

Governance Committee

Monday, 13th November,
2023
at 5.00 pm

PLEASE NOTE TIME OF MEETING

Conference Room 3

This meeting is open to the public

Members of the Committee

Councillor A Frampton (Chair)
Councillor P Baillie
Councillor Chapman
Councillor Denness
Councillor McCreanor
Councillor McEwing
Councillor Rayment

Contacts

Director of Governance, Legal and HR
Richard Ivory
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Senior Democratic Support Officer
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PUBLIC INFORMATION

Role of the Governance Committee

Information regarding the role of the Committee's is contained in Part 2 (Articles) of the Council's Constitution.

[02 Part 2 - Articles](#)

It includes at least one Councillor from each of the political groups represented on the Council, and at least one independent person, without voting rights, who is not a Councillor or an Officer of the Council.

Access – Access is available for disabled people. Please contact the Democratic Support Officer who will help to make any necessary arrangements.

Public Representations At the discretion of the Chair, members of the public may address the meeting on any report included on the agenda in which they have a relevant interest. Any member of the public wishing to address the meeting should advise the Democratic Support Officer (DSO) whose contact details are on the front sheet of the agenda

Southampton: Corporate Plan 2022-2030 sets out the four key outcomes:

- Communities, culture & homes - Celebrating the diversity of cultures within Southampton; enhancing our cultural and historical offer and using these to help transform our communities.
- Green City - Providing a sustainable, clean, healthy and safe environment for everyone. Nurturing green spaces and embracing our waterfront.
- Place shaping - Delivering a city for future generations. Using data, insight and vision to meet the current and future needs of the city.
- Wellbeing - Start well, live well, age well, die well; working with other partners and other services to make sure that customers get the right help at the right time

Smoking policy – The Council operates a no-smoking policy in all civic buildings.

Mobile Telephones:- Please switch your mobile telephones or other IT devices to silent whilst in the meeting

Use of Social Media:- The Council supports the video or audio recording of meetings open to the public, for either live or subsequent broadcast. However, if, in the Chair's opinion, a person filming or recording a meeting or taking photographs is interrupting proceedings or causing a disturbance, under the Council's Standing Orders the person can be ordered to stop their activity, or to leave the meeting. By entering the meeting room you are consenting to being recorded and to the use of those images and recordings for broadcasting and or/training purposes. The meeting may be recorded by the press or members of the public.

Any person or organisation filming, recording or broadcasting any meeting of the Council is responsible for any claims or other liability resulting from them doing so.

Details of the Council's Guidance on the recording of meetings is available on the Council's website.

Dates of Meetings: Municipal Year 2023/2024

2023	2024
12 June	12 February
24 July	22 April
25 September	
13 November	
11 December	

CONDUCT OF MEETING

Terms of Reference

The terms of reference of the Governance Committee are contained in Part 3 of the Council's Constitution.

[03 - Part 3 - Responsibility for Functions](#)

Rules of Procedure

The meeting is governed by the Council Procedure Rules as set out in Part 4 of the Constitution.

Business to be discussed

Only those items listed on the attached agenda may be considered at this meeting.

Quorum

The minimum number of appointed Members required to be in attendance to hold the meeting is 3.

DISCLOSURE OF INTERESTS

Members are required to disclose, in accordance with the Members' Code of Conduct, **both** the existence **and** nature of any "Disclosable Pecuniary Interest" or "Other Interest" they may have in relation to matters for consideration on this Agenda.

DISCLOSABLE PECUNIARY INTERESTS

A Member must regard himself or herself as having a Disclosable Pecuniary Interest in any matter that they or their spouse, partner, a person they are living with as husband or wife, or a person with whom they are living as if they were a civil partner in relation to:

- (i) Any employment, office, trade, profession or vocation carried on for profit or gain.
- (ii) Sponsorship:

Any payment or provision of any other financial benefit (other than from Southampton City Council) made or provided within the relevant period in respect of any expense incurred by you in carrying out duties as a member, or towards your election expenses. This includes any payment or financial benefit from a trade union within the meaning of the Trade Union and Labour Relations (Consolidation) Act 1992.

(iii) Any contract which is made between you / your spouse etc (or a body in which the you / your spouse etc has a beneficial interest) and Southampton City Council under which goods or services are to be provided or works are to be executed, and which has not been fully discharged.

(iv) Any beneficial interest in land which is within the area of Southampton.

(v) Any license (held alone or jointly with others) to occupy land in the area of Southampton for a month or longer.

(vi) Any tenancy where (to your knowledge) the landlord is Southampton City Council and the tenant is a body in which you / your spouse etc has a beneficial interests.

(vii) Any beneficial interest in securities of a body where that body (to your knowledge) has a place of business or land in the area of Southampton, and either:

- a) the total nominal value of the securities exceeds £25,000 or one hundredth of the total issued share capital of that body, or
- b) if the share capital of that body is of more than one class, the total nominal value of the shares of any one class in which you / your spouse etc has a beneficial interest that exceeds one hundredth of the total issued share capital of that class.

Other Interests

A Member must regard himself or herself as having an, 'Other Interest' in any membership of, or occupation of a position of general control or management in:

Any body to which they have been appointed or nominated by Southampton City Council

Any public authority or body exercising functions of a public nature

Any body directed to charitable purposes

Any body whose principal purpose includes the influence of public opinion or policy

Principles of Decision Making

All decisions of the Council will be made in accordance with the following principles:-

- proportionality (i.e. the action must be proportionate to the desired outcome);
- due consultation and the taking of professional advice from officers;
- respect for human rights;
- a presumption in favour of openness, accountability and transparency;
- setting out what options have been considered;
- setting out reasons for the decision; and
- clarity of aims and desired outcomes.

In exercising discretion, the decision maker must:

- understand the law that regulates the decision making power and gives effect to it. The decision-maker must direct itself properly in law;
- take into account all relevant matters (those matters which the law requires the authority as a matter of legal obligation to take into account);
- leave out of account irrelevant considerations;
- act for a proper purpose, exercising its powers for the public good;
- not reach a decision which no authority acting reasonably could reach, (also known as the "rationality" or "taking leave of your senses" principle);
- comply with the rule that local government finance is to be conducted on an annual basis. Save to the extent authorised by Parliament, 'live now, pay later' and forward funding are unlawful; and
- act with procedural propriety in accordance with the rules of fairness.

AGENDA

1 **APOLOGIES**

To receive any apologies.

2 **DISCLOSURE OF PERSONAL AND PECUNIARY INTERESTS**

In accordance with the Localism Act 2011, and the Council's Code of Conduct, Members to disclose any personal or pecuniary interests in any matter included on the agenda for this meeting.

NOTE: Members are reminded that, where applicable, they must complete the appropriate form recording details of any such interests and hand it to the Democratic Support Officer.

3 **STATEMENT FROM THE CHAIR**

4 **MINUTES OF PREVIOUS MEETING (INCLUDING MATTERS ARISING)**

(Pages 1 - 4)

To approve and sign as a correct record the Minutes of the meeting held on 2nd October 2023 and to deal with any matters arising, attached.

5 **REVIEW OF PRUDENTIAL LIMITS AND TREASURY MANAGEMENT MID-YEAR 2023/24** (Pages 5 - 36)

Report of the Executive Director of Corporate Services and S151 Officer detailing the mid-year position of Treasury activity in year to date and compliance to Prudential Indicators.

6 **CIPFA REVIEW** (Pages 37 - 60)

Report of the Executive Director Corporate Services and S151 Officer providing an update on the CIPFA review of the Council's finances and procedures and update on the new financial strategy.

7 **EXTERNAL AUDIT ANNUAL AUDIT REPORT** (Pages 61 - 90)

Report of the External Auditor detailing the 2021/22 Annual Audit.

8 **ANNUAL REPORT ON LOCAL GOVERNMENT & SOCIAL CARE OMBUDSMAN COMPLAINTS FOR 2022/23** (Pages 91 - 110)

Report of the Director Legal, Governance and HR detailing the Annual Report on Local Government & Social Care Ombudsman Complaints for 2022/23.

9 ANNUAL COMPLAINTS REPORT 2022 - 2023 (Pages 111 - 116)

Report of the Director Legal Governance and HR detailing the Annual Complaints Report 2022-2023 and associated learning.

10 STRATEGIC PROCUREMENT ACTIVITY (Pages 117 - 124)

Provides the Governance Committee with an overview of the Council's upcoming strategic procurement activity, the arrangements for which need to be operational by the end of Financial Year 2025/26.

11 HOUSING VOIDS UPDATE (Pages 125 - 130)

Report of the Executive Director Wellbeing and Housing setting out progress made and outstanding action that is still required to help address the areas of limited assurance in the Audit report.

12 EXCLUSION OF THE PRESS AND PUBLIC - EXEMPT PAPERS INCLUDED IN THE FOLLOWING ITEM

To move that in accordance with the Council's Constitution, specifically the Access to Information Procedure Rules contained within the Constitution, the press and public be excluded from the meeting in respect of any consideration of the exempt appendices to the following Item

The appendices are considered to be exempt from general publication based on Category 7A of paragraph 10.4 of the Council's Access to Information Procedure Rules.

13 STRATEGIC CONTRACTS - ANNUAL REPORT (Pages 131 - 156)

Report of Head of Supplier Management and Director of Commissioning outlining the council's most strategically important contracts for financial year 2022-23

Friday, 3 November 2023

Director Governance Legal and HR

GOVERNANCE COMMITTEE

MINUTES OF THE MEETING HELD ON 2 OCTOBER 2023

Present: Councillors A Frampton (Chair), P Baillie, Chapman, Denness Evely, Finn and McCreanor

Apologies: Councillors McEwing, Rayment

10. **APOLOGIES**

Apologies were received from Councillors McEwing and Rayment.

The Panel noted the temporary resignations of Councillors McEwing and Rayment from the Committee and the appointment of Councillors Evely and Finn as substitutes thereof in accordance with the provisions of Council Procedure Rule 4.3.

11. **MINUTES OF PREVIOUS MEETING (INCLUDING MATTERS ARISING)**

RESOLVED: that the minutes for the Committee meeting on 24th July 2023 be approved and signed as a correct record with one amendment to add that Councillor Frampton had replaced Councillor Letts on the Committee.

Matters Arising

That it be noted that the position update on the CIPFA Review of Financial Management detailing the action plan and identified savings for each Directorate due to be presented to this meeting was now to be presented to the November meeting as it was still in draft form and being updated.

12. **STATEMENT OF ACCOUNTS 2021/22**

The Committee considered the report of the Executive Director Corporate Services detailing the Statement of Accounts 2021/22 which were presented for approval.

RESOLVED:

- (i) That the changes made to the Statement of Accounts 2021/22 and Annual Governance Statement included within, since the version was presented to the Committee in April 2023 be noted.
- (ii) That the final version of the audited Statement of Accounts 2021/22 and Annual Governance Statement included within be approved and signed.

13. **EXTERNAL AUDIT - 2021/22 AUDIT RESULTS**

The Committee received and noted the report of the External Auditor detailing the 2021/22 Audit Results.

14. **MEMBERS CODE OF CONDUCT 2023/24**

The Committee received and noted the report of the Director of Governance, Legal and HR and Monitoring Officer detailing the Annual report on the Members' Code of Conduct.

15. **FREEDOM OF INFORMATION, DATA PROTECTION & REGULATION OF INVESTIGATORY POWERS ACTS: ANNUAL REVIEW 2022-23**

The Committee received and noted the report of the Director of Governance, Legal and HR detailing the Annual Review of the Freedom of Information, Data Protection and Regulation of Investigatory Powers Acts together with the statistical information for the year 1st April 2022 and 31st March 2023 and the updated Corporate Surveillance document as detailed in the appendix to the report.

The Committee particularly referenced paragraph 38 of the report and the comment that the 'vast majority of requests' were responded to within timescales which was not what was reflected in the statistics that needed to be addressed going forward.

16. **ANNUAL COMPLAINTS REPORT 2022 - 2023**

RESOLVED: that this item be deferred for consideration at the next meeting so it could be considered together with the Local Government and Social Care Ombudsman annual report.

17. **INTERNAL AUDIT PROGRESS REPORT**

The Committee received and noted the report of the Chief Internal Auditor detailing the progress to date across the 2023-24 Audit Plan.

The Committee particularly noted the Appointeeship Audit that had taken place and identified in the areas of concern for the Council. The committee was advised there was a task and finish group in place meeting monthly working monitoring an action plan and identifying operational improvements. The Committee requested that given the historical context of the audit and significant resource issues that the Executive Director of Resources and the Director of Customer Experience attend the December meeting to discuss this item in detail.

18. **INTERNAL AUDIT UPDATE ON HOUSING VOIDS ACTION PLAN**

The Committee received a presentation from Internal Audit providing an update on the Housing Voids Action Plan as requested from the previous meeting. It was noted that improvements were unlikely to be seen until the end of Quarter 4 2023/24.

The Committee continued to express concern following the update and requested that a written report be presented to the next meeting providing an update on the action plan and specifically addressing the following points together with the attendance of the Director of Housing: -

- How many were on the list waiting to transfer?
- Sustainability of long-term stock condition and whether some were just not repairable versus expense to do so?
- Update on the time of voids, the Committee had been provided with March 2023 figures and noted that routine voids should be 29 days and were 94 and major works should be 106 and were 225.

- How would voids be kept down going forward and what would not be done to achieve this?

19. **QUARTERLY HR STATISTICS**

The Committee received and noted the report of the Head of Human Resources and Organisational Development detailing the Quarter 2 2023/24 HR statistics.

The Committee requested further information be provided to the next meeting providing comparative data for previous quarters, scale and size of Directorates, key themes and trends and an explanation of what was considered long term sickness given the authority had above average sickness levels with 55% being long term.

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Agenda Item 5

DECISION-MAKER:	GOVERNANCE COMMITTEE		
SUBJECT:	REVIEW OF PRUDENTIAL LIMITS AND TREASURY MANAGEMENT MID-YEAR 2023/24		
DATE OF DECISION:	13 November 2023		
REPORT OF:	EXECUTIVE DIRECTOR FINANCE & COMMERCIALISATION (S151 Officer)		
<u>CONTACT DETAILS</u>			
Executive Director	Title:	Executive Director for Finance, Corporate Services & S151 Officer	
	Name:	Mel Creighton	Tel: 023 8083 3528
	E-mail:	mel.creighton@southampton.gov.uk	
AUTHOR:	Name:	Steve Harrison	Tel: 023 8083 4153
	E-mail:	steve.harrison@southampton.gov.uk	

STATEMENT OF CONFIDENTIALITY	
NOT APPLICABLE	
BRIEF SUMMARY	
The purpose of this report is to inform Governance Committee of the Treasury Management activities and performance for 2023/24 against the approved Prudential Indicators for External Debt and Treasury Management.	
RECOMMENDATIONS:	
It is recommended that Governance committee:	
(i)	Notes the mid-year position for Treasury Management (TM) activities and Prudential Indicators.
(ii)	Notes that the continued proactive approach to TM has led to reductions in borrowing costs and safeguarded investment income during the year.
REASONS FOR REPORT RECOMMENDATIONS	
1.	The Treasury Management Code requires public sector authorities to determine an annual TM Strategy and as a minimum, formally report on their treasury activities and arrangements to Governance Committee mid-year and after the year-end. This report fulfils that requirement and enables those tasked with implementing policies and undertaking transactions to demonstrate they have properly fulfilled their responsibilities and enable those with ultimate responsibility/governance of the TM function to scrutinise and assess its effectiveness and compliance with policies and objectives.
2.	In addition to the formal reports to Governance, from 1st April 2023 the 2021 Code introduced mandatory quarterly reporting of the TM prudential indicators and are included in the quarterly Revenue Financial Monitoring reports presented to Cabinet.

ALTERNATIVE OPTIONS CONSIDERED AND REJECTED	
3.	No alternative options are relevant to this report.
DETAIL (Including consultation carried out)	
CONSULTATION	
4.	Not applicable.
BACKGROUND	
5.	The Local Government Act 2003 introduced a system for borrowing based largely on self-regulation by local authorities themselves. The basic principle of the system is that local authorities are free to borrow as long as their capital spending plans are affordable, prudent and sustainable.
6.	CIPFA published a revised Prudential Code for Capital Finance and Treasury Management Code on 20th December 2021. The key changes in the two codes were around permitted reasons to borrow, knowledge and skills, and the management of non-treasury investments.
7.	The Chartered Institute of Public Finance and Accountancy's Treasury Management Code (CIPFA's TM Code) requires that authorities report on the performance of the TM function at least twice a year (mid-year and at year end).
8.	The Authority's TM Strategy for 2023/24 was approved by Governance Committee on 13 February 2023. The 2017 Prudential Code includes a requirement for local authorities to provide a Capital Strategy, a summary document approved by full Council covering capital expenditure and financing, treasury management and non-treasury investments. The Authority's Capital Strategy, complying with CIPFA's requirement, was approved by full Council on 22 February 2023.
9.	This report: <ul style="list-style-type: none"> a) is prepared in accordance with the revised CIPFA Treasury Management Code and the revised Prudential Code; b) presents details of capital financing, borrowing, debt rescheduling and investment transactions; c) reports on the risk implications of treasury decisions and transactions; d) gives details of the mid-year position on TM transactions in 2023/24; and e) confirms compliance with treasury limits and Prudential Indicators.
10.	The report and appendices highlight that: <ul style="list-style-type: none"> a) Borrowing activities have been undertaken within the borrowing limits approved by Governance Committee on 13 February 2023. b) There has been full compliance with the Prudential Indicators approved by Governance Committee on 13 February 2023. c) With an increasing borrowing requirement, the overall treasury strategy is to minimise both external borrowing and investments and to only

		<p>borrow to the level of net borrowing requirement. The reasons for this are to reduce credit risk, take pressure off the Council's lending list and to avoid the cost of carry in the current interest rate environment.</p> <p>Throughout the period, capital expenditure levels, market conditions and interest rate levels were monitored to minimise borrowing costs over the medium to longer term and to maintain stability.</p>
	d)	<p>CIPFA published a revised Treasury Management in the Public Services Code of Practice and Cross-Sectoral Guidance Notes on 20th December 2021. These define TM investments as investments that arise from the organisation's cash flows or treasury risk management activity that ultimately represents balances that need to be invested until the cash is required for use in the course of business.</p> <p>As reported previously SCC holds £27M in the CCLA property fund which was reviewed following the revised CIPFA guidance, and it still meets our medium term investments objectives. This will remain under review in conjunction with the Council's TM advisors. For further details on the funds' performance see Appendix 2, paragraphs 26 to 30.</p>
	e)	<p>Total TM investment returns for 2023/24 are currently forecast at £2.8M and during the period April to September achieved an average rate of 4.39%.</p>
	f)	<p>The differential between debt costs and investment earnings continues, resulting in the use of internal resources in lieu of borrowing often being the most cost effective means of financing capital expenditure, whilst balances can support it.</p> <p>The average rate for repayment of debt, (the Consolidated Loans & Investment Account Rate – CLIA), is forecast at 3.33% this is higher than last year (2.96%) due to new borrowing being taken at higher rates than maturing debt and previous new borrowing. We defer borrowing until actually required to minimise costs unless a good opportunity was to present itself.</p>
	g)	<p>Both short term and long term markets are continuously monitored, whilst there is so much volatility in markets and the long term rates are expected to fall in the medium term.</p>
	h)	<p>Since 2012, the Council has pursued a strategy of internal borrowing – minimising external borrowing by running down its own investment balances and only borrowing short term to cover cash flow requirements. This has both reduced the credit risk exposure and saved the Council money in terms of net interest costs. With reducing balances, this strategy will not be achievable in the future.</p>
	i)	<p>In achieving interest rate savings the Council is exposed to interest rate risk by taking out variable debt. This was and continues to be very financially favourable in current markets but does mean that close monitoring of the markets is required to ensure that the Council can act quickly should the situation begin to change.</p>
	j)	<p>Net loan debt during April to September has decreased from £306M to £299M (£7M) but is expected to rise to £387M by the end of 2023/24, as detailed in Appendix 2, paragraph 3.</p>

	Actual debt charges for the year for borrowing (excluding HCC transferred debt and PFI schemes) is forecast at £11.2M at an average interest rate of 3.33%																					
11.	Appendix 1 summarises the economic outlook and events in the context of which the Council is operating its treasury function during 2023/24.																					
12.	Appendix 2 summarises treasury activity during the year to date and covers: <ul style="list-style-type: none"> • Borrowing Requirement and Debt Management • Investment Activity • Non – Treasury Investments 																					
COMPLIANCE WITH PRUDENTIAL INDICATORS																						
13.	It can be confirmed that the Council has complied with its Prudential Indicators for 2023/24, approved by Governance Committee on 13 February 2023.																					
14.	In compliance with the requirements of the CIPFA Code of Practice this report provides members with a summary report of TM activity during 2023/24. None of the Prudential Indicators has been breached and a prudent approach has been taken in relation to investment activity, with priority being given to security and liquidity over yield. The table below summarises the Key Indicators, further details can be seen in appendix 4.																					
15.	<p>Table 1: Key Prudential Indicators</p> <table border="1"> <thead> <tr> <th>Indicator</th> <th>Limit</th> <th>Actual at 30/9/2023</th> </tr> </thead> <tbody> <tr> <td>Authorised Limit for external debt</td> <td>£1010M</td> <td>£361M</td> </tr> <tr> <td>Operational Limit for external debt</td> <td>£865M</td> <td>£361M</td> </tr> <tr> <td>Maximum external borrowing year to date</td> <td>£945M</td> <td>£313M</td> </tr> <tr> <td>Limit of fixed interest debt</td> <td>100%</td> <td>87%</td> </tr> <tr> <td>Limit of variable interest debt</td> <td>50%</td> <td>13%</td> </tr> <tr> <td>Limit for long term investments</td> <td>£30M</td> <td>£28M</td> </tr> </tbody> </table>	Indicator	Limit	Actual at 30/9/2023	Authorised Limit for external debt	£1010M	£361M	Operational Limit for external debt	£865M	£361M	Maximum external borrowing year to date	£945M	£313M	Limit of fixed interest debt	100%	87%	Limit of variable interest debt	50%	13%	Limit for long term investments	£30M	£28M
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OTHER																						
16.	IFRS 16: The implementation of the new IFRS 16 Leases accounting standard was due to come into force for local authorities from 1st April 2022. Following a consultation CIPFA/LASAAC announced an optional two year delay to the implementation of this standard a decision which was confirmed by the Financial Reporting Advisory Board in early April 2022. Therefore, no accounting changes have been made from 1 st April 2023 and proposed changes will be reported as part of the next Strategy report.																					
RESOURCE IMPLICATIONS																						
Capital/Revenue																						
17.	This report is a requirement of the TM Strategy, which was approved at Council on 13 February 2023.																					
18.	The capital and revenue implications are considered as part of the quarterly financial monitoring reports and MTFS updates.																					

19.	The interest cost of financing the Authority's long term and short term loan debt is charged corporately to the Income and Expenditure account. The forecast is £12.35M for 2023/24. There is pressure on the budget due to interest rates rising faster expected and the increasing draw on reserves to balance the overall council budget.
20.	In addition, interest earned on temporary balances invested externally is credited to the Income and Expenditure account. Total TM investment returns for 2023/24 are currently forecast at £2.1M which is higher than original forecast of £1.8M and has helped offset increased debt interest.
21.	The expenses of managing the Authority's loan debt consist of brokerage and internal administration charges. These are pooled and borne by the HRA and General Fund proportionately to the related loan debt. Debt management expenses are forecast at £0.28M for 2023/24.
<u>Property/Other</u>	
22.	There are no specific property implications arising from this report.
LEGAL IMPLICATIONS	
<u>Statutory power to undertake proposals in the report:</u>	
23.	Local Authority borrowing is regulated by Part 1, of the Local Government Act 2003, which introduced the new Prudential Capital Finance System. From 1 April 2004, investments are dealt with, not in secondary legislation, but through guidance. Similarly, there is guidance on prudent investment practice, issued by the Secretary of State under Section 15(1)(a) of the 2003 Act. A local authority has the power to invest for "any purpose relevant to its functions under any enactment or for the purposes of the prudent management of its financial affairs". The reference to the "prudent management of its financial affairs" is included to cover investments, which are not directly linked to identifiable statutory functions but are simply made in the course of TM. This also allows the temporary investment of funds borrowed for the purpose of expenditure in the reasonably near future; however, the speculative procedure of borrowing purely to invest and make a return remains unlawful.
<u>Other Legal Implications:</u>	
24.	None.
RISK MANAGEMENT IMPLICATIONS	
25.	Overall responsibility for TM remains with the Council. No TM activity is without risk; the effective identification and management of risk are integral to the Council's TM objectives. The Authority has borrowed and invested substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. This report covers treasury activity and the associated monitoring and control of risk.
POLICY FRAMEWORK IMPLICATIONS	
26.	Not applicable. This report has been prepared in accordance with the CIPFA Code of Practice on TM.
KEY DECISION?	Yes/No

WARDS/COMMUNITIES AFFECTED:		NONE
<u>SUPPORTING DOCUMENTATION</u>		
Appendices		
1.	2023/24 Economic Background	
2.	Treasury Activity during 2023/24	
3.	Southampton Benchmarking 30 th September 2023	
4.	Compliance with Prudential Indicators	
5.	Glossary of Treasury Terms	
Documents In Members' Rooms		
1.	None.	
Equality Impact Assessment		
Do the implications/subject of the report require an Equality and Safety Impact Assessments (ESIA) to be carried out.		Yes/No
Privacy Impact Assessment		
Do the implications/subject of the report require a Privacy Impact Assessment (PIA) to be carried out.		Yes/No
Other Background Documents		
Equality Impact Assessment and Other Background documents available for inspection at:		
Title of Background Paper(s)		Relevant Paragraph of the Access to Information Procedure Rules / Schedule 12A allowing document to be Exempt/Confidential (if applicable)
1.	The Medium Term Financial Strategy, Budget Capital Programme 2023/24 to 2027/28 – reported to Council 22 February 2023	

External Factors Impacting on Treasury during 2023/24

A summary of the external factors in 2023-24 is provided by the council's treasury advisor, Arlingclose Ltd, and is detailed below.

Economic background: UK inflation remained stubbornly high over much the period compared to the US and euro zone, keeping expectations elevated of how much further the Bank of England (BoE) would hike rates compared to the regions. However, inflation data published in the latter part of the period undershot expectations, causing financial markets to reassess the peak in BoE Bank Rate. This was followed very soon after by the BoE deciding to keep Bank Rate on hold at 5.25% in September, against expectation for another 0.25% rise.

Economic growth in the UK remained relatively weak over the period. In calendar Q2 2023, the economy expanded by 0.4%, beating expectations of a 0.2% increase. However, monthly GDP data showed a 0.5% contraction in July, the largest fall to date in 2023 and worse than the 0.2% decline predicted which could be an indication the monetary tightening cycle is starting to cause recessionary or at the very least stagnating economic conditions.

July data showed the unemployment rate increased to 4.3% (3mth/year) while the employment rate rose to 75.5%. Pay growth was 8.5% for total pay (including bonuses) and 7.8% for regular pay, which for the latter was the highest recorded annual growth rate. Adjusting for inflation, pay growth in real terms were positive at 1.2% and 0.6% for total pay and regular pay respectively.

Inflation continued to fall from its peak as annual headline CPI declined to 6.7% in July 2023 from 6.8% in the previous month against expectations for a tick back up to 7.0%. The largest downward contribution came from food prices. The core rate also surprised on the downside, falling to 6.2% from 6.9% compared to predictions for it to only edge down to 6.8%.

The Bank of England's Monetary Policy Committee continued tightening monetary policy over most of the period, taking Bank Rate to 5.25% in August. Against expectations of a further hike in September, the Committee voted 5-4 to maintain Bank Rate at 5.25%. Each of the four dissenters were in favour of another 0.25% increase.

Financial market Bank Rate expectations moderated over the period as falling inflation and weakening data gave some indication that higher interest rates were working. Expectations fell from predicting a peak of over 6% in September to 5.5% just ahead of the September MPC meeting, and to then expecting 5.25% to be the peak by the end of the period.

Following the September MPC meeting, Arlingclose, the authority's treasury adviser, modestly revised its interest forecast to reflect the central view that 5.25% will now be the peak in Bank Rate. In the short term the risks are to the upside if inflation increases again, but over the remaining part of the time horizon the risks are to the downside from economic activity weakening more than expected.

The lagged effect of monetary policy together with the staggered fixed term mortgage maturities over the next 12-24 months means the full impact from Bank Rate rises are still yet to be felt by households. As such, while consumer confidence continued to improve over the period, the GfK measure hit -21 in September, it is likely this will reverse at some point. Higher rates will also impact business and according to S&P/CIPS survey data, the UK manufacturing and services sector contracted during the quarter with all measures scoring under 50, indicating contraction in the sectors.

The US Federal Reserve increased its key interest rate to 5.25-5.50% over the period, pausing in September following a 0.25% rise the month before, and indicating that it may have not quite completed its monetary tightening cycle.

Having fallen throughout 2023, annual US inflation started to pick up again in July 2023, rising from 3% in September, which represented the lowest level since March 2021, to 3.2% in July and then jumping again to 3.7% in August, beating expectations for a rise to 3.6%. Rising oil prices were the main cause of the increase. US GDP growth registered 2.1% annualised in the second calendar quarter of 2023, down from the initial estimate of 2.4% but above the 2% expansion seen in the first quarter.

The European Central Bank increased its key deposit, main refinancing, and marginal lending interest rates to 4.00%, 4.50% and 4.75% respectively in September, and hinted these levels may represent the peak in rates but also emphasising rates would stay high for as long as required to bring inflation down to target.

Although continuing to decline steadily, inflation has been sticky, Eurozone annual headline CPI fell to 5.2% in August while annual core inflation eased to 5.3% having stuck at 5.5% in the previous two months. GDP growth remains weak, with recent data showing the region expanded by only 0.1% in the three months to September 2023, the rate as the previous quarter.

Financial markets: Financial market sentiment and bond yields remained volatile, with the latter generally trending downwards as there were signs inflation, while still high, was moderating and interest rates were at a peak.

Gilt yields fell towards the end of the period. The 5-year UK benchmark gilt yield rose from 3.30% to peak at 4.91% in July before trending downwards to 4.29%, the 10-year gilt yield rose from 3.43% to 4.75% in August before declining to 4.45%, and the 20-year yield from 3.75% to 4.97% in August and then fell back to 4.84%. The Sterling Overnight Rate (SONIA) averaged 4.73% over the period.

Credit review: Having completed a review of its credit advice on unsecured deposits at UK and non-UK banks following concerns of a wider financial crisis after the collapse of Silicon Valley Bank purchase of Credit Suisse by UBS, as well as other well-publicised banking sector issues, in March Arlingclose reduced the advised maximum duration limit for all banks on its recommended counterparty list to 35 days. This stance continued to be maintained at the end of the period.

During the second quarter of the period, Moody's revised the outlook on Svenska Handelsbanken to negative from stable, citing concerns around the Swedish real estate sector.

Having put the US sovereign rating on Rating Watch Negative earlier in the period, Fitch took further action in August, downgrading the long-term rating to AA+, partly around ongoing debt ceiling concerns but also an expected fiscal deterioration over the next couple of years.

Following the issue of a Section 114 notice, in September Arlingclose advised against undertaking new lending to Birmingham City Council, and later in the month cut its recommended duration on Warrington Borough Council to a maximum of 100 days.

Arlingclose continued to monitor and assess credit default swap levels for signs of ongoing credit stress and although no changes were made to recommended durations over the period, Northern Trust Corporation was added to the counterparty list.

Heightened market volatility is expected to remain a feature, at least in the near term and, as ever, the institutions and durations on the Authority's counterparty list recommended by Arlingclose remains under constant review.

Forecast interest Rates (September 2023)

The following forecast interest forecast are set against a background of:

- UK inflation and wage growth remain elevated, but the August CPI data suggested that inflation was falling more rapidly. In a narrow 5-4 vote, the MPC took the opportunity to hold rates at 5.25%, a level we see as the peak. Near-term rate cuts are unlikely, although downside risks will increase as the UK economy inevitably slides into recession.
- While the MPC vote was close, and the minutes contained the warning about the need for further tightening if inflationary pressures persist, both the decline in closely-watched inflation measures and confidence that wage growth had peaked, clearly allowed policymakers to focus on the weaker activity data.
- The UK economy has so far been resilient. However, recent data indicates a further deceleration in business and household activity growth as higher interest rates start to bite. Global demand will be soft, so offer little assistance in offsetting weakening domestic demand. A recession remains a likely outcome.

