

# Governance Committee

Monday, 24th July, 2023  
at 5.00 pm

## PLEASE NOTE TIME OF MEETING

Conference Room 3

This meeting is open to the public

### Members of the Committee

Councillor Letts (Chair)  
Councillor P Baillie  
Councillor Chapman  
Councillor McEwing  
Councillor Rayment

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## **PUBLIC INFORMATION**

### **Role of the Governance Committee**

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

#### [02 Part 2 - Articles](#)

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

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

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

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

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

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

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

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

### **Dates of Meetings: Municipal Year 2023/2024**

<b>2023</b>	<b>2024</b>
12 June	12 February
24 July	22 April
25 September	
13 November	
11 December	

## **CONDUCT OF MEETING**

### **Terms of Reference**

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

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

### **Rules of Procedure**

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

### **Business to be discussed**

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

### **Quorum**

The minimum number of appointed Members required to be in attendance to hold the meeting is 2.

## **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 **ELECTION OF VICE-CHAIR**

To elect a Vice-Chair for the Municipal Year 2023-24.

### 3 **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.

### 4 **STATEMENT FROM THE CHAIR**

### 5 **MINUTES OF PREVIOUS MEETING (INCLUDING MATTERS ARISING)**

(Pages 1 - 2)

To approve and sign as a correct record the Minutes of the meeting held on 24<sup>th</sup> April 2023 and to deal with any matters arising.

### 6 **CIPFA REVIEW OF FINANCIAL MANAGEMENT** (Pages 3 - 94)

Report of the Executive Director Corporate Services and Section 151 Officer detailing a draft of the CIPFA Review of Financial Management.

### 7 **EXTERNAL AUDIT – VALUE FOR MONEY ARRANGEMENTS UPDATE JULY 2023**

(Pages 95 - 108)

Report of the External Auditor detailing an update on value for money arrangements to date.

### 8 **ANNUAL INTERNAL AUDIT OPINION 2022-23** (Pages 109 - 142)

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

### 9 **DRAFT STATEMENT OF ACCOUNTS 2022/23** (Pages 143 - 146)

Report of the Executive Director Corporate Services detailing the Draft Statement of Accounts 2022/23.

10 **DRAFT ANNUAL GOVERNANCE STATEMENT 2022-23** (Pages 147 - 170)

Report of the Executive Director for Corporate Services seeking to review the draft Annual Governance Statement 2022-23 and to note the status of the 2021-22 Annual Governance Statement Action Plan.

11 **REVIEW OF PRUDENTIAL LIMITS AND TREASURY MANAGEMENT OUTTURN 2022/23** (Pages 171 - 204)

To inform Governance Committee of the Treasury Management activities and performance for 2022/23 against the approved Prudential Indicators for External Debt and Treasury Management.

Friday, 14 July 2023

Director Legal, Governance and HR

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GOVERNANCE COMMITTEE  
MINUTES OF THE MEETING HELD ON 24 APRIL 2023

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Present: Councillors Shields (Chair), Furnell (Vice-Chair), McEwing, D Galton and White

30. **APOLOGIES AND CHANGES IN MEMBERSHIP**

Apologies were received from Councillor Denness.

The Panel noted the resignation of Councillor Denness and the appointment of Councillor McEwing in place thereof in accordance with the provisions of Council Procedure Rule 4.3.

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

**RESOLVED:** that the minutes for the Committee meeting on 13<sup>th</sup> February 2023 be approved and signed as a correct record.

32. **ANNUAL REVIEW OF THE CONSTITUTION**

The Committee considered the report of the Director of Legal, Governance and HR and Monitoring Officer detailing the Annual Review of the Constitution which would be presented to the Annual General Meeting of Council for adoption following consideration by Governance Committee.

The Committee noted the proposed changes within the report and referred to the proposals regarding Executive Business Report and Questions from Members.

**RESOLVED:** that the proposed changes to the Constitution be recommended to Council for adoption.

33. **EXTERNAL AUDIT - 2021/22 AUDIT RESULTS REPORT**

The Committee received and noted the report of the External Auditors detailing the 2021/22 Audit Results and key messages arising from the audit of the Council's financial statements and the work undertaken to assess the Council's arrangements to secure value for money in its use of resources.

The Committee also noted that the action plan was still not completed and needed to be as soon as possible.

34. **EXTERNAL AUDIT - 2021/22 INTERIM AUDITOR'S ANNUAL REPORT**

The Committee received and noted the report of the External Auditors detailing the 2021/22 Interim Auditors Annual Report and particularly identified significant weakness in the Council's value for money arrangements for 2022/23 and made recommendations thereon.

The Committee noted that the former S151 Officer had highlighted concern regarding value for money and identified severe weakness. The new S151 Officer had brought CIPFA in who were currently undertaking a robust review of the financial organisation of the Council with their report being due first week in May. The report would be shared

with the Administration following the all-out Elections on 4<sup>th</sup> May and a report brought to this Committee's next meeting which would include a financial improvement plan.

35. **STATEMENT OF ACCOUNTS 2021/22 UPDATE**

The Committee considered the report of the Executive Director Corporate Services detailing the Statement of Accounts 2021/22 and an update on the latest position.

It was noted that the draft statement of accounts for 2021/22 for the Council were presented to the Governance Committee at its meeting on 26 September 2022. At that time the audit of the statement was substantially completed and the Committee approved the statement of accounts, however in recognition that some final audit work was still needed accepted the recommendation that "the Executive Director for Finance, Commercialisation & S151 Officer, after consultation with the Chair of the Committee, could make any further minor changes to the Statement of Accounts 2021/22 that may arise during completion of the audit." Since September, the audit had been unable to be completed, largely due to accounting issues beyond the control of the authority.

**RESOLVED:**

- (i) That the update on the Statement of Accounts 2021/22 be noted.
- (ii) That the rationale for not correcting the audit difference relating to investment properties in paras 7 and 8 be approved.
- (iii) that the Executive Director Corporate Services, after consultation with the Chair of the Committee, be authorised to make any further minor changes to the Statement of Accounts 2021/22, including any technical accounting adjustments that have no impact on the 2021/22 General Fund or HRA outturn position, that may arise during completion of the audit.

36. **ANNUAL INTERNAL AUDIT PLAN 2023-24**

The Committee considered the report of the Chief Internal Auditor detailing the Annual Internal Audit Plan 2023-24 and the Internal Audit and Counter Fraud Charter and Code of Ethics 2023-24.

The Committee noted that there was a minor amendment to recommendation (ii) of the report in that the Committee were being asked to "note" the Internal Audit and Counter Fraud Charter and Code of Ethics as set out in Appendix 2 of the report as opposed to "approve".

**RESOLVED:**

- (i) That the provisional Annual Internal Audit Plan for 2023-24 as set out in Appendix 1 be approved.
- (ii) That the Internal Audit and Counter Fraud Charter and Code of Ethics as set out in Appendix 2 be noted.



# Agenda Item 6

<b>DECISION-MAKER:</b>	GOVERNANCE COMMITTEE		
<b>SUBJECT:</b>	CIPFA REVIEW		
<b>DATE OF DECISION:</b>	24 JULY 2023		
<b>REPORT OF:</b>	EXECUTIVE DIRECTOR CORPORATE SERVICES AND SECTION 151 OFFICER		
<b><u>CONTACT DETAILS</u></b>			
<b>Executive Director</b>	<b>Title:</b>	Executive Director Corporate Services	
	<b>Name:</b>	Mel Creighton	Tel: 023 8083 3528
	<b>E-mail:</b>	<a href="mailto:Mel.Creighton@southampton.gov.uk">Mel.Creighton@southampton.gov.uk</a>	
<b>Author:</b>	<b>Title:</b>	Head of Financial Planning and Management	
	<b>Name:</b>	Steve Harrison	Tel: 023 8083 4153
	<b>E-mail:</b>	<a href="mailto:Steve.Harrison@southampton.gov.uk">Steve.Harrison@southampton.gov.uk</a>	

<b>STATEMENT OF CONFIDENTIALITY</b>	
NOT APPLICABLE	
<b>BRIEF SUMMARY</b>	
<p>On 19<sup>th</sup> July 2023 Full council has received a report updating on the Medium Term Financial Strategy (MTFS) and the financial strategy to achieve a balanced and sustainable budget for next year and beyond. That work has been informed by the work of CIPFA (the Chartered Institute of Public Finance and Accountancy) who have reviewed the financial management and the financial resilience of the authority.</p>	
<p>A draft report from CIPFA was part of the update to full council, though further work is being undertaken to confirm the forecast financial position after which the report will be finalised and presented to cabinet.</p>	
<p>This report presents the draft CIPFA report to Governance Committee and the update also tabled at full council to the Financial Procedure Rules (FPRs) which are interconnected with the measures taken in response to the CIPFA report and the financial strategy.</p>	
<b>RECOMMENDATIONS:</b>	
(i)	Notes the CIPFA report and further work to finalise the report. Comments are invited.
(ii)	Notes the changes to the Financial Procedure Rules and also provides any comments.
<b>REASONS FOR REPORT RECOMMENDATIONS</b>	
1.	The CIPFA review is an important step in the financial strategy and future direction of the authority, and hence the draft report is tabled for consideration by the Committee.
<b>ALTERNATIVE OPTIONS CONSIDERED AND REJECTED</b>	
2.	The CIPFA report informs a new financial strategy, which seeks to ensure the council is financially sustainable with balanced budgets. As mentioned in the council MTFS report, an approach of failing to take actions in-year and apply

	a new financial strategy would lead to a large forecast overspend which would mean the council being financially unsustainable and the issuing of a S114 notice.
<b>DETAIL (Including consultation carried out)</b>	
	<b>CONSULTATION</b>
3.	Not applicable
	<b>CIPFA Report</b>
4.	<p>The draft CIPFA review and changes to the Financial Procedure Rules (FPRs) were part of the report to full council on 19 July on the updated Medium Term Financial Strategy.</p> <p>CIPFA was commissioned to undertake a review of Southampton City Council's financial resilience and financial management. Also assessed were the effectiveness of the council's financial management capability, its internal processes, and its operations. A copy of the draft report is attached at Appendix 1, which reflects an earlier position as at the end of May 2023 for financial forecasts. Further work will be done to verify the current forecast position, after which the report will be updated and the revised report will be presented to Cabinet, alongside the improvement plan.</p>
5.	On financial resilience, the CIPFA report highlights the reliance on reserves to meet gaps in the council's budget and a culture of erosion of reserves which is no longer sustainable. It goes on to say "we would as a consequence consider the level of reserves is insufficient for future years. There should now be a concerted effort to replenish reserves in a planned programme".
6.	<p>CIPFA also state that though the council has presented a balanced budget for the 2023/24 financial year, "at the conclusion of 2022/23 the Council had delivered 39% of its planned savings. If this rate continues then only £7.8m of the planned £20m would be achieved in 2023/24 placing even greater pressure on delivering the budget".</p> <p>"A review of 2022/23 also indicated an overspend run rate averaging out at £1.8m per month". The report goes on to state that "This does suggest that the budget will not be delivered as planned which in itself included savings of £20m which must be considered at risk of non-delivery" and that "If the Council does not bring spending under control and deliver savings in our opinion there is a significant risk to sustainability. This would lead to the potential for considering a s114 notice later in the 2023/24 financial year".</p>
7.	The CIPFA review states that "the council needs to immediately put in place tight controls over savings delivery, cash limit spending and develop mitigation plans for non-delivery of these".
8.	The financial management part of the review utilises CIPFA's Financial Management Model (FM Model), which can support and drive effective performance in financial management and financial governance throughout a council.
9.	<p>There is a great deal of detail around the assessment. In summary the CIPFA review 'scores' the authority, based on its findings for Financial Management. The rating is a 2 Star, out of a possible 4 Star, with key findings including the following:</p> <ul style="list-style-type: none"> <li>• The results show an overall mixed position for the council.</li> </ul>

	<ul style="list-style-type: none"> <li>• Enabling transformations scores less well – this is not uncommon for local authorities.</li> <li>• Overall the budget setting and monitoring process meets many of the best practice statements and questions.</li> <li>• Overall the council does have an effective framework of financial accountability and reporting in line with professional and statutory requirements.</li> <li>• The budget setting process is not always based on a thorough understanding of costs and demand drivers leading to issues with monitoring and managing budget pressures.</li> <li>• The development of the financial strategy is improving with a longer-term outlook.</li> </ul> <p>The report goes on to identify areas for development.</p>
10.	Annexe 1.1 to the CIPFA review provides an update on the Council's Financial Procedure Rules (FPRs). This was also a part of the updated Medium Term Financial Strategy tabled at full council. Changes were proposed to keep these rules up to date and for consistency with the new financial strategy.

#### **RESOURCE IMPLICATIONS**

##### **Capital/Revenue**

11.	None
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##### **Property/Other**

12.	Not applicable
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#### **LEGAL IMPLICATIONS**

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

13.	Section 111 Local Government Act 1972 and S1 Localism Act 2011. The CIPFA report will inform the financial strategy and the council's duty to balance its budget.
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##### **Other Legal Implications:**

14.	Not applicable
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#### **RISK MANAGEMENT IMPLICATIONS**

15.	The CIPFA review is intended to assist the council with financial risk management and our financial resilience.
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#### **POLICY FRAMEWORK IMPLICATIONS**

16.	Not applicable
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<b>KEY DECISION?</b>	<b>Yes/No</b>
<b>WARDS/COMMUNITIES AFFECTED:</b>	<b>None</b>
<b><u>SUPPORTING DOCUMENTATION</u></b>	

<b>Appendices</b>	
1.	CIPFA review – draft report
2.	Annexe 1 to CIPFA report – Financial Procedure Rules update

**Documents In Members' Rooms**

1.	None
2.	

<b>Equality Impact Assessment</b>		
Do the implications/subject of the report require an Equality and Safety Impact Assessment (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>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.		
2.		

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# Southampton City Council

## CIPFA Resilience and Financial Management Review

A Report by:  
The Chartered Institute of Public Finance and Accountancy

May 2023

**CIPFA, the Chartered Institute of Public Finance and Accountancy**, is the professional body for people in public finance. CIPFA shows the way in public finance globally, standing up for sound public financial management and good governance around the world as the leading commentator on managing and accounting for public money.

Further information about CIPFA can be obtained at [www.cipfa.org](http://www.cipfa.org)

Any questions arising from this submission should be directed to:

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**Director Business Advisory and Consultancy – CIPFA**

020 7543 5600 / [john.o'halloran@cipfa.org](mailto:john.o'halloran@cipfa.org)

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# 1 Executive Summary

## 1.1 Purpose and scope of the review

CIPFA has been commissioned to undertake a review of Southampton City Council's financial resilience and financial management. In addition, CIPFA was asked to provide comparative data analysis to benchmark the Council across a range of Service areas and against its nearest neighbours.

The review will contribute to the development of a Finance Target Operating Model for the Council. To support this, we have assessed the Council's financial resilience. We have also assessed the effectiveness of the Council's financial management capability, its internal processes, and its operations. We have also examined how the Council plans its future financial management. We have then set this in the context of the wider financial picture across other local authorities, using data to highlight where the Council differs from its nearest neighbours.

This report summarises the findings of the three elements of the review. It sets out the key findings of our financial resilience review in relation to the Council's current and forecast financial position. It also sets provides analysis of the Council's financial management against the model's constituent elements, including a rating against CIPFA's five-star model.

The report also contains a series of recommendations, which can be developed into an action plan to support an improvement process.

## 1.2 Approach adopted

### **Financial resilience**

The financial resilience review concentrated on the potential scale of the budget and financial challenge that the Council faces over the next three years. This was considered from two perspectives. The first was the range and extent of pressures as a consequence of inflation, demand and investment. The second was to consider the impact of three key areas of assumption, which were savings and transformation, Government funding and local funding. The combined nature and outcome of these will all have an impact on the financial resilience and ability to address the financial challenge that the Council faces.

### **Financial management**

The financial management review comprises the model's three constituent elements: a survey; a series of interviews with staff and elected members; and a document review. The findings from each of these elements are entered into the model framework, which allows them to be scored against a standard set of statements and questions representing best practice in financial management and governance.

The statements and questions represent management dimensions and financial management styles. There are over 400 questions in total. The response to each is rated as yes, no, partly, or don't know. The collective scores for each statement are then combined to produce an overall rating.

## Benchmarking

Our approach to comparative analysis has used two key data sources. These are firstly CIPFA's Financial Resilience Index and secondly benchmarking data from CIPFA Stats+.

We have compared Southampton to its CIPFA nearest statistical neighbours to draw conclusions on a range of services and the Council's overall financial resilience and sustainability.

## 1.3 Findings

### Financial resilience

The Council has, in recent years, relied on reserves to meet gaps in its budget. This has led to balanced budgets being achieved, but has eroded the Council's reserves, leaving it a reduced amount to fall back on.

Reserves were reported at the end of 2021/22 at £96.2m (which included including revenue grants carried forward, primarily relating to Covid). The reported MTFs reserve for the financial year 2023/24 now stands at £10.1m this is a significant reduction and this erosion of reserves means that these cannot be utilised in the future years to support the Council's finances and in reality, places the organisation at significant risk during 2023/24 and beyond. The Council requires a plan to replenish should be put in place.

The Council has presented a balanced budget for the 2023/24 financial year.

At the conclusion of 2022/23 the Council had delivered 39% of its planned savings if this rate continues then only £7.8m of the planned £20m would be achieved in 2023/24 placing even greater pressure on delivering the budget.

A review of 2022/23 also indicated an overspend run rate averaging out at £1.8m per month. If this trend continues in the current financial year combined with non-delivery of savings there will be a significant budget gap at year end. The Council needs to immediately put in place tight controls over savings delivery, cash limit spending and develop mitigation plans for non-delivery of these.

**It is evident from Month 1 reporting, that the past trends have continued in to 2023/24 which shows that there is projected £25m adverse variance from the budget, mitigated to £14.1m adverse. (The reduction is made up of cost control and additional pressures). This does suggest that the budget will not be delivered as planned which in itself included savings of £20m which must be considered at risk of non-delivery.**

The External Audit report into Value for Money published earlier this year also raises concerns about the financial sustainability of the Council and that delivery of savings is crucial along with an MTFP refresh in the summer.

**If the Council does not bring spending under control and deliver savings in our opinion there is a significant risk to sustainability. This would lead to the potential for considering a s114 notice later in the 2023/24 financial year. This will also impact in longer-term sustainability when the MTFP projects a cumulative budget shortfall of circa £50m by 2027/28 with no reserves to rely on.**

## Financial management

The findings from the review are presented as a summary table which gives individual scores against key model headings, and as an overall score. The overall rating for Southampton is 2\*. This represents a score of 2.13 and the threshold for 3\* being 2.25, which would in our opinion be the next development target and a concentration on the people dimension would contribute to this.

CURRENT SNAPSHOT	Management Dimensions			
	Leadership	People	Processes	Stakeholders
Financial Management Style				
Delivering Accountability	***	*	****	***
Supporting Performance	*	*	**	***
Enabling Transformation	*	*	*	**
Overall Rating	**			

The results show an overall mixed position for the Council. The two key areas to highlight are the people dimension and the enabling transformation management style. It is not uncommon to see the transformation dimension score low for local authorities and the people aspect is a key theme for building strength and sustainability in the future.

The table above indicates both areas where the Council's performance is positive and those requiring improvement. The body of the report has a detailed analysis of individual scores and findings from the review.

The report highlights opportunities to improve and strengthen financial management and governance across the Council.

### Benchmarking

Our data analysis shows that the Council's spend per head is 21% higher than its nearest neighbours' average spend. There are potential savings that the Council could make by more closely matching its neighbours' cost per head, particularly in Education Services, Adult Social Care, and Planning and Development Services.

## 1.4 Next steps and action plan

The report includes detailed recommendations aligned to the review findings. This initial set of observations and recommendations will be the subject of discussion leading to the agreement of a final report. Following this we would agree the action plan which is intended to stimulate debate, suggesting ways to move the Council from a two to a three star organisation and the direction of travel for continued improvement.

## 2 Introduction and Background

### 2.1 Objectives of the review

CIPFA has been commissioned to undertake a review of the financial management and governance arrangements by the Council using the Financial Management Model (FM Model).

