

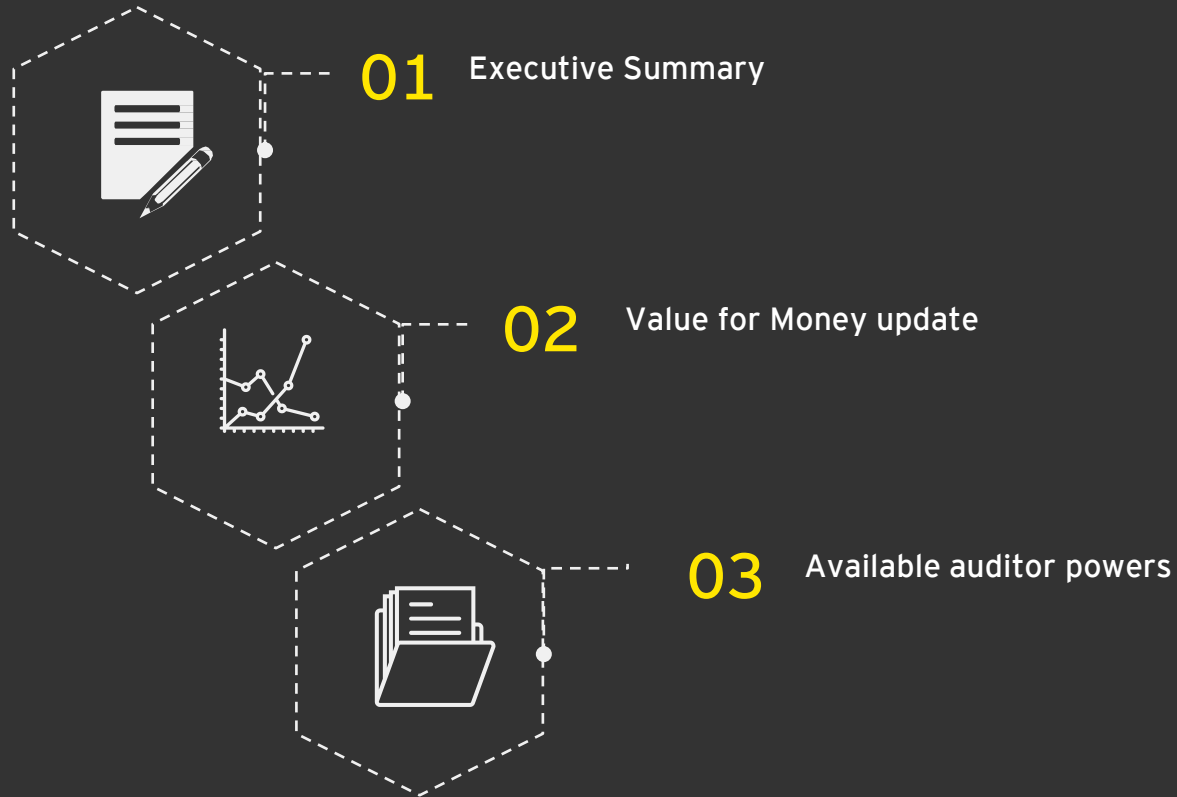
A photograph of a modern, brightly lit interior space, likely a council chamber or meeting room. The room features a high ceiling with recessed lighting and a polished, reflective floor. The walls are primarily glass, with dark frames, and the space is open and unoccupied. The lighting is bright and even, creating a clean and professional atmosphere.

**Southampton City  
Council**

**Value for Money  
Arrangements  
Update**

July 2023

# Contents



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

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

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



# 01 Executive Summary



# Executive Summary

## Our responsibilities under the NAO Code of Audit Practice 2020

Under the National Audit Office's (NAO) Code of Audit Practice 2020 (the '2020 Code' we are required to consider whether the Council has put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources. The 2020 Code requires the auditor to design their work to provide them with sufficient assurance to enable them to report to the Council a commentary against specified reporting criteria (see below) on the arrangements the Council has in place to secure value for money (VFM) through economic, efficient and effective use of its resources for the relevant period.