- Employment demand has weakened and unemployment has increased, although the tight labour market has resulted in higher nominal wage growth. Anecdotal evidence suggests slowing recruitment and wage growth, and we expect unemployment to rise.
- Consumer confidence has improved due to signs of real wage growth amid strength in the labour market, but household spending will remain weak as mortgaged households suffer higher interest payments and unemployment rises. Business investment/spending will fall back due to higher borrowing costs and weaker demand.
- Inflation will fall continue to fall over the next 12 months, albeit with upside risk. The MPC's attention will remain on underlying inflation measures and wage data. Policy rates will remain at the peak for another 10-12 months, until the MPC is comfortable the risk of further second round effects have diminished.
- Maintaining monetary policy in restrictive territory for so long, when the economy is already struggling (as the recent PMI data indicate), will require significant policy loosening in the future to boost demand and inflation.
- Global bond yields remain volatile. Like the UK, the Federal Reserve and other central banks see persistently higher policy rates through 2023/2024 as key to dampening domestic inflationary pressure. Data points will therefore prompt changes in bond yields as global interest rate expectations shift.

	Current	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26
Official Bank Rate													
Upside risk	0.00	0.25	0.50	0.50	0.75	0.75	0.75	0.75	0.75	0.75	0.75	1.00	1.00
Central Case	5.25	5.25	5.25	5.25	5.00	4.75	4.25	4.00	3.75	3.50	3.25	3.00	3.00
Downside risk	0.00	0.00	-0.25	-0.50	-0.75	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00
3-month money market rate													
Upside risk	0.00	0.25	0.50	0.50	0.75	0.75	0.75	0.75	0.75	0.75	0.75	1.00	1.00
Central Case	5.40	5.40	5.40	5.30	5.15	4.80	4.30	4.10	3.80	3.50	3.25	3.05	3.05
Downside risk	0.00	0.00	-0.25	-0.50	-0.75	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00
5yr gilt yield													
Upside risk	0.00	0.50	0.70	0.70	0.85	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Central Case	4.38	4.50	4.50	4.40	4.25	4.00	3.75	3.50	3.40	3.30	3.30	3.30	3.35
Downside risk	0.00	-0.50	-0.70	-0.85	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00
10yr gilt yield													
Upside risk	0.00	0.50	0.70	0.70	0.80	0.90	1.00	1.10	1.20	1.20	1.20	1.20	1.20
Central Case	4.27	4.40	4.35	4.30	4.25	4.15	4.00	3.80	3.75	3.65	3.60	3.65	3.70
Downside risk	0.00	-0.50	-0.70	-0.85	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00
20yr gilt yield													
Upside risk	0.00	0.50	0.70	0.70	0.80	0.90	1.00	1.10	1.20	1.20	1.20	1.20	1.20
Central Case	4.67	4.65	4.60	4.55	4.45	4.35	4.25	4.20	4.20	4.20	4.20	4.20	4.20
Downside risk	0.00	-0.50	-0.70	-0.85	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00
50yr gilt yield													
Upside risk	0.00	0.50	0.70	0.70	0.80	0.90	1.00	1.10	1.20	1.20	1.20	1.20	1.20
Central Case	4.25	4.25	4.20	4.15	4.10	4.10	4.10	4.10	4.10	4.10	4.10	4.10	4.10
Downside risk	0.00	-0.50	-0.70	-0.85	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00

PWLB Standard Rate (Maturity Loans) = Gilt yield + 1.00%; PWLB Certainty Rate (Maturity Loans) = Gilt yield + 0.80%
PWLB HRA Rate (Maturity Loans) = Gilt yield + 0.40%; UKIB Rate (Maturity Loans) = Gilt yield + 0.60%

- The MPC held Bank Rate at 5.25% in September. We believe this is the peak for Bank Rate.
- The MPC will cut rates in the medium term to stimulate the UK economy but will be reluctant to do so until it is sure there will be no lingering second round effects. We see rate cuts from Q3 2024 to a low of around 3% by early 2026.
- The immediate risks around Bank Rate lie to the upside, but these diminish over the next few quarters and shift to the downside before balancing out, due to the weakening UK economy and dampening effects on inflation.
- Arlingclose expects long-term gilt yields to eventually fall from current levels reflecting the lower medium-term path for Bank Rate. However, yields will remain relatively higher than in the past, partly due to quantitative tightening, with continued elevated volatility.

Arlingclose and Market Projections 25th September 2023

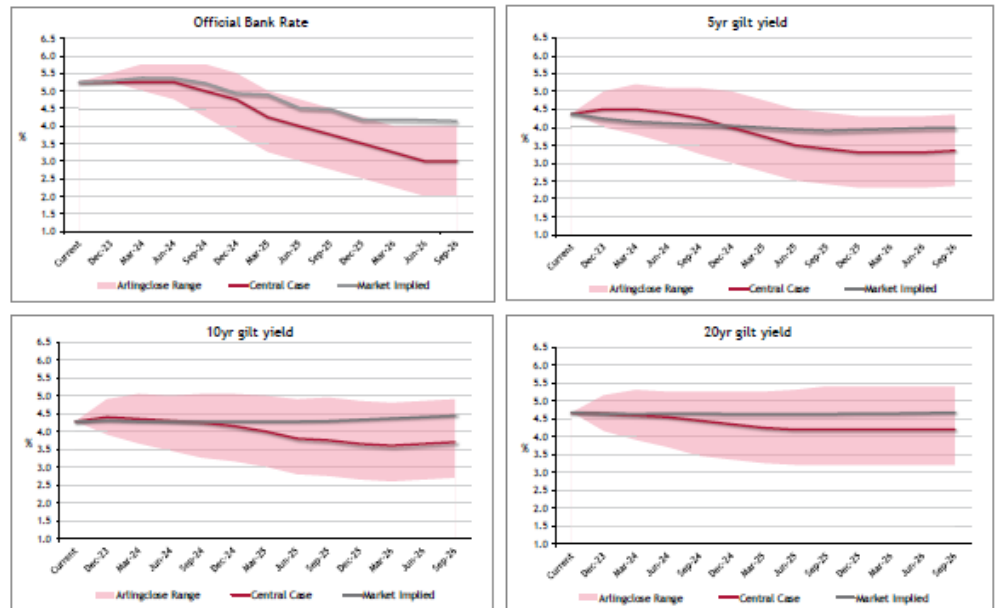
Charts show the Arlingclose central case along with upside and downside risks:

Arlingclose judges that the risks around its Bank Rate and gilt yield forecasts are weighted to the upside in the near-term and broadly balanced in the medium-term.

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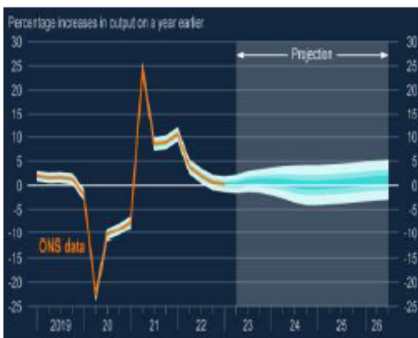
Arlingclose forecast:
25th September 2023

Market forward curves:
22nd September 2023

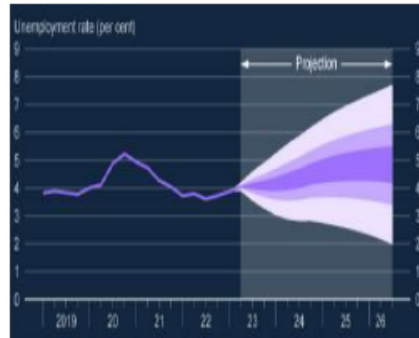


BoE Monetary Policy Report - August 2023

Outlook for UK GDP growth



Outlook for UK Unemployment



Outlook for UK CPI inflation

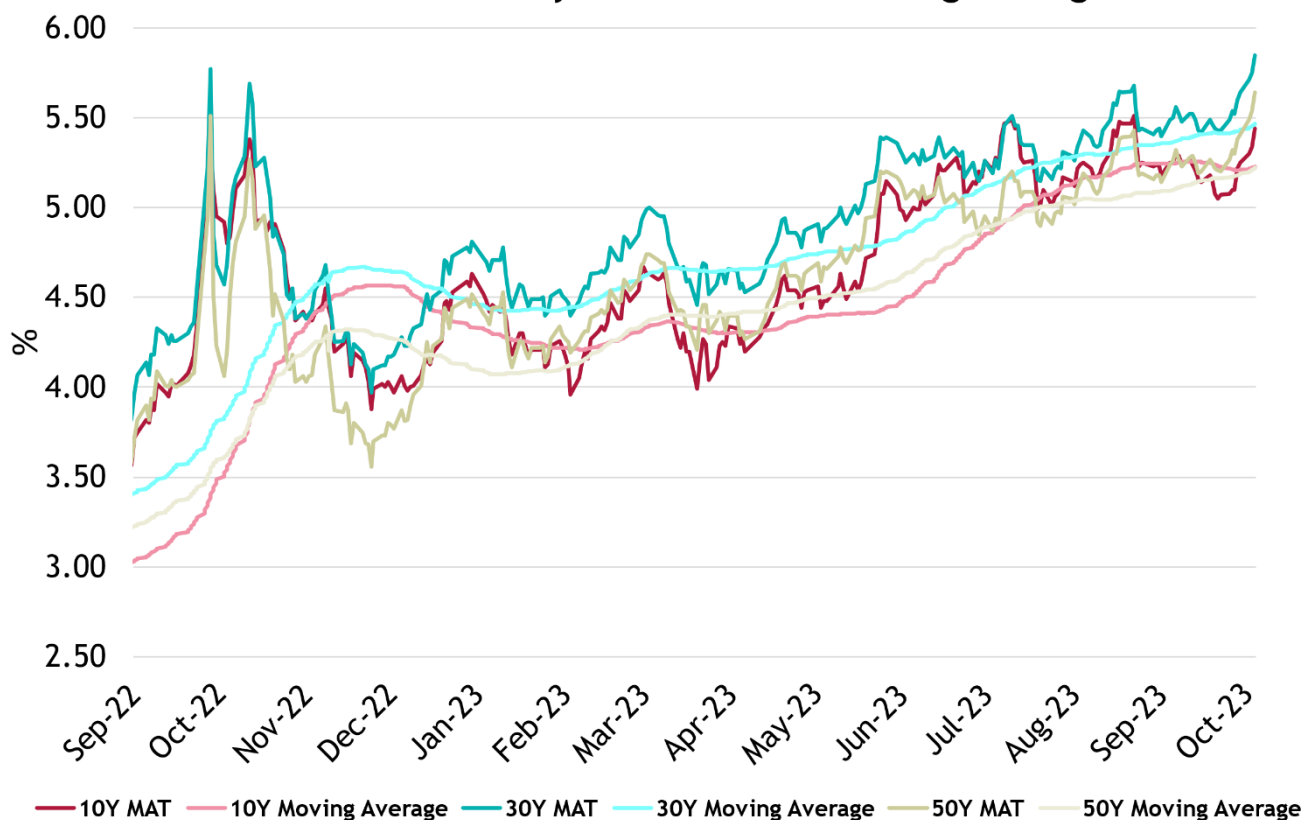


- Past increases in Bank Rate, and the higher path of market interest rates on which the forecast is conditioned, weigh to an increasing degree on the UK economy in coming quarters. GDP growth remains below pre-pandemic rates in the medium term, also reflecting relatively weak potential supply and a waning boost from fiscal policy.
- The UK economy has been in excess demand over recent quarters, but an increasing degree of economic slack is expected to emerge after the middle of next year, leading to a rise in unemployment.
- Second-round effects in domestic prices and wages are likely to take longer to unwind than they did to emerge. In the modal forecast conditioned on market interest rates, an increasing degree of spare capacity in the economy and declining external cost pressures lead CPI inflation to return to the 2% target by 2025 Q2 and to fall below target in the medium term, but to a lesser degree than projected in the May Report.
- The MPC continues to judge that the risks are skewed to the upside, but by less than in May. Taking account of this skew, mean CPI inflation is 2.0% and 1.9% at the two and three-year horizons respectively.

Treasury Management																																																																																																																																																																							
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1.	<p>Table 1 below shows the opening balance of borrowing and investments, current levels, and the year-end forecast. Forecast borrowing is based on the forecast capital programme and will be subject to review during the year.</p> <p>The Authority has maintained its strategy of keeping borrowing and investments below their underlying levels to reduce risk and make a net saving.</p>																																																																																																																																																																						
2.	<p>Table 1 - Borrowing and Investments</p> <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 65%;"></th> <th style="text-align: center;">31-Mar-23 Actual</th> <th style="text-align: center;">31-Mar-23 Average Yield / Rate</th> <th style="text-align: center;">30-Sep-23 Actual</th> <th style="text-align: center;">30-Sep-23 Average Yield / Rate</th> <th style="text-align: center;">31-Mar-24 Forecast</th> <th style="text-align: center;">31-Mar-24 Forecast Average</th> </tr> <tr> <th></th> <th style="text-align: center;">£M</th> <th style="text-align: center;">%</th> <th style="text-align: center;">£M</th> <th style="text-align: center;">%</th> <th style="text-align: center;">£M</th> <th style="text-align: center;">%</th> </tr> </thead> <tbody> <tr> <td>Long Term Borrowing</td> <td></td> <td></td> <td></td> <td></td> <td></td> <td></td> </tr> <tr> <td>Public Works Loan</td> <td style="text-align: right;">289.19</td> <td style="text-align: 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Borrowing							Other Local Authorities	5.00	3.36	20.00	5.79	20.00	5.79	Total External Borrowing	303.19	2.96	307.90	3.65	381.80	3.33	Other Long Term Liabilities							PFI Schemes	44.37	9.56	43.55	9.56	41.08	9.82	Deferred Debt Charges (HCC)	12.73	3.27	12.73	3.27	12.37	5.73	Total Gross External Debt	360.29	4.08	364.18	4.08	435.25	4.09	Investments:							Managed In-House							Government & Local Authority	(11.06)	4.05	0.00	0.00			Cash (Instant access)	(15.49)	4.08	(36.90)	5.30	(20.00)	5.40	Cash (Notice Account)	0.00	0.00	0.00	0.00	0.00	0.00	Long Term Bonds	(1.01)	5.27	(1.03)	5.27	(1.00)	5.27	Managed Externally							Pooled Funds (CCLA) & Shares	(27.00)	4.04	(27.00)	4.40	(27.00)	3.00	Total Investments	(54.56)	4.08	(64.93)	4.43	(48.00)	4.05	Net Debt	305.73		299.25		387.25	
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3.	<p>After taking into account maturing and new debt requirements in year and a forecast reduction in investment balances, net borrowing is expected to increase by £81.52M, to £387.25M. This is a reduction of £7.30M from the last reported position of £394.55M, due to a reduction proposed capital spend of £21.47M but is partly offset by an increase in the draw on balances of £14.15M.</p> <p>This forecast remains subject to change; most notably regarding the increased use of balances, (which will increase borrowing need as the ability to use internal borrowing will reduce) and changes to the capital programme, which due to the current financial environment is subject to ongoing review against the backdrop of rising inflation (which is significantly increasing construction costs) and rising interest rates which has seen the cost of borrowing increase dramatically.</p>																																																																																																																																																																						

4.	The interest cost of financing the council's long and short term loan debt is charged to the general fund revenue account and is detailed below together with a summary of performance to date.
	<u>Borrowing</u>
5.	As of September 2023, the forecast cost of financing the council's loan debt is £21.42M of which £5.96M relates to the HRA, however this will be subject to movement as the need for further borrowing for the remainder of the year becomes more certain.
6.	As outlined in the treasury strategy, the Authority's primary objective when borrowing is to strike an appropriately low risk balance between securing low interest costs and achieving cost certainty over the period for which funds are required, with flexibility to renegotiate loans should the Authority's long-term plans change being a secondary objective. The Authority's borrowing strategy continues to address the key issue of affordability without compromising the longer-term stability of the debt portfolio.
7.	<p>There was a substantial rise in the cost of both short- and long-term borrowing over the last 18 months. Bank Rate rose by 1% from 4.25% at the beginning of April to 5.25% at the end of September. Bank Rate was 2% higher than at the end of September 2022.</p> <p>UK gilt yields were volatile, mainly facing upward pressure since early April following signs that UK growth had been more resilient, inflation stickier than expected, and that the Bank of England saw persistently higher rates through 2023/24 as key to dampening domestic demand. Gilt yields, and consequently PWLB borrowing rates, rose and broadly remained at elevated levels. On 30th September, the PWLB certainty rates for maturity loans were 5.26% for 10-year loans, 5.64% for 20-year loans and 5.43% for 50-year loans. Their equivalents on 31st March 2023 were 4.33%, 4.70% and 4.41% respectively.</p>
8.	A new PWLB HRA rate which is 0.4% below the certainty rate has been made available from 15th September 2023. Initially available for a period of one year, this discounted rate is to support local authorities borrowing for the Housing Revenue Account and for refinancing existing HRA loans, providing a window of opportunity for HRA-related borrowing and to £6.36M loans relating to the HRA maturing during this time frame.
9.	The Authority has previously raised the majority of its long-term borrowing from the PWLB but will consider long-term loans from other sources including banks, pensions and local authorities etc. in order to lower interest costs and reduce over-reliance on one source of funding in line with the CIPFA Code. PWLB loans are no longer available to local authorities planning to buy investment assets primarily for yield; the Authority does not intend to do this and will therefore retain its access to PWLB loans.
10.	The chart below shows the pattern of the PWLB Certainty Rate 3-month moving average over the last year. Rates rose sharply in November 2022 following turmoil in markets, it then fell back but has since been on an upward trajectory.

PWLB Certainty Rate: 3-Month Moving Average



11. **Loans restructuring:** The sharp rise in gilt yields over the past 18 months has now resulted in some of the Authority’s loans being in or close to a discount position if repaid early. However, as the prepaid loans would need to be replaced by new loans at higher interest rates, this isn’t considered a cost-effective option for the Authority.

12. **LOBO loans:** LOBO (Lender’s Option Borrower’s Option) loans are where the lender has the option to propose an increase in the interest rate at set dates, following which the Authority has the option to either accept the new rate and terms or to repay the loan at no additional cost.

As reported previously with market interest rates having risen, the probability of LOBOs being called increased and at the end of September one lender exercised their option to increase the rate. The proposed increase from 4.94% to 6.11% was not deemed acceptable, given lower market rates, so in consultation with our treasury management advisors Arlingclose, the £5M loan was repaid and is currently being financed by temporary borrowing from other local authorities.

We currently have £4M remaining in LOBO loans and all have call dates within the next 12 months, we will continue to monitor and take appropriate action as necessary.

13. **Short-term borrowing:** cost continued to increase with the rise in Bank Rate in July and August. We took £20M (5.79%) of short term debt during this period, to maintain liquidity and anticipate further borrowing before year end. Table 2 below shows the movement in year.

Rates have fallen slightly since the Bank of England maintained the base rate at its meeting on 20th September and are currently around 5.80% for a 1 year loan.

Any borrowing will be done in consultation with our TM advisors, as although short term borrowing is currently higher than 25 year maturity debt at 5.75%, long term debt is expected to fall in the medium term and the overall cost needs to be considered.

14. **Table 2: Movement in Borrowing during the year**

<i>Movement during the year</i>	2022/23 Actual £M	2023/24 Movement in year £M	30-Sep-23 £M	Average Life
Long-term borrowing Carried Forward	255.30		298.19	
Maturities in year	(7.11)		(10.29)	
New borrowing taken in year	50.00		0.00	
Net Long Term Borrowing	298.19	(10.29)	287.90	26 Years
Short-term borrowing Carried Forward	0.36		5.00	
Maturities in year	(0.36)		(5.00)	
New borrowing taken in year	5.00		20.00	
Net Short Term Borrowing	5.00	15.00	20.00	7 Months
Total Borrowing	303.19	4.71	307.90	

Please note that these figures do not reflect the accounting convention of moving loans maturing in the year from long term to short term so will differ from the maturity analysis

15. The Authority has an increasing CFR due to the capital programme, and after future debt maturities currently has an estimated borrowing requirement of £79.22M for the year, as determined by the Liability Benchmark, which considers capital spend, maturing debt, usable reserves and working capital and is summarised in Table 3 below.

Table 3 – Estimated Borrowing Requirement

	2023/24 £M	Previously Reported £M	Movement £M
New Capital Expenditure	35.92	57.39	(21.74)
Repayment of Principle (MRP)	(8.69)	(8.69)	(0.00)
Maturing Debt	20.60	15.60	5.00
Movement in Resources	51.39	37.24	14.15
	99.22	101.54	(2.32)
New Borrowing Taken in Year	(20.00)	(0.00)	(20.00)
Cumulative Borrowing Need	79.22	101.54	(22.32)

Other Debt Activity

16. Although not classed as borrowing the Council has previously raised capital finance via Private Finance Initiative (PFI). The balance at the end of the year, after allowing for repayment in year of £3.14M is £44.38M.

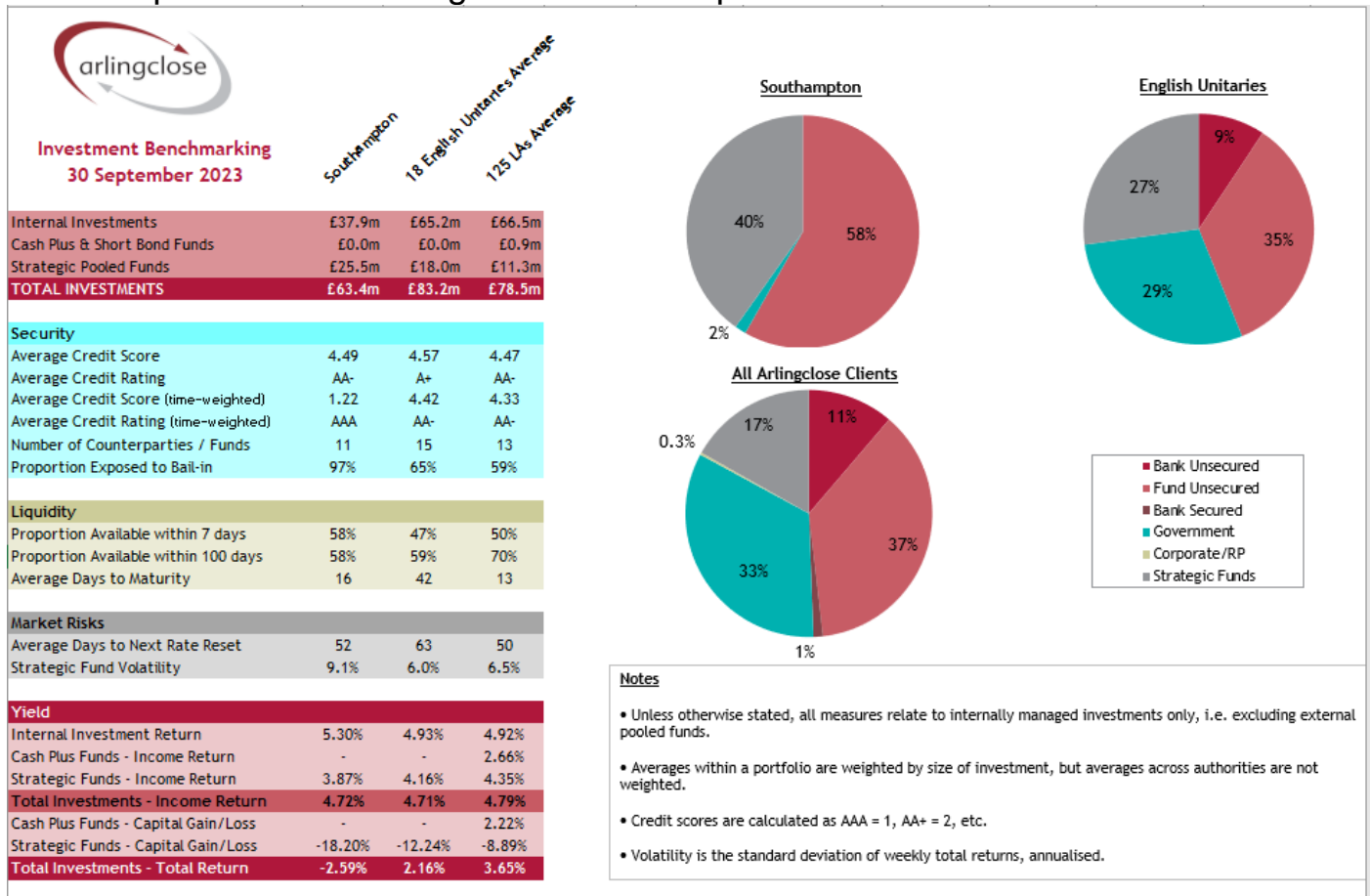
17.	In addition, the Authority holds debt in relation to debt transferred from Hampshire County Council on the 1 April 1997 when we became a unitary authority, of £12.74M. This is being repaid over 50 years at £0.36M per annum.																																																	
	<u>Investment</u>																																																	
18.	Both the CIPFA Code and government guidance require the Authority to invest its funds prudently, and to have regard to the security and liquidity of its treasury investments before seeking the optimum rate of return, or yield. The Authority's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income.																																																	
19.	As demonstrated in table 3 above, the Authority expects to be a long-term borrower and new treasury investments are therefore primarily made to manage day-to-day cash flows using short-term low risk instruments. The existing portfolio of strategic pooled funds will be maintained to diversify risk into different sectors and boost investment income.																																																	
20.	In line with Bank Rate short-dated cash rates rose commensurately, with 3-month rates rising to around 5.25% and 12-month rates to nearly 6%. The rates on DMADF deposits also rose, ranging between 4.8% and 5.4% by the end of September and Money Market Rates between 4.2% and 5.35%. Forecast income is now £2.81M, £0.97M higher than originally budgeted which helps to partly mitigate the increase in borrowing costs.																																																	
	<u>Investment Activity</u>																																																	
21.	The Authority holds invested funds, representing income received in advance of expenditure plus balances and reserves. During the year investment balances have ranged between £86.95M and £48.08M and are currently £64.93M and expected to reduce to £48M by year end.																																																	
22.	<u>Table 4: Investment activity during the year</u>																																																	
	<table border="1"> <thead> <tr> <th></th> <th>Balance on 01/04/2023</th> <th>Investments Repaid</th> <th>New Investments</th> <th>Balance on 30/09/2022</th> <th>(Increase)/ Decrease in Investment for Year</th> <th>Average Life of Investments</th> </tr> <tr> <th></th> <th>£M</th> <th>£M</th> <th>£M</th> <th>£M</th> <th>£M</th> <th>Life</th> </tr> </thead> <tbody> <tr> <td>Multi- National Bonds (not subject to bail in)</td> <td>(1.01)</td> <td>0.02</td> <td>0.00</td> <td>(1.03)</td> <td>(0.02)</td> <td>2 years</td> </tr> <tr> <td>Money Market Funds and Call Account</td> <td>(15.49)</td> <td>156.30</td> <td>(177.71)</td> <td>(36.90)</td> <td>(21.41)</td> <td>on day notice</td> </tr> <tr> <td>Government & Local Authority Managed Externally (CCLA Pooled funds)</td> <td>(11.06)</td> <td>154.56</td> <td>(143.50)</td> <td>0.00</td> <td>11.06</td> <td>0 days</td> </tr> <tr> <td></td> <td>(27.00)</td> <td>0.00</td> <td></td> <td>(27.00)</td> <td>0.00</td> <td>Unspecified</td> </tr> <tr> <td>Total Investments</td> <td>(54.56)</td> <td>310.88</td> <td>(321.21)</td> <td>(64.93)</td> <td>(10.37)</td> <td></td> </tr> </tbody> </table>		Balance on 01/04/2023	Investments Repaid	New Investments	Balance on 30/09/2022	(Increase)/ Decrease in Investment for Year	Average Life of Investments		£M	£M	£M	£M	£M	Life	Multi- National Bonds (not subject to bail in)	(1.01)	0.02	0.00	(1.03)	(0.02)	2 years	Money Market Funds and Call Account	(15.49)	156.30	(177.71)	(36.90)	(21.41)	on day notice	Government & Local Authority Managed Externally (CCLA Pooled funds)	(11.06)	154.56	(143.50)	0.00	11.06	0 days		(27.00)	0.00		(27.00)	0.00	Unspecified	Total Investments	(54.56)	310.88	(321.21)	(64.93)	(10.37)	
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	<u>Investment Performance</u>																																																	
23.	The council's TM advisors undertake quarterly investment benchmarking across its client base. We previously had a more diversified portfolio and at higher interest rates than the average as a result of moving into the bond programme earlier than most clients, but there is now more competition for bonds from both government bodies and other local authorities, so opportunities to replace maturing bonds are limited and we have seen a fall in suitable instruments. With this in mind, and the changes to Prudential code to only borrow when cash flows dictate, our investments primarily now consist of a previous long-term investment in property funds and short term investments for cash flow purposes.																																																	

24.	Our current investment in bonds remains at £1M and we maintained the pooled property fund at £27M, with all other cash being placed in short term deposits as shown in Table 1.
25.	As detailed in paragraph 19 our cash balances are currently higher than forecast but at £64.93M have reduced by £22.02M since highest point, in April, when we held £86.95M. Our target is to reduce this to a £20M working balance to reduce borrowing and therefore net interest costs but this will be dependent on actual capital spend and movement in balances.
26.	<p>As detailed in Appendix 3, investments managed internally are currently averaging a return of 5.30% which is higher than the average unitary authority at 4.93%, whilst maintaining a high credit rating at AA- compared to A+. Average LA returned 4.92% against a credit rating of AA-</p> <p>Total income returns at 4.72% is in line other unitary (4.71%) but lower than the average for LA's (4.79%).</p> <p>Due to reduction in available balances, we have reduced scope for investment and holding these longer term, and are now more limited to managing day to day cash flows to seek the best returns and to avoid higher borrowing costs. Our cash balances were £37.9M as opposed to £65.2M for other unitaries and £66.5M for other Local Authority. Cash is performing well in the current financial environment.</p> <p>We hold 40% of our investments in strategic funds which offer higher return over the long term, as detailed in paragraphs 21 to 24, which is higher than the average but not unexpected as our cash balances have reduced. The capital value of our external strategic funds has fallen by a further £0.03M in the last quarter, which is consistent across all local authorities that hold funds in pooled property funds. The income return over the longer term was and remains the driver to invest, although this is kept under review.</p>
<u>External Managed Investments</u>	
27.	The council has invested £27M in pooled property funds as an alternative to buying property directly. As previously reported these funds offer the potential for enhanced returns over the longer term but may be more volatile in the shorter term. They are managed by professional fund managers which allows the Authority to diversify into asset classes other than cash without the need to own and manage the underlying investments.
28.	Because these funds have no defined maturity date but are usually available for withdrawal after a notice period (180 days), their performance and continued suitability in meeting the Authority's investment objectives is regularly reviewed.
29.	<p>Strategic fund investments are made in the knowledge that capital values will move both up and down on months, quarters and even years; but with the confidence that over a three to five-year period total returns will exceed cash interest rates.</p> <p>Considering their performance over the long-term and the Authority's latest cash flow forecasts, investment in these funds has been maintained but will be monitored carefully especially as the statutory override on accounting for gains and losses on pooled investment funds ends on 31st March 2025, when any difference between initial investment and the current value will be a cost/gain to the Authority..</p> <p>On the basis that the fund's capital value as of June 2023 was £25.77M, there would be a £1.23M potential loss against the original £27M investment. Therefore, as part of the Medium Term Financial Strategy Quarter 2 Update report to Cabinet in October 2023, an Investment Risk Reserve was created to aside funds to protect the council from incurring such a loss when the statutory override expires in 2025/26. To even out the effects it is proposed to make a contribution to a new Investment Risk Reserve of £0.4M per annum from 2023/24 to 2025/26</p>

	to provide cover for the potential loss. The value of the reserve will be kept under review, to ensure it meets the forecast need.																				
30.	<p>Financial market conditions were volatile during the six-month period. Global bond yields rose and remained elevated as it became apparent that policymakers were looking to keep rates high for some time amid persistently higher core inflation and tight labour markets.</p> <p>The UK, Euro area and US equity markets were initially helped by resilient growth data and diminishing talk of recession. A weaker currency and better-than-expected economic fundamentals were broadly supportive for UK equities. Much of the US stock market's performance was driven by a small number of mega stocks and enthusiasm over artificial intelligence. However, the global outlook was clouded by the slowdown in China.</p> <p>Investor sentiment for UK commercial property was more settled than in Q3 and Q4 of 2022 when the sharp rise in bond yields resulted in a big fall in property valuations. There were signs of returning investor interest, occupier resilience and a perception that the downturn in commercial real estate may be bottoming out. It helped rental income and led to some stabilisation in capital values. However, the combination of high interest rates and bond yield, higher funding costs and the prospect of sluggish economic growth constrain the outlook for commercial property.</p> <p>The change in the funds' capital values and income earned over the 6-month period is shown in Table 5 below.</p> <p>The dividend for this quarter is forecast to be higher due to recent activity, but future dividends likely to be closer to the quarter 1. Based on this the forecast dividend for the year is £1.23M.</p>																				
31.	<p>Table 5 - Pooled Fund Performance (Year to Date)</p> <table border="1"> <thead> <tr> <th>Quarter Ending</th> <th>Valuation £M</th> <th>Movement since Reported in SOA</th> <th>Dividends £M</th> </tr> </thead> <tbody> <tr> <td>1st April</td> <td>25.80</td> <td></td> <td></td> </tr> <tr> <td>30th June</td> <td>25.77</td> <td>(0.04)</td> <td>0.30</td> </tr> <tr> <td>30th September</td> <td>25.46</td> <td>(0.34)</td> <td>0.34 E</td> </tr> <tr> <td>Total</td> <td></td> <td></td> <td>0.64</td> </tr> </tbody> </table>	Quarter Ending	Valuation £M	Movement since Reported in SOA	Dividends £M	1st April	25.80			30th June	25.77	(0.04)	0.30	30th September	25.46	(0.34)	0.34 E	Total			0.64
Quarter Ending	Valuation £M	Movement since Reported in SOA	Dividends £M																		
1st April	25.80																				
30th June	25.77	(0.04)	0.30																		
30th September	25.46	(0.34)	0.34 E																		
Total			0.64																		
	Non – Treasury Investments																				
32.	The definition of investments in CIPFA's revised 2021 Treasury Management Code covers all the financial assets of the Authority as well as other non-financial assets which the Authority holds primarily for financial return. Investments that do not meet the definition of treasury management investments (i.e., management of surplus cash) are categorised as either for service purposes (made explicitly to further service objectives) and or for commercial purposes (made primarily for financial return).																				
33.	Investment Guidance issued by the Department for Levelling Up Housing and Communities (DLUHC) and Welsh Government also broadens the definition of investments to include all such assets held partially or wholly for financial return.																				
34.	Between 2016 and 2017, SCC implemented a strategy to invest in commercial properties with the expected return on investment being used to fund council services, known as the Property																				

	investment fund (PIF). To date the authority has purchased 3 properties and does not have plans to invest in the future.
35.	Strategic Capital Board will be reviewing the existing asset portfolio in detail over the next 6 months, to ensure all council assets are still providing value for money, as the economic climate has shifted substantially since all were originally invested in. The PIF will form part of this review.