The review has the objective of assessing the Council's capability to effectively manage its current finances, internal process, and operations, as well as how it plans future financial management.

To support the financial management review, CIPFA has also reviewed the Council's financial resilience, and benchmarked the Council against its nearest neighbours.

The review will also support the development of a new Finance Target Operating Model through the evidence base used by the FM Model and areas highlighted as part of the improvement journey.

### 2.2 The current financial position

The Council faces significant financial challenges over the short, medium, and long term. Along with many other authorities, recent economic turbulence and inflationary pressures have made this position even more challenging.

While the Council has delivered some £170m of cumulative savings in the 10 years up to March 2022, it still faces the need to deliver substantial additional savings to achieve a balanced budget and evidence suggests that delivery is low, 39% in 2022/23. This challenge is made even harder by the exceptional cost pressures that it is facing around Childrens Social Care, which have already resulted in a budget deficit in the last year.

The increased pressures are also evidenced by the increasing spend in SEND services (Special Educational Needs and Disability) where there is an increasing DSG (high needs block) deficit. Whilst this is the subject of a statutory override for the next three years its importance and risk are recognised through the Council's participation in the 'Delivering Better Value' programme initiated by the DfE. This is intended to help mitigate costs but not resolve the deficit.

Over recent years, the Council has relied more and more on using reserves to help balance its budget. These reserves are now diminishing and at a level £10m for the MTFs reserve where the Council will not be able to rely on them to offset future financial shortfalls.

This means that the identification and delivery of viable Council savings plans, cost control and cash limiting spend is essential and will be key to addressing the financial challenge that the Council faces.

### 2.3 Future challenges

The Council has presented a balanced budget for 2023/24. As indicated above this is predicated on the delivery of savings and the Council and its directorates remaining with the budget allocated.

When history is examined around the delivery of savings, 2022/23 is shows delivery of only around 39% of the required amount. If this continues and is combined with a lack financial control (keeping directorates within a cash limit) at the same rate as 2022/23 the Council will face a serious financial deficit and one that could not be covered by reserves.

The medium-term outlook will remain a challenge with a projected cumulative budget gap of £50m by 2027/28. It is crucial therefore that the financial strategy continues to evolve and that savings are delivered (and not carried forward) is in the current year's budget development. The Council needs to review it's 2023/24 budget alongside a refresh of the MTFP.

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## 3 Financial resilience

### 3.1 2022/23 Financial Year

The 2022/23 financial year provides both an indication of the challenge in financial terms and in cultural terms. The timing of this review is important in considering the challenges facing the organisation that will require attention throughout the year.

At the time of the review the Council was facing an overall overspend of £11m which was made up of Departmental overspends of £20m, underspends of £2m, in year savings of £5m and general expenditure underspend £2m. The overspend (gross) run rate averages at £1.8m per month over the year with the key directorates being Children's £14m and Wellbeing £4m.

The volatility of forecasts and the inability to deliver savings have contributed to the overspend position.

The key resilience messages from the financial year which if not resolved will continue to threaten sustainability are:

- **Reserves should not be used for short term revenue deficiencies.** Reserves are approaching a level which will not provide long term resilience and the policy for their application should be re-enforced, planned and include replenishment.
- **Our review has indicated that spend control both in some directorates and therefore as a corporate collective has not been effective.** It is evident that there has been a culture that overspends will be covered. As a consequence, cash limiting and a culture of collective ownership of overspends and demand pressures (and how the organisation responds) needs to be implemented effectively and immediately.
- The development and delivery of effective savings proposals and plans is crucial. A 39% result is not satisfactory. The reasons behind this vary but clearly need to improve. We would suggest that the process for development is collective, owned by budget holders and that alternative proposals are developed as mitigation and all are stress tested through various scenarios.

### 3.2 2023/24 Financial Year

The Council has presented a balanced budget for 2023/24. Delivery of this is dependent on a number of critical factors including:

- Re-basing some services that respond to demand pressures identified in the previous year. The base has increased by £28m. This will need to be a hard cash limit budget.
- A savings target of £20m has been included, as previously indicated if delivery is at the 2022/23 rate this could end up at £7.8m (39%). Savings delivery needs to be monitored and managed continuously throughout the year and where there is a risk, alternatives put in place. From a leadership perspective the top team have a crucial role in ensuring delivery.
- The 2023/24 budget includes the use of £20m of reserves. This will leave the MTFs reserve at £10m, which is low and a risk to sustainability.
- It is evident from Early indications, based on Month 1 reporting, that there is projected £23m adverse variance from the budget, mitigated to £14.1m adverse.



(The reduction is made up of cost control and additional pressures). This does suggest that the budget will not be delivered as planned which in itself included savings of £20m which and these must be considered at risk of non delivery. Delivery of spending in line with budget is critical, the enforcement of a cash limit culture is essential with directorates having to ensure they respond any in year increases (or decrease) in demand or cost.

- The increased pressures are also evidenced by the increasing spend in SEND services (Special Educational Needs and Disability) where there is an increasing DSG (high needs block) deficit. Whilst this is the subject of a statutory override for the next three years it's importance and risk are recognised through the Council's participation in the 'Delivering Better Value' programme initiated by the DfE. This is intended to help mitigate costs but not resolve the deficit.
- A review of debt levels in Adult Social Care shows an increased level of debt over the previous financial year. With a total debt of £6.3m at the end of 2022/23 compared to £5.0m at the end of 2021/22. The debt up to two years shows the bigger increase whereas debts over 2 years has remained relatively constant. The level of debt is always a significant factor in financial sustainability and measure to reduce debt and alternative processes to secure debt and recover should continue to be considered.
- Interviews and discussion did not highlight any risks around the sustainability of the HRA. The level of HRA debt is regularly reported along with a programme to improve though it has been suggested that a reduced headcount on recovery has not helped improve recovery rates. Income and recovery will need continued careful monitoring. A freeze on rent income is seen as an issue and especially when compared to the housing rents outside local government.
- On Council Tax collection 2022/23 financial year showed a recovery of 93.61%, which indicates an improvement on previous years. The broader sector however tends to have collection rates nearer 95% which would indicate an opportunity to improve. We are aware of plans to increase the headcount in the council tax team which may well increase the rate.
- When the Council's financial performance is considered against the CIPFA indicators of financial stress we would draw the following conclusions:
  1. Running down of reserves  
It is clear that reserves have eroded over recent years to a level which will not support increased overspends or non-delivery of savings.
  2. Failure to plan and deliver savings  
Savings delivery in 2022/23 was at 39% of the required level placing increased pressure on balancing the budget.
  3. Shortening financial planning  
This has improved over the last few months with an emerging 5-year MTFS which is a positive indicator of focus and recognition of the need to consider the longer-term financial planning horizon.
  4. Tendency to overspend  
This is evident in both the 2022/23 financial year where the run rate averaging at £1.8m per month could be considered out of control and in the 2023/24 financial year where a forecast overspend has been presented at the end of month one, along with additional growth.
  5. Lack of detail in business decisions – risk management  
The review highlighted that the production of business cases was mixed. It was also evident from conversations and interviews that the degree and depth of plans for savings could be improved. This also responds to the failure to deliver savings identified.

Given the five indicators of financial stress outlined above we would draw the conclusion that the Council is at risk if improvements are not put in place quickly.

- Close scrutiny of capital programme needed – often the opportunity for revenue savings (as a consequence of programme slippage) is not compared to the loss of efficiencies planned, impact on planned savings and delivery of the corporate plan.

### 3.3 MTFP

The development of the MTFP is seen as a priority both in revisiting the assumptions and the duration. Alongside this is the link and impact of the annual budget and how performance influences the MTFP as a dynamic and responsive plan.

We are aware that the Council plans to revisit the 2023/24 budget and MTFP after the May elections when delivery of the budget, pressures and policy can be considered to maintain a realistic budget and a grip on financial performance.

The current MTFP provides a clear challenge for the organisation the indicative budget shortfall for the next three years are:

- £35m 2024/25
- £40m 2025/26
- £44m 2026/27
- £49m 2027/28

*\* Source MTFS May update*

The assumptions and supporting data should be scrutinised and refined regularly.

### 3.4 Reserves

The level and use of reserves has been referred to above. The context and history is important as it indicates a culture of erosion which is no longer sustainable.

Reserves have reduced from £96m (31/3/22) to £20m (31/3/24). In addition, the Medium-Term Financial Risk Reserve will be £10m (31/3/24) we would as a consequence consider the level of reserves is insufficient for future years. There should now be a concerted effort to replenish reserves in a planned programme.

### 3.5 Conclusion

Our conclusion based on the review and the latest financial reports is that the Council is facing an increasing risk of considering the issue of a s114 notice. This is based on both the track record of cost control and delivery of savings and the month 1 forecast which is projecting an overspend on the current budget and additional pressures.

It is crucial that the Council delivers the savings identified as planned (timing and value) and expenditure is controlled within the presented budget. Failure to do this will rapidly increase the risk of the need to issue a s114 notice either in 2023/24 or 2024/25 financial years.

The financial position and delivery of plans will need close management and any risks to delivery mitigated immediately. This will be key in achieving a sustainable future for the Council.

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## 4 The Financial Management Model

### 4.1 The model purpose

CIPFA's Financial Management Model (FM Model) can be used to support and drive effective performance in financial management and financial governance throughout a Council. It uses an internationally recognised framework and diagnostic tool, enabling Councils to have an independent assessment of their financial management against world class best practices in the public sector in order to optimise systems, processes, resources, compliance, and reporting.

The FM Model output will identify or substantiate weaknesses (as well as confirm strengths) and then support the development and delivery of a target-driven improvement plan allowing progress to be closely tracked and measured.

The FM Model measures the strengths and weaknesses across the whole of a Council, examining processes, people, leadership, and stakeholders. The model is not just about the finance function. It is about the corporate ownership and accountability for finance.

The model benchmarks the Council's financial management against best practice using a series of statements and principles. It focuses on financial management capability across the whole Council and helps pinpoint priorities for improvement. It can help raise effectiveness and confidence in stewardship, performance, and the ability to implement change.

The framework is fully aligned with today's public sector. It reflects the latest developments and opportunities in business partnering, commercialism, procurement, and governance, and stresses the critical role and prominence of the CFO and the finance team within a Council.

### 4.2 The model approach

The FM model is based on a series of statements focused on Leadership, Process, People and Stakeholders. Each of these is measured against the pillars of good financial management as follows:

**Enabling transformation:** the finance team has input into strategic and operational plans taking into account proactive risk management, clear strategic direction, and focus-based outcomes.

**Supporting performance:** finance teams are actively committed to continuous improvement focused on efficient and effective delivery and Council performance.

**Delivering accountability:** financial information is accurate, timely and focuses on controls, probity, compliance, and accountability.

Measurement is based on a series of best practice statements. A score is determined for each statement. Each statement has a number of supporting questions and the response to these is used to assist in the overall scoring process. The process is supported by an Online Diagnostic tool which captures the evidence and is then used to undertake the assessment based on the acquired evidence.

Attached at Appendix 3 is a table that indicates the assessment criteria and characteristics of each of the star ratings.

Evidence is collected through three independent methods:

**A review of documents.** The purpose of considering these is to gain a view on the formal processes, arrangements, reports, and reporting processes in place. They also provide detail on the financial position and on governance in practice. The document review also helps triangulate other evidence, allowing comparison of process and procedure with what happens in practice. The full list of documents reviewed can be found at Appendix 2 of this report.

**A series of interviews with staff and stakeholders.** The 38 interviews in total included a range of staff across the Council, and elected members. The purpose of each interview was to gain an impression and understanding of the individual's thoughts on the financial management and financial governance arrangements in operation.

**An online survey.** The survey invited a total of 202 recipients to respond to a series of questions within the model that are based around best practice. The response rate indicated that 10 out of 12 survey groups exceeded 60% or above and was a representative survey.

Following completion of these steps, the model can be used to score statements and arrive at an overall rating.

The three methods of evidence captured were then used to score the Council against the model and in a triangulated fashion that helps eliminate bias.

### 4.3 The model output

On completion, the FM Model produces a scoring matrix. This captures the assessment and presents findings back against a series of management dimensions and financial management styles. Scores are based on the three sources of evidence outlined above.

The report findings and conclusions are presented against the management dimensions. The report is a snapshot in time. It is recognised that with any Council there is a process of constant change.

The report includes a headline improvement plan. This responds to key areas identified as requiring attention. The improvement plan, areas, actions, and owners will be agreed as part of finalising the report to ensure there is ownership and acceptance of the need to act.

The scoring matrix also presents a star rating within the range 1\* to 5\*. This is seen as an indicator of where the Council is against the best practice model. In our experience most Councils we review fall into the range 2\* to 3\*. Using the review and action plan will help support the Councils development and progression to the next level.

## 5 The FM Model review findings

### 5.1 Introduction

The overall rating for the Council against the FM Model is two stars. The matrix below summarises the scoring.

CURRENT SNAPSHOT	Management Dimensions			
	Leadership	People	Processes	Stakeholders
Financial Management Style				
Delivering Accountability	***	*	****	***
Supporting Performance	*	*	**	***
Enabling Transformation	*	*	*	**
<b>Overall Rating</b>	**			

Each statement contained within the model is scored. These scores are the aggregated in to the matrix areas above using a structured approach that reflects the management styles. Summary ratings are shown above with an overall final score and star rating.

Leadership			2022	2022	Matrix Score	Matrix Stars
Delivering Accountability	L1	Financial capability is regarded as integral to supporting the delivery of the organisation's objectives. The CFO is an active member of the board, is at the heart of corporate strategy/business decision making and leads a highly visible, influential and supportive finance team.		2.50	2.42	***
	L2	The organisation has an effective framework of financial accountability that is clearly understood and applied throughout, from the board through executive and non-executive directors to front line service managers.		3.00		
	L3	Within an annual budget setting process the organisation's leadership sets income requirements including tax and allocates resources to different activities in order to achieve its objectives. The organisation monitors the organisation's financial and activity performance in delivering planned outcomes.		1.75		
Supporting Performance	L4	The organisation has a developed financial strategy to underpin medium and longer term financial health. The organisation integrates its business and financial planning so that it aligns resources to meet current and future outcome focussed business objectives and priorities.		1.00	1.25	*
	L5	The organisation develops and uses financial/leadership expertise in its strategic decision-making and its performance management based on an appraisal of the financial environment and cost drivers.		1.50		
Enabling Transformation	L6	The organisation's leadership integrates financial management into its strategies to meet future business needs. Its financial management approach supports the change agenda and a culture of customer focus, innovation, improvement and development.		1.50	1.50	*

		2022	2022	Matrix Score	Matrix Score
<b>People</b>					
<b>Delivering Accountability</b>	<b>P1</b>	The organisation identifies its financial competency needs and puts arrangements in place to meet them.	1.00	1.75	*
	<b>P2</b>	The organisation has access to sufficient financial skills to meet its business needs.	2.50		
<b>Supporting Performance</b>	<b>P3</b>	The organisation manages its finance function to ensure efficiency and effectiveness.	1.50	1.50	*
	<b>P4</b>	Finance staff provide business partner support by interpreting and explaining performance as well as advising and supporting on key business decisions.	2.00		
	<b>P5</b>	Managers understand they are responsible for delivering services cost effectively and are held accountable for doing so. Financial literacy is diffused throughout the organisation so that decision takers understand and manage the financial implications of their decisions.	1.00		
<b>Enabling Transformation</b>	<b>P6</b>	The organisation develops and sustains its financial management capacity to help shape and support its transformational programme.	1.00	1.00	*

		2022	2022	Matrix Score	Matrix Score
<b>Processes</b>					
<b>Delivering Accountability</b>	<b>PR1</b>	Budgets are accrual-based and robustly calculated	2.00	2.81	****
	<b>PR2</b>	The organisation operates financial information systems that enable the consistent production of comprehensive, accrual based, accurate and up to date data that fully meets users' needs.	2.75		
	<b>PR3</b>	The organisation operates and maintains accurate, timely and efficient transactional financial services (eg creditor payments, income collection, payroll, and pensions' administration).	2.00		
	<b>PR4</b>	The organisation's treasury management is risk based. It manages its investments and cash flows, its banking, money market and capital market transactions, balancing risk and financial performance.	3.50		
	<b>PR5</b>	The organisation actively manages budgets, with effective budget monitoring arrangements that ensure 'no surprises' and trigger responsive action.	2.50		
	<b>PR6</b>	The organisation maintains processes to ensure that information about key assets and liabilities in its balance sheet is a sound and current platform for management action.	2.50		
	<b>PR7</b>	Management understands and addresses its risk management and internal control governance responsibilities.	3.00		
	<b>PR8</b>	Management is supported by effective assurance arrangements, including internal audit, and audit and risk committee(s).	3.50		
	<b>PR9</b>	The organisation's financial accounting and reporting are accrual based and comply with international standards and meet relevant professional and regulatory standards.	3.50		
<b>Supporting Performance</b>	<b>PR10</b>	The organisation's medium-term financial planning process underpins fiscal discipline, is focussed upon the achievement of strategic priorities and delivers a dynamic and effective business plan.	2.50	2.00	**
	<b>PR11</b>	Forecasting processes and reporting are well developed and supported by accountable operational management. Forecasting is insightful and leads to optimal decision making.	2.00		
	<b>PR12</b>	The organisation systematically pursues opportunities to reduce costs and improve value for money in its operations.	1.50		
	<b>PR13</b>	The organisation systematically pursues opportunities for improved value for money and cost savings through its procurement, commissioning and contract management.	2.00		
<b>Enabling Transformation</b>	<b>PR14</b>	The organisation continually re-engineers its financial processes to ensure delivery of agreed outcomes is optimised.	1.50	1.75	*
	<b>PR15</b>	The organisation's financial management processes support organisational change.	2.00		

Stakeholders		2022	2022			
<b>Delivering Accountability</b>	<b>S1</b>	The organisation provides external stakeholders with evidence of the integrity of its financial conduct and performance, and demonstrates fiscal discipline including compliance with statutory/legal/regulatory obligations.		<b>2.50</b>	<b>2.50</b>	<b>***</b>
<b>Supporting Performance</b>	<b>S2</b>	The organisation demonstrates that it achieves value for money in the use of its resources.		<b>2.50</b>	<b>2.50</b>	<b>***</b>
<b>Enabling Transformation</b>	<b>S3</b>	The organisation is responsive to its operating environment, seeking and responding to customer and stakeholder service and spending priorities that impact on its financial management.		<b>2.00</b>	<b>2.00</b>	<b>**</b>
		<b>Total Score</b>		<b>64.00</b>		
		<b>Average Score</b>		<b>2.13</b>		
		<b>Overall Star Rating</b>		<b>**</b>		

The sections below will explain in further detail the findings, under the management dimension themes, along with conclusions and outline recommendations for improvement.

The source for the commentary below is the FM Model set of statements and questions. The aim is to present key findings, both in terms of strength and for development. It is not the intention to give a line by line view but to collate in to thematic areas which will provide insight in to the current arrangements and consequently the direction of travel.

## 5.2 Leadership

### Delivering Accountability

- It is clear that the CFO and the finance function are seen as central to the Council and its leadership.
- The CFO has independence, reporting directly to the CE and has access to appropriate committees and panels.
- Finance is prominent at a leadership level setting the tone for the landscape within which the Council operates.
- There is a lack of consistency in the way finance as a function challenge and support decision makers.
- The information provided to decision makers could be more meaningful in presentation and timing to support further adding increased insight.
- Overall the Council does have an effective framework of financial accountability and reporting in line with professional and statutory requirements.
- The budget setting process is not always based on a thorough understanding of costs and demand drivers leading to issues with monitoring and managing budget pressures.
- The development of the financial strategy is improving with a longer-term outlook.
- There is a need to periodically review financial policies and effectively communicate these. It would also be worthwhile considering how a compliance process can be introduced to improve grip and control.
- It is key that the Council monitors financial and activity performance and aligns these to delivery of planned outcomes.

### Supporting performance

- The financial strategy continues to be developed. At the time of the review this area scored lower than would be desired and at this stage does not deliver a sustainable outlook without risks around savings and expenditure controls.
- It is critical that the strategy is embedded within the organisation and owned by all budget holders, irrespective of where they are in the structure. There is a collective responsibility.



