

Auditor's Annual Report on South Lakeland District Council

2022/23

12 February 2024



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

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



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

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Executive summary



Value for money arrangements and key recommendation(s)

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 2022/23 is the third 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. Where we identify significant weaknesses in arrangements, we are required to make recommendations so that the Council may set out actions to make improvements. Our conclusions are summarised in the table below.

Criteria	2022/23 Risk assessment	2022/23 Auditor judgement on arrangements	2021/22 Auditor judgement on arrangements	Direction of travel
Financial sustainability	No risks of significant weakness identified	G Our work did not identify any areas where we considered that key or improvement recommendations were required	G Our work did not identify any areas where we considered that key or improvement recommendations were required	↔
Governance	No risks of significant weakness identified	G Our work did not identify any areas where we considered that key or improvement recommendations were required	G Our work did not identify any areas where we considered that key or improvement recommendations were required	↔
Improving economy, efficiency and effectiveness	No risks of significant weakness identified	G Our work did not identify any areas where we considered that key or improvement recommendations were required	G Our work did not identify any areas where we considered that key or improvement recommendations were required	↔

- G** No significant weaknesses in arrangements identified or improvement recommendation made.
- A** No significant weaknesses in arrangements identified, but improvement recommendations made.
- R** Significant weaknesses in arrangements identified and key recommendations made.

Executive summary (continued)



Financial sustainability

The Council set its 49th and final budget in February 2022, and maintained its clear approach to budgeting and financial reporting, through its final year of operation. The Council set a balanced budget for 2022/23. During the year, along with many other councils, the Council faced significant financial challenges from the impact of inflation on its cost base - particularly on staff costs. Despite this, the Council's outturn was a small £85,000 overspend, despite it not using all the contingencies it had set aside for the year. In the context, this was a notable achievement. The Council had forecast in late 2022 its general reserves and working balance might dip slightly below its own recommended, risk-based minimum of around £4.6 million but, in the event, this did not occur. **We did not identify any significant weaknesses in the Council's arrangements to secure financial sustainability in its final year.**



Governance

The Council maintained strong governance processes and policies to support standards and good governance until its closure and continued to operate a sound system of internal control. We note the Council's commitment to good governance until its closure, with the final Cabinet and Full Council in March 2023 receiving, where possible, assurance reports from key committees and reporting on risk up to the latest feasible date. We also note that the Council put arrangements in place to flag live issues, such as legal issues, that could not be resolved before March 2023. **We did not identify any significant weaknesses in the Council's governance arrangements.**



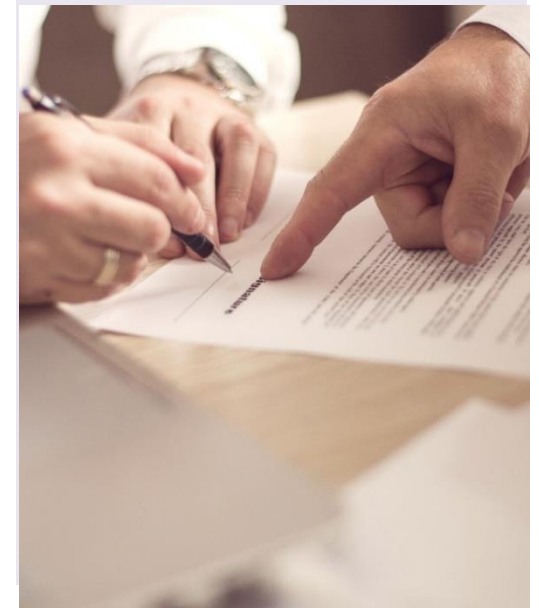
Improving economy, efficiency and effectiveness

The Council kept up its recent track record of regular and relevant performance reporting to Members and built on the more visual style of performance reporting it first introduced during 2021/22. The Council also maintained its active engagement with key partnerships, including with neighbouring authorities in establishing the new Westmorland and Furness Council. **We did not identify any significant weaknesses in the Council's arrangements to secure economy, efficiency and effectiveness.**



Financial Statements opinion

We have completed our audit of your financial statements and issued an unqualified audit opinion on 12 February 2024. Our findings are set out in further detail on pages 19 to 20.



Use of auditor's powers

We bring the following matters to your attention:

2022/23

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 make any written recommendations under Schedule 7 of the Local Audit and Accountability Act 2014.

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 make an application to the Court.

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:

- 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.

We did not issue any advisory notices.

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 make an application for 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 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.

In addition to our financial statements audit work, we perform a range of procedures to inform our value for money commentary:

- Review of Council, Cabinet and committee reports
- Regular meetings with senior officers
- Interviews with other members and management
- Attendance at Audit Committee
- Considering the work of internal audit
- Reviewing reports from third parties including Ofsted
- Reviewing the Council's Annual Governance Statement and other publications



Our commentary on the Council's arrangements in each of these three areas, is set out on pages 7 to 18.

The current Local Government landscape



National context

Local government in England continues to face significant challenges as a sector. These include a high level of uncertainty over future levels of government funding, alongside delays to the Government's plans for reform of the local government finance system, impacting on medium-term financial planning. This is also a time of generationally significant levels of inflation – the UK inflation rate was 7.8% in April 2022, rising to a 41-year high of 11.1% in October 2022, then reducing to 10.1% in March 2023. Inflation has put pressure on councils' revenue and capital expenditure, and the associated cost of living crisis has affected local communities and businesses, leading to an increase in demand for council services, such as children with special education needs (with associated transport costs), debt advice, housing needs, and mental health. Other areas of council income such as car parking and the collection rates of council tax, business rates and rents have also been affected. This follows a significant period of funding reductions by Government (2012 to 2017) and the impacts of Brexit and the COVID-19 pandemic which, for example, have contributed to workforce shortages in a number of council service areas, as well creating supply chain fragility risks.