Southampton Benchmarking Scores 30th September 2023



The above highlights:

- Our internal investment balances have fallen to offset the need for borrowing and are 42% below the average.
- Internal investments average yield at 5.30% is slightly above average,
- We have maintained an average credit rating of AA- in line with average other Local Authorities and higher than English Unitary, whilst achieving a higher income return at 5.30% compared to 4.93% and 4.92%.
- We hold 40% of our investments in strategic funds which offer higher return over the long term, which is higher than the average but not unexpected as our cash flows have reduced. The capital value of our external strategic funds has fallen by a further £0.04M in the last quarter, which is consistent across all local authorities that hold funds in pooled property funds. The income return over the longer term was and remains the driver to invest, although this is kept under review.

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The Local Government Act 2003 requires the Authority to have regard to the Chartered Institute of Public Finance and Accountancy's Prudential Code for Capital Finance in Local Authorities (the Prudential Code) when determining how much money it can afford to borrow. The objectives of the Prudential Code are to ensure, within a clear framework, that the capital investment plans of local authorities are affordable, prudent and sustainable, and that treasury management decisions are taken in accordance with good professional practice. To demonstrate that the Authority has fulfilled these objectives, the Prudential Code sets out several indicators.

It is now a requirement of the CIPFA Prudential Code that these are reported quarterly.

1. Capital Financing Requirement

The Authority's cumulative outstanding amount of debt finance is measured by the capital financing requirement (CFR). This increases with new debt-financed capital expenditure and reduces with MRP repayments and capital receipts used to replace debt.

Capital Financing Requirement	31-Mar-23	31-Mar-24	31-Mar-25	31-Mar-26	31-Mar-27
	Actual £M	Forecast £M	Forecast £M	Forecast £M	Forecast £M
Balance Brought forward	339.15	342.57	352.07	359.21	358.60
New Borrowing	14.53	21.85	21.04	13.27	28.33
MRP	(7.61)	(8.69)	(9.56)	(10.03)	(9.85)
Movement in Other Liabilities	(3.50)	(3.66)	(4.34)	(3.85)	(3.57)
Total General Fund Debt	342.57	352.07	359.21	358.60	373.51
HRA	174.88	190.95	232.03	281.55	293.04
Total CFR	517.45	543.02	591.24	640.15	666.55
Estimated Debt	360.29	435.25	486.02	533.45	554.78
Under / (Over) Borrowed	157.16	107.77	105.22	106.70	111.77

2. Gross Debt and the Capital Financing Requirement

This is a key indicator of prudence. In order to ensure that over the medium-term debt will only be for a capital purpose, the local authority should ensure that debt (including PFI, leases and HCC Transferred debt) does not, except in the short term, exceed the total of CFR in the preceding year plus the estimates of any additional CFR for the current and next two financial years.

There is a significant difference between the gross external borrowing requirement and the net external borrowing requirement represented by the Council's level of balances, reserves, provisions and working capital. The Council's current strategy is only to borrow to the level of its net borrowing requirement.

The Authority has complied and expects to continue to comply with this requirement in the medium term as is shown below.

Gross Debt	31/03/2023	31/03/2024	31/03/2025	31/03/2026	31/03/2027	Debt at 30/06/2023
	Actual £M	Forecast £M	Forecast £M	Forecast £M	Forecast £M	£M
Total Debt	360.29	435.25	486.02	533.45	554.78	344.18
Capital Financing Requirement	517.45	543.02	591.24	640.15	666.55	
Under / (Over) Borrowed	157.16	107.77	105.22	106.70	111.77	

3. Authorised Limit and Operational Boundary for External Debt

The Operational Boundary for External Debt is based on the Authority's estimate of most likely, i.e. prudent, but not worst case scenario for external debt. It links directly to the Authority's estimates of capital expenditure, the capital financing requirement and cash flow requirements and is a key management tool for in-year monitoring. Other long-term liabilities comprise finance lease, Private Finance Initiative and other liabilities that are not borrowing but form part of the Authority's debt.

The Authorised Limit for External Debt is the affordable borrowing limit determined in compliance with the Local Government Act 2003. It is the maximum amount of debt that the Authority can legally owe. The authorised limit provides headroom over and above the operational boundary for unusual cash movements.

The S151 Officer confirms that there were no breaches to the Authorised Limit and the Operational Boundary during 2023/24; borrowing at its peak was £312.90M plus other deferred liabilities of £57.10M.

4. Net Income from Commercial Investment to Net Revenue Stream (NRS)

The Authority's income from commercial investments as a proportion of its net revenue stream has been and is expected to be as indicated below. This shows that the Authority is not over dependent on income from investments.

	2022/23 Actual £M	2023/24 Forecast £M	2024/25 Forecast £M	2025/26 Forecast £M	2026/27 Forecast £M
Total net income from commercial investments	6.48	6.69	7.45	8.10	8.10
Net Revenue Stream GF	193.17	221.37	250.50	255.25	262.81
Proportion of NRS	3.36%	3.02%	2.97%	3.17%	3.08%

5. Proportion of Financing Costs to Net Revenue Stream

This is an indicator of affordability and highlights the revenue implications of existing and proposed capital expenditure by identifying the proportion of the revenue budget required to meet borrowing costs. The ratio is based on the forecast of net revenue expenditure in the medium term financial model. The upper limit for this ratio was updated, as part of the MTFs report to Council in July 2023 and is currently set at 11% for the General Fund to allow for known borrowing decision in the next two years and to allow for additional borrowing affecting major schemes, it includes the cost of long term liabilities but now excludes investment income in line with the revised code. The table below shows the likely position based on the proposed capital programme.

This indicator is not so relevant for the HRA, as financing costs have been built into their 30 year business plan, including the voluntary payment of MRP. No problem is seen with the affordability but if problems were to arise then the HRA would have the option not to make principle repayments in the early years.

Ratio of Financing Costs to Net Revenue Stream	2022/23 Actual	2023/24 Forecast	2024/25 Forecast	2025/26 Forecast	2026/27 Forecast
	%		%	%	%
General Fund	9.58	10.07	10.33	10.10	9.84
HRA	6.81	8.04	9.96	12.09	13.27
Total	8.79	9.56	10.24	10.60	10.71

6. Liability Benchmark

This indicator compares the Authority's actual existing borrowing against a liability benchmark that has been calculated to show the lowest risk level of borrowing. The liability benchmark is an important tool to help establish whether the Council is likely to be a long-term borrower or investor in the future, and so shape its strategic focus and decision making. It represents an estimate of the cumulative amount of external borrowing the Council must hold to fund its current capital and revenue plans while keeping treasury investments at the minimum level of £48M required to manage day-to-day cash flow.

	31-Mar-23 Actual £M	31-Mar-24 Forecast £M	31-Mar-25 Forecast £M	31-Mar-26 Forecast £M	31-Mar-27 Forecast £M
Loans CFR	460.34	489.57	542.12	594.88	624.87
Less Balance sheet Resources	(211.70)	(153.75)	(153.23)	(154.70)	(159.79)
Plus Minimum Investments	48.01	48.00	48.00	48.00	48.00
Liability Benchmark	296.65	383.82	436.89	488.18	513.08
Less Committed External Borrowing	(303.20)	(302.60)	(269.53)	(258.93)	(248.33)
Minimum Borrowing Need	(6.55)	81.22	167.36	229.25	264.75
Less HRA Borrowing Liability	(0.71)	(23.14)	(68.12)	(121.53)	(136.91)
GF Minimum Borrowing Need /	(7.26)	58.08	99.24	107.72	127.84

7. Maturity Structure of Borrowing

This indicator is set to control the Authority's exposure to refinancing risk. The upper and lower limits on the maturity structure of all borrowing were:

	Upper Limit %	Lower Limit %	30.9.23 Actual %	Complied?
Under 12 months	0	50	4	Yes
12 months and within 24 months	0	50	4	Yes
24 months and within 5 years	0	50	11	Yes
5 years and within 10 years	0	55	18	Yes
10 years and within 20 years	0	60	11	Yes
20 years and within 40 years	0	60	52	Yes
Over 40 years	0	75	0	Yes
Uncertain Date**	0	5	1	Yes

8. Long-term Treasury Management Investments

This indicator allows the Council to manage the risk inherent in investments longer than a year and the limit is set at £30M. The actual principal sum invested in 2023/24 is £28.06M and consists of £27M in CCLA property funds (see Appendix 2 paragraphs 21 - 24 for more details) and £1M EIB bond ^{Project 2} will mature on 15th April 2025.

9. Security

The Authority has adopted a voluntary measure of its exposure to credit risk by monitoring the value-weighted average credit rating of its investment portfolio. This is calculated by applying a score to each investment (AAA=1, AA+=2, etc.) and taking the arithmetic average, weighted by the size of each investment. Unrated investments are assigned a score based on their perceived risk.

	2023/24 Target	Q2 Actual	Complied?
Portfolio average credit Rating	A	AA+	Yes

10. Liquidity

The Authority has adopted a voluntary measure of its exposure to liquidity risk by monitoring the amount of cash available to meet unexpected payments within a rolling three-month period, without additional borrowing or can borrow without giving prior notice.

Although we held £36.9M of liquid cash at end of September, based on current cash flow we expect to have a further borrowing need in the latter part of December.

	2023/24 Target	Q2 Actual	Complied?
Total cash available within 3 months	£20M	£36.9M	Yes
Total sum borrowed in past 3 months without prior notice		£20M	Yes

11. Interest Rate Exposures

This is a voluntary indicator which is set to control the Authority's exposure to interest rate risk. Bank Rate rose by 1.00% from 4.25% on 1st April to 5.25% by 30th September.

The impact of a change in interest rates is calculated on the assumption that maturing loans and investment will be replaced at new market rates.

For context, the changes in interest rates during the quarter were:

	<u>31/03/23</u>	<u>30/09/23</u>	<u>Increase</u>
Bank Rate	4.25%	5.25%	1.00%
1-year PWLB certainty rate, maturity loans	4.78%	5.69%	0.91%
5-year PWLB certainty rate, maturity loans	4.31%	5.22%	0.91%
10-year PWLB certainty rate, maturity loans	4.33%	5.26%	0.93%
20-year PWLB certainty rate, maturity loans	4.70%	5.64%	0.94%
50-year PWLB certainty rate, maturity loans	4.41%	5.43%	1.02%

We did not take out any new loans during the period and have budgeted new long-term borrowing at 5.50%. The benchmark was based on a 1% increase of forecast borrowing as of 31st March 2023. The forecast reflects the current borrowing need for the year, prior to any borrowing taken in year, of £99.22M, as detailed in Appendix 3, table 2.

Interest rate risk indicator	2023/24 Qtr 1 £M	2023/24 Forecast £M
Upper limit on one-year revenue impact of a 1% <u>rise</u> in interest rates	1.02M	0.99M

Upper limit on one-year revenue impact of a 1% <u>fall</u> in interest rates	(1.02M)	(0.99M)
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12. **Summary**

As indicated in this report the Council has operated within the limits set by the Prudential Indicators.

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GLOSSARY OF TREASURY TERMS

<p>Authorised Limit (Also known as the Affordable Limit):</p> <p>A statutory limit that sets the maximum level of external borrowing on a gross basis (i.e., not net of investments) for the Council. It is measured on a daily basis, against all external borrowing items on the Balance Sheet (i.e., long and short-term borrowing, overdrawn bank balances and long term liabilities).</p>
<p>Balances and Reserves:</p> <p>Accumulated sums that are maintained either earmarked for specific future costs or commitments or generally held to meet unforeseen or emergency expenditure.</p>
<p>Bail - in (Risk):</p> <p>Following the financial crisis of 2008 when governments in various jurisdictions injected billions of dollars into banks as part of bail-out packages, it was recognised that bondholders, who largely remained untouched through this period, should share the burden in future by making them forfeit part of their investment to "bail in" a bank before taxpayers are called upon.</p> <p>A bail-in takes place before a bankruptcy and under current proposals, regulators would have the power to impose losses on bondholders while leaving untouched other creditors of similar stature, such as derivatives counterparties. A corollary to this is that bondholders will require more interest if they are to risk losing money to a bail-in.</p>
<p>Bank Rate:</p> <p>The official interest rate set by the Bank of England's Monetary Policy Committee and what is generally termed at the "base rate". This rate is also referred to as the 'repo rate'.</p>
<p>Bond:</p> <p>A certificate of debt issued by a company, government, or other institution. The bond holder receives interest at a rate stated at the time of issue of the bond. The repayment date is also set at the onset but can be traded during its life, but this will affect the price of a bond which may vary during its life.</p>
<p>Capital Expenditure:</p> <p>Expenditure on the acquisition, creation or enhancement of capital assets.</p>
<p>Capital Financing Requirement (CFR):</p> <p>The CFR is simply the total historic outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure of the Council's underlying borrowing need.</p>
<p>CD's:</p> <p>Certificates of Deposits with banks and building societies</p>
<p>Capital Receipts:</p> <p>Money obtained on the sale of a capital asset.</p>

Constant Net Asset Value (CNAV)

These are Money Market Funds which maintain a stable price of £1 per share when investors redeem or purchase shares which mean that that any investment will not fluctuate in value.

Corporate Bonds:

Corporate bonds are bonds issued by companies. The term is often used to cover all bonds other than those issued by governments in their own currencies and includes issues by companies, supranational organisations and government agencies.

Cost of Carry:

The “cost of carry” is the difference between what is paid to borrow compared to the interest which could be earned. For example, if one takes out borrowing at 5% and invests the money at 1.5%, there is a cost of carry of 3.5%.

Counterparty List:

List of approved financial institutions with which the Council can place investments with.

Covered Bond:

Covered bonds are debt securities backed by cash flows from mortgages or public sector loans. They are similar in many ways to asset-backed securities created in securitisation, but covered bond assets remain on the issuer’s consolidated balance sheet (usually with an appropriate capital charge). The covered bonds continue as obligations of the issuer (often a bank); in essence, the investor has recourse against the issuer and the collateral, sometimes known as "dual recourse."

CPI:

Consumer Price Index – the UK’s main measure of inflation.

Credit Rating:

Formal opinion by a registered rating agency of a counterparty’s future ability to meet its financial liabilities; these are opinions only and not guarantees.

Diversify /diversified exposure:

The spreading of investments among different types of assets or between markets in order to reduce risk.

DMADF:

Debt Management Agency Deposit Facility is the lowest risk form of investment available to local authorities as it is operated by the Debt Management Office which is part of H.M. Treasury.

DLUHC:

The Department for Levelling Up, Housing and Communities (DLUHC), formerly the Ministry for Housing, Communities and Local Government (MHCLG), is the UK Government department for housing, communities, local government in England and the levelling up policy.

Federal Reserve:

The US central bank. (Often referred to as “the Fed”).

FTSE 100 Index:

The FTSE 100 Index is a share index of the 100 companies listed on the London Stock Exchange with the highest market capitalisation. It is one of the most widely used stock indices and is seen as a gauge of business prosperity for business regulated by UK

company law. The index is maintained by the FTSE Group, a subsidiary of the London Stock Exchange Group.

General Fund:

This includes most of the day-to-day spending and income.

Gilts:

Gilts are bonds issued by the UK Government. They take their name from 'gilt-edged': being issued by the UK government, they are deemed to be very secure as the investor expects to receive the full face value of the bond to be repaid on maturity.

Gross Domestic Product (GDP):

Gross Domestic Product measures the value of goods and services produced within a country. GDP is the most comprehensive overall measure of economic output and provides key insight as to the driving forces of the economy.

The G7:

The G7, is a group consisting of the finance ministers of seven industrialised nations: namely the US, UK, France, Germany, Italy, Canada and Japan. They are seven of the eight (China excluded) wealthiest nations on Earth, not by GDP but by global net wealth. The G7 represents more than the 66% of net global wealth (\$223 trillion), according to Credit Suisse Global Wealth Report September 2012.

IFRS:

International Financial Reporting Standards.

LIBID:

The London Interbank Bid Rate (LIBID) is the rate bid by banks on Eurocurrency deposits (i.e. the rate at which a bank is willing to borrow from other banks). It is "the opposite" of the LIBOR (an offered, hence "ask" rate, the rate at which a bank will lend). Whilst the British Bankers' Association set LIBOR rates, there is no correspondent official LIBID fixing.

LOBO:

Stands for Lender Option Borrower Option. The underlying loan facility is typically very long-term - for example 40 to 60 years - and the interest rate is fixed. However, in the LOBO facility the lender has the option to call on the facilities at pre-determined future dates. On these call dates, the lender can propose or impose a new fixed rate for the remaining term of the facility and the borrower has the 'option' to either accept the new imposed fixed rate or repay the loan facility. The upshot of this is that on the option exercise date, the lender could propose an extreme fixed rate, say 20 per cent, which would effectively force the repayment of the underlying facility. The borrower's so called 'option' is only the inalienable right to accept or refuse a new deal such as a fixed rate of 20 per cent.

Maturity:

The date when an investment or borrowing is repaid.

Maturity Structure / Profile:

A table or graph showing the amount (or percentage) of debt or investments maturing over a time period. The amount or percent maturing could be shown on a year-by-year or quarter-by-quarter or month-by-month basis.

Minimum Revenue Provision (MRP):

An annual provision that the Council is statutorily required to set aside and charge to the Revenue Account for the repayment of debt associated with expenditure incurred on capital assets.

Ministry for Housing, Communities and Local Government (MHCLG):

The Department for Communities and Local Government (DCLG) was created on 5 May 2006, replacing the Office of the Deputy Prime Minister (ODPM), with a remit to promote community cohesion and equality, as well as responsibility for housing, urban regeneration, planning and local government.

On 8 January 2018, the government announced that the Department for Communities and Local Government will be renamed as the Ministry for Housing, Communities and Local Government (MHCLG).

On the 20 September 2021 this has subsequently been rebranded to Department for Levelling Up, Housing and Communities (LUHC)

Money Market Funds (MMF):

An open-end mutual fund which invests only in money markets. These funds invest in short term debt obligations such as short-dated government debt, certificates of deposit and commercial paper. The main goal is the preservation of principal, accompanied by modest dividends. The fund's net asset value remains constant (e.g. £1 per unit) but the interest rate does fluctuate. These are liquid investments, and therefore, are often used by financial institutions to store money that is not currently invested. Risk is extremely low due to the high rating of the MMFs; many have achieved AAA credit status from the rating agencies:

- **Constant net asset value (CNAV)** refers to funds which use amortised cost accounting to value all of their assets. They aim to maintain a net asset value (NAV), or value of a share of the fund, at €1/£1/\$1 and calculate their price to two decimal places known as "penny rounding". Most CNAV funds distribute income to investors on a regular basis (distributing share classes), though some may choose to accumulate the income, or add it on to the NAV (accumulating share classes). The NAV of accumulating CNAV funds will vary by the income received.
- **Variable net asset value (VNAV)** refers to funds which use mark-to-market accounting to value some of their assets. The NAV of these funds will vary by a slight amount, due to the changing value of the assets and, in the case of an accumulating fund, by the amount of income received.

This means that a fund with an unchanging NAV is, by definition, CNAV, but a fund with a NAV that varies may be accumulating CNAV or distributing or accumulating VNAV.

Non Specified Investment:

Investments which fall outside the CLG Guidance for **Specified investments** (below).

Operational Boundary:

This linked directly to the Council's estimates of the CFR and estimates of other day to day cash flow requirements. This indicator is based on the same estimates as the Authorised Limit reflecting the most likely prudent but not worst case scenario but without the additional headroom included within the Authorised Limit.

Premiums and Discounts:

In the context of local authority borrowing,

- (a) the premium is the penalty arising when a loan is redeemed prior to its maturity date and
- (b) the discount is the gain arising when a loan is redeemed prior to its maturity date.

If on a £1 million loan, it is calculated that a £150,000 premium is payable on premature redemption, then the amount paid by the borrower to redeem the loan is £1,150,000 plus accrued interest. If on a £1 million loan, it is calculated* that a £50,000 discount receivable

on premature redemption, then the amount paid by the borrower to redeem the loan is £950,000 plus accrued interest. PWLB premium/discount rates are calculated according to the length of time to maturity, current market rates (plus a margin), and the existing loan rate which then produces a premium/discount dependent on whether the discount rate is lower/higher than the coupon rate.

**The calculation of the total amount payable to redeem a loan borrowed from the Public Works Loans Board (PWLB) is the present value of the remaining payments of principal and interest due in respect of the loan being repaid prematurely, calculated on normal actuarial principles. More details are contained in the PWLB's lending arrangements circular.*

Property:

Investment property is property (land or a building or part of a building or both) held (by the owner or by the lessee under a finance lease) to earn rentals or for capital appreciation or both.

Prudential Code:

Developed by CIPFA and introduced on 01/4/2004 as a professional code of practice to support local authority capital investment planning within a clear, affordable, prudent and sustainable framework and in accordance with good professional practice.

Prudential Indicators:

Indicators determined by the local authority to define its capital expenditure and asset management framework. They are designed to support and record local decision making in a manner that is publicly accountable; they are not intended to be comparative performance indicators

Public Works Loans Board (PWLB):

This is a statutory body operating within the United Kingdom Debt Management Office, an Executive Agency of HM Treasury. The PWLB's function is to lend money from the National Loans Fund to local authorities and other prescribed bodies, and to collect the repayments.

Quantitative Easing (QE):

In relation to the UK, it is the process used by the Bank of England to directly increase the quantity of money in the economy. It *“does not involve printing more banknotes. Instead, the Bank buys assets from private sector institutions – that could be insurance companies, pension funds, banks or non-financial firms – and credits the seller’s bank account. So the seller has more money in their bank account, while their bank holds a corresponding claim against the Bank of England (known as reserves). The end result is more money out in the wider economy”*. Source: Bank of England.

Regularity Method - MRP:

As detailed under MRP, this is a charge to revenue to repay capital expenditure financed by borrowing. There are a number of options for a prudent provision and this is for debt prior to 2008 which is supported by the Government through the RSG system. Although regulation 28 is revoked by regulation 4(1) of the 2008 Regulations, authorities are able to calculate MRP as if it were still in force.

Revenue Expenditure:

Expenditure to meet the continuing cost of delivery of services including salaries and wages, the purchase of materials and capital financing charges.

RPI:

Retail Prices Index is a monthly index demonstrating the movement in the cost of living as it tracks the prices of goods and services including mortgage interest and rent. Pensions and index-linked gilts are updated using the RPI index.

Section 114 notices (S114):

S114 are reports issued by the chief financial officer (or Section 151 officer) of a British public body to prevent certain types of expenditure. The notices take their name from Section 114 of the Local Government Finance Act 1988.

The most common type of notice is made under Section 114(3) which restricts all spending except for that which funds statutory services. Despite the fact that local authorities in the United Kingdom cannot go bankrupt, issuing a Section 114 notice is often described in the media as a council effectively declaring bankruptcy. Most councils under a Section 114 notice will then pass a new budget to introduce cuts and reduce spending.

(Short) Term Deposits:

Deposits of cash with terms attached relating to maturity and rate of return (Interest).

Specified Investments:

Term used in the CLG Guidance and Welsh Assembly Guidance for Local Authority Investments. Investments that offer high security and high liquidity, in sterling and for no more than one year. UK government, local authorities and bodies that have a high credit rating.

Supported Borrowing:

Borrowing for which the costs are supported by the government or third party.

Temporary Borrowing:

Borrowing to cover peaks and troughs of cash flow, not to fund capital spending.

Treasury Management Code:

CIPFA's Code of Practice for Treasury Management in the Public Services, initially brought in 2003, subsequently updated in 2009 and 2011.

Treasury Management Practices (TMP):

Treasury Management Practices set out the manner in which the Council will seek to achieve its policies and objectives and prescribe how it will manage and control these activities.

Unsupported Borrowing:

Borrowing which is self-financed by the local authority. This is also sometimes referred to as Prudential Borrowing.

Variable Net Asset Value (VNAV):

Redemptions and investments in Money Market Funds (MMF's) are on the basis of the fund's Net Asset Value (NAV) per share. The NAV of any money market fund is the market value of the fund's assets minus its liabilities and is stated on a per share basis. The net value of the assets held by an MMF can fluctuate, and the market value of a share may not always be exactly the amount that has been invested.

Yield:

The measure of the return on an investment instrument.

Agenda Item 6

DECISION-MAKER:	GOVERNANCE COMMITTEE		
SUBJECT:	CIPFA REVIEW		
DATE OF DECISION:	13 NOVEMBER 2023		
REPORT OF:	EXECUTIVE DIRECTOR CORPORATE SERVICES AND SECTION 151 OFFICER		
<u>CONTACT DETAILS</u>			
Executive Director	Title:	Executive Director Corporate Services	
	Name:	Mel Creighton	Tel: 023 8083 3528
	E-mail:	Mel.Creighton@southampton.gov.uk	
Author:	Title:	Head of Financial Planning and Management	
	Name:	Steve Harrison	Tel: 023 8083 4153
	E-mail:	Steve.Harrison@southampton.gov.uk	

STATEMENT OF CONFIDENTIALITY

NOT APPLICABLE

BRIEF SUMMARY

On 19th July 2023 Council received a report updating on the Medium Term Financial Strategy (MTFS) and the financial strategy to achieve a balanced and sustainable budget for next year and beyond. That work was and continues to be informed by the work of CIPFA (the Chartered Institute of Public Finance and Accountancy) who have reviewed the financial management and the financial resilience of the authority. The CIPFA work was also presented to Governance Committee on 24 July 2023.

The report presents a further update on the additional work that has been undertaken by the CIPFA on the financial position of the council, following the review of the robustness of forecasts.

It also reports on progress to date with implementing the new financial strategy.

The additional CIPFA work was reported to Cabinet on 17th October 2023, alongside a further tranche of cost control measures and an update on the progress with the updated financial strategy.

RECOMMENDATIONS:

- | | |
|-----|---|
| (i) | The conclusions of the CIPFA report and the ongoing work to promote the updated financial strategy are noted. |
|-----|---|

REASONS FOR REPORT RECOMMENDATIONS

- | | |
|----|---|
| 1. | To keep the Committee informed of the latest financial position and the advice received from CIPFA. |
|----|---|

ALTERNATIVE OPTIONS CONSIDERED AND REJECTED

- | | |
|----|---|
| 2. | The original CIPFA report informs a new financial strategy, which seeks to ensure the council is financially sustainable with balanced budgets. A second report was commissioned to look at likely scenarios, given the uncertainties of the financial position and a 'broad-brush' review of the scenarios that may arise. The second CIPFA report |
|----|---|

	was therefore building on the earlier work of a new financial strategy without which would mean the council being financially unsustainable.
DETAIL (Including consultation carried out)	
	CONSULTATION
3.	Not applicable.
	CIPFA REPORT UPDATE
4.	CIPFA was originally commissioned to undertake a review of the Council's financial resilience and financial management. Also assessed were the effectiveness of the council's financial management capability, its internal processes, and its operations. This report was presented to Cabinet and Council on 19th July this year and subsequently considered by Governance Committee on 24th July.
5.	A second report was commissioned to review the estimates within the Medium Term Financial Strategy (MTFS) and an executive summary of the CIPFA robustness of forecast review is provided at Appendix 1.
6.	It was recognised that the original CIPFA report was based on information provided at a very early stage in the financial year, to confirm the financial position and validate forecasts and estimates. The additional report focused on (a) the robustness of the arrangements to forecast the financial position as at July including the estimates of growth pressures; (b) the likelihood of sufficient savings being identified to balance the budget in 2023/24 and the extent of action needed to achieve financial sustainability; and (c) considered potential broad-brush scenarios that might arise.
7.	The new report identified that the authority is facing a nearly 15% shortfall in its portfolio budgets with the great majority of pressures unavoidable. The key drivers of the continuing pressure on the budget are the structural overspending on providing statutory services funded by the Home to School Transport, Adult Social Care and Looked After Children budgets. It also stated that "Just four or five budget lines account for almost 50% of the additional pressure – some £14m of overspending."
8.	The July report to Cabinet and Council presented a 'best and worst case' scenario for budget pressures and unachievable savings. Part of the reason for the new CIPFA report being commissioned was to validate future forecasts and apply rigor to test them, as given uncertainty in many areas different outcomes were possible. Although the forecasts have moved on since July, the CIPFA report broadly endorses a 'worst case' situation as the likely scenario.
9.	An initial meeting of the Finance Improvement Group, chaired by the Executive Director for Corporate Services, has also been held and work commenced on the specific improvements to financial management CIPFA have put forward following their original report. This group will lead on the detail needed for improvements to financial and service planning and budgeting, based on the priorities CIPFA have set. Improving financial systems and ensuring the council is equipped across the organisation with the skills and access to information to plan and manage budgets will be a central aim of the group.
	Financial Strategy
10.	Immediate Actions. The progress to date on the various actions identified in the July MTFS report are as follows: 1. Cash limited budgets have been distributed and are being updated regularly, as assumptions change, with Executive Directors working towards ensuring expenditure is maintained within these cash limits.

