

# Audit Committee

Monday, 29th July, 2024  
at 5.00 pm

## PLEASE NOTE TIME OF MEETING

Council Chamber

This meeting is open to the public

### Members of the Committee

Councillor M Bunday  
Councillor Chapman  
Councillor Evemy  
Councillor Leggett (Chair)  
Councillor Powell-Vaughan

### Contacts

Director of Governance, Legal and HR  
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# **PUBLIC INFORMATION**

## **Role of the Audit 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:**

<b>2024</b>	<b>2025</b>
29 July	27 January
30 September	3 February
11 November	7 April
23 December	

## **CONDUCT OF MEETING**

### **Terms of Reference**

The terms of reference of the Audit 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 **APPOINTMENT OF VICE-CHAIR**

To appoint a Vice-Chair for the Municipal Year 2024/25.

### 5 **DRAFT ANNUAL GOVERNANCE STATEMENT 2023-24** (Pages 1 - 26)

Report of the Director of Legal and Governance detailing the draft Annual Governance Statement 2023-24 and the status of the actions on the 2022-23 Annual Governance Statement.

### 6 **DRAFT STATEMENT OF ACCOUNTS 2023/24** (Pages 27 - 30)

Report of the Executive Director Enabling Services & S151 Officer detailing the Draft Statement of Accounts 2023/24

### 7 **REVIEW OF PRUDENTIAL LIMITS AND TREASURY MANAGEMENT OUTTURN 2023/24** (Pages 31 - 68)

Report of the Executive Director Enabling Services detailing the Governance Committee of the Treasury Management activities and performance for 2023/24 against the approved Prudential Indicators for External Debt and Treasury Management.

### 8 **ANNUAL INTERNAL AUDIT OPINION 2023-24** (Pages 69 - 110)

Report of the Chief Internal Auditor detailing the Annual Internal Audit Opinion for the 2022-23 financial year.

Director Legal and Governance

Friday, 19 July, 2024

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# Agenda Item 5

<b>DECISION-MAKER:</b>	<b>AUDIT COMMITTEE</b>
<b>SUBJECT:</b>	<b>Draft ANNUAL GOVERNANCE STATEMENT 2023-24</b>
<b>DATE OF DECISION:</b>	<b>29<sup>th</sup> July 2024</b>
<b>REPORT OF:</b>	<b>DIRECTOR OF LEGAL AND GOVERNANCE</b>

<b><u>CONTACT DETAILS</u></b>			
<b>Executive Director</b>	<b>Title</b>	<b>Executive Director Enabling Services</b>	
	<b>Name:</b>	<b>Mel Creighton</b>	<b>Tel: 023 8083 3825</b>
	<b>E-mail</b>	<b>mel.creighton@southampton.gov.uk</b>	
<b>Author:</b>	<b>Title</b>	<b>Risk &amp; Insurance Manager</b>	
	<b>Name:</b>	<b>Peter Rogers</b>	<b>Tel: 023 8083 2835</b>
	<b>E-mail</b>	<b>peter.rogers@southampton.gov.uk</b>	

## **STATEMENT OF CONFIDENTIALITY**

Not applicable

## **BRIEF SUMMARY**

The Accounts and Audit Regulations require that the Council develop and publish an Annual Governance Statement ('AGS'). The purpose of the AGS, which is published with the Statement of Accounts ('SoA'), is to provide an accurate representation of the corporate governance arrangements in place during the year and to identify any areas where there are significant gaps or where improvements are required.

In accordance with the Chartered Institute of Public Finance and Accountancy ('CIPFA') guidance, Audit Committees should be provided with early sight of a draft of the AGS noting that the final version will be signed as part of the SoA.

## **RECOMMENDATIONS:**

	(i)	To review the draft 2023-24 AGS (Appendix 1)
	(ii)	To note the status of the agreed actions from the draft 2022-23 AGS (Appendix 3)

## **REASONS FOR REPORT RECOMMENDATIONS**

1.	<p>In accordance with the terms of reference the Audit Committee is:</p> <p>'To provide independent assurance on the adequacy of the risk management framework and the internal control and reporting environment. To oversee financial reporting and annual governance processes leading to the production of the annual governance statement'</p> <p>and</p> <p>'To review the AGS prior to approval and consider whether it properly reflects the risk environment and supporting assurances, taking into account internal audits opinion on the overall adequacy and effectiveness of the council's framework of governance, risk management and control'.</p>
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<b>ALTERNATIVE OPTIONS CONSIDERED AND REJECTED</b>	
2.	No alternative options have been considered as the development and publication of an AGS is a requirement under the Accounts and Audit Regulations.
<b>DETAIL (Including consultation carried out)</b>	
3.	Regulation 6 (1) of the Accounts and Audit (England) Regulations 2015 requires that the relevant body must conduct a review at least once a year of the effectiveness of its system of internal control and to prepare a statement on internal control in accordance with proper practices.
4.	The purpose of the AGS, which is published with the SoA, is to provide an accurate representation of the corporate governance arrangements in place during the year and to identify any significant governance issues occurring during the year, or from the review, and to provide a commitment to address those matters.
5.	The AGS is produced following a review of the council's governance arrangements which is summarised in 'Appendix 2 – AGS Assurance Gathering and Actions'. The process to support development of the 2023-24 AGS was unchanged from the previous year noting that the external auditors review the AGS for completeness of disclosures, consistency with other information from their work, and whether it complies with relevant guidance.
6.	As per Appendix 2, the key elements of the assurance gathering process comprise completion of an 'Assurance Framework' document (based on Delivering Good Governance in Local Government Framework [CIPFA/Solace, 2016] Guidance Notes) together with 'AGS - Self Assessment Statements'. Both documents cover the key processes and systems that comprise the council's governance arrangements and are intended to identify any areas where improvement or further development is required. In respect of the latter, these are completed by Heads of Service with Executive Director sign off.
7.	The self-assessment returns were subsequently collated and analysed with a summary report for each area shared with the respective Executive Director. This recognises that the process of preparing the governance statement should add value to the effectiveness of the corporate governance and internal control framework.
8.	The draft AGS has been developed by the council's 'Controls Assurance Management Group' which comprises the Executive Director Enabling Services (Section 151 Officer), the Director of Legal and Governance (Monitoring Officer) and the Chief Internal Auditor. This Group reflects CIPFA/Solace guidance whereby "authorities should nominate an individual or group with appropriate knowledge, expertise and levels of seniority to evaluate the assurances and supporting evidence provided and draft the AGS"
9.	The draft 2023-24 AGS was reviewed by the Management Board on 21 <sup>st</sup> May 2024, with an updated version being reviewed on 2 <sup>nd</sup> July 2024.
10.	Although the AGS covers the period from 1st April to 31st March it is a requirement that the AGS is current at the time of publication. The AGS will therefore remain in draft and continue to be updated to ensure that it is current at the point that it is able to be signed off by the Leader of the



	Council and the Chief Executive together with the 2023-23 SoA. Prior to this the Audit Committee will be presented with the final version of the AGS for approval.
11.	The council is working with the external auditors toward getting the 2023-24 SoA (and the AGS) signed off by the end of September 2024 however, the backstop date consulted on by government was 31 May 2025 for the 2023-24 accounts.
12.	Appendix 3 is a summary of the status of the agreed actions arising from the 2022-23 draft AGS, noting that the year-end audit of the 2022-23 accounts has still not been completed which reflects a national backlog of open audits relating to earlier years. In February 2024, the Government consulted on imposing a backstop date of September 2024 for the completion of open audits relating to 2022/23 or earlier years. The proposed changes would require auditors to issue an opinion by the backstop date, which would be a disclaimed opinion if the audit has not been completed however, legislation to enact these changes was not passed before Parliament was dissolved for the General Election.

### RESOURCE IMPLICATIONS

#### Capital/Revenue

None

#### Property/Other

None

### LEGAL IMPLICATIONS

#### Statutory power to undertake proposals in the report:

Regulation 6 (1) of the Accounts and Audit (England) Regulations 2015 require that the Council must each financial year conduct a review of the effectiveness of the system of internal control and prepare an AGS for approval by a committee or members of the authority meeting as a whole. The AGS must be approved in advance of the relevant authority approving the SoA.

#### Other Legal Implications:

None

### RISK MANAGEMENT IMPLICATIONS

The internal control framework and overall governance arrangements support the management of both operational and strategic risks.

### POLICY FRAMEWORK IMPLICATIONS

None

<b>KEY DECISION?</b>	<b>No</b>
<b>WARDS/COMMUNITIES AFFECTED:</b>	Not applicable
<u>SUPPORTING DOCUMENTATION</u>	
<b>Appendices</b>	

1.	Draft Annual Governance Statement 2023-24
2.	AGS Assurance Gathering and Actions
3.	Summary of the status of the agreed actions from the draft 2022-23 AGS

**Documents In Members' Rooms**

1.	Not applicable
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**Equality Impact Assessment**

<b>Do the implications/subject of the report require an Equality and Safety Impact Assessment (ESIA) to be carried out.</b>	<b>No</b>
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**Data Protection Impact Assessment**

<b>Do the implications/subject of the report require a Data Protection Impact Assessment (DPIA) to be carried out.</b>	<b>No</b>
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**Other Background Documents**

**Other Background documents available for inspection at:**

<b>Title of Background Paper(s)</b>	<b>Relevant Paragraph of the Access to Information Procedure Rules / Schedule 12A allowing document to be Exempt/Confidential (if applicable)</b>
1.	Not applicable

1.	Not applicable
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### Annual Governance Statement

#### SCOPE OF RESPONSIBILITY

Southampton City Council (“the council”) is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently, and effectively. The council also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency, and effectiveness.

In discharging this overall responsibility, the council is responsible for putting in place proper arrangements for the governance of its affairs, and facilitating the effective exercise of its functions, which includes arrangements for the management of risk.

The council has approved and adopted a Code of Corporate Governance that is consistent with the principles of the ‘Delivering Good Governance in Local Government: Framework (CIPFA/Solace, 2016). A copy of the code is on our website at:

<http://www.southampton.gov.uk/council-democracy/corp-governance/>

or can be obtained from the:

Director of Legal and Governance  
Southampton City Council  
Civic Centre  
Southampton  
SO14 7LY

This statement explains how the council has complied with the local code and meets the requirements of the Accounts and Audit (England) Regulations 2015, Regulation 6(1), which requires all relevant bodies to prepare an annual governance statement.

#### THE PURPOSE OF THE GOVERNANCE FRAMEWORK

The governance framework comprises the systems and processes, cultures, and values by which the council is directed and controlled and its activities through which it accounts to, engages with, and leads its communities. To demonstrate compliance with the principles of good corporate governance, the council must ensure that:

- it does the right things;
- in the right way;
- for the right people; and
- in a timely, inclusive, open, honest, and accountable manner.

Good governance is crucial as it leads to good management, good performance, good stewardship of public money, good public engagement and ultimately good outcomes for citizens and service users. Further, good governance enables an authority to pursue its aims effectively whilst controlling and managing risk. Delivering good governance is a process of continuous review and improvement.

The system of internal control is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the council's policies, aims and

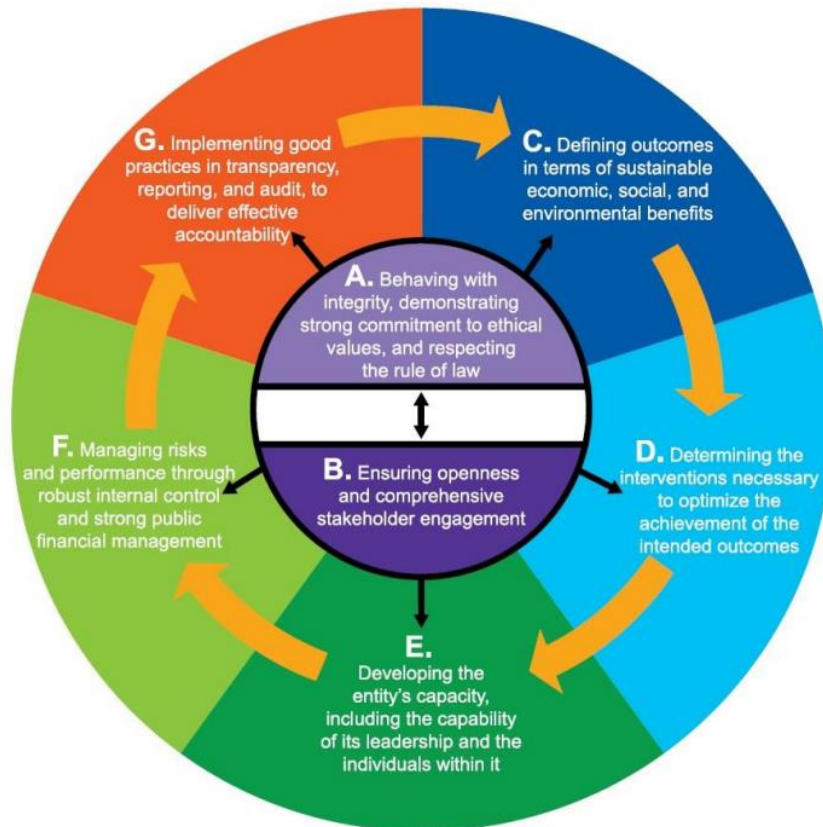
# Annual Governance Statement

objectives, to evaluate the likelihood and potential impact of those risks being realised, and to manage them efficiently, effectively, and economically.

The governance framework has been in place at the council for the year ended 31st March 2024 and up to the date of approval of the statement of accounts.

## The Governance Framework

The diagram below, taken from the International Framework: Good Governance in the Public Sector, illustrates the various principles of good governance in the public sector and how they relate to each other.

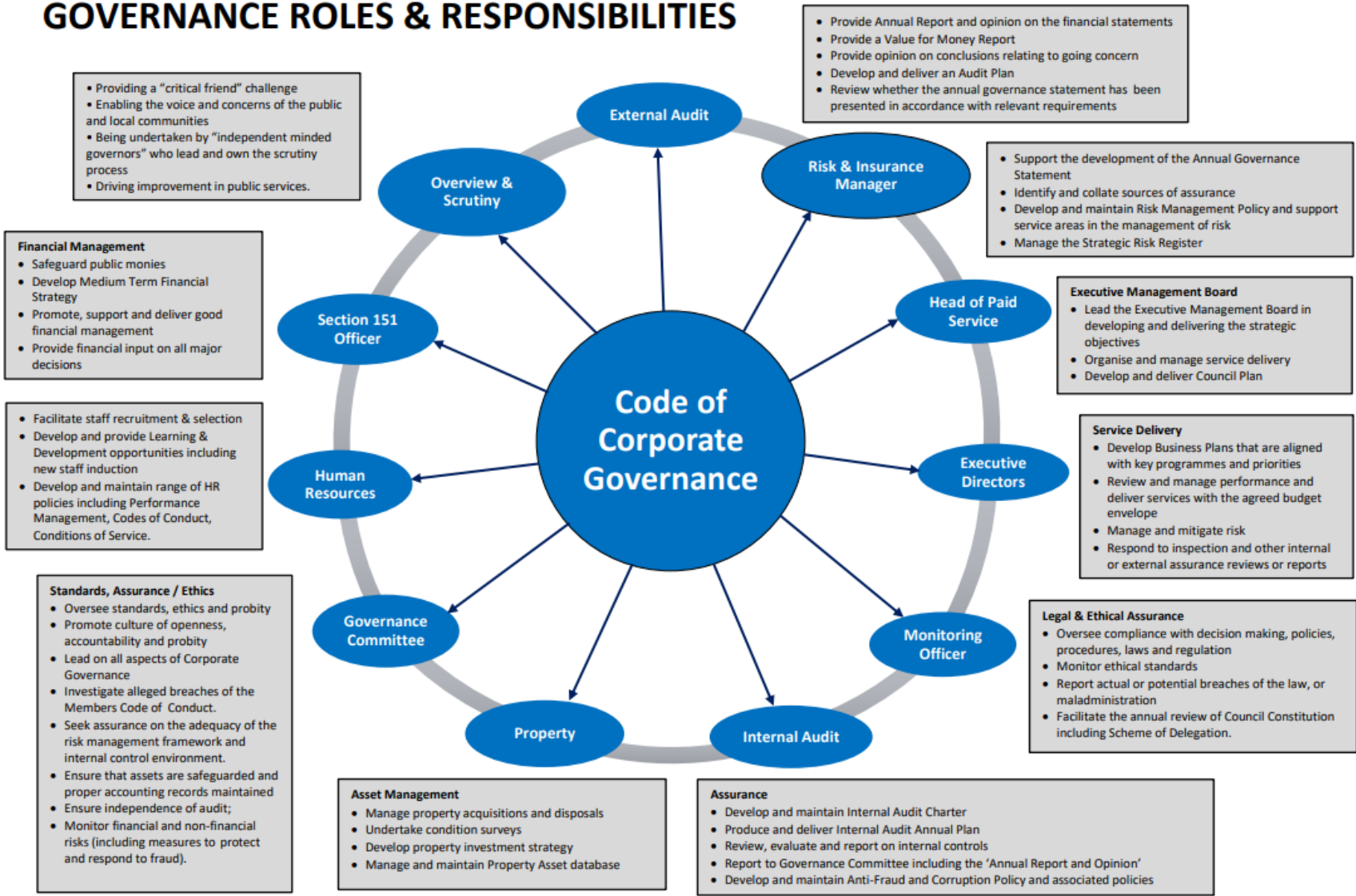


The fundamental function of good governance is to ensure that the council achieves its intended outcomes while acting in the public interest at all times. The core, high level, principles in Sections A to G reflect the 7 core principles of good governance in the public sector are derived from the 'Delivering Good Governance in Local Government: Framework (CIPFA/Solace, 2016)'.

The council's governance framework comprises:

- A suite of governance and strategic policies and documents;
- Its systems and processes of governance;
- The council's culture and people that direct and control the authority and its activities and through which it engages with the community and other stakeholders.

## GOVERNANCE ROLES & RESPONSIBILITIES



# Annual Governance Statement

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## **Principle A: Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law**

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The council's **Constitution** sets out how the council operates, how decisions are made and the procedures which are followed to ensure that these are efficient, transparent, and accountable to local people. Some of these processes are required by the law, while others are a matter for the council to choose. The Constitution is divided into 15 Articles which set out the basic rules governing the council's business. The Constitution is published on the council's website at:  
<http://www.southampton.gov.uk/council-democracy/meetings/council-constitution.aspx>

The Constitution includes both **Officers' and Members' Codes of Conduct** which set out the expected behaviour and standards to be adhered to. In addition, there is a **Code of Conduct for Employees** which states the standards of conduct and behaviour expected of them in the course of their employment and where this extends into activities and interests outside of work.

The Director of Legal and Governance is the **'Monitoring Officer'** and has responsibility for ensuring compliance with established policies, procedures, laws, and regulations, and reporting any actual or potential breaches of the law, or maladministration, to full Council and/or to Cabinet.

A **'Whistleblowing (Duty to Act) Policy'** is in place and published on the council's website. Whistleblowing is a way for employees to raise reasonably and honestly held concerns they may have about serious matters that could put the council and/or the wider public at risk. Whistleblowing usually involves bringing forward concerns that it is in the public interest to investigate and resolve. Examples are fraud, the giving or taking of bribes, financial malpractice, or practices that might endanger individuals or the environment.

As part of the commitment to safeguard public funds there is an **'Anti-Fraud, Bribery and Corruption Policy'** that applies to any actual or suspected internal or external fraud, bribery, corruption, and dishonest dealing that involve the council and or its Members and staff. It also applies to contractors, suppliers, partners, agents, intermediaries, and service users. The council also has in place an **'Anti-Money Laundering policy'** which sets out the expectations and responsibilities of both officers and Members in respect of preventing criminal activity through money laundering. This policy details the procedures that must be followed (for example reporting of suspicions of money laundering activity) to enable the council and staff to comply with their legal obligations.

The council also participates in the Cabinet Office's **National Fraud Initiative** which is a data matching exercise to assist in the prevention and detection of fraud. The council is required to provide particular sets of data to the Minister for the Cabinet Office for matching for each exercise.

Investigations and special reviews into suspected fraud or irregularities are overseen by an **'Investigation Steering Panel'**, comprising the Monitoring Officer, Chief Internal Auditor and the Section 151 Officer (Executive Director of Corporate Services).

The council takes any complaint that it receives seriously and has processes to ensure that every complaint is dealt with fairly and investigated and responded to as quickly as possible. The council welcomes hearing customers' comments, compliments, and complaints to better understand how they view our services and use these valuable opportunities to learn and improve for the future. There is a **'Corporate Services and Adult Social Care Complaints Policy'** that is published on the council's website and explains how to make a complaint and how it will be dealt with. There is also a separate 'Children's Services Complaint Procedure' which is also published on the council's website. Complaints relating to the conduct of Members are dealt with under the **Members' Code of Conduct**.

In addition, a "paper" complaints form is made available at "in person" contact points e.g. Libraries and Housing Offices etc, to make complaints, compliments and comments accessible to those without internet access.

# Annual Governance Statement

On an annual basis the Director of Legal and Governance presents a report to the council's Governance Committee on 'Local Government and Social Care Ombudsman Complaints' and a separate 'Annual Review of Complaints' report.

The council's '**Social Value and Green City Procurement Policy**' aims to ensure that Council's suppliers, bidders and other stakeholders are aware of the Council's commitment to long-term social, ethical, environmental and economic sustainability and how they are expected and required to contribute.

The council also has in place a **Modern Slavery and Human Trafficking Statement** which sets out the Council's current position and future plans to understand all potential modern slavery risks related to its business and to put in place steps that are aimed at ensuring that there is no slavery or human trafficking in its own business and/or in its supply chains. In addition, Modern slavery and human trafficking is included within the council's safeguarding training for children and adults as well as there being e-learning training and associated guidance available to all staff.

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## **Principle B. Ensuring openness and comprehensive stakeholder engagement**

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The council supports the principle that people should have the opportunity to voice their opinions on issues that affect them. The views of customers are at the heart of the council's service delivery arrangements and are actively sought. The **council's website includes a 'Have your say' section** which provides information to residents, customers, and other stakeholders on how they can 'have their say' on various issues, including via:

- Consultations
- Surveys and research
- E-Petitions
- Comments, compliments and complaints
- Have your say at meetings.

Southampton City Council runs a broad **city survey** every few years to collect resident views on a range of topics. It provides an opportunity to get views of a representative sample of Southampton residents on key / priority issues and to gain better understanding of perceptions on how we are doing as a council and as a city. **Surveys have been conducted in 2014, 2016, 2018 and 2020.** Each year a set of common Local Government Association (LGA) questions are included, which allows Southampton to be benchmarked against the national average and for trends to be tracked over time, as well as questions relating to emerging priority areas. The latest survey ran between October 2020 and December 2020 and included questions on:

- Opinion on the local area
- Opinion on Council and other public services
- Communications and Digital exclusion
- Employment
- Transport
- Wellbeing

The results from the 2020 Southampton City Survey, together with past reports, can be downloaded from the Southampton Data Observatory. **The next City Survey is planned for later in 2024.**

The council has in place a '**People's Panel**', which is open to any resident over the age of 18 to join, and comprises a group of residents who take part in surveys and other opportunities to express their views on council services, health services and living in the city and provides an opportunity to influence how services are delivered, highlight issues, and help shape public services in the community. Run by Southampton City Council, and with support from the University of Southampton, the People's Panel



# Annual Governance Statement

has been active since 2015 and the results from our surveys have been used to inform a number of decisions and service changes. To understand the demographic makeup of People's Panel, members are asked questions like age, gender, ethnicity, and this information may be used to target engagement activities to certain groups in the city. On all wider engagement and consultation exercises, the demographic breakdown of respondents is reviewed to help ensure they are representative of Southampton residents and to identify where further targeted communications may be appropriate.

There is a strong focus on children and young people in the city, and in 2022, Southampton City Council started working with UNICEF UK to become a **Child Friendly City**. The programme aims to create cities and communities in the UK where all children – whether they are living in care, using a children's centre, or simply visiting their local library – have a meaningful say in, and truly benefit from, the local decisions, services and spaces that shape their lives.