The local government finance settlement for 2023/24 was better than many in the sector anticipated demonstrating an understanding by Government of the financial challenges being faced by the sector. However, the Local Government Association, in July 2023, estimated that the costs to councils of delivering their services will exceed their core funding by £2bn in 2023/24 and by £900m in 2024/25. This includes underlying cost pressures that pre-date and have been increased by the pandemic, such as demographic pressures increasing the demand for services such as social care and homelessness.

Over the past decade many councils have sought to increase commercial activity as a way to generate new sources of income which has increased the nature of financial risk, as well as the need to ensure there is appropriate skills and capacity in place to manage such activities.

Local government is coming under an increased spotlight in terms of how the sector responds to these external challenges, including the Government establishing the Office for Local Government (Oflog) and there has been an increase in the number of councils who have laid a Section 114 Notice, or are commenting on the likelihood of such an action, as well as continued Government intervention at a number of councils.

There has also been an increase in the use of auditors using their statutory powers, such as public interest reporting and statutory recommendations. The use of such auditor powers typically derive from Value for Money audit work, where weaknesses in arrangements have been identified. These include:

- a failure to understand and manage the risks associated with commercial investments and council owned companies
- a failure to address and resolve relationship difficulties between senior officers and members
- significant challenges associated with financial capability and capacity
- a lack of compliance with procurement and contract management processes and procedures
- ineffective leadership and decision-making.

Value for Money audit has an important role in providing assurance and supporting improvement in the sector.

Financial sustainability



We considered how the Council:

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

Short and medium-term financial planning

Financial performance in 2022/23

South Lakeland District Council set its 49th and final budget in February 2022, covering the 2022/23 financial year. As we reported in our 2021/22 Auditor's Annual Report, the Council had clear processes to recognise, assess and 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 were explained clearly and the emerging budget was scrutinised at Cabinet, Council and Overview and Scrutiny Committees.

The Council anticipated significant inflation-based cost pressures during 2022/23. The final budget presentation to Full Council in February 2022 noted that the Council had near-term cost pressures resulting from Covid-19 and Local Government Reorganisation, demand pressures, and price inflation - particularly on fuel - which created significant new pressures and gaps in its budget.

The inflationary pressures that came to bear during 2022/23 were even greater than planned for in its budget. These pressures affected Councils across the region and the country and put a significant strain on the Council's budgetary position. By the end of Quarter 2, Cabinet heard that the Council's salary budget had increase by £673,000, contributing to a projected year-end net overspend of £116,000, after the effect of actions been identified. Employee costs were the largest recurring single element of its expenditure and the national pay settlement for staff of £1,925 per person was estimated to exceeded the budget figure by £673,000 (though the Council noted that the final overspend was lower due to difficulties in recruiting to vacant posts).

By the end of Quarter 3, however, the Council forecast a balanced position for 2022/23. It forecast that a revenue underspend of £276,000, carry forward requests of £61,000 and requests for transfers to reserves of £215,000, would offset the £116,000 deficit identified at Q2. For comparison the projected overspend at the same period in 2021/22 was £46,000.

The council's final outturn was a £85,000 overspend on its net revenue budget. Given the circumstances and the pressures experienced from unexpectedly high inflation, we do not identify the overspend as a significant issue. The Council attributed the overspend to the impact of Covid-19, the inflationary pressures identified opposite, and the ongoing costs of local government reorganisation. It transferred £85,000 from its General Reserve to meet this cost.

The closing level of Council's general reserves remained higher than its recommended level, and higher than forecast at the time of setting the 2022/23 budget. The Council's general reserve (not including its working balance of £1.5 million), as at 31 March 2023, remained around £4.1 million. While this is lower than the opening position of around £4.9 million 31 March 2022, it is higher than forecast at the time of setting the 2022/23 budget. Combined with the £1.5 million working balance this means that the Council's general "cushion" against unexpected costs and events remained higher than its own recommended minimum level of around £4.6 million. In assessing the adequacy of reserves in line with statutory guidance, as part of setting the 2022/23 budget, the Council had forecast that this combined reserve might temporarily fall below the recommended level.

Financial sustainability (continued)

Short and medium term financial planning (continued)

Medium-term financial planning

Despite its imminent demise as a sovereign council, and the pressures of local government reorganisation, the Council retained its focus on the medium-term financial implications of its near-term decisions. As we reported in our 2021/22 Auditor's Annual Report, it was inevitable that the Council's final medium-term plans were different to how they would have been, had the Council been continuing as a sovereign Council. However, we found no evidence of undue short-termism. For example:

- the Capital Strategy set out a base assumption that that no new capital bids will be considered unless they are 'invest to save' schemes, or were unavoidable.
- the medium-term financial plan (MTFP), approved in July 2021, covered the five years to 2025/26; and 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.
- MTFP projections were included in the February 2022 budget report.

With fairer funding and business rates reviews delayed beyond the Council's date of demise, the implications of ongoing uncertainty over the medium- and long-term funding regime for local government are now matters for the successor Westmorland and Furness Council.

	2022/23 (£m)	2021/22 (£m)
General Fund outturn underspend (overspend)	(0.085)	0.53
(Initial) Planned capital spend	£15	£15
Actual capital spend	£6	£10.9
Total (General) Reserve Position	£16 (£4.8)	£24 (£6.7)
Working Balance	£1.5	£1.5

Financial sustainability (continued)