- The plan needs to draw in realistic estimates with a sound evidence base that are aligned to corporate objective. There should ideally be a clear line of sight from plan, through spend (or income) to delivery of priorities.
- This would also include a clear view and operation of demand management strategies.
- It is important to integrate business and financial planning so that it aligns resources to meet current and future outcome focused business objectives and priorities.
- There is an inconsistency in the way the organisation uses finance as an advisor in considering new initiatives and how influential they are.
- Business cases and project appraisals do use affordability tests for new investment that assess thoroughly the anticipated benefits and costs which is a real strength.

### **Enabling transformation**

- This area tests how the Council's leadership integrates financial management into strategies to meet future business needs and how the financial management approach supports the change agenda and a culture of customer focus, innovation, improvement and development.
- Traditionally this area does not score well for local authorities. The Council should try to ensure that it create the space, capacity and capability to innovate and transform, the challenge is maintaining business as usual.
- The Council does consider delivery models and opportunities to change and transform along with the service and financial benefits. This isn't however as widespread and cross cutting as it could be.
- Greater use of invest to save schemes was seen as an opportunity to support transformation.
- The use of external partners happens in only a limited number of areas is and area and an opportunity to develop which isn't always present at the moment. This would mean greater involvement with the 3<sup>rd</sup> sector, housing providers and health for example who as partners could be more engaged and contribute to transformation of services.

### **Areas for development**

- Strengthen the budget setting process with greater ownership and engagement across the Council with finance seen as the custodian of the process and an advisor to services.
- The approach to strategic budgeting and financial planning is developed to include a longer time frame (where possible), greater use of cost and demand driver intelligence and scenario planning.
- Consider the integration of finance in to the assessment of future requirements and change programmes, not just at business case stage but from the outset.
- Pursue opportunities for change and transformation both within and external to the Council, with partners. There needs to be the space and resource to design, develop and deliver transformation so creating that capacity by reflecting on current activity (at all level) and determining priorities.

## **5.3 People**

### **Delivering Accountability**

- Finance is recognised as having professional, qualified, skilled and experienced staff.
- The age and service length profile of staff in finance is seen as a potential future risk. It is possible that in the next couple of years a number of staff with significant service will be eligible to retire. As part of the developing finance operating model referred to elsewhere in this report it is important to develop a succession plan and skills transfer.

- It would be valuable for the organisation to regularly review skills and competencies (similar to a training needs assessment) and develop a formal CPD and training programme. It is important that this programme includes budget holders as well as finance staff. This would be designed around current and future business needs.
- Following this develop a competency framework, which can apply to both finance and non-finance staff. This can link in to job descriptions and performance management.
- Whilst some posts that have responsibility for budget have this recognised in job descriptions it is not consistent.
- The review indicated that the Council seeks additional external advice when needed which will strengthen the overall function.
- A theme which will occur on a number of occasions is how finance supports services and the Council. The review indicated a mixed response when asked about finance staff promote and whether they clearly explain financial policies and procedures to managers throughout the organisation. The aim is for consistency and as a translator and presenter of financial information working with services to deliver and add value in this area.

### **Supporting performance**

- The relationship and operational arrangements between finance and services is fundamental to effective financial management and financial governance. The review has highlighted that this works well in some areas and not so well in others.
- The role of the finance business partner is crucial to how effective this relationship is. The majority of business partners have been trained (the CIPFA diploma) it is clear from interviews that their lacks a consistent approach and there needs to be a clear vision of what is the role is and how it should be delivered. This approach from a finance and a service side needs re-invigorating and embedding so it's not just in individuals it's in the culture.
- Finance are seen as supportive in the main to budget holders but again this varies and business partners do add value but not consistently.
- A key role for finance through business partners is the challenge it needs to provide. This should be independent and impartial, which exists in some areas but not overall.
- Finance does add value when contributing to decision papers and reports and the analysis it provides is appreciated.
- There is no formal SLA or agreement in place that recognises 'who does what' in relation to services and finance. 'What is the finance offer', 'what can it do' were questions raised during conversations. There would be value in rehearsing and re-stating what finance and business partners will and won't do to set expectations and consequently the ability to assess performance against standards.
- There is a view that budget holders and managers do not appear to be held accountable. This is not a consistent view and will vary across the organisation. However, as it was raised it must a perceived issue. This could be as a consequence of budget areas overspending, being funded and no apparent consequences This sends the wrong messages. The message of ownership and accountability is one to be re-enforced and monitored from the leadership team and across the organisation
- A practical opportunity to support performance further would be the increased use of benchmarking, comparative statistics, and predictive analytics to support budget development and forecasting.

### **Enabling transformation**

- The challenge for the Council is whether it develops and maintains its financial management capacity to help shape and support its transformational programme.
- The review has found that finance has adapted its skills set in response to changed demands, but this will always be a challenge in looking forward to what will be needed.

- The question around assessing the influence and impact of finance on change is less certain, it has worked in some areas. The direction needs to be that finance are fundamental and engaged from the outset, a key aspect of the business partner role.
- This early engagement starts with the policy discussion and finance as advisor being able to contribute. This may require a cultural shift in some areas.

### **Areas for development**

- Develop a finance service offer that can be communicated across the Council.
- Work with services to design a form of SLA or agreement that has clarity and agreement on what will be provided and how this is monitored.
- Review and refresh the role and function of finance business partners to ensure it is fit for purpose.
- Develop a culture of budget holder accountability and responsibility, a compliance framework that accompanies this and monitoring to ensure impact and value.

## **5.4 Process**

### **Delivering Accountability**

- Overall the budget setting and monitoring process meets many of the best practice statements and questions. As with all assessments of this nature it is the extent and impact to which good practice is applied.
- In delivering accountability the Council do budget on accruals basis and take account of in year changes when considering forecasts and necessary changes.
- When considering changes its is important to look at budgeting techniques which could be developed to include a wider range such as base budget reviews, outcomes and greater emphasis on cost and demand drivers.
- There is a sense in some parts of the Council that finance own and develop the budget with limited involvement of budget holders. This is not widespread but there needs to be a collaborative approach and clarity around ownership.
- The finance system is probably viewed as acceptable but with the need for work arounds. This is often the case but its use and value, extent of work arounds should be reviewed and responded to.
- Budget reporting is seen as timely but the nature of the information and the need for manual intervention or manipulation is evident. There is a reliance on locally prepared spreadsheet.
- Given the intended direction to self – serve the role, function and accessibility of the finance system is crucial to provide the necessary tools to budget holders and managers. This could be used as an excuse not to change so will need addressing.
- When considering the operation and maintenance of accurate, timely and efficient transactional financial services (e.g. creditor payments, income collection, payroll, and pensions' administration) the Council scored well in the majority of areas.
- The areas highlighted included the need to undertake longer term cash flow forecasting, greater consideration of debt levels and opportunities to reduce, limit and recover earlier, and the review of processes to help change and improvement.
- Linked to the last point is the opportunity to consider the role of finance in transactional type of work. Can this be automated, reduced or removed, all of which will provide time for a different type of finance function.
- In assessing and scoring whether the Council's treasury management is risk based. Whether it manages its investments and cash flows, its banking, money market and capital market transactions, balancing risk and financial performance all had a positive response and are in line with best practice.
- A key element of the process review was to consider whether the Council maintains processes to ensure that information about key assets and liabilities in its balance sheet is a sound and current platform for management action.

- Balance sheet management is crucial for a local authority especially when considering the longer-term sustainability. In the main the Council operates satisfactorily.
- One key areas was how and when the balance sheet movements are reported to the management team and any action taken to respond to an adverse impact. Balance sheet reporting could be improved through the development of a brief dashboard of key indicators along with an explanation. It has however to be meaningful and prompt action or decision.
- The risk register and process to maintain would benefit from a direct link to corporate objectives and not just service related delivery, so a higher level linkage and thread.
- All the remaining areas around risk, risk management and reporting received a positive response. In addition a positive score was recorded for questions around the effective assurance arrangements, including internal audit, and audit and risk committee(s) in place.

### **Supporting performance**

- As indicated elsewhere within this report there are strengths and areas for improvement around the MTFP. This is a key document that is dynamic and covers a four-year period. The plan is reviewed by the leadership team and key politicians and indeed is reported to Council.
- The involvement of key stakeholders within and external to the Council in both developing the plan and reporting on it may be of value.
- When considering the forecasting processes and reporting it is important that these are well developed and supported by accountable operational management. Forecasting should be insightful and lead to good decision making.
- Monitoring and forecasting is undertaken regularly with appropriate narrative included and fully integrated with the performance monitoring reporting.
- There is a sense that there are further opportunities to use appropriate quantitative / qualitative techniques and sensitivity analysis to support modelling of forecasts. Consideration should be given to assessing whether these skills are available or should be included as part of the new finance operating model.
- A key point as mentioned earlier in relation pursuing opportunities to reduce costs and improve value for money is the broader thinking around joint initiatives within and outside the Council, this has been raised on a number of occasions and should be a priority, from a service delivery as well as a financial perspective.

### **Enabling transformation**

- It is important the finance and the organisation continually re-engineers its financial processes to ensure delivery of agreed outcomes is optimised and has an impact.
- Traditionally process re-engineering happens when it is driven by a new system procurement for example, finance should however consider a programme of reviews with the objective of streamlining and automating.
- The move to self-serve is on the agenda and should be continued it will have many positive benefits.

### **Areas for development**

- Consider developing the approach and skills used to develop budgets and forecast within finance and the budget holder community.
- Continue to develop the role of budget holders to ensure engagement and ownership throughout the financial year.
- Alongside developing the business partner function review and address the finance function 'transactional' activity with an end to end assessment of what needs to change, the benefits and value.
- Consider a programme of process reviews with the aim of introducing efficiency, reducing work arounds and maximising output value.

- Evaluate the finance system and develop a improvement plan to maximise the functionality available, also its readiness for a self-serve environment.
- Broaden the MTFP conversation across all partners to capture wider opportunities for service delivery and efficiency.

## 5.5 Stakeholders

### Delivering Accountability

- Overall the review has indicated that the Council does provide external stakeholders with evidence of the integrity of its financial conduct and performance, so score well.
- This included production of accounts without adverse opinion and the delivery of the budget, with the caveats raised earlier around funding the budget.
- The score however reflects the complexity of presented accounts and a lack in some areas of a robust financial discipline reflected in the overspends recorded.

### Supporting performance

- In considering value for money in the use of its resources, the Council from a stakeholder perspective scored just over the mid-point.
- As a consequence, this is therefore about improving reporting, use of benchmarking as an illustration of impact and highlighting value for money initiatives to stakeholders.

### Enabling transformation

- The model tests whether the organisation is responsive to its operating environment, and as such seeks and responds to customer and stakeholder service and spending priorities that impact on its financial management.
- This had a mixed scoring range indicating that as far as stakeholders are concerned there are some positive results.
- One challenge will be demonstrating to stakeholders and the public that it has responded to their priorities, from the scoring it would indicate that this is an area where more could be achieved.
- On the internal side surveys are conducted and reported internally which will help policy development.
- There is an opportunity for the Council to invite stakeholders, partner bodies and staff to shape and share the organisation's vision, strategic aims and policies and this should be embedded.

### Areas for development

- Try and make greater use of stakeholders to help develop services and introduce efficiencies.
- Ensure stakeholders get to see and hear results of consultation in policy decisions and service developments.
- Perhaps consider ensuring clarity around who are the stakeholders for finance through mapping and then a planned approach.

# 6 Benchmarking

## 6.1 Introduction

This section of the report highlights our finding following an examination of the Council and where it sits within CIPFA Financial Resilience Index (published in December 2022 – based on 2021/22 RO data) and from the CIPFAstats+ nearest neighbour benchmarking information.

The aim is to provide insight in to areas that could be explored in terms of cost comparison to understand potential areas for change in both service delivery and cost structures.

## 6.2 Financial resilience index

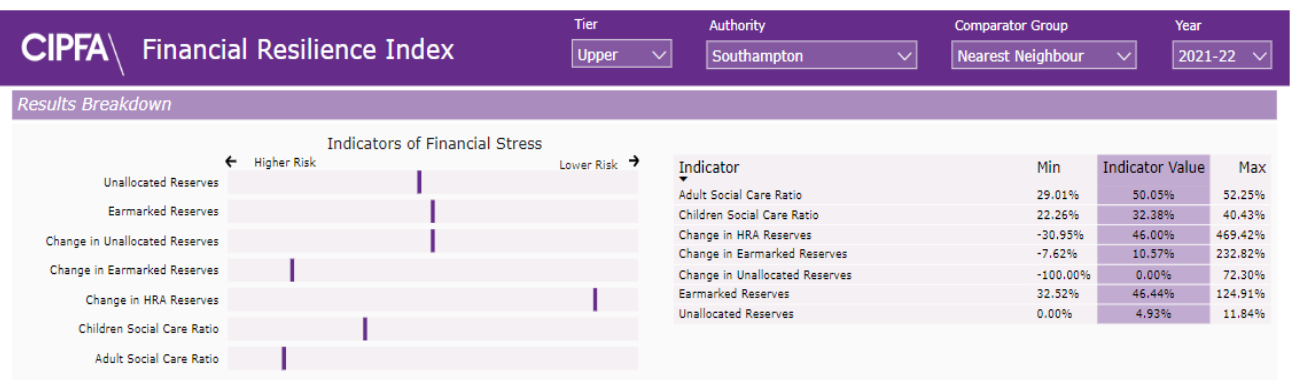
The tables below are extracted from CIPFA’s Financial Resilience Index.

They show Southampton’s performance against nearest neighbours as at 2021/22. In Figures RI.1 and RI. 2, while reserve levels were not seen as higher risk, the change or deterioration in reserves is a matter of concern. The spend evident from the Social Care Ratios shows high risk in Adults, moderate in Children’s (though with a recent upward shift in spend, also explored in the benchmarking analysis in section 6.3).

RI.1

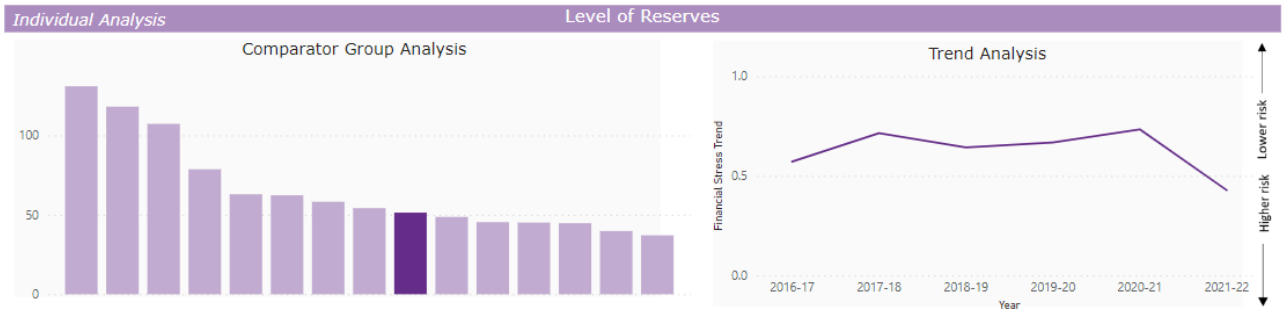


RI.2



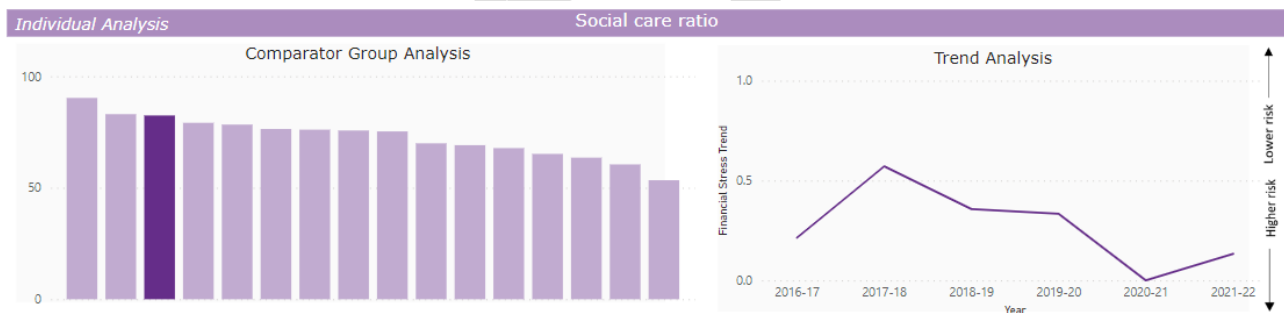
RI. 3 shows the level of reserves to the Council's net revenue expenditure against the comparator group. The actual position appears unalarming. But the worsening position in 2021/22 is more concerning.

**RI.3**



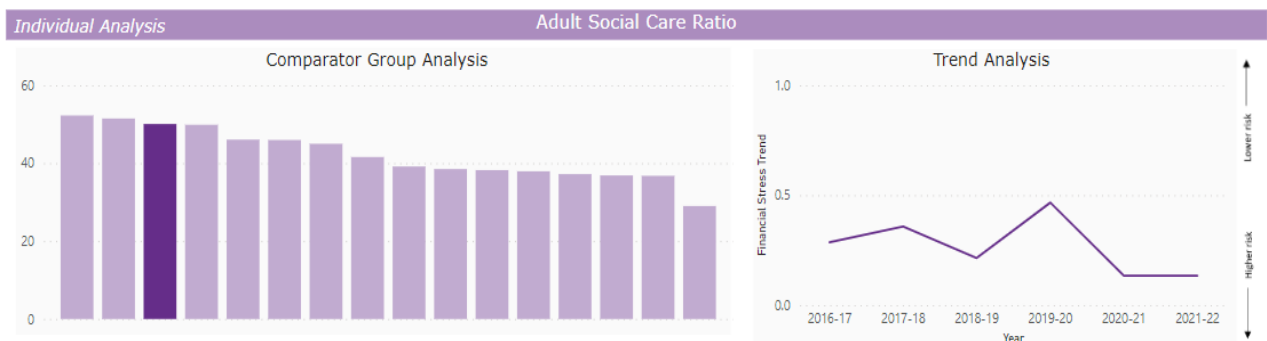
RI. 4 shows the combined ratio of spending on adults and children's social care to the Council's net revenue expenditure. It is towards the top end of the comparator group. Having fallen towards the end of the last decade it has risen again in 2021/22. RI. 5 shows the ratio for Adults and RI. 6 for Children's. Adults is towards the top end of the compactor group, but the ratio has fallen in 2021/22. The Children's spend to net revenue position is less markedly high than is the case in Adults, but the ratio is rising.

**RI.4**

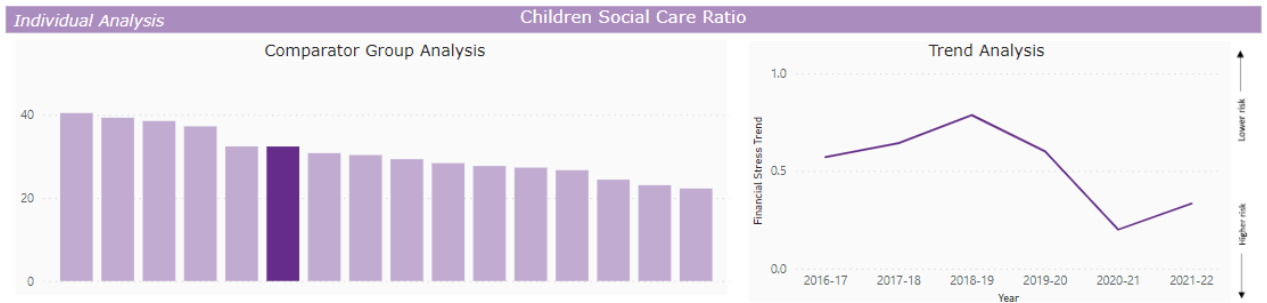


The following table indicates the ratio of spending on adult's social care to the Council's net revenue expenditure.