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## Principle C. Defining outcomes in terms of sustainable economic, social, and environmental benefits

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The council has in place a **2022-30 Corporate Plan** which sets out the council's direction for the next eight years and shows how it will play its part in fulfilling the city's huge potential. The Corporate Plan articulates the organisational vision, goals and areas of focus of the Council over the next eight years and aligns to other key strategies across the Council such as Health and Wellbeing, Safe City Partnership, Economic and Green Growth and Children and Young People and supports key internal strategies.

The **Corporate Plan was updated in March 2024** to reflect the financial pressures facing the council and the strategy to achieve financial stability through transformation and economic growth. The core goals within the Corporate Plan have been reviewed and refined, with outcomes that focus on improving the lives of residents and growing the economic and health prosperity of our city. Strategic objectives have been developed that provide more specifics around areas of focus to make that step-change, and the business planning framework will ensure the work of all areas of the council are aligned to the achievement of these objectives, outcomes, and goals.





# Annual Governance Statement

As part of this update the **employee values** were also reviewed and have been evolved to reflect how individuals and service areas work best together in challenging times of great opportunity.



A **Corporate Performance Framework** is in place, and being further developed to ensure that there is the right overview of performance across the organisation. As part of this, a regular Key Performance Indicator (KPI) report is to be developed to ensure council performance is aligned with the Corporate Plan and demonstrate progress towards achieving the outcomes and objectives. These reports will be shared and discussed within the council regularly to ensure that progress is being made and updates will also be provided on the council's website.

There are also other key strategies that reflect the vision and ambition of both the city and wider region, including the **Southampton City Strategy** (2015-2025) which is a partnership strategy that sets out the vision for the whole city. The strategy was developed in partnership with representatives from business, the public, voluntary and education sectors and the City Council. The City Strategy identifies three key priorities:

- Economic Growth with social responsibility;
- Skills and Employment; and
- Healthier and safer communities.

At a sub-regional level there is a triumvirate of key strategic organisations, the **Partnership for South Hampshire ('PFSH')**, the **Solent Local Enterprise Partnership ('LEP')** and **Solent Transport**, that manage the policy agenda in the sub-region.

The **PfSH** is a partnership of twelve local authorities around the Solent, including Southampton City Council, that aims to improve the environmental, cultural, and economic performance of the South Hampshire area. The PfSH brings the partner organisations together at both a political and managerial level with a 2021-2025 Business Plan that sets out the focus of its' work. The PfSH is focused on supporting economic growth, delivery of housing and the infrastructure to achieve this in a sustainable manner, and to maintain and enhance the quality of the environment. The PfSH work will be a key element in developing statutory planning policy for the city by [a] demonstrating at a strategic level that the 'duty to cooperate' requirements are being achieved and [b] in helping to identify how housing growth and related infrastructure can be delivered to meet the needs of the city within a sub-regional context. The PfSH engages with a range of other local organisations, stakeholders, and Government to achieve these aims.

**Local Enterprise Partnerships (LEPs)** are non-statutory bodies that were created to promote economic growth and job creation. They are business led partnerships with additional representatives from local authorities, as well as academic and voluntary institutions. The Solent LEP was established in 2010-11 with the board s drawn from the area's key business, universities, the further education sector, and local authorities. In August 2023 the Government issued a letter confirming their support for Upper Tier Local Authorities ('UTLAs') to take on the functions currently delivered by LEPs and made it clear that they will no longer fund LEPs with core funding from April 2024.

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The Government requested that UTLAs submit an integration plan on or before the 30 November 2023, for the integration of LEP functions. The three Solent UTLAs, Southampton, Portsmouth, and the Isle

of Wight, submitted an integration plan and have determined to form a partnership to deploy the devolved responsibilities of the Solent LEP. The Solent LEP has confirmed that they intend to cease operating as soon as possible after 31st March 2024 and have set up an alternative company, Solent Partners, with aspirations to continue to support the economic development agenda in the Solent.

**Solent Transport** is a sub-regional transport partnership that comprises Portsmouth, Southampton, the Isle of Wight, and Hampshire County Council. Solent Transport and its partner bodies are important members of Transport for the South East. The partnership creates a platform for joint working, standards and partnership leading to innovation, excellence, and parity in transport provision across the Solent Transport area. The partnership works strategically with private industry, key stakeholders, and other agencies to deliver transport infrastructure, networks, and systems crucial to keep the region moving and generate economic growth, wealth, and sustainability.

In July 2021, Government invited expressions of interest from Local Authorities who were interested in progressing **dialogue over devolution of powers through a 'County Deal'** approach. Hampshire County Council unilaterally submitted their prospectus for a County Deal to Government in October 2022. Subsequent discussions between Government officials and Chief Executives of the upper tier authorities took place, but it would require a substantial amount of work, if any deal was able to progress, with geography and governance remaining as critical issues.

Southampton Council is a Member of the **Solent Freeport consortium**. The Solent Freeport will encompass Southampton and Portsmouth, as well as areas of the New Forest, Isle of Wight, and southern Hampshire. Freeports are an important Government programme that are expected to play an important part in the UK's post-Covid and post-Brexit economic recovery, boosting the local economy and creating additional local jobs. Freeport status means that normal tax and customs rules do not apply and varying forms of tariff flexibility, tax measures and planning concessions deployed by the Government should help to incentivize private sector investment.

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## **Principle D. Determining the interventions necessary to optimise the achievement of the intended outcomes**

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The council has in place a robust **decision-making process** that clearly sets out the actions and accountability in terms of when, how and by whom decisions are taken and where responsibility for decisions making rests. All decision reports are required to be submitted using a standard report template which identifies the 'Decision Maker', the decision or action required, why it is recommended, alternative options considered together with a 'Detail' (including Consultation carried out) section. The template also includes separate sections detailing any Financial/Resource, Legal, Risk and Policy implications. Where appropriate these comment on how proposals will be paid for, the statutory power to undertake the action and/or relevant legislation that affect the proposals, any significant risks associated with the decision that need to be considered and confirmation that the proposals are in accordance with the council's approved Policy Framework. Report authors are required to consult with relevant departments as part of the preparation and development of a report. This will always include Democratic Support, Corporate Legal and Finance but may also include Property, IT etc if the proposals within the draft report are relevant to these areas. All decision reports are signed off by the relevant Executive Director and Cabinet Member.

The council's **Overview and Scrutiny Management Committee** ("OSMC") manages the council's overview and scrutiny process which includes scrutinising items on the council's Forward Plan and exercising the power to call-in executive decisions, agreeing the scrutiny inquiry programme and monitoring performance and budgets, Scrutiny provides the role of the "critical friend" to the decision makers and assists in policy development, drives improvement in public services and enables the voice

# Annual Governance Statement

of the public to be heard. There are a number of Scrutiny Panels that support the work of the Executive and the council as a whole. The **Scrutiny Inquiry Panel** carries out a work programme of scrutiny inquiries approved by the OSMC. In addition, the **Health Overview and Scrutiny Panel** undertakes the statutory scrutiny of health and adult social care agencies in Southampton, and the **Children and Families Scrutiny Panel** scrutinises services for children and families in the city, including education.

In 2022 the Council, through the Local Government Association (LGA), commissioned the **Centre for Governance and Scrutiny (CfGS) to undertake an informal peer review** to assist the council to consider how it might enhance its approach to governance and decision-making. The CfGS is a nationally recognised charity which supports local authorities to ensure sound governance practices are in place and is an independent body and this work was undertaken at no cost to the council. In particular the review considered and commented on:

- The consistency of decision-making systems
- The speed of those systems
- Clarity in who leads on, and makes, decisions
- Checks and balances with regard to the above
- The expectations of both members and officers with regard to the above

The review was based on a range of interviews with members and officers, detailed examination of a very small number of decisions, supplemented by a more general review of Cabinet and scrutiny committee papers, the Forward Plan and other relevant material. A final draft report was presented in the Summer 2022 for consideration and initial thoughts and observations. The CfGS reflected on those responses and produced the final report in September 2022 which was subsequently presented to the council's Governance Committee in November 2022. Following that, a 10-point Action Plan was agreed by Governance Committee in November 2022 and incrementally implemented in 2023.

The CfGS carried out a follow up review in Winter 2023. The significant (and ongoing developmental) actions in respect of improved report writing and consistency of approach to formal decision making including specifically ESAs (impact assessments) were to be progressed through externally facilitated workshops by CfGS and the LGA. Unfortunately these had to be deferred due to CfGS's work programme being refocussed to support other authorities, but are being planned for Autumn 2024.

Additionally, a more fundamental review of both corporate governance and the Constitution is scheduled for the second half of the year,

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## **Principle E. Developing the entity's capacity, including the capability of its leadership and the individuals within it**

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The council has had a new **People Strategy** in place since the beginning of 2023, called '**Our People**' that aims to create an organisation where people can be the best of themselves, grow and do their finest work, making Southampton a city of opportunity. Our People sets out a high-level vision, priorities, desired outcomes, with an action plan to drive this forward.

Our People strategy sits alongside both the Medium-Term Financial Strategy and the Customer Strategy and takes account of challenges in relation to the overall council budget. It is used to inform resource allocation decisions, organisational development, and drive positive change and the delivery of agreed outcomes.

The council has in place leadership development modules for senior leaders intended to allow them to learn, and share insights and expertise based on the following development areas:

- Continuous Improvement
- Creativity, Innovation and Commercial Mindset/Entrepreneurial
- Cultural Change
- Leading Change

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- Making Difficult Decisions
- Performance Management

There are also learning modules and programmes in place aimed at people new to line managing others, existing team leaders, and managers up to middle managers. These are based on the council's core values and built around the leadership competencies with one of the modules being 'Ethics and Values' which explores the seven principles of public life and the values and behaviours that underpin these.

In respect of Elected Members, a revised internal **Member Induction and Development programme** was delivered that offered a suite of learning and development opportunities via targeted service focused sessions or via a monthly briefing programme. Alongside the internal offer, a range of externally delivered training events and courses were delivered by the 'Local Government Association and South East Employers. These opportunities ranged from 'being a new councillor', supported skill development such as chairing meetings, to portfolio based learning and leadership development training. The LGA have also offered coaching programmes for newly elected Cabinet Members. Members are asked for feedback on the programme and their feedback is incorporated as part of the annual review and refresh to ensure we continuing of offer a comprehensive and wide ranging suite of learning and development opportunities to support all members.

The council also has in place a **Workplace Equalities Policy** which reflects the council's long-standing commitment towards the elimination of discrimination and the achievement of equality of outcomes for residents, communities and staff as reflected in our published priorities and organisational values. The policy reaffirms the council's commitment to eliminate discrimination in all that we do and help achieve equality of opportunity and outcomes for our staff and the communities it serves.

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## **Principle F. Managing risk and performance through robust internal control and strong public financial management**

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The council's **Governance Committee** has responsibility to provide independent assurance on the adequacy of the risk management framework and the internal control and reporting environment and the integrity of the financial reporting and annual governance statement process. The Governance Committee undertakes the core functions of an audit committee and operates in accordance with the Chartered Institute of Public Finance and Accountancy ('CIPFA') guidance. The Committee receives a range of periodic reports relating to both the internal control environment and financial management, including receiving the draft Statement of Accounts.

Risk management is an essential component of the Council's overall governance and internal control arrangements and provides the framework and processes to enable the council to manage risk in a systematic, consistent and efficient way. The council has in place a **Risk Management Policy 2022-25** which is intended to assist officers, at all levels, in applying sound risk management principles, practices and judgement across their areas of responsibility. It is also relevant to Members in their capacity as 'decision takers' and the Governance Committee in respect of its responsibility for overseeing the Council's risk management processes and arrangements

The Governance Committee receives an **Annual Risk Management report** that summarises the framework and arrangements that the council has in place to manage risk and is intended to provide the Committee with both information and assurance regarding how risk is managed. The report also provides information on the key risk management activities and initiatives undertaken in the year and those planned for the next 12 months.

A key element of the council's risk management framework is the council's **Strategic Risk Register** which is developed in consultation with Executive Directors. Strategic risks are those risks that are of significant, cross-cutting importance to the council such that they are considered to require the attention and oversight of the council's senior management team. The Strategic Risk Register is updated on a

# Annual Governance Statement

quarterly basis with a report presented to the council's Executive Management Board. The report identifies how the individual risks are being managed together with an assessment of the effectiveness of the arrangements in place. An 'exceptions report' identifies any gaps or weaknesses with a requirement that further mitigating actions be developed and actioned as necessary.

In addition to the council's Strategic Risks, it is recognised there are other significant risks within individual directorates relating to the services, actions or activities being delivered or undertaken. During 2023 the council's Executive Management Board agreed that **Directorate Risk Registers** should be developed to capture those significant risks within the service areas that may not be considered as cross-cutting or of be of such significance that they would be considered a 'strategic risk'. The risks captured in a 'Directorate Risk Register' would be typically be aligned with the Service Business Plan in terms of the potential impact on the delivery of the key service priorities and objectives.

Effective financial management is key to managing the delivery of council services. The council's **Medium Term Financial Strategy ('MTFS')** provides the strategic financial framework and forward-looking approach to financial planning for the council and is central to the delivery of the council's priorities in an affordable and sustainable way over the medium term. It aids robust and methodical planning as it forecasts the council's financial position, taking account of known pressures, major issues affecting the council's finances, external economic influences, local factors and helps the council to plan for these to pressures and issues so far as these can be seen and assessed. This is particularly important during a period when the council faces considerable pressures and challenges. The MTFS recognises the key role that financial resources play in the future delivery of priorities and in enabling the effective planning, management, and delivery of services.

Against a backdrop of a challenging economic climate, the council is facing significant pressures however it is focused on right sizing its expenditure and budgets to meet the resources available whilst delivering on the Corporate Plan. There is full recognition of the financial situation and a new **Financial Strategy** was developed and implemented during 2023/24, and is for 2024/25 onwards, which aims to balance the council's finances in the medium term.

When the 2023/24 budget was agreed it was evident the council faced significant and serious budget challenges with a heavy reliance on reserves. As a result of this the **Chartered Institute of Public Finance and Accountancy (CIPFA)** were engaged in the Spring of 2023 to review the financial management and the financial resilience of the organisation, and later in the year to conduct a review of forecasts to provide external validation. CIPFA's report highlighted the reliance on reserves to meet gaps in the council's budget. This has led to balanced budgets being achieved but has eroded the council's reserves. CIPFA recommended that a plan to replenish reserves should be put in place, and that the council needed to immediately put in place tight controls over savings delivery, cash limit spending and develop mitigation plans for non-delivery of these. The new financial strategy, which is informed by CIPFA's findings, sets out the following five steps to achieve the aim of stabilising the council's general fund account to create a sustainable council:

1. Review budgets to establish the financial position.
2. Right sizing the budget to ensure there is clarity on affordable expenditure levels.
3. Stabilisation to remove in year overspend and ensure the structural deficit has been addressed and reliance on reserves removed.
4. Sustainable budget to ensure the council is sustainable and able to withstand economic and financial shocks.
5. Purposeful investment – all investment, either revenue or capital, to have a clear purpose and strong business case

A number of recommendations to strengthen the council's financial management arrangements were also made by CIPFA following its review and a '**Financial Management Improvement Plan**' has been developed to address those recommendations.



# Annual Governance Statement

The council made an application to the government for Exceptional Financial Support (EFS) to help balance the 2024/25 budget and provide for other costs and potential liabilities. Confirmation was received in a Ministerial Statement on 29 February 2024 that the government was minded to support the council by providing an EFS facility for 2024/25. The EFS will be in the form of a 'capitalisation direction', which will allow the council to treat revenue costs as capital expenditure and fund these from capital receipts or borrowing. There are two conditions attached to the EFS – firstly, the council must produce a Transformation and Improvement Plan and secondly, the government will commission an External Assurance Review on the council's use of EFS and progress in its plans to close the structural budget deficit in 2025/26 and beyond.

An **Improvement Board** was established in 2023 with external subject matter experts providing critical challenge and overseeing the progress to a sustainable budget.

The council's financial management arrangements conform to the governance requirements of the CIPFA '**Statement on the Role of the Chief Financial Officer**' ("CFO") in Local Government. The Executive Director of Corporate Services (Section 151 Officer and CFO) is professionally qualified and is a key member of the Executive Management Board and reports directly to the Chief Executive. The CFO is actively involved in, and able to bring influence to bear on, all material business decisions to ensure immediate and longer-term implications, opportunities and risks are fully considered, and also alignment with the council's overall financial strategy. The CFO is also responsible for leading, directing and ensuring that the finance function is fit for purpose.

During 2023/24 a **revised business planning framework** was drafted which aligns all business planning activity to strategic objectives, savings proposals and change activity, enabling both short-term challenges and longer-term goals to be addressed. Due to the council's challenging financial position, the focus in 2023/24 was on ensuring that savings proposals were identified, and cash limited budgets achieved however service level business plans, using the revised framework, will be in place in 2024/25.

All significant **commercial partnership working arrangements** also have a range of performance indicators which are used to monitor, verify, and manage service performance as well as separate arrangements in respect of monitoring and assessing financial risk. The council is committed to achieving best value from its procurement activities and contracts and ensuring that goods, services, and works are procured, and contract managed in the most efficient and effective way throughout the lifecycle of the contract. Regular review meetings are held with key suppliers to ensure that contracts remain fit for purpose. Contract Management Teams in the Supplier Management Team and the Integrated Commissioning Unit support the council in managing contracts throughout the lifecycle of the contract and provide senior management interfaces between the council and our service providers.

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## **Principle G. Implementing good practices in transparency, reporting and audit, to deliver effective accountability**

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The council is committed to openness and transparency and publishing as much council data as it can in order to increase accountability. The '**Council Data**' page on the council's website allows the public to access a wide range of information and data that is published in accordance with the Local Government Transparency Code (2015).

The council's **Constitution sets out how decisions are made** and makes specific reference to decision making by Full Council, by the Executive (Cabinet), by Overview and Scrutiny Committees, other committees and sub-committees established by the council and by council bodies acting as tribunals. The Constitution also includes an Officer Scheme of Delegation which sets out the powers and functions that are delegated to named Council Officers. The compilation of a Register of Delegated Powers is a statutory requirement and is maintained by the Director of Legal and Governance.

# Annual Governance Statement

The council produces a **Forward Plan of all Key Decisions** which are proposed to be taken within the next four months (updated monthly 28 clear days prior to scheduled Cabinet meetings on a rolling basis). Other decisions are also included where practicable to assist in providing public transparency and confidence in decision making. All agendas and minutes of meetings in respect of Council, Cabinet, Overview and Scrutiny, Non-Executive Committees and statutory boards and are published on the council's website.

The council's assurance arrangements conform to the governance requirements of the CIPFA statement on '**The Role of the Head of Internal Audit in Public Service Organisations** (2019 Edition)'. This is aligned with the Public Sector Internal Audit Standards and is embedded in the Internal Audit Charter & Code of Ethics. The Head of Internal Audit (Chief Internal Auditor) is professionally qualified and is responsible for reviewing and reporting on the adequacy of the council's internal control environment.

The Chief Internal Auditor has direct access to the Chief Executive, and to the council's Monitoring Officer where matters arise relating to Chief Executive responsibility, legality, and standards. Where it is considered necessary to the proper discharge of internal audit function, the Chief Internal Auditor has direct access to elected Members of the Council and, in particular, those who serve on committees charged with governance (e.g. the Governance Committee).

## REVIEW OF EFFECTIVENESS

The council has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control. The review of effectiveness is led by a 'Controls Assurance Management Group' comprising the Executive Director Corporate Services (Section 151 Officer), Chair of the Governance Committee, Director of Legal and Governance, and the Chief Internal Auditor.

The review process, applied in respect of maintaining and reviewing the effectiveness of the system of internal control, is informed by: -

- The views of Internal Audit regularly reported to Governance Committee via periodic 'Internal Audit: Progress Reports' which include executive summaries of new reviews undertaken in the period and noting that any audits rated as 'No Assurance' are specifically highlighted to the Governance Committee along with any Director's comments. The Committee is able to request any director attends a meeting to discuss the issues.
- The views of external auditors, reported to the Governance Committee, including the Audit Planning report, the Annual Audit Letter, the Audit Results Report, and the Auditor's Annual Report.
- The Chief Internal Auditors 'Annual Report and Opinion' for 2023/24 was that.... **To be reported to the Audit Committee in July [note: the overall assurance level will remain at 'Limited Assurance' with a continuation of the themes referred to last year around emerging strain on the control environment associated with delivery of organisational and transformational change]**
- The Internal Audit Charter and delivery of the annual Internal Audit plan.
- The work of the Chief Executive, Executive Directors and Service Directors who have responsibility for the development and maintenance of the control and governance environment.
- The 'AGS Self-Assessment Statements' completed by Heads of Service and reviewed by the relevant Executive Director. The self-assessments cover the key processes and systems that comprise the council's governance arrangements and are intended to identify any areas where improvement or further development is required.
- Completion of an 'Assurance Framework' document which reflects the key components of the council's overall governance and internal control environment. This document, based on

# Annual Governance Statement

CIPFA/SOLACE guidance, records the key controls in place, and sources of assurance, and identifies any significant gaps or weaknesses in key controls.

- The independent views of regulatory inspection agencies such as Ofsted and the Care Quality Commission and including any external reviews that the council may choose to commission such as the exercise undertaken by the Centre for Governance and Scrutiny or CIPFA
- The Annual Risk Management report that is presented to the Governance Committee.
- The work of the Governance Committee in relation to the discharge of its responsibility to lead on all aspects of corporate governance.

We have been advised on the implications of the result of the review of the effectiveness of the governance framework by the Governance Committee, and that the arrangements continue to be regarded as fit for purpose in accordance with the governance framework. The areas already addressed and those to be specifically addressed with new actions planned are outlined below.

## SIGNIFICANT GOVERNANCE ISSUES

The following significant governance issues have been identified:

### 1. Governance Issue

When the 2023/24 budget was agreed it was evident the council faced significant and serious budget challenges with a heavy reliance on reserves. As a result of this the Chartered Institute of Public Finance and Accountancy (CIPFA) were engaged in the Spring of 2023 to review the financial management and the financial resilience of the organisation and later in the year to conduct a review of forecasts to provide external validation. Despite implementing a new financial strategy and taking actions during the year to reduce net spend including implementing a cost control panel, a balanced budget for 2024/25 was only able to be achieved with Exceptional Financial Support (EFS) from the government. Subject to meeting the conditions attached to the EFS offer, this will allow revenue expenditure to be capitalised in 2024/25 and provide time for the development and implementation of a transformation programme to bring service delivery back within the resources available in future years. The next financial year (2024/25) will be a critical year for the council as it implements measures to restore financial stability and sustainability and addressing the structural budget deficit (circa £40M for 2024-25).

To strengthen the council's financial management arrangements CIPFA made a number of recommendations following its review and a '**Financial Management Improvement Plan**' was subsequently developed and approved.

**Planned Action:** The agreed 'Financial Management Improvement Plan' is implemented in 2024/25 together with delivery of a 'Reshaping Financial Management Project'. These have been established to secure improvements in financial management across the organisation and will be fundamental in terms of supporting effective delivery of the agreed transformation plans in 2024/25 and beyond.

**Responsible Officer:** Director of Finance / Executive Director Enabling Services

**Target date for completion:** End Q4 2024/25

### 2. Governance Issue

One of the conditions attached to the Exceptional Financial Support is that the council must produce a Transformation and Improvement Plan. This will have an impact on the capacity of and reliance on key staff during this period of significant change.



# Annual Governance Statement

**Planned Action:** As the detailed scoping of the transformation and change programme develops the demand on roles across the organisation is being mapped together with an assessment of the overall requirement. Wherever possible and reasonable, resource will be utilised across multiple projects/programmes to maximise capacity. Additional resource will be required and some is already being secured. A prioritisation exercise will be undertaken once the full picture is better understood.

**Responsible Officer:** Director of Strategy and Performance / Transformation Director

**Target date for completion:** End July 2024

## 3. Governance Issue

In 2022 the Council commissioned the Centre for Governance and Scrutiny (CfGS) to undertake an informal peer review to assist the council to consider how it might enhance its approach to governance and decision-making. A 10-point Action Plan arising from their report was formulated and agreed with the actions implemented throughout 2023/24. The significant (and ongoing developmental) actions in respect of improved report writing and consistency of approach to formal decision making including specifically ESIA's (impact assessments) had to be deferred.