Managing risks to financial resilience

Income risk

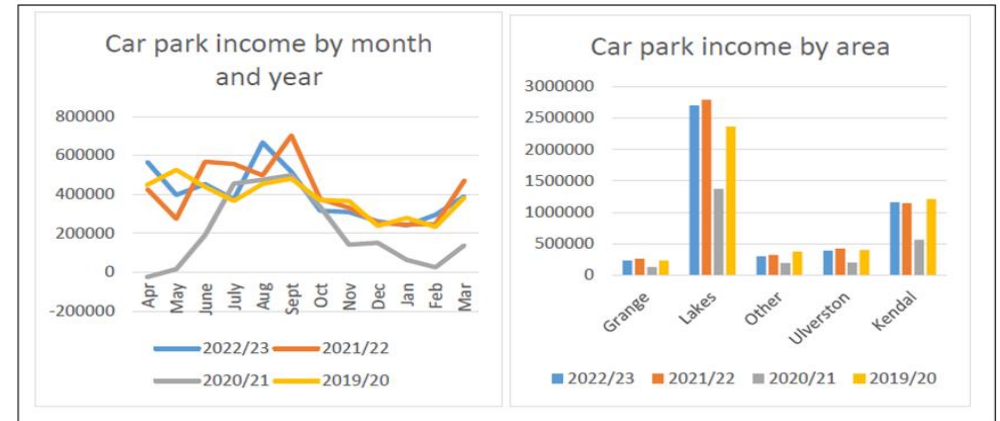
Unlike some other Councils, South Lakeland District Council did not rely significantly on income from commercial property or retail investments or other commercial ventures. The Council's largest single source of income was council tax (£9.8 million in 2022/23 excluding parish precepts of £1.98 million), normally followed by retained business rates (£3.7 million for 2022/23 but this was reduced by recognition of a deficit from 2020/21) and income from car parking (£5.2 million for 2022/23). The Council also generates over £1.5 million of gross income from Lake Windermere.

The majority of commercial income, therefore, was from car parking, which exceeded all other income sources except Council tax. After falling due to the pandemic, the total collected exceeded pre-Covid totals by the end of 2021/22. Budgets for 2021/22 included a contingency for ongoing additional costs of Covid-19 of £0.7 million for 2021/22, reducing to £0.26 million for 2022/23. Due to the pattern of income during 2022/23, however, the contingency was not required. The council notes that future income flows from car parking (to be received by the successor Westmorland and Furness Council) may change as the balance between tourism and retail is expected to change in the future.

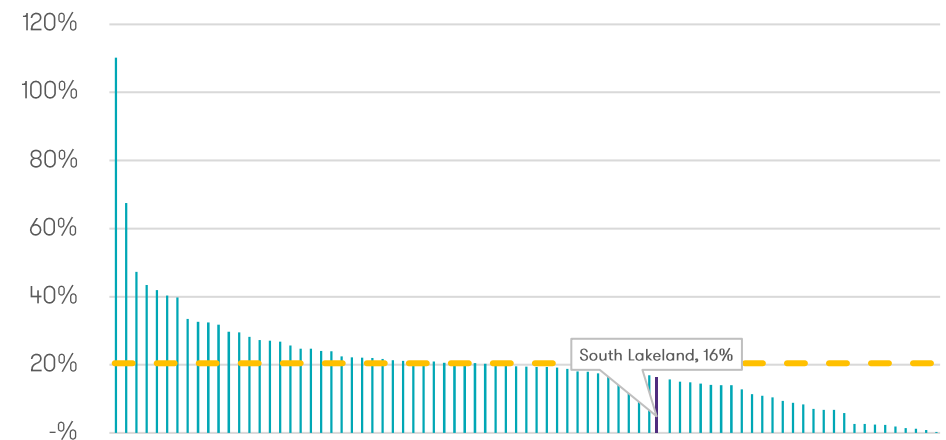
Capital Strategy and borrowing

The Council's 2022/23 Capital Programme was approved in February 2022 and was £15.9 million. The Council's final Medium Term Financial Plan (MTFP), approved in July 2021, which covered the five years to 2025/26, set out a base assumption that that no new capital bids will be considered unless they were 'invest to save' schemes, or unavoidable. The Council's capital programme accordingly reflected "enabling" projects and projects such as Grange Promenade and Grange Lido projects, both major capital schemes aimed at increasing the life and usability of community assets for the longer term. Based on benchmarking data from 2022/23 financial year, the Council's long-term borrowing, relative to its long-term assets, remained relatively low compared to other District Councils. This reflects the fact that the Council has chosen to draw on its own resources rather than borrow in cases such as the Grange Promenade and Lido projects. The Council considered that borrowing to fund these projects would not be appropriate, as these projects would not deliver new capital assets or ongoing financial returns. The Council's actual capital spend in 2022/23 was £6.9 million, which was a significant underspend against the planned programme and budget.

South Lakeland District Council analysis of car parking income, 2019/20 – 2022/23



Long-term borrowing as a proportion of Long-term assets (%), District Councils, 2022/23



Financial sustainability (continued)