	<p>2. Star Chamber sessions reviewing savings proposals, efficiencies and income generation options have continued throughout the summer with further sessions planned.</p> <p>3. Working with the programme management office, plans have been developed to deliver the cost control measures identified.</p> <p>4. The status rating on savings proposals has been implemented.</p> <p>5. The finance opinion on achievability has been implemented and is utilised in deciding the proposals to bring forward.</p> <p>6. All proposals brought forward so far have green status and a delivery plan in place or implemented. As we move to looking further out in the time horizon some proposals will be included that are amber and a work in progress so there is transparency over the direction of travel and how we intend to close the financial gap.</p> <p>7. CIPFA have now completed their review and are finalising the action plan and the Target Operating Model for finance.</p> <p>8. The monthly monitoring update to Cabinet has been implemented alongside the more detailed MTFS report.</p> <p>9. The accountability statements have not yet been introduced. These will be discussed with Executive Management Team and Cabinet before introduction. These are currently in draft format and will require a communications and training plan to ensure budget holders are aware of the implications.</p> <p>10. Quarterly MTFS reports have been implemented.</p>
11.	An update on the progress with the strategy was given to the 17th October Cabinet, which is still broadly the position at the time of writing and is as follows:
12.	Step 1 Review Budgets: All actions have been completed. There is further work progressing to ensure regular reviews of the pressures and assumptions within the MTFS.
13.	Step 2 Right Size: Cash limited budgets have been established and improvement and transformation plans are being drawn up to ensure we have reduced our expenditure to affordable levels. We have started to set aside one-off monies into reserves as per our reserves strategy.
14.	Step 3 Stabilisation: The cost control panel continues to operate and further cost control measures have been brought forward.
15.	<p>A council-wide voluntary redundancy (VR) scheme was launched over the summer, to offer all staff across the council the opportunity for voluntary severance, in order to reduce staffing costs.</p> <p>In relation to the General Fund, the outcome was that for 2023/24, 49 staff members confirmed the offer to leave under VR. The total cost will be £2.03M, with a saving of £0.60M in 2023/24 rising to £1.55M in 2024/25. There are also additional savings within the Dedicated Schools Grant (DSG) of £0.08M in 2024/25.</p> <p>Given that the sum provided within the budget for VR costs in 2023/24 was only £2M i.e. less than the costs of VR under this scheme, most of the 2023/24 savings (around £0.5M of the £0.6M savings) will be used to help fund these and also other VR costs, rather than applied to offset the budget gap. The sums saved next year will, however, be applied to help reduce the projected budget shortfall.</p>
16.	Activity reviews are continuing as are the new target operating models in some areas. At present work on business plans has been paused to focus on service redesign and cost savings work.
17.	Work on the transformation programme is progressing alongside an overarching improvement plan, which will be discussed with the newly established Improvement

	Board. See Appendix 2 for the Board's terms of reference. Work on updating and developing the benefit realisation plans from the transformation and improvement programmes is also continuing.				
18.	Maximising external funding is a further strand to the financial plan. The External Funding Manager is focused on immediate grant bid development support, researching the current funding landscape internally and externally, developing an external funding framework and developing key relationships internally and externally. The overarching aim is to create a proactive framework that will help officers identify and pursue funding opportunities for the council.				
19.	Step 4 Sustainable: The overarching challenge of the improvement and transformation plans are to ensure we are embedding a strong culture of performance and financial management, whilst adhering to the Nolan principles of sound governance. As part of the Our Tomorrow programme, the People Strategy is being drafted setting out the positive culture plan, and our expectations of employee behaviour, performance and productivity alongside what the employee can do for the city and what they can expect from us as an employee. Key cost driver work has commenced with the following being identified as priorities for improvement in each area:				
20.	Staffing	Accommodation	Assets	Systems & Processes	Partners
	HR policies and allowances and the updating of JD/PS Service reviews with a reduction of a minimum 10% Skills audit & review of training	Childrens homes Supported accommodation Housing voids (HRA) Housing related support	Full asset review Disposal & consolidation methodology	Main systems improvements – Care Director & Business World Service centre Debt management ICT consolidation of systems	Review of section 75 agreements Review of the integrated commissioning unit
21.	The opposite side of the equation is to increase the income the council receives by growing council tax and business rates, as well as maximising the use of any external grant funding ensuring that the grants cover all internal cost of delivery. The Renaissance Board is a key driver of this, and investment in resource is being looked at. See Appendix 3 for the Board's terms of reference.				
22.	Step 5 Purposeful Investment: The new Council Strategic Capital Board has been established and schemes have started to be reviewed and prioritised. This Board was set-up as part of the new financial strategy approach agreed by Council on the 19th July, whereby capital investment plans are reviewed to ensure schemes are delivering the optimum value for money for the council and benefits are fully considered taking account of the financial challenges the council faces. The terms of reference of the Strategic Capital Board were reported to Council in July and are include in the link below:				

	Appendix 8 - Strategic Capital Board Terms of Reference.pdf (southampton.gov.uk)				
	Updated Financial Position				
23.	The 17th October Cabinet meeting received a report with the updated financial forecast from the MTFs and additional cost control measures. The updated position is presented in the table below and the additional cost control measures are included for information at Appendix 4.				
24.	<u>Table 1 Updated Forecast Budget Shortfall 2023/24 to 2026/27</u>				
		2023/24 £M	2024/25 £M	2025/26 £M	2026/27 £M
	Forecast Budget Shortfall July 2023	20.90	46.14	50.07	56.97
	Unachievable Savings	(0.51)	0.13	0.13	0.13
	Budget Pressures	1.02	(0.12)	(0.44)	(0.99)
	Changes to Inflation	(0.04)	0.85	0.85	0.85
	New Proposed Commitments	(0.13)	(0.05)	(0.05)	(0.05)
	Funding Changes	0.00	(0.34)	1.19	2.72
	Second tranche of cost control measures (not subject to further approval)	(7.17)	(8.30)	(6.41)	(6.33)
	Updated Forecast Budget Shortfall (forecast as at end of September)	14.08	38.30	45.34	53.30
	One-off Sums	(4.47)	(2.56)	0.00	0.00
	Transfers to/(from) Reserves	4.87	2.96	0.40	0.00
	Second tranche of cost control measures subject to further approval & consultation	(0.38)	(0.88)	(0.88)	(0.88)
	Updated Forecast Budget Shortfall	14.09	37.82	44.86	52.42
	Numbers are rounded				
25.	The cost control measures total £7.55M in 2023/24, £9.18M in 2024/25, £7.29M in 2025/26 and £7.21M in 2026/27 and include some measures that are subject to further approval in line with regulatory requirements. When combined with the measures reported to Council in July it brings the total cost control measures to date for 2023/24 to £16.63M.				
26.	Per table 1, the shortfall for 2023/24 stands at £14.1M. Urgent work is on-going to mitigate this sum further, but if the in-year deficit is not reduced from this level, all of the £9.4M forecast balance on the Medium Term Financial Risk (MTFR) reserve would be required to meet it and £4.67M from other sources. For example, any balance remaining on the £4.47M Cabinet agreed be set aside in the Transformation and Organisational Redesign reserves or from temporary use of any other earmarked reserves.				
27.	The Cabinet report of 17th October 2023 noted that the risk of a S114 notice 'remains a severe one'.				
28.	A further update on the budget and progress to date on closing the budget gap is expected to be presented at cabinet on 29 November 2023. This will include additional cost control measures for the current year and proposals future years savings.				
RESOURCE IMPLICATIONS					
<u>Capital/Revenue</u>					
29.	As set out above.				

<u>Property/Other</u>	
30.	No applicable
LEGAL IMPLICATIONS	
<u>Statutory power to undertake proposals in the report:</u>	
31.	Section 111 Local Government Act 1972 and S1 Localism Act 2011. The CIPFA report will inform the financial strategy and the council's duty to balance its budget.
<u>Other Legal Implications:</u>	
32.	None.
RISK MANAGEMENT IMPLICATIONS	
33.	The CIPFA review is intended to assist the council with financial risk management and our financial resilience
POLICY FRAMEWORK IMPLICATIONS	
34.	Not applicable

KEY DECISION?	Yes/No
WARDS/COMMUNITIES AFFECTED:	None
<u>SUPPORTING DOCUMENTATION</u>	
Appendices	
1.	CIPFA Review Summary
2.	Improvement Board terms of reference
3.	Renaissance Board terms of reference
4.	Cost Control – second tranche
Documents In Members' Rooms	
1.	None

Equality Impact Assessment		
Do the implications/subject of the report require an Equality and Safety Impact Assessment (ESIA) to be carried out.		Yes/No
Privacy Impact Assessment		
Do the implications/subject of the report require a Privacy Impact Assessment (PIA) to be carried out.		Yes/No
Other Background Documents		
Other Background documents available for inspection at:		
Title of Background Paper(s)	Relevant Paragraph of the Access to Information Procedure Rules / Schedule 12A allowing document to be Exempt/Confidential (if applicable)	
1.	None	

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Southampton City Council

Validating financial data behind revised MTFP and identifying potential budgetary scenarios

Report Summary

August 2023

Southampton City Council commissioned this update to CIPFA’s work conducted earlier this year to review the financial management and the financial resilience of the Council. The work carried out in August sought to validate the figures in the Council’s revised MTFP by considering the robustness of the arrangements to forecast the financial position as at July including the estimates of growth pressures; the likelihood of sufficient savings being identified to balance the budget in 2023-24 and the extent of action needed to achieve financial sustainability and to consider potential broad-brush scenarios that might arise. The figures in the report reflect the end of July position.

The key findings were:

1. Southampton went into the year with non-school usable reserves of £49.59m, having used almost half of its usable reserves to support the 2022-23 budget. The General Fund Balance was at £10.07m. The February budget envisaged drawing on £20.6m to leave non balance useable reserves of just c£20m. This was equivalent to just 11% of expected 2023-24 net expenditure. This was an already precarious position, especially in the light of then known likely further rises in demand for social care and children’s services.
2. We have reviewed the list of additional pressures, unrealised savings and additional commitments identified to the July Council as adding c£30m to the authority’s expected 2023-24 spend. Although we identified some discretionary items and other items that might be deferred or did not appear to be contractual commitments, these were on the margin, and it is clear the authority is facing a nearly 15% shortfall in its portfolio budgets with the great majority of pressures unavoidable. The key drivers of the continuing pressure on the budget are the structural overspending on providing statutory services funded by the Home to School Transport, Adult Social Care and Looked After Children budgets. Just four or five budget lines account for almost 50% of the additional pressure – some £14m of overspending.
3. We identified a range of potential broad-brush funding gap scenarios depending on the success of the cost avoidance programme and the extent to which the star chamber can force through cash savings as identified in the table below. Scenario 3 is the likely outcome if all the additional savings identified as green and amber on Finance’s spreadsheet are brought forward and delivered. Scenario 4 is if the Place portfolio delivers savings equivalent to one third of its budget but no substantive further savings other than those already on the finance spreadsheet are identified in other portfolios.

Potential financial position scenarios				
	Funding gap			
	23/24	24/25	25/26	26/27
	£m	£m	£m	£m
1. No action to address deficit	-0.71	-54.20	-112.75	-178.17
2. No further savings identified beyond those identified to July Council	8.37	-37.52	-87.59	-144.57
3. All savings currently categorised as green are realised	9.27	-31.49	-75.56	-127.25
4. Star chamber forces through one third reduction in current Place budget to 26/27, but no further major savings identified in ASC and C&L portfolios	21.84	-5.87	-37.59	-76.98
5. Star chamber can provide £30m savings in 23/24 but structural issues are not addressed	29.53	4.86	-23.45	-58.63

4. We expect the most likely of these scenarios to be the 4th. But even if the 5th is achieved the continuing future demand pressures are such that finances the following year will be equally precarious and reserves will be depleted to an unsustainable level and there will be the pain of a further £25m in savings to identify to bring the reserves to an acceptable level. So financial sustainability requires a more strategic approach that provides for restructuring over the next two years.
5. From conversations with officers and review of portfolio budgets, we found there was a good awareness of how the structural overspending could be addressed and efficiencies realised in the medium term. Headway is already being made on the Home to School Travel budget. But restructuring and transformational changes in practice will take much longer to realise benefits and efficiencies for the Adult Social Care and Looked After Children budgets. And the MTFs rightly envisages further additional growth in demand in these areas beyond 2023-24.
6. A plan needs to identify transparently the action that will be taken to address the structural overspending in the relevant Directorates, together with timescales and any investment requirement. And also how for example a reduction in overall staff numbers across the authority is going to be achieved and funded. And reflect any structural reforms brought about because of star chamber decisions.

Conclusion

7. The financial position for both 2023-24 and 2024-25 continues to be precarious and requires continuing action to reduce expenditure and address the deficit. The authority needs to develop a financial recovery plan to cover the period of the MTFP. The plan should be built round supporting the council's financial position not just in the short-term but for the medium and longer-term. A service improvement plan needs to identify clearly how the structural changes required to bring about sustainable reductions in expenditure in Adult Social Care and Looked After Children areas in particular will be delivered.

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Southampton City Council

Improvement and Assurance Board

Terms of Reference

Purpose

1. The purpose of the Panel is:
 - To provide external advice, challenge, and expertise to Southampton City Council in driving forward the development and delivery of their improvement plan and transformation programme
 - To provide assurance to key stakeholders including but not limited to Cabinet, External Auditors, Governance Committee, Overview and Scrutiny Committee, regarding progress in delivering necessary savings and improvements.
 - To provide regular progress reports to the Council on the delivery of the improvement plan.
 - Seek assurance that key decisions are made cognisant of the financial implications and impact on in-year budgets and the long term MTFS.

2. This will involve:
 - Providing regular advice, challenge, and support to the Council on the full range of their improvement activities and in particular, on delivery of the recommendations in the CIPFA reports and transformation programme.
 - Regularly monitoring progress against key target improvement indicators, to ensure transformation outcomes and financial sustainability of the Council is achieved in two years.
 - Working together across specialisms, acknowledging as well as challenging key dependencies with a collegiate approach to identifying, managing and resolving risk.
 - Exploring key issues in detail through deep dives and specially commissioned pieces of work and through workshops.
 - Ensuring key decisions are made cognisant of the financial implications and impact on in-year budgets and the long term MTFS.

3. The panel will convene for the first time in October 2023 and is expected to conclude within two years, following regular reviews to ensure appropriate expertise and impact. The first review will take place after the Council's February 2024 budget report. Board meetings will be held in private, and any minutes produced will not be published.

4. The Improvement and Assurance Board will comprise:
 - Independent Chair
 - Leader of the Council
 - Chief Executive of the Council
 - Independent External Member (Finance)
 - Independent External Member (Childrens)
 - Independent External Member (Adults)
 - Deputy Leader (Cabinet Holder Adults, Housing & Health)
 - Cabinet Member Finance & Change

5. Additional independent external members may be appointed to the panel in the future if required.
6. Key Officers will attend the Board meetings as and when required.

Wider Local and Political Engagement

7. The Improvement Board will work closely and in concert with the other Governance arrangements across the Council.

Costs and Support

8. Any costs associated with the Improvement and Assurance Board will be met by Southampton City Council.
9. Independent Board members will be paid a fee for their work. The fee will be paid on a personal basis.
10. Board members will need to work flexibly as the demand of the role requires. However, Southampton City Council may wish to agree in advance the number of days advice to be provided by each panel member over each 12-month period.
11. Initial Improvement Board meetings to be held in person, on a monthly basis.
12. The Board will be supported by an effective programme office to ensure that the overall programme plan is proactively tracked, kept up to date and that issues and risks are managed on a day to day basis through officers.

Southampton Renaissance Board

Draft Terms of Reference

Background & Objectives

The Southampton Renaissance Board will have a remit focussed on growth, strategic skills, sustainable development and investment. The board will help to steer the future growth of the City in terms of economic development, place-shaping, investment in infrastructure and in our human capital.

It is envisaged that the Board will evolve through time, developing a strategic advisory role and initiated initially as a Shadow Board to agree a terms of reference, to then be adopted. Once adopted the Board will be formally constituted, with interdependencies with City Council's (SCC) Internal Renaissance Board focussed on the Council's emerging master planning programme, supporting the Southampton Connect partnership and major economic development initiatives, for example the Solent Freeport.

The establishment of a Southampton Renaissance Board could be agreed with the support of the City Council's Cabinet in December 2022, with additional cross-party support, established from the outset and being endorsed at Full Council in February 2023. A Shadow Board will convene prior to February 2023 and with cross-party representation on the Board.

In headline terms the Board could:

- Ensure the alignment of our public, private sector & major institutions around a growth agenda;
- Seek to revitalise the built environment by realising opportunities through a master planning & investment delivery programme;
- Have oversight of the Economic & Green Growth Strategy & major initiatives including the Solent Freeport;
- Ensure that Southampton is an attractive place to build a career, to work in and visit, as a more dynamic and vibrant place;
- Catalyse the growth of innovative new industries to drive future growth;
- Consider how the benefits of growth can be distributed more evenly and to our more disadvantaged communities;
- Engage with and be informed by the Southampton City Vision – Local Plan.
- Involve and engage local bodies, businesses, investors and residents in this work.

Net zero, new investment, skills, people and sustainable growth will be central to the Board's remit, to navigate the city's collective response to future socio-economic challenges. Investments in people, infrastructure and the fabric of the City need to be backed with unified oversight and the ideally with the board describing our future purpose.

Partners will come together to help shape our collective approach. The board will include representation from the private sector, the Cabinet of the Southampton City Council and the Southampton Connect partnership.

A fundamental principle of the board's outlook will be in recognising the centrality of Southampton as one of the most significant cities in the south of England and an international city. Southampton is an international port, a waterfront city, with a historic significance.

Relationship with other bodies

The Board will be initiated as an advisory and leadership body, to help shape the future shape and direction of the city.

It is envisaged that the Board will evolve through time, developing a remit, role and initiated as a Shadow Board to agree the constitution and with a terms of reference, to then be adopted. Once adopted the Board will be formally constituted, with interdependencies with the following bodies:

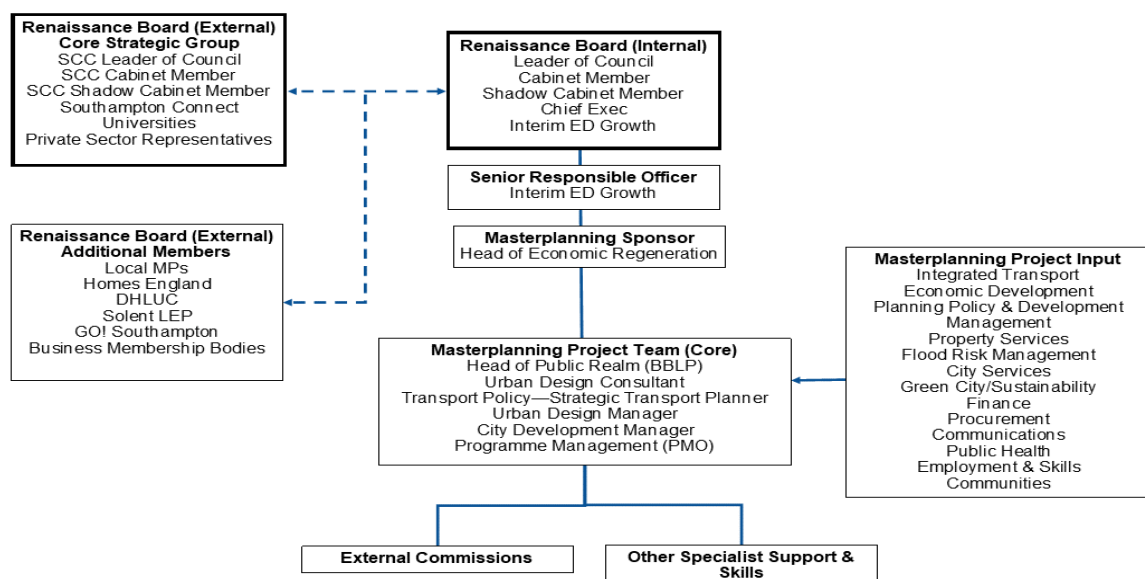
- Southampton City Council's Cabinet and;
- An internal Master Planning Delivery Board focussed on the Council's emerging master planning programme;
- The Southampton Connect Partnership and;
- Other partnership and organisational boards;
- The Solent Freeport Board and Retained Rates Investment Committee;
- HM Government.

Membership & Structure

The core membership of the Southampton Renaissance Board will be balanced with business representation. Membership will be drawn from other key city governance bodies and partnerships.

A core membership of ten senior figures drawn from:

- Southampton Connect;
- Solent University;
- University of Southampton;
- Southampton City Council;
- Five business leaders who may also represent business organisations and memberships;
- Other bodies can be co-opted to join the Board with the consent of the Chair.



Directions on Appointments to the Board

The membership of the Southampton Renaissance Board will be by invitation after a consensus on membership is agreed with key stakeholders. The Leader of Southampton City Council will invite member organisations to appoint a Board Member.

The shadow board agree a Chairperson from the membership of private sector representatives, as the Board will be private sector led. The Leader of Southampton City Council or the Cabinet Member for Growth will act as the nominated co-chairperson, in the absence of the Chair.

All members will be entitled to equal voting rights and Board Members may nominate substitutes from their relevant organisations in the event that they are unable to attend Board meetings. Nominees will have full voting rights, however substitutes will need to be pre-notified to the Chair.

Members of the Board may resign their position at any time by giving notice, in writing, to the Chair.

Quorum

For the Board to be quorate at least six members will need to be present at meetings.

This must include the Chair and / or the Leader of Southampton City Council and at least two business representatives or their nominated representatives.

Decisions and Voting

The primary role of the Southampton Renaissance Board is as an advisory board, however the board could evolve into a decision-making body, and there is an expectation that they will primarily provide recommendations on matters relating to future growth. It is expected that the advice and recommendations of the Board will normally be reached by consensus, but if a vote is required decisions shall be made on the basis of a majority of those members attending and voting.

The Board will not have a remit to determine the financial position or budgets of any of the constituent members. If an Accountable Body is required as the Board evolves then Southampton City Council will act accordingly. Members will have the right to veto any decision that may place an undue financial risk on a constituent member so as not to place a member organisation at financial risk.

The Board requires any financial support to inform or enable independent decision-making, then the necessary resource will be drawn equally from the membership.

Attendance by Others

The work of the Board will be initially supported by the attendance of members of Southampton City Council's Executive team, and supplemented by other representatives where agreed by the Chair. These attendees will not have any voting rights.

As the Board evolves the Board may seek to develop an independent secretariat function, if appropriate, drawn from the resources of member bodies.

Policy and Review Process

The Chair can elect to undertake an independent review of the effectiveness of the Southampton Renaissance Board, annually, supported by the Southampton City Council's

Policy Unit. The effectiveness of the Board as an advisory body should be monitored and assessed. Any review should be considered and assessed by the constituent members. Any annual statement should be signed-off by the Chair and co-chair.

The Election & Role of the Chair

The Chair will be responsible for agreeing the agenda for each meeting and deciding the order of matters to be discussed.

The Chair will agree in partnership with co-chairperson and the secretariat, at the start of the new financial year, an outline programme for the forthcoming year. The programme will then be agreed and signed-off by each of the constituent members.

The Chair will chair all the meetings of the Southampton Renaissance Board. If the Chair is unable to attend a board meeting, the Chair will nominate the co-chairperson as the representative to attend and chair the meeting on their behalf.

The Chair will decide the order in which members will be called to speak ensuring that all members present, who wish to, are given an opportunity to speak and also seeking to ensure that all views are fairly represented.

The Chair may suspend the meeting if in his or her view this is necessary; for whatever period of time, he or she thinks appropriate.

The Chair, the co-chairperson and all members of Board will act as ambassadors for the City of Southampton.

Expected Conduct of Board Members

All Board Members are expected to follow "The 7 principles of public life" code of conduct.

Deputations at meetings

The Board may receive deputations on a matter from any organisation or individual, where notice has been given, which is deemed relevant to the role of the Board. The following rules will apply:

Notice of the intended deputation stating its purpose must be received in writing by 12 noon on the working day preceding the meeting;

Decisions on whether to receive deputations on a matter will be made by the Chair and the Chair may waive the giving of notice in any case they consider appropriate;

When the deputation is given it must relate to the agreed purpose in respect of which it is made;

No person may speak for more than 10 minutes per deputation;

Questions to deputations will be permitted, but only to clarify a statement.

Support and Administration Arrangements

Initially Southampton City Council will provide the secretariat for the Southampton Renaissance Board and if necessary will act as the Accountable Body for the Board.

Independent support may be commissioned by the Members of the Board, with the agreement of the Chair to inform and support the decision-making of Board. Additional resources will be drawn from the membership organisations with the discharge of their roles

and to provide further strategic advice as requested from the Board to inform evidence based decision-making and the provision of strategic advice.

In time the Board may develop an independent secretariat function drawn from the collective resources of the membership organisations.

Working Arrangements and Meeting Frequency

The Board shall meet three times per year, or as agreed by the Chair.

The Board may also hold an annual stakeholder, state of the city event, to ensure engagement and to help shape the annual programme for the Board. Stakeholders should be offered the opportunity to interact with Board and ensure the Board is focussed on the

Declarations of Interest

In accordance with the National Local Growth Assurance Framework, a register of interest will be established and all Board Members will have a duty to declare their interests (direct or indirect) in transactions or arrangements involving the remit of the Board.

This requirement has been extended to all Chairs and Members of the Board. In addition executive officers of the Accountable Body organisation or secretariat operating on behalf of the Board and any other persons with significant influence over the activities of the Board (for example, senior executives of membership organisations).

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Cost Control Measures

Directorate	2023/24 £000	2024/25 £000	2025/26 £000	2026/27 £000
Children & Learning	(1,355)	(1,266)	(1,304)	(1,244)
Corporate Services	(1,173)	(2,748)	(2,048)	(2,048)
Place	(2,702)	(4,108)	(3,826)	(3,799)
Strategy & Performance and Chief Executive's Office	0	(59)	(59)	(59)
Wellbeing & Housing	(2,321)	(1,004)	(57)	(57)
Total	(7,551)	(9,184)	(7,293)	(7,206)

Portfolio	2023/24 £000	2024/25 £000	2025/26 £000	2026/27 £000
Adult, Health & Housing	(2,291)	(1,254)	(57)	(57)
Children & Learning	(1,355)	(1,266)	(1,304)	(1,244)
Communities & Leisure	(50)			
Economic Development	(946)	(1,055)	(1,063)	(1,045)
Environment & Transport	(1,541)	(2,684)	(2,644)	(2,635)
Finance & Change	(669)	(2,362)	(1,662)	(1,662)
Leader				
Safer City	(194)	(120)	(120)	(120)
Non-Portfolio	(504)	(445)	(445)	(445)
Total	(7,551)	(9,184)	(7,293)	(7,206)

CHILDREN & LEARNING

Description	2023/24 £000	2024/25 £000	2025/26 £000	2026/27 £000
Behaviour Resilience Service, service redesign	(100)	(200)	(200)	(200)
Reduce No Recourse to Public Funds spend	(62)	(62)	(62)	(62)
Reduction in translation costs	(96)	(96)	(96)	(96)
Reduce Preventative spend back to budget	(225)	(225)	(225)	(225)
Reduce accommodation costs for care leavers	(180)	(180)	(180)	(180)
Control salary overpayments	(57)			
Reduce project costs through focus on 6 priorities and in year budget monitoring favourable forecast gain	(113)			
Do not appoint to Project Manager in Contact Service			(53)	(53)
Reduction in costs due to placement returning home, in year budget monitoring favourable forecast gain	(134)			
Review of Direct payments, in year budget monitoring favourable forecast gain	(60)			
Care Leavers - in year budget monitoring favourable forecast gain	(110)			
Education Psychologists in year budget monitoring favourable forecast gain reducing pressures	(30)			
Post 16 team - in year budget monitoring favourable forecast gain	(19)			
Education Property budget no longer needed re academisation	(135)	(120)	(105)	(45)
Music Service income increase.	(34)	(34)	(34)	(34)
Voluntary Redundancy saving excl savings already captured - Childrens and Learning		(349)	(349)	(349)
Total	(1,355)	(1,266)	(1,304)	(1,244)

CORPORATE SERVICES

Description	2023/24 £000	2024/25 £000	2025/26 £000	2026/27 £000
Discontinue the roaming highways pothole repair service (known as 'Find and Fix') and continue highways repairs in accordance with the Council's policy	(114)	(300)	(300)	(300)
IT savings to meet pressures	(350)	(350)	(350)	(350)
Remove the contribution to the Self Insurance Fund for 1 year		(700)	0	0
Finance staff restructure, part of the corporate voluntary redundancy scheme		(200)	(300)	(300)
Business Rates return to government amended to ensure maximisation of funding (budget held centrally)	(432)	(445)	(445)	(445)
Cancel the Money Insurance Policy (Insurance cover for cash theft)		(4)	(4)	(4)
Recalculation of the Councils set aside for the repayment of debt (Minimum Revenue Position MRP) based on updated assumptions completed in conjunction with treasury management advisors	(72)			
In year reduced premiums as 6 schools opted out of Council insurance arrangements	(5)			
Reduction of IT Services staff from voluntary redundancy exercise		(250)	(250)	(250)
Democratic Services - in year budget monitoring favourable forecast gain	(80)			

Supplier Management - in year budget monitoring favourable forecast gain	(140)			
Facilities Management - Centralisation of cleaning. Adjustment to reflect timing of saving	20			
Voluntary Redundancy saving excl savings already captured - Corporate Services		(499)	(399)	(399)
Total	(1,173)	(2,748)	(2,048)	(2,048)

PLACE

Description	2023/24 £000	2024/25 £000	2025/26 £000	2026/27 £000
Reduce Arts Complex budget	(33)	(38)	(38)	(38)
Moving Traffic Enforcement - Income	(75)	(75)	(75)	(75)
Increase income generation for Bereavement Services through increased supply chain engagement	(22)	(22)	(22)	(22)
Increase Registration Services fees		(15)	(15)	(15)
Increase income through new Registration Services venue	(10)	(10)	(10)	(10)
Remove funding requirement for Condition of Private Sector Housing Survey		(250)		
Increase of charges to simplify and uplift tariffs - City Centre Car parks	(284)	(683)	(683)	(683)
On Street Tariff review	(100)	(200)	(200)	(200)
On street residents parking permit charges inflationary increase		(40)	(40)	(40)
On street parking enforcement - additional 4 enforcement officers		(40)	(40)	(40)
Service Redesign - Construction project delivery	(235)	(260)	(268)	(276)
Service Redesign - Design Team	(305)	(266)	(266)	(380)
Building Control - Competition Account Review		(180)	(180)	(40)
School Crossing Patrol Service Reduction – replacement of vacant School Crossing Patrol sites with permanent pedestrian crossing infrastructure	0	(19)	(49)	(49)
Reduction in energy costs due to movements in the energy market	(250)	(250)	(250)	(250)
Concessionary Fares saving		(800)	(800)	(800)
Cease support to Mayfield Bowling Green (1 full time equivalent)		(32)	(32)	(32)
Barrier control at Mayflower Park		(35)	(70)	(70)
Off Street Parking - Increased income position based on Quarter 1 position	(120)	(100)	(100)	(100)
Allotment income	(30)	(30)	(30)	(30)
Vacancy saving in Environmental Health	(80)			
Remove Waste Transformation budget	(332)	(129)	(9)	
Port Health & Private Sector housing - ring fenced grant	(30)			
Golf Course - in year budget monitoring favourable forecast gain	(20)			
Trade Waste - in year budget monitoring favourable forecast gain	(250)			
City Services - Waste Operations - in year budget monitoring favourable forecast gain	(13)			
Economic Development in year budget monitoring favourable forecast gain	(50)			
Port Health - Vacancy management and reduced contract services spend	(40)			
Itchen Bridge - bank charges review	(20)			
Car Park maintenance	(40)			
Emergency Planning	(15)			
Strategic Planning - in year budget monitoring favourable forecast gain	(73)			
Private Sector Housing vacancy management	(20)			
Reduce Waste Disposal & Development team capacity through vacancy deletion/ scope reduction		(35)	(35)	(35)
Outsource winter maintenance of mowers and plant			(15)	(15)
Rebase Golf Course budget	(100)	(100)	(100)	(100)
Further rebase of waste budgets		(200)	(200)	(200)
Rebased waste income budgets for recycling (Dry Mixed Recyclables & Glass)	(80)	(80)	(80)	(80)
Environmental Health staffing - in year budget monitoring favourable forecast gain	(29)			
Off street Parking - delay to closure of Albion & Castle to January 1st 2024	(30)			
Clean Air/Green Cities in year budget monitoring favourable forecast gain	(15)			
Voluntary Redundancy saving excl savings already captured - Place		(220)	(220)	(220)
Total	(2,702)	(4,108)	(3,826)	(3,799)

STRATEGY & PERFORMANCE AND CHIEF EXECUTIVE'S OFFICE

Description	2023/24 £000	2024/25 £000	2025/26 £000	2026/27 £000
Data team cost savings		(46)	(46)	(46)
Merge management of Project Management Office and Policy team		(13)	(13)	(13)
Total	0	(59)	(59)	(59)

WELLBEING & HOUSING

Description	2023/24 £000	2024/25 £000	2025/26 £000	2026/27 £000
Additional Government funding to meet Adult Social Care cost pressures (Market Sustainability Grant)	(1,687)	(947)		
Adult Social Care in year budget monitoring favourable forecast gain - mainly staff vacancy related	(207)			
Integrated Commissioning Unit in year budget monitoring favourable forecast gain - mainly staff vacancy related	(70)			
Stronger Communities Holding vacant posts - month 5	(50)			
Provider services staffing forecast update - in year budget monitoring favourable forecast gain	(122)			
Rehab & Reablement staffing - in year budget monitoring favourable forecast gain	(46)			
Social Wellbeing/Case review team - in year budget monitoring favourable forecast gain	(21)			
Mental Health Team - in year budget monitoring favourable forecast gain	(56)			
Adult Social Care Management (including Learning & Development) in year budget monitoring favourable forecast gain	(62)			
Voluntary Redundancy saving excl savings already captured - Wellbeing & Housing		(57)	(57)	(57)
Total	(2,321)	(1,004)	(57)	(57)