**RI.5**

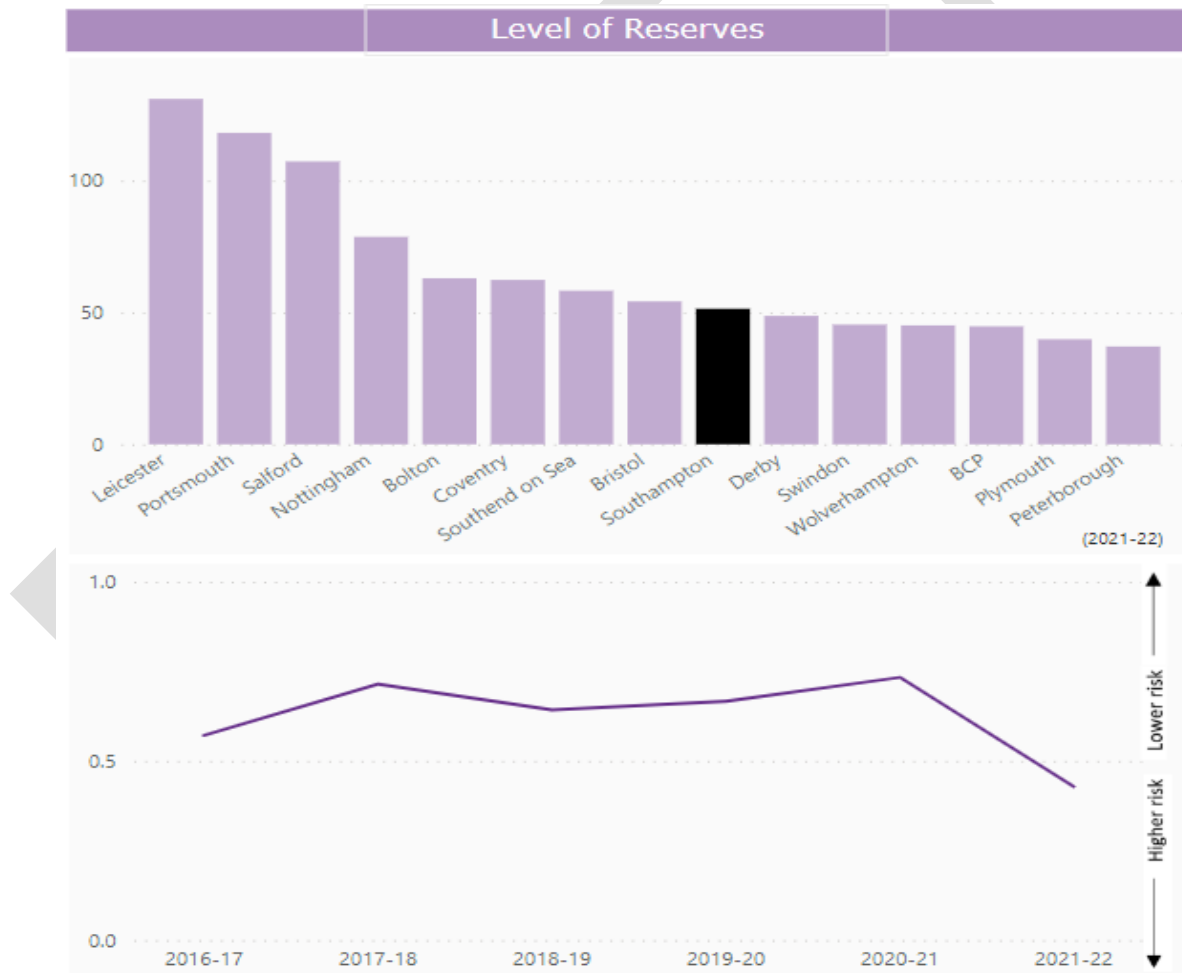


**RI.6**



RI. 7 gives further illustration of the reserves ratio. It confirms the average position but also the decline from 2020/21 to 2021/22.

**RI.7**



**6.3 Benchmarking nearest neighbour comparison**

The following graphs provide spend analysis per head of population with comparisons made again with a basket of nearest neighbours. Southampton's total service spend

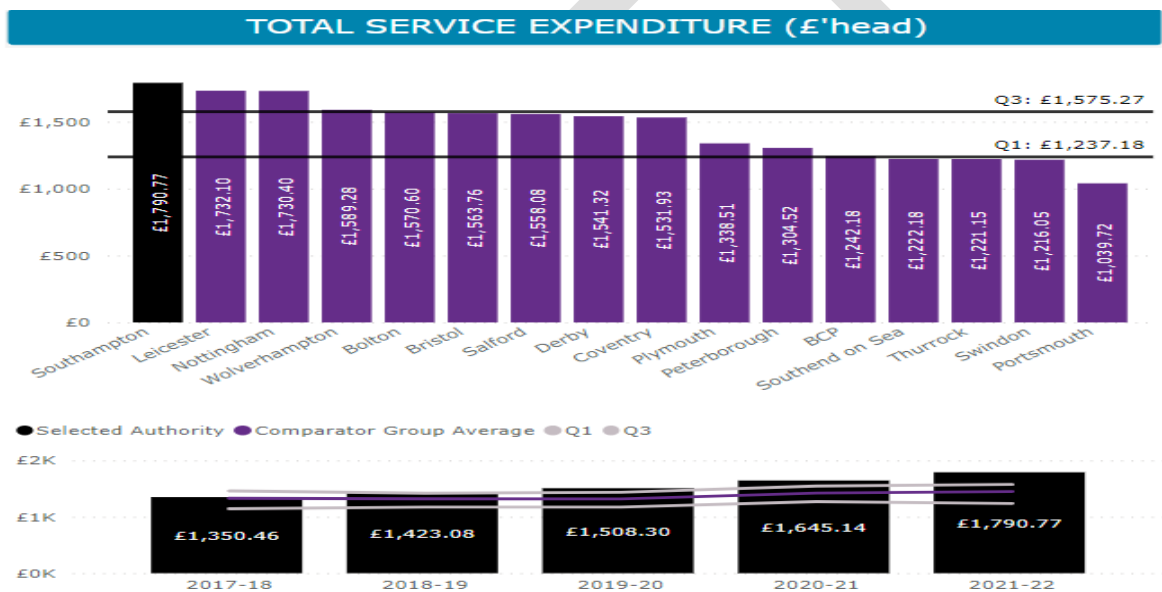


seems high, driven by the positions in Adults, Education, Children’s, and Planning & Development Services (though the last may be a statistical anomaly).

Again, this analysis shows that there are opportunities to be considered as part of service reviews. We recommend that these individual service areas are examined in more detail to gain a clear understanding of cost and demand drivers, the level and standard of service provided, and whether the spend levels are accordingly appropriate. Engagement with authorities in the comparator sample on their services and the associated spend drivers, could prove instructive.

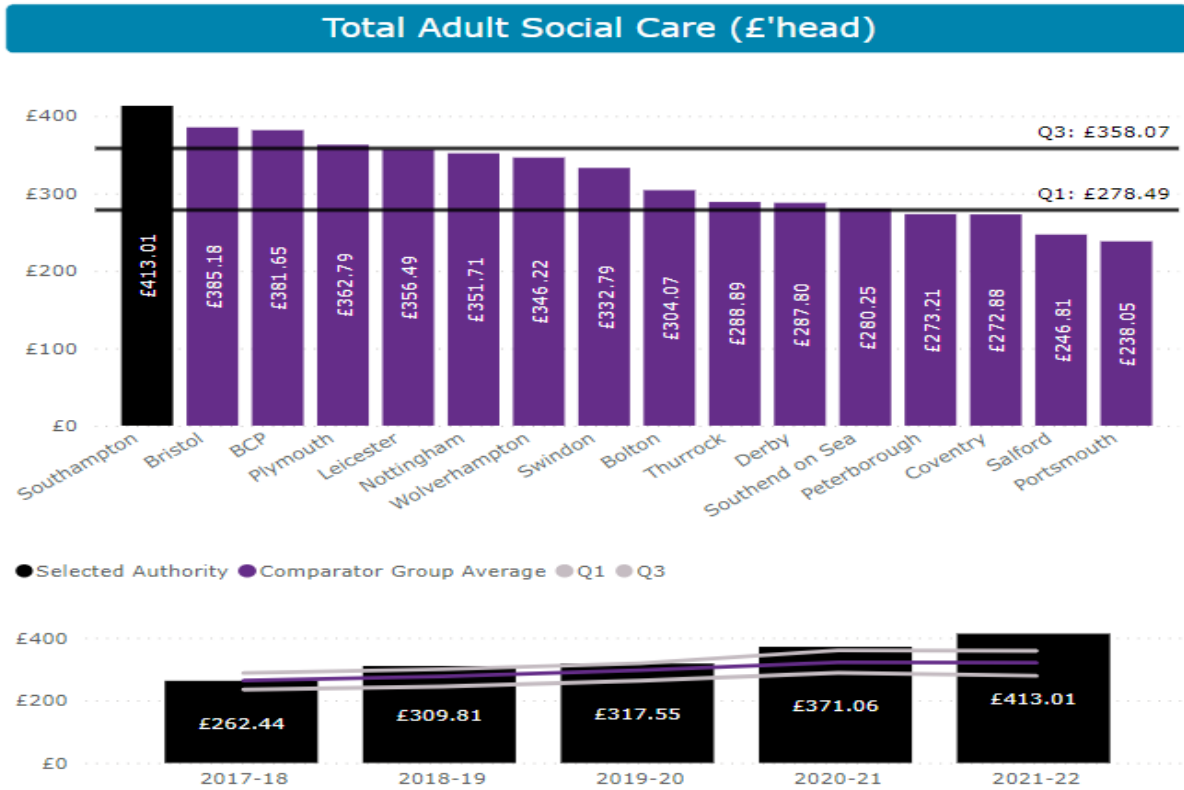
Figure BM.1 shows total service expenditure per head against comparators. Southampton has the highest spend. Moreover, the position is becoming more marked. Whereas in 2017/18 and 2018/19 spend was around the comparator average, it has risen well above it in the COVID period. It will be worth examining both the drivers for this and why comparator authorities, also faced with the COVID impact, were more able to contain spend.

**BM.1**



BM. 2, total adult social care expenditure, shows that spend here is again markedly above other comparators. The pattern across time is similar to that of total spend, showing the position in 2017/18 as slightly below average, with a marked spend increase in the COVID period. In examining the causes of this spend position, the Council should be alert to recent drivers and consider what other councils have done to contain them.

**BM.2**



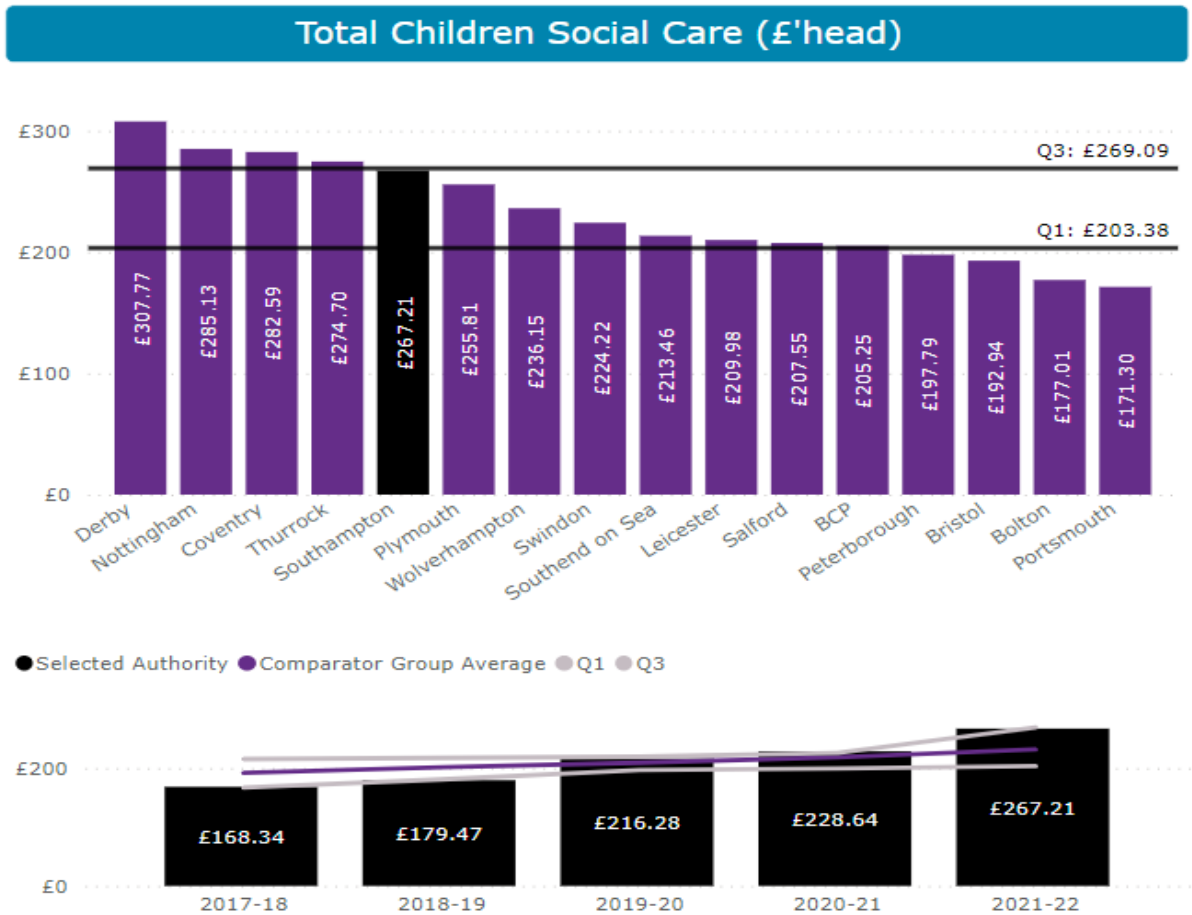
Total education service expenditure (BM.3) is one of the highest in the comparator group. It has been above average throughout the period under analysis, a position that is becoming progressively more marked. This suggests that the service-drivers may be deep-seated and structural.

**BM.3**

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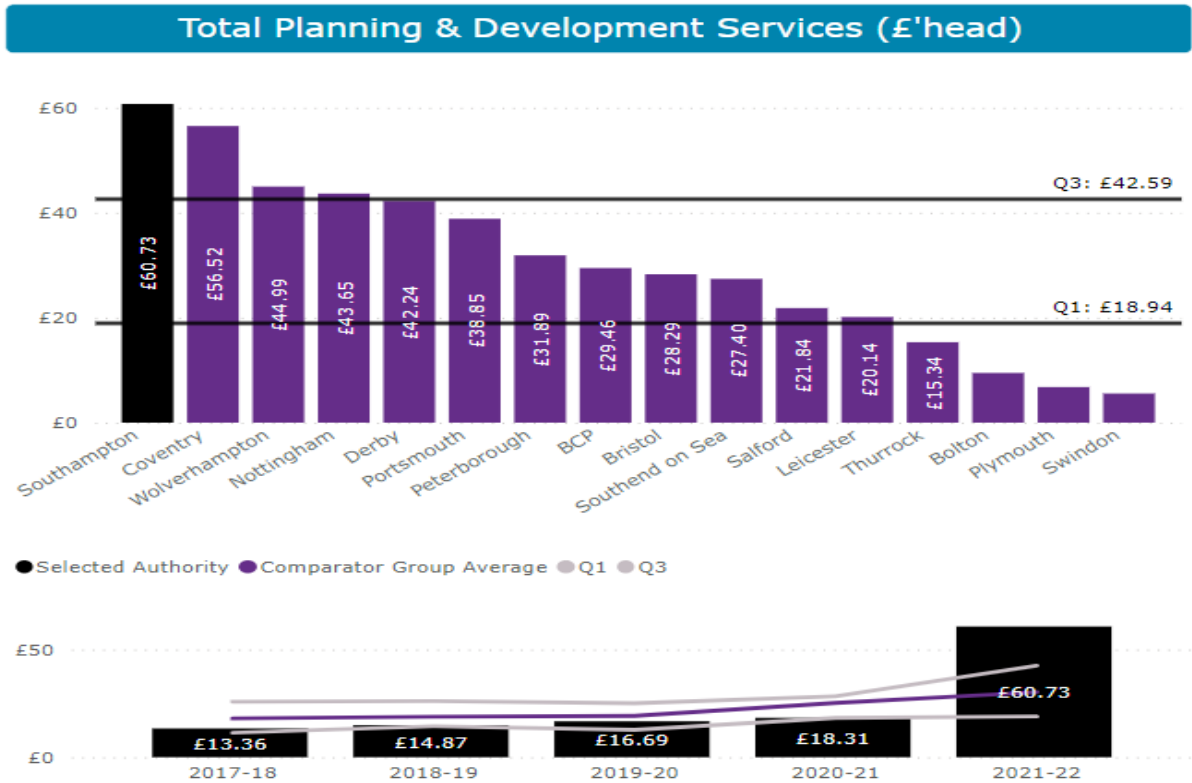
BM. 4 shows total children’s social care expenditure. The findings here are consistent with those in RI. 6 in section 6.2. The service is well above average but not at the top of the comparator group. However, the trend is concerning. Whereas spend was at or below average during most of the comparator period, in the last year, 2021/22, it has risen sharply. Plainly, the Council should examine what underlies this recent development and understand how emerging pressures can be managed going forward.

**BM.4**



BM. 5 shows Southampton's position at the top of the comparator group for spend on planning and development. The position is a recent occurrence, with spend well below average prior to 2021/22. Indeed, the findings should be treated with caution. If COVID-related funding, including business support, is recorded under this heading, as it may not always be by authorities in the comparator group, then the rise may be less statistically significant than it appears.

**BM.5**



**6.4 Conclusions on benchmarking and nearest neighbour comparison**

The table below presents a summary of the nearest neighbour comparison – based on a Southampton population of 247,300. This is taken from the ONS mid-year population estimates for 2021, the most recent publication, and rounded to the nearest hundred.

Service	Southampton Spend per head	Nearest Neighbours Avg Spend per head	Potential Savings	
			Per head	£ total (per head x 247,300)
Education Services (based on £181m gross spend)	£732.23	£529.73	£202.50	£50,078,250
Adult Social Care	£413.01	£325.97	£87.04	£21,524,992
Children Social Care	£267.21	£236.02	£31.19	£7,713,287
Planning and Development Services	£60.73	£31.15	£29.58	£7,315,134
Public Health	£96.82	£87.83	£8.99	£2,223,227
Cultural and Related Services	£52.26	£44.12	£8.14	£2,013,022

Housing Services (GFRA)	£39.71	£36.30	£3.41	£843,293
Environmental and Regulatory Services	£79.79	£87.99	-£8.20	-£2,027,860
Highways and Transport Services	£28.92	£41.52	-£12.60	-£3,115,980
Central Services	£20.08	£47.90	-£27.82	-£6,879,886
TOTAL SERVICE EXPENDITURE	£1,790.76	£1,468.53	£322.23	£79,687,479

Based on a simple calculation, which should be treated with great care, if Southampton spent the average for its nearest neighbour group on these service areas it could equate to a saving £80m per annum.

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## 7 Action plan and next steps *[To be completed after first draft and when conclusions / findings have been agreed]*

### 7.1 Introduction

As part of our review, we have identified a number of potential areas where action could be taken to improve financial resilience and financial management and governance in general.

This section of the report collates these recommendations and can be used to form the basis of a discussion with the Council on the next steps. In developing a plan there may be other areas highlighted as part of the model that could, or should, be included and some others that are specific to ongoing activity already underway.

This is the Council's plan and is intended to support ongoing improvement.