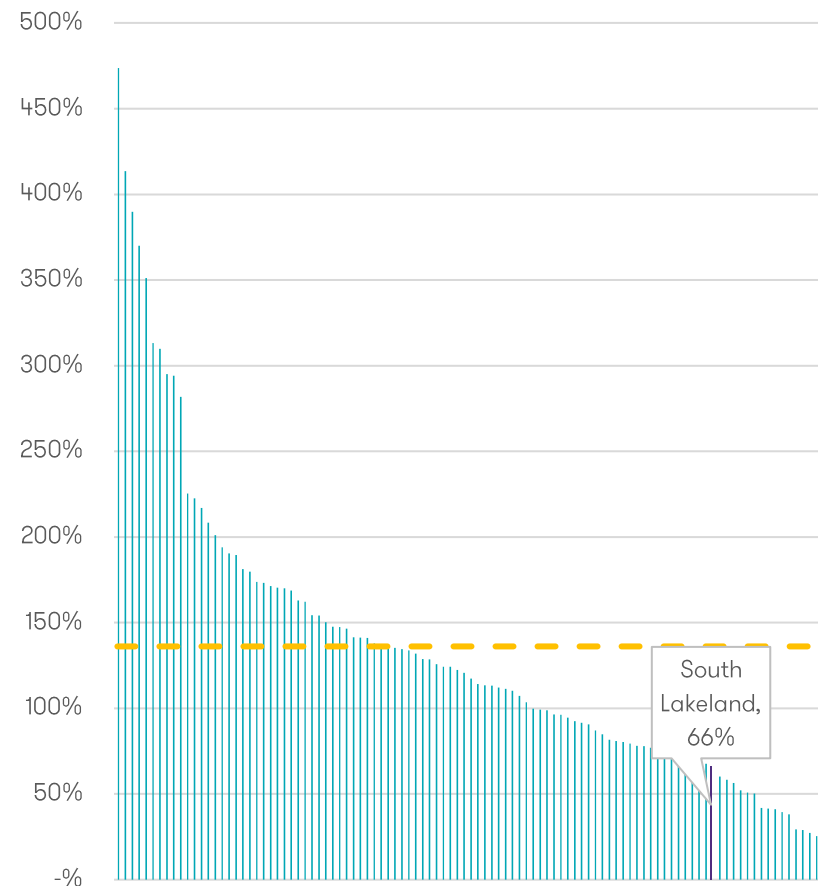
Use of reserves

The Council demonstrated capacity to identify its risk exposure and risk appetite by performing a risk-based calculation of its minimum balances for "general" reserve balance (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, could fall to £4.5 million - below its recommended minimum level, though the budget was set at an assumption that general reserves would remain at £3.8 million plus the £1.5 million working balance. In line with legislation, the Section 151 officer provided clear advice on the adequacy of the Council's reserve levels in setting the 2022/23 budget in February 2022. This 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, and the fact that 2022/23 was the Council's final budget.

Total usable reserves reduced from £24 million at the end of 2021/22 to £16 million at the end of 2022/23. This outturn figure was higher than budgeted (£12.7 million), mainly due to slippage in planned expenditure. The Council's reserve position has been reducing from a particularly high position of over £29 million in 2020/21 which was due to the effect 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. The Council has also contributed a county-wide local government reorganisation implementation reserve, which was set up 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 does 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.

Partly as a result of slippage on some planned expenditure, the general reserve outturn for 2022/23 remained clearly above the Council's recommended minimum level. The Council reported to us that there will continue to be some draw on reserves in 2023/24 (the monitoring of which will fall to the new Westmorland and Furness Council, and which relates to previously committed expenditure, of which the majority relates to Grange Promenade and Grange Lido capital projects, both major capital schemes aimed at increasing the life and usability of community assets). The Council consider that as these projects would not deliver new capital assets or ongoing financial returns, borrowing to fund these projects would not be appropriate.

General fund and non-schools earmarked general fund reserves as a percentage of net service revenue expenditure (%); District Councils; 2023/23



Financial governance

Annual budget setting

The setting of the 2022/23 budget reflected the Council's multi-layered and thorough budget-setting process we have identified in previous years. The Budget and Medium-Term Financial Plan (MTFP) were considered at Overview and Scrutiny Committee, then Cabinet and then approved at Council. There were multiple milestones in the budget setting process at which members were able to engage with the emerging budget, and these started well in advance of budget-setting:

- The Budget Strategy agreed in July 2021 set the key principles used in preparing the 2022/23-2026/27 Budget.
- In December 2021, Cabinet considered the first draft budget proposal.
- Cabinet received an update on in February 2022.
- Finally, Full Council agreed the budget on 22 February 2022.

Members were therefore well-engaged in budget setting through the formal process and had adequate opportunity to consider options for savings put forward.

The Council identified that local government reorganisation and COVID-19 impacted staff capacity in the Council, including within the finance team and as a result the 2022/23 was not checked to the same extent it would normally. However, we did not, within the scope of our value for money review, identify any significant adverse consequences from this.

We recommended in our 2020/21 Auditor's Annual Report that the Council improve its arrangements for external engagement within the budget setting process. The Council reported to us as part of our 2021/22 Value for Money audit work (on which we reported in February 2023) that there had been limited scope to implement this recommendation because, by that time, the final budget round (for 2022/23) had already taken place.

Budgetary control

Budget monitoring at the Council worked well in the main. The process was structured similarly to the budget-setting process and allowed sufficient Member engagement with the emerging and updated financial position, throughout the year. The process was underpinned by quarterly updates which covered capital and revenue, borrowing and treasury management. These reports include a service-area level list of on variances to the proposed budget, along with a supporting narrative.

In 2022/23, as in 2021/22, the Council recorded a substantial capital underspend. In 2022/23 the Council recorded a £4.2 million capital underspend against its final updated capital plan budget of £10.2 million (which is £12.47 million less £2.3m of ERDF-funded flood defence works included in the capital programme but is treated as agency spend.) The initial budgeted programme was for £15 million. There were no material underspends (i.e. where money would no longer be spent) meaning the issue was more one of timing of delivery and payment (slippage) within the programme. Variances of £4.2 were therefore requested at Westmorland and Furness Council's Cabinet on in July 2023.

The Council acknowledges that there was scope for improvement in terms of anticipating the timing of capital expenditure. However, it also considers that its capital programme does not include large infrastructure schemes such as highways, schools or direct maintenance of council houses and that the level of re-profiling does not indicate a serious issue in terms of delivery of statutory services. We agree that there was scope to improve capital spend forecasts, particularly as the Q3 forecast outturn was £11.9 million against the full £12.47 million budget at that time, even though at that point only £5 million had been spent.

Conclusion

We did not identify any significant weaknesses in relation to the Council's arrangements to secure financial sustainability in its final year. We do not raise a formal improvement recommendation to South Lakeland District Council around capital programme monitoring, as responsibility for the residual capital programme now lies with Westmorland and Furness District Council. However, we remind those charged with the governance of the new Council that, in our 2021/22 Auditor's Annual Report on South Lakeland District Council Councils should prepare accurate and up-to-date position statements on capital projects ahead of the transfer to the new Authority, to support it in accurate financial planning from the outset. We note that detailed outturn reporting was provided to the successor authority, in July 2023.

Governance



We considered how the Council:

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

Risk management

We remain satisfied that the Council had robust arrangements in place to identify and manage strategic risks, and that it maintained a forward-looking and long-term view of risk throughout its final year.