**Planned Action:** This action was intended to be addressed via externally facilitated workshops by the CfGS and the LGA however this had to be deferred due to the CfGS's work programme being refocussed to support other authorities. These are now being planned for Autumn 2024.

Additionally, a more fundamental review of both corporate governance and the Constitution is scheduled for the second half of the year.

**Responsible Officer:** Director of Legal and Governance/ Executive Director Enabling Services

**Target date for completion:** Autumn 2024/25

## 4. Governance Issue

Whilst service business continuity arrangements were used in response to Covid such that critical services were maintained and corporate BCP structures worked, they are required to be reviewed periodically to ensure that they remain fit for purpose and reflect current working arrangements and services.

Directorate-level draft Business Continuity plans are being reviewed with support provided by the Emergency Preparedness, Resilience & Response Team ('the EPRR team') to 'Critical Activity Owners' and Service Level Plan owners using new revised templates. Plan owners were expected to publish in Q4 2023-24 however engagement across the authority is inconsistent.

Completion of the plans will also allow IT to understand the requirements/expectations of service areas in respect of critical IT reliant activities.

**Planned Action:** An Executive Level Business Continuity exercise has been planned to identify gaps in plans, at corporate and directorate level, and to test current arrangements. This will focus on strategic response to an IT failure. This exercise was scheduled to take place in Q1 2024/25 but has had to be rescheduled for Q2 2024/25.

In the meantime directorates have been recommended to nominate a designated business continuity lead to support plan reviews and provide consideration of corporate resilience in any service redesign. The EPRR team will continue to provide support and guidance to those designated individuals tasked with updating and refreshing their Service Business Continuity arrangements, with tabletop exercises able to be arranged to support the completion of plans and test current arrangements.

# Annual Governance Statement

The EPPR team will be participating in the Local Resilience Forum's ResilienceDirect Business Continuity exercising and encouraging directorates to support this exercise to further develop their business continuity knowledge and engagement.

Responsible Officer: Head of Emergency Preparedness, Planning & Response / Executive Director Resident Services

**Target date for completion:** Q3 2024/25

## 5. Governance Issue

During 2023-24 it was identified that a reinvigorated business planning approach needed to be designed to better support business and budget planning over the short and medium term and be aligned with the new Corporate Plan.

The revised business planning framework, which aligns strategic objectives, savings proposals and transformation activity to the Corporate Plan and the MTF5, was developed in 2023-24 however the roll out of the new approach was deferred due to the focus being on the significant financial challenge and recognising the need for it to be aligned with the new Financial Strategy.

**Planned Action:** Roll out and embed the new Business Planning process. This will be supported by a cross organisational Business Planning & Performance group which is responsible for appropriate application of the framework and continuity of business planning across SCC, including ensuring that plans are shared across the group and more widely so that each area is fully understood and supported by others. Through the planning process, agreed performance measures will be identified, tracked and reported on at appropriate regularity. The framework approach also addresses risk identification, mitigation and tracking of actions.

**Responsible Officer:** Director of Strategy and Performance

**Target date for completion:** End Q3 2024/25

We propose over the coming year to take steps to address the above matters to further enhance our governance arrangements. We are satisfied that these steps will address the need for improvements that were identified in our review of effectiveness and will monitor their implementation and operation as part of our next annual review.

## Signed

.....  
**Andrew Travers**  
Chief Executive

.....  
**Councillor Lorna Fielker**  
Leader of the Council

on behalf of Southampton City Council

# ANNUAL GOVERNANCE STATEMENT - Assurance Gathering and Actions

## Code of Corporate Governance ('CCG')

### Completed Action – CCG reviewed and updated

The CCG reflects **7 core principles of good governance** identified in the CIPFA / SOLACE framework 'Delivering Good Governance in Local Government':

- A. Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law;
- B. Ensuring openness and comprehensive stakeholder engagement;
- C. Defining outcomes in terms of sustainable economic, social, and environmental benefits;
- D. Determining the interventions necessary to optimise the achievement of the intended outcomes;
- E. Developing the entity's capacity, including the capability of its leadership and the individuals within it;
- F. Managing risks and performance through robust internal control and strong public financial management; and
- G. Implementing good practices in transparency, reporting, and audit to deliver effective accountability.



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## Assurance Framework

Completed Action – Assurance Framework document reviewed and updated, where necessary in consultation with relevant officers across the council.

The Assurance Framework is based on CIPFA guidance and reflects the **7 core principles of good governance**. Document is intended to reflect the overall governance framework and records evidence of the arrangements in place and any gaps.

## AGS Self-Assessments

Completed Action - AGS Self-Assessment completed by Heads of Service covering all service areas with the responses collated, scored and shared with Internal Audit for 'sense checking'.

The AGS Self-Assessment are intended to cover the key areas of internal control and to provide an oversight of the effectiveness of the operational internal control arrangements within service areas across the council.

**Note:** The narrative on the draft AGS and completion of the Assurance Framework document has been based on information and updates from service areas across the organisation including HR & OD, Finance, Marketing & Communications, Programmes & Change, Scrutiny Manager, Strategy and Performance, Transport & Planning, Data Intelligence & Insight, Economic Development & Regeneration, Democratic Services etc.

## Other Sources of Assurance

Including the outcome of Internal Audit and other internal or external reviews undertaken in the period and noting the views of the external auditors.

## Draft 2023-24 Annual Governance Statement

Completed Action - Summary of any identified 'areas for improvement' on the self-assessments collated and issued to relevant Executive Director for review and to support continuous improvement.

Appendix 2

Agenda Item 5

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# Draft 2022-23 Annual Governance Statement

## Significant Governance Issues: Status Report

The following is a summary of the status of the agreed actions that were identified to address the significant governance issues were identified and recorded on the Council's draft Annual Governance Statement 2022-23:

1. Governance Issue		
<p>In 2022 the Council, through the Local Government Association (LGA), commissioned the Centre for Governance and Scrutiny (CfGS) to undertake an informal peer review to assist the council to consider how it might enhance its approach to governance and decision-making. Their final report was presented to the council's Governance Committee in November 2022 and, following that, a 10-point Action Plan was formulated and agreed by political Group Leaders. The action plan is being implemented incrementally over the next 6 months, both pre and post May elections.</p>		
Planned Action:	Status	Comments:
<p>Implementation of the 10-point Action Plan agreed in February 2023 with it being implemented incrementally over the next 6 months, both pre and post May 2023 elections.</p> <p><b>Responsible Officer:</b> Director of Legal and Governance</p>	<p>One action outstanding otherwise completed</p>	<p>CfGS carried out a refresher in Winter 2023 and the one significant (and ongoing developmental) action of improved report writing, consistency of approach to formal decision making including specifically ESIA's (impact assessments) through externally facilitated workshops by CfGS and the LGA had to be deferred due to CfGS's work programme being refocussed to support other authorities. These these are now planned for Autumn 2024.</p> <p>Additionally, a more fundamental review of both corporate governance and the Constitution is scheduled for the second half of the 2024/25.</p>
2. Governance Issue		
<p>As part of the council's strategy to begin to tackle its significant financial challenge it has commissioned the Chartered Institute of Public Finance and Accountancy ('CIPFA') to review the overall financial standing of the council and the processes applied by the authority when managing its resources. This review will focus on actions needed to improve the council's financial resilience and future budget positions. It will also build upon and supplement the work undertaken in 2022-23 in relation to the CIPFA Financial Management ('FM') Code.</p>		
Planned Action:	Status	Comments:
<p>Consideration and implementation of the key actions arising out the CIPFA review to be agreed with Cabinet and reported to Full Council. Actions to be agreed by end July 2023 / Implementation of agreed actions to take place throughout 2023-24 and beyond.</p> <p><b>Responsible Officer:</b> Executive Director of Corporate Services (now the Director of Finance / Executive Director Enabling Services)</p>	<p>Completed</p>	<p>The Chartered Institute of Public Finance and Accountancy (CIPFA) subsequent report was presented to full council and follow-up work commissioned around the robustness of the Medium Term Financial Strategy and to clarify the likely savings requirement and 'road test' it with likely scenarios. CIPFA made a number of recommendations to strengthen the council's financial management arrangements and a 'Financial Management Improvement Plan' was subsequently developed and approved for implementation in 24-25</p>

### 3. Governance Issue

The current service business planning process needs to be refreshed and updated in order to ensure that it better supports business and budget planning, and is aligned with the new Corporate Plan and informs the council's Medium Term Financial Plan.

Planned Action	Status	Comments:
Agree a revised organisational Business Planning approach to better support business and budget planning over the short and medium term, and aligned with the new Corporate Plan  <b>Responsible Officer:</b> Director of Strategy and Performance	Completed	A revised business planning framework was agreed which aligns business plans to the Corporate Plan and the MTFS. This will be rolled out early in the 2024/25 financial year and aligned to City and Corporate Plans going forward. This is supported by a cross organisational Business Planning & Performance group which is responsible for appropriate application of the framework and continuity of business planning across SCC, including ensuring that plans are shared across the group and more widely so that each area is fully understood and supported by others.

### 4. Governance Issue

Although a new 'Talent Management and Succession Planning Strategy', developed in 2022, is now in place it is recognised that there is still a way to go before there are well developed succession plans in place across the council. Currently there is inconsistency in respect of the extent to which succession planning has been formally considered within service areas across the council.

Planned Action	Status	Comments:
The Talent Management and Succession Planning Strategy will be implemented across the organisation with the support of the respective Human Resources and Finance Business Partners, and the Organisational Development Team. Ongoing throughout 2023-24 with updated position reflected in the 2023-24 AGS Self-Assessment returns from Heads of Service (in Q4 2023-24)  <b>Responsible Officer:</b> Head of Human Resources & Organisational Development	Ongoing	The 'Talent Management and Succession Planning Strategy' developed in 2022 and has now been absorbed within the wider 'Our People' Strategy. It is recognised that there is still a way to go before there are well developed succession plans in place across the council. Currently there is inconsistency in respect of the extent to which succession planning has been formally considered within service areas across the council. The 'Our People' action plan will continue to be implemented across the organisation with the support of the respective Human Resources and Finance Business Partners, and the Organisational Development Team, including the introduction of a Succession Planning tool for managers to use. This will be ongoing throughout 2024-25 with updated position reflected in the 2024-25 AGS Self-Assessment returns from Heads of Service (in Q4 2024-25).

### 5. Governance Issue

The council has in place a well-developed Performance and Development Review (PDR) process however there are pockets across the organisation where the process is still not embedded within the service.

The PDR process is also important in that it identifies any learning needs as well as ensuring that required mandatory e-Learning training courses / 'essentials' reading have been completed. The latter 'essentials' include Anti-fraud and corruption strategy, Anti-Money laundering, Bribery Act, Gifts and Hospitality declaration and Whistleblowing.

Planned Action	Status	Comments:
<p>HR to review the returns and advise the relevant Executive Director if there are any significant gaps in terms of PDR returns from Service Areas. Review at End Q2 2023-24 when the 2022-23 PDRs should have all been completed and uploaded onto the HR module within Business World and the new 2023-24 PDRs developed.</p> <p><b>Responsible Officer:</b> Head of Human Resources &amp; Organisational Development</p>	Completed	This was completed on a directorate level basis via HR Business Partners who shared feedback and information and with the respective Directorate Management Team.

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# Agenda Item 6

<b>DECISION-MAKER:</b>		<b>AUDIT COMMITTEE</b>	
<b>SUBJECT:</b>		<b>DRAFT STATEMENT OF ACCOUNTS 2023/24</b>	
<b>DATE OF DECISION:</b>		<b>29 JULY 2024</b>	
<b>REPORT OF:</b>		<b>EXECUTIVE DIRECTOR ENABLING SERVICES &amp; S151 OFFICER</b>	
<b><u>CONTACT DETAILS</u></b>			
<b>Executive Director</b>	<b>Title:</b>	<b>Executive Director Enabling Services &amp; S151 Officer</b>	
	<b>Name:</b>	<b>Mel Creighton</b>	<b>Tel: 023 80833528</b>
	<b>E-mail:</b>	<a href="mailto:Mel.Creighton@southampton.gov.uk">Mel.Creighton@southampton.gov.uk</a>	
<b>Author:</b>	<b>Title:</b>	<b>MTFS &amp; Revenue Manager</b>	
	<b>Name:</b>	<b>Stephanie Skivington</b>	<b>Tel: 023 80832692</b>
	<b>E-mail:</b>	<a href="mailto:Stephanie.Skivington@southampton.gov.uk">Stephanie.Skivington@southampton.gov.uk</a>	

<b>STATEMENT OF CONFIDENTIALITY</b>	
NOT APPLICABLE	
<b>BRIEF SUMMARY</b>	
<p>The draft statement of accounts 2023/24 was signed on 28 May 2024 by the Executive Director Enabling Services &amp; S151 Officer. This is in line with the statutory requirement for the unaudited accounts to be published by 31 May 2024 following sign off by the responsible financial officer, as set out in the Accounts and Audit Regulations 2015. A copy of the draft unaudited statement of accounts is available in the members' room.</p>	
<p>The appointed auditor for the financial years 2023/24 to 2027/28 is Ernst &amp; Young (EY) LLP. EY commenced the 2023/24 year end audit in June 2024 and it is expected to be completed by September 2024.</p>	
<b>RECOMMENDATIONS:</b>	
(i)	Notes that the draft statement of accounts 2023/24 has been signed by the S151 Officer and is now brought to this Committee for comment.
(ii)	Notes that the audited statement of accounts 2023/24 is expected to be presented to the Committee on 30 September 2024 for approval.
<b>REASONS FOR REPORT RECOMMENDATIONS</b>	
1.	It is a legal requirement that the S151 Officer signs the draft statement of accounts by 31 May 2024 and certifies that it presents 'a true and fair view of the financial position of the authority at the end of the year to which it relates and of the authority's income and expenditure for that year'.
2.	The draft statement of accounts has been brought to the July committee in order to give members plenty of opportunity and time to comment on them before final approval, which is expected to take place in September (subject to finalisation of the 2022/23 statement of accounts). It is envisaged that the

	September report will detail any non-trivial amendments made as a result of the audit along with an amended statement of accounts (if necessary). Reports on the 2023/24 revenue and capital outturn positions were presented to Cabinet on 16 July 2024.
<b>ALTERNATIVE OPTIONS CONSIDERED AND REJECTED</b>	
3.	The statement of accounts has been prepared in accordance with statutory requirements. No other options have been considered as it is a legal requirement that the draft statement of accounts is prepared and signed by the S151 Officer no later than 31 May 2024.
<b>DETAIL (Including consultation carried out)</b>	
	<b>CONSULTATION</b>
4.	Not applicable.
	<b>STATUTORY TIMETABLE</b>
5.	The Accounts and Audit Regulations 2015 require the 30 working day period for the exercise of public rights for the statement of accounts to include the first 10 working days of June. This period is treated as being commenced on the day following the day on which the draft statement of accounts is published, which effectively means the draft accounts must be signed off by the responsible finance officer and published by 31 May.
6.	The Accounts and Audit (Amendment) Regulations 2022 extended the deadline for publishing audited local authority accounts from 31 July to the 30 September for each year of account for 2022/23 to 2027/28 as part of the Government's measures to improve local audit delays. The regulations do allow for the deadline to be missed. This was the case for the council's 2022/23 accounts for which a year-end audit, other than a best value audit, has not been completed, with EY focussing their resources on clearing the national backlog of open audits relating to earlier years.
7.	To aid the recovery of local authority audits, in February 2024 the Government consulted on imposing a backstop date of September 2024 for the completion of open audits relating to 2022/23 or earlier years. Progressively earlier backstop dates were also consulted upon for financial years 2023/24 to 2027/28. The proposed changes would require auditors to issue an opinion by the backstop date, which would be a disclaimed opinion if the audit has not been completed. However, legislation to enact these changes was not passed before Parliament was dissolved for the General Election. Until EY issue an opinion on the 2022/23 statement of accounts it will not be possible to finalise the audit of the 2023/24 statement of accounts, which may result in a delay.
	<b>STATEMENT OF ACCOUNTS</b>
8.	The statement of accounts is a complex document and the layout and information provided are defined by statutory requirements. The key issues that should be drawn to the attention of the Committee are detailed below.
	<b>ACCOUNTING AND OTHER POLICIES</b>
9.	The council's accounts are prepared in accordance with the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice on Local Authority Accounting in the UK (the Code), which is recognised by

	statute as representing proper accounting practice and meets the requirements of the Accounts and Audit Regulations 2015.
10.	The material accounting policies are described in detail on pages 30 to 43 of the draft statement of accounts and cover such items as: <ul style="list-style-type: none"> <li>• Property, plant and equipment</li> <li>• Employee benefits</li> <li>• Financial instruments</li> <li>• Grants and contributions</li> <li>• PFI contracts</li> </ul>
11.	The 2023/24 Code incorporates temporary amendments to address issues raised by auditors nationally in relation to accounting for infrastructure assets. These temporary changes were first made as an update to the Code in November 2022 and applied from the 2021/22 Code up to and including the 2024/25 Code. The Government also enacted regulations to provide for a statutory override for infrastructure asset disclosures. The council has made use of the statutory override and temporary amendments to the Code and has not reported the gross book value or accumulated depreciation for infrastructure assets because historical reporting practices and resultant information deficits mean that this would not faithfully represent the asset position to the users of the financial statements.
12.	The accounting policies adopted by the council are in line with the CIPFA Code of Practice on Local Authority Accounting, and the Audit Committee would therefore be more likely to be interested if the council were to depart from the recognised practice.
13.	Critical judgements made in applying the accounting policies that have the most significant effect on the amounts in the financial statements are set out in Note 3 of the accounts (page 44) and details of key areas of estimation uncertainty are provided in Note 4 of the accounts (page 46).
	<b>2023/24 OUTTURN</b>
14.	The narrative statement provides a summary of the revenue and capital financial performance for the year on pages 10 to 17. Full details of the outturn position were reported in the revenue and capital outturn reports to Cabinet on 16 July 2024.
<b>RESOURCE IMPLICATIONS</b>	
<b><u>Capital/Revenue</u></b>	
15.	The capital and revenue implications are considered as part of the revenue and capital outturn reports that were presented to Cabinet on 16 July 2024.
<b><u>Property/Other</u></b>	
16.	There are no specific property implications arising from this report.
<b>LEGAL IMPLICATIONS</b>	
<b><u>Statutory power to undertake proposals in the report:</u></b>	
17.	Accounts and Audit Regulations 2015 (as amended).
<b><u>Other Legal Implications:</u></b>	
18.	None.

<b>RISK MANAGEMENT IMPLICATIONS</b>	
19.	Not applicable
<b>POLICY FRAMEWORK IMPLICATIONS</b>	
20.	Not applicable. It should be note that the statement of accounts has been prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting in the UK 2023/24.

<b>KEY DECISION?</b>	<b>Yes/No</b>
<b>WARDS/COMMUNITIES AFFECTED:</b>	<b>None</b>
<u>SUPPORTING DOCUMENTATION</u>	
<b>Appendices</b>	
1.	None

**Documents In Members' Rooms**

1.	Draft Unaudited Statement of Accounts 2023/24
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<b>Equality Impact Assessment</b>	
Do the implications/subject of the report require an Equality and Safety Impact Assessment (ESIA) to be carried out.	<b>Yes/No</b>
<b>Privacy Impact Assessment</b>	
Do the implications/subject of the report require a Privacy Impact Assessment (PIA) to be carried out.	<b>Yes/No</b>
<b>Other Background Documents</b>	
<b>Other Background documents available for inspection at:</b>	
<b>Title of Background Paper(s)</b>	Relevant Paragraph of the Access to Information Procedure Rules / Schedule 12A allowing document to be Exempt/Confidential (if applicable)
1.	None

# Agenda Item 7

<b>DECISION-MAKER:</b>	<b>AUDIT COMMITTEE</b>		
<b>SUBJECT:</b>	<b>REVIEW OF PRUDENTIAL LIMITS AND TREASURY MANAGEMENT OUTTURN 2023/24</b>		
<b>DATE OF DECISION:</b>	<b>29 JULY 2024</b>		
<b>REPORT OF:</b>	<b>EXECUTIVE DIRECTOR ENABLING SERVICES &amp; S151 OFFICER</b>		
<b><u>CONTACT DETAILS</u></b>			
<b>Executive Director</b>	<b>Title:</b>	<b>Executive Director Enabling Services &amp; S151 Officer</b>	
	<b>Name:</b>	<b>Mel Creighton</b>	<b>Tel: 023 80833528</b>
	<b>E-mail:</b>	<a href="mailto:Mel.Creighton@southampton.gov.uk">Mel.Creighton@southampton.gov.uk</a>	
<b>AUTHOR:</b>	<b>Title:</b>	<b>Director of Finance</b>	
	<b>Name:</b>	<b>Richard Williams</b>	<b>Tel: 023 8083 2936</b>
	<b>E-mail:</b>	<a href="mailto:Richard.Williams@southampton.gov.uk">Richard.Williams@southampton.gov.uk</a>	

<b>STATEMENT OF CONFIDENTIALITY</b>	
NOT APPLICABLE	
<b>BRIEF SUMMARY</b>	
The purpose of this report is to inform Audit Committee of the treasury management performance for 2023/24 against the approved Prudential Indicators for External Debt and Treasury Management.	
<b>RECOMMENDATIONS:</b>	
<b>It is recommended that Governance committee:</b>	
(i)	Notes the Treasury Management (TM) performance for 2023/24 and the outturn on the 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.
<b>REASONS FOR REPORT RECOMMENDATIONS</b>	
1.	The reporting of the outturn position for 2023/24 forms part of the approval of the statutory accounts. The Treasury Management (TM) Strategy and Prudential Indicators were previously approved by Governance Committee in February in accordance with legislation and the Chartered Institute of Public Finance & Accountancy (CIPFA) Code of Practice.
2.	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 the new Audit Committee mid-year and after the year-end. These reports enable 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.