### 7.2 Outline plan

This section will set out the key recommendations to improve the Council's financial arrangements:

Recommendation description	Proposed owner	Timescale


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## Appendix 1 – List of interviewees

Councillor Satvir Kaur	Leader
Councillor Steve Leggett	Cabinet Member Finance and Change
Councillor David Shields	Chair Governance Committee
Councillor Lorna Fielker	Deputy Leader
Councillor David Fuller	Chair OSMC
Mike Harris	Chief Executive
Mel Creighton	Section 151 Officer
Rob Henderson	Executive Director Childrens and Learning (DCS)
Steve Harrison	Head of Finance / Deputy Section 151 Officer
Maddy Modha	Capital / Treasury Manager
Mark Riley	Finance Business Partner Childrens
Kevin Harlow	Finance Business Partner HRA
Paul Ring	Finance Business Partner Adults
Lizzie Goodwin	Chief Internal Auditor
Stephanie Skivington	MTFS and Revenue Manager
Richard Ivory	Director Legal and Governance / Monitoring Officer
Vanessa Shahani	Head of Income and Expenditure
Andrew Armour	Revenue and Benefits Manager
Steph Murray	Deputy Director Social Care, Childrens Services
Tammy Marks	Head of SEND
Dave Tyrie	Head of City Services
Tina Dyer-Slade	Head of Corporate Estates
Rosie Zambra	Head of Consumer Protection and Environmental
Kevin Suter	External Auditor (EY)
Derek Wiles	Head of Education
Debbie Chase	Director of Public Health
Matthew Allison	Project Manager Finance

Paul Paskins	Head of Supplier Management
Ian Collins	Director of Environment
Pete Bousted	Head of Transport and Planning
Vernon Nosal	Operations Director Adult Social Care
Jamie Brenchley	Director of Housing
Claire Edgar	Executive Director Wellbeing and Housing
Adam Wilkinson	Interim Executive Director of Place
Munira Holloway	Director of Strategy and Performance
Gaetana Wiseman	Head of Support Services
Chris Bishop	Head of HR and OD
Tony Clark	Director of Commissioning – Integrated Health Care

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## Appendix 2 – Document review list

<b>Category/Document</b>	
<b>Background documents</b>	
1.	Annual Report
2.	Annual Financial Statements
3.	Finance/business systems
<b>Structures</b>	
4.	Board/Committee structures
5.	Organogram – outline for the whole organisation
6.	Organogram – for the finance function
<b>Governance</b>	
7.	Corporate Governance Framework
8.	Annual Governance Statement
9.	Management level governance statements
10.	Policy on fraud and corruption
11.	Policy on whistle-blowing
<b>Plans and strategies</b>	
12.	Corporate Plan
13.	Medium-term Financial Plan
14.	Capital Strategy
15.	Asset Management Strategy
16.	Information Strategy
17.	Procurement Strategy including any savings targets
18.	Business Case Protocols
<b>Financial management framework</b>	
19.	Financial Standards and Regulations
20.	Internal Control Procedures
21.	Scheme of Delegation including authorisation levels for transactions
22.	Service Level Agreements for financial management related services
23.	Asset Register
<b>In year management</b>	
24.	Board/Committee/SMT level reporting
25.	Management level reporting
26.	Key Performance Indicators (KPIs) and related reporting

27.	Finance Performance Indicators
28.	Financial key performance indicators – Benchmarking
29.	Quarterly Data Set returns
30.	Procurement Performance Report
<b>External Audit and Inspection</b>	
31.	External Audit interim/final accounts audit letter
32.	External Audit Management Letter/Report
33.	External Audit Value for Money
34.	External Reports or Assessments
<b>Audit and Risk Management</b>	
35.	Audit and Risk Committee
36.	Internal Audit Plans
37.	Internal Audit Report
38.	Risk Management Policy and Reporting Regime
39.	Risk Registers
<b>Human Resources</b>	
40.	Financial Competency framework
41.	Financial Management Training strategy
42.	Staff Survey
43.	Sample Job Descriptions - Budget Holders
<b>Working with other organisations</b>	
44.	Financial Memorandum
45.	Financial Memorandum - funding arrangements - outside organisations
46.	Framework for establishing relationships with other bodies
<b>Stakeholders</b>	
47.	Customer/stakeholder surveys
48.	Complaints policy/procedure

## Appendix 3 – Star rating key criteria and characteristics

Rating	Assessment
*****	The organisation has in place leading edge financial management capability that allows it to anticipate both challenges and key opportunities, driving transformational change in order to optimise its performance and deliver optimal outcomes. Financial strategy is robust and covers medium to longer term and the organisation is fully agile in adapting to unforeseen events without impacting key outcomes. Investment programme management including commercial capabilities are fully integrated with operational requirements and highly effective with significant returns being achieved on improved service delivery. Financial management capability meets global best practice standards.
****	The organisation has in place strong financial management capability which enables it to deliver effective outcomes in challenging times, provides stability through to the medium term, is agile in adapting to unforeseen events, continually identifies opportunities to improve its performance and contributes to organisational transformational change. Most investment programmes are delivered to time and cost. The organisation has strong insight into cost drivers and commercial capabilities are highly evident with strategic and operational planning.
***	The organisation has sound financial management capability and has arrangements in place that are adequate in supporting the organisation under stable conditions and enables it to incrementally develop but is not sufficient for challenging times or driving transformational change. There is a medium term financial strategy and competent investment programme management that ensures that most programmes are implemented although invariably not all projects will come within budget and timescales. Commercial capabilities exist but are only partially developed.
**	The organisation has basic financial management capability. Financial management arrangements are in place that allows the organisation to meet the minimum of practice standards and provides functional capability in the short term, a minimum level of support in the delivery organisational outcomes but does not support organisational transformational change. Financial management style is predominantly stewardship in nature rather than supporting effective decision support. Investment Programme management is rudimentary and there is a disconnect between operational and financial strategies.
*	The organisation has some financial management arrangement in place, but they are inadequate and provide only minimal financial management capability with reactive short term solutions. Basic accountability obligations are minimally covered, and financial management does not meaningfully support effective organisational outcomes of transformational change. Basic stewardship responsibilities are a challenge and financial management capability is not fully embedded within basic decision support.


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## FINANCIAL PROCEDURE RULES

The Financial Procedure Rules consist of and should be interpreted as the Council's Financial Regulations.

### 1. STATUS OF FINANCIAL PROCEDURE RULES

1.1 The Council's Financial Procedure Rules provide the framework for managing the authority's financial affairs. They apply to every Member and Officer of the authority and anyone acting on its behalf and compliance with these rules is mandatory. These rules must be read in conjunction with the whole of the Constitution and any other Council Standards.

1.2 The rules identify the financial responsibilities of Full Council, Cabinet, Members and Officers. Chief Officers are defined for the purpose of these rules as the Chief Executive Officer (CEO), Monitoring Officer, Chief Financial Officer (CFO) and Executive Directors. All Members and Officers have a general responsibility for taking reasonable action to provide for the security of the assets under their control, and for ensuring that the use of these resources is legal, properly authorised, provides value for money and achieves best value.

4.21.3 Deliberate disregard of the Financial Procedure Rules will be seen as misconduct and dealt with accordingly through the disciplinary procedure.

4.31.4 The CFO is responsible for maintaining a continuous review of the Financial Procedure Rules and may, where ~~they~~ ~~he or she~~ consider it necessary, issue revisions during the year. Where the CFO considers the revisions to be significant and material additions or changes, these will be reported to Full Council for noting and/or approval. The CFO is also responsible for reporting, where appropriate, any breach of the Financial Procedure Rules to Full Council and/or to Cabinet. It should be noted that the CFO and S151 Officer is the Executive Director for Finance and Commercialisation. Any reference to CFO within these Financial Procedure Rules should be read as referring to that officer.

4.41.5 To underpin the Financial Procedure Rules, the CFO is responsible for issuing any relevant advice and guidance that Members, Officers and others acting on behalf of the authority are required to follow. Such advice and guidance will be reviewed, and amended as necessary, by the CFO.

4.51.6 Chief Officers are responsible for ensuring that all staff in their departments are aware of the existence and content of the authority's Financial Procedure Rules and other internal regulatory documents and that they comply with them. An electronic copy can be found on the Council's [website](#).

4.61.7 If it is felt to be in the wider interests of the Council, if an urgent decision is required that either:

- Falls outside of the defined process or limits within Financial Regulations or Financial Procedure Rules, or
- Is within the limits of the Financial Regulations or Financial Procedure Rules but due to reasons of urgency the rules cannot be applied as set out

the urgent decision can be made by the CFO, in consultation with the Cabinet Member responsible for Finance ~~and Capital Assets~~, the Leader, relevant portfolio holder and Executive Director for the service impacted by the decision. This is subject to it being reported at the next appropriate decision-making meeting.

A record of any authorised exceptions will be kept by the Chief Internal Auditor to assist the S151 Officer in determining if any amendments need to be made to these rules.

## **A: FINANCIAL MANAGEMENT**

### Responsibilities of the CFO

- A.1 To ensure the proper administration of the financial affairs of the authority.
- A.2 To monitor compliance with the Financial Procedure Rules.
- A.3 To ensure proper professional practices are adhered to and to act as head of profession in relation to the standards, performance and development of finance staff throughout the authority.
- A.4 To advise on the key strategic controls necessary to secure sound financial management.
- A.5 To ensure that financial information is available to enable accurate and timely monitoring and reporting of comparisons of national and local financial performance indicators.

### Responsibilities of Chief Officers

- A.6 To ~~promote~~ ensure that all staff in their area are aware of the Financial Procedure Rules in their departments and to monitor adherence to the standards and practices, liaising as necessary with the CFO.
- A.7 To ~~promote~~ ensure there are sound financial practices in relation to the standards, performance and development of staff in their departments.

## **Financial Accountabilities in relation to the Scheme of Revenue Virement (including**

### **HRA)**

#### Explanatory Note

*The overall budget is agreed by Cabinet and approved by Full Council. Following this approval Chief Officers and budget holders are authorised to incur net expenditure in accordance with the estimates that make up the budget for the current financial year. The rules below cover virements, or the switching of resources between approved estimates, heads of expenditure and income.*

#### What is a Virement?

*A virement is the:*

*‘planned transfer of a budget for use in a different purpose to that originally intended’.*

*A virement does not create additional overall budget liability. It changes the purpose for which the budget will be used compared to that originally planned. The use of virements is intended to enable services to manage budgets with a degree of flexibility while at the same time ensuring that these remain consistent with the overall policy framework determined by the Council.*

*Chief Officers are expected to exercise their discretion in managing their budgets responsibly and prudently, within any agreed restrictions on spending. They should avoid supporting recurring expenditure from virements against one-off sources of savings or additional income, or creating future commitments, including full-year effects of decisions made part way through a year, for which they have not identified future resources.*

*Chief Officers must plan to fund such commitments from within their own budgets having regard to the overall forecast outturn for the service, and the Council. Any budget provided by Full Council to meet specific pressures must be used for the identified purpose. If this budget subsequently is not required, this should be identified to the CFO to enable the resource to be utilised as he/she sees fit.*

Executive Directors should ~~aim to~~ balance their service area net expenditure to the budget allocated. In some cases, this will require a transfer of the budget between their service activities.

For the purposes of the scheme set out below, a virement occurs when a budget is transferred from one Service Activity to another. Service activities that will apply for the following financial year are those which are set out in the budget approved by Full Council for the coming financial year.

A.8 All virements should be cleared in the first instance by the relevant accounting support for the Service Activity concerned. All virements must be recorded on the ledger system.

A.9 Controls on the use of additional controllable income are required to ensure that significant additional income is not spent without any control process in place.

A.10 Decisions will be made in line with the criteria set out in the table below and applies to virements of expenditure budgets or virements of income budgets:

<b>Virement Value</b>	<b>Approval Required</b>
<b>Up to £200,000</b>	Approved by CHIEF OFFICERS in consultation with the CFO
<b>£200,000 to £500,000</b>	Approved by CHIEF OFFICERS in consultation with CFO and Cabinet Member
<b>Over £500,000 to £2 million</b>	Approved by CABINET
<b>Over £2 million</b>	Approved by COUNCIL

A.11 The creation of any new reserve, or change in use of reserve, needs agreement from the CFO and formal approval by Cabinet. The CFO can allocate sums of any value to or from central funds or reserves, in line with the requirements for virements as outlined in the above table.

A.12 Any budget virements resulting from a restructure or a reduction in the number of FTE can only be actioned following the appropriate consultation.

A.13 The HRA contingency and revenue balance is defined as a “non-employee” budget. However, any virements from the HRA revenue balance that would reduce the level of balances below the minimum level set by the CFO in the HRA budget and business plan report can only be approved by Full Council.

## **Financial Accountabilities in Relation to the Treatment of Year-end Balances**

### **Responsibilities of the CFO**

A.14 Where the council is in an underspend position the CFO is responsible for administering the scheme of carry-forwards within the guidelines approved by Full Council. If the council is in an overspend position only carry forwards that relate to grant income will be considered.

A.15 To report all underspends on service estimates carried forward to Full Council for approval.

Responsibilities of Chief Officers

A.16 Any overspends will be reported by the CFO to Cabinet and to Full Council.

A.17 There is no authority to overspend. Budgets are allocated on a 'cash limit' basis. This means the service must operate within the agreed set budget. If a budget is forecast to overspend, this must be offset by mitigation measures or an underspend elsewhere to ensure the cash limit is not breached. The Executive Director will be responsible for bringing forward, at the earliest opportunity, a plan of mitigation that will result in the overspend being contained within budget. Such a plan will be expected to be sufficiently detailed, with timeframes, milestones, performance indicators and any resources needed, that it is considered a robust plan by the Executive Director Corporate Services. Where, in spite of this, a Chief Officer believes they may overspend they must inform the CFO immediately.

A.18 Executive Directors will be requested to sign a declaration before the commencement of the financial year, stating they understand the cash limited budget set and the key assumptions and any savings it includes, and they will make every effort to stay within that limit. Budget holders will be requested to agree the budgets under their management and sign an accountability statement stating that they understand their role as a budget holder and the support they will receive in managing their financial position.

A.19 Underspends on specific estimates may be carried forward within guidelines issued by the CFO, subject to the approval of Full Council. However, where budgets being carried forward into the new financial year are ring-fenced (e.g. specific grant funds from Government) and hence the Council can exercise no discretion, these will not require the approval of Full Council.

A.20 Schools' balances shall be available for carry-forward to support the expenditure of the school concerned as per the criteria in surplus policy. Schools cannot plan for a year end deficit budget when submitting budget plans at the start of the year. Schools that submit deficit plans will be required to resubmit their budget with plans to bring the budget back into balance. The authority will intervene if a school refuses to set a balanced budget by identifying the action a school could take and ultimately by suspending delegation.

A.21 Where an unplanned deficit occurs, the governing body shall prepare a detailed financial recovery plan for consideration by the Cabinet Member concerned and agreed by Cabinet, following evaluation by the relevant Chief Officer and the CFO. Any unplanned deficit incurred during the year would be a first call on the following year's budget; the school would need to include the deficit in its balanced budget plan for the following year. Schools that incur unplanned deficits in successive years would be treated the same as schools submitting deficit plans and the authority would need to intervene. The school will need to work with SCC's School Finance Team (if they have purchased SCC Finance Services via an SLA) or their own finance support (if they have not bought back SCC Finance Services), together with SCC School Improvement Teams to produce a robust Deficit Recovery Plan (DRP), ensuring the spend is brought back in line with their allocated funds.

A.22 The schools funding comes from Dedicated Schools Grant (DSG) grant. DSG consists of three blocks namely Schools Block, Early Years Block and High Needs Block. The grant is paid in support of the local authority's schools budget. Local authorities are responsible for determining the split of the grant between central expenditure and the individual schools budget (ISB) in conjunction with local schools forums. Local authorities are

responsible for allocating the ISB to individual schools in accordance with the local schools' funding formula

A.23 Scheme for financing schools sets out the financial relationship between the City Council and the maintained schools it funds. The scheme for financing schools is required by the School Standards and Framework Act 1998 and it contains requirements relating to financial management and associated issues. The scheme is binding on both the local authority and schools.

The scheme refers to the following legislation:

- [Section 48 of the School Standards and Framework Act 1998, and Schedule 14 to the Act](#) •  
[School and Early Years Finance \(England\) Regulations 2014](#)

## **Financial Accountabilities in Relation to Accounting Policies**

### **Responsibilities of the CFO**

A.24 To select suitable accounting policies, and to ensure that they are applied consistently. The accounting policies are set out in the Statement of Accounts, which are prepared at 31 March each year, and covers such items as:

- (a) General principles
- (b) Adjustments between accounting basis and funding basis
- (c) Acquisitions and discontinued operations
- (d) Cash and cash equivalents
- (e) Exceptional items
- (f) Prior period adjustments, changes in accounting policies and estimates and errors
- (g) Employee benefits
- (h) Events after the balance sheet date
- (i) Financial Instruments
- (j) Government grants and other contributions
- (k) Heritage assets
- (l) Interests in companies and other entities
- (m) Investment property
- (n) Joint arrangements
- (o) Leases
- (p) Overhead and support services
- (q) Property, Plant and Equipment (PPE)
- (r) Private Finance Initiatives (PFI) and similar contract
- (s) Provision, contingent liabilities and contingent assets
- (t) Reserves
- (u) Revenue expenditure funded from capital under statute (REFCUS)
- (v) Value added tax (VAT)
- (w) Collection fund
- (x) Schools
- (y) Rounding convention

### **Responsibilities of Chief Officers**

A.25 To adhere to the accounting policies and guidelines approved by the CFO.

## **Financial Accountabilities in relation to Accounting Records and Returns**

### **Responsibilities of the CFO**

A.26 To determine the accounting procedures and records for the authority. Where these are maintained outside the finance department, the Chief Officer concerned should consult the CFO.

A.27 To arrange for the compilation of all accounts and accounting records under his or her direction.

A.28 To comply with the following principles when allocating accounting duties:

- (a) Separating the duties of providing information about sums due to or from the authority and calculating, checking and recording these sums from the duty of collecting or disbursing them
- (b) Employees with the duty of examining or checking the accounts of cash transactions must not themselves be engaged in these transactions.

A.29. To make proper arrangements for the audit of the authority's accounts in accordance with the Accounts and Audit Regulations 2015.

A.30 To ensure that all claims for funds including grants are made by the due date.

A.31. To prepare and publish the draft accounts of the authority for each financial year, in accordance with the statutory timetable, which is 31 May other than for financial years 2020/21 and 2021/22 when it is 31 July. With the requirement for the Governance Committee to approve the audited statement of accounts and for them to be published by 31 July other than for financial years 2020/21 and 2021/22 when it is 30 September.

A.32. To administer the authority's arrangements for underspends or overspends to be carried forward to the following financial year.

A.33. To ensure the proper retention of financial documents in accordance with the requirements set out in the authority's document retention schedule.

### **Responsibilities of Chief Officers**

A.34 To consult and obtain the approval of the CFO before making any changes to accounting records and procedures.

A.35 To comply with the principles outlined in paragraph A.27, when allocating accounting duties.

A.36 To maintain adequate records to provide an audit trail leading from the source of income/expenditure through to the accounting statements.

A.37 To supply information required to enable the Statement of Accounts to be completed in accordance with guidelines and timetable issued by the CFO.

## **Financial Accountabilities in relation to the Annual Statement of Accounts**

### **Responsibilities of the CFO**

A.38 To select suitable accounting policies and to apply them consistently.

A.39 To make judgments and estimates that are reasonable and prudent.



- A.40 To comply with the Code of Practice on Local Authority Accounting in the United Kingdom (Code of Practice).
- A.41 To sign and date the Statement of Accounts, stating that they present a true and fair view of the financial position of the authority at the accounting date and its income and expenditure for the year ended 31 March.
- A.42 To draw up the timetable for final accounts preparation and to advise staff and external auditors accordingly.

Responsibilities of Chief Officers

- A.43 To comply with accounting guidance provided by the CFO and to supply the CFO with information when required.

**B: FINANCIAL PLANNING**

Responsibilities of the CFO

- B.1 For the General Fund, to ensure that a five-year overview is prepared on a regular basis for consideration and recommendation by Cabinet, before submission to Full Council. The CFO will also prepare the indicators required as part of the Prudential Code. Full Council may amend the budget and Prudential Indicators or ask Cabinet to reconsider them before approving them.
- B.2 For the HRA, to ensure that a 40-year business plan is produced which covers revenue and capital spending. With regard to the revenue budget, there must be a detailed budget for the forthcoming financial year for consideration and recommendation by Cabinet, before submission to Full Council. The CFO will also prepare the indicators required as part of the Prudential Code. Full Council may amend the budget and Prudential Indicators or ask Cabinet to reconsider them before approving them. The 40-year business plan should also be presented to Cabinet and Full Council as part of the budget report.
- B.3 To advise and supply the financial information that needs to be included in business plans in accordance with statutory requirements and agreed timetables. B.4 To contribute to the development of business and service plans.
- B.5 To maintain a 5-year Medium Term Financial Strategy (MTFS) and model.
- B.6 To advise Cabinet and opposition groups on the format and content of the budget that is to be approved by Full Council. This includes providing a commentary on the robustness of the estimates made for the purpose of the calculations (to set the Council Tax), and the adequacy of the proposed level of reserves, as required by Section 25 of the Local Government Act 2003.
- B.7 Work with other Chief Officers To ensure horizon scanning and planning within the current economic climate.