The Council had an appropriate Risk Management Framework and Risk Management Process. Both key documents were reviewed annually (most recently in February 2022). The Risk Management Process describes clearly how the Council identifies and manages operational and strategic level risks. The corporate strategic risk register was reviewed each quarter by corporate management team as part of quarterly performance reporting arrangements. We note that strategic risks were not mapped to Corporate Objectives, which, while not a significant issue, might have further improved the clarity and impact of reporting.

Risk management reports including summary of the corporate risk register were presented at each audit committee and scrutiny committee meeting and also reported to Full Council yearly. In 2022/23, the Audit Committee reviewed the register in April and July 2022 and March 2023, while the Overview and Scrutiny Committee monitored the mitigation of strategic risks via performance reporting in August and November 2022 and February 2023.

The Council demonstrated agility in adapting its processes to reflect emerging risks. The Council used its assessment of each risk in relation to its risk appetite to determine the frequency of review, with those “above the line” reviewed typically reviewed quarterly and those “below the line” annually. However, the Council reported in February 2023 that it had by that stage moved to monitoring strategic risks monthly in response to the cost-of-living crisis and its impact on residents. Mitigating actions included delivery of both national and local grant schemes, provision of key information such as the availability of food banks in the area, and advice and financial support to install low-carbon and cost-reducing heating systems in people’s homes.

The Council maintained its focus on the impact of risks on South Lakeland residents beyond its closure date and the transfer of responsibilities to the successor Westmorland and Furness Council. This is evident in relation to the Council’s commitment to monitoring the risk of climate change, for example. The council had identified two key risks, to achievement of its corporate targets to achieve organisational carbon neutrality by 2023; and to achieving the same aim across South Lakeland as a whole by 2037.

The Council is aware of some issues that present a financial or reputational risk will continue to be ‘live’ after its closure. The Council’s legal team prepared an update on legal issues with potentially significant costs and other impacts prior to its closure in March 2023. These include the impact of awarding a planning permission in error to a scheme with a similar reference number. While unfortunate, we did not identify this as indicative of any systemic issues in the Council’s arrangements. We note also that the Cabinet agreed, at its final meeting, a grant of £500,000 to South Lakes Housing for which a grant agreement was required – we understand from the Council that development of this grant agreement is ongoing and the grant has not yet been paid. We raise these issues as indicative of the Council’s focus on transacting its business to the latest possible date, but also as a reminder that the successor Council will need to ensure that any potential ‘loose ends’ from now-demised councils are kept appropriately in view.

Governance (continued)

Internal control including the Audit Committee

The Council maintained an adequate and effective Internal Audit function to monitor and assess the effective operation of internal controls during 2022/23. In particular:

- The work of Internal Audit was overseen by the Audit Committee.
- Internal audit was been provided by an external Internal Audit function TIAA since 2016 until the Council's close. An External Quality Assessment of TIAA's internal audit services was commissioned in 2022. The assessor concluded that "TIAA generally conforms to the requirements of the Public Sector Internal Audit Standards and the mandatory elements of the Institute of Internal Auditors (IIA) International Professional Practice Framework". The assessment is supposed to be done every 5 years and therefore we are satisfied that TIAA conforms to the requirements of PSAIS.
- The Audit Committee considered and approved the Internal Audit Charter together with the Internal audit plan for 22/23 on 21 April 2022. Internal audit progress reports were presented to this committee every quarter.

- The Internal Audit plan covered an extensive range of reviews such as risk management, data integrity, procurement, income management, land charges and building control, council tax rebate payments, cash receipting, asset management, main accounting system, and business continuity.
- The Internal Audit annual report presented to the Audit Committee on March 2 2023 indicated that 13 out of the 14 planned reviews were undertaken during the year. A planned review of data integrity was cancelled.

The head of internal audit's overall opinion for the year that "for the areas reviewed during the year, South Lakeland District Council has reasonable and effective risk management, control and governance processes in place". Out of the 13 Internal Audit reviews carried out in-year, six were assigned substantial assurance opinions while 7 were given reasonable assurance opinions. None were given limited or no assurance.

There was some slippage against target implementation dates of internal audit recommendations due to the impact of local government reorganisation. In February 2023 Internal Audit reviewed progress in implementing prior year Internal Audit recommendations, considering progress since its previous update in September 2022.

Of the 29 recommendations considered in Internal Audit's final review, only two had been implemented. All 11 recommendations that remain outstanding are due to slippage beyond the original implementation date. From a review of responses, internal audit concluded that 16 of the 29 recommendations either would not realistically be implemented, or are no longer relevant, as a result of Local Government Reorganisation.

	2022/23	2021/22
Annual Governance Statement (control deficiencies)	None identified	None identified
Head of Internal Audit opinion	Reasonable and effective risk management, control and governance processes in place (no 'limited' or 'no' assurance opinions)	Reasonable and effective risk management, control and governance processes in place (1 limited assurance opinion; 0 no assurance opinions)

The Council's performance against key governance metrics is set out in the table above.

Governance (continued)



Standards and behaviours

The Council generally maintained clear and up-to-date policies to promoting high standards of governance and ethical behaviour. The Council's Codes of Conduct for both members and officers were clearly incorporated into its Constitution, of which the final revision was in July 2022. The Code of Conduct for employees included a policy on gifts and hospitality and set out that a register 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.

We did not identify evidence of significant breaches of the Council's standards framework. Along with other key assurance committees, the Standards Committee provided an annual report covering 2022/23 to the final session of the Full Council on 29 March 2023. The Committee concluded that overall, ethical standards were sound. The report notes that, Since 1 April 2022 to the date of the annual review, the Monitoring Officer had received and progressed 6 Code of Conduct complaints – 3 of which relate to Parish councillors and 3 of which relate to district councillors. In addition, there were other matters where it was considered that either the alleged conduct/complaint did not meet the threshold for a Code of Conduct complaint, or where no formal complaint was submitted and so the matters did not proceed. None of these matters resulted in any action being taken.