<b>ALTERNATIVE OPTIONS CONSIDERED AND REJECTED</b>	
3.	No alternative options are relevant to this report.
<b>DETAIL (Including consultation carried out)</b>	
	<b>CONSULTATION</b>
4.	Not applicable.
	<b>BACKGROUND</b>
5.	The Local Government Act 2003 introduced a system for borrowing based largely on self-regulation by local authorities. The basic principle of the new system is that local authorities will be free to borrow if their capital spending plans are affordable, prudent and sustainable.
6.	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 treasury management function at least twice a year (mid-year and at year end).  It also requires that monitoring of the treasury management indicators should be reported quarterly (along with the other prudential indicators) as part of the council's general revenue and capital monitoring, and we complied with this during 2023/24.
7.	The TM Strategy for 2023/24 was previously approved by Governance Committee on 13 February 2023. These were subsequently reviewed and revised as part of the Council's TM Strategy Statement for 2023/24 at Council on 6 March 2024 and Governance Committee on 22 April 2024.  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 council's Capital Strategy, complying with CIPFA's requirement, was approved by full Council on 6 March 2024.
8.	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 treasury management objectives. The council 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.
9.	This report:
	a) is prepared in accordance with the revised CIPFA TM 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 outturn position on TM transactions in 2023/24; and
	e) confirms compliance with treasury limits and Prudential Indicators.
10.	The report and appendices highlight that:

	a)	Borrowing activities have been undertaken within the borrowing limits approved by Governance Committee on 13 February 2023 and reviewed on 6 March 2024.
	b)	There has been full compliance with the Prudential Indicators approved by Governance Committee on 13 February 2023 and reviewed on 6 March 2024.
	c)	<p>As we have an increasing borrowing requirement our overall treasury strategy is to minimise both external borrowing and investments and to only borrow to the level of its net borrowing requirement. The reasons for this are to reduce credit risk, take pressure off the Council's lending list and also to avoid the cost of carry existing in the current interest rate environment.</p> <p>Throughout the year, 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 treasury management 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 our financial advisors. For further details on the funds' performance see Appendix 2, paragraphs 36 to 41.</p>
	e)	Total TM investment returns during 2023/24 were £3.3M at an average rate of 4.70% and an average balance of £69.82M.
	f)	<p>The differential between debt costs and investment earnings continued to widen, resulting in the continued use of internal resources in lieu of borrowing as the most cost effective means of financing capital expenditure.</p> <p>As a result, the average rate for repayment of debt, (the Consolidated Loans &amp; Investment Account Rate – CLIA), at 2.98%, is lower than that the expected Strategy figure of 3.15%. This is mainly as a result of maturing debt which was not replaced due to higher cash flows and increasing interest rates, so deferring borrowing until actually required. It is the intention to continue to monitor both short term and long term markets during 2024/25 whilst there is so much volatility in markets.</p>
	g)	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.
	h)	In achieving interest rate savings, the Council is exposed to interest rate risk by taking out variable debt. This was and continues to be 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, for example, during the last 2 years we have borrowed £60M long term to introduce some certainty into the loan portfolio in a volatile interest environment.																					
	i)	As forecast net loan debt increased during 2023/24 from £306M to £330M (£24M) as detailed in Appendix 2, paragraph 5.  Actual debt charges for the year for borrowing (excluding HCC transferred debt and PFI schemes) was £8.81M at an average interest rate of 3.00%																					
11.	Appendix 1 summarises the economic outlook and events in the context of which the Council operated its treasury function during 2023/24.																						
12.	Appendix 2 summarises treasury activity during the year and covers: <ul style="list-style-type: none"> <li>• Borrowing Requirement and Debt Management</li> <li>• Investment Activity</li> <li>• Non – Treasury Investments</li> </ul>																						
<b>COMPLIANCE WITH PRUDENTIAL INDICATORS</b>																							
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 and reviewed on 6 March 2024.																						
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 indicators have 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><i>Table 1: Key Prudential Indicators</i></p> <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="text-align: left;">Indicator</th> <th style="text-align: center;">Limit</th> <th style="text-align: center;">Actual at 31/3/2024</th> </tr> </thead> <tbody> <tr> <td>Authorised Limit for external debt</td> <td style="text-align: center;">£1010M</td> <td style="text-align: center;">£366M</td> </tr> <tr> <td>Operational Limit for external debt</td> <td style="text-align: center;">£865M</td> <td style="text-align: center;">£366M</td> </tr> <tr> <td>Maximum external borrowing year to date</td> <td style="text-align: center;">£945M</td> <td style="text-align: center;">£316M</td> </tr> <tr> <td>Limit of fixed interest debt</td> <td style="text-align: center;">100%</td> <td style="text-align: center;">88%</td> </tr> <tr> <td>Limit of variable interest debt</td> <td style="text-align: center;">50%</td> <td style="text-align: center;">12%</td> </tr> <tr> <td>Limit for long term investments</td> <td style="text-align: center;">£30M</td> <td style="text-align: center;">£28M</td> </tr> </tbody> </table>		Indicator	Limit	Actual at 31/3/2024	Authorised Limit for external debt	£1010M	£366M	Operational Limit for external debt	£865M	£366M	Maximum external borrowing year to date	£945M	£316M	Limit of fixed interest debt	100%	88%	Limit of variable interest debt	50%	12%	Limit for long term investments	£30M	£28M
Indicator	Limit	Actual at 31/3/2024																					
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<b>RESOURCE IMPLICATIONS</b>																							
<b><u>Capital/Revenue</u></b>																							
16.	This report is a requirement of the TM Strategy, which was approved at Council on 13 February 2023 and updated on 6 March 2024.																						
17.	The capital and revenue implications are considered as part of the outturn report that was presented to Cabinet on 16 July 2024.																						
18.	The interest cost of financing the long term and short term loan debt is charged corporately to the Income and Expenditure account, and amounted to £8.44M in 2023/24. This is lower than originally budgeted mainly due to																						



	minimal new long term borrowing being taken as we continued to make use of internal balances and used short term borrowing as they provided value for money and minimised loan costs.
19.	In addition, interest earned on temporary balances invested externally is credited to the Income and Expenditure account. In 2023/24 £3.3M was earned which was £1.4M higher than originally budgeted mainly due to higher than expected interest rates.
20.	The expenses of managing the council'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 amounted to £0.25M in 2023/24.
21.	To cover future risk of any loss on the CCLA pooled property fund due to the expectation that statutory override will cease in 2026/27, £0.80M was transferred to the Investment Risk Reserve. Further detail can be found in Appendix 2 paragraphs 39 to 41.
<b><u>Property/Other</u></b>	
22.	There are no specific property implications arising from this report.
<b>LEGAL IMPLICATIONS</b>	
<b><u>Statutory power to undertake proposals in the report:</u></b>	
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 treasury management. 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 in order to invest and make a return remains unlawful.
<b><u>Other Legal Implications:</u></b>	
24.	None.
<b>RISK MANAGEMENT IMPLICATIONS</b>	
25.	Not Applicable
<b>POLICY FRAMEWORK IMPLICATIONS</b>	
26.	Not applicable. It should be note that the Statement of Accounts has been prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting in the UK 2023/24.
<b>KEY DECISION?</b>	Yes/No
<b>WARDS/COMMUNITIES AFFECTED:</b>	NONE

<b><u>SUPPORTING DOCUMENTATION</u></b>		
<b>Appendices</b>		
1.	2023/24 Economic Background	
2.	Treasury Activity during 2023/24	
3.	Southampton Benchmarking 31st March 2024	
4.	Compliance with Prudential Indicators	
5.	Glossary of Treasury Terms	
<b>Documents In Members' Rooms</b>		
1.	None.	
<b>Equality Impact Assessment</b>		
Do the implications/subject of the report require an Equality and Safety Impact Assessments (ESIA) to be carried out.		Yes/No
<b>Privacy Impact Assessment</b>		
Do the implications/subject of the report require a Privacy Impact Assessment (PIA) to be carried out.		Yes/No
<b>Other Background Documents</b>		
<b>Equality Impact Assessment and Other Background documents available for inspection at:</b>		
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 2024/25 to 2028/29 – reported to Council 6 March 2024	

### 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 continued to decline from the 8.7% rate seen at the start of 2023/24. By the last quarter of the financial year headline consumer price inflation (CPI) had fallen to 3.4% in February but was still above the Bank of England's 2% target at the end of the period. The core measure of CPI, i.e. excluding food and energy, also slowed in February to 4.5% from 5.1% in January, a rate that had stubbornly persisted for three consecutive months.

The UK economy entered a technical recession in the second half of 2023, as growth rates of -0.1% and -0.3% respectively were recorded for Q3 and Q4. Over the 2023 calendar year GDP growth only expanded by 0.1% compared to 2022. Of the recent monthly data, the Office for National Statistics reported a rebound in activity with economy expanding 0.2% in January 2024. While the economy may somewhat recover in Q1 2024, the data suggests that prior increases in interest rates and higher price levels are depressing growth, which will continue to bear down on inflation throughout 2024.

Labour market data provided a mixed message for policymakers. Employment and vacancies declined, and unemployment rose to 4.3% (3mth/year) in July 2023. The same month saw the highest annual growth rate of 8.5% for total pay (i.e. including bonuses) and 7.8% for regular pay growth (i.e. excluding bonuses). Thereafter, unemployment began to decline, falling to 3.9% (3mth/year) in January and pay growth also edged lower to 5.6% for total pay and 6.1% for regular pay, but remained above the Bank of England's forecast.

Having begun the financial year at 4.25%, the Bank of England's Monetary Policy Committee (MPC) increased Bank Rate to 5.25% in August 2023 with a 3-way split in the Committee's voting as the UK economy appeared resilient in the face of the dual headwinds of higher inflation and interest rates. Bank Rate was maintained at 5.25% through to March 2024. The vote at the March was 8-1 in favour of maintaining rates at this level, with the single dissenter preferring to cut rates immediately by 0.25%. Although financial markets shifted their interest rate expectations downwards with expectations of a cut in June, the MPC's focus remained on assessing how long interest rates would need to be restrictive in order to control inflation over the medium term.

In the Bank's quarterly Monetary Policy Report (MPR) released in August 2023 the near-term projection for services price inflation was revised upwards, goods price inflation widespread across products, indicating stronger domestic inflationary pressure with second-round effects in domestic prices and wages likely taking longer to unwind than they did to emerge. In the February 2024 MPR the Bank's expectations for the UK economy were positive for the first half of 2024, with a recovery from the mild recession in calendar H2 2023 being gradual. Headline CPI was forecast to dip below the 2% target quicker than previously thought due to declining energy prices, these effects would hold inflation slightly above target for much of the forecast horizon.

Following this MPC meeting, Arlingclose, the authority's treasury adviser, maintained its central view that 5.25% remains the peak in Bank Rate and that interest rates will most likely start to be cut later in H2 2024. The risks in the short-term are deemed to be to the downside as a rate cut may come sooner than expected, but then more broadly balanced over the medium term.

The US Federal Reserve also pushed up rates over the period, reaching a peak range of between 5.25-5.50% in August 2023, where it has stayed since. US policymakers have maintained the relatively

dovish stance from the December FOMC meeting and at the meeting in March, economic projections pointed to interest rates being cut by a total of 0.75% in 2024.

Following a similarly sharp upward trajectory, the European Central Bank hiked rates to historically high levels over period, pushing its main refinancing rate to 4.5% in September 2023, where it has remained. Economic growth in the region remains weak, with a potential recession on the cards, but inflation remains sticky and above the ECB's target, putting pressure on policymakers on how to balance these factors.

**Financial markets:** Sentiment in financial markets remained uncertain and bond yields continued to be volatile over the year. During the first half of the year, yields rose as interest rates continued to be pushed up in response to rising inflation. From October they started declining again before falling sharply in December as falling inflation and dovish central bank attitudes caused financial markets to expect cuts in interest rates in 2024. When it emerged in January that inflation was stickier than expected and the BoE and the Federal Reserve were data dependent and not inclined to cut rates soon, yields rose once again, ending the period some 50+ bps higher than when it started.

Over the financial year, the 10-year UK benchmark gilt yield rose from 3.44% to peak at 4.75% in August, before then dropping to 3.44% in late December 2023 and rising again to 3.92% (28th March 2024). The Sterling Overnight Rate (SONIA) averaged 4.96% over the period to 31st March.

**Credit review:** In response to an improving outlook for credit markets, in January 2024 Arlingclose moved away from its previous temporary stance of a 35-day maximum duration and increased its advised recommended maximum unsecured duration limit on all banks on its counterparty list to 100 days.

Earlier in the period, S&P revised the UK sovereign outlook to stable and upgraded Barclays Bank to A+. Moody's also revised the UK outlook to stable, Handelsbanken's outlook to negative, downgraded five local authorities, and affirmed HSBC's outlook at stable while upgrading its Baseline Credit Assessment. Fitch revised UOB's and BMO's outlooks to stable.

In the final quarter of the financial year, Fitch revised the outlook on the UK sovereign rating to stable from negative based on their assessment that the risks to the UK's public finances had decreased since its previous review in October 2022, the time of the mini- budget.

Moody's, meanwhile, upgraded the long-term ratings of German lenders Helaba, Bayern LB and LBBW on better solvency and capital positions, despite challenges from a slowing German economy and exposure to the commercial real estate sector. Moody's also upgraded or placed on review for an upgrade, Australian banks including ANZ, CBA NAB and Westpac on the back of the introduction of a new bank resolution regime.

Credit default swap prices began the financial year at elevated levels following the fallout from Silicon Valley Bank and collapse/takeover of other lenders. From then the general trend was one of falling prices and UK lenders' CDS ended the period at similar levels to those seen in early 2023. Earlier in the year some Canadian lenders saw their CDS prices rise due to concerns over a slowing domestic economy and housing market, while some German lenders were impacted by similar economic concerns and exposure to commercial real estate towards the end of the period, with LBBW remaining the most elevated.

Heightened market volatility is expected to remain a feature, at least in the near term and, credit default swap levels will be monitored for signs of ongoing credit stress. As ever, the institutions and durations

## Forecast interest rates (May 2024)

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

- The Bank of England is now biased towards reductions in Bank Rate, and the upcoming data will determine the timing of the start of the easing cycle and its extent. The UK economy started the year stronger than expected, and wage growth, core and services inflation remain high, so there remains uncertainty around the start of the cycle, but it will be a surprise not to see one cut this summer.
- In May, the MPC continued its dovish tilt. Another committee member, Dave Ramsden joined Swati Dhingra in voting for a rate cut. For the remaining seven members the focus remains on the persistence of inflation, specifically in wages and services.
- UK GDP growth rebounded in Q1 2024 after the technical recession in H2 2023. Survey data suggests that this recovery continued in April, but the UK economy remains relatively weak, with GDP only 0.2% higher in Q1 compared to a year ago and consumer spending barely growing.
- Employment has started to decline, although vacancy levels stabilised suggesting that demand for new labour remains relatively resilient. Anecdotal evidence suggests lower pay growth, and we expect unemployment to rise, which will lead to some deterioration in consumer sentiment. Household and business spending will therefore remain relatively soft. Stronger demand in Q1, however, raises some upside risks to this view.
- Inflation rates will move lower over the next 12 months. The headline CPI rate for April will be at or below the 2% target. There are upside risks from geo-political issues and now stronger domestic activity. With policymaker fears around the persistence of underlying inflationary pressure, particularly services inflation, we believe Bank Rate will remain unchanged until August and initially reduce slowly.
- The MPC minutes suggest that some committee members may not need to see much more evidence on falling inflation before changing their minds, so there is certainly a chance of an earlier rate cut in June.
- We expect that the continuation of restrictive monetary policy will bear down on activity and will require substantial loosening in 2025 to boost activity and inflation.
- Global bond yields will remain volatile and investors' positioning for the timing of US monetary loosening will continue to influence movements in gilt yields. Moreover, there is a heightened risk of fiscal policy, credit events and /or geo-political events causing substantial volatility in yields.

	Current	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26	Mar-27
<b>Official Bank Rate</b>													
Upside risk	0.00	0.00	0.25	0.25	0.50	0.50	0.75	1.00	1.00	1.00	1.00	1.00	1.00
Central Case	5.25	5.25	5.00	4.75	4.25	3.75	3.25	3.00	3.00	3.00	3.00	3.00	3.00
Downside risk	0.00	0.50	0.50	0.50	0.75	0.75	0.75	0.75	1.00	1.00	1.00	1.00	1.00
<b>3-month money market rate</b>													
Upside risk	0.00	0.25	0.25	0.50	0.50	0.50	0.50	0.50	0.75	0.75	1.00	1.00	1.00
Central Case	5.40	5.30	5.15	4.80	4.30	3.80	3.30	3.05	3.10	3.10	3.15	3.15	3.15
Downside risk	0.00	0.50	0.50	0.75	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
<b>5yr gilt yield</b>													
Upside risk	0.00	0.50	0.75	0.90	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Central Case	-0.04	3.95	3.85	3.75	3.60	3.50	3.40	3.40	3.40	3.40	3.45	3.50	3.55
Downside risk	0.00	0.75	0.85	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
<b>10yr gilt yield</b>													
Upside risk	0.00	0.50	0.75	0.85	0.90	0.90	0.90	0.90	1.00	1.00	1.00	1.00	1.00
Central Case	-0.18	4.10	4.05	4.00	3.85	3.75	3.70	3.70	3.70	3.70	3.75	3.80	3.80
Downside risk	0.00	0.75	0.85	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
<b>30yr gilt yield</b>													
Upside risk	0.00	0.50	0.75	0.85	0.90	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Central Case	-0.60	4.50	4.40	4.35	4.25	4.25	4.20	4.20	4.20	4.20	4.25	4.30	4.35
Downside risk	0.00	0.75	0.85	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
<b>50yr gilt yield</b>													
Upside risk	0.00	0.50	0.75	0.85	0.90	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Central Case	-0.20	4.10	4.00	3.95	3.85	3.85	3.80	3.80	3.80	3.80	3.85	3.90	3.95
Downside risk	0.00	0.75	0.85	1.00	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%.

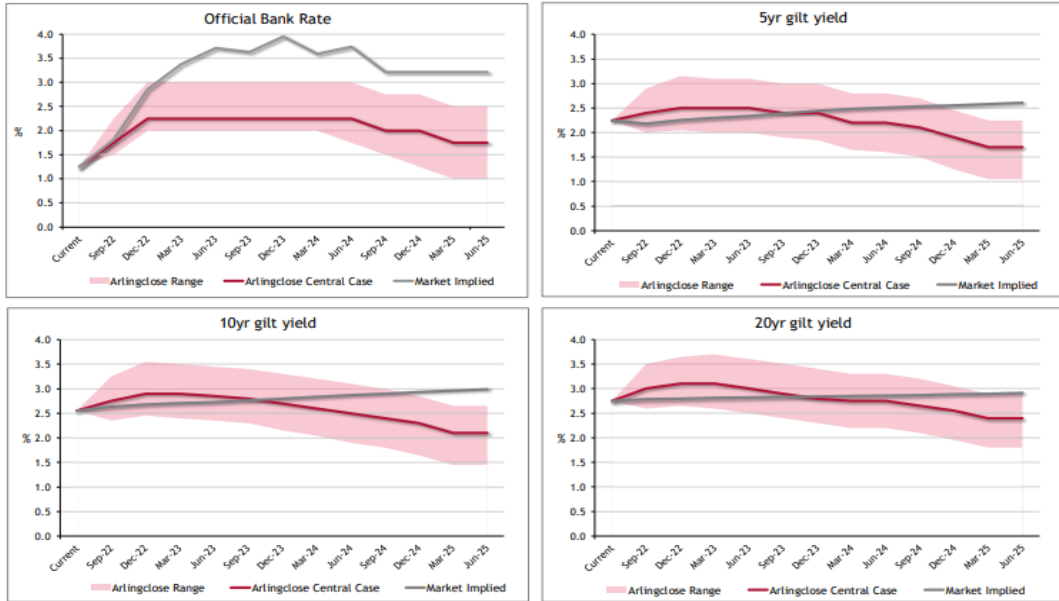
PWLB HRA Rate (Maturity Loans) = Gilt yield + 0.40%; UKIB Rate (Maturity Loans) = Gilt yield + 0.40%.

- The MPC held Bank Rate at 5.25% in May.
- The MPC will cut rates 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 late 2025.
- The risks around Bank Rate are initially to the downside, as a rate cut in June is a possibility, before shifting to the upside from the start of 2025. The developing Upside risks to inflation could limit the extent of monetary easing.
- Long-term gilt yields have dipped a little following softer US data and less hawkish signals from US policymakers. Arlingclose's central case is for yields to be volatile around a relatively narrow range, reflecting the likelihood for monetary loosening in the Eurozone, UK and US.

# Arlingclose and Market Projections June 2022

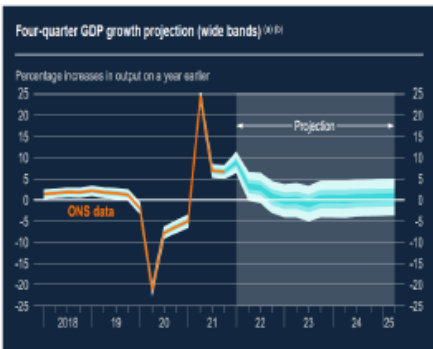
Charts show the Arlingclose central case along with upside and downside risks: Arlingclose judges that the risks around its forecasts are initially to the upside before becoming more balanced over time.

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

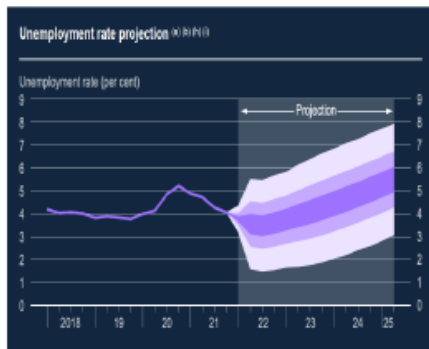


## Bank of England Monetary Policy Report - May 2022

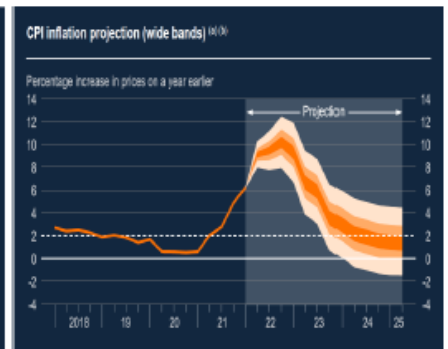
### Outlook for UK GDP



### Outlook for UK Unemployment



### Outlook for UK CPI inflation



- Persistently higher global commodity prices and tradable goods prices from supply chain constraints, both accentuated by the invasion of Ukraine, lead to a sharp slowdown in world activity and push global consumer price inflation up further before their effects eventually dissipate.
- Demand growth in the UK slows sharply over the first half of the projection, predominantly reflecting the adverse impact of higher global commodity and tradable goods prices.
- The labour market tightens further in the near term before the slowdown in demand leads to a rise in unemployment and excess supply over the rest of the projection.
- The vast majority of the increase and subsequent fall in CPI inflation reflects the impact of external factors. Domestic price pressures rise further this year, as wage growth strengthens, and companies rebuild their margins. The increase in excess supply moderates these forces such that inflation is close to the 2% target in two years' time and well below it in three years.

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## TREASURY MANAGEMENT ACTIVITY DURING 2023/24

Appendix 2

### BORROWING REQUIREMENT AND DEBT MANAGEMENT

1. On the 31st March 2024, the council had an increase in its net borrowing requirement of £4M arising from its revenue and capital income and expenditure. The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while useable reserves and working capital are the underlying resources available for investments. These are the core drivers of Treasury Management (TM) Activity, and the year-on-year change is summarised in table 1 below.
2. The current strategy, given the increasing borrowing requirement, is to minimise both external borrowing and investments and to only borrow to the level of the net borrowing requirement. The reasons for this are to reduce credit risk, take pressure off the Council's lending list and also to avoid the cost of carry (i.e. borrowing cash and paying interest on it before it is needed) in the current interest rate environment. This has resulted in an increase in our internal borrowing of £4.23M during 2023/24 from £157.14M to £161.37M.

**Table 1 – Balance Sheet Summary**

	<b>31-Mar-23 Actual</b>	<b>31-Mar-24 Revised Strategy</b>	<b>31-Mar-24 Actual</b>	<b>31-Mar-24 Actual Movement in year £M</b>
	<b>£M</b>	<b>£M</b>	<b>£M</b>	
General Fund CFR	342.57	350.62	345.36	2.79
Housing CFR	174.88	189.85	182.05	7.17
<b>Total CFR</b>	<b>517.45</b>	<b>540.47</b>	<b>527.41</b>	<b>9.96</b>
Less Other Debt Liabilities*	(57.11)	(53.45)	(53.45)	3.66
<b>Loans CFR</b>	<b>460.34</b>	<b>487.02</b>	<b>473.96</b>	<b>13.62</b>
Less External Borrowing**	(303.20)	(312.60)	(312.59)	(9.39)
<b>Internal (over) Borrowing</b>	<b>157.14</b>	<b>174.42</b>	<b>161.37</b>	<b>4.23</b>
Balance sheet Resources	(211.70)	(117.78)	(197.23)	14.47
Treasury Investments	54.56	0.00	35.86	(18.70)
<b>New Borrowing or (Investments)</b>	<b>0.00</b>	<b>56.64</b>	<b>0.00</b>	<b>0.00</b>

\* finance leases, PFI liabilities and Transferred debt that form part of the council 's total debt

\*\* See Table 3 below

3. The forecast movement in coming years is one of the Prudential Indicators (PIs). When the strategy was updated in February 2024, the CFR for 31 March 2024 was estimated at £540.47M, the Council's actual CFR at the end of the year was £527.41M, a decrease of £13.06M. This was mainly as a result of slippage in borrowing on the capital programme, £5.26M for the General Fund and £7.80M for HRA, as shown in table 2 below.