Responsibilities of Chief Officers

- B.8 To ensure that systems are in place to measure activity and collect accurate information for use as performance indicators.
- B.9 To ensure that performance information is monitored sufficiently frequently to allow corrective action to be taken if targets are not likely to be met.
- B.10 To contribute to the development of performance plans in line with statutory requirements.

B.11 To contribute to the development of corporate and service targets and objectives and performance information.

### **Format of the Budget**

#### **Responsibilities of the CFO**

B.12 To include a statement on the robustness of the estimates and the adequacy of the reserves.

#### **Responsibilities of Chief Officers**

B.13 To ensure robust and up-to-date business plans are in place, together with delivery plans for any agreed savings proposals.

### **Revenue Budget Preparation, Monitoring and Control**

#### **Responsibilities of the CFO**

B.14 To ensure sound financial administration and produce a balanced budget; as set out in S.151 of the Local Government Act 1972.

B.15 To administer procedures to set Council Tax and Business Rates.

B.16 To establish an appropriate framework of budgetary management and control that ensures:

- (a) Expenditure is within budget unless Full Council agrees otherwise.
- (b) Each Chief Officer has available timely information on receipts and payments on each budget which is sufficiently detailed to enable managers to fulfil their financial responsibilities.
- (c) Expenditure is committed only against an approved budget head and within resources available.
- (d) All managers responsible for committing expenditure comply with relevant guidance, and the Financial Procedure Rules.
- (e) Each cost centre has a single named manager, determined by the relevant Chief Officer. As a general principle, budget responsibility should be aligned as closely as possible to the decision-making processes that commits expenditure.
- (f) Significant variances from approved budgets are investigated and reported by budget managers regularly along with action plans for recovery. B.17 To administer the authority's scheme of revenue virement.

B.18 To submit reports to Cabinet and if necessary, to Full Council, following consultation with the relevant Chief Officer, where a Chief Officer is unable to balance expenditure and resources within existing approved budgets under his or her control.

B.19 To prepare and submit reports to Cabinet on the authority's projected income and expenditure compared with the budget on a regular basis.

B.20 All estimates should be calculated using the approved assumptions in the MTFs.

### Responsibilities of Chief Officers

- B.21 To ensure that budget estimates reflecting agreed priorities and business plans are produced in consultation with Cabinet Member and submitted to the CFO in accordance with the budget timetable and the guidance issued for the production of budget reports to Cabinet and Full Council.
- B.22 To maintain budgetary control within their departments, in adherence to the principles in B.15, and to ensure that all income and expenditure are properly recorded and accounted for.
- B.23 To ensure that an accountable budget holder is identified for each item of income and expenditure under the control of the Chief Officer (grouped together in a series of cost centres). As a general principle, budget responsibility should be aligned as closely as possible to the decision-making that commits expenditure.
- B.24 To ensure that spending remains within the service's overall budget and that individual budget heads are not overspent, by monitoring the budget and taking appropriate corrective action where significant variations from the approved budget are forecast.
- B.25 To ensure that a monitoring process is in place to review performance levels/levels of service in conjunction with the budget, and that this process is operating effectively.
- B.26 To prepare, following consultation with the CFO, reports on the service's projected expenditure compared with its budget, in accordance with the Council's Corporate Monitoring procedure and timetable.
- B.27 To ensure prior approval by Full Council or Cabinet (as appropriate) for new proposals, of whatever amount, that:
- (a) Create financial commitments in future years
  - (b) Change existing policies, initiate new policies or cease existing policies
  - (c) Materially extend or reduce the authority's services
- The report on new proposals should explain the full financial implications, after consultation with the CFO. Unless Full Council or Cabinet has agreed otherwise, Chief Officers must plan to contain the financial implications of such proposals within their budget.
- B.28 To ensure compliance with the scheme of virement.
- B.29 To agree with the relevant Chief Officer and the CFO where it appears that a budget proposal, including a virement proposal, may impact materially on another service area or Chief Officer's level of service activity.

### Maintenance of Reserves and Balances

#### Responsibilities of the CFO

- B.30 To advise the Cabinet and Council on prudent levels of reserves and balances for the City Council, giving consideration to the level of risk the council faces, and published CIPFA guidance.

### Capital Programme Management (General Fund and Housing Revenue Account (HRA))

#### Capital Governance

## Capital Approvals

- B.31 The Council has an established ~~officer~~ governance process which ensures transparency and gives assurance to members. The Change Authority Board and the Strategic Capital Board Review Group will receive and consider proposals and business cases in line with the agreed procedure and timeline for capital approvals as issued by the CFO. Further details of the role of the Change Authority Board and Strategic Capital Board Review Group are included in appendices 1 and 2.
- B.32 All new capital schemes or additions to existing capital schemes would normally have a business justification through a business case to the Strategic Capital Board Review Group. These are considered for prioritisation ahead of recommendation to the Council for approval of the capital programme as part of the annual budget approval in February. Business cases for new or additional capital funding made at any other time during the year will be considered
- in exceptional circumstances only, unless external funding has been identified for scheme. There is a separate procedure for the HRA, as per B.33.
- B.33 Individual business cases are also normally expected for new additions to the HRA capital programme. The 40-year HRA business plan, which is approved by Full Council annually, will show the affordability of the overall programme. Capital Business cases must always consider the revenue implications of the capital spending.
- B.34 Approval is also required before expenditure can be incurred against a new scheme in the capital programme. This approval can be requested when the scheme is submitted for addition to the General Fund capital programme. If a scheme is included in the programme, but is dependent on subsequent agreement to spend, approval to spend must be sought usually once a full business case is available and prior to incurring expenditure. Approval for HRA additions and approval to spend will be given to schemes included in the 40-year HRA business plan.
- B35 The Capital programme will operate within the limits set within the Capital Strategy, applying the agreed limits from the indicators adopted from the Prudential Code. These are designed to ensure capital spending is affordable and sustainable.
- B.36 Schemes already added to the capital programme may spend up to ten per cent of the scheme budget with the approval of the relevant Chief Officer following consultation with the relevant Cabinet Member and the CFO in advance of approval to spend on the scheme. Such cases should be based on an urgent need to spend, rather than be seen as an alternative to seeking formal permission to spend by the usual means of reporting to Cabinet or Council as necessary.
- B.37 The same process for considering and approving projects and business cases applies whether the decision is for an officer or a Cabinet Member. A model for business cases is used which is streamlined for less complex projects to ensure the input is proportionate. The full scheme approval process is detailed in Appendix 3.
- B.38 The capital programme shall be recommended for approval by Full Council following consideration by the Strategic Capital Board Review Group. This will include projected available resources, the allocation of resource to schemes, the impact on the revenue budget, prudent retention of resources to meet unforeseen short-term demands, variances in projected available resources and medium-term future needs.
- B.39 In addition to the large schemes and development projects that make up much of the capital programme, there will be routine investment plans for the core business of the Council that have block allocations. These include the schools' maintenance programme, the heritage assets maintenance budget, highways maintenance, the replacement of vehicles and

other essential service assets. These are planned and budgeted for through 5-year asset management plans within the capital programme and will operate within the approved control totals. The Executive Director is delegated to move budgets between projects within each programme.

B.40 A virement is the movement of a budget to another purpose other than that it was allocated to when the capital scheme was approved. This applies to the virement of budgets between capital schemes within the capital programme and between projects within a capital scheme.

B.41 All virements at any value within a capital programme can be approved by the CFO on submission of a completed DDN. All other virements must be agreed according to the approval levels as set out in Table 1.

B.42 Requests for approval by Cabinet or Council must be submitted in the correct corporate report format and submitted in accordance with Council's democratic processes.

B.42 Decisions will be made in line with the approval levels set out in Table 1.

### **Notes:**

A diagram summarising the process for approving new capital schemes and additions to existing capital schemes is shown in Appendix 4.

A timeline for capital approvals is shown in Appendix 5.

### **Capital Monitoring**

B.43 The monitoring of the capital programme is part of the core business of Cabinet Member Briefing on a quarterly basis with formal decisions published in accordance with constitutional arrangements. The [Strategic Capital Board Review Group](#) has the same quarterly programme review.

B.44 Approvals of slippage and rephasing and the approval of Delegated Decision Notices (DDNs) required to vire budgets between schemes and projects within schemes should be requested in accordance with approval levels set out in Table 1.

B.45 Capital schemes must be monitored at a service level according to the capital monitoring timetable. This includes a review of expenditure, plans for slippage and rephasing and explanations for any variance to budget.

B.46 Expenditure included in the Capital Programme must show the total value of contracts and related expenses that the council will incur. Any grants or other income must be shown as a source of capital finance and not as a reduction to the gross expenditure.

B.47 Expenditure must be in line with the Council's [Contract Procedure Rules](#).

B.48 Feasibility work carried out prior to a scheme being added to the capital programme is a charge to revenue. If a capital project is approved following feasibility work, the cost of this can be capitalised. Feasibility work is an analysis of all factors of the project including economic, technical, legal and scheduling considerations, to establish the likelihood that the project can be completed successfully.

### **Capital Programme Management Responsibilities**

Local authorities are required by regulation to have regard to the Prudential Code for Capital Finance in Local Authorities when carrying out financial duties regarding capital expenditure. The objectives of this code are to ensure that the capital investment plans of local authorities are affordable, prudent and sustainable. The responsibilities are set out below to ensure adherence with this code.

### Responsibilities of the CFO

- B.49 To issue guidance concerning capital schemes and controls, and to determine the definition of “capital”, having regard to government regulations and accounting requirements.
- B.50 To ensure that the Capital Strategy and 5-year programme are presented to Full Council as part of the budget and at such other times as the CFO may determine. The HRA capital spending plan is included and detailed in the Council Capital report that is reported to Full Council as part of budget-setting.
- B.51 To report on the outturn of capital expenditure to Council as soon as practicable after the end of the financial year.
- B.52 To give regular updates to Cabinet on the forecast expenditure.

### Responsibilities of the ~~Strategic Capital Board Review Group~~

- B.53 To oversee and coordinate the preparation, review and implementation of the Council’s Capital Strategy. The Capital Strategy must be approved by Council and reviewed annually.
- B.54 To lead the strategic direction of capital investment for the Council.
- B.55 The full terms of reference for the ~~Strategic Capital Board Review Group~~ are attached at Appendix 1. In summary the ~~Strategic Capital Board Review Group~~ will be responsible for:
- (a) Managing un-ringfenced and corporate resources and reviewing all bids for resources, evaluating them and then agreeing on the prioritisation of resources accordingly.
  - (b) Reviewing the use of any ringfenced resources to ensure alignment with other spending plans and the maximisation of benefits to the Council and achievement of Council outcomes.
  - (c) Recommending the use of both un-ringfenced and ringfenced resources and also the general prioritisation of resources so that Cabinet / Council can make a final well-informed decision on the utilisation of resources.
  - (d) Prior to the annual review of the capital strategy undertaking a review of the individual projects.

### Responsibilities of Chief Officers

- B.56 To ensure that the correct business case template is completed in full for all new capital projects. This will include full costings, accurate phasing of annual budgets across the life of the project and correctly identifying capital and revenue expenditure required for the project. The completion of the business case should be in consultation with the Finance Business Partner for the service to ensure the accuracy of the financial information provided.
- B.57 The cost of internal resources should be included in the project costs. This will include:
- Project Management
  - Legal Services
  - HR
  - Communications
  - Procurement

- Finance

## Table 1 – Capital Approvals

### Note:

The appropriate report should be submitted for decision depending on the value of approval as per sections **B401** and **B412**.

<b>Approval to add new schemes or to increase existing capital schemes</b> <i>Funded from new, sources including 100% ringfenced</i>	<b>Approval to spend against a new or existing scheme</b> <i>If a full business case is available, approval to spend can be given at the same time as approval to add a scheme to the capital programme or increase the value of an existing capital scheme</i>	<b>Virements **</b> <i>Variations across schemes within an overall programme can be approved by CHIEF OFFICER*** in consultation with CFO and relevant Cabinet Member</i>	<b>Slippage &amp; Rephasing</b> <i>Movement of budgets between years</i>
<b>Up to £500,000 – A Delegated Decision Notice (DDN) is required</b> Approved by CHIEF OFFICER*** in consultation with CFO and Cabinet Member	<b>Up to £500,000 – A Delegated Decision Notice (DDN) is required</b> Approved by CHIEF OFFICER*** in consultation with CFO and Cabinet Member	<b>Up to £500,000 – A Delegated Decision Notice (DDN) is required</b> Approved by CHIEF OFFICER*** in consultation with CFO and Cabinet Member	<b>Up to £500,000 – A Delegated Decision Notice (DDN) is required</b> Approved by CHIEF OFFICER*** in consultation with the CFO and Cabinet Member
<b>Over £500,000 up to £5 million</b> Approved by CABINET	<b>Over £500,000 up to £5 million</b> Approved by CABINET	<b>Over £500,000 up to £5 million</b> Approved by CABINET	<b>Over £500,000</b> Approved by CABINET
<b>Over £5 million</b> Approved by COUNCIL	<b>Over £5 million</b> Approved by COUNCIL	<b>Over £5 million</b> Approved by COUNCIL	

\* This includes credit arrangements such as financing leases.

\*\* If the virement is not in line with current approved council policies and strategies the decision must be made by Council regardless of value.

\*\*\*The Chief Officer is the Executive Director of the service that holds the budget for the capital project.

Following the submission of a Delegated Decision Notice (DDN) for consideration and recommendation by the Strategic Capital Board Capital Review Group, the CFO, can approve virements of any value within a programme.

The approval limits do not apply in respect of decisions taken at the Joint Commissioning Board up to a value of £2 million where the decision is taken by an officer / Individual Cabinet Member following consultation with and the agreement of all Cabinet Member Representatives on the Board or to acquisitions and disposals in relation to the Property Investment Fund, authority being delegated to the Associate Director: Capital Assets, following consultation with the Leader of the Council and the Executive Director: Finance and Commercialisation.

## **C: RISK MANAGEMENT AND CONTROL OF RESOURCES**

### **Risk Management**

#### **Responsibilities of the CFO**

- C.1 To prepare and promote the authority's risk management policy.
- C.2 To develop risk management controls in conjunction with other Chief Officers.
- C.3 To include all appropriate employees of the authority in a suitable fidelity guarantee insurance.
- C.4 To offer insurance cover to schools.
- C.5 To advise Cabinet on proper insurance cover where appropriate, and effect corporate insurance cover, through external insurance and internal funding.

#### **Responsibilities of Chief Officers**

- C.6 To notify the CFO immediately of any loss, liability or damage that may lead to a claim against the authority, together with any information or explanation required by the CFO or the authority's insurers.
- C.7 To take responsibility for the management of operational and service risks in accordance with the risk management policy, having regard to advice from the CFO and other specialist Officers.
- C.8 To ensure that there are regular reviews of risk within their departments and that appropriate actions are taken or are in place to manage risk.
- C.9 To notify the CFO promptly of all new risks, including properties or vehicles that require insurance and of any alterations or new initiatives affecting existing insurances.
- C.10 To consult the CFO and where appropriate the Director of Legal & Business Services, on the terms of any indemnity that the authority is requested to give.
- C.11 To ensure that employees, or anyone covered by the authority's insurances, do not admit liability or make any offer to pay compensation that may prejudice the assessment of liability in respect of any insurance claim.

### **Internal Control**

#### **Responsibilities of the CFO**

- C.12 To assist the authority to put in place an appropriate control environment and effective internal controls which provide reasonable assurance of effective and efficient operations, financial stewardship, probity and compliance with laws and regulations.

#### **Responsibilities of Chief Officers**

- C.13 To manage processes to check that established controls are being adhered to and to evaluate their effectiveness, in order to be confident in the proper use of resources, achievement of objectives and financial performance targets, and management of risks.
- C.14 To review existing controls in the light of changes affecting the authority and to establish and implement new ones in line with guidance from the CFO. Chief Officers should also be responsible for removing controls that are unnecessary or not cost or risk effective, for example because of duplication.



C.15 To ensure staff have a clear understanding of the consequences of lack of control.

## **Audit Requirements – Internal Audit**

### **Responsibilities of the CFO**

- C.16 To ensure that internal auditors have the authority to:
- (a) Access authority premises at reasonable times
  - (b) Access all assets, records, documents, correspondence and control systems
  - (c) Receive any information and explanation considered necessary concerning any matter under consideration
  - (d) Require any employee of the authority to account for cash, stores or any other authority asset under his or her control
  - (e) Access records belonging to third parties, such as contractors, when required
  - (f) Directly access the Head of Paid Service, Cabinet and Overview and Scrutiny Management Committee
- C.17 To approve the strategic and annual audit plans prepared by the Chief Internal Auditor, which take account of the characteristics and relative risks of the activities involved.
- C.18 To ensure that effective procedures are in place to investigate promptly any suspected fraud or irregularity.

### **Responsibilities of Chief Officers**

- C.19 To ensure that internal auditors are given access at all reasonable times to premises, personnel, documents and assets that the auditors consider necessary for the purposes of their work.
- C.20 To ensure that auditors are provided with any information and explanations that they seek in the course of their work.
- C.21 To consider and respond promptly to recommendations in audit reports.
- C.22 To ensure that any agreed actions arising from audit recommendations are carried out in a timely and efficient fashion.
- C.23 To notify the CFO immediately of any suspected fraud, theft, irregularity, improper use or misappropriation of the authority's property or resources. Pending investigation and reporting, the Chief Officer should take all necessary steps to prevent further loss and to secure records and documentation against removal or alteration.
- C.24 To ensure new systems for maintaining financial records, or records of assets, or changes to such systems, are discussed with and agreed by the Chief Internal Auditor prior to implementation.

## **Audit Requirements – External Audit**

### **Responsibilities of the CFO**

- C.25 To ensure that external auditors are given access at all reasonable times to premises, personnel, documents and assets that the external auditors consider necessary for the purposes of their work.
- C.26 To ensure there is effective liaison between external and internal audit.

C.27 To work with the external auditor and advise Full Council, Cabinet and Chief Officers on their responsibilities in relation to external audit.

#### Responsibilities of Chief Officers

C.28 To ensure that external auditors are given access at all reasonable times to premises, personnel, documents and assets which the external auditors consider necessary for the purposes of their work.

C.29 To ensure that all records and systems are up to date and available for inspection.

### **Preventing Fraud and Corruption**

#### Responsibilities of the CFO

C.30 To develop and maintain an anti-fraud, anti-bribery and anti-corruption policy.

C.31 To develop and maintain an anti-money laundering policy.

C.32 To maintain adequate and effective internal control arrangements.

C.33 To ensure that all suspected irregularities are reported to the Chief Internal Auditor.

#### Responsibilities of Chief Officers

C.34 To ensure that all suspected irregularities are reported to the Chief Internal Auditor.

C.35 To invoke the authority's disciplinary procedures where the outcome of an investigation indicates improper behaviour.

C.36 To ensure that where financial impropriety is discovered, the CFO is informed, and where sufficient evidence exists to believe that a criminal offence may have been committed, the police are called in to determine with the Crown Prosecution Service whether any prosecution will take place.

C.37 To maintain a departmental register of interests.

### **Assets – Security**

#### Responsibilities of the CFO

C.38 To ensure that an asset register is maintained in accordance with good practice for all fixed assets whose value is material in the manner prescribed by CIPFA in the Institute's Practical Guide to Asset Registers. The function of the asset register is to provide the authority with information about fixed assets so that they are safeguarded, used efficiently and effectively, and are adequately maintained.

C.39 To receive the information required for accounting, costing and financial records from each Chief Officer.

C.40 To ensure that assets are valued in accordance with the Code of Practice.

#### Responsibilities of Chief Officers

C.41 The Service Manager – Asset Management shall maintain a property database in a form approved by the CFO for all land and buildings and plant within buildings currently owned or used by the authority. Any use of property by a department or establishment other than for direct service delivery should be supported by documentation identifying terms, responsibilities and duration of use.