Agenda Item 7

DECISION-MAKER:	GOVERNANCE COMMITTEE		
SUBJECT:	External Audit – 2021/22 Auditors Annual Report		
DATE OF DECISION:	13 November 2023		
REPORT OF:	EY LLP (External Auditor)		
<u>CONTACT DETAILS</u>			
Executive Director	Title	Executive Director Corporate Services	
	Name:	Mel Creighton	Tel: 023 8083 35
Author:	E-mail:	Mel.creighton@southampton.gov.uk	
Author:	Title	EY LLP	
	Name:	Kevin Suter	Tel:
	E-mail:	ksuter@uk.ey.com	
STATEMENT OF CONFIDENTIALITY			
N/A			
BRIEF SUMMARY			
<p>The National Audit Office’s Code of Audit Practice requires auditors to prepare an Auditors Annual Report and issue it to each audited body. The Auditors Annual Report summarises key findings from across the range of the auditor’s work and responsibilities under statute and the Code, in relation to the 2021/22 audit. It provides a clear, readily understandable commentary on the results of the auditor’s work and highlights any issues that the auditor wishes to draw to the attention of the public. Under the requirements of the 2020 Code regarding the value for money conclusion, it also includes a commentary on the Council’s arrangements regarding financial sustainability, governance, and improving economy, efficiency and effectiveness. The Auditors Annual Report is a public facing document and is written for a wider audience because it must be published by the audited body.</p>			
RECOMMENDATIONS:			
	(i)	To note the 2021/22 Auditors Annual Report Report as attached	
	(ii)		
REASONS FOR REPORT RECOMMENDATIONS			
1.	Please see summary above, with regard to the requirement to issue an Auditors Annual Report. The Accounts and Audit Regulations require the Auditors Annual Report to be published on the Authority’s website.		
ALTERNATIVE OPTIONS CONSIDERED AND REJECTED			
2.	None		
DETAIL (Including consultation carried out)			
3.	See summary above and attached Auditors Annual Report		

RESOURCE IMPLICATIONS	
<u>Capital/Revenue</u>	
4.	None
<u>Property/Other</u>	
5.	None
LEGAL IMPLICATIONS	
<u>Statutory power to undertake proposals in the report:</u>	
6.	<ul style="list-style-type: none"> Local Audit and Accountability Act 2014 Accounts and Audit Regulations 2015
<u>Other Legal Implications:</u>	
7.	None
RISK MANAGEMENT IMPLICATIONS	
8.	None
POLICY FRAMEWORK IMPLICATIONS	
9.	None
KEY DECISION?	No
WARDS/COMMUNITIES AFFECTED:	
<u>SUPPORTING DOCUMENTATION</u>	
Appendices	
1.	Auditors Annual Report 2021/22
Documents In Members' Rooms	
1.	None
Equality Impact Assessment	
Do the implications/subject of the report require an Equality and Safety Impact Assessment (ESIA) to be carried out.	No
Data Protection Impact Assessment	
Do the implications/subject of the report require a Data Protection Impact Assessment (DPIA) to be carried out.	No
Other Background Documents	
Other Background documents available for inspection at:	
Title of Background Paper(s)	Relevant Paragraph of the Access to Information Procedure Rules / Schedule 12A allowing document to be Exempt/Confidential (if applicable)
1.	None



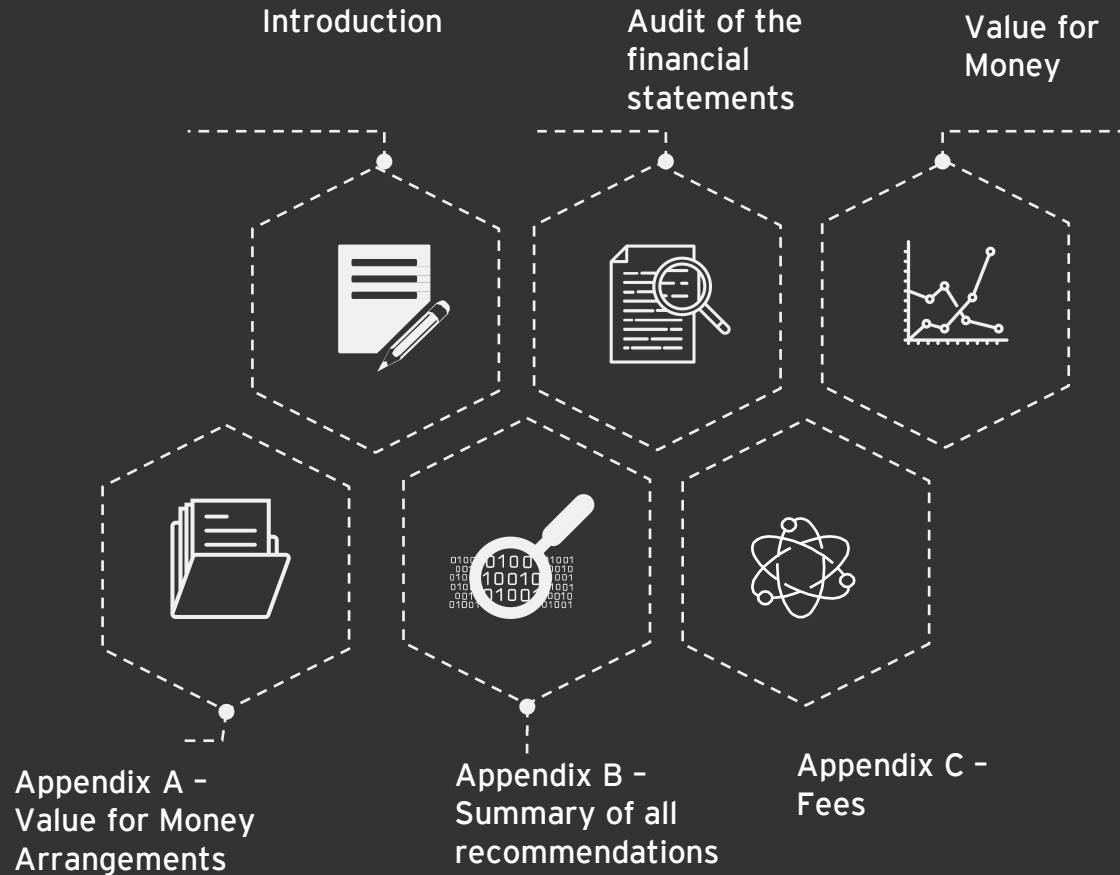
Southampton City Council Auditor's Annual Report

Year ended 31 March 2022

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Agenda Item 7
Appendix 1

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Public Sector Audit Appointments Ltd (PSAA) issued the "Statement of responsibilities of auditors and audited bodies". It is available from the PSAA website (<https://www.psa.co.uk/audit-quality/statement-of-responsibilities/>). The Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.

The "Terms of Appointment and further guidance (updated April 2018)" issued by the PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and in legislation, and covers matters of practice and procedure which are of a recurring nature.

This report is made solely to the Governance Committee members and management of Southampton City Council in accordance with the statement of responsibilities. Our work has been undertaken so that we might state to the Governance Committee, and management of Southampton City Council those matters we are required to state to them in this report and for no other purpose. To the fullest extent permitted by law we do not accept or assume responsibility to anyone other than the Governance Committee members and management of Southampton City Council for this report or for the opinions we have formed. It should not be provided to any third-party without our prior written consent.



Introduction

Purpose

The purpose of the auditor's annual report is to bring together all of the auditor's work over the year. A core element of the report is the commentary on value for money (VFM) arrangements, which aims to draw to the attention of the Council, or the wider public, relevant issues, recommendations arising from the audit and follow-up of recommendations issued previously, along with the auditor's view as to whether they have been implemented satisfactorily.

Responsibilities of the appointed auditor

We have undertaken our 2021/22 audit work in accordance with the Audit Plan that we issued on 7 April 2022. We have complied with the National Audit Office's (NAO) 2020 Code of Audit Practice, other guidance issued by the NAO and International Standards on Auditing (UK).

As auditors we are responsible for:

Expressing an opinion on:

- The 2021/22 financial statements;
- Conclusions relating to going concern; and
- The consistency of other information published with the financial statements, including the narrative statement.

Reporting by exception:

- If the governance statement does not comply with relevant guidance or is not consistent with our understanding of the Council;
- If we identify a significant weakness in the Council's arrangements in place to secure economy, efficiency and effectiveness in its use of resources; and
- Any significant matters that are in the public interest.

Responsibilities of the Council

The Council is responsible for preparing and publishing its financial statements, narrative statement and annual governance statement. It is also responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.



Introduction (continued)

2012/22 Conclusions

Financial statements	Unqualified - the financial statements give a true and fair view of the financial position of the Council as at 31 March 2022 and of its expenditure and income for the year then ended. We issued our auditor's report on 3 October 2023.
Going concern	We have concluded that the Section 151 Officer's use of the going concern basis of accounting in the preparation of the financial statements is appropriate. However, the medium term financial strategy's deficit projections, made on a reported worst case basis, would indicate that the Council is likely to fall below the minimum level of reserves established by the s151 officer. This could trigger a s114 notice, as the Council already reported within its February 2023 budget report. We have concluded that although the Council is aware of their financial position and has put in place actions to address the situation, the actions are still to be embedded and the outcomes are not yet assured to avoid the need for a s114 notice. Therefore, there is material uncertainty in respect of the council's ability to continue to operate the current planned services for the period of 12 months from the date of approval of the financial statements.
Consistency of the other information published with the financial statement	Financial information in the narrative statement and published with the financial statements was consistent with the audited accounts.
Value for money (VFM)	<p>In respect of the 2021/22 financial year, we had no matters to report by exception on the Council's VFM arrangements.</p> <p>We have included our VFM commentary in Section 03. During the procedures to complete our audit we became aware of stresses to the financial resilience of the Council during 2022/23 and into 2023/24. We reported this to the Council during April 2023.</p>
Consistency of the annual governance statement	We were satisfied that the annual governance statement was consistent with our understanding of the Council.
Public interest report and other auditor powers	We had no reason to use our auditor powers.
Whole of government accounts	We have not yet completed the procedures required by the National Audit Office (NAO) on the Whole of Government Accounts submission. This is because we are awaiting confirmation from the NAO of any additional procedures to be performed by auditors for bodies which fall below the reporting threshold.
Certificate	We are not currently able to issue our certificate due to the outstanding work required for whole of government accounts as explained above.



Audit of the financial statements

Key findings

The Narrative Statement and Accounts is an important tool for the Council to show how it has used public money and how it can demonstrate its financial management and financial health.

On 3 October 2023, we issued an unqualified opinion on the financial statements. We reported our detailed findings to the 2 October 2023 Governance Committee meeting. We outline below the key issues identified as part of our audit, reported against the significant risks and other areas of audit focus we included in our Audit Plan. We reported two recommendations/ areas for improvement in the control environment in the Audit Results Report.

Modified Audit Report

We modified our audit report to include a material uncertainty in respect of going concern.

The Council published its medium term financial plan in February 2023. This highlighted that the Council was failing to achieve its planned savings for 2022/23, needs to use significant reserves (£23.73m) to balance the budget for 2023/24 and is forecasting significant budget gaps from 2024/25 onwards. An update was then published in July 2023. As a result, we requested that the Council update its going concern assessment and disclosure, so that we could consider the impact on our audit report.

Conclusion

In the public sector, and specifically under the CIPFA Code of Practice on Local Authority Accounting, the concept of going concern is linked to the continuation of services. There is a presumption that the accounts will be prepared on a going concern basis unless there is clear evidence that services will be discontinued. In this context we have concluded that:

The Council has sufficient liquidity over its going concern period (assessed to the end of October 2024), with headroom to borrow funds if necessary due to its previous internal borrowing to fund the capital programme, and within its prudential indicators. Therefore, we did not identify an uncertainty due to available cashflows.

Our concern is that the medium term financial strategy's deficit projections, made on a reported worst case basis, would indicate that the Council is likely to fall below the minimum level of reserves established by the s151 officer. This could trigger a s114 notice, as the Council already reported within its February 2023 budget report.

Management's assessment is that while they are working to mitigate via the actions summarised within their July 2023 medium term strategy update, informal discussions have commenced with Government to appraise them of the Council's financial position and the possible need for exceptional financial support. The prospect of a section 114 notice being required in the next 12 months remains real, which has the potential to impact on the level of service provision.

The Council faces a significant financial challenge and management have accepted it will take time to verify whether the mitigating actions they are putting in place will successfully address the challenge and avoid need for a s114 notice, or have to apply for financial support from central government.

Therefore, while we have concluded that the accounts should continue to be prepared on a going concern basis in line with the CIPFA's Codes presumption, we have concluded that although the Council is aware of their financial position and has put in place actions to address the situation, the actions are still to be embedded and the outcomes are not yet assured to avoid the need for a s114 notice. Therefore, there is material uncertainty in respect of the council's ability to continue to operate the current planned services for the period of 12 months from the date of approval of the financial statements.



Audit of the financial statements

Key findings

Significant risk	Conclusion
Misstatements due to fraud or error	<p>As identified in ISA (UK) 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. We identify and respond to this fraud risk on every audit engagement.</p> <p>Our work did not identify any material weaknesses in the design or operation of controls or evidence of material misstatements, whether due to fraud or error. Our work did not identify any other transactions during our audit which appeared unusual or outside the organisation's normal course of business, any journal entries without a valid business purpose, or inappropriate judgements in estimates indicating management bias.</p>
Risk of fraud in revenue and expenditure recognition Page 68	<p>Under ISA 240 there is a presumed risk that revenue may be misstated due to improper revenue recognition. In the public sector, this requirement is modified by Practice Note 10 issued by the Financial Reporting Council, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition.</p> <p>In considering how the risk may present itself, we identified that this is primarily through management taking action to override controls and manipulate in year financial transactions that impact the medium to longer term projected financial position. A key way of improving the revenue position is through the inappropriate capitalisation of revenue expenditure. The Council has a significant fixed asset base and therefore has the potential to materially impact the revenue position through inappropriate capitalisation.</p> <p>Our work did not identify any material misstatements from inappropriate capitalisation of revenue expenditure and we did not identify any material weaknesses in controls or evidence of material management override in this area. We did not identify any instances of inappropriate judgements being applied.</p>
Infrastructure asset valuation	<p>Nationally, audit firms have identified an issue with applying the CIPFA code accounting treatment to infrastructure assets. Where management incur subsequent expenditure to replace part of an asset, the CIPFA Code requires management to write out the value of the old part being replaced. Across the country Authorities have not kept sufficient detailed records of infrastructure spend to allow the value of the part being replaced to be written out. This situation was identified at Southampton City Council.</p> <p>Changes were made to the Local Authority Accounting Code by CIPFA, and DLUHC has issued a Statutory Instrument to temporarily change accounting rules in this area. Together they temporarily resolve the derecognition and existence issues identified above, and the Council has amended the disclosures in its financial statements to comply with the revised requirements. The amended disclosure requirements report infrastructure assets on a net book value basis, and require additional disclosures for when this is adopted by an authority. We were content with the changes made, following minor amendments to the updated disclosures as a result of our work.</p>



Audit of the financial statements (continued)

In addition to the significant risks above, we also concluded on the following areas of audit focus:

Other area of audit focus	Conclusion
<p>Valuation of investment property and operational land and buildings</p> <p>Land and buildings and investment properties are two of the most significant balances on the balance sheet. Their valuation is complex and is subject to a number of assumptions and judgements. A small movement in these assumptions can have a material impact on the financial statements.</p>	<p>Our internal specialist completed their work on a sample of investment properties and no differences were noted on the valuation of those properties. We reviewed a further sample of properties within the audit team, agreeing the valuation of investment properties, but noting that the Council then applied a 0.15% reduction in value on the basis of disposal costs to all properties. We do not believe this is appropriate, understating the value by £1.7m.</p> <p>We completed our work on Land & buildings and identified differences in relation to indexation applied to Council Dwellings resulting in an understatement of £4.2m.</p> <p>We have also assessed assets not revalued during the year, identifying the assets were overstated by £2.7m.</p>
<p>Pension liability valuation</p> <p>The Pension Fund liability is a material balance in the Balance Sheet. Accounting for this scheme involves significant estimation and judgement and therefore management engages an actuary to undertake the calculations on their behalf. ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.</p>	<p>We completed our review of the accounting entries & disclosures and our review of the assumptions used by the actuaries. We were able to reconcile our roll forward with the figures provided by the actuary within an acceptable range.</p> <p>The net defined benefit liability had originally been recorded based on the 31 March 2022 IAS 19 valuation report which uses the 2019 triennial valuation assumptions. During the period of finalisation of the 2021/22 audit, the 2022 triennial valuation report has been issued and therefore the impact of this needed to be considered by both management and the audit team.</p> <p>The revised IAS 19 report showed that the net pension liability reduced by £42.4m. As this was material, management adjusted for this within their 2021/22 Accounts.</p> <p>We performed further procedures on the revised IAS 19 report and no issues were identified.</p>
<p>Restatement of Comprehensive Income and Expenditure Statement, Expenditure and Funding Analysis, and related disclosure notes.</p> <p>The Council changed its internal reporting structure in 2021/22, which meant the Comprehensive Income and Expenditure Statement, the supporting Expenditure and Funding Analysis, and related disclosure notes, needed to be restated in line with the new structure.</p>	<p>Our work established that restatement had been appropriately applied, following the change to internal reporting structures.</p>

We did not identify any risks of significant weaknesses in the VFM arrangements for 2021/22.

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Our VFM commentary highlights relevant issues for the Council and the wider public.

We have no matters to report by exception in the audit report.

Scope

We are required to report on whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. We have complied with the guidance issued to auditors in respect of their work on value for money arrangements (VFM) in the 2020 Code of Audit Practice (2020 Code) and Auditor Guidance Note 3 (AGN 03). We completed our risk assessment procedures in January 2022 which was based on a combination of our cumulative audit knowledge and experience, our review of Council committee reports, meetings with officers, including the Section 151 Officer and evaluation of associated documentation through our regular engagement with Council management and the finance team.

Reporting

We completed our risk assessment procedures in January 2022 and did not identify any significant weaknesses in the Council's VFM arrangements.

During the course of our audit, information came to our attention regarding the Council's arrangements for value for money arrangements in 2022/23. We concluded that this information did not affect our risk assessment for 2021/22 and we did not have any matters to report by exception in our audit report on the financial statements for 2021/22. However, we have identified a significant weakness in the Council's arrangements for Value for Money in 2022/23 and action points for the Council.

We provided an interim value for money report to the Council in April 2023 setting out these issues, with a further short update in July 2023.

In accordance with the NAO's 2020 Code, we are required to report a commentary against three specified reporting criteria, summarised on page 9. Our commentary for 2021/22 is set out over pages 10 to 14. The commentary includes:

- our conclusions over the arrangements at the Council in relation to our reporting criteria throughout 2021/22;
- our identification of the significant weakness in the Council's value for money arrangements for 2022/23; and
- our recommendations thereon.

Appendix A includes the detailed arrangements and processes underpinning the reporting criteria. These were reported in our 2020/21 Annual Auditors Report and have been updated for 2021/22.



Reporting criteria	Risks of significant weaknesses in arrangements identified?	Actual significant weaknesses in arrangements identified?
Financial sustainability: How you plan and manage your resources to ensure they can continue to deliver their services	No significant risks identified in 2021/22 Risk of significant weakness in arrangements identified in 2022/23	No significant weaknesses identified
Governance: How you ensure that you make informed decisions and properly manages their risks	No significant risks identified in 2021/22 Risk of significant weakness in arrangements identified in 2022/23	No significant weaknesses identified
Improving economy, efficiency and effectiveness: How you use information about your costs and performance to improve the way you manage and deliver their services	No significant risks identified Risk of significant weakness in arrangements identified in 2022/23	No significant weaknesses identified



Value for Money (continued)

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

We concluded in our initial risk assessment for the 2021/22 audit that the 2022/23 budget (which was set during 2021/22) was based on reasonable assumptions, this included estimated savings of £10.87m. We also concluded that the Council was on track to achieve substantially all of the proposed savings of £10.68m for 2021/22. The outturn for 2021/22 reported a £10.9m underspend, which was taken to reserves.

Since then we have continued our regular meetings with officers and were updated on progress against the 2022/23 budget and in addressing the 2023/24 budget gap. We were informed in February 2023 that the budget report to be taken to Cabinet in February 2023 would report that the Council was in financial difficulties. We understand that there were savings opportunities potentially identified but with a variable level of supporting detail and in some cases they overlapped with other options and hence were at different levels of formulation. These were not followed through to be included in the Medium Term Financial Strategy (MTFS) and Annual Budget.

The year end outturn for 2022/23 showed that the Council have struggled to keep to the budgeted position in 2022/23. They reported a deficit of £11.38m with the most significant deficit being for the Children & Learning portfolio of £15.57m. We noted that the Council only achieved 39% of the planned savings for 2022/23 which was a departure from prior years. Historically, the Council has been able to mitigate external cost pressures, mainly through reduction in spending elsewhere and with some use of reserves. However, in 2022/23, the overspend in specific areas was compounded by the outside cost pressures such as high levels of inflation and the cost of living crisis; sharp increases in the energy costs for the Council; higher than expected nationally set pay awards and continuing high demand for Council services, especially in the field of social care for both Adults and Children, but also other key areas such as Home-to-School Transport. Therefore there were no sources to be able to mitigate the pressures.

The Council have refreshed their MTFS and we have read the MTFS update report on the 19 July 2023 Council meeting, and held further clarification meetings with the Section 151 Officer and the Chief Executive. We have noted the high level messages within the report, which is available on the Council's website. The cost pressures which contributed to the deficit are continuing into the 2023/24 financial year, and beyond as set out in the MTFS.

- In our judgement the report appropriately sets out that "the task of right sizing the council's expenditure to match its resources and rebuilding reserves should not be underestimated. The council is in an uncertain financial position and will need the whole organisation to focus on cost control," (Paragraph 4)
- It recognises the actions and plans are a start, and further action is needed (paragraph 7). These will include the action plan responding to the CIPFA review of financial resilience and financial management, to be completed after CIPFA's review of the updated projections.
- Immediate cost control measures have been implemented, including changes to financial governance through the Financial Procedure Rules
- Pressures are identified, in a worst case scenario of £30m.
- A first tranche of cost control measures is identified of just over £9m.
- Areas being reviewed include all key areas of expenditure, and policies for fees and charges, and reserves.
- Capital programme arrangements are also reviewed to ensure investment aligns to strategic aims, and revenue implications are taken into account.
- A wider transformation plan is being developed to support the longer term sustainability of the right-sized Council.



Value for Money (continued)

Financial Sustainability: How the Council plans and manages its resources to ensure it can continue to deliver its services (continued)

At the end of Q2 of 2023/24, the Council is reporting a forecast deficit of £14.1m. The Council have implemented mitigation plans to reduce the forecast deficit and although they have reduced the deficit from the Q1 forecast deficit of £20.91m, these are not expected to reduce the deficit in full.

We note from a review of the 2023/24 forecast position that reserves of £41.88m are expected to be used during 2023/24, leaving the general fund and earmarked reserves forecast position at 31 March 2024 to be £17.78m. However, the budget gap for 2024/25 is yet to be substantially addressed and that level of reserves is not sufficient to cover the current budget gap for 2024/25.

There is increased focus within the Council on financial reporting and holding Directors to account for not meeting their budgetary targets.

The Council have also requested support from CIPFA to perform two reviews, including benchmarking from other authorities where similar reviews have taken place, with an aim of developing an improvement plan off the back of the work:

- 1) Financial management - assessing against the FM model.
- 2) Financial resilience review. - looking at saving delivery, resilience. More in depth review of the resilience indicators.

We have been informed that the Council did not include all of the cost saving options that were potentially identified within their 2023/24 budget. Given the financial position, this has left the Council more vulnerable than the position could potentially had been, had those savings been proposed and brought forward giving more time to implement them.

Conclusion:

Based on the work performed, Southampton City Council had proper arrangements in place in 2021/22 to enable it to plan and manage its resources to ensure that it can continue to deliver its services.

In our initial risk assessment and year-end update, we have previously identified that the Council was forecasting significant budget gaps and had savings plans in place. However, the already existing budget gaps, combined with additional cost pressures experienced during 2022/23 and into 2023/24 have put significant additional pressure on the finances of the Council, which were not and could not have been known in 2021/22. Both the position in 2022/23 and the actual revenue budget setting process for 2023/24 and beyond are issues relating to the arrangements in 2022/23, and not 2021/22.

Therefore, we have identified a risk of a significant weakness in the arrangements in 2022/23.



Value for Money (continued)

Financial Sustainability: How the Council plans and manages its resources to ensure it can continue to deliver its services (continued)

Recommendations: (previously made in April 2023, now updated)

The Council needs to ensure that it has fully considered the achievable savings that it can make to reduce the pressure on reserves. These savings need to be supported by business plans and are monitored closely to ensure that they are delivered within planned timeframes.

These savings need to be identified as soon as possible.

The Council will also need a further list of options on top of those savings, to mitigate any risk of overspends in other areas, or current planned savings not being progressed at the scale or speed required.

The Council needs to be prepared to make difficult decisions to reduce spending in all areas of the council's activities, and as the highest spending areas are Adults and Childrens services this will mean significant savings will need to be found in these areas, but also other areas where the council is providing services above the statutory minimum.



Value for Money (continued)

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

Based on the information obtained and documented throughout the audit we are satisfied that the control environment does support the prevention and detection of fraud. The Council maintains Strategic Registers and Key Financials risk which are presented to the Committee quarterly.

Internal controls are monitored and assessed by the Governance Committee (Those Charged With Governance) to ensure that internal controls are appropriate and effective. An Internal Audit plan is agreed on an annual basis with internal audit reports and embedding of recommendations reviewed by the Governance Committee. The committee also considers assurance on the risk processes in place across the organization. We have inspected the Internal Audit Progress report for the 2021/22 Financial year and we note that, although no critical risks were identified, there were a number of high risk areas. However, there had been a reduction in the number of high risk areas compared to 2020/21 (38 high risk in 2021/22 progress report vs 44 in 2020/21), which can be seen as evidence for improvements in processes and controls.

Following setting the annual budget, the Council continuously monitor the financial position throughout the year for any additional costs or Covid-19 costs that need to be considered. The Council has updated its forecasts as the new information/data becomes available through from any local government updates, spending reviews, and other national issues. These have been considered on the roll-forward of the medium term financial strategy model with special considerations around additional Covid-19 pressures, assumptions, CPI inflations, policy and decisions and how this might impact costs, income & savings.

There is also a regular monitoring of levels of reserves to ensure these could meet unexpected costs. These are then reflected to the estimated forecast/budgets made by budget holders with support from the finance team that will go through the Senior Management Team/Executive management team who discuss them on a monthly basis with the Business Partners.

The Council has been forecasting a deficit for 2022/23 throughout its regular outturn reporting, including the reporting on the additional cost pressures as they arose during the 2022/23 year. However, the Council has not acted swiftly to take action to address these issues having identified the longer term impact of the pressures, including the impact of using reserves. As set out in detail in the prior section, we have identified a weakness within the budget setting process for 2023/24 and in not achieving the planned savings for 2022/23.

A former staff member made an objection to the 2021/22 accounts in relation to Children's Direct Payments. In our discretion we declined to accept the objection given that this had already been investigated by the Council and an action plan has been put in place to address the issues identified. Internal Audit has performed a follow up audit of the Children's Direct Payments which received limited assurance and there are still actions from the original action plan that have not yet been implemented.

Conclusion:

Based on the work performed, Southampton City Council had proper arrangements in place in 2021/22 to enable it to make informed decisions and properly manage its risks. However, we identify a risk of a significant weakness in the arrangements in 2022/23 in relation to the budget and managing financial risks.

Recommendation:

The Council should complete the actions in relation to Children's Direct Payments without further delay, to address the weaknesses highlighted by the Internal Audit review.



Value for Money (continued)

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

We can see from the minutes of meetings of the councillors that financial and performance information has been used to identify areas for improvement. We can see that short term planning has been conducted, which details a budget for the 2022/23 financial year both identifying potential shortfalls and risks as well as potential savings. This document was considered by Cabinet on the 21/02/2022. We have also inspected evidence of longer term planning and performance assessment.

As confirmed from published minutes of the Cabinet, there is quarterly revenue monitoring done by the council. The Committee is responsible in assessing the financial performance of the Council and identify areas/sections that are risky or needs improvement if necessary. The actual risk factors are documented in the quarterly Key Financial Risks.

As previously documented, the Council achieved a deficit for 2022/23, reporting on the additional cost pressures as they arose during the 2022/23 year and struggled to achieve the planned savings for 2022/23. This is indicative that the Council has struggled to use information about its costs and performance to improve its services timely and accurately in 2022/23. This has continued on into 2023/24, with the Council reporting a deficit of £14.1m against the revised budget at the end of Q2.

We know from our knowledge of the Council and the prior year Annual Governance Statement that the Council is part of Southampton Connect, which is a multiagency partnership which includes the council, the police, the local NHS and representation from the private sector. This is a key element of SCC's interaction with the general public (its main stakeholders) as well as local partner organizations. This can also be seen on their website at [Southampton Connect](#).

OFSTED reporting in the year regarding children's services notes that, whilst trust had been eroded in the past in this area due to the Council's historical failings, good progress had been made in rebuilding 'eroded trust and confidence' and that there had been purposeful engagement with school leaders. This report also noted that feedback from the family judiciary and the Children and Family Court Advisory and Support Service indicated a vastly improved relationship with the Council.

Conclusion: Based on the work performed, Southampton City Council had proper arrangements in place in 2021/22 to enable it to use information about its costs and performance to improve the way it manages and delivers services.

However, we have identified a risk of a significant weakness in their arrangements in 2022/23.

Recommendation:

The Council needs to ensure that it has fully considered the underlying reasons for not delivering the planned budget and savings in 2022/23 to ensure that it can improve the way it manages and delivers its services.

Appendices

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Appendix A - Summary of arrangements in place during 2021/22

Financial Sustainability

Reporting Sub-Criteria

How the body ensures that it identifies all the significant financial pressures that are relevant to its short and medium-term plans and builds these into them

Findings

The Council regularly reviews the overall short, medium and longer-term financial position. There is a Medium Term Financial Strategy, a medium term Capital Programme and quarterly monitoring of revenue and capital. The Council's medium term financial model is updated regularly throughout the year and includes a 4-year financial projection which is reviewed annually and informs savings and budget reporting.

The in-year budget position is reported monthly to the Executive Management Team (consisting of the Executive Directors). This covers both revenue and capital. This also includes discussing budget implications going forward and the latest medium term projections, as a part of the future budget setting process.

Quarterly reports to Cabinet on in-year financial monitoring also provide an update on a range of financial health indicators, such as collection rates for council tax, speed of collection of other income and creditor payment efficiency levels.

Cabinet Member Briefings are held monthly for each Portfolio area, which include an agenda item for the latest budget position to ensure this is discussed by the Cabinet Member and Executive Director with support from a Finance Business Partner.

Treasury Management forms a part of the quarterly report to cabinet, and this includes an update on the Prudential Indicators adopted by the Council. Treasury Management is also reported twice yearly to the Governance Committee - in February and November. This provides for setting out and agreeing the strategy for the year ahead and onwards, plus a mid-year update compared with the agreed strategy, and information on the prudential indicators as well as treasury activity and performance (with benchmarking information comparing SCC to other local authorities).

Government announcements on the Settlement or Spending Review are monitored and the financial implications highlighted in briefings to Executive Directors and Cabinet Members. Business case and option appraisal is applied to major areas of investment decisions.

The HRA operates within a 40 year time horizon for its Business Plan. This is published as part of the formal budget report papers considered by Council, but also during the year less formally at Cabinet Member Briefings and in discussion with the relevant Executive Director, as well as at Directorate Management Team meetings as part of the annual business plan cycle leading up to budget preparation.

The HRA is also captured as part of in-year budget monitoring work and reported formally in the quarterly cycle to Cabinet, both for revenue and capital.