**Table 2 – Capital Financing Requirement Movement in year**

Capital Financing Requirement	31/03/2023 Actual £M	31/03/2024 Forecast Revised Strategy £M	31/03/2024 Actual £M	Movement since last reported position £M
Balance Brought forward	339.15	342.57	342.57	0.00
New Borrowing	14.53	20.40	15.14	(5.26)
MRP	(7.61)	(8.69)	(8.69)	0.00
Appropriations (to) from HRA	0.00	0.00	0.00	0.00
Movement in Other Liabilities	(3.50)	(3.66)	(3.66)	0.00
<b>Total General Fund Debt</b>	<b>342.57</b>	<b>350.62</b>	<b>345.36</b>	<b>(5.26)</b>
HRA	174.88	189.85	182.05	(7.80)
<b>Total CFR</b>	<b>517.45</b>	<b>540.47</b>	<b>527.41</b>	<b>(13.06)</b>
Estimated Debt ( <i>see below for break down</i> )	360.29	420.75	366.05	(54.70)
<b>Under / (Over) Borrowed</b>	<b>157.16</b>	<b>119.72</b>	<b>161.36</b>	<b>41.64</b>

4. The movement in actual external debt and usable reserves combine to identify the borrowing requirement and potential investment strategy.  
Replacement of maturing debt was, in line with the council's strategy, deferred due to the increase in reserves and a corresponding reduction in our net borrowing need. This is shown in tables 3 and 4 below together with activity in the year.

5. **Table 3: Borrowing and Investment Position**

	31-Mar-23 Actual £M	31-Mar-23 Average Yield / Rate %	31-Mar-24 Actual £M	31-Mar-24 Average Yield / Rate %	31-Mar-25 Estimated Balance £M
<b>Long Term Borrowing</b>					
Public Works Loan	289.19	3.52	288.59	3.47	456.50
LOBO Loans from Banks	9.00	4.86	4.00	4.86	4.00
	<b>298.19</b>	<b>3.63</b>	<b>292.59</b>	<b>3.58</b>	<b>460.50</b>
<b>Short Term Borrowing</b>					
Other Local Authorities	5.00	3.36	20.00	5.79	0.00
<b>Total External Borrowing</b>	<b>303.19</b>	<b>2.96</b>	<b>312.59</b>	<b>2.98</b>	<b>460.50</b>
<b>Other Long Term Liabilities</b>					
PFI Schemes	44.37	9.56	41.08	9.82	37.11
Deferred Debt Charges (HCC)	12.73	3.27	12.37	5.19	12.01
<b>Total Gross External Debt</b>	<b>360.29</b>	<b>4.08</b>	<b>366.04</b>	<b>3.98</b>	<b>509.62</b>
<b>Investments:</b>					
<b>Managed In-House</b>					
Government & Local Authority	(11.06)	4.05			
Cash (Instant access)	(15.49)	4.08	(7.83)	5.27	(20.00)
Long Term Bonds	(1.01)	5.27	(1.03)	5.27	(1.00)
Managed Externally					
Pooled Funds (CCLA)	(27.00)	4.04	(27.00)	4.76	(27.00)
<b>Total Investments</b>	<b>(54.56)</b>	<b>4.08</b>	<b>(35.86)</b>	<b>4.78</b>	<b>(48.00)</b>
<b>Net Debt</b>	<b>305.73</b>		<b>330.18</b>		<b>461.62</b>

6. **Table 4: Movement in Borrowing during the year**

Movement during the year	2022/23	2023/24	31-Mar-24	Average Life
	Actual	Movement in year		
	£M	£M		
Long-term borrowing Carried Forward	255.30		298.19	
Maturities in year	(7.11)		(15.60)	
New borrowing taken in year	50.00		10.00	
<b>Net Long Term Borrowing</b>	<b>298.19</b>	<b>(5.60)</b>	<b>292.59</b>	<b>24 Years</b>
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	
<b>Net Short Term Borrowing</b>	<b>5.00</b>	<b>15.00</b>	<b>20.00</b>	<b>6 months</b>
<b>Total Borrowing</b>	<b>303.19</b>	<b>9.40</b>	<b>312.59</b>	

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.

7. The maturity analysis of the Council's long-term debt at 31 March 2024 is further analysed below, in table 5. Debt due in one year includes both short term and long term loans due in year, LOBO loans are shown as uncertain as although they are within the call option, and given the current interest environment there is a possibility they could be called in.

8. **Table 5: Maturity Structure of Borrowing**

Total Financial Liabilities	Outstanding	% of Total
	31/03/2024	Portfolio
<b>Source of Loan</b>	<b>£M</b>	<b>%</b>
Public Works Loan Board	288.59	99
Other Financial Institutions (borrowing)	4.00	1
	<b>292.59</b>	<b>100</b>
<b>Analysis of Loans by Maturity</b>		
Less than 1 Year	10.60	4
Between 1 and 2 years	10.60	4
Between 2 and 5 years	31.80	11
Between 5 and 10 years	60.50	21
Between 10 and 20 years	30.25	10
Between 20 and 40 years	144.84	49
Over 40	0.00	0
Uncertain Date**	4.00	1
	<b>292.59</b>	<b>100</b>

**Borrowing Update**

9. CIPFA's 2021 Prudential Code is clear that local authorities must not borrow to invest primarily for financial return and that it is not prudent for local authorities to make any investment or spending decision that will increase the capital financing requirement, and so may lead to new borrowing, unless directly and primarily related to the functions of the Authority. PFI loans are no longer available to local

authorities planning to buy investment assets primarily for yield unless these loans are for refinancing purposes.

Currently £27M is held in commercial investments that were purchased prior to the change in the CIPFA Prudential Code. Before undertaking further additional borrowing the council will review the benefits of retaining these investments against cost of future borrowing.

**Borrowing Strategy**

10. At 31st March 2024 the council held £312.59M of loans, (an increase of £9.40M since 31st March 2023), as part of its strategy for funding previous and current years' capital programmes and the need to externalise borrowing as a result of falling reserves. Outstanding loans are summarised in Table 4 and 5 above.
11. The primary objective when borrowing has been to strike an appropriate 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 long-term plans change being a secondary objective.
12. We have remained under our CFR limit and had internal borrowing of £161.37M at the end of the year compared to £157.14M for 2022/23.  
This strategy enabled the council to reduce net borrowing costs (despite foregone investment income) and reduce overall treasury risk.
13. Interest rates have seen substantial rises over the last two years, although these rises have now begun to plateau. Gilt yields fell in late 2023, reaching April 2023 lows in December 2023 before rebounding to an extent in the first three months of 2024. Gilt yields have remained volatile, seeing upward pressure from perceived sticker inflation at times and downward pressure from falling inflation and a struggling economy at other times.  
On 31st December, the PWLB certainty rates for maturity loans were 4.74% for 10-year loans, 5.18% for 20-year loans and 5.01% for 50-year loans. Their equivalents on 31st March 2023 were 4.33%, 4.70% and 4.41% respectively.
14. The cost of short term borrowing from other local authorities has generally risen with Base Rate over the year. Interest rates peaked at around 7% towards the later part of March 2024 as many authorities required cash at the same time. These rates are expected to fall back to more normal market levels in April 2024.
15. A new PWLB HRA rate which is 0.4% below the certainty rate was made available from 15th June 2023 and will be available to June 2025. The 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 replace £12M of loans relating to the HRA maturing during this time frame.
16. During the year a mixture of PWLB and short term borrowing was taken, as shown in Table 6 below. Rates were monitored throughout the year and timing of loans was taken in consultation with our advisors to secure rates when rates dipped in the year and to avoid having to borrow during the peak year end period.

***Table 6: New loans taken in 2023/24***

Long Term Loans	Date	Amount £M	Rate %	Period
PWLB Maturity Loan	08/07/2023	10,000	4.11%	6 Years
Local Authority Loan 1	24/08/2023	5,000	5.75%	8 Months
Local Authority Loan 2	06/09/2023	5,000	5.75%	8 Months
Local Authority Loan 3	01/09/2023	5,000	5.80%	8 Months
Local Authority Loan 4	18/09/2023	5,000	5.85%	9 Months
<b>Total Borrowing</b>		<b>30,000</b>		

17.	<p>This will be kept under review during 2024/25 with the need to resource an increasing capital programme.</p> <p>In addition, given the rising costs of materials and of borrowing, the capital programme will be kept under regular review to ensure ongoing Value for Money and the phasing of capital works reviewed to ensure capital financing budgets to accurately reflect the profile of borrowing needed. The council with its advisor Arlingclose will evaluate and pursue options for lower cost solutions and opportunities, together with the 'cost of carry' and breakeven analysis.</p>
18.	<p>The PWLB remained the Council's preferred source of long term borrowing in 2023/24, given the transparency and control that its facilities continue to provide. However, PWLB funding margins have lurched quite substantially and there remains a strong argument for diversifying funding sources, particularly for the HRA who are not restricted to borrowing from PWLB, like the general fund, (as a result of the Council being awarded extraordinary financial support), if rates can be achieved on alternatives which are below gilt yields + 0.80%. This is kept under constant review, in consultation with our TM advisors.</p>
19.	<p>Borrowing decisions are not predicated on any one outcome for interest rates and a balanced portfolio of short and long term borrowing was maintained.</p>
<p><b><u>Loan Restructuring</u></b></p>	
20.	<p>The continuing rise in gilt yields since early 2022 resulted in some PWLB 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 a cost-effective option.</p>
<p><b><u>Lender's Option Borrower's Option Loans (LOBOs)</u></b></p>	
21.	<p>On 1<sup>st</sup> April 2023, the council held £9M of LOBO loans, where the lender has the option to propose an increase in the interest rate at set dates, following which, the council has the option to either accept the new rate or to repay the loan at no additional cost.</p> <p>All the LOBOS had options during the year and as market interest rates rose, there was increased probability of call options being exercised by lenders. Two lenders (£5M) exercised this option and after consultation with our advisors were subsequently repaid.</p>
<p><b><u>Other Debt Activity</u></b></p>	
22.	<p>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 £3.29M is £41.08M.</p>
23.	<p>In addition, the council holds debt in relation to debt transferred from Hampshire County Council on the 1 April 1997 when we became a unitary authority, of £12.37M. This is being repaid over 50 years at £0.36M per annum.</p>
<p><b>INVESTMENT ACTIVITY</b></p>	
24.	<p>The CIPFA Treasury Management Code defines 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>
25.	<p>The Council maintained its strategy of offsetting investment and borrowing to reduce treasury costs.</p>
26.	<p>The council has held significant invested funds, representing income received in advance of expenditure plus balances and reserves held. During 2023/24 the</p>

council's investment balances have ranged between £33.81M and £94.52M and averaged £56.66M. Movement in year is summarised in Table 7 below.

27. **Table 7: Investment activity during the year**

	Balance on 01/04/2023	Net Movement	Balance on 31/03/2024	31/03/2024 Income Return	Average Life of Investments
	£M	£M	£M	%	
Multi- National Bonds (not subject to bail in)	(1.01)	(0.02)	(1.03)	1.63	1 years
Money Market Funds and Call Account	(15.49)	7.66	(7.83)	44.77	on day notice
Government & Local Authority Managed Externally (CCLA Pooled funds)	(11.06)	11.06	0.00	14.46	Unspecified
	(27.00)	0.00	(27.00)	39.14	
<b>Total Investments</b>	<b>(54.56)</b>	<b>18.70</b>	<b>(35.86)</b>	<b>100.00</b>	

28. Both the CIPFA Code and government guidance require the council 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 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.

29. As demonstrated by the liability benchmark in this report, the council 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 asset classes and boost investment income

30. Bank Rate increased by 1% over the period, from 4.25% at the beginning of April 2023 to 5.25% by the end March 2024. Short term rates peaked at 5.7% for 3-month rates and 6.7% for 12-month rates during the period, although these rates subsequently began to decline towards the end of the period. Money Market Rates also rose and were between 5.14% and 5.29% by the end of March 2024.

31. Security of capital has remained the council's main investment objective. This has been maintained by following the counterparty policy as set out in its TM Strategy Statement. The council has adopted a voluntary measure of its exposure to credit risk, by monitoring the average credit rating of its investment portfolio, which is supplied by our advisors. 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.

	Target	Actual
Portfolio average credit rating	A	A+

32. Counterparty credit quality is assessed and monitored with reference to credit ratings across rating agencies Fitch, S&P and Moody's. The council's minimum long-term counterparty rating is A-. For financial institutions analysis is of funding structure and susceptibility to bail-in, credit default swap prices, financial statements, information on potential government support and reports in the quality financial press. The council also used secured investments products that provide collateral in the event that the counterparty cannot meet its obligations for repayment.

33. The table below summarises the council's investment portfolio as at 31 March 2024 by credit rating and confirms that all investments were made in line with the

approved credit rating criteria. The investment for Pooled funds includes the unrealised estimated loss of £1.18M.

**Table 8: Credit ratings of Investments held at 31st March 2024**

Credit Rating	Long Term		Short Term	
	2023	2024	2023	2024
	£000	£000	£000	£000
AAA	1,006	1,005	53	53
AA+			0	0
AA			0	0
AA-			11,060	0
A+			10,080	7,820
A			5,554	149
A-				
Unrated local authorities	0	0		
Shares in unlisted companies	20	20		
Unrated pooled funds	25,801	24,794	281	314
<b>Total Investments</b>	<b>26,827</b>	<b>25,819</b>	<b>27,028</b>	<b>8,336</b>

34. **Benchmarking:** Our advisors produce quarterly benchmarking which shows the breakdown of our investments and how we compare to their other clients and other English Unitary. Details can be seen in Appendix 3. It shows that on average the return on our internal investments at 5.27% is slightly higher than the average for other Local Authorities, 5.17%, this has been achieved without impacting on our average credit rating which at A+, in line with the average for both other Local Authorities and Unitary Authorities. Our overall income return including the Local Authority Property Fund is 5.06% compared to the average of 5.10%.

### Liquidity Management

35. In keeping with the DLUHC's Guidance on Investments, the Council maintained a sufficient level of liquidity through the use of Money Market Funds and call accounts. There is no perceived risk that the Council will be unable to raise finance to meet its commitments. The Council also has to manage the risk that it will be exposed to replenishing a significant proportion of its borrowing at a time of unfavourable interest rates. The Council would only borrow in advance of need where there is a clear business case for doing so and will only do so for the current capital programme or to finance future debt maturities.

### Externally Managed Funds

36. For long term investments, 2023 continued to be a difficult year. The market background for commercial property improved marginally in 2023 and was more stable, in contrast to the very challenging backdrop of 2022. Low transactional volumes were a constraint on valuations and made prospective sellers and buyers more cautious. Although many sectors lacked momentum, there was growing confidence in the longer-term outlook as occupier demand and rental markets held up. Industrial and retail warehousing sectors remained strong, but the retail and offices sectors remained weak, the latter continuing to be hindered by low occupancy from hybrid working practices.
37. The Council has invested £27M in property funds which offer the potential for enhanced returns over the longer term but will be more volatile in the shorter term. These funds are managed by professional fund managers which allows diversification

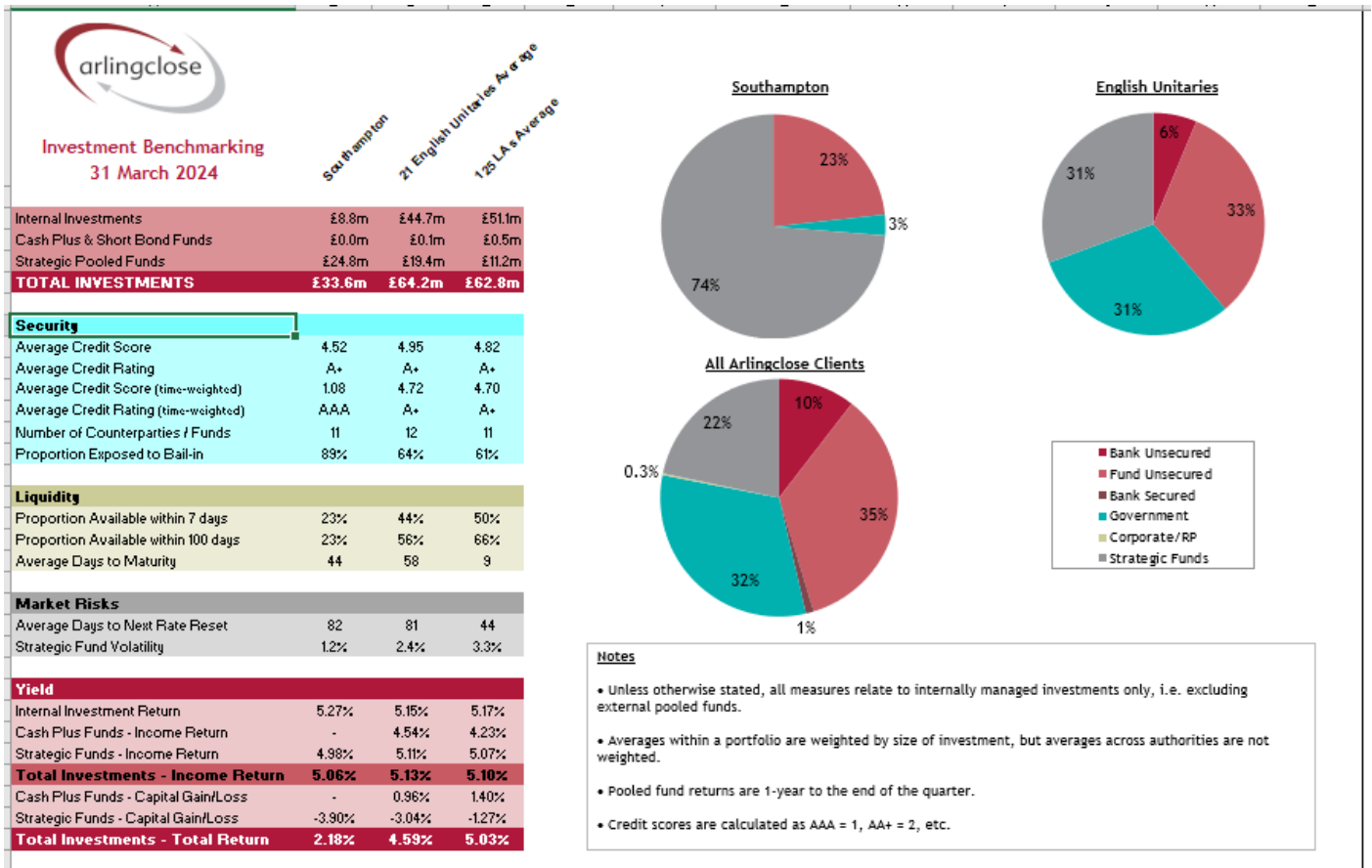
	into asset classes other than cash without the need to own and manage the underlying investments.																												
38.	<p>The change in the funds' capital values and income earned in 2023/24 is shown below.</p> <p><i>Table 9 – Property Fund Performance 2023/24</i></p> <table border="1"> <thead> <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</td> </tr> <tr> <td>31st December</td> <td>24.96</td> <td>(0.84)</td> <td>0.33</td> </tr> <tr> <td>31st March</td> <td>24.79</td> <td>(1.01)</td> <td>0.33</td> </tr> <tr> <td><b>Total</b></td> <td></td> <td></td> <td><u>1.30</u></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	31st December	24.96	(0.84)	0.33	31st March	24.79	(1.01)	0.33	<b>Total</b>			<u>1.30</u>
Quarter Ending	Valuation £M	Movement since Reported in SOA	Dividends £M																										
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39.	<p>The market value has decreased further since last reported in December, from £24.96M to £24.79M. This is a decrease of £1.01M since the March 2023 value of £25.80M and is £1.2M below the initial investment of £27M.</p> <p>The dividend for the year was £1.30M, 4.82% against the original investment. This is higher than 2023/24 (£1.14M 4.24%), which was higher than that budgeted.</p> <p>The market value of the investment has continued to decrease since year end and at May 2024 was £24.67M, a reduction of £0.12M.</p>																												
40.	<p>Because these funds have no defined maturity date, but are available for withdrawal after a notice period, their performance and continued suitability in meeting investment objectives is regularly reviewed.</p> <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>In light of their performance over the long-term and the latest cash flow forecasts, investment in these funds was maintained but will be reviewed during 2024/25.</p>																												
41.	<p><b>Statutory override:</b> In April 2023 the Department for Levelling Up, Housing and Communities (DLUHC) published the full outcome of the consultation on the extension of the statutory override on accounting for gains and losses on pooled investment funds. The override has been extended until 31st March 2025, but no other changes have been made; whether the override will be extended beyond this date is unknown but commentary to the consultation outcome suggests it will not.</p> <p>Therefore, for prudence, £0.80M was transferred to the Investment Risk Reserve to cover the risk of the reduction in value on the CCLA pooled property fund not improving and statutory override ceasing in 2026/27, and therefore crystallising a loss.</p>																												
<b>Non – Treasury Investments</b>																													
42.	<p>The definition of investments in CIPFA's revised 2021 TM Code covers all the financial assets, as well as other non-financial assets which are held primarily for financial return. Investments that do not meet the definition of TM 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).</p>																												
43.	<p>Investment guidance issued by the DLUHC also broadens the definition of investments to include all such assets held partially or wholly for financial return.</p>																												
44.	<p>Between 2016 and 2017, SCC implemented a strategy to invest in commercial properties with the expected return on investment being used to fund council</p>																												



	services, known as the Property Investment Fund (PIF). To date the council has purchased 3 properties.																																									
45.	The rate of return on investment in 2023/24 before borrowing costs and other on-costs was 6.03%. Borrowing costs of 3.90% were incurred giving a net rate of return of 2.13%.																																									
46.	All of the properties remain fully let and the tenants are meeting their financial obligations under the leases (although one tenant has vacated the premises but continues to honour the lease) and there are currently no concerns regarding the properties that have currently fallen in value below the debt outstanding on it (by £0.89M) due to the current financial environment and market conditions. Details of the properties purchased are shown in table 10 below. Any loss on investment would only be incurred should the council sell its investments.																																									
47.	Investment properties are required to be revalued every year. The current valuation for those within the PIF is £25.19M, an increase in value compared with last year of £1.37M. Under current accounting rules changes in the value of investment properties do not impact on the General Fund.																																									
48.	<p><b>Table 10: Property Investment Fund</b></p> <table border="1"> <thead> <tr> <th rowspan="2">Property</th> <th>Actual</th> <th colspan="2">31.03.2023 Actual</th> <th colspan="2">31.03.2024 Actual</th> <th>Outstanding Debt 31.03.2024</th> </tr> <tr> <th>Purchase Cost £M</th> <th>Value in Accounts</th> <th>Gain or (Loss) in Year</th> <th>Value in Accounts</th> <th>Gain or (Loss) in Year</th> <th>£M</th> </tr> </thead> <tbody> <tr> <td>Property 1</td> <td>6.47</td> <td>4.79</td> <td>(0.09)</td> <td>5.43</td> <td>0.64</td> <td>5.75</td> </tr> <tr> <td>Property 2</td> <td>14.69</td> <td>10.61</td> <td>(1.03)</td> <td>11.52</td> <td>0.91</td> <td>13.05</td> </tr> <tr> <td>Property 3</td> <td>8.53</td> <td>8.42</td> <td>(0.74)</td> <td>8.24</td> <td>(0.18)</td> <td>7.57</td> </tr> <tr> <td></td> <td>29.69</td> <td>23.82</td> <td>(1.86)</td> <td>25.19</td> <td>1.37</td> <td>26.37</td> </tr> </tbody> </table>	Property	Actual	31.03.2023 Actual		31.03.2024 Actual		Outstanding Debt 31.03.2024	Purchase Cost £M	Value in Accounts	Gain or (Loss) in Year	Value in Accounts	Gain or (Loss) in Year	£M	Property 1	6.47	4.79	(0.09)	5.43	0.64	5.75	Property 2	14.69	10.61	(1.03)	11.52	0.91	13.05	Property 3	8.53	8.42	(0.74)	8.24	(0.18)	7.57		29.69	23.82	(1.86)	25.19	1.37	26.37
Property	Actual		31.03.2023 Actual		31.03.2024 Actual		Outstanding Debt 31.03.2024																																			
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<b>Consultations</b>																																										
49.	<p>In December 2023 DLUHC published two consultations: a “final” consultation on proposed changes to regulations and statutory guidance on MRP closing on 16th February and a “call for views” on capital measures to improve sector stability and efficiency closing on 31st January.</p> <p>Draft regulations and draft statutory guidance are included in the MRP consultation. The proposals remain broadly the same as those in June 2022 – to limit the scope for authorities to (a) make no MRP on parts of the capital financing requirement (CFR) and (b) to use capital receipts in lieu of a revenue charge for MRP.</p> <p>In its call for views on capital measures, government wishes to engage with councils to identify and develop options for the use of capital resources and borrowing to support and encourage ‘invest-to-save’ activity and to manage budget pressures without seeking exceptional financial support. Whilst Government has identified some options including allowing authorities to capitalise general cost pressures and meet these with capital receipts, there is no commitment to take any of the options forward and no further updates provided.</p>																																									
<b>Compliance</b>																																										
50.	The Chief Finance Officer reports that all TM activities undertaken during the year complied fully with the principles in the TM Code and the council’s approved TM Strategy.																																									

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### Southampton Benchmarking Scores 31<sup>st</sup> March 2024



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The Local Government Act 2003 requires the council 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 council 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 (CFR)**

The 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.