The specified reporting criteria are:

- **Financial sustainability:** How the Council plans and manages its resources to ensure it can continue to deliver its services;
- **Governance:** How the Council ensures that it makes informed decisions and properly manages its risks; and
- **Improving economy, efficiency and effectiveness:** How the Council uses information about its costs and performance to improve the way it manages and delivers its services.

The NAO's 2020 Code enables us to report risks of significant weaknesses in a Council's arrangements as soon as we become aware of them, irrespective of whether or not we have started the current year audit.

## Background

The Council's budget setting reports in February 2023 included statements from the former S151 Officer in which he highlighted the risks to the Council's finances and the support necessary from its reserves.

We provided an Interim VFM report to the April 2023 Governance Committee outlining our concerns, and that we considered this situation to be a key indicator of risk of significant weakness in the Council's VFM arrangements for the 2022/23 financial year audit, and into the 2023/24 financial year.

We stated that action needed to be taken, and could not wait until the 2024/25 budget setting cycle for decision in February 2024.



## Executive Summary (continued)

### Audit Update

Since our report to the April Governance Committee, we have held regular meetings with the Council's current s151 officer

We have read the Medium Term Financial Strategy update report as presented to the 19 July Council meeting, noting the following key aspects:

- In our judgement the report appropriately sets out that *"the task of right sizing the council's expenditure to match its resources and rebuilding reserves should not be underestimated. The council is in an uncertain financial position and will need the whole organisation to focus on cost control,"* (Paragraph 4)
- It recognises the actions and plans are a start, and further action is needed (paragraph 7). These will include the action plan responding to the CIPFA review of financial resilience and financial management, to be completed after CIPFA's review of the updated projections.

### Conclusions:

- We remain concerned regarding the financial sustainability of the Council.
- The measures being put in place appear appropriate, initially focusing on the short term position with further attention moving to the medium term in due course.
- We will continue to monitor the position, and review, test and challenge those arrangements.
- As the Council is taking appropriate actions at this time with the right direction of travel, while we remain concerned, in our judgement we do not currently need to use any of the further reporting or statutory powers available to us.



02

## Value for Money update



# Value for Money Update

## Background

We reported to the Governance Committee meeting of 24 April 2023, outlining our concerns and identification of a significant risk to the Council's value for money arrangements for the 22/23 financial year, and beyond.

The Council's budget setting reports in February 2023 showed:

- reserves of £23.73m are being used on a one-off basis to balance the 2023/24 budget. Projected reserves at the end of 2023/24 were £21.0m, a reduction of £65m over the previous 5 years from £86m at the end of 2018/19.
- The former S151 Officer's concerns included a statement that *"The Council finds itself in a precarious financial position at a time when many risks are faced which will potentially weaken its finances further still. The Council is spending unsustainably, applying reserves (of £20.6M) as a one off short-term measure. Projections for our unallocated Medium Term Financial Risk (MTFR) Reserve show that this will expire in 2024-25, and potentially sooner if savings plans are not achieved and/or overspending continues. There is a major risk of the Council's finances being critically impacted to the point that a balanced budget will be challenging to achieve."*
- That he recommended that the Administration, *"when facing any new decision, to limit spending as much as possible to the criteria for Essential Spend, and to consider any options which have been tabled that could go beyond the savings identified in this report, to help lower the reliance on reserves and help protect against a risk of a S114 notice being needed in 2023/24, whereby the S151 Officer states spending exceeds the resources for funding it and limiting expenditure to statutory items only."*

The former section 151 officer highlighted the 2023/24 budget is only balanced due to significant use of reserves, and that any additional cost pressure puts further pressure on the Council's finances and there is a risk that the Council's reserves will not be sufficient.

We were aware from our meetings with officers, and specifically with the new section 151 officer who started on 27 February 2023, that the Council is considering their position and were working to identify and mitigate against any overspend. The Council was considering the savings options available to them and intended to issue a revised MTFS in July 2023 once the new section 151 officer had time to understand the situation including:

- what has already been put in place to mitigate the issue;
- what additional savings the Council can identify and deliver to reduce the pressure on the budget.