- C.42 To ensure that lessees and other prospective occupiers of Council land are not allowed to take possession or enter the land until a lease or agreement, in a form approved by the appropriate Chief Officers has been established.
- C.43 To ensure the proper security of all buildings and other assets under their control.
- C.44 Where land or buildings are surplus to requirements, a recommendation for sale should be the subject of a joint report by the appropriate Chief Officers
- C.45 To pass title deeds to the Director of Legal & Business Services who is responsible for custody of all title deeds.
- C.46 To ensure that no authority asset is subject to personal use by an employee without proper authority.
- C.47 To ensure the safe custody of vehicles, equipment, furniture, stock, stores and other property belonging to the authority. If an asset requires to be moved, altered, or disposed of check that the asset has not been leased or that any lease conditions are complied with.
- C.48 To ensure that additions and amendments to the register of moveable assets are notified to Finance in accordance with arrangements defined by the CFO.
- C.49 To ensure that assets are identified, their location recorded and that they are appropriately marked and insured.
- C.50 To consult the CFO in any case where security is thought to be defective or where it is considered that special security arrangements may be needed. C.51 To ensure cash holdings on premises are kept to a minimum.
- C.52 To ensure that keys to safes and similar receptacles are carried on the person of those responsible at all times; loss of any such keys must be reported to the CFO as soon as possible.
- C.53 To record all disposal or part exchange of assets that should normally be by competitive tender or public auction, unless, following consultation with the CFO, the relevant Cabinet Member, Cabinet or Full Council (as appropriate) agrees otherwise.
- C.54 To arrange for the valuation of assets for accounting purposes to meet requirements specified by the CFO.
- C.55 To ensure that all employees are aware that they have a personal responsibility with regard to the protection and confidentiality of information, whether held in manual or computerised records. Information may be sensitive or privileged, or may possess some intrinsic value, and its disclosure or loss could result in a cost to the authority in some way.
- C.56 To maintain inventories and record an adequate description of furniture, fittings, equipment, plant and machinery above £200 in value.
- C.57 To carry out an annual check of all items on the inventory in order to verify location, review, condition and to take action in relation to surpluses or deficiencies, annotating the inventory accordingly. Attractive and portable items such as computers, cameras and video recorders should be identified with security markings as belonging to the authority.
- C.58 To make sure that property is only used in the course of the authority's business, unless the Chief Officer concerned has given permission otherwise.
- C.59 To make arrangements for the care and custody of stocks and stores in the department.
- C.60 To ensure stocks are maintained at reasonable levels and are subject to a regular independent physical check. All discrepancies should be investigated and pursued to a satisfactory conclusion.

- C.61 To investigate and remove from the authority's records (i.e. write off) discrepancies as necessary, or to obtain Cabinet approval if they are in excess of a predetermined limit.
- C.62 To authorise or write off disposal of redundant stocks and equipment. Procedures for disposal of such stocks and equipment should be by competitive quotations or auction, unless, following consultation with the CFO, Cabinet decides otherwise in a particular case.
- C.63 To seek Cabinet approval to the write-off of redundant stocks and equipment in excess of a predetermined sum.
- C.64 To ensure that, in the event of any disaster, contingency plans for the security of assets and continuity of service or system failure are in place.

## **Assets – Disposal**

### *Responsibilities of the CFO*

- C.65 To issue guidelines representing best practice for disposal of assets. Corporate Property Standards should be followed for disposals of Land and Buildings.
- C.66 To ensure appropriate accounting entries are made to remove the value of disposed assets from the authority's records and to include the sale proceeds if appropriate.

### *Responsibilities of Chief Officers*

- C.67 To dispose of surplus or obsolete materials, stores or equipment in accordance with the guidelines issued by the CFO.
- C.68 To ensure that income received for the disposal of an asset is properly banked and coded.

## **Treasury Management**

*All financial transactions actioned as part of the Council's Treasury Management function will be undertaken in line with the approved Treasury Management Strategy and practices but will fall outside of the Delegated Decision Notice process.*

### *Responsibilities of CFO*

- C.69 To arrange the borrowing and investments of the authority in such a manner as to comply with the CIPFA Code of Practice on Treasury Management and the authority's treasury management policy statement and strategy.
- C.70 To report a proposed treasury management strategy for the coming financial year to Full Council at, or before the start of, each financial year.
- C.71 To report to Full Council not less than twice in each financial year on the activities of the treasury management operation and on the exercise of his or her delegated treasury management powers. One such report will comprise an annual report on treasury management for presentation by 30 September of the succeeding financial year.
- C.72 To operate bank accounts as are considered necessary – opening or closing any bank account shall require the approval of the CFO.
- C.73 To ensure that all investments of money are made in the name of the authority or in the name of nominees approved by Full Council.

- C.74 To ensure that all securities that are the property of the authority or its nominees and the title deeds of all property in the authority's ownership are held in the custody of the appropriate Chief Officer.
- C.75 To affect all borrowings in the name of the authority.
- C.76 To act as the authority's registrar of stocks, bonds and mortgages and to maintain records of all borrowing of money by the authority.

#### Responsibilities of Chief Officers

- C.77 To ensure that loans are not made to third parties and that interests are not acquired in companies, joint ventures or other enterprises without the approval, following consultation with the CFO, of Full Council or Cabinet as appropriate, subject to the criterion as detailed in E.9.
- C.78 To arrange for all trust funds to be held, wherever possible, in the name of the authority. All Officers acting as trustees by virtue of their official position shall deposit securities, etc relating to the trust with CFO, unless the deed otherwise provides.
- C.79 To arrange, where funds are held on behalf of third parties, for their secure administration, approved by the CFO, and to maintain written records of all transactions.
- C.80 To ensure that trust funds are operated within any relevant legislation and the specific requirements for each trust.
- C.81 To follow the instructions on banking issued by the CFO.

### **D: SYSTEMS AND PROCEDURES**

#### **General**

#### Responsibilities of the CFO

- D.1 To make arrangements for the proper administration of the authority's financial affairs, including to:
- (a) Issue advice, guidance and procedures for Officers and others acting on the authority's behalf
  - (b) Determine the accounting systems, form of accounts and supporting financial records
  - (c) Establish arrangements for audit of the authority's financial affairs
  - (d) Approve any new financial systems to be introduced
  - (e) Approve any changes to be made to existing financial systems

#### Responsibilities of Chief Officers

- D.2 To ensure that accounting records are properly maintained and held securely.
- D.3 To ensure that vouchers and documents with financial implications are not destroyed, except in accordance with arrangements approved by the CFO.
- D.4 To ensure that a complete management trail, allowing financial transactions to be traced from the accounting records to the original document, and vice versa, is maintained. D.5 To incorporate appropriate controls to ensure that, where relevant:
- (a) All input is genuine, complete, accurate, timely and not previously processed

- (b) All processing is carried out in an accurate, complete and timely manner
- (c) Output from the system is complete, accurate and timely
- D.6 To ensure that the organisational structure provides an appropriate segregation of duties, an adequate level of internal control, and that the risk of fraud or other malpractice is minimised.
- D.7 To ensure there is a documented and tested disaster recovery plan to allow information system processing to resume quickly in the event of an interruption.
- D.8 To ensure that systems are documented and staff trained in operations.
- D.9 To consult with the CFO before changing any existing system or introducing new systems.
- D.10 To establish a scheme of delegation identifying Officers authorised to act upon the Chief Officer's behalf, or on behalf of Cabinet, in respect of payments, income collection and placing orders, including variations, and showing the limits of their authority.
- D.11 Where relevant, to supply lists of authorised Officers, with specimen signatures if required, and delegated limits, to the CFO, together with any subsequent variations.
- D.12 To ensure that effective contingency arrangements, including back-up procedures for computer systems are in place. Wherever possible, back-up information should be securely retained in a fireproof location, preferably off site or at an alternative location within the building.
- D.13 To ensure that, where appropriate, computer systems are registered in accordance with data protection legislation and that staff are aware of their responsibilities under the legislation.
- D.14 To ensure that the authority's IT Standards issued by the appropriate Head of Service are observed, and that in particular all computerised data, computer equipment and software are protected from loss and damage through theft, vandalism, etc.
- D.15 To comply with the copyright, designs and patents legislation and, in particular, to ensure that:
  - (a) Only software legally acquired and installed by the authority is used on its computers
  - (b) Staff are aware of legislative provisions
  - (c) In developing systems, due regard is given to the issue of intellectual property rights

## **Income**

### **Responsibilities of the CFO**

- D.16 To agree arrangements for the collection of all income due to the authority, and to approve the procedures, systems and documentation for its collection.
- D.17 To provide advice to Chief Officers on the statutory regulations which relate to the collection and accounting of income.
- D.18 To assess and approve the form of receipts used.
- D.19 To undertake weekly reconciliations of all deposits to the authority's bank accounts.

- D.20 To provide an accounting system which records income and provides relevant information to Chief Officers so that income can be monitored.
- D.21 To maintain a Value Added Tax (VAT) account and supply HM Revenues & Customs (HMRC) with such details, explanations and statutory returns as required.
- D.22 To provide a system for the collection and control of credit income, and of sundry debts.
- D.23 To create, monitor and maintain a provision for bad and doubtful debts.
- D.24 To annually review the policy for writing off debts and the terms of credit. Cabinet is responsible for approving the procedures for writing off debts as part of the overall control framework of accountability and control.
- D.25 To approve all debts to be written off up to the value of £200,000 and to keep a record of all sums written off up to the approved limit. Once raised, no bona fide debt may be cancelled, except by full payment or by its formal writing off. A credit note to replace a debt can only be issued to correct a factual inaccuracy or administrative error in the calculation and/or billing of the original debt.
- D.26 To obtain the approval of Cabinet when writing off debts in excess of £200,000.

#### Responsibilities of Chief Officers

- D.27 To establish proposals for a charging policy for the supply of goods or services, including the appropriate charging of VAT, and to review it regularly, in line with corporate policies.
- D.28 To separate the responsibility for identifying amounts due and the responsibility for collection, as far as is practicable.
- D.29 To establish and initiate appropriate recovery procedures, including legal action where necessary, for debts that are not paid promptly.
- D.30 To issue official receipts or to maintain other documentation for income
- D.31 To ensure that at least two employees are present when post is opened so that money received by post is properly identified and recorded.
- D.32 To hold securely receipts, tickets and other records of income for the appropriate period.
- D.33 To lock away all income to safeguard against loss or theft, and to ensure the security of cash handling.
- D.34 To ensure that income is paid fully and promptly into the appropriate authority bank account in the form in which it is received. Appropriate details should be recorded on to paying-in slips to provide an audit trail. Money collected and deposited must be reconciled to the bank account and the ledger system on a regular basis appropriate to the level of transactions
- D.35 To ensure income is not used to cash personal cheques or other payments.
- D.36 To supply the CFO with details relating to work done, goods supplied, services rendered or other amounts due, to enable the CFO to record correctly the sums due to the authority and to ensure accounts are sent out promptly. To do this, Chief Officers should use established performance management systems to monitor recovery of income and flag up areas of concern to the CFO. Chief Officers have a responsibility to assist the CFO in collecting debts that they have originated, by providing any further information requested by the debtor, and in pursuing the matter on the authority's behalf. Only up to approved levels of cash can be held on the premises.
- D.37 To keep a record of any transfer of money between employees. The receiving Officer must sign for the transfer and the transferor must retain a copy.

D.38 To notify the CFO of outstanding income relating to the previous financial year as soon as possible after 31 March in line with the timetable determined by the CFO.

## **Ordering and Paying for Work, Goods and Services**

### **Responsibilities of the CFO**

- D.39 To ensure that all the authority's financial systems and procedures are sound and properly administered.
- D.40 To ensure that a budgetary control system is established that enables commitments incurred by placing orders to be shown against the appropriate budget allocation so that they can be taken into account in budget monitoring reports.
- D.41 To approve any changes to existing financial systems and to approve any new systems before they are introduced.
- D.42 To approve the form of official orders and associated terms and conditions.
- D.43 To make payments from the authority's funds on the Chief Officer's authorisation that the expenditure has been duly incurred in accordance with financial regulations.
- D.44 To make payments, whether or not provision exists within the estimates, where the payment is specifically required by statute or is made under a court order.
- D.45 To make payments to contractors on the certificate of the appropriate Chief Officer, which must include details of the value of work, retention money, amounts previously certified and amounts now certified.
- D.46 To provide advice and encouragement on making payments by the most economical means.
- D.47 To provide, as necessary, cash change floats, and approve and set up bank imprest accounts to meet minor expenditure on behalf of the authority and to prescribe rules for operating these accounts.
- D.48 To maintain a record of all such cash floats and bank imprest accounts, and periodically to review the arrangements for the safe custody and control of them.
- D.49 To hold a central record of the scheme of delegation identifying Officers authorised to approve payments, orders and variations up to the value of £2 million as agreed by the Executive Director for each service.
- D.50 Payments, orders and variations over £2 million must be approved by the Executive Director in consultation with the CFO and Cabinet Member for the service.

### **Responsibilities of Chief Officers**

- D.51 To ensure that unique numbered official orders are used for all goods and services, wherever possible in accordance with the Council's [No Purchase Order No Pay policy](#). D.52 To ensure official orders are not used to obtain goods or services for private use.
- D.53 To ensure that only those designated staff initiate or authorise orders and to maintain an up-to-date list of such designated staff, identifying authorisation limits. The authoriser of the order should be satisfied that the goods and services ordered are appropriate and needed, that there is adequate budgetary provision and that quotations or tenders have been obtained if necessary. Best value principles should underpin the authority's approach to procurement and the [Contract Procedure Rules](#) must be adhered to when procuring on behalf of the Council. Value for money should always be achieved.



- D.54 To ensure that goods and services are checked on receipt to verify that they are in accordance with the order. Where possible a different Officer from the person who authorised the order should always carry out this check. If appropriate, entries should then be made in inventories or stores records.
- D.55 To ensure that payment is not made unless a proper VAT invoice has been received, checked, coded and certified for payment, confirming that:
- (a) The goods or services have been received
  - (b) The invoice has not previously been paid
  - (c) The expenditure has been properly incurred and is within budget provision
  - (d) Prices and arithmetic are correct and accord with quotations, tenders, contracts or catalogue prices
  - (e) Tax has been correctly accounted for
  - (f) The invoice is correctly coded
  - (g) Discounts have been taken where available
  - (h) Appropriate entries will be made in accounting records
- D.56 For the avoidance of doubt, no pre-payment for goods, services or suppliers shall be allowed above the value of £15,000, without the prior written consent of the CFO and the Director of Legal & Business Services.
- D.57 To ensure no Officer authorises a payment to her or himself, and where practical no Officer should authorise an invoice for which the Officer raised the order.
- D.58 To ensure controls are regularly reviewed to verify they are in place and adequate for the efficient management of the system, which enables invoices to be examined, verified and authorised as properly payable
- D.59 To ensure that payments are not made on a photocopied or faxed invoice, statement or other document other than the formal invoice. Any instances of these being rendered should be reported to the Chief Internal Auditor unless a written explanation giving the reason is attached. Any copy invoice must be clearly marked by the supplier that it is a copy.
- D.60 To encourage suppliers of goods and services to receive payment by the most economical means for the authority. It is essential, however, that payments made by direct debit have the prior approval of the CFO.
- D.61 To ensure that the Council obtains best value from purchases by taking appropriate steps to obtain competitive prices for goods and services of the appropriate quality, with regard to the authority's [Contract Procedure Rules](#).
- D.62 To utilise any established central purchasing procedures in putting purchases, where appropriate, out to competitive quotation or tender. These will comply with the authority's [Contract Procedure Rules](#).
- D.63 To ensure that employees are aware of the national code of conduct for local government employees (summarised in the procedures and conditions of employment manual).
- D.64 To ensure that loans, leasing or rental arrangements are not entered into without prior agreement from the CFO. This is because of the potential impact on the authority's borrowing powers, to protect the authority against entering into unapproved credit arrangements and to ensure that value for money is being obtained.

- D.65 To notify the CFO of outstanding expenditure relating to the previous financial year as soon as possible after 31 March in line with the timetable determined by the CFO.
- D.66 With regard to contracts for construction and alterations to buildings and for civil engineering works, to document and agree with the CFO, the systems and procedures to be adopted in relation to financial aspects, including:
- (a) Certification of interim and final payments
  - (b) Checking, recording and authorising payments
  - (c) Monitoring and controlling capital schemes
  - (d) Validation of subcontractors' tax status
- D.67 To notify the CFO immediately of any expenditure to be incurred as a result of statute/court order where there is no budgetary provision.
- D.68 To ensure that all appropriate payment records are retained and stored for the defined period, in accordance with the document retention schedule. D.69 To ensure that employees operating an imprest account:
- (a) Obtain and retain vouchers to support each payment from the imprest account, including where appropriate an official receipted VAT invoice
  - (b) Make adequate arrangements for the safe custody of the account
  - (c) Produce upon demand by the CFO cash and all vouchers to the total value of the imprest amount
  - (d) Record transactions promptly
  - (e) Reconcile and balance the account at least monthly; reconciliation sheets to be signed and retained by the imprest holder
  - (f) Provide the CFO with a certificate of the value of the account held at the end of Period 11 each year, detailing the breakdown between cash at bank, cash in hand, petty cash floats advanced and vouchers.
  - (g) Ensure that the float is never used to cash personal cheques or to make personal loans and that the only payments into the account are the reimbursement of the float and change relating to purchases where an advance has been made
  - (h) On leaving the authority's employment or otherwise ceasing to be entitled to hold an imprest advance, an employee shall account to the CFO for the amount advanced to him or her.
  - (i) Follow the Council's Petty Cash policy.

## **Payments to Employees and Members**

### **Responsibilities of the CFO**

- D.70 To arrange and control secure and reliable payment of salaries, wages, compensation or other emoluments to existing and former employees, in accordance with procedures prescribed by him or her, on the due date.
- D.71 To record and make arrangements for the accurate and timely payment of tax, superannuation and other deductions.
- D.72 To make arrangements for payment of all travel and subsistence claims or financial loss allowance.
- D.73 To make arrangements for paying Members travel or other allowances.

- D.74 To provide advice and encouragement to Members, Chief Officers and employees in order to secure payment of allowances, salaries and wages by the most economical means.
- D.75 To ensure that there are adequate arrangements for administering superannuation matters on a day-to-day basis.
- D.76 To act as an advisor to Chief Officers on areas such as national insurance and pension contributions, as appropriate.

#### Responsibilities of Chief Officers

- D.77 To ensure appointments are made in accordance with the regulations of the authority and approved establishments, grades and scale of pay and that adequate budget provision is available.
- D.78 To notify the CFO of all appointments, terminations or variations which may affect the pay or pension of an employee or former employee, in the form and to the timescale required by the CFO.
- D.79 To ensure that adequate and effective systems and procedures are operated, so that:
- (a) Payments are only authorised to bona fide employees
  - (b) Payments are only made where there is a valid entitlement
  - (c) Conditions and contracts of employment are correctly applied
  - (d) Employees' names listed on the payroll are checked at regular intervals to verify accuracy and completeness
- D.80 To ensure that only those staff designated by them initiate or authorise payroll documentation and to maintain a list of such designated staff, including where appropriate specimen signatures identifying in each case the limits of their authority.
- D.81 To ensure that payroll transactions are processed only through the payroll system. Chief Officers should give careful consideration to the employment status of individuals employed on a self-employed consultant or subcontract basis. HMRC applies a tight definition for employee status, and in cases of doubt, advice should be sought from the CFO.
- D.82 To certify travel and subsistence claims and other allowances. Certification is taken to mean that journeys were authorised and expenses properly and necessarily incurred, and that allowances are properly payable by the authority, ensuring that cost-effective use of travel arrangements is achieved. Due consideration should be given to tax implications and that the CFO is informed where appropriate.
- D.83 To ensure that the CFO is notified of the details of any employee benefits in kind, to enable full and complete reporting within the income tax self-assessment system.
- D.84 To ensure that all appropriate payroll documents are retained and stored for the defined period in accordance with the document retention schedule.

#### Responsibilities of Members

- D.85 To submit claims for Members' travel and subsistence allowances on a monthly basis and, in any event, within one month of the year end.