	<b>31-Mar-23</b>	<b>31-Mar-24</b>	<b>31-Mar-25</b>	<b>31-Mar-26</b>
	<b>Actual</b>	<b>Actual</b>	<b>Forecast</b>	<b>Forecast</b>
General Fund services	342.57	345.36	469.27	471.16
Council housing (HRA)	174.88	182.05	198.25	216.77
<b>TOTAL CFR</b>	<b>517.45</b>	<b>527.41</b>	<b>667.52</b>	<b>687.93</b>

**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 council 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.

	<b>31-Mar-23</b>	<b>31-Mar-24</b>	<b>31-Mar-25</b>	<b>31-Mar-26</b>
	<b>Actual</b>	<b>Actual</b>	<b>Forecast</b>	<b>Forecast</b>
Capital Financing Requirement	517.45	527.41	667.52	687.93
Debt (incl. PFI & leases)	360.29	366.05	509.62	527.15
<b>Under / (Over) Borrowed</b>	<b>157.16</b>	<b>161.36</b>	<b>157.90</b>	<b>160.78</b>

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 table below details our estimated and actual debt position at the 31 March 2024, this shows that we borrowed £54.7M less than expected, £42.7M on General Fund and £12M on HRA. Further details can be seen in the General Fund and HRA capital Outturn reports being reported to Council in July.

<b>Gross Debt</b>	<b>31/03/2023 Actual</b>	<b>31/03/2024 Forecast Revised Strategy</b>	<b>31/03/2024 Actual</b>	<b>Movement since last reported position</b>
	<b>£M</b>	<b>£M</b>	<b>£M</b>	<b>£M</b>
Borrowing (Long Term GF)	125.82	159.29	116.59	(42.70)
Borrowing (Long Term HRA)	172.37	188.01	176.01	(12.00)
Borrowing (Short Term)	5.00	20.00	20.00	0.00
<b>Total Borrowing</b>	<b>303.19</b>	<b>367.30</b>	<b>312.60</b>	<b>(54.70)</b>
Finance leases and Private Finance Initiatives	44.37	41.08	37.11	(3.97)
Transferred Debt	12.73	12.37	12.01	(0.36)
<b>Total Other Debt</b>	<b>57.10</b>	<b>53.45</b>	<b>49.12</b>	<b>(4.33)</b>
<b>Total Debt</b>	<b>360.29</b>	<b>420.75</b>	<b>361.72</b>	<b>(59.03)</b>

### **3. Debt and the Authorised Limit and Operational Boundary**

The Operational Boundary for External Debt is based on the council's estimate of most likely, i.e. prudent, but not worst case scenario for external debt. It links directly to the estimates of capital expenditure, the CFR and cash flow requirements and is a key management tool for monitoring. Other long-term liabilities comprise finance lease, Private Finance Initiative and other liabilities that are not borrowing but form part of the overall 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 council 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 £316.10M plus other deferred liabilities of £57.11M.

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

The 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 council is not over dependent on income from investments.

<b>Ratio of Net Income from Commercial Investment to NRS</b>	<b>2022/23 Actual</b>	<b>2023/24 Actual</b>	<b>2024/25 Forecast</b>	<b>2025/26 Forecast</b>	<b>2026/27 Forecast</b>	<b>2027/28 Forecast</b>
	<b>£M</b>	<b>£M</b>	<b>£M</b>	<b>£M</b>	<b>£M</b>	<b>£M</b>
Total net income from commercial investments	6.48	6.84	7.03	7.28	7.28	7.28
Net Revenue Stream GF	193.17	203.73	239.17	290.03	305.84	317.76
<b>Proportion of NRS</b>	<b>3.36%</b>	<b>3.36%</b>	<b>2.94%</b>	<b>2.51%</b>	<b>2.38%</b>	<b>2.29%</b>

### **5. Proportion of Financing Costs to Net Revenue Stream**

Although capital expenditure is not charged directly to the revenue budget, interest payable on loans and MRP are charged to revenue.

The net annual charge is known as financing costs; this is compared to the net revenue stream i.e. the amount funded from Council Tax, business rates and general government grants. The upper limit for this ratio is set at 15% and this will need to increase going

forward following the award of EFS. The amount to be taken as borrowing is currently unknown.

The increase in the actual for general fund services over the forecast figures is due to the Social Care Grant being reclassified as a ring-fenced grant and the budget and actuals are now shown within directorate income and has therefore reduced the net revenue stream.

Ratio of Financing Costs to Net Revenue Stream	2022/23 Actual	2023/24 Actual	2024/25 Forecast	2025/26 Forecast	2026/27 Forecast	2026/27 Forecast
	%		%	%	%	%
General Fund	9.58	10.29	12.03	12.63	11.82	11.84
HRA	6.81	7.55	7.50	8.33	8.92	9.15
<b>Total</b>	<b>8.79</b>	<b>9.55</b>	<b>10.84</b>	<b>11.63</b>	<b>11.15</b>	<b>11.23</b>

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.

## 6. Liability Benchmark

This indicator compares the 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 Actual £M	31-Mar-25 Forecast £M	31-Mar-26 Forecast £M	31-Mar-27 Forecast £M
<b>Loans CFR</b>	<b>460.34</b>	<b>473.96</b>	<b>618.40</b>	<b>642.66</b>	<b>673.43</b>
Less Balance sheet Resources	(211.70)	(197.23)	(193.76)	(196.62)	(201.92)
Plus Minimum Investments	48.01	48.00	48.00	48.00	48.00
<b>Liability Benchmark</b>	<b>296.65</b>	<b>324.73</b>	<b>472.64</b>	<b>494.04</b>	<b>519.51</b>
Less Committed External Borrowing	(303.20)	(312.59)	(281.99)	(271.39)	(260.79)
<b>Minimum Borrowing Need</b>	<b>(6.55)</b>	<b>12.14</b>	<b>190.65</b>	<b>222.65</b>	<b>258.72</b>
Less HRA Borrowing Liability	(0.71)	(4.24)	(28.58)	(50.99)	(66.68)
<b>GF Minimum Borrowing</b>	<b>(7.26)</b>	<b>7.90</b>	<b>162.07</b>	<b>171.66</b>	<b>192.04</b>

## 7. Maturity Structure of Borrowing

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

	Upper Limit %	Lower Limit %	30.12.24 Actual £M	30.12.24 Actual %	Complied?
Under 12 months	0	50	10.60	4	Yes
12 months and within 24 months	0	50	10.60	4	Yes
24 months and within 5 years	0	50	31.80	11	Yes
5 years and within 10 years	0	55	60.50	21	Yes
10 years and within 20 years	0	60	30.25	10	Yes
20 years and within 40 years	0	60	144.84	49	Yes
Over 40 years	0	75	0.00	0	Yes
Uncertain Date**	0	5	4.00	1	Yes
<b>Total</b>			<b>292.59</b>	<b>100</b>	

## 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 £28.03M and consists of £27M in CCLA property funds (see Appendix 2 paragraphs 21 - 24 for more details) and £1M EIB bond which will mature on 15<sup>th</sup> April 2025.

## 9. Security

The council 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	Actual	Complied?
Portfolio average credit Rating	A	A+	Yes

## 10. Liquidity

The council 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.

An average balance of £31.48M of liquid cash was maintained during 2023/24, but this reduced to £7.83M at the end of due to a number of large, unexpected payments in the final Creditors run, which we had notice of 3 days before year end. Although we could have borrowed from the market, interest rates were reflecting the shortage of cash, at about 7%, so it decided to defer new borrowing till after 1<sup>st</sup> April when interest rates returned to around base rate, as we had sufficient cash to meet our cash commitments.

	2023/24 Target	Actual	Complied?
Total cash available within 3 months	£20M	£7.83M	See above
Total sum borrowed in past 6 months without prior notice		£20M	Yes



## 11. Interest Rate Exposures

This is a voluntary indicator which is set to control the exposure to interest rate risk. Bank Rate rose by 1.00% from 4.25% on 1st April to 5.25% by 31<sup>st</sup> March 2024.

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 year were:

	<u>31/03/23</u>	<u>30/12/23</u>	<u>31/03/24</u>	<u>Yearly Increase</u>
Bank Rate	4.25%	5.25%	5.25%	1.00%
1-year PWLB certainty rate, maturity loans	4.78%	5.13%	5.36%	0.58%
5-year PWLB certainty rate, maturity loans	4.31%	4.19%	4.68%	0.37%
10-year PWLB certainty rate, maturity loans	4.33%	5.37%	4.74%	0.41%
20-year PWLB certainty rate, maturity loans	4.70%	4.90%	5.18%	0.48%
50-year PWLB certainty rate, maturity loans	4.41%	4.67%	5.01%	0.60%

New long term loans were limited during 2023/24 in preference to short term loans as it is expected that long term rates will fall during 2024/25. New long-term borrowing has been budgeted at 5.00% and the new long term loan was secured at 4.11%, short term borrowing ranged from 5.75% to 5.85% reflecting current market conditions. The benchmark was based on a 1% increase of forecast borrowing as of 31<sup>st</sup> March 2024. All taken during 2023/24 were within the 1% risk factor.

Interest rate risk indicator	2023/24 Benchmark £M
Upper limit on one-year revenue impact of a 1% <u>rise</u> in interest rates	1.0M
Upper limit on one-year revenue impact of a 1% <u>fall</u> in interest rates	(1.02M)

## 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><b>Authorised Limit (Also known as the Affordable Limit):</b></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><b>Balances and Reserves:</b></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><b>Bail - in (Risk):</b></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><b>Bank Rate:</b></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><b>Bond:</b></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><b>Capital Expenditure:</b></p> <p>Expenditure on the acquisition, creation, or enhancement of capital assets.</p>
<p><b>Capital Financing Requirement (CFR):</b></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><b>CD's:</b></p> <p>Certificates of Deposits with banks and building societies</p>
<p><b>Capital Receipts:</b></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

<p>company law. The index is maintained by the FTSE Group, a subsidiary of the London Stock Exchange Group.</p>
<p><b>General Fund:</b> This includes most of the day-to-day spending and income.</p>
<p><b>Gilts:</b> 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.</p>
<p><b>Gross Domestic Product (GDP):</b> 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.</p>
<p><b>The G7:</b> 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.</p>
<p><b>IFRS:</b> International Financial Reporting Standards.</p>
<p><b>LIBID:</b> 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.</p>
<p><b>LOBO:</b> 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.</p>
<p><b>Maturity:</b> The date when an investment or borrowing is repaid.</p>
<p><b>LUHC - Department for Levelling Up, Housing and Communities</b> Formally Ministry for Housing, Communities and Local Government (MHCLG) and the Department for Communities and Local Government (DCLG) which 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.</p>

**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



<p>28 is revoked by regulation 4(1) of the 2008 Regulations, authorities are able to calculate MRP as if it were still in force.</p>
<p><b>Revenue Expenditure:</b> Expenditure to meet the continuing cost of delivery of services including salaries and wages, the purchase of materials and capital financing charges.</p>
<p><b>RPI:</b> 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 uprated using the RPI index.</p>
<p><b>Section 114 notices (S114):</b> 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.</p>
<p><b>(Short) Term Deposits:</b> Deposits of cash with terms attached relating to maturity and rate of return (Interest).</p>
<p><b>Specified Investments:</b> 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.</p>
<p><b>Supported Borrowing:</b> Borrowing for which the costs are supported by the government or third party.</p>
<p><b>Temporary Borrowing:</b> Borrowing to cover peaks and troughs of cash flow, not to fund capital spending.</p>
<p><b>Treasury Management Code:</b> CIPFA's Code of Practice for Treasury Management in the Public Services, initially brought in 2003, subsequently updated in 2009 and 2011.</p>
<p><b>Treasury Management Practices (TMP):</b> 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.</p>
<p><b>Unsupported Borrowing:</b> Borrowing which is self-financed by the local authority. This is also sometimes referred to as Prudential Borrowing.</p>
<p><b>Variable Net Asset Value (VNAV):</b> 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</p>



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.

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# Agenda Item 8

<b>DECISION-MAKER:</b>	<b>AUDIT COMMITTEE</b>
<b>SUBJECT:</b>	<b>ANNUAL INTERNAL AUDIT OPINION 2023-24</b>
<b>DATE OF DECISION:</b>	<b>29<sup>th</sup> JULY 2024</b>
<b>REPORT OF:</b>	<b>CHIEF INTERNAL AUDITOR</b>

<b><u>CONTACT DETAILS</u></b>			
<b>Executive Director</b>	<b>Title</b>	<b>ENABLING SERVICES</b>	
	<b>Name:</b>	<b>Mel Creighton</b>	<b>Tel: 023 8083 3528</b>
	<b>E-mail</b>	<b>Mel.Creighton@southampton.gov.uk</b>	
<b>Author:</b>	<b>Title</b>	<b>CHIEF INTERNAL AUDITOR</b>	
	<b>Name:</b>	<b>Elizabeth Goodwin</b>	<b>Tel: 023 8083 4616</b>
	<b>E-mail</b>	<b>Elizabeth.Goodwin@southampton.gov.uk</b>	

<b>STATEMENT OF CONFIDENTIALITY</b>
N/A
<b>BRIEF SUMMARY</b>
<p>On an annual basis and in accordance with the Public Sector Internal Audit Standards the Chief Internal Auditor is required to provide an opinion on the adequacy and effectiveness of the Council's framework of risk management, internal control and governance.</p> <p>An update is also provided within the report of the Internal audit work carried out since the last reporting period.</p> <p>For the financial year 2023-24 Internal Audit &amp; Counter Fraud completed 26 full audits, 28 follow ups, 6 pieces of work on management request, 2 consultancy reports and 4 grant reviews. The results identified one 'No Assurance' audited area, which is shared within this report.</p> <p>In addition, for the year there is, a combined 46% of results rated as 'no assurance' or 'limited assurance' and 54% rated as 'reasonable assurance' or 'assurance' (full audits). Compared with the previous year's results (2022-23) which was 42% and 58% respectively, showing a decline in the level of reasonable or full assurance attributed across work performed.</p> <p>The opinion is informed and influenced by all several factors, including audit results, the vulnerability of the governance framework and the associated emerging risks, financial instability together with the required pace and implications of the actions to address it, which means that an opinion of 'limited assurance' is provided for 2023-24.</p> <p>The full details on the annual opinion for 2023/24 can be found in Appendix A.</p>

<b>RECOMMENDATIONS:</b>	
(i)	That the Audit Committee notes the Chief Internal Auditor's Annual Audit Opinion for 2023-24.
<b>REASONS FOR REPORT RECOMMENDATIONS</b>	
1.	In accordance with proper internal audit practices (Public Sector Internal Audit Standards) and the Internal Audit Charter, the Audit Committee is required to receive the Chief Internal Auditor's Annual Report & Opinion for 2023-24.
<b>ALTERNATIVE OPTIONS CONSIDERED AND REJECTED</b>	
	None
<b>DETAIL (Including consultation carried out)</b>	
	The opinion has been shared with members of the Management Board including the S151 officer as well as the Monitoring Officer.
<b>RESOURCE IMPLICATIONS</b>	
<b><u>Capital/Revenue</u></b>	
	None
<b><u>Property/Other</u></b>	
	None
<b>LEGAL IMPLICATIONS</b>	
<b><u>Statutory power to undertake proposals in the report:</u></b>	
	The Accounts and Audit (England) Regulations 2015 state 'a relevant body must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account the Public Sector Internal Auditing Standards.
<b><u>Other Legal Implications:</u></b>	
	None
<b>RISK MANAGEMENT IMPLICATIONS</b>	
	Failure to maintain an effective internal audit functions would result in a failure of the organisation meeting its statutory responsibilities in relation to the Annual Governance Statement and Annual Audit Opinion.
<b>POLICY FRAMEWORK IMPLICATIONS</b>	
	None

<b>KEY DECISION?</b>	<b>No</b>
<b>WARDS/COMMUNITIES AFFECTED:</b>	None
<b><u>SUPPORTING DOCUMENTATION</u></b>	
<b>Appendices</b>	
1.	Annual Internal Audit Opinion for 2023-24

**Documents In Members' Rooms**

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

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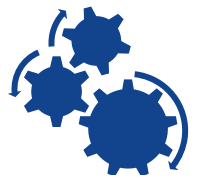


**SOUTHAMPTON**  
CITY COUNCIL

## Southampton City Council Annual Audit Report 2023/24

Elizabeth Goodwin, Chief Internal Auditor

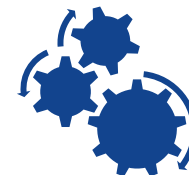




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<b>12</b>	2023/24 Open and Closed Risks by Directorate
<b>13</b>	Quality Assurance
<b>15</b>	2023/24 Audits Completed - not previously reported.
<b>21</b>	2023/24 Follow-Up Audits Completed - not previously reported.
<b>31</b>	Counter Fraud & Audit Unplanned Reactive Work
<b>32</b>	Public Sector Internal Audit Standards





## 1. Executive Summary

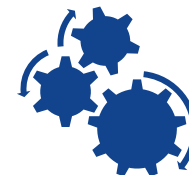
### Annual Opinion

On a yearly basis the Chief Internal Auditor is required to form an annual opinion on the effectiveness of the internal control framework in operation at Southampton City Council. This opinion is informed by work carried out over the course of the previous financial year (2023/24) and includes an assessment of results obtained from auditing activities. The details that support the opinion are contained in the body of this report.

In summary the continuing financial pressures experienced during 2023-24 along with identified failings and weaknesses in the internal control framework have resulted in an opinion level of 'limited assurance' remaining in place. Factors influencing the opinion are detailed in section three of this report.

### Progress Update

In addition to the annual opinion this report also covers the final, previously unreported audit areas completed since the last reporting period. All audit activities have now been closed as completed.

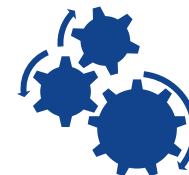


## 2. Background

### Public Sector Internal Audit Standards

- 2.1** On 1<sup>st</sup> April 2013 the *Public Sector Internal Audit Standards (PSIAS, the Standards)* were formally adopted in respect of local government across the United Kingdom. The *PSIAS* apply to all internal audit providers, whether in-house, shared services or outsourced. The *PSIAS* were revised from 1<sup>st</sup> April 2016, to incorporate the *Mission of Internal Audit* and *Core Principles for the Professional Practice of internal Auditing*.
- 2.2** The *Accounts and Audit Regulations 2015 Section 5*, define the requirement for an internal audit function within local government, stating that:
- A relevant authority must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance*
- 2.3** The responsibility for maintaining an adequate and effective system of internal audit within Southampton City Council lies with the Executive Director of Enabling Services (Section 151 Officer).
- 2.4** The Chief Internal Auditor is responsible for effectively managing the internal audit activity, in accordance with the definition of internal auditing, the *Code of Ethics* and the *Standards*.
- 2.5** In accordance with the *PSIAS* the definition of internal auditing is:

*Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes*



**2.6** In addition the Chief Internal Auditor will provide an Annual Internal Audit Opinion, based on an objective assessment of the Authority's framework of governance, risk management and control.

**2.7** The Annual Internal Audit Opinion must incorporate:

- The Opinion;
- A summary of the work that supports the Opinion; and
- A statement on conformance with *PSIAS* and the results of the quality assurance and improvement programme.

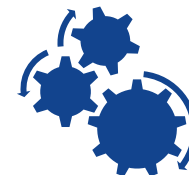
**2.8** An annual self-assessment is carried out, as part of *PSIAS*. The assessment for 2023/24 confirmed that Southampton City Council Internal Audit Service is compliant with requirements. For 2022/23 an External Assessment (required every five years) confirmed this assessment.

### Statement of Organisational Independence

**2.9** The Internal Audit Section has no operational responsibilities for any financial systems, including system development and installation. It did however manage and oversee the arrangements for 'auditing' Direct Payments for Adults and provides advice on control implementation and risk mitigation where relevant and throughout the design and implementation stages of new systems.

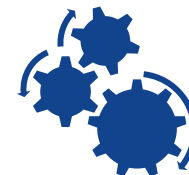
**2.10** The Chief Internal Auditor is free from interference, although has due regard for the Authority's key objectives and risks and consults with Members and Officers charged with governance, when setting the priorities of the annual audit plan, for example; in determining the scope and objectives of work to be carried out and in performing the work and communicating the results of each audit assignment. There must be and is, no compromise on the ability of Internal Audit to provide an independent assurance on the control framework.

**2.11** The Internal Audit Section has free and unfettered access to the Section 151 Officer, Chief Executive, Monitoring Officer the Leader of the Council and the Chair of the Audit Committee.



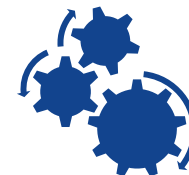
### 3. Annual Opinion for 2023/24

- 3.1** With effect from the 1st of April 2017, and in partnership with Portsmouth City Council, an in-house team to provide the internal audit service for Southampton City Council was established. The service is provided by a combination of in-house provision and colleagues from Portsmouth City Council overseen by a shared Chief Internal Auditor employed by the latter.
- 3.2** For the financial year 2023-24 Internal Audit & Counter Fraud completed 26 full audits, 6 audits following management request (assurance opinions not rated), 28 follow ups, 2 consultancy reports and 4 grant reviews. The results identified one 'No Assurance' audited area, which is shared within this report. In addition, for the year there is, a combined 46% of results rated as 'no assurance' or 'limited assurance' and 54% rated as 'reasonable assurance' or 'assurance' (full audits). Compared with the previous year's results (2022-23) which was 42% and 58% respectively, showing a decline in the level of reasonable or full assurance attributed across work performed. Grant reviews are excluded from the annual evaluation as either assurance is provided immediately or at the conclusion of testing, following required amendments to ensure that the expenditure complies with the terms and conditions of the grant.
- 3.3** Internal Audit follows up audits where at least one high risk exception has been raised. Exceptions are followed up in the next financial year, to allow for agreed actions to be sufficiently implemented. The overall position of the 120 exceptions followed up through 2023/24 shows that 54 (45%) have been closed by audit, however 66 (55%) are overdue due to the actions being in progress or outstanding. The overall percentage of closed risks this year has increased marginally from 44 to 45%. An audit action tracker will be introduced during 2024-25 to aid management in maintaining visibility of unmitigated risk exposure, highlighted during audit reviews.
- 3.4** Internal control failings evidenced within this year's audit work covers relaxation or ceasing of key controls without escalation or approval from management. This was found in relation to annual checks to ascertain continuing entitlement to childcare payments, delayed verifications of payments due to a main supplier, stock security and monitoring of fuel consumption. There were also areas of non-compliance with internal policies and procedures specifically purchases using purchase cards, vehicle hire/ travel arrangements and robust inventory arrangements. These issues feed into failure to deliver value for money and within the backdrop of known significant financial pressures.
- 3.5** In addition to the points noted above several audit reviews highlighted poor budgetary forecasting when preparing for the 2023-24 financial year. There were failings of services to effectively communicate between directorates culminating in overspends, due to higher eligibility numbers, unit costs and demand on placement spend. Furthermore, audit testing of a sample of undelivered savings in



2022/23 identified several key factors for non-delivery including unrealistic assumptions on size and speed of savings and a lack of documented plans and scrutiny. Improvements to savings delivery have been noted in 2023-24 with a review of achieved savings in February 2024 identifying that 79% (£31.84m) of 2023/24 savings targets were met this financial year which is a significant increase on the 39% reported in 2022/23.