In our report to the Governance Committee we stated our view that these savings needed to be identified as soon as possible, and that delaying for the 2024/25 budget setting cycle would be too late.



## Value for Money (continued)

### Financial Sustainability: Auditor Update

Since our report to the April Governance Committee we have continued regular meetings with officers.

In the lead up to the report published for the 19 July Council meeting, we have also met with the Leader of the Council.

Within these meetings we have been updated on the actions being taken to address the budget challenge and our concerns.

We have read the MTFS update report on the 19 July Council meeting, and held a further clarification call with the s151 officer and the Chief Executive on 13 July 2023.

We have noted the high level messages within the report, which is available on the Council's website.

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

The Council has to-date focused on the current year position, but with a view to the medium term. It's focus will move more towards the medium term projections and transformational changes.

It is engaging with external bodies, including ongoing support from CIPFA, establishing a voluntary improvement board, and engaging with the Department for Levelling-Up Housing and Communities.





## Value for Money (continued)

### Financial Sustainability: Conclusion and Future actions.

#### Conclusions: July 2023.

- From these sources of information, it is our understanding and current judgement that the Council is acting appropriately to address the financial sustainability challenge. It has taken on-board our message and recommendations from our report to the April Governance Committee.
- The success of the actions it is taking will depend on ongoing budgetary control and accountability of both officers and members of the Council, and without this there is no guarantee that a s114 notice will not be required. The situation is still extremely challenging.
- We have considered our responsibilities under the Code of Audit Practice, and have determined that this interim report is an appropriate reporting mechanism at this point in time, as the Council is taking the matter forward in our judgement with the right direction of travel.
- As the Council is taking appropriate actions at this time, we have not identified the need to exercise further audit powers that are available to us, which we have outlined within Section 3 to this update report for information.

#### Future actions

We will continue to review, test and challenge the Council's arrangements within our value for money work during the summer and autumn of 2023, and continue our regular liaison with management.

We will continue to report to the Governance Committee, or take any other appropriate reporting action, depending on the facts and circumstances at that time.



03

## Auditor Reporting & Available Powers

## Appendix - Auditor reporting and available powers

### Recommendations

The table below sets out the reporting methods and powers available to the auditor. These derive from the Local Audit & Accountability Act 2014 (the Act).

Auditor responsibility and reporting	Output, if required
The auditor should maintain regular communication with the audited body to ensure emerging findings are raised on a timely basis in the form, and at the level within the audited body, that the auditor judges appropriate; 'interim reporting'	Any report or communication. For example, this report.
To consider whether the audited body has put in place proper arrangements to secure economy, efficiency and effectiveness in the use of its resources (Section 20(1)(c.) of the Act	Report by exception within the auditors report on the statement of accounts Must be considered by the audited body and responded to publicly.
To consider whether to issue a public interest report concerning any matter that comes to the auditor's attention during the course of the audit, which they judge should be considered by the audited body or brought to public attention (Section 24, and Schedule 7 of the Act);	A public interest report Must be considered by the audited body and responded to publicly.
To consider whether to make a written recommendation to the audited body, copied to the Secretary of State (Section 24 and Schedule 7 of the Act);	Written recommendation
To issue an advisory notice or to apply to the court for a declaration that an item of account is unlawful (sections 28 and 29 of the Act), if they have reason to believe that unlawful expenditure has been or is about to be incurred by an audited body	Advisory Notice
Apply for judicial review with respect to a decision of an audited body or a failure of an audited body to act, which it is reasonable to believe would have an effect on the accounts of that body (section 31 of the Act)	Judicial Review

Further information on Auditor Reporting can be obtained within the National Audit Officer's Auditor Guidance Note 7, available at [AGN 07 - Auditor Reporting - \(nao.org.uk\)](https://nao.org.uk)

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