Appendix A - Summary of arrangements in place during 2021/22 (continued)

Financial Sustainability

Reporting Sub-Criteria	Findings
How the body ensures that it identifies all the significant financial pressures that are relevant to its short and medium-term plans and builds these into them (continued)	The Council maintains a Strategic Risk Assurance Report that is reviewed quarterly by the Executive Management Board. This report includes the risk of "Failure to address the significant and ongoing financial pressures in a sustainable way and to enable service provision to reflect key strategic outcomes and be aligned with the associated budget envelopes". This includes consideration of any financial pressures and how these reflect on key strategic outcomes and the associated budgets. The Council's risk monitoring records the key financial risks over the short term and medium-term, and the mitigating actions that have been implemented to address the identified issues.
How the body plans to bridge its funding gaps and identifies achievable savings	The Council has a Medium Term Financial Forecast (MTFF) which includes a 4-year forecast of planned savings. In the budget setting for 2022/23 and beyond, the Council acknowledged that extensive work will be undertaken to identify savings and mitigations to address the gaps.
How the body plans finances to support the sustainable delivery of services in accordance with strategic and statutory priorities	<p>The Council's vision in 2021/22 focussed on:</p> <ol style="list-style-type: none"> I. Customers - residents, business and visitors. To deliver high quality customers experiences and to deliver quality public services II. Communities, culture & Homes. To help communities to develop into thriving neighbourhoods that reflects Southampton as a vibrant and diverse city. To celebrate diversity of cultures within Southampton and to enhance cultural offer. III. Green City. To provide sustainable, clean and healthy and safe environment. To support economic growth and to obtain sustainable environment, resilient to effect of climate change. IV. Place Shaping. To deliver city of future generations and to continue the grow of local economy V. Wellbeing. To ensure that customers and residents get the right help at the right time. VI. Successful and Sustainable Business. To build sustainable, agile and flexible services with people <p>The Council set out its longer-term strategic plan within the Council Strategy 2015-2025, underpinned by the Corporate Plan 2020-2025, wherein the Council sets out its priorities. This provides the strategic framework for its decision making, and informs the Medium Term financial forecast and annual budget setting.</p>

Appendix A - Summary of arrangements in place during 2021/22 (continued)

Financial Sustainability

Reporting Sub-Criteria

Findings

How the body ensures that its financial plan is consistent with other plans such as workforce, capital, investment, and other operational planning which may include working with other local public bodies as part of a wider system

The Council's Medium Term Financial Forecast (MTFF) outlines the issues that affect Council services and finances and how these factors are considered in the planning and completion of MTFF. Key financial strategies such as the capital strategy, treasury management, investments and borrowings are considered in the MTFF.

The Council's annual financial budget is aligned to activity plans, to ensure there is consistency and triangulation between all elements of the organization. Through the regularly quarterly financial monitoring including the General Fund Forecast, Capital Programme and Key Financial Risks, the Council can identify the significant financial and business risks that might affect the performance of the Council in the future, and act to address them.

How the body identifies and manages risks to financial resilience, e.g. unplanned changes in demand, including challenge of the assumptions underlying its plans

The Council maintains a Strategic Risk Assurance Report and Key Financial Risks Report which are reported quarterly to Cabinet. These reports outline all the risks identified including risks in financial pressures, service disruptions, and risks in sustainable adult social care system among others. The Council also acknowledges the risk of significant and ongoing financial pressures. Mitigations by the Council include:

- Medium term financial modelling and monitoring, which are reviewed quarterly
- Having service budgets and financial forecasts that are aligned with the Council outcomes
- Identifying and addressing significant in-year budget variances by monitoring of Capital and Revenue Monthly budgets
- Identifying delivery of new savings/income opportunities

The Council's Executive Management Board (EMB) review quarterly the Strategic Risk Assurance Report. The Risk and Insurance Service will support the EMB in identification, management and review of Council's strategic risks. The Governance Committee also provide oversight.

Through these mechanisms, Council can identify significant business risks including key financial risks that might affect the financial performance of the Council in the future. The risk register is updated regularly to include the summary of financial risks, how likely they are to occur, and the mitigations, process and plans the Council is putting in place to address and manage these risk areas. These mitigations are also reflected through regular update of budgets. Budgets are also updated with latest assumptions e.g. updated CPI, RPI, % change in council tax and business rates and other financial considerations including expected grants to be received, and probable financial pressures.

Appendix A - Summary of arrangements in place during 2021/22 (continued)

Governance

Reporting Sub-Criteria

Findings

How the body monitors and assesses risk and how the body gains assurance over the effective operation of internal controls, including arrangements to prevent and detect fraud

Internal controls are monitored and assessed by the Governance Committee to ensure that they are appropriate and effective. An Internal Audit plan is agreed on an annual basis with the results of internal audit work and the embedding of recommendations reviewed by the Governance Committee. The Committee also considers assurance in respect of the risk processes in place across the organization.

How the body approaches and carries out its annual budget setting process

The Council meets every February, to set the Budget and Council Tax. The Budget and MTFE will be presented to the Council based on an assessment at a granular level of income, expenditure workforce, capacity and efficiency plans. The impact of these plans is triangulated with operational, performance and workforce lead officers.

In our previous section on Financial Sustainability we set out various processes the Council uses to set the strategic framework and provide a medium term financial forecast from which the annual budget derives.

It continuously monitors the financial position through the year for any additional costs that need to be considered. The Council updates budgets as new information and data becomes available. These are considered when rolling forward the MTFE model, which is then revised in light of pressures, assumptions, and policy decisions, and how these are expected to impact costs, income & savings.

There is also a regular monitoring of levels of reserves to ensure these are sufficient to meet unexpected costs. They will then be reflected in the budget forecasts made by the finance team, which are reported monthly to the Senior Management Team - and are discussed on a monthly basis with the relevant Business Partners.

The annual budgeting process then engages the services at the detailed level to determine the impacts and specifics for their specific budgets.

Appendix A - Summary of arrangements in place during 2021/22 (continued)

Governance

Reporting Sub-Criteria

How the body ensures effective processes and systems are in place to ensure budgetary control; to communicate relevant, accurate and timely management information (including non-financial information where appropriate); supports its statutory financial reporting requirements; and ensures corrective action is taken where needed

Findings

Decisions are made by the Executive Body being the Leader and Cabinet, within the overall policy and budgetary framework approved by Full Council. Any decisions the Executive wishes to take outside of the framework must be referred to Full Council to decide. The Cabinet will develop and propose to Council corporate strategies and plans, and will prepare proposals for the annual budget, which it will recommend to Full Council. The Cabinet will also keep under review the allocation of resources necessary to meet the Council's responsibilities. Scrutiny committees monitor the work of the Executive Body.

The Governance Committee is independent of the executive (Cabinet) and scrutiny functions and is embedded as a key part of the Council's overall governance framework. Its terms of reference are aligned to CIPFA's best practice standards for audit committees. This Committee ensures that the Council is managing risks properly and that proper audit arrangements are in place.

The Council and Cabinet receive quarterly updates on Financial performance. These take the form of update reports that summarize the overall position during the year to date and projections against the budget. They also include financial health (balance sheet) indicators, and Treasury Management reports.

Management teams receive more detailed monthly reports that examine the income and expenditure of the directorate and associated services on a line by line basis. The information is drawn from the financial ledger, and management place reliance on the controls established through the financial rules and procedures within those specific transaction systems, and on the annual programme of work undertaken by internal audit.

We note that within the Constitution of the Council there are processes and procedures in place to ensure the body has effective processes and systems in place to ensure budgetary control, to communicate relevant, accurate and timely management information; to support its statutory financial reporting requirements and to ensure the body is taking corrective action where needed

Appendix A - Summary of arrangements in place during 2021/22 (continued)

Governance

Reporting Sub-Criteria

How the body 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

Findings

The Council has a number of Committees in place, established through its Constitution. The Constitution includes the roles and responsibilities of the Executive, Committees, Full Council and chief officers. It also sets out the rules under which they operate; in particular how decisions are made and how procedures are to be followed to ensure that actions are efficient, legal, transparent and accountable to the community. Officers prepare reports for each of the Committees to enable decision making, as evidenced by the relevant section of the Council website. Resource implications are factored into all decisions, with a dedicated section in reports both to Councillors and to the Executive Management Team

The Council is made up of 48 Councillors which meet regularly to make key decisions including setting the Budget and Council Tax, while Cabinet reviews activity and portfolios to ensure operations are in accordance with the Budget and strategic plans.

Overview and scrutiny arrangements are in place to review decision making.

The Council has a Governance Committee which has responsibility for oversight of the scope and effectiveness of the internal control, and systems established by management to identify, assess, manage and monitor financial and non-financial risks (including measures to protect against, detect and respond to fraud).

Annually the Chief Internal auditor is required to produce an Annual Plan which sets the scope and detailed areas for review of the Authority's functions, with subsequent reporting to the Governance Committee.

The Governance Committee sees and comments on the Annual Governance Statement, which would highlight any overall concerns including those which may effect value for money. It is reviewed as both a draft and final document.

How the body monitors and ensures appropriate standards, such as meeting legislative/regulatory requirements and standards in terms of officer or member behaviour (such as gifts and hospitality or declarations/conflicts of interests)

The Council operates strict Standards of Business Conduct. All decision-making staff as described in the policy are required to adhere to this policy and make disclosures as required. A Register of Interests is held. In addition, there is a gifts and hospitality register to declare any gifts received or offered along with whether they have been accepted or declined.

Accountabilities and responsibilities are set out in authority's Financial Procedure Rules, including Chief Officers being responsible to achieve Value for Money.

Appendix A - Summary of arrangements in place during 2021/22 (continued)

Improving economy, efficiency and effectiveness

Reporting Sub-Criteria	Findings
How financial and performance information has been used to assess performance to identify areas for improvement	<p>We can observe from the minutes of meetings of the council that financial and performance information has been used to identify areas for improvement.</p> <p>We have commented before on arrangements for financial monitoring and risk management, reviewed on a quarterly basis.</p>
How the body evaluates the services it provides to assess performance and identify areas for improvement	<p>The most notable area for improvement from the prior year related to the Children's Services Department. In early 2020 the Council received a whistleblower report which followed on from an OFSTED report in 2019 which noted that the council required improvement across all areas of the service. We reviewed these issues on our previous year audit.</p> <p>In this financial year there is evidence of continued improvement. We note that OFSTED performed a 'focused visit'. This report noted a number of considerable improvements, and noted that senior leaders demonstrated a 'balanced, accurate self-assessment on the quality of frontline practice' and that an extensive workforce and practice transformation is in progress. The report also noted that there had been significant cultural change since the whistleblower report. A detailed improvement plan is in place and the improvements are being implemented. Whilst we note there are still points for improvement in this report, the changes made indicate that the authority has the arrangements in place to continue to improve and deliver value for money in this area</p>
How the body ensures it delivers its role within significant partnerships, engages with stakeholders it has identified, monitors performance against expectations, and ensures action is taken where necessary to improve	<p>We can see from published documents that the council has a number of strategies that involve working with key partners including local businesses, local police/fire services and local health services. These include a strategy for Health and Care which detailed its commitment to working with local NHS organizations.</p>

Appendix A - Summary of arrangements in place during 2021/22 (continued)

Improving economy, efficiency and effectiveness

Reporting Sub-Criteria	Findings
How the body ensures that commissioning and procuring services is done in accordance with relevant legislation, professional standards and internal policies, and how the body assesses whether it is realising the expected benefits	<p>The Council has a procurement policy which is publicly available and therefore available for public scrutiny. It clearly states a number of principles, as well as a number of strategic initiatives to further improve its procurement practices. This policy document details a number of the arrangements we would expect to see in good governance, and includes commitments to reduce spending with external suppliers, to maintaining up to date information on all procurement activity, centralization of buying activity over £1k , and maintaining a centralized contract register.</p> <p>Adherence with procurement policies and best practice was identified as an area of weakness in the Council's arrangements in 2017/18, leading to a qualification of the VFM conclusion. A risk was then identified in this area in 2018/19, but our work in that year confirmed that sufficient progress had been made that the qualification could be lifted. This has been kept under review by internal audit in subsequent years, with no further risks to our VFM responsibilities identified.</p> <p>No material inappropriate spending has been identified through our financial statement audit.</p>

Appendix B - Summary of recommendations

Recommendations

The table below sets out the recommendation arising from the financial statements and value for money audits in 2021/22. The recommendations has been agreed by management.

Issue	Recommendation	Management Response
<p>Value for Money: Financial Sustainability (recommendations previously made in April 2023, now updated)</p>	<p>The Council needs to ensure that it has fully considered the achievable savings that it can make to reduce the pressure on reserves. These savings need to be supported by business plans and are monitored closely to ensure that they are delivered within planned timeframes.</p> <p>These savings need to be identified as soon as possible.</p> <p>The Council will also need a further list of options on top of those savings, to mitigate any risk of overspends in other areas, or current planned savings not being progressed at the scale or speed required.</p> <p>The Council needs to be prepared to make difficult decisions to reduces spending in all areas of the council's activities, and as the highest spending areas are Adults and Childrens services this willinevitably mean significant savings will need to be found in these areas, but also other areas where the council is providing services above the statutory minimum.</p>	
<p>Value for Money: Governance</p>	<p>The Council should complete the actions in relation to Children's Direct Payments, to address the weaknesses highlighted by the Internal Audit review</p>	
<p>Value for Money: Improving economy, efficiency and effectiveness</p>	<p>The Council needs to ensure that it has fully considered the underlying reasons for not delivering the planned budget and savings in 2022/23 to ensure that it can improve the way it manages and delivers its services.</p>	

Appendix C - Fees

Fees

We carried out our audit of the Council's financial statements in line with PSAA Ltd's "Statement of Responsibilities of auditors and audited bodies" and "Terms of Appointment and further guidance (updated April 2018)". The duty to prescribe fees is a statutory function delegated to Public Sector Audit Appointments Ltd (PSAA) by the Secretary of State for Levelling up Housing and Communities.

This is defined as the fee required by auditors to meet statutory responsibilities under the Local Audit and Accountability Act 2014 in accordance with the requirements of the Code of Audit Practice and supporting guidance published by the National Audit Office, the financial reporting requirements set out in the Code of Practice on Local Authority Accounting published by CIPFA/LASAAC, and the professional standards applicable to auditors' work.

Description	Proposed Final Fee	Planned Fee 2021/22	Final Fee 2020/21
	2021/22		
	£	£	£
Audit Scale Fee - Code work	£109,891	£109,891	£109,891
Changes in work required to address professional and regulatory requirements and scope associated with risk (see Note 1)	£77,012	£85,260	
Scale Fee Variation -VFM arrangements (Note 2)	£10,245	tbc	
Scale Fee Variation - revised ISA 540 (Note 2)	£4,490	tbc	£57,918
Scale Fee Variation due to one-off issues impacting the audit year (Note 3)	£35,757	N/A	
Total Audit Fee	£237,395	£195,151	£167,809

All fees exclude VAT, and 2021/22 is subject to determination by PSAA.

Appendix C - Fees

Fees

Note 1

We have previously discussed with the management and the Governance Committee that we do not believe the existing scale fees provide a clear link with a public sector organisation's risk and complexity and laid out the impact of regulatory changes which have caused that. We have quantified the implications of these factors on our assessment of the baseline fee to deliver a sustainable high-quality external audit. For 2021/22 we have rolled forward our previous rebasing request.

Note 2

In 2021/22, the new VFM arrangements and revised ISA 540 (estimates) result in a scale fee variation. PSAA have published guidance on these matters and advise for minimum additional fees, for a unitary authority. We have kept these proposed fees at the lower end of the ranges indicated in the guidance.

Note 3

For 2021/22 we have quantified the additional work we undertook in the completion of the audit, as set out in the table below.

Issue	Fee
Significant risk: Infrastructure assets	£5,449
Area of focus: Engaging our internal asset valuation specialists with respect to our work over asset valuations	£3,094
Area of focus: Additional work required as a result of the triennial valuation being available prior to the end of the audit	£3,101
Area of focus: Engaging our internal pensions specialists with respect to our work over the valuation of the pension fund liability	£1,001
Area of focus: IAS 19 assurance work carried out at Hampshire Pension Fund on behalf of Southampton City Council	£1,017
Other: Work regarding the material uncertainty over going concern and the resulting consultation required within the firm	£10,329
Other: Additional interim reporting for value for money required due to the financial position of the Council	£5,717
Other: Technical accounting issue identified regarding grossing up of schools income and expenditure	£3,032
Other: Technical accounting issue identified regarding the transfer of AUC assets to the HRA	£760
Other: Work required due to the Council changing their portfolios which meant there was a requirement to restate their prior period comparators for Income and Expenditure	£937
Other: Work required regarding the objection to the financial statements	£1,320

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ED None

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Agenda Item 8

DECISION-MAKER:	GOVERNANCE COMMITTEE		
SUBJECT:	SOUTHAMPTON CITY COUNCIL OMBUDSMAN COMPLAINTS ANNUAL REVIEW 2022/23		
DATE OF DECISION:	13 NOVEMBER 2023		
REPORT OF:	SERVICE DIRECTOR: GOVERNANCE AND HR		
<u>CONTACT DETAILS</u>			
AUTHOR:	Name:	Sarita Riley, Head of Legal Partnership	Tel: 023 8083 3218
	E-mail:	Sarita.riley@southampton.gov.uk	
Director	Name:	MEL CREIGHTON	Tel: 023 8083
	E-mail:	mel.creighton@southampton.gov.uk	

STATEMENT OF CONFIDENTIALITY	
N/A	
BRIEF SUMMARY – performance at a glance	
This report summarises the type and number of Housing and Local Government and Social Care Ombudsman complaints, including the annual review for the same period.	
HO Complaints	6 Total for 2022/23:
LGSCO Complaints	46 total for 2022/23
Head of Legal Services Partnership acts as the Council’s single point of contact for Local Government and Social Care Ombudsman (LGSCO) and Housing Ombudsman (HO) complaints. The Complaints Resolution Team annual complaints review will be submitted separately to this report.	
The volume of complaints determined by the LGSCO and Housing Ombudsman is a tiny percentage of the service requests and complaints referred to the Council and demonstrates that the Council has robust and effective internal complaints procedures in place to address the vast majority of complaints for customers.	
RECOMMENDATIONS:	
(i)	That the report be noted and to offer any feedback on governance or performance relating to the Ombudsman complaints function, to inform or improve future service delivery.
REASONS FOR REPORT RECOMMENDATIONS	
1.	To update members of this Committee on performance trends and any learning points arising out of complaints made by the public to the LGSCO or HO during 2022/23. Identifying these issues assists the Council in understanding where things have “gone wrong” in the past year in order to improve service delivery.
2.	This report is presented to Governance Committee for information, learning points and feedback purposes and is in accordance with the recommendations of the LGSCO on the senior oversight by statutory officers and elected members on the operation of a ‘Good’ complaints system.

ALTERNATIVE OPTIONS CONSIDERED AND REJECTED

3. N/A. The LGSCO requires the Council to report and consider complaints trends and outcomes annually with members and senior management. This has traditionally fallen to Governance Committee as the most appropriate forum to consider these matters.

DETAIL (Including consultation carried out)

4. The effective and responsive management of complaints is a vital part of the Council’s overall approach to customer care. In addition, the customer feedback, that valid complaints provide can be used to improve service delivery, facilitate Council-wide learning and demonstrate continuous improvement.

5. At the conclusion of a complaints investigation, the complainant is advised that if they are not satisfied with the outcome, they may pursue their complaint to the LGSCO or the HO. This provides the customer with an entirely independent source of redress if they remain aggrieved. The Council works closely with the LGSCO or HO to resolve outstanding complaints where appropriate.

6. LGSCO complaints, the final ‘independent’ stage for all complaints processes, are dealt with by the Head of Legal Partnerships on behalf of the Council as the designated Council ‘Link Officer’ to work with the Ombudsman. The LGSCO (the Commission for Local Administration in England) is appointed under Royal Warrant and has the same statutory powers as the High Court for disclosure of documents etc It provides an independent review of all complaints falling within their jurisdiction. The Housing Ombudsman performs a similar function for landlord related complaints. Housing policy and non-landlord related functions fall to the LGSCO to consider. In an effort to simplify outcomes for complainants the LGSCO has in recent years moved from findings of ‘Maladministration’ and ‘Injustice’ to a more commonly understood term ‘fault’. If ‘fault’ is found a complaint is recorded as upheld, even if the fault was relatively minor or the Council has already taken steps to remedy that fault and the LGSCO is satisfied with the remedy offered by the Council. All findings are now reported on the LGSCO website within 3 months of the decision being published.

7. Statutory reports still remain the highest ‘fault’ finding the LGSCO can make. These require the Council’s Monitoring Officer to publish Notice of the fault in a local newspaper and on its website and prepare a report for consideration at full Council following a period of statutory publication of the findings. **None have been prepared in recent years.** Council’s that fail to co-operate with the LGSCO or any of their findings may be subject to substantial adverse publicity, enforcement action and ultimately Judicial Review.

Local Government & Social Care Ombudsman(LGSCO) & Housing Ombudsman Complaints

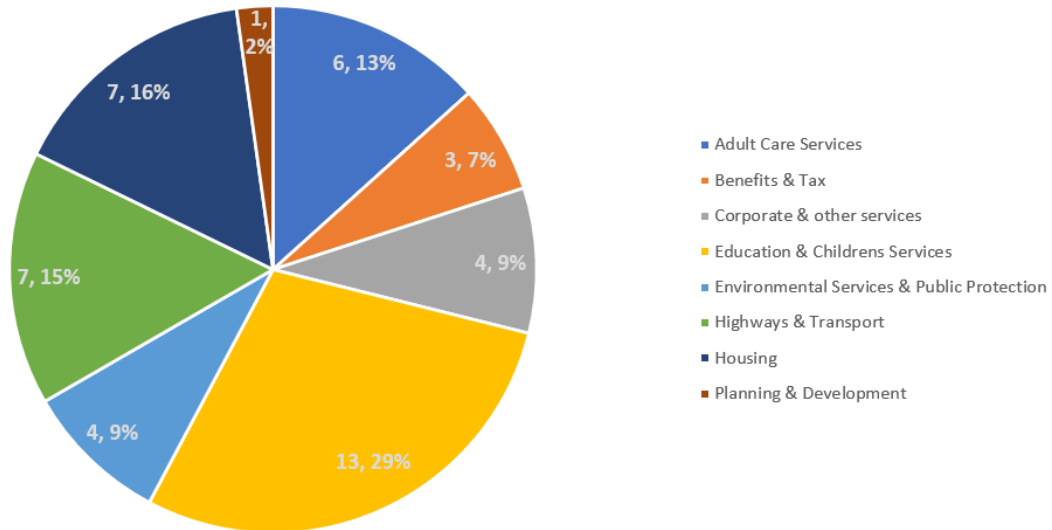
8. Complaints Received – LGSCO

9.		2020/21	2021/22	2022/23
	Complaints received	19	28	45
	Decisions made	19	26	18
	Statutory reports	0	0	0
	Upheld (% of decision made)	8 (67%)	3 (43%)	11 (61%)
	Not upheld	4 (33%)	4 (57%)	7 (39%)

Closed/Invalid, etc	7	19	24
Premature complaints	0	2	3

10.

Breakdown of Service Area - all complaints received 2022/23



11.

Please consider when comparing data from previous years, prior to 2022; to allow authorities to respond to the Covid-19 pandemic, the Ombudsman did not accept any new complaints and stopped investigating existing cases between March and June 2020, hence the relatively low number of complaints received in 2020/21. Although staffing levels at both the Ombudsman and the Council have now returned to normal levels as of time of writing, the 2021/22 year was still partially affected by the pandemic, therefore showing a slight increase in number of complaints but still significantly fewer than pre-pandemic levels. This reduced number of complaints can also be attributed to the consistent policy changes and reviews put in place by the Council over the past few years. The volume of referrals the LGSCO received in 2022/23 reflects a resumption of 'normal' service levels and comparative data should stabilise over the next reporting period.

61% of considered complaints were upheld during 2022/23. This compares favourably to the average of 72% in similar authorities. While that figure may appear 'high' it needs to be considered in context. Only those most serious and complex complaints that the Council has been unable to agree a resolution to with the complainant reach the LGSCO so a high uphold rate is to be expected. In the majority of cases the LGSCO upholds the level of fault the Council itself has previously identified and agrees the remedy the Council previously offered with relatively minor changes.

The Council also received a perfect 100% score of compliance with Ombudsman recommendations, with an average of 99% elsewhere, which it has continued to do for several years.

In 18% of the upheld cases (11), the Council had already provided a satisfactory remedy (ie identical to that recommended by the LGSCO) before the complaint reached the Ombudsman, demonstrating improvement in how

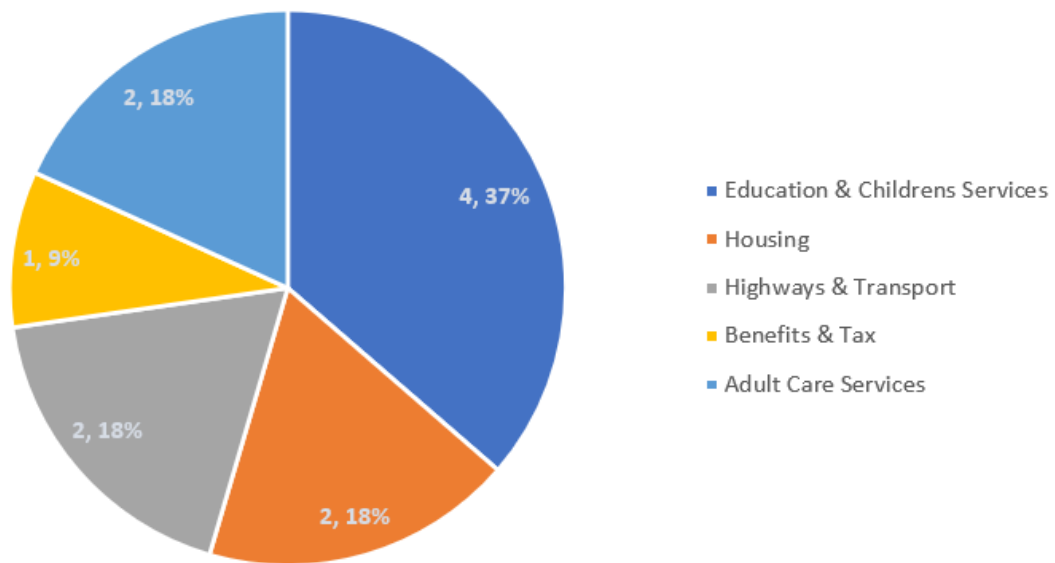
complaints are handled, reviewed and progressed within the Council. The average in other authorities is just 13%.

As shown in the above pie chart, the number of complaints (including those with no further action) regarding Education and Children’s Services still outweigh other areas of the Council, showing as 29% of all complaints overall. As these tend to be the most complex and time consuming cases , this is not unexpected and is in line with the position in all Council’s that have a statutory child protection function. There was a wide array of complaints received in areas such as Benefits & Tax (7%), Environmental Services (9%), Housing (16%) and Highways and Transport (16%). Again, this is entirely in spet with comparator authorities and does not highlight any areas of significant concern for this Council.

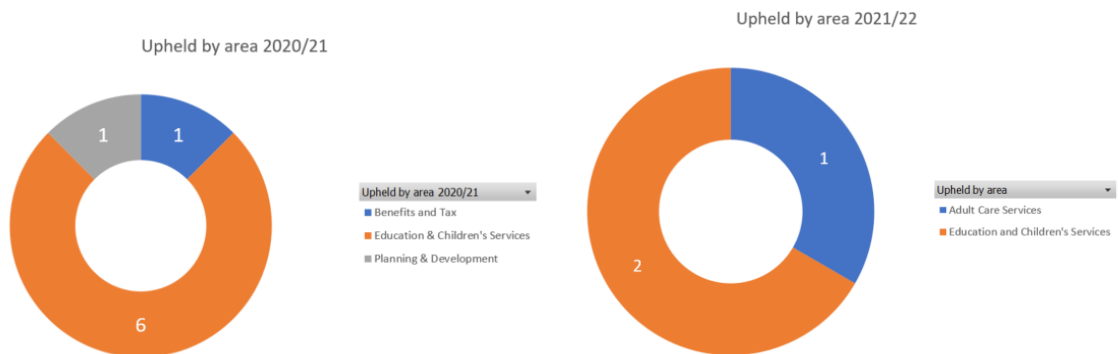
LGSCO Complaints Upheld by area and detail 2022/23

12.

Upheld by area 2022/23



13.



14. Further information on upheld matters:

Adult Care Services: 2 matters
Benefits and Tax: 1 matter

Education and Children's Services: 4 matters

Highways and Transport: 2 matters

Housing: 2 matters

Total compensation for upheld complaints, 2022/23: £14,495

Brief summary of selection of upheld matters:

Adult Care Services / Transport:

The original complaint concerned how the Council declined an application for a toll bridge fee exemption, not considering the application as someone with a mental health disability in the same way as it would consider an application from a person with a physical disability. The Council had erred in how the service that considered applications had applied updated guidance on the mobility component of PIP payments. The Council was found at fault for discrimination against Mr X. **Action: The Council provided a financial remedy of £500, a full apology and review of its procedures for considering toll exemptions in this area. The Head of Legal Partnerships reviewed the application of the Council's interpretation of PIP / Mobility points in consultation with the service and confirmed that the Council's system was not up to date resulting in a change in procedure following this complaint. This will ensure that mental health conditions affecting travel planning and mobility are now taking into account when considering whether an individual is entitled to a Toll exemption or not.**

Benefits and Tax:

This complaint was regarding a vulnerable tenant's outstanding Council Tax. There was fault found by the Council as it did not respond to an official complaint within timelines. **Action: A full letter of apology to Miss X remedied this injustice. There was, however, no fault found in the Council's, albeit late, response as charges had been written off and recovery action was stopped as soon as the Council was made aware of her vulnerabilities.**

Education and Children's Services:

This complex complaint concerned how the Council failed to properly carry out recommendations proposed at the final stage of the Council's own internal statutory children's complaint procedure. Mr and Mrs C suffered additional distress, time and trouble due to these delays and failure to implement actions the Council itself had recommended. **Action: the agreed actions and a full apology, additional payments totalling £9,506 and a review of the Children's complaint process including staff training.**

Highways and Transport:

Mrs X made a complaint about an unsuccessful application for a dropped kerb. The complaint was upheld by the Ombudsman, however they agreed that the Council had already provided a fair remedy and no change in outcome could be achieved for Mrs X.

Housing:

This complaint concerned the Council's failure to take action to ensure the landlord completed remedial works to their property within a reasonable time. Difficulties were caused by Covid – sickness and absence of Council staff in

the service area, however the Council was at fault in failing to respond to correspondence within a timely manner. This complaint was upheld by the Ombudsman but did not cause a significant injustice as delays were justified given the complexity of the case.

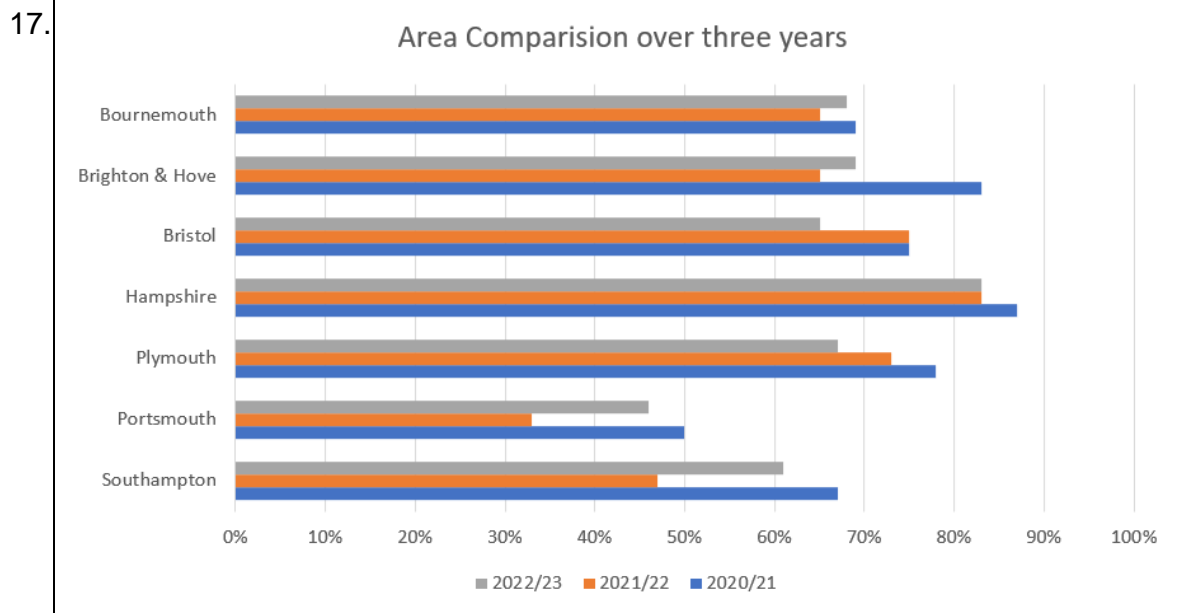
How Does Southampton Compare?

15. An average of 72% of complaints investigated were upheld, throughout similar authorities.

In 2020/21 the Ombudsman received and decided fewer complaints than normal as they stopped accepting new complaints for three months due to Covid.

The table below shows how Southampton performs against key local and unitary comparators (detailed investigations and overall % upheld). This is an edited snapshot of total number of detailed investigations and the percentage upheld and is not intended to give more than a brief overview of comparative pressures / performance. More detail, and statistics for all other Councils, is available at www.lgo.org.uk .