The Council had adequate arrangements in respect of fraud prevention and detection. The Anti-Fraud Policy was reviewed and updated in February 2023 and the Council reviewed its arrangements against the CIPFA "Code of Practice on Managing the Risk of Fraud and Corruption: Counter Fraud Assessment" during the year. No areas of weakness were identified.

The Council last updated its Whistleblowing policy in 2017/18. A review was due in 2019/20 but was delayed due to pressures of the Customer Connect transformation programme and then Covid- 19. The Council's Annual Governance Statement action plan 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 an effective internal control system and it will of course be important that, on the establishment of the new authority, the effectiveness of Whistleblowing arrangements is assessed at an early stage, 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 relating to South Lakeland District Council during 2022/23.

Conclusion

Overall, we remain satisfied that the Council maintained its commitment to good governance arrangements, to gain assurance over its system of internal control, and had adequate arrangements in place to monitor its adherence the standards expected of officers and members, during 2022/23. We found no significant weaknesses in the Council's governance arrangements within the scope of our review.

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.

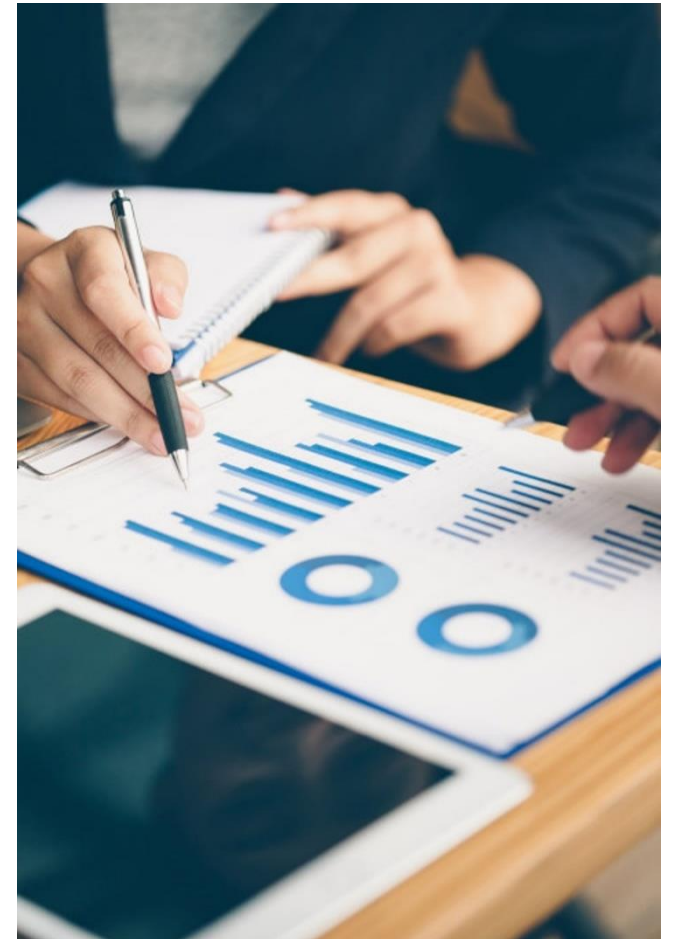
Use of financial and performance information

Cabinet continued to receive Council Plan quarterly performance monitoring reports, ensuring performance was monitored sufficiently frequently, in line with the priorities set out in the Council Plan. The Cabinet performance report included a narrative supported by further information including the strategic risk register.

During 2021/22, Cabinet requested that more performance data be presented in graph format to aid interpretation. This implemented and graphs were included in annexes. Graphs setting out performance against council plan targets in more detail. This makes the data easily identifiable and performance across each quarter was displayed clearly, ensuring that members had more accessible performance information to challenge and discuss.

Although the main narrative report was of a reasonable quality, there might have been scope to improve reporting further by including a clear, concise dashboard to summarise performance, within the body of the report itself. It can be harder for readers to ascertain from narrative commentary whether performance is on track, or not (though from the examples we reviewed we did not note any particular inconsistencies between the narrative and the underlying appendices). The Overview and Scrutiny received the same detailed information. The narrative report set out the Council Plan priorities and targets and highlighted issues that members may wish to carry forward for the new Westmorland and Furness authority. The council also included additional reporting on its cost-of-living crisis measures within the strategic risk register.

We note that the Council had intended to evolve its report from service plans to "plans on a page" was delayed by local government reorganisation. This action would have supported further improvement in way non-financial performance information was presented to Cabinet, including by linking service plans to agreed measures and targets within the Council plan.



Improving economy, efficiency and effectiveness (continued)

Partnership working (continued)

We reported a number of positive findings in relation to the Council's approach to partnership working in 2020/21 and 2021/22. We note 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 and 2022/23 the Council remained fully engaged with Local Government Reorganisation. As we reported last year, the Council hosted the Westmorland and Furness Joint Committee (established in accordance with the Structural Changes Order).