- 3.6** Work has also gone into improving the accuracy of the budget setting process. The reshaping financial management programme for 2024-25 includes reform to financial planning to improve accountability, reporting and ensuring monitoring leads to management actions including deficit recovery plans. A lessons learned exercise focusing on the 2024/25 budget setting has commenced and any findings will be incorporated into future reforms.
- 3.7** However historic decision making to direct resource and capital to fire safety compliance has had a knock-on effect with the condition of housing stock, evidenced with the record number of non-decent homes (including the length of time properties have remained void and the level of responsive repairs). Equally decision making into unintended working practices has resulted in the council carrying a contingent liability to cover potential equal pay claims. Both areas have a sizable impact on the financial pressures felt at the council.
- 3.8** The annual assessment of the effectiveness of the internal control framework is influenced not only by the results of the audits performed during the year and other intelligence gained (investigations and consultancy work), but also the council's emerging risks. The council has had further changes to its senior management team, most recently in the last 8 months, with further directorate restructuring and changes to staffing arrangements.
- 3.9** Delivery of priorities moving forward is against unprecedented financial issues and a structural budget deficit. Therefore, the internal control and governance framework, which has already been tested as part of previous reducing Local Authority budgets, will continue to be challenging coupled with the transformational work required, the impact of the loss of experienced staff and a further reduction of resource, all contributing to increasing the risk exposure, be it immediate and longer term.
- 3.10** The pattern locally and nationally relating to fraud and theft, which may well be influenced by a number of factors, including flexible working and potentially less visibility, reduction of practised staff, limited resources and therefore reduction of monitoring and oversight is still evident. Alongside the economic pressures and cost of living implications these risks become more exposed.

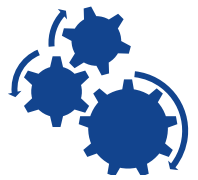


**3.11** The opinion is informed and influenced by all of the above, including the vulnerability of the governance framework and the associated emerging risks, financial instability together with the required pace and implications of the actions to address it, which means that an opinion of ‘limited assurance’ is provided for 2023-24.

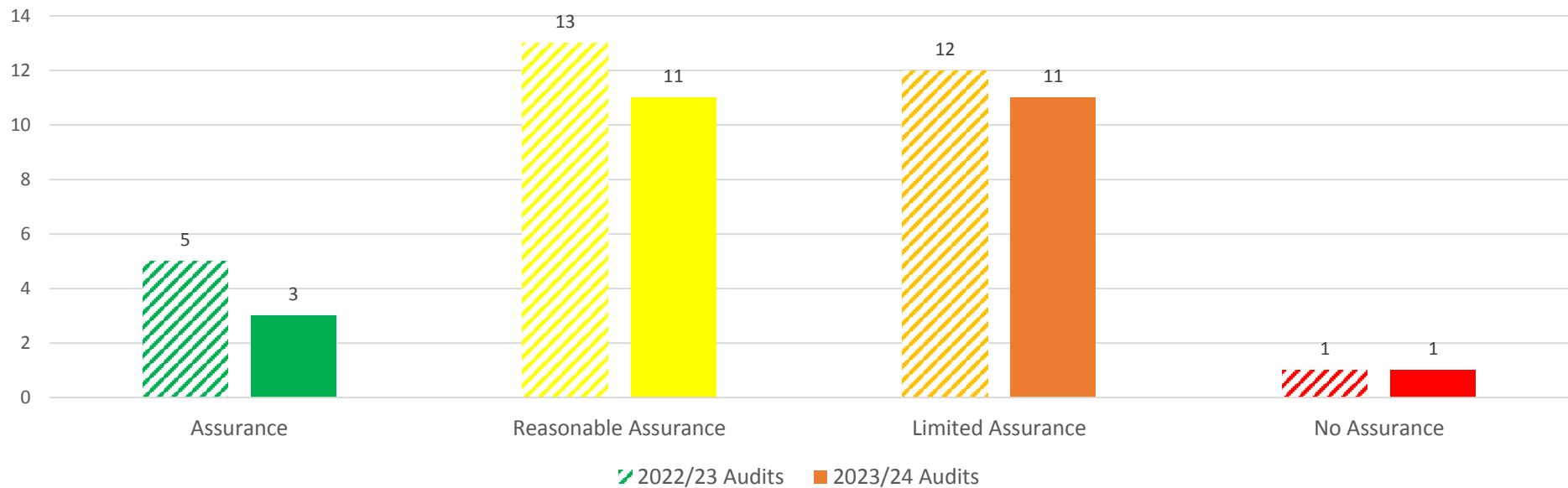


**3.12** For information: Four audit opinion levels are in place, and these are: no assurance, limited assurance, reasonable assurance, and full assurance. Where there are mainly medium or low risk exceptions the annual audit opinion would be reasonable or full assurance.

**3.13** Any significant corporate weaknesses and agreed actions will be reflected in the Annual Governance Statement. The impact of the Internal Audit work for 2023/24 may affect that year's work for External Audit. It may also inform future years where they consider there are weaknesses in control that could materially affect the accounts, they may need to carry out further work to gain the necessary audit assurance required, for a true and fair view of the financial position and compliance with professional codes of practice.



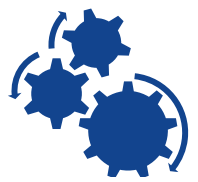
#### 4. 2022/23 & 2023/24 Full Audit Assurance Levels



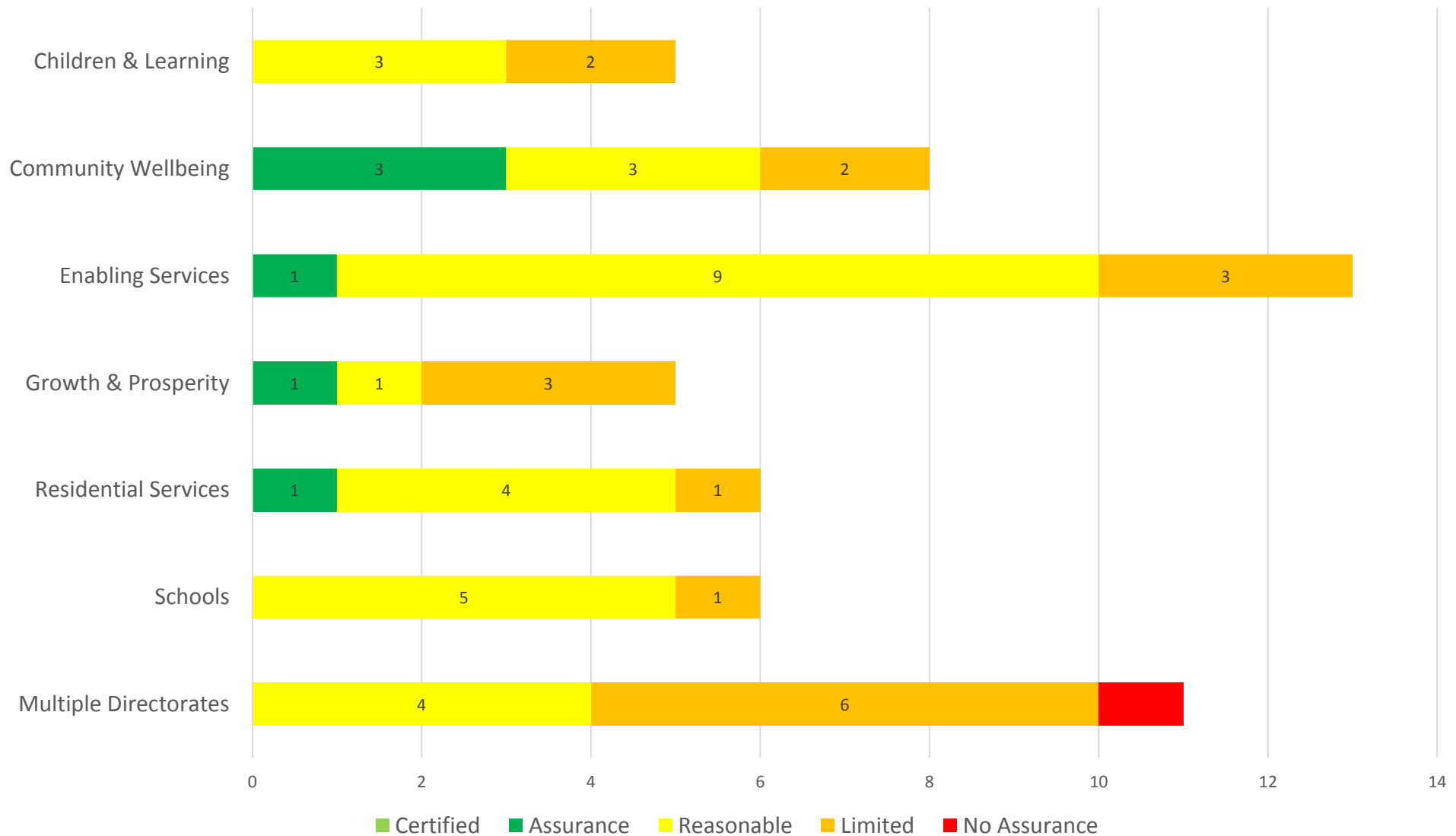
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Note: The 28 follow ups, 6 management request, 2 consultancy reports and 4 grant reviews have not been included in this graph and table.

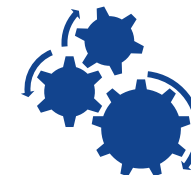
	2022/23 Full Audits	2023/24 Full Audits
<b>Assurance</b>	5 (16%)	3 (12%)
<b>Reasonable Assurance</b>	13 (42%)	11 (42%)
<b>Limited Assurance</b>	12 (39%)	11 (42%)
<b>No Assurance</b>	1 (3%)	1 (4%)
<b>TOTAL</b>	<b>31</b>	<b>26</b>



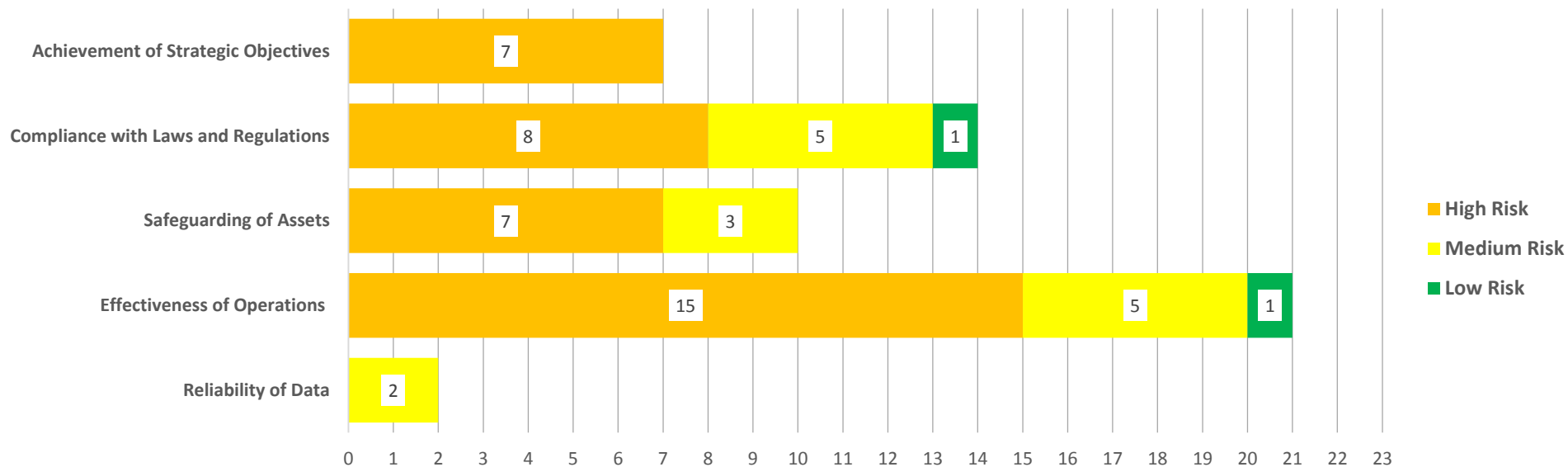
### 5. 2023/24 Audit Assurance by Executive Directorate





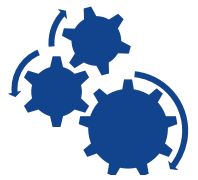


### 6. 2023/24 Exception Analysis by Risk Classification

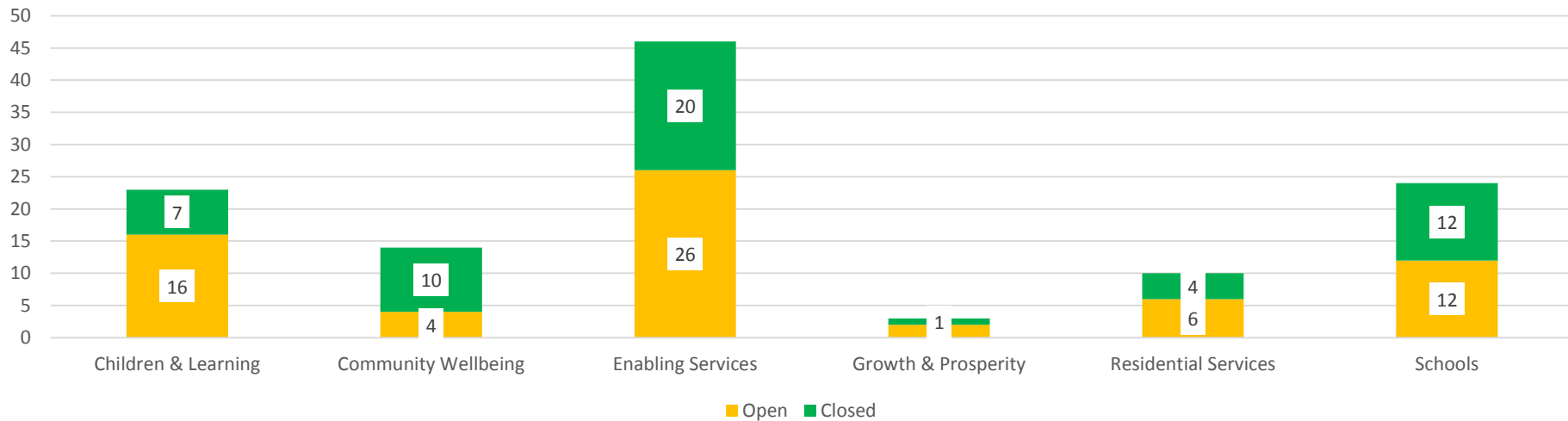


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	High Risks	Medium Risks	Low Risks	TOTAL
Achievement of Strategic Objectives	7	0	0	7
Compliance with Laws and Regulations	8	5	1	14
Safeguarding of Assets	7	3	0	10
Effectiveness of Operations	15	5	1	21
Reliability of Data	0	2	0	2
<b>TOTAL</b>	<b>37</b>	<b>15</b>	<b>2</b>	<b>54</b>



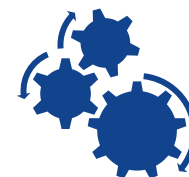
### 7. 2023/24 Open and Closed Risks by Directorate



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	Children & Learning		Community Wellbeing		Enabling Services		Growth & Prosperity		Residential Services	
	Open	Closed	Open	Closed	Open	Closed	Open	Closed	Open	Closed
<b>High Risk</b>	15	5	3	7	15	13	2	0	4	1
<b>Medium Risk</b>	1	2	1	3	10	6	0	1	2	2
<b>Low Risk</b>	0	0	0	0	1	1	0	0	0	1
<b>TOTAL</b>	16	7	4	10	26	20	2	1	6	4

Internal Audit follows up audits where at least one high risk exception has been raised. Exceptions are followed up in the next financial year, to allow for agreed actions to be sufficiently implemented. Any critical risk exceptions are followed up within three months due to the potential severity of the risks identified. The overall position of the 120 exceptions followed up through 2023/24 shows that 54 (45%) have been closed by audit, however 66 (55%) are overdue due to the actions being in progress or outstanding. The overall percentage of closed risks this year has increased from 44 to 45%.

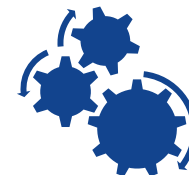


## 8. Quality Assurance

**8.1** As part of the *Public Sector Internal Audit Standards* the Chief Internal Auditor is required to maintain a quality assurance and improvement programme (QA&IP) that covers all aspects of the internal audit activity. This QA&IP must include both internal and external assessments, which are detailed below under section 14.

In addition to this, quality and improvement requirements are assessed by means of:

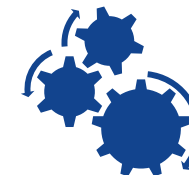
- Sign off by the Chief Internal Auditor or Deputy of all key stages of an audit, for example the scope of work and level of testing to be performed, the conclusion of the work and opinion formed followed by a review of the draft and final reports.
- Weekly or bi-weekly 1:1s with all members of staff, within Internal Audit and colleagues who undertake Counter Fraud activities.
- Annual performance reviews of all staff, including the identification and provision of training. The majority of training needs are provided by a combination of external professional studies, supporting by in-house provisions and mentoring.
- All staff above Auditor level are required to undertake professional training or have achieved an education level of degree or above. For those that have completed professional studies as part of their professional body membership, must complete the required Continuous Professional Development.
- An annual skills gap analysis across the team, (this includes the wider team) to determine specific potential shortages or gaps. Whilst no major gaps are noted at present, historical gaps in areas such as project auditing, contract auditing and IT auditing have been identified following the departure of employees (including retirement). These shortfalls have been addressed by specified recruitment, bespoke training or if required short term, by means of additional sign off/ mentoring of staff. Areas requiring improvement for this year's assessments are noted below, Skills Gap Analysis Results (8.2).
- All staff complete an annual declaration of interests including a nil return, to avoid any impingement on independence or conflict of interest.
- Feedback has been received during 2023/24 from key stakeholders, all feedback supported the quality assurance assessment reflecting that the service provided complies with *PSIAS* criteria.



## Skills Gap Analysis for 2023/24

### 8.2 Essential Areas: where greater coverage of skills is needed moving forward:

- *Experience:* experience at a senior level across multiple subject areas has decreased following retirements of senior officers in 2022. This has led to a vulnerability as knowledge within certain areas is limited. Training and mentoring of more junior or less experienced officers has been provided over the last year and this will continue moving forward.
- *Auditing, Specialist IT Auditing skills:* these are limited within the overall service (Partnership) with only two officers currently qualified. To address this shortfall, professional training will continue for a third officer and use will also be made of resources employed elsewhere under the various partnerships and shared service arrangements.
- *Counter Fraud skills:* whilst there are three officers qualified in Counter Fraud (CF) and investigative practice these resources are limited. There has been a significant increase in the level of investigations across the partnership, including grant related fraud prevention and assessment work, which has placed this area of the service under pressure. Two officers are currently undergoing specific investigative training, with the expectation that they will also be fully qualified by the end of March 2026.
- *Qualified Accountants:* the final area to note is in relation to the level of qualified auditors, specifically 'accountancy qualified'. Following the retirement of three officers (within the partnership). One implication is the ability to verify certain grant work, where the accounting qualification is required. This position has improved as the Principal Auditor is now fully qualified under Chartered Institute of Management Accountants.

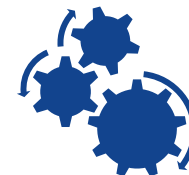


## 9. 2023/24 Audits Completed - not previously reported

### Allocations Policy

Overall Assurance Level				Assurance Level by Scope Area	
<b>Assurance</b>				Achievement of Strategic Objectives	<b>Assurance</b>
<b>Exceptions Raised</b>				Compliance with Policies, Laws & Regulations	<b>Assurance</b>
<b>Critical</b>	<b>High</b>	<b>Medium</b>	<b>Low</b>	Safeguarding of Assets	<b>No Areas Tested</b>
<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	Effectiveness and Efficiency of Operations	<b>No Areas Tested</b>
				Reliability and Integrity of Data	<b>Assurance</b>

No exceptions have been raised as a result of the above testing. The review found that the Authority had sufficient processes in place to satisfy legislative requirements of the allocation of housing and that they were complying with those processes on a case level. The relevant policies and strategy are in place in line with the Housing Act 1996 and best practice guidance from central government.



**Budgets & Savings Proposals**

**Overall Assurance Level**

**Management Request**

**Exceptions Raised**

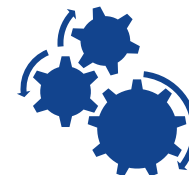
Critical	High	Medium	Low
0	2	0	0

**Latest implementation date scheduled is  
March 2024**

**Assurance Level by Scope Area**

Achievement of Strategic Objectives	<b>No Areas Tested</b>
Compliance with Policies, Laws & Regulations	<b>No Areas Tested</b>
Safeguarding of Assets	<b>No Areas Tested</b>
Effectiveness and Efficiency of Operations	<b>No Areas Tested</b>
Reliability and Integrity of Data	<b>No Areas Tested</b>

Internal Audit undertook a review of budget savings & proposals on managements request to establish the lessons learned from previously undelivered savings proposals. Along with review of the progress made on the areas of development identified in The Chartered Institute of Public Finance and Accountancy (CIPFA) review. The report concluded there had been clear improvements to address the areas of development and the strict cost control measures helped ensure that costs did not accelerate in year while implementing a significant number of savings proposals. The report noted concerns with the budget shortfall for 2025/26 and the heavy weighting to efficiency savings over future years to close the structural deficit. The report made two recommendations in relation to the rollout of a compulsory financial management training programme and a benefit realisation plan for the Transformation Programme.



**Damp & Mould**

**Overall Assurance Level**

**Reasonable**

**Exceptions Raised**

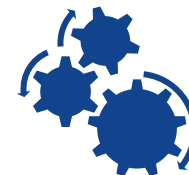
Critical	High	Medium	Low
0	1	1	0

**Latest implementation date scheduled is  
March 2024**

**Assurance Level by Scope Area**

Achievement of Strategic Objectives	No Areas Tested
Compliance with Policies, Laws & Regulations	Reasonable
Safeguarding of Assets	No Areas Tested
Effectiveness and Efficiency of Operations	Reasonable
Reliability and Integrity of Data	Assurance

The high risk exception was raised in relation to sample testing of 25 damp and mould cases establishing 8/25 did not include photographs alongside the surveyor’s findings, 6/25 did not have a surveyor report on file and for 10/25, testing was unable to evidence the authority contacting tenants to follow up on damp and mould issues. The medium risk exception was raised in relation to a lack of sufficient information on the website for private tenants who are looking to deal with damp and mould issues.



**Equal Pay Claims**

**Overall Assurance Level**

**Management Request**

**Exceptions Raised**

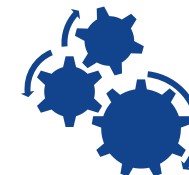
<b>Critical</b>	<b>High</b>	<b>Medium</b>	<b>Low</b>
0	0	0	0

**Assurance Level by Scope Area**

Achievement of Strategic Objectives	<b>No Areas Tested</b>
Compliance with Policies, Laws & Regulations	<b>No Areas Tested</b>
Safeguarding of Assets	<b>No Areas Tested</b>
Effectiveness and Efficiency of Operations	<b>No Areas Tested</b>
Reliability and Integrity of Data	<b>No Areas Tested</b>

Internal Audit undertook a review of equal pay claims on managements request to establish the casual factors for the claims and parties involved, along with any lessons learnt. The findings from work carried out established that there was historic awareness of unintended working practices but that corrective action had not been completed/ followed through to conclusion. Key parties involved no longer work for the council.





**Fleet and Travel Costs**

**Overall Assurance Level**

**Management Request**

**Exceptions Raised**

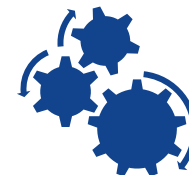
Critical	High	Medium	Low
0	3	0	0

**Latest implementation date scheduled is  
March 2025**

**Assurance Level by Scope Area**

Achievement of Strategic Objectives	No Areas Tested
Compliance with Policies, Laws & Regulations	No Areas Tested
Safeguarding of Assets	Limited
Effectiveness and Efficiency of Operations	No Areas Tested
Reliability and Integrity of Data	No Areas Tested

An audit review of fleet and travel costs was undertaken to establish the long-term strategy, identify spending trends and cost control measures. This review highlighted three concerns, the first being, in relation to the Contractual Car User allowance which is more generous than neighbouring authorities and harder to justify given current financial constraints. The second concern was raised around the lack of long-term assessment/plan for the current fleet to establish when the next tranche of vehicles will need replacing and to review the growing fleet size against future outputs. The third concern was raised in relation to a lack of a driver code of conduct (as at date of testing) and a lack of monitoring of fuel consumption and general policy compliance.