16.	Area comparison	Population	2020/21 (Uphold rate)	2021/22 (Uphold rate)	2022/23 (Uphold rate)
	Bournemouth (inc. Christchurch & Poole District Councils)	400,109	9 (69%)	22 (65%)	26 (68%)
	Bristol	471,117	19 (83%)	22 (65%)	31 (69%)
	Brighton & Hove	276,334	12 (75%)	21 (75%)	15 (65%)
	Hampshire	1,406,199	27 (87%)	35 (83%)	35 (83%)
	Plymouth	264,727	14 (78%)	11 (73%)	14 (67%)
	Portsmouth	206,828	2 (50%)	4 (33%)	6 (46%)
	Southampton	247,256	8 (67%)	3 (47%)	11 (61%)



18.																					
19.	Complaints Received – Housing Ombudsman																				
20.	<p>Housing Ombudsman 2022/23 Complaints received: 6 Determinations: 3 Maladministration findings: 2 Orders made: 2 Recommendations: 4 2 orders of compensation totalling: £300 (£200: Complaints Handling. £100: Anti-social behaviour)</p> <table border="1" data-bbox="820 315 1382 842"> <thead> <tr> <th colspan="2">Southampton City Council</th> </tr> <tr> <th>Outcome</th> <th>% Findings</th> </tr> </thead> <tbody> <tr> <td>Severe Maladministration</td> <td>0%</td> </tr> <tr> <td>Maladministration</td> <td>17%</td> </tr> <tr> <td>Service failure</td> <td>17%</td> </tr> <tr> <td>Mediation</td> <td>0%</td> </tr> <tr> <td>Redress</td> <td>0%</td> </tr> <tr> <td>No maladministration</td> <td>67%</td> </tr> <tr> <td>Outside Jurisdiction</td> <td>0%</td> </tr> <tr> <td>Withdrawn</td> <td>0%</td> </tr> </tbody> </table> <p>Maladministration findings:</p> <p>Complaints Handling Miss G’s complaint regarded noise and anti-social behaviour around her tenancy property. The landlord’s responses to these reports of ASB was appropriate, however there was maladministration by the landlord in its complaint handling at service area level as replies and acknowledgements were sent outside of the response time set out in the HO Complaint Handling Code. £200 compensation was provided for time and trouble and the Council’s complaint procedure was reviewed and updated with service areas to fully comply with paragraph 5.1 of the HO Complaint Handling Code.</p> <p>Anti-social behaviour Ms M made several complaints regarding anti-social behaviour in a block of maisonettes (several historic ASB reports had been noted by previous tenants). The Ombudsman was not satisfied that the resident was given reasonable and appropriate responses to the ASB issues she had reported, and mentioned that the various options considered by the Council were encouraging but reassurance to the tenant should have been provided at an earlier point to avoid exacerbating the mental health concerns of Ms M and her son. £100 compensation and full letter of apology was sent to Ms M who has since moved out of SCC accommodation.</p> <p>The order compliance rate (where we have complied with Housing Ombudsman recommendations) for Southampton is 100%</p>	Southampton City Council		Outcome	% Findings	Severe Maladministration	0%	Maladministration	17%	Service failure	17%	Mediation	0%	Redress	0%	No maladministration	67%	Outside Jurisdiction	0%	Withdrawn	0%
Southampton City Council																					
Outcome	% Findings																				
Severe Maladministration	0%																				
Maladministration	17%																				
Service failure	17%																				
Mediation	0%																				
Redress	0%																				
No maladministration	67%																				
Outside Jurisdiction	0%																				
Withdrawn	0%																				
21.	National maladministration rate: 55% Southampton City Council: 33%																				

Southampton City Council performed *very well* when compared to similar landlords by size and type:



22. **Comparative findings by category**

Top 3 Categories for Southampton City Council			
Category	# Landlord Findings	% Landlord Maladministration	% National Maladministration
Anti-Social Behaviour	2	50%	40%
Moving to a Property	2	0%	29%
Complaints Handling	1	100%	76%
Property Condition	1	0%	54%

23. Learning from Complaints

24. As of 2018/2019, new and updated guidance was developed with regard to process and investigation of complaints, together with advice and guidance from the LGSCO and published on the Southampton City Council intranet to aid managers and others tasked with resolving complaints.

There are still areas to address within Service areas, specifically with regard to communication with complainants and delays in responding to complaints which have again been highlighted in this years findings.

25.

26. It is difficult to identify any real common themes with very low numbers of complaints but the majority of complaints failures are down to lack of communication and delays in processing normal service requests and complaints which have resulted in letters of apology and financial redress where recommended. The Council is getting its level of services right in the vast majority of cases, but its communication in that regard and the timeliness of how it keeps customers updated is resulting in adverse findings that otherwise would not be upheld. This must, however, be considered in the context of the extremely stretched resource position of most current services at this time and the challenging financial position of the Council which will have an impact on future customer satisfaction levels and the time taken to respond to concerns when raised.

RESOURCE IMPLICATIONS

Capital/Revenue

27. Compensation orders and financial remedies are payable by the service area in which fault has been identified and are a draw on service areas approved budgets and must be met within existing Council resources.

<u>Property/Other</u>	
28.	N/A
LEGAL IMPLICATIONS	
<u>Statutory power to undertake proposals in the report:</u>	
29.	Section 111 Local Government Act 1972 and Section 1 Localism Act 2011.
<u>Other Legal Implications:</u>	
30.	Individual complaints touch on a wide variety of Council duties and powers which are taken into account (alongside pervasive legislation such as the Equalities Act 2010) when reviewing and responding to customer complaints and areas of service recovery or improvement.

KEY DECISION?	No
WARDS/COMMUNITIES AFFECTED:	None
<u>SUPPORTING DOCUMENTATION</u>	
Appendices	
1.	LGSCO / HO Annual Review letters
Documents In Members' Rooms	
1.	None
Equality Impact Assessment	
Do the implications/subject of the report require an Equality and Safety Impact Assessment (ESIA) to be carried out.	No
Data Protection Impact Assessment	
Do the implications/subject of the report require a Data Protection Impact Assessment (DPIA) to be carried out.	No
Other Background Documents	
Other Background documents available for inspection at:	
Title of Background Paper(s)	Relevant Paragraph of the Access to Information Procedure Rules / Schedule 12A allowing document to be Exempt/Confidential (if applicable)
1.	None

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19 July 2023

By email

Mr Harris
Acting Chief Executive
Southampton City Council

Dear Mr Harris

Annual Review letter 2022-23

I write to you with your annual summary of complaint statistics from the Local Government and Social Care Ombudsman for the year ending 31 March 2023. The information offers valuable insight about your organisation's approach to complaints. As always, I would encourage you to consider it as part of your corporate governance processes. As such, I have sought to share this letter with the Leader of your Council and Chair of the appropriate Scrutiny Committee, to encourage effective ownership and oversight of complaint outcomes, which offer such valuable opportunities to learn and improve.

The end of the reporting year, saw the retirement of Michael King, drawing his tenure as Local Government Ombudsman to a close. I was delighted to be appointed to the role of Interim Ombudsman in April and look forward to working with you and colleagues across the local government sector in the coming months. I will be building on the strong foundations already in place and will continue to focus on promoting improvement through our work.

Complaint statistics

Our statistics focus on three key areas that help to assess your organisation's commitment to putting things right when they go wrong:

Complaints upheld - We uphold complaints when we find fault in an organisation's actions, including where the organisation accepted fault before we investigated. We include the total number of investigations completed to provide important context for the statistic.

Over the past two years, we have reviewed our processes to ensure we do the most we can with the resources we have. One outcome is that we are more selective about the complaints we look at in detail, prioritising where it is in the public interest to investigate. While providing a more sustainable way for us to work, it has meant that changes in uphold rates this year are not solely down to the nature of the cases coming to us. We are less likely to carry out investigations on 'borderline' issues, so we are naturally finding a higher proportion of fault overall.

Our average uphold rate for all investigations has increased this year and you may find that your organisation's uphold rate is higher than previous years. This means that comparing uphold rates with previous years carries a note of caution. Therefore, I recommend comparing this statistic with that of similar organisations, rather than previous years, to better understand your organisation's performance.

Compliance with recommendations - We recommend ways for organisations to put things right when faults have caused injustice and monitor their compliance with our recommendations. Failure to comply is rare and a compliance rate below 100% is a cause for concern.

Satisfactory remedy provided by the authority - In these cases, the organisation upheld the complaint and we were satisfied with how it offered to put things right. We encourage the early resolution of complaints and credit organisations that accept fault and find appropriate ways to put things right.

Finally, we compare the three key annual statistics for your organisation with similar authorities to provide an average marker of performance. We do this for County Councils, District Councils, Metropolitan Boroughs, Unitary Councils, and London Boroughs.

Your annual data, and a copy of this letter, will be uploaded to our interactive map, [Your council's performance](#), on 26 July 2023. This useful tool places all our data and information about councils in one place. You can find the detail of the decisions we have made about your Council, read the public reports we have issued, and view the service improvements your Council has agreed to make as a result of our investigations, as well as previous annual review letters.

Supporting complaint and service improvement

I know that complaints offer organisations a rich source of intelligence and insight that has the potential to be transformational. These insights can indicate a problem with a specific area of service delivery or, more broadly, provide a perspective on an organisation's culture and ability to learn. To realise the potential complaints have to support service improvements, organisations need to have the fundamentals of complaint handling in place. To support you to do so, we have continued our work with the Housing Ombudsman Service to develop a joint complaint handling code that will provide a standard for organisations to work to. We will consult on the code and its implications prior to launch and will be in touch with further details.

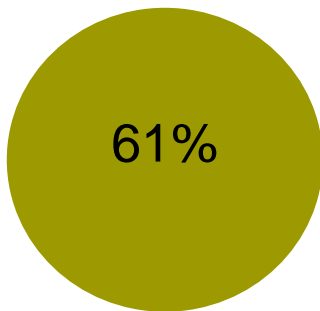
In addition, our successful training programme includes practical interactive workshops that help participants develop their complaint handling skills. We can also offer tailored support and bespoke training to target specific issues your organisation might have identified. We delivered 105 online workshops during the year, reaching more than 1350 people. To find out more visit www.lgo.org.uk/training or get in touch at training@lgo.org.uk.

Yours sincerely,



Paul Najsarek
Interim Local Government and Social Care Ombudsman
Interim Chair, Commission for Local Administration in England

Complaints upheld



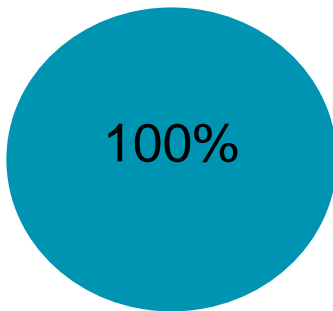
61% of complaints we investigated were upheld.

This compares to an average of **72%** in similar organisations.

11
upheld decisions

Statistics are based on a total of **18** investigations for the period between 1 April 2022 to 31 March 2023

Compliance with Ombudsman recommendations



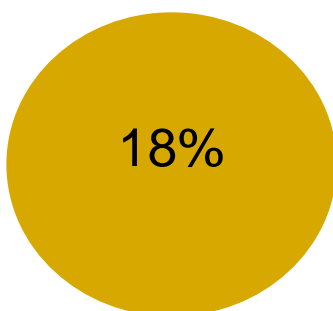
In **100%** of cases we were satisfied the organisation had successfully implemented our recommendations.

This compares to an average of **99%** in similar organisations.

Statistics are based on a total of **7** compliance outcomes for the period between 1 April 2022 to 31 March 2023

- Failure to comply with our recommendations is rare. An organisation with a compliance rate below 100% should scrutinise those complaints where it failed to comply and identify any learning.

Satisfactory remedy provided by the organisation



In **18%** of upheld cases we found the organisation had provided a satisfactory remedy before the complaint reached the Ombudsman.

This compares to an average of **13%** in similar organisations.

2
satisfactory remedy decisions

Statistics are based on a total of **11** upheld decisions for the period between 1 April 2022 to 31 March 2023

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Housing

Ombudsman Service

LANDLORD PERFORMANCE REPORT

2022/2023

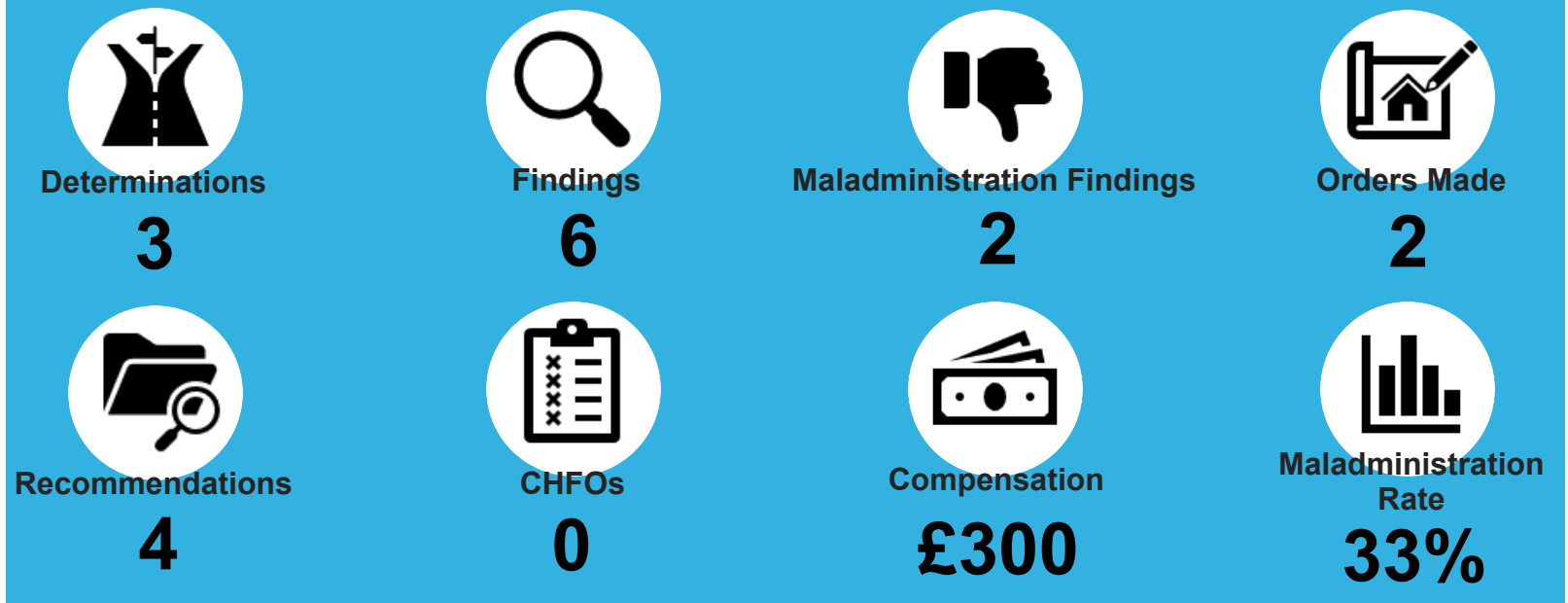
Southampton City Council

Landlord:

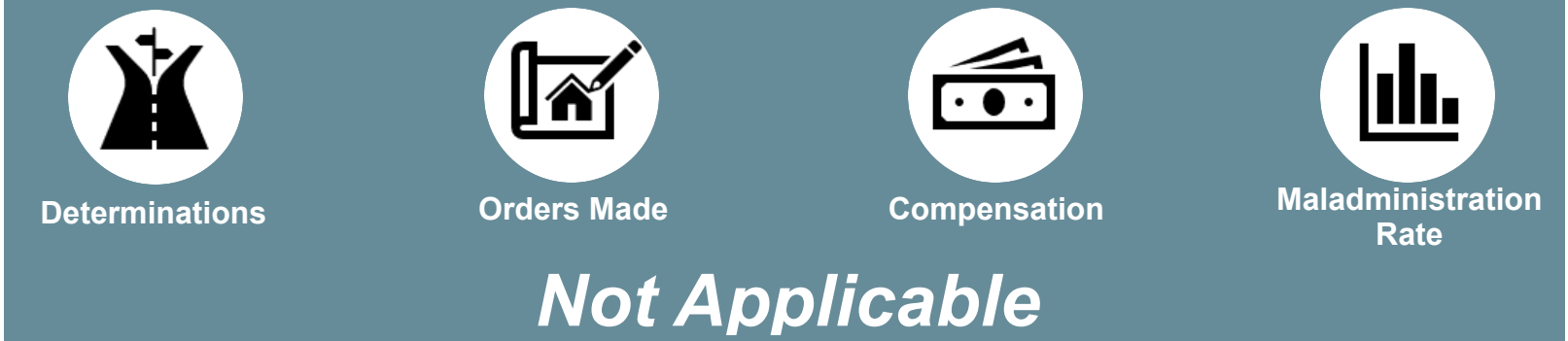
Landlord Homes: 18,121

Landlord Type: Local Authority / ALMO or TMO

PERFORMANCE AT A GLANCE



PERFORMANCE 2021-2022

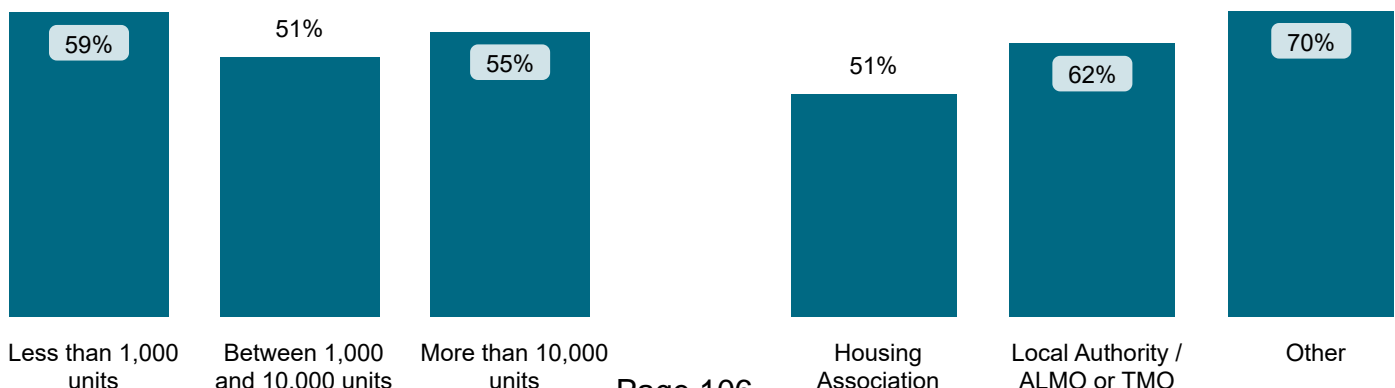


Maladministration Rate Comparison | Cases determined between April 2022 - March 2023

NATIONAL MALADMINISTRATION RATE: 55% The landlord performed very well when compared to similar landlords by size and type.

National Mal Rate by Landlord Size: [Table 1.1](#)

by Landlord Type: [Table 1.2](#)



Findings Comparison | Cases determined between April 2022 - March 2023

National Performance by Landlord Size: Table 2.1

Outcome	Less than 1,000 units	Between 1,000 and 10,000 units	More than 10,000 units	Total
Severe Maladministration	3%	2%	3%	3%
Maladministration	27%	20%	25%	24%
Service failure	20%	23%	21%	21%
Mediation	0%	1%	2%	2%
Redress	10%	12%	16%	15%
No maladministration	25%	32%	22%	24%
Outside Jurisdiction	15%	11%	10%	11%
Withdrawn	0%	1%	2%	1%

Southampton City Council	
Outcome	% Findings
Severe Maladministration	0%
Maladministration	17%
Service failure	17%
Mediation	0%
Redress	0%
No maladministration	67%
Outside Jurisdiction	0%
Withdrawn	0%

National Performance by Landlord Type: Table 2.2

Outcome	Housing Association	Local Authority / ALMO or TMO	Other	Total
Severe Maladministration	2%	3%	6%	3%
Maladministration	23%	28%	32%	24%
Service failure	21%	22%	24%	21%
Mediation	2%	1%	3%	2%
Redress	19%	8%	3%	15%
No maladministration	23%	24%	21%	23%
Outside Jurisdiction	9%	13%	12%	11%
Withdrawn	1%	1%	0%	1%

Outcome	% Findings
Severe Maladministration	0%
Maladministration	17%
Service failure	17%
Mediation	0%
Redress	0%
No maladministration	67%
Outside Jurisdiction	0%
Withdrawn	0%

Landlord Findings by Category | Cases determined between April 2022 - March 2023

Table 2.3

Category	Severe Maladministration	Maladministration	Service failure	Mediation	Redress	No maladministration	Outside Jurisdiction	Withdrawn	Total
Anti-Social Behaviour	0	0	1	0	0	1	0	0	2
Moving to a Property	0	0	0	0	0	2	0	0	2
Complaints Handling	0	1	0	0	0	0	0	0	1
Property Condition	0	0	0	0	0	1	0	0	1
Total	0	1	1	0	0	4	0	0	6

Findings by Category Comparison | Cases determined between April 2022 - March 2023

Top 3 Categories for Southampton City Council Table 3.1

Category	# Landlord Findings	% Landlord Maladministration	% National Maladministration
Anti-Social Behaviour	2	50%	40%
Moving to a Property	2	0%	29%
Complaints Handling	1	100%	76%
Property Condition	1	0%	54%

National Maladministration Rate by Landlord Size: Table 3.2

Category	Less than 1,000 units	Between 1,000 and 10,000 units	More than 10,000 units	% Landlord Maladministration
Anti-Social Behaviour	43%	39%	41%	50%
Complaints Handling	97%	75%	76%	100%
Moving to a Property	50%	17%	31%	0%
Property Condition	50%	54%	55%	0%

National Maladministration Rate by Landlord Type: Table 3.3

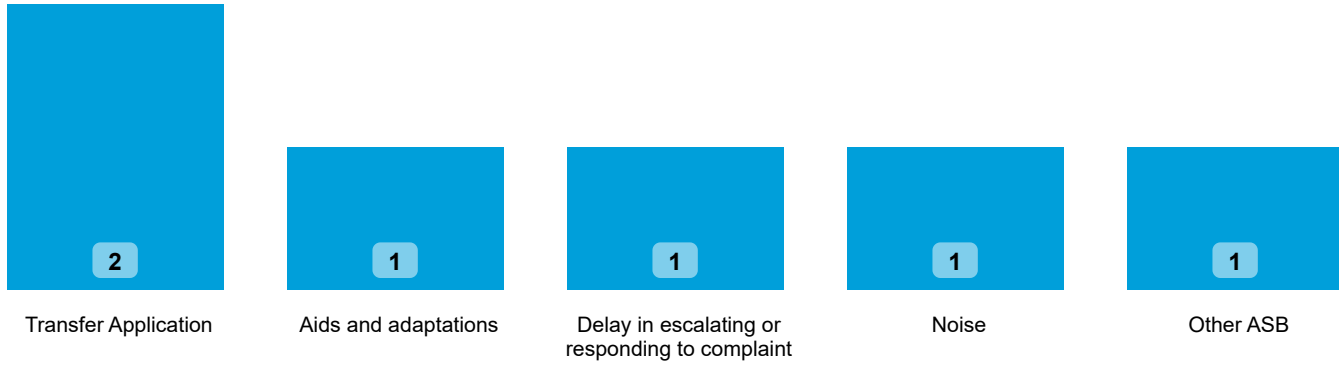
Category	Housing Association	Local Authority / ALMO or TMO	Other	% Landlord Maladministration
Anti-Social Behaviour	40%	43%	0%	50%
Complaints Handling	71%	87%	100%	100%
Moving to a Property	27%	33%	100%	0%
Property Condition	50%	63%	63%	0%

Findings by Sub-Category | Cases Determined between April 2022 - March 2023 Table 3.4

Highlighted Service Delivery Sub-Categories only:

Sub-Category	Severe Maladministration	Maladministration	Service failure	Mediation	Redress	No maladministration	Outside Jurisdiction	Withdrawn	Total
Noise	0	0	0	0	0	1	0	0	1
Total	0	0	0	0	0	1	0	0	1

Top 3 Sub-Categories | Cases determined between April 2022 - March 2023 Table 3.5



Orders Made by Type | Orders on cases determined between April 2022 - March 2023 Table 4.1



Order Compliance | Order target dates between April 2022 - March 2023 Table 4.2

Order Complete?	Within 3 Months	
	Count	%
Complied	2	100%
Total	2	100%

Compensation Ordered | Cases Determined between April 2022 - March 2023 Table 5.1

● Ordered ● Recommended



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Agenda Item 9

ECISION-MAKER:	Governance Committee		
SUBJECT:	Annual Review of Complaints 2022/23		
DATE OF DECISION:	13 November 2023		
REPORT OF:	Director of Governance, Legal and HR		
<u>CONTACT DETAILS</u>			
Director	Title	Director of Governance, Legal and HR	
	Name:	Richard Ivory	Tel: 023 80 2794
	E-mail	richard.ivory@southampton.gov.uk	
Author:	Title	Manager, Complaints Resolution Team	
	Name:	Mark Naylor	Tel: 023 80 3154
	E-mail	mark.naylor@southampton.gov.uk	
STATEMENT OF CONFIDENTIALITY			
N/A			
BRIEF SUMMARY			
This report summarises the type and number of complaints received from 1 April 2022 to 31 March 2023. Overall complaints registered with the Council have decreased this year (506 this year/ 537 last year).			
		2022/23	2021/22
Non-Social Care Complaints	9% decrease –	385	418
Adult Services Complaints	130% increase –	53	23
Children and Learning Complaints	30% decrease -	68	96
<p>The Complaints Resolution Team (CRT), based in the Legal Partnership administers and investigates complaints from all areas within the Council (stage 2) that the service area has been unable to resolve to the satisfaction of the complainant, at initial point of contact (Stage 1), alongside and responsible to the Head of Legal Partnerships who acts as the Council’s single point of contact for Local Government and Social Care Ombudsman (LGSCO) and Housing Ombudsman (HO).</p>			
RECOMMENDATIONS:			
	(i)	That the report be noted and the committee’s offers any feedback on governance or performance relating to the complaints function to inform future service delivery.	
REASONS FOR REPORT RECOMMENDATIONS			
1.	To update the Committee on performance trends and any learning points arising out of complaints made by the public via the Council’s complaints procedures during 2022/23. Identifying these issues assists the Council as a learning organisation in understanding where things have “gone wrong” in the past year in order to improve service delivery.		
2.	This report is presented to Governance Committee for information, learning points and feedback purposes as required by the LGSCO as part of its guidance on the governance and oversight of a high performing (good) complaints process.		

ALTERNATIVE OPTIONS CONSIDERED AND REJECTED																
3.	N/A. The LGSCO requires the Council to report and consider complaints trends and outcomes annually with members and senior management.															
DETAIL (Including consultation carried out)																
4.	The effective and responsive management of complaints is a vital part of the Council's overall approach to customer care. In addition, the customer feedback that valid complaints provide can be used to improve service delivery, facilitate Council-wide learning and demonstrate continuous improvement.															
5.	At the conclusion of a complaint's investigation, the complainant is advised that if they are not satisfied with the outcome achieved for them by the Council, they may pursue their complaint to the LGSCO or the HO. This provides the customer with an entirely independent source of advice and redress if they remain aggrieved. The Council has a good working relationship and works closely with the LGSCO and HO to resolve outstanding complaints where appropriate.															
6.	<p>Overall complaints</p> <p>Stage One</p> <p>Last reporting years corporate increase in complaints was attributed to a larger number of complaints received in the Revenue and Benefits areas of business attributed to challenges to grants (both business and personal), in regard to the Covid 19 recovery period, given by the Government but administered by Local Authorities. This reporting year has seen that spike now abate.</p> <p>Adults Social Care has seen an increase in complaints which are mainly in regard to the discrete issue of care fees and related matters Many of these are historic and thus serve to inflate the complaints figures over a reporting year.</p> <p>Children and Learning Services experienced a decrease this reporting year as the Single Point of Contact officer (complaints) has exerted a more robust triage procedure for initial reported concerns and has sought to mediate between service management and the service user by way of early communication and immediate service recovery processes, like those adopted some years ago in other service areas.</p> <p>Stage Two</p> <p>Over this reporting year the number of stage two investigations undertaken has shown an increase on previous year's numbers. The CRT are receiving more requests for stage two reviews for complaints that are upheld at stage one of the complaint process. These generally are requests for review of the resolution offered at stage one and revolve around monetary recompense.</p>															
7.	<p>Non-social care areas</p> <p>From 01/04/2022 to 31/03/23, the council recorded 385 corporate complaints at Stage 1, registered and dealt with by the service area affected:</p> <table border="1"> <thead> <tr> <th>Stage 1</th> <th>2022/23</th> <th>2021/22</th> <th>2020/21</th> <th>2019/20</th> </tr> </thead> <tbody> <tr> <td>Total</td> <td>385</td> <td>418</td> <td>334</td> <td>202</td> </tr> <tr> <td>Responded in time (20 days)</td> <td>74%</td> <td>76%</td> <td>82%</td> <td>65%</td> </tr> </tbody> </table> <p>Of those stage 1 complaints, the following were examined at Stage 2 by the Complaints Resolution Team, following a request from the complainant:</p>	Stage 1	2022/23	2021/22	2020/21	2019/20	Total	385	418	334	202	Responded in time (20 days)	74%	76%	82%	65%
Stage 1	2022/23	2021/22	2020/21	2019/20												
Total	385	418	334	202												
Responded in time (20 days)	74%	76%	82%	65%												

	<table border="1"> <tr> <td>Stage 2</td> <td>2022/23</td> <td>2021/22</td> <td>2020/21</td> <td>2019/20</td> </tr> <tr> <td>Total</td> <td>115</td> <td>79</td> <td>73</td> <td>77</td> </tr> <tr> <td>Responded in time (20 days)</td> <td>100%</td> <td>100%</td> <td>100%</td> <td>100%</td> </tr> </table>	Stage 2	2022/23	2021/22	2020/21	2019/20	Total	115	79	73	77	Responded in time (20 days)	100%	100%	100%	100%															
Stage 2	2022/23	2021/22	2020/21	2019/20																											
Total	115	79	73	77																											
Responded in time (20 days)	100%	100%	100%	100%																											
8.	<p>Adult Social Care</p> <p>From 01/04/2022 to 31/03/23, the council recorded 53 adult social care complaints. Stage 1 registered and dealt with by the service area affected:</p> <table border="1"> <tr> <td>Stage 1</td> <td>2022/23</td> <td>2021/22</td> <td>2020/21</td> <td>2019/20</td> </tr> <tr> <td>Total</td> <td>53</td> <td>23</td> <td>19</td> <td>37</td> </tr> <tr> <td>Responded in time (20 days)</td> <td>81%</td> <td>70%</td> <td>90%</td> <td>63%</td> </tr> </table> <p>Of those stage 1 complaints, the following were examined at stage 2 by the Complaints Resolution Team, following a request from the complainant:</p> <table border="1"> <tr> <td>Stage 2</td> <td>2022/23</td> <td>2021/22</td> <td>2020/21</td> <td>2019/20</td> </tr> <tr> <td>Total</td> <td>11</td> <td>9</td> <td>2</td> <td>7</td> </tr> <tr> <td>Responded in time (20 days)</td> <td>100%</td> <td>100%</td> <td>100%</td> <td>100%</td> </tr> </table>	Stage 1	2022/23	2021/22	2020/21	2019/20	Total	53	23	19	37	Responded in time (20 days)	81%	70%	90%	63%	Stage 2	2022/23	2021/22	2020/21	2019/20	Total	11	9	2	7	Responded in time (20 days)	100%	100%	100%	100%
Stage 1	2022/23	2021/22	2020/21	2019/20																											
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Total	11	9	2	7																											
Responded in time (20 days)	100%	100%	100%	100%																											
9.	<p>Children and Learning Service</p> <p>From 01/04/2022 to 31/03/23, the council recorded 68 Children Services complaints. Stage 1 registered and dealt with by the service area affected:</p> <table border="1"> <tr> <td>Stage 1</td> <td>2022/23</td> <td>2021/22</td> <td>2020/21</td> <td>2019/20</td> </tr> <tr> <td>Total</td> <td>68</td> <td>96</td> <td>79</td> <td>105</td> </tr> <tr> <td>Responded in time (20 days)</td> <td>42%</td> <td>52%</td> <td>57%</td> <td>53%</td> </tr> </table> <p>Of those stage 1 complaint, the following were examined at stage 2 by the Complaints Resolution Team, following a request from the complainant:</p> <table border="1"> <tr> <td>Stage 2</td> <td>2022/23</td> <td>2021/22</td> <td>2020/21</td> <td>2019/20</td> </tr> <tr> <td>Total</td> <td>26</td> <td>26</td> <td>12</td> <td>35</td> </tr> <tr> <td>Responded in time (20 days)</td> <td>100%</td> <td>100%</td> <td>100%</td> <td>100%</td> </tr> </table>	Stage 1	2022/23	2021/22	2020/21	2019/20	Total	68	96	79	105	Responded in time (20 days)	42%	52%	57%	53%	Stage 2	2022/23	2021/22	2020/21	2019/20	Total	26	26	12	35	Responded in time (20 days)	100%	100%	100%	100%
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Total	26	26	12	35																											
Responded in time (20 days)	100%	100%	100%	100%																											
10.	<p>Learning from complaints</p> <p>Complaints provide a crucial source of feedback and examination to highlight both good and poor practice. Three examples (one each from Adult Social Care, Children and Learning Services and Corporate areas of the Council are provided below. These examples are taken from Stage two investigations.</p> <p>Corporate Services example</p> <p>A complaint was received with regard to the way in which the application for a dropped kerb was dealt with by the Highways Partnership.</p> <p>An investigation revealed that a number of issues could have been processed in a more expeditious manner and that the details of process and appeal were not clear on the relevant SCC web site pages.</p> <p>Resolution – no fault was found in the decision to refuse the application, but recommendations made in regard to “signposting the correct process to</p>																														

challenge the decision” when the refusal decision is first issued, and to update the web pages to make the challenge process clear. Both have been implemented.