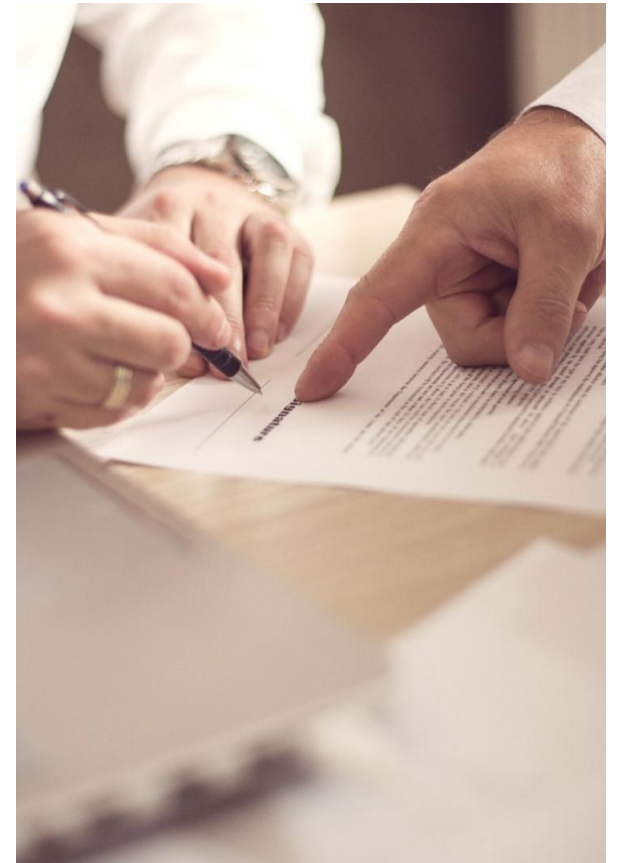
The Council's arrangements for supporting partnership working demonstrated the importance of a recognising a 'golden thread' for partnership activity. It was aware, for example, of the need to set clear objectives, establish robust financial and performance monitoring, evaluate outcomes and set a clear exit strategy. The Council had intended to embed these principles in a more formal framework of partnership governance, covering partnerships where there the Council's contribution was £150,000 more or the "turnover" of the partnership was £500,000 or more over 3 years, or the partnership is particularly important strategically or politically, though the rollout of this new approach was delayed due to Local Government Reorganisation, but we highlight it again as a clear and effective approach, which other Councils may wish to consider in setting their own approach to governance around Partnership working.

Commissioning and procurement

The Council maintained appropriate arrangements to govern procurement activity during 2022/23:

- As we noted in our 2020/21 Auditor's Annual Report, The Council had a procurement strategy covering 2021-2026, which set out its procurement approach, and was approved by Full Council in July 2021. The Procurement Schedule was last approved by Council in December 2022.
- The Council used the CHEST system was used for opportunities over £10,000; however, guidance advised officers to include those under £10,000 in value for completeness. The CHEST website includes multiple references and links to the Public Contracts Regulations 2015 to ensure in accordance with relevant legislation and with internal policies on procurement and contract management.

Internal Audit's 2022-23 review of procurement considered various discrete aspects of the Council's procurement process, including: direct awards; contract extensions; use of consultants; existence of signed contracts and agreements; and planning procurement activity. Internal audit indicated it had no areas of concern relating to the aspects of the procurement process it reviewed, returning a "reasonable assurance" opinion overall.



Improving economy, efficiency and effectiveness (continued)

Commissioning and procurement (cont.)

The Council did not have many, if any significant commercial ventures ongoing at the point of our review. As set out on page 10, the Council depended to an extent on income from car parking and Lake Windermere so did not consider it appropriate to pursue further significant income generation activities. Internal audit carried out a review on income management (car parking) in 2022/23, also returning a "reasonable assurance" opinion. It did note that the contract to manage this needed to be novated. With the council demising in March 2023, however, the council noted in its response that due to local government reorganisation the agreement would roll over to the new authority to "enable harmonisation with the sovereign authorities".

Cost-effective delivery

We recommended in prior years 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 during our audit of the 2021/22 financial years that, due to pressures of local government re-organisation and the work to prepare base budgets for the new Authority, this was not prioritised. However, the preparation of two new authorities has required some extensive benchmarking through the process of identifying and cataloguing 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. This is 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 budgeted cost of the Council's core services in 2022/23 indicated relatively low unit costs of service delivery, set against other comparable councils. All of the key service areas listed rank low in compared to other councils aside from the costs of central services. Inevitably, as we reported in our 2021/22 Auditor's annual report, the process of local government reorganisation resulted in additional administration and staffing costs for the Council, which we do not regard as a weakness given the importance of robust preparation for the transfer to the new authority.

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

Conclusion

We did not identify any significant weaknesses in relation to the Council's arrangements to provide economy, efficiency and effectiveness during 2022-23.

Opinion on the financial statements and other reporting requirements



Grant Thornton provides an independent opinion on whether the Council's financial statements:

- give a true and fair view of the financial position of the Council as at 31 March 2023 and of its expenditure and income 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 2022/23
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

We conducted our audit in accordance with:

- International Standards on Auditing (UK)
- the Code of Audit Practice (2020) published by the National Audit Office, and
- applicable law

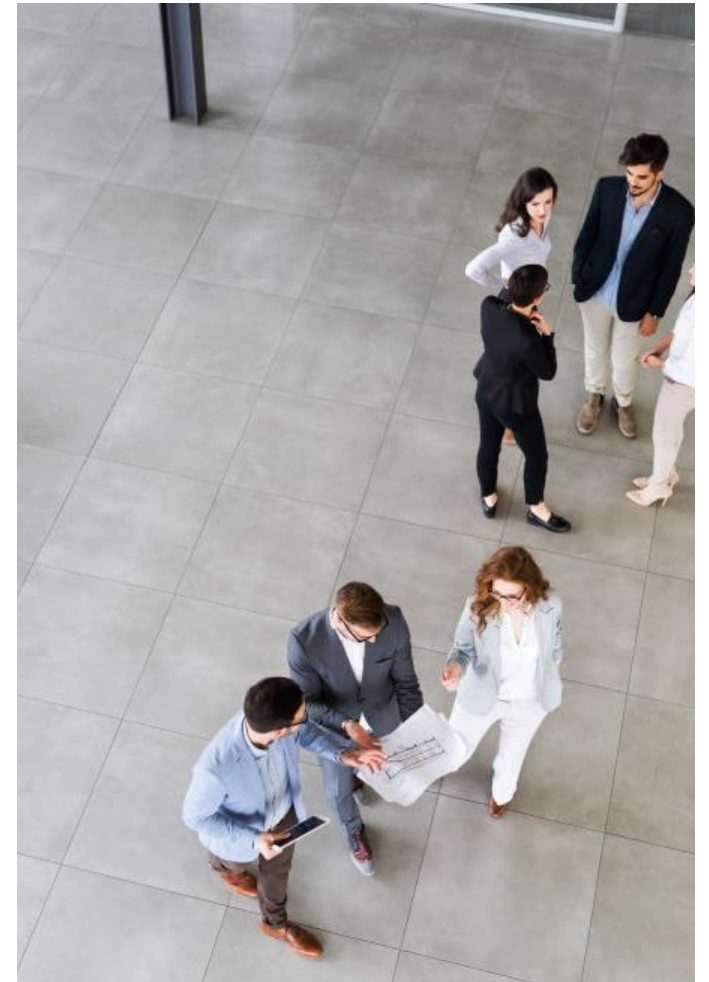
We are independent of the Council in accordance with applicable ethical requirements, including the Financial Reporting Council's Ethical Standard.