**Governance Review**

**Overall Assurance Level**

**Reasonable**

**Exceptions Raised**

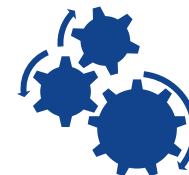
Critical	High	Medium	Low
0	0	1	0

**Latest implementation date scheduled is August 2024**

**Assurance Level by Scope Area**

Achievement of Strategic Objectives	No Areas Tested
Compliance with Policies, Laws & Regulations	No Areas Tested
Safeguarding of Assets	No Areas Tested
Effectiveness and Efficiency of Operations	Reasonable
Reliability and Integrity of Data	No Areas Tested

The medium risk exception was raised in relation to the fact that outside the constitution there is no clearly defined corporate practice on the use and creation of internal boards/forums. Overall, Southampton's governance arrangements around the creation and management of boards/forums are not governed at a corporate level and this has resulted in there being too many forums/boards at the lower level where the organisation is not clear on their purpose and/or what benefit they bring to the Authority.



**Irregular Payments**

**Overall Assurance Level**

**Management Request**

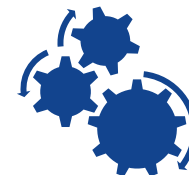
**Exceptions Raised**

<b>Critical</b>	<b>High</b>	<b>Medium</b>	<b>Low</b>
0	0	0	0

**Assurance Level by Scope Area**

Achievement of Strategic Objectives	<b>No Areas Tested</b>
Compliance with Policies, Laws & Regulations	<b>No Areas Tested</b>
Safeguarding of Assets	<b>No Areas Tested</b>
Effectiveness and Efficiency of Operations	<b>No Areas Tested</b>
Reliability and Integrity of Data	<b>No Areas Tested</b>

Internal Audit undertook a review of irregular payments that had built up in a feeder system. No wrongdoings were identified however the review did identify a significant backlog relating to a key supplier and concerns with the purchase to pay processes and lack of cost control authorisations. An audit review of the feeder system has been included in the 2024/25 Audit Plan to review efficiency and effectiveness of operations in this area.



**IT Skills Review**

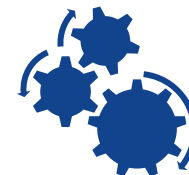
Overall Assurance Level			
<b>Management Request</b>			
Exceptions Raised			
<b>Critical</b>	<b>High</b>	<b>Medium</b>	<b>Low</b>
0	0	0	0

**Assurance Level by Scope Area**

Achievement of Strategic Objectives	<b>No Areas Tested</b>
Compliance with Policies, Laws & Regulations	<b>No Areas Tested</b>
Safeguarding of Assets	<b>No Areas Tested</b>
Effectiveness and Efficiency of Operations	<b>No Areas Tested</b>
Reliability and Integrity of Data	<b>No Areas Tested</b>

Internal Audit were requested to undertake an IT skills and capability assessment. In January 2024, the IT team at the council engaged with SOCTIM Advisory (Society of Innovation, Technology and Modernisation) with regards to the company conducting a Discovery piece of work and a Capability Assessment on the IT Team. The results of the work undertaken by SOCITIM to date have highlighted areas for improvement within the IT team with regards to People, Design, Plan & Implement and Process. The 'People' element includes a focus on Capability management which would include how CareDirector skills and capabilities are managed moving forward. Internal Audit will continue to liaise with the Director of Digital and review any further findings presented to ensure that any future auditing requirements can be scheduled and address. However, at this stage no further work will be carried out by Internal Audit, specifically in relation to the assessment of IT Skills and CareDirector due to duplication.

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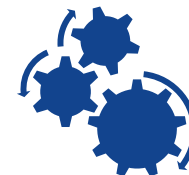


**List of Completed Consultancy Work**

Outcomes:	Consultancy
1. <b>Financial Rules Non-Compliance</b> - Internal Audit held regular meetings with individuals to provide input in relation to the financial control framework.	
2. <b>Transformation Programme</b> - Internal Audit held regular meetings with individuals to maintain visibility and provide input in relation to the transformation programme.	

**List of Completed Grants**

Grant Outcomes:	Assurance/Certified
1. Family Matters Grant	

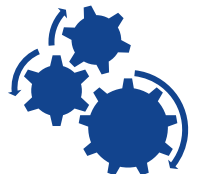


### 10. 2023/24 Follow-Up Audits Completed - not previously reported

Accounts Payable				Latest implementation date scheduled for follow up action is July 2024	Original Assurance Level		Follow up Assurance	
Critical	High	Medium	Low		Limited	Reasonable		
0	1	4	0					
Open	In Progress	Implemented but Not Effective	Closed: Verified	Closed: Not Verified	Closed: Management Accepts Risks	Closed: No Longer Applicable		
0	3 (Medium)	0	1 (High) 1 (Medium)	0	0	0		

Follow up testing was able to close one high and one medium risk exception. The medium risks were raised in relation to timeliness of payments and ensuring purchase orders were raised and goods received notes confirmed promptly. The follow up review established that the number of invoices paid within payment terms fluctuated between 82-88% and the authority could be liable for a quarterly charge of £80k if companies charged interest in line with Late Payment legislation.

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**Accounts Receivable**

**Original Exceptions Raised**

<b>Critical</b>	<b>High</b>	<b>Medium</b>	<b>Low</b>
0	0	2	0

Latest implementation date scheduled for follow up action is Oct 2024

**Original Assurance Level**

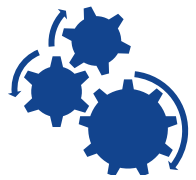
Limited

**Follow up Assurance**

Reasonable

Open	In Progress	Implemented but Not Effective	Closed: Verified	Closed: Not Verified	Closed: Management Accepts Risks	Closed: No Longer Applicable
0	1 (Medium)	0	1 (Medium)	0	0	0

Follow up testing was able to close one high and one medium risk exception. The medium risks were raised in relation to timeliness of payments and ensuring purchase orders were raised and goods received notes confirmed promptly. The follow up review established that the number of invoices paid within payment terms fluctuated between 82-88% and the authority could be liable for a quarterly charge of £80k if companies charged interest in line with Late Payment legislation.



**Appointeeship**

**Original Exceptions Raised**

<b>Critical</b>	<b>High</b>	<b>Medium</b>	<b>Low</b>
0	9	2	0

Latest implementation date scheduled for follow up action is October 2024

**Original Assurance Level**

**No Assurance**

**Follow up Assurance**

**Limited**

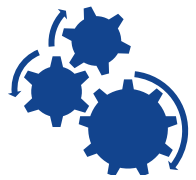
**Follow Up Action**

Open	In Progress	Implemented but Not Effective	Closed: Verified	Closed: Not Verified	Closed: Management Accepts Risks	Closed: No Longer Applicable
0	4 (High) 2 (Medium)	0	1 (High)	4 (High)	0	0

Follow up work was able to close five high risk exceptions. The first high risk relating to annual assessments remains in progress whilst the process for reviewing Personal Independence Payments (PIPs) is determined. The second high risk relating to accuracy of payments remains in progress as the current IT provider for Care Director is withdrawing from the market which means the organisation will need to consider which system will house essential client information. The third high risk relating to the balance for transferring clients to Hampshire council remains in progress while the deputyship contract and threshold account balance is reviewed. The final high risk involving record keeping remains in progress as there remains a review underway to assess all client folders to retrieve historical Mental Capacity Act assessments to upload onto Care Director.

The first medium risk relating to covering whether to introduce cost recovery charges from clients remains in progress while it goes to consultation. The second medium risk relating to whether clients need to be managed as part of an agency arrangement remains in progress as the Section 75 agreement has come to an end and new processes need to be established.





**Child Care Payments**

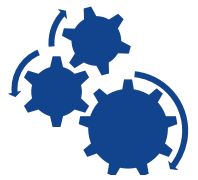
Original Exceptions Raised				Latest implementation date scheduled for follow up action is April 2024	Original Assurance Level	Follow up Assurance
Critical	High	Medium	Low		No Assurance	Limited
0	10	0	0			

Follow Up Action						
Open	In Progress	Implemented but Not Effective	Closed: Verified	Closed: Not Verified	Closed: Management Accepts Risks	Closed: No Longer Applicable
0	10 (High)	0	0	0	0	0

A review of Childcare payments process was undertaken following concerns highlighted that payments to carers have not been accurate resulting in over/underpayments. Concerns with financial controls were raised across the four main areas of review:

- **Special guardianship orders (SGOs) financial assessments** – assessments had not been undertaken for several years and therefore the mitigating control to ensure accuracy of payments was not in place, which resulted in payments being made to carers who may not have been entitled.
- **Child arrangement orders (CAOs), SGOs and Connected Carers** - testing of the newest processes raised concerns with the lack of consistency or challenge on the notification of payments, lack of segregation of duties with the Accountancy Assistant who processes the payments also reviewing them for accuracy and there being no individual reconciliation to ascertain whether the carer is still entitled to payment (i.e. when the young person reaches the age of 18 and is no longer in further education).
- **Adoption** - adoption carers may receive payments which are badged under 'Adoptive Allowance.' There is no standard allowance for adoption carers the payments may vary from special one-off payments, payments to support children with health needs, or payments to ease a former foster carer into adoption. Between April 2020 and August 2023, a total of 16,578 payments were made at a total value of £2.29m. A sample of 5 carers was selected to review payments made which identified that 60% (3/5) were either incorrect or misclassified. A review of the new process identified concerns with the mechanisms to monitor carer payments are accurate, a lack of financial reviews and an incomplete management trail.
- **Fostering** – a review of 5 foster carers care payments against the Foster Carer Allowance and Payments Policy identified that 3/5 did not correlate to the Foster PA report indicating an overpayment and 1/5 had an underpayment relating to a 'Birthday Allowance'. A review of the new process will be included in an upcoming fostering follow up audit.

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A 'no assurance' opinion was originally assigned due to the unknown values associated. Further Internal Audit work was carried out resulting in the assurance level moving to 'limited assurance' due to the immediate work undertaken. Processes across all systems have been developing to reduce risks following the concerns raised; however, many residual gaps remain, and 10 recommendations were raised in relation to the risk exposure. A £350k reduction in costs has been assessed by finance colleagues as the end result of reassessment work performed.

**Deprivation of Liberty Safeguards (DoLS)**

**Original Exceptions Raised**

<b>Critical</b>	<b>High</b>	<b>Medium</b>	<b>Low</b>
0	5	0	0

Latest implementation date scheduled for follow up action is December 2024

**Original Assurance Level**

**Limited**

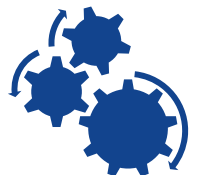


**Follow up Assurance**

**Limited**

Open	In Progress	Implemented but Not Effective	Closed: Verified	Closed: Not Verified	Closed: Management Accepts Risks	Closed: No Longer Applicable
0	2 (High)	0	3 (High)	0	0	0

Follow up testing has been able to close three high risk exceptions. The first high risk that remains in progress is in relation to timely assessments with testing being unable to establish any significant improvement in timeliness of administration and authorisation of referrals. The second high risk raised in relation to timely advocate allocations remains in progress as testing 77 (58%) of advocate referrals had breached the service level agreement. Whilst three high risks have been closed, these were more secondary in nature to the open exceptions, resulting in the overall assurance remaining at limited.



**Funding Pathways**

**Original Exceptions Raised**

<b>Critical</b>	<b>High</b>	<b>Medium</b>	<b>Low</b>
0	1	0	0

**Original Assurance Level**

<b>Reasonable</b>
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**Follow up Assurance**

<b>Assurance</b>
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Open	In Progress	Implemented but Not Effective	Closed: Verified	Closed: Not Verified	Closed: Management Accepts Risks	Closed: No Longer Applicable
0	0	0	1 (High)	0	0	0

Follow up testing has been able to close the high risk exception due to the panels, which determine and assess funding pathways, now have a formal term of reference.

**Housing Rents and Arrears**

**Original Exceptions Raised**

<b>Critical</b>	<b>High</b>	<b>Medium</b>	<b>Low</b>
0	2	3	0

Latest implementation date scheduled for follow up action is March 2025

**Original Assurance Level**

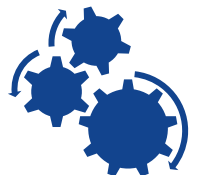
<b>Limited</b>
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**Follow up Assurance**

<b>Limited</b>
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Open	In Progress	Implemented but Not Effective	Closed: Verified	Closed: Not Verified	Closed: Management Accepts Risks	Closed: No Longer Applicable
0	2 (High) 2 (Medium)	0	1 (Medium)	0	0	0

Follow up testing has been able to close one medium risk exception. The high risks relating to the level of current and former tenant arrears remain in progress as while the level of arrears has stabilised it remains at an elevated level, a key impact on current arrears was the significant increase in landlord controlled heating charges/arrears. The first medium risk relating to rent accounts in surplus remains in progress due to a number of historic surplus balances where avenues to return funds had been exhausted and a financial decision on next steps needed to be made. The second open medium risk relating to bedroom discrepancies in rent charging and property lists remained in progress with 23 property discrepancies needing to be investigated.



**Key Financial Controls – (Follow up element of wider review)**

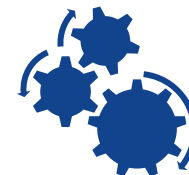
<b>Original Exceptions Raised</b>				<b>Latest implementation date scheduled for follow up action is December 2024</b>	<b>Original Assurance Level</b>		<b>Follow up Assurance</b>	
<b>Critical</b> 0	<b>High</b> 1	<b>Medium</b> 1	<b>Low</b> 0		<b>Limited</b>		<b>Limited</b>	
<b>Open</b> 0	<b>In Progress</b> 1 (High) 1 (Medium)		<b>Implemented but Not Effective</b> 0	<b>Closed: Verified</b> 0	<b>Closed: Not Verified</b> 0	<b>Closed: Management Accepts Risks</b> 0	<b>Closed: No Longer Applicable</b> 0	

Follow up testing established that the high risk relating to gifts and hospitality remained in progress with follow up testing establishing 25% of employees surveyed had not read the policy. The medium risk relating to safes remained in progress due to a lack of access controls regarding the Legal safe key.

**Operator Licence**

<b>Original Exceptions Raised</b>				<b>Latest implementation date scheduled for follow up action is December 2024</b>	<b>Original Assurance Level</b>		<b>Follow up Assurance</b>	
<b>Critical</b> 0	<b>High</b> 3	<b>Medium</b> 1	<b>Low</b> 0		<b>Limited</b>		<b>Reasonable</b>	
<b>Open</b> 0	<b>In Progress</b> 2 (High)		<b>Implemented but Not Effective</b> 0	<b>Closed: Verified</b> 1 (High)	<b>Closed: Not Verified</b> 1 (Medium)	<b>Closed: Management Accepts Risks</b> 0	<b>Closed: No Longer Applicable</b> 0	

Follow up testing has been able to close one high and one medium risk exception. A high risk exception raised in relation to a lack of a defined driver policy remained in progress as while a driver code of conduct had been drafted, it had not yet been implemented at the time of testing. The second high risk relating to management oversight remained in progress due to a lack of key performance indicators and reporting on operator licence compliance.



**Payroll**

**Original Exceptions Raised**

<b>Critical</b>	<b>High</b>	<b>Medium</b>	<b>Low</b>
0	2	2	0

Latest implementation date  
scheduled for follow up  
action is May 2024

**Original Assurance Level**

**Limited**

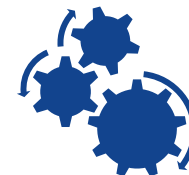


**Follow up Assurance**

**Reasonable**

Open	In Progress	Implemented but Not Effective	Closed: Verified	Closed: Not Verified	Closed: Management Accepts Risks	Closed: No Longer Applicable
0	1 (High) 1 (Medium)	0	1 (High) 1 (Medium)	0	0	0

Follow up testing has been able to close one high and one medium risk exception. A high risk exception raised in relation to new starter documentation remains in progress with follow up testing still identifying gaps in new starter records. A medium risk exception raised in relation to schools' pension returns remains in progress due to the Hampshire Pension Fund highlighting a number of data quality concerns which could lead to a financial penalty.



**Engaging Third Parties (End to End Procurement)**

**Original Exceptions Raised**

<b>Critical</b>	<b>High</b>	<b>Medium</b>	<b>Low</b>
0	3	0	0

Latest implementation date scheduled for follow up action is September 2024

**Original Assurance Level**

**Limited**

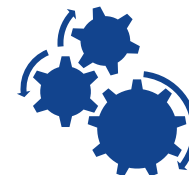


**Follow up Assurance**

**Limited**

Open	In Progress	Implemented but Not Effective	Closed: Verified	Closed: Not Verified	Closed: Management Accepts Risks	Closed: No Longer Applicable
0	2 (High)	0	1 (High)	0	0	0

Follow up testing has been able to close one high risk exception. A high risk exception raised in relation to specifying and finalising procurement documentation remains in progress as while the time taken for procurement documents to be prepared has come down 10%, for 37 projects the average time waiting for a specification was 464 days. The second high risk remained in progress as while there had been work undertaken in relation to workplans and reducing unplanned work, there was still concerns with the level of workloads required on Procurement Business Partners.



**Public Health Outcomes**

**Original Exceptions Raised**

<b>Critical</b>	<b>High</b>	<b>Medium</b>	<b>Low</b>
0	1	0	0

**Original Assurance Level**

<b>Reasonable</b>
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**Follow up Assurance**

<b>Assurance</b>
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Open	In Progress	Implemented but Not Effective	Closed: Verified	Closed: Not Verified	Closed: Management Accepts Risks	Closed: No Longer Applicable
0	0	0	1 (High)	0	0	0

Follow up testing has been able to close the high risk exception. The residual part of the exception relating to the access to Health Checks data to aid decision making has seen improvement due to there being additional avenues for information gathering with further actions being taken noted in the report.

**Public Health Outcomes**

**Original Exceptions Raised**

<b>Critical</b>	<b>High</b>	<b>Medium</b>	<b>Low</b>
0	1	2	0

**Original Assurance Level**

<b>Reasonable</b>
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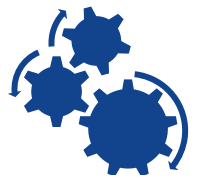
**Follow up Assurance**

<b>Assurance</b>
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Open	In Progress	Implemented but Not Effective	Closed: Verified	Closed: Not Verified	Closed: Management Accepts Risks	Closed: No Longer Applicable
0	0	0	1 (High) 2 (Medium)	0	0	0

Follow up testing has been able to close the high and two medium risk exceptions following action taken by the service to improve its inventory record keeping, settling the petty cash issues and improvements on staff training.



**Risk Management (Operational)**

**Original Exceptions Raised**

<b>Critical</b>	<b>High</b>	<b>Medium</b>	<b>Low</b>
0	2	0	0

Latest implementation date scheduled for follow up action is December 2024

**Original Assurance Level**

**Limited**



**Follow up Assurance**

**Reasonable**

Open	In Progress	Implemented but Not Effective	Closed: Verified	Closed: Not Verified	Closed: Management Accepts Risks	Closed: No Longer Applicable
0	1 (High)	0	1 (High)	0	0	0

Follow up testing has been able to close one high risk exception. The remaining high risk relating to undertaking a risk management skills analysis remains in progress awaiting the results of the Annual Governance Statement to assess need.

**Tower Blocks (Safety Compliance)**

**Original Exceptions Raised**

<b>Critical</b>	<b>High</b>	<b>Medium</b>	<b>Low</b>
0	2	1	0

Latest implementation date scheduled for follow up action is December 2024

**Original Assurance Level**

**Limited**



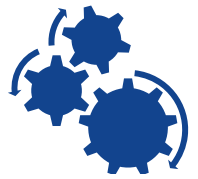
**Follow up Assurance**

**Reasonable**

Open	In Progress	Implemented but Not Effective	Closed: Verified	Closed: Not Verified	Closed: Management Accepts Risks	Closed: No Longer Applicable
0	2 (High)	0	1 (Medium)	0	0	0

Follow up testing has been able to close the medium risk exception. The first high risk raised in relation to tower block servicing remains in progress as while work is underway to replace InfoExchange, a replacement system has not yet been procured to improve on the data lags for communal compliance checks. The second high risk raised in relation to fire risk actions remains in progress as 17 high risk fire actions are overdue, although testing was able to establish that work is underway to close these actions.





**Transition Childrens to Adults**

**Original Exceptions Raised**

<b>Critical</b>	<b>High</b>	<b>Medium</b>	<b>Low</b>
0	1	0	0

Latest implementation date scheduled for follow up action is June 2024

**Original Assurance Level**

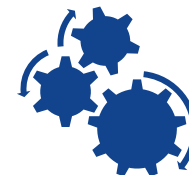
**Reasonable**

**Follow up Assurance**

**Reasonable**

Open	In Progress	Implemented but Not Effective	Closed: Verified	Closed: Not Verified	Closed: Management Accepts Risks	Closed: No Longer Applicable
0	1 (High)	0	0	0	0	0

Follow up testing established that the high risk exception relating to ensuring information sharing agreements were up to date remained in progress however the rollout of individual client consent forms are sufficient to support the sharing of information on a case by case basis.



## 11. Counter Fraud & Audit Unplanned Reactive Work

A summary has been provided of Counter Fraud and Audit reactive work conducted during 2023/24.

### 11.1 Investigations

Of the investigations performed:

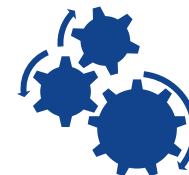
- There has been an instance of Tax Evasion where a supplier company had been dissolved post supplier due diligence checks. This company has been reported to HMRC and subsequently invoiced for £33,530.
- In addition, there has been a small, alleged theft estimated as below £500 worth of stock, due to wider performance issues the member of staff was dismissed.

### 11.2 Ongoing NFI

The Internal Audit Team are responsible for the management and admin of the Authority's participation in the National Fraud Initiative (NFI) which is a mandatory scheme in which multiple data sets are uploaded and analysed. The results are then presented back to the council for investigation. Responsibility for investigating the referrals is split across multiple teams including the Counter Fraud Team.

### 11.3 Advice

Internal Audit gave 11 items of advice across varying council services on risk and control throughout the financial year 2023/24.



## 12. Public Sector Internal Audit Standards

**12.1** Under the *Public Sector Internal Audit Standards (PSIAS, the Standards) Standard 1310* requires that, as part of the quality assurance and improvement programme internal and external assessments (of conformance with the *PSIAS*) must be undertaken. *Standard 1311* allows for periodic self-assessments, which has been performed on an annual basis for Southampton City Council but also wider on Portsmouth City Council. The results of the self-assessment have been communicated annually alongside the annual audit opinion to this committee.

**12.2** *Standard 1312* requires that an external assessment must be conducted at least once every five years by a qualified, independent assessor or assessment team from outside the organisation. The Standards state that a qualified assessor demonstrates competence in two areas; the professional practice of internal auditing and the external assessment process. Competence can be demonstrated through a mixture of experience and theoretical learning. An independent assessor means not having an actual or perceived conflict of interest and not being part of, or under the control of, the organisation to which the internal audit activity belongs.

**12.3** During 2022/23 an External Quality Assessment (EQA) was carried out of the Internal Audit Service (including arrangements in place in the Island), to comply with the Public Sector Internal Audit Standards (PSIAS) identified above. The EQA assessed the Service against key PSIAS standards, confirming:

- Appropriate strategic documentation and policies are in place.
- The Service is correctly managed and resourced (skill set).
- Audits are carried out, from scoping to finalisation, in line with good practice.

**12.4** Overall Internal Audit achieved the highest rating possible, with no substantive issues identified with either the constitution or operation of the Service.

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