The matter was referred to the Ombudsman, who declined to investigate further.

Adult Social Care example

An adult who had been identified by the Police (Regional Counter Terrorism) as suitable for oversight from the Prevent - Channel Programme (chaired by an officer of the Local Authority) complains about his treatment whilst subject to Prevent – Channel Programme - intervention and oversight.

Investigation (via the Home Office) revealed no previous challenges of this nature were known. Matters were reviewed and policy and legislation examined. No fault was found but recommendation made with regard some minor wording in local policy and process.

The matter was referred to the Ombudsman, who declined to investigate further.

Recently another neighbouring authority had a challenge to its Prevent Channel Programme and were referred to SCC’s process as a benchmark for good practice.

Childrens and Learning Service example

A complaint was raised that CLS were undertaking a safeguarding enquiry, following a referral regarding an unborn child, which was contrary to the Childrens Act 1989.

Enquiries revealed that the Childrens Act 1989 refers to child/children and therefore by definition, as an unborn foetus is not a “child” under the law until the foetus is born, the enquiries cannot be conducted under the Childrens Act 1989.

Further enquiry revealed that:

- a) Statutory Guidance - Working Together to Safeguard Children 2018, determined that in the cases of safeguarding enquiries with regard to an unborn child, as the definition did not fall under the Childrens Act 1989, Local Authorities must have a published local process in place for these type of investigations.
- b) SCC does have an appropriate process and it is published.
- c) Childrens Services staff involved in the safeguarding enquiry had repeatedly informed the parents that the investigation was being conducted under “the Childrens Act 1989”. This is incorrect.
- d) The repeated reference to the Childrens Act had angered the parents and caused significant distrust and confrontation.

Resolution – Childrens and Learning Services have incorporated this point in its twice-yearly service wide training weeks, to prevent further situations of this type to develop.

	<p>The complaint was not referred to the Ombudsman.</p> <p>In conclusion: complaints rarely identify serious flaws in the policy and process of the Local Authority across all of its service delivery. However, the common thread which gives rise to complaints is that of clear communication.</p> <p>Taking advantage of the current upgrade and refresh of the Council web pages, a number of changes have been requested and implemented as a result of complaint findings.</p> <p>These have included:</p> <ul style="list-style-type: none"> a) highlighting of the Councils customer access strategy on the contact us pages, reinforcing expected response time to enquiries. b) temporary updates to auto responders when higher than usual demand on a particular service is affecting response times. c) Inclusion of web links in communications (letters/emails) to signpost the recipients to information over and above that contained within the letter/email. d) earlier identification and intervention to identify those who communicate with the council in an unacceptable way, to manage excessive communication from a single individual whose excessive communication is affecting the council's ability to provide a service to other members of the public.
RESOURCE IMPLICATIONS	
<u>Capital/Revenue</u>	
11.	None
<u>Property/Other</u>	
12.	None
LEGAL IMPLICATIONS	
<u>Statutory power to undertake proposals in the report:</u>	
13.	Section 111 Local Government Act 1972 and Section 1 Localism Act 2011.
<u>Other Legal Implications:</u>	
14.	Individual complaints touch on a wide variety of Council duties and powers which are taken into account (alongside pervasive legislation such as the Equalities Act 2010) when reviewing and responding to customer complaints and areas of service recovery or improvement.
RISK MANAGEMENT IMPLICATIONS	
15.	None in relation to this report. No major issues or areas of concern for the Council as a whole highlighted in this year's review however individual complaints are risk assessed on a case-by-case basis.

POLICY FRAMEWORK IMPLICATIONS	
16.	The complaints' function is exercised wholly in accordance with the Council's Policy Framework.
KEY DECISION?	No
WARDS/COMMUNITIES AFFECTED:	None
<u>SUPPORTING DOCUMENTATION</u>	
Appendices	
1.	None
Documents In Members' Rooms	
1.	None
Equality Impact Assessment	
Do the implications/subject of the report require an Equality and Safety Impact Assessment (ESIA) to be carried out.	No
Data Protection Impact Assessment	
Do the implications/subject of the report require a Data Protection Impact Assessment (DPIA) to be carried out.	No
Other Background Documents	
Other Background documents available for inspection at:	
Title of Background Paper(s)	Relevant Paragraph of the Access to Information Procedure Rules / Schedule 12A allowing document to be Exempt/Confidential (if applicable)
1.	None

DECISION-MAKER:	GOVERNANCE COMMITTEE		
SUBJECT:	STRATEGIC PROCUREMENT ACTIVITY		
DATE OF DECISION:	13 NOVEMBER 2023		
REPORT OF:	HEAD OF SUPPLIER MANAGEMENT & DIRECTOR OF COMMISSIONING		
<u>CONTACT DETAILS</u>			
Executive Director	Title	Executive Director – Corporate Services and S151 Officer	
	Name:	Mel Creighton	Tel: 023 8083 3528
	E-mail:	mel.creighton@southampton.gov.uk	
Executive Director	Title	Executive Director – Wellbeing and Housing	
	Name:	Claire Edgar	Tel: 023 8083 3045
	E-mail:	claire.edgar@southampton.gov.uk	
Author:	Title	Head of Supplier Management	
	Name:	Paul Paskins	Tel: 023 8083 4353
	E-mail:	Paul.Paskins@southampton.gov.uk	
Co-Author:	Title	Director of Commissioning	
	Name:	Terry Clark	Tel:
	E-mail:	Terry.Clark@southampton.gov.uk	
STATEMENT OF CONFIDENTIALITY			
N/A			
BRIEF SUMMARY			
<p>This report provides the Governance Committee with an overview of the Council’s upcoming strategic procurement activity, the arrangements for which need to be operational by the end of Financial Year 2025/26.</p> <p>These include upcoming requirements/projects which are strategically significant to the Council in terms of value, operational considerations, reputation or political importance.</p> <p>It involves services which would benefit from a review of the delivery model in terms of how they are packaged or delivered when considering opportunities to deliver savings, drive efficiencies and contribute to the Council’s strategic goals. Many are likely to result in significant, complex and lengthy procurements or insourcing projects.</p> <p>The report includes:</p> <ul style="list-style-type: none"> • non-Health and Social Care (H&SC) requirements/projects managed by Supplier Management Service (SMS) as part of the Strategic Procurement Programme (“the SPP”) <p>and</p>			

- relevant H&SC requirements/projects managed by the Integrated Commissioning Unit (“ICU”).

Detail relating to each strategic procurement activity project is included as Appendix A to this report.

This is the first report to the Governance Committee on this matter and is produced jointly by the SMS and the ICU.

RECOMMENDATIONS:

	(i)	That Governance Committee notes the strategic procurement and implementation activity planned for and being undertaken during Financial Years 23/24 to 25/26.
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REASONS FOR REPORT RECOMMENDATIONS

1.	The report is provided for information.
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ALTERNATIVE OPTIONS CONSIDERED AND REJECTED

2.	N/A
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DETAIL (Including consultation carried out)

3.	The strategic procurement activity referred to in this paper will result in the Council setting long term (in some cases until 2040) strategic direction regarding services, contracts and arrangements and once this direction is set it will be challenging, time-consuming and expensive to reverse.
4.	The SMS has overall responsibility for procurement strategy, policy and process for the Council and undertakes all procurement above £10,000 in contract value for the Executive Directorates of Corporate Services, Strategy and Performance, Place as well as the “Housing” and “Stronger Community” service areas within Wellbeing and Housing.
5.	The ICU directly undertakes all procurement and associated activities for the Children and Learning (excluding Education) and the remainder of Wellbeing and Housing Executive Directorates, with a predominant focus on the commissioning and procurement of all-age health and social care services.
6.	This report focuses on known strategic procurement activity for which the replacement arrangements need to be implemented and operational by end of the 2025/26 Financial Year. As such, despite meeting the definition of strategic procurement activity, certain existing contracts such as the Waste Tripartite, Schools PFI and Street Lighting PFI and are not within scope of this report as their expiry dates are December 2030, October 2031 and March 2035 respectively. The ICU’s contract for Sexual Health services also falls outside the scope of this report as the collaborative re-procurement led by Hampshire County Council has already been completed to enable a new contract to commence from 1 st April 2024.
7.	It is anticipated that a further phase of strategic procurement activity will be required to deal with the projects referred to in paragraph 5 and other relevant projects which need to be in place after the Financial Year 25/26 and this is being developed.

	Governance of strategic procurement activity
8.	The SMS and ICU teams work closely to ensure that best practice, subject matter expertise and economies of scale are being delivered through strategic procurement activity regardless of which team is managing a project. This includes involvement in decision making and boards of relevant projects where applicable.
	SPP Governance
9.	The SPP Board meets every other month or in advance of decisions in relation to specific SPP projects. The SPP Board's purpose is to ensure there is a shared, continued, and focused effort to design and deliver the outcomes for the SPP. The SPP Board is responsible for maximising the benefits anticipated from the combined programming approach to the SPP, identifying interdependencies between the SPP projects, capitalising on opportunities in the SPP, maximising efficiencies and minimising costs.
10.	Governance of individual projects which make up the SPP is being undertaken through specific project boards which reflect arrangements appropriate to their specific characteristics and status within the SPP. This includes briefings of relevant Cabinet Member(s) at regular and/or appropriate intervals.
11.	As part of the governance for SPP projects, opposition briefings and updates at Overview and Scrutiny Management Committee (OSMC) and Governance Committee are being offered to encourage cross party visibility and buy-in to the approach.
	Governance of the ICU strategic procurement projects
12.	The scope of the ICU's area of responsibility spans the Wellbeing and Housing and Children and Learning Directorates and as such the ICU's work plan and delivery of individual projects within it is subject to regular officer-level management team and transformation board oversight within both Directorates. At a political level, the work of the ICU is subject to further oversight via Cabinet Member briefings, as well as reports to the Health and Care Partnership Board, and the Health and Overview Scrutiny Committee.
RESOURCE IMPLICATIONS	
<u>Capital/Revenue</u>	
13.	In recognition of the Council's forecast budget challenges, it is important that strategic procurement activity is considered as part of the financial control framework for essential spend. This activity may result in the Council entering long term arrangements and whilst this represents a significant challenge in terms of forward budget-setting commitments, it is necessary if the Council is to obtain value for money from its strategic contracting and similar arrangements for future years.
<u>Property/Other</u>	
14.	N/A
LEGAL IMPLICATIONS	
<u>Statutory power to undertake proposals in the report:</u>	
15.	N/A

<u>Other Legal Implications:</u>	
16.	N/A
RISK MANAGEMENT IMPLICATIONS	
17.	N/A
POLICY FRAMEWORK IMPLICATIONS	
18.	N/A
KEY DECISION?	N/A
WARDS/COMMUNITIES AFFECTED:	Not Applicable
<u>SUPPORTING DOCUMENTATION</u>	
Appendices	
1.	Overview of Strategic Procurement Activity Projects

Documents In Members' Rooms

1.	N/A
Equality Impact Assessment	
Do the implications/subject of the report require an Equality and Safety Impact Assessment (ESIA) to be carried out.	N/A
Data Protection Impact Assessment	
Do the implications/subject of the report require a Data Protection Impact Assessment (DPIA) to be carried out.	N/A
Other Background Documents	
Other Background documents available for inspection at: N/A	
Title of Background Paper(s)	None

Appendix 1 - Overview of Strategic Procurement Activity Projects

Lead	Project	Description of service	Existing provider (where applicable) or new project	* Contract end date (where applicable)	Approx. annual contract value/est. project value	Status
SPP	St Mary's Leisure Centre	Leisure services	Active Nation	December 2023	TBC subject to outcome of procurement process	At procurement stage with estimated contract start date of January 2024.
ICU	Inclusive Lives	Community and accommodation-based services for children and adults with learning disabilities and autism	Various	2024	£17.62m	Design work currently taking place with the market and service users.
ICU	Extra Care	Personal care and alarm response within the city's 6 extra care schemes	Apex Prime Care Allied Health Services AQS Homecare	April 2024	£871k	Tender underway with evaluation to be completed and award letters to be issued in January 2024.
ICU	Drug and Alcohol Recovery	Drug and alcohol treatment services for adults and young people	CGL No Limits	June 2024	£3.21m, (£2.72 SCC spend/ £484k OHID grant)	Current expiry in June 2024. Service review recommendation to further extend these contracts currently being considered.
ICU	Children's Residential Care	Southampton is the lead commissioner on behalf of a regional consortia of local authorities working together to collectively contract residential care for looked after children	Various	September 2024	£10.78m	Lessons learned/ design phase underway. Partnership agreements to be signed by participating authorities (November 2023)
ICU	Early Intervention and Prevention	Services provided by the community and voluntary sector intended to reduce/ delay need for higher threshold adult care services	Scope TBC	February 2025	Estimated value TBD following completion of project	Project scoping and stakeholder engagement underway. Commissioning intentions to be completed by July 2024.

Appendix 1 - Overview of Strategic Procurement Activity Projects

Lead	Project	Description of service	Existing provider (where applicable) or new project	* Contract end date (where applicable)	Approx. annual contract value/est. project value	Status
					scoping exercise.	
SPP	Commercial Waste	Commercial waste transfer and disposal services	TJ Waste	March 2025	£1.6 million (costs are based on volume disposed)	Contract extended with TJ Waste until April 2025.
SPP	Temporary Labour	Supply of temporary labour across SCC	Comensura	March 2025	£13.6 million (costs are based on level of temp staff usage)	Contract extension until March 2025 is being processed.
IC 322	Joint Equipment Store	Equipment required to support people to live independently in their own homes.	Nottingham Rehab Services	June 2025	£1.56m (49.7% ICB /50.3% SCC)	Service review to consider options (i.e. enact 2 years extension or re-procure) due in September 2024.
SPP	Highways	Management and operation of highway planned and routine maintenance, highway and transport capital projects and highway management functions	Balfour Beatty Living Places (BBLP)	September 2025	£25.5 million (including estimated SCC and 3 rd party granted funded spend)	Delivery Model Assessment (DMA) completed and planning underway to procure a Single Provider.
SPP	Citywatch	Public space CCTV with 24-hour monitoring and maintenance, housing concierge service, 24 hour control room and intelligent traffic systems	Balfour Beatty Living Places (BBLP)	September 2025	£1.5 million	
SPP	Guildhall	Management of Southampton Guildhall	Live Nation	February 2026	£478k	Contract extended until February 2026.

Appendix 1 - Overview of Strategic Procurement Activity Projects

Lead	Project	Description of service	Existing provider (where applicable) or new project	* Contract end date (where applicable)	Approx. annual contract value/est. project value	Status
SPP	Leisure	Operation and maintenance (excluding structural works) of leisure facilities across the city	Places for People (PfP)	August 2028 (assuming extension agreed)	£931k	In commercial negotiations with Provider relating to an up to 3-year extension.
SPP	Electric Vehicle (EV) Charging concession/partnership	Operation and expansion of SCC EV charging point network	New project	N/A	TBC. LEVI grant (if awarded) is est. to be £2 million	Estimated to be procured during FY 24/25.
SPP Page 123	Property arrangement - SCC owned Construction Framework/Partnership project	Scope being defined but focus on delivery of the SCC construction programme and associated services.	New project	N/A	£25 million	DMA stage commencing.

* Including contractual extension options where applicable

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DECISION-MAKER:	GOVERNANCE COMMITTEE
SUBJECT:	HOUSING VOIDS UPDATE
DATE OF DECISION:	13 TH NOVEMBER 2023
REPORT OF:	COUNCILLOR FIELKER CABINET MEMBER FOR ADULTS, HEALTH AND HOUSING

<u>CONTACT DETAILS</u>			
Executive Director	Title	Executive Director: Wellbeing & Housing	
	Name:	Claire Edgar	Tel: 023 8083 3045
	E-mail	Claire.edgar@southampton.gov.uk	
Author:	Title	Director of Housing	
	Name:	Jamie Brenchley	Tel: 023 8083 3687
	E-mail	Jamie.brenchley@southampton.gov.uk	

STATEMENT OF CONFIDENTIALITY
None

BRIEF SUMMARY
An internal audit review into Southampton City Council's void process and procedures completed on the 5 th June 2023, formed part of Southampton City Council's 2022/23 Audit Plan. Due to the length of time our properties remain void, limited assurance was provided.
This is an update to the report, setting out progress made and outstanding action that is still required to help address the areas of limited assurance.

RECOMMENDATIONS:
(i) For the Governance Committee to accept this report
(ii) For the Governance Committee to accept and endorse the Voids Action Plan

REASONS FOR REPORT RECOMMENDATIONS
1. To inform the Governance Committee of the current data relating to the voids in SCC Housing stock
2. To inform the Governance Committee of the plan to improve and reduce the number of voids held by SCC

ALTERNATIVE OPTIONS CONSIDERED AND REJECTED
3. None

DETAIL (Including consultation carried out)

4. A "Void" in housing terms is when a property is unoccupied for a period of time. For Housing Authorities, the aim is to keep voids to a minimum thus maximising the income generated from occupied properties.
5. While the internal audit identified a clear framework, sufficient procedures, and checklists for complete management trails. The length of time properties are vacant, and therefore not collecting rent, is having a significant impact on the Housing Revenue Account.
6. The total rent loss and void to let time continues to deteriorate.
7. At the end of Q2 the total rent loss was £1,513,612 (Table 1)

Table 1. Rent loss (culminative)

	Quarter 1			Quarter 2		
	Apr (£)	May (£)	Jun (£)	Jul (£)	Aug (£)	Sept (£)
Voids (Not including newbuild not let, dev or short-term host)	159,001	368,150	535,550	769,878	947,388	1,128,637
DEV	53,083	119,896	174,554	229,848	284,339	342,057
All voids inc newbuild, dev & short-term host	216,335	499,670	727,102	1,024,490	1,267,688	1,513,61

8. At the end of Q2 the total void to let time had increased. A routine void is now taking a further 30 days on average to complete and properties requiring major works is taking 45 days longer compared to 6 months earlier. (Table 2)

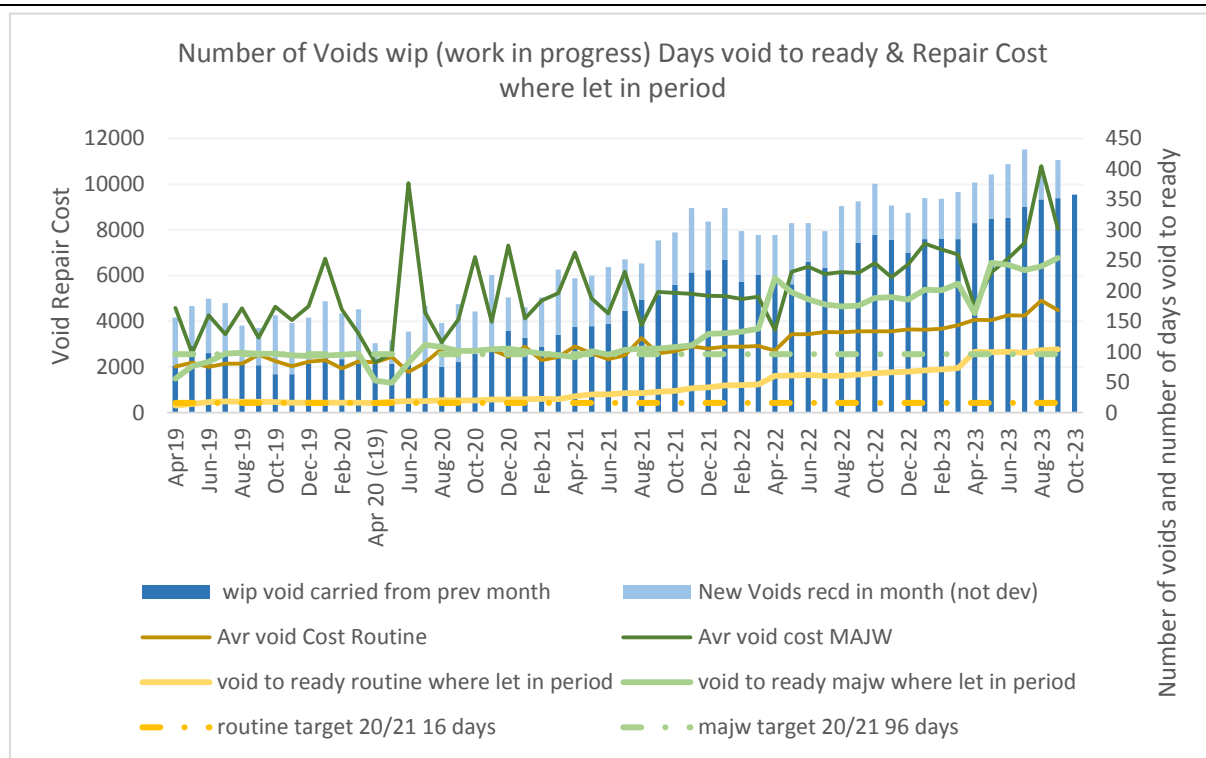
Table 2. Void to let time

All voids regardless of property type	Void to let target	Void to let actual at Year End 22/23	Void to let actual as at End Q2 23/24
Routine	29 days	94 days	124 days
Major works	106 days	225 days	270 days

9. The Department for Levelling Up, Housing and Communities (DLUHC) in the Local Authority Housing Statistic Returns ranked SCC as the second worst authority in England, with non-Decent Homes at 39% (6,411 properties). As of January 2023, the number of non-Decent Homes has increased to 46.6%. Stock Condition data on 'non-decent homes' is therefore showing an increased decline in the quality of resident's homes at the same time the length of time it takes to get properties up to standard before letting is increasing.
10. The requirement to replace kitchens, bathrooms, gas boilers, windows and doors at the point properties become vacant is having a material impact on the length of time

taken to prepare a property for reletting. Other impacting factors include the lack of continued maintenance work undertaking during COVID-19 as well as the increased complexity of void turnaround requiring multiple visits from different tradesman before completion due to the specialised nature of the Void teams.

11. Addressing the lack of investment at the point properties become vacant, is not only having a detrimental impact on the council's ability to reverse the current trends. It is also leading to reactive costs associated to repairs escalating as set out in the graph below



12. The void audit identified four key actions to address the limited assurance and drive forward improvements. The actions and progress made is set in detail in Appendix 1

RESOURCE IMPLICATIONS

Capital/Revenue

13. None currently

Property/Other

14. None

LEGAL IMPLICATIONS

Statutory power to undertake proposals in the report:

15. None

Other Legal Implications:

16. None

RISK MANAGEMENT IMPLICATIONS

17. None

POLICY FRAMEWORK IMPLICATIONS

18. The report is for information only, no decision is required

KEY DECISION?	No
<u>SUPPORTING DOCUMENTATION</u>	
Appendices	
1.	Void Action Plan
Documents In Members' Rooms	
1.	None
Equality Impact Assessment	
Do the implications/subject of the report require an Equality and Safety Impact Assessment (ESIA) to be carried out.	No
Data Protection Impact Assessment	
Do the implications/subject of the report require a Data Protection Impact Assessment (DPIA) to be carried out.	No
Other Background Documents	
Other Background documents available for inspection at:	
Title of Background Paper(s)	Relevant Paragraph of the Access to Information Procedure Rules / Schedule 12A allowing document to be Exempt/Confidential (if applicable)

Appendix 1.

VOID ACTION PLAN

Action	Lead Officer	By When	RAG	Progress
1. Explore 'invest to save' opportunities to increase capacity	Housing Operations Service Manager	Immediate and on-going.		<ul style="list-style-type: none"> Housing Operations have been working with Procurement to secure sub-contractors. This has not yet identified any suitable contractor(s) who have capacity or sufficient expertise to deliver alongside the council. This continues to be explored. We have an agreed plan to halt some planned works for fire safety works so we can reallocate the trade resource to void works for 12 months to help reduce the backlog. The reprofiling of the capital budget has been agreed at cabinet (October 2023). <p>The Project team are finishing off their current sites, after this supply chains will be adjusted, and the trade team will be kitted out for void works. It is expected that this team will commence working on voids in December 23.</p>
2. A review will be undertaken of the operational processes and systems in place to identify improvements required and enabling assurance to be provided on the delivery model. This will also consider ways to reduce	Housing Operations Service Manager	By December 2023		<ul style="list-style-type: none"> A LEAN consultant has been procured (contract being finalised) to review our structure and all void processes as a whole (key in to key out). This will highlight where our current processes can be improved upon. This review will also confirm the need for any extra staffing requirements for both existing processes and potential new ones.

Action	Lead Officer	By When	RAG	Progress
the void period between the maintenance handover date and void relet.				<ul style="list-style-type: none"> Review and plan to be completed by end of December 2023. Implementation to commence from Jan 2024.
3. Increase proactive property/tenancy inspections to reduce the number of void properties with increased maintenance costs caused by tenant misuse and neglect.	District Housing Managers	By December 2023		<ul style="list-style-type: none"> Housing Management is under-going a service re-design. The consultation closed on 21st October 2023. Implementation of the new structure to be completed by Jan 24. Review of processes and procedure currently being undertaken. Target end date Dec 23. Improvements expected to be evident in completion of inspections in Q4 23/24.
4. Capital Estates will continue proactive planned maintenance programme prioritised to target areas of greatest repair need to help 'Improve the quality of homes'.	Head of Corporate Estate and Assets	Dynamic April 2024.		<ul style="list-style-type: none"> HRA Capital programme reprofiled and agreed at cabinet in Oct 23. Procurement of a primary delivery partner being progressed for April 2024. Review of capital programme and investment being undertaken to inform budget proposals for 24/25.

DECISION-MAKER:	GOVERNANCE COMMITTEE		
SUBJECT:	STRATEGIC CONTRACTS ANNUAL REPORT		
DATE OF DECISION:	13 November 2023		
REPORT OF:	HEAD OF SUPPLIER MANAGEMENT & DIRECTOR OF COMMISSIONING		
<u>CONTACT DETAILS</u>			
Executive Director	Title	Executive Director – Wellbeing and Housing	
	Name:	Claire Edgar	Tel: 023 8083 3045
	E-mail:	Claire.edgar@southampton.gov.uk	
Executive Director	Title	Executive Director – Corporate Services	
	Name:	Mel Creighton	Tel: 023 8083 3528
	E-mail:	Mel.Creighton@southampton.gov.uk	
Author:	Title	Head of Supplier Management	
	Name:	Paul Paskins	Tel: 023 8083 4353
	E-mail:	Paul.Paskins@southampton.gov.uk	
Co-Author:	Title	Director Of Commissioning	
	Name:	Terry Clark	Tel:
	E-mail:	Terry.clark@southampton.gov.uk	
STATEMENT OF CONFIDENTIALITY			
Appendix 1 and 2 to this report are confidential in accordance with paragraph number 7(A) of the Council's Access to Information Procedure Rules in Part 4 of the Council's Constitution as they contain information about council contracts and contractors which may be deemed to be confidential and commercially sensitive.			
BRIEF SUMMARY			
This report provides the Governance Committee with an overview of the performance, governance and contractual matters relating to the Council's most strategically important contracts.			
The report is produced by the Supplier Management Service (SMS) and the Integrated Commissioning Unit (ICU) on an annual basis to cover the preceding financial year.			
RECOMMENDATIONS:			
	(i)	Governance Committee notes the Strategic Contracts Annual Report covering the period April 2022 to March 2023.	
REASONS FOR REPORT RECOMMENDATIONS			
1.	The report is provided for information.		
ALTERNATIVE OPTIONS CONSIDERED AND REJECTED			
2.	N/A		

DETAIL (Including consultation carried out)	
3.	The Council delivers a number of key services through contracts with third-party suppliers.
4.	The SMS is comprised of contract management, procurement and commercial specialists and has responsibility for the procurement, contract management and supplier performance for what are known as the 'Strategic Contracts'. These are the contracts deemed to be the most strategically important to the Council. The ICU maintains separate but comparable arrangements for the commissioning, procurement and management of health and care contracts pertinent to the business of the Wellbeing and Housing and Children and Learning directorates.
5.	This joined-up approach to contract management and procurement is designed to ensure that the Council procures, puts in place and appropriately manages contracts which meet its strategic objectives now and, in the future, and achieves value-for money through its contracting arrangements.
6.	<p>The SMS and ICU are responsible for the management of all aspects of the 'contract lifecycle' and performance of the Strategic Contracts including: -</p> <ul style="list-style-type: none"> • Relationship management; • Contract strategy; • Contract changes and negotiation; • Issue and dispute resolution; • Continuous improvement; • Performance monitoring and financial deductions; • Contract compliance, benefits realisation and value-for-money monitoring activities; • Formal and informal governance; • Capital programmes; • Insurance; • Provider facilities and premises; • Finance governance; • Technical management and approvals; • Works orders; • Safety, health, environmental and quality monitoring; • Engagement activities; and • Employment practices and equalities obligations.
7.	<p>The current portfolio of Strategic Contracts consists of the following: -</p> <p>Managed by the SMS:</p> <ul style="list-style-type: none"> • Highways Services Partnership (HSP); • CCTV and Intelligent Traffic Systems (known as City Watch or ROMTV); • Street Lighting Private Finance Initiative (PFI); • Leisure (Sport and Recreation); • Southampton Guildhall; • St Mary's Leisure Centre; • Schools Private Finance Initiative; • Waste Disposal; and • Managed Services for Temporary Agency Resources.

	Managed by ICU: <ul style="list-style-type: none"> • Nursing home for older people (Northlands House); • Nursing home for people with dementia (Oak Lodge); • Level 3 Sexual Health Services; • Substance Misuse Service for Adults; and • Health and Care Related Equipment Service.
8.	This report considers the period from 1 April 2022 to 31 March 2023 and therefore pre-dates work currently being undertaken to ensure all contractual arrangements reflect the Council's current financial position; and where possible cost reduction opportunities are being realised. The impact of this work will be reflected in the Strategic Contract Annual Report for 2023/24.
8.	The future arrangements for a number of the Strategic Contracts and the associated services referred to within this report form part of the Strategic Procurement Programme (SPP). Governance Committee are reviewing a report concerning the SPP at the 13 November 2023 meeting.
RESOURCE IMPLICATIONS	
<u>Capital/Revenue</u>	
9.	N/A
<u>Property/Other</u>	
10.	N/A
LEGAL IMPLICATIONS	
<u>Statutory power to undertake proposals in the report:</u>	
11.	s.111 Local Government Act 1972
<u>Other Legal Implications:</u>	
12.	N/A
RISK MANAGEMENT IMPLICATIONS	
13.	N/A
POLICY FRAMEWORK IMPLICATIONS	
14.	N/A
KEY DECISION?	N/A
WARDS/COMMUNITIES AFFECTED:	Not Applicable
<u>SUPPORTING DOCUMENTATION</u>	
Appendices	
1.	SMS Strategic Contracts Annual Report 2022_2023
2.	ICU Strategic Contracts Annual Report 2022_2023
Documents In Members' Rooms	
1.	N/A
Equality Impact Assessment	
Do the implications/subject of the report require an Equality and	No

Safety Impact Assessment (ESIA) to be carried out.		
Data Protection Impact Assessment		
Do the implications/subject of the report require a Data Protection Impact Assessment (DPIA) to be carried out.		No
Other Background Documents		
Other Background documents available for inspection at: N/A		
Title of Background Paper(s)	Relevant Paragraph of the Access to Information Procedure Rules / Schedule 12A allowing document to be Exempt/Confidential (if applicable)	

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