Audit opinion on the financial statements

We issued an unqualified opinion on the Council's financial statements on 12 February 2024 following Westmorland and Furness Council's Audit Committee on 11 December 2023.

The full opinion will be included in the Council's Annual Report for 2022/23, which can be obtained from Westmorland and Furness Council's website.

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



Opinion on the financial statements



Timescale for the audit of the financial statements

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

Timescale for the audit of the financial statements

Our Audit Plan was issued and presented to Audit Committee on 20 September 2023.

Our final audit visit spanned between July and November 2023.

The Council provided draft financial statements on 3 July 2023 which was outside the national timetable or the first working day of June.

We issued an unqualified opinion on the financial statements on 12 February 2024.

Findings from the audit of the financial statements

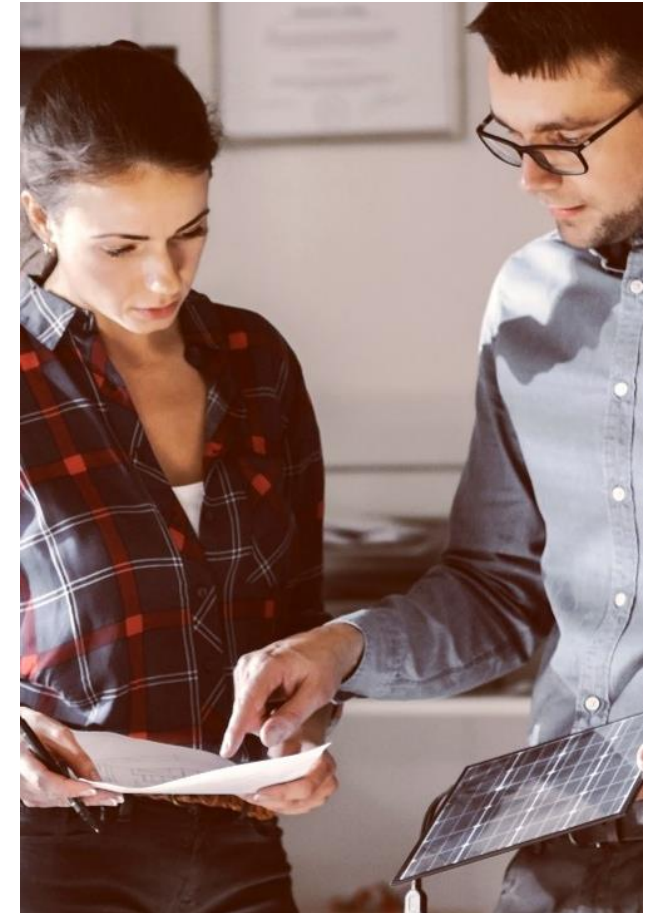
More detailed findings are set out in our Audit Findings Report, which was presented to the Westmorland and Furness Council Audit Committee on 11 December 2023. Requests for this Audit Findings Report should be directed to Westmorland and Furness Council.

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.

Whole of Government Accounts

To support the audit of the Whole of Government Accounts, we are required to examine and report on the consistency of the Council's consolidation schedules with their audited financial statements. This work includes performing specified procedures under group audit instructions issued by the National Audit Office.

The Council is below the HM Treasury threshold so limited procedures apply. Procedures have been completed and there were no matters to report.



Appendices

Appendix A: Responsibilities of the Council

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

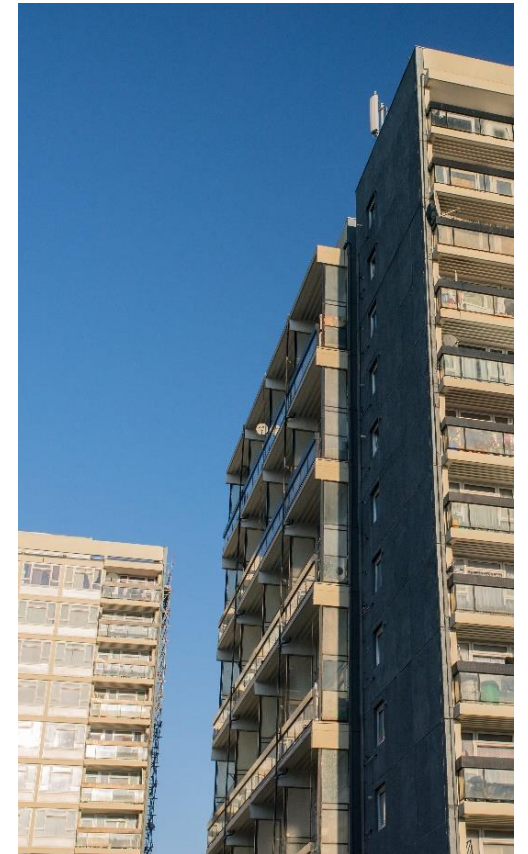
Financial statements are the main way in which local public bodies account for how they use their resources. Local public bodies are required to prepare and publish financial statements setting out their financial performance for the year. To do this, bodies need to maintain proper accounting records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

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

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

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

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



Appendix B:

An explanatory note on recommendations

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

Type of recommendation	Background	Raised within this report	Page reference(s)
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 the Council's 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.	No	n/a

