recommendation	Background	Raised within this report	Page reference
Statutory	Written recommendations to the Council under Section 24 (Schedule 7) of the Local Audit and Accountability Act 2014.	No	n/a
Key	The NAO Code of Audit Practice requires that where auditors identify significant weaknesses as part of their arrangements to secure value for money they should make recommendations setting out the actions that should be taken by the Council. We have defined these recommendations as 'key recommendations'.	No	n/a
Improvement	These recommendations, if implemented should improve the arrangements in place at the Council, but are not a result of identifying significant weaknesses in the Council's arrangements.	None made in the context of LGR but suggested areas to take forward to the new Council have been highlighted in the report	Pages 13, 14, and 16