## **Taxation**

### **Responsibilities of the CFO**

- D.86 To complete all HMRC returns regarding PAYE.
- D.87 To complete a monthly return of VAT inputs and outputs to HMRC.
- D.88 To provide details to HMRC regarding the construction industry tax deduction scheme.
- D.89 To complete all relevant company returns.
- D.90 To complete corporation returns for wholly owned companies.
- D.91 To advise Chief Officers, in the light of guidance issued by appropriate bodies and relevant legislation as it applies, on all taxation issues that affect the authority, and to maintain up-to-date guidance for all authority employees on taxation issues.

### **Responsibilities of Chief Officers**

- D.92 To ensure that the correct VAT liability is attached to all income due and that all VAT recoverable on purchases complies with HMRC regulations.
- D.93 To ensure that, where construction and maintenance works are undertaken, the contractor fulfils the necessary construction industry tax deduction requirements.
- D.94 To ensure that all persons employed by the authority are added to the authority's payroll and tax deducted from any payments. The [IR35 guidance](#) should be followed for all offpayroll workers who will be subject to PAYE deductions unless a determination has been issued by the IR35 team stating otherwise. As per the [Consultants Policy](#) a business case must be submitted for approval to Executive Management Board before engaging consultants.
- D.95 To follow the guidance on taxation issued by the CFO, including the [Tax Evasion Policy](#).

## **Quasi Commercial operations**

### **Responsibilities of the CFO**

- D.96 To advise on the establishment and operation of trading accounts and business units.

### **Responsibilities of Chief Officers**

- D.97 To consult with the CFO where a business unit wishes to enter into a contract with a third party where the contract expiry date exceeds the remaining life of their main contract with the authority. In general, such contracts should not be entered into unless they can be terminated within the main contract period without penalty.
- D.98 To observe all statutory requirements in relation to business units, including the maintenance of a separate revenue account to which all relevant income is credited and all relevant expenditure, including overhead costs, is charged, and to produce an annual report in support of the final accounts.
- D.99 To ensure that the same accounting principles are applied in relation to trading accounts as for other services or business units.
- D.100 To ensure that each business unit prepares an annual business plan in accordance with published guidelines.

## **E: EXTERNAL ARRANGEMENTS**

### **Partnerships**

#### *Responsibilities of the CFO*

- E.1 To advise on effective controls that will ensure that resources are not wasted.
- E.2 To advise on the key elements of funding a project including:
  - (a) A scheme appraisal for financial viability in both the current and future years
  - (b) Risk appraisal and management
  - (c) Resourcing, including taxation issues
  - (d) Audit, security and control requirements
  - (e) Carry-forward arrangements.
- E.3 To ensure that the accounting arrangements are satisfactory.

#### *Responsibilities of Chief Officers*

- E.4 To maintain a register of all contracts entered into with external bodies in accordance with procedures specified by the CFO.
- E.5 To ensure that, before entering into agreements with external bodies, appropriate approvals have been obtained and a risk management appraisal has been prepared for the CFO.
- E.6 To ensure that such agreements and arrangements do not impact adversely upon the services provided by the authority.
- E.7 To ensure that all agreements and arrangements are properly documented.
- E.8 To provide appropriate information to the CFO to enable a note to be entered into the authority's statement of accounts concerning material items.
- E.9 To ensure proper authority is obtained for the creation of any company, or any interest in a company, upon the following provisos:
  - i. Cabinet authority – where the interest is within the Policy Framework, a minority one, there is limited liability, less than 20 per cent board membership and the CFO and the Director of Legal & Business Services have no financial or legal concerns;
  - ii. Council authority – any other situation.

### **External Funding**

#### *Responsibilities of the CFO*

- E.10 To ensure that any match-funding or partnership funding requirements are considered prior to entering into agreements and that future revenue budgets reflect these requirements and that these issues are fully considered before bids are submitted.
- E.11 To ensure that the longer-term sustainability costs have been properly assessed.
- E.12 To ensure that the sustainability of funding has been assessed for risk.
- E.13 To ensure that all agreements entered into are consistent with and support the Council's priorities.
- E.14 To ensure that all funding notified by external bodies is received and properly recorded in the authority's accounts.

E.15 To maintain a central register of external funding / grant arrangements.

E.16 To ensure that audit requirements are met.

### Responsibilities of Chief Officers

E.17 To consult with the CFO and the relevant Cabinet Member before any bid for any external funds is submitted and to ensure that the necessary approvals are obtained to accept funding in line with the criteria in the table below.

E.18 To ensure that when a bid is successful, relevant amendments are made to the appropriate capital and revenue budgets, and that all necessary capital and revenue approvals are obtained before any expenditure is incurred or any commitment is made.

E.19 To consider any future commitments that arise after the period of external funding ceases and agree a written exit strategy in order to avoid unplanned future commitments or provide a robust financial plan to fund any approved future commitments after the period of external funding ceases.

E.20 To ensure that expenditure is properly incurred and recorded in accordance with the Financial Procedure Rules and any conditions of the funding and that all claims for funds are made within any deadlines.

E.21 To ensure that the project progresses in accordance with the agreed project plan.

<b>Value of external funding</b>	<b>Approval required for acceptance of external funding bids</b>
<b>Up to £200,000</b>	Approved by CHIEF OFFICERS in consultation with the CFO
<b>£200,000 to £500,000</b>	Approved by CHIEF OFFICERS in consultation with CFO and Cabinet Member
<b>Over £500,000 to £2 million</b>	Approved by CABINET
<b>Over £2 million</b>	Approved by COUNCIL

### Work for Third Parties

#### Responsibilities of CFO

E.22 To issue guidance with regard to the financial aspects of third-party contracts and the maintenance of the contract register.

#### Responsibilities of Chief Officers

E.23 To ensure that the approval of Cabinet is obtained before any negotiations are concluded to work for third parties.

E.24 To maintain a register of all contracts entered into with third parties in accordance with procedures specified by the CFO.

E.25 To ensure that appropriate insurance arrangements are made.

E.26 To ensure that the authority is not put at risk from any bad debts.

- E.27 To ensure that no contract is subsidised by the authority.
- E.28 To ensure that, wherever possible, payment is received in advance of the delivery of the service.
- E.29 To ensure that the business unit has the appropriate expertise to undertake the contract.
- E.30 To ensure that such contracts do not impact adversely upon the services provided for the authority.
- E.31 To ensure that all contracts are properly documented.
- E.32 To provide appropriate information to the CFO to enable a note to be entered into the Statement of Accounts.

## **APPENDIX 1 – STRATEGIC CAPITAL BOARD REVIEW GROUP – TERMS OF REFERENCE**

Note: This is **not** a formal decision-making body. Any decision making must be in accordance with the Constitution ie through Council, Cabinet or powers formally delegated to officers. Please refer to the Director of Legal & Business Services for further advice

### **STRATEGIC CAPITAL BOARD REVIEW GROUP**

#### Terms of Reference

#### Statement of Purpose

The role of the board group is to oversee the strategic development and delivery of the capital programme, from proposed projects through to inclusion in the programme, implementation, and delivery of the benefits. This will include:

- 1) Acting as a gateway for consideration of what proposals should be recommended for inclusion in the capital programme
- 2) To oversee and endorse the Council's Capital Strategy.
- 3) To own and oversee the development of the Council's Capital Programme for both the General Fund and the Housing Revenue Account.
- 4) Maintaining an overview of the performance of the projects within the Council's capital programme, identifying any specific implementation challenges being faced. ~~and~~
- 5) Scanning the horizon for projects emerging that may need to be added into the programme in the future.
- 6) To ensure the Council has business cases ready to apply for investment opportunities as they arise, working closely with the Renaissance Board.

This remit applies to both the General Fund and Housing Revenue Account (HRA). All proposals will be considered for value for money, alignment with the Council's vision, ~~and~~ priorities and criteria of purposeful investment, and within the context of overall affordability of the entire programme using the criteria and parameters set within the Capital Strategy.

#### Attendees

- Cabinet Member for Finance and Change (Chair)
- Leader of the Council
- Deputy Leader of the Council
- ~~Cabinet Member for Finance and Resources~~
- Chief Executive
- Executive Director ~~of~~ for Place
- Executive Director Corporate Services Finance and Commercialisation (S151 Officer)
- Head of Financial Planning and Management (Deputy S151 Officer)
- Capital & Treasury Manager
- Head of Corporate Estates & Assets Head of Property



By invite depending on the project requiring approval

- ~~Leader of the Council~~
- ~~Chief Executive~~
- Relevant Cabinet Members
- Relevant Executive Directors
- Relevant Project / Programme Managers
- Relevant Heads of Services (to attend at least quarterly to cover capital monitoring)

## Core Functions

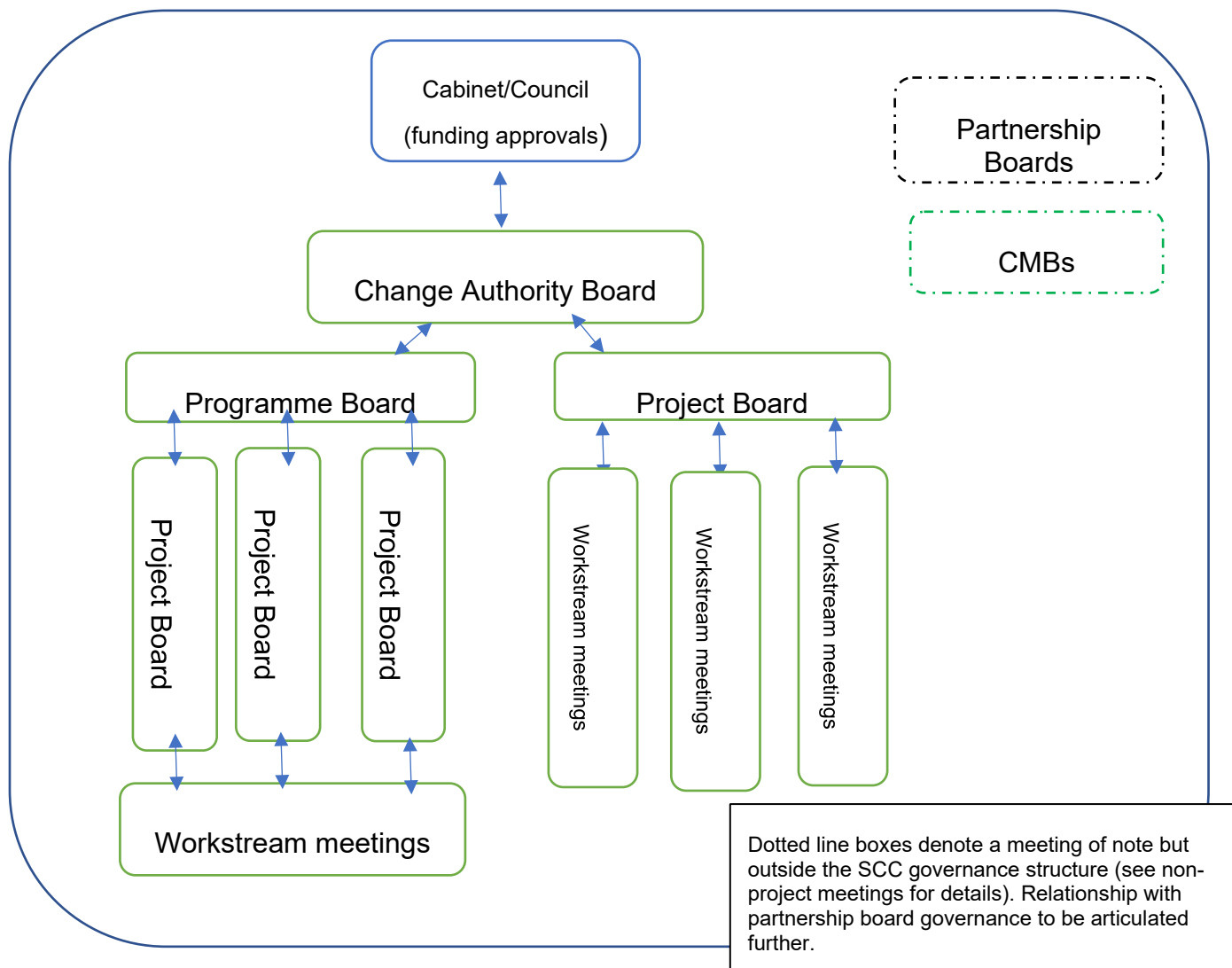
- To operate as a critical gateway for capital programme and major capital projects, evaluating and challenging business case proposals to test robustness and taking a view on prioritisation of projects proposed.
- To review systems of pre-project evaluation, cost estimation and phasing of spend to ensure accuracy of each proposed scheme.
- To review the whole 5-year capital programme taking into account resources and any changes in priorities and recommending any changes to the Cabinet Member for Finance and Resources
- To review the quarterly reporting provided on the Council's capital programme to identify any areas of focus or concern.
- To agree and review a dashboard reporting system which easily highlights projects and programmes where there is a need for focus.
- To identify common issues being experienced across the programmes and seek to address this corporately.
- To focus on major projects and programmes where further confidence or information is needed.
- To act as a forum for horizon scanning for projects that will need to be closed or introduced to the capital programme.
- To consider opportunities for bidding to external organisations for funding prior to a sign off by the Council's Section 151 officer.
- To seek assurance that there are effective project and programme management processes in place for the delivery of successful capital projects.
- To provide assurance that the capital programme is further scrutinised beyond the regular updates provided to Cabinet and EMB and to take actions to expedite any issue that is blocking implementation of agreed projects within the programme.
- To share examples of good practice across the Council and to receive post-implementation review presentations after the completion of major projects for lessons learnt.
- To consider all requests for in-year additions and changes to the capital programme that are not Officer delegated decisions, in accordance with the limits set out in the Financial Procedure Rules.
- To review all assets held by the council, to evaluate if the interests of the council may be better served by disposing of assets to generate capital receipts or avoid potential future liabilities.
- To consider any proposals on the sale of assets, creating capital receipts, to ensure value for money is being obtained.

## APPENDIX 2 – CHANGE AUTHORITY BOARD – TERMS OF REFERENCE

<p>Note: This is <b>not</b> a formal decision-making body. Any decision making must be in accordance with the Constitution ie through Council, Cabinet or powers formally delegated to officers. Please refer to the Director of Legal &amp; Business Services for further advice</p>	
<p><b>Purpose</b></p>	<ul style="list-style-type: none"> <li>• To act as an approval authority for resourcing Concept stage of new projects</li> <li>• To act as a review point for Concept and Definition stages of project governance.</li> <li>• To monitor specific key programmes against agreed milestones, outcomes risks and issues</li> <li>• To resolve escalated conflicts between programmes.</li> <li>• To review agreed priorities against progress and pipeline to support delivery and BAU capacity.</li> <li>• To assess project success and benefits realisation at appropriate points including after formal project close.</li> </ul>
<p><b>Aims</b></p>	<ul style="list-style-type: none"> <li>• EMT understand progress and challenges of key council projects and programmes.</li> <li>• EMT are aware of, and are the decision maker on escalations or conflicts that impact more than one programme of work and/or are outside agreed programme tolerances.</li> <li>• Ensure alignment of any new projects (both service and centrally supported) align to council strategies.</li> <li>• Ensure projects and programmes are following the agreed project governance structure.</li> <li>• Horizon scanning and potential pipeline.</li> <li>• Project improvement through lessons learned feedback.</li> </ul>
<p><b>Projects/Programmes to be included</b></p>	<ul style="list-style-type: none"> <li>• Any project or programme that is outlined in the SCC Corporate Plan 2020-25.</li> <li>• A project or programme that has potential for strategic, reputational, financial or political impact.</li> <li>• Any project or programme that requires resource (including funding) that is not part of a BAU programme.</li> </ul> <p>Note: whether included in this board or not, unless by exception, projects and programmes should only be initiated if they are agreed as part of a business plan.</p>
<p><b>Core Membership</b></p>	<p>Executive Management Team (EMT)            Head of Projects, Policy &amp; Performance, Head of Property, Head of IT            Head of Financial, Planning &amp; Management            PMO and Performance Manager</p>

<b>Membership by invite</b>	Project/Programme Sponsors Project/Programme Managers Service representatives
<b>Standing agenda items</b>	<ul style="list-style-type: none"> <li>• Decision, escalation &amp; awareness reporting of major projects and programmes</li> <li>• Review/approval and prioritisation of new projects.</li> <li>• Stage review of Concept and Definition stage</li> <li>• Critical decisions or milestones on specific projects/programmes</li> <li>• Capital Monitoring</li> <li>• Spotlight on project/programme</li> </ul>
<b>Frequency</b>	Bi-monthly
<b>Administrator</b>	Karen Hilleard (PMO & Performance Manager)

**Project governance – key meetings**



Meeting	Attendees
<p><b><u>Cabinet/Council</u></b> Where Cabinet or full Council approval of funding is required, followed by monitoring projects/programmes against key milestones.</p>	<p>Cabinet Members Executive Management Team Officers as appropriate</p>
<p><b><u>Change Authority Board</u></b> Monitoring suite of major programmes across the council against key milestones and outcomes. Decision maker on programme conflicts, escalations and prioritisation.</p>	<p>Executive Management Team Head of Projects, Policy &amp; Performance Head of Property Head of IT PMO &amp; Performance Manager Other Officers as appropriate</p>

<p><b><u>Programme Board</u></b>  Project updates  Monitoring programme progress and key success criteria.  Decision maker on project conflicts and escalations and within agreed authority levels.</p>	Programme Sponsor Programme Manager Senior Service User Senior Supplier representative (if relevant) As required -Project Manager(s), workstream leads etc
<p><b><u>Project Board</u></b>  Monitoring project progress and key success criteria.  Decision maker within agreed authority levels.  *Note: In a programme set up there will be an additional meeting to manage cross project dependencies etc</p>	Project Manager Business Change Manager Workstream leads – as required SMEs as required
<p><b><u>Non-project meetings</u></b>  Updates should be provided as required at other meetings (eg CMBs, Governance Committee, improvement boards, operational and relevant partnership meetings) but these are for information only, and are not governance or decision meetings for the project or programme. If a potentially issue arises as part of these, they should be flagged as part of the agenda for the next project or programme board for a decision.</p>	

### **APPENDIX 3 – SCHEME APPROVAL PROCESS**

All capital investment will be agreed by the ~~Capital Review Group~~ Strategic Capital Board. This will enable any expenditure and its funding to be better aligned with the Council and City priorities as well as that of other partners and funding sources. These partners, from both the public and private sector will be at both a regional level and at a district level.

**For all proposals identified within business plans, the following approval process needs to be followed:**

- a) Outline Business Case (OBC) which will focus on options appraisal and quantifiable outcomes.
- b) Full Business Case (FBC) – the final investment decision. This will focus on the how the priorities set out in the OBC will be delivered, including:
  - i. Project description - This should provide sufficient detailed information in order to give an understanding of what the scheme involves, including the need for and urgency for the work. For example, where the scheme involves a programme of works such as "improvements to" or "replacements to" give some indication of where and when the work is to take place. It is insufficient to simply restate the scheme description as contained in the capital programme.
  - ii. Consultation undertaken.
  - iii. Expenditure and funding including whole life costs and revenue implications. This should be based on an agreed design and specification. It should also include an allowance for fees, contingencies and inflation. A risk-based assessment should be applied to the costs and an indication of the potential range of costs included where appropriate. If there is scheme specific external funding, for example third party grants or capital receipts to be generated, this must be identified and any risks to the receipt of this money made clear.
  - iv. Summary of what the scheme will provide in terms of outputs.
  - v. Concept outline – this will cover the initial concept idea, potential costs and funding sources, links to the Council Strategy and the City Plan and how outcomes will be improved.
  - vi. Any further option appraisal
  - vii. Value for Money – including whether there are any revenue implications other than capital financing costs. Where savings are generated the use of the saving must be specified and where there are extra costs there must be a clear statement of how these will be funded. Any impact on fees and charges, either varying existing charges or introducing new ones, must also be specified.
  - viii. Delivery
  - ix. Timescales - Project start and finish dates plus any key milestones or review dates. This is particularly important where a scheme approval covers several financial years.
  - x. Risk Management
  - xi. Sustainability, forward strategy and evaluation
  - xii. Asset Management
  - xiii. Procurement - The proposed procurement regime to be followed where contracts are to be let, in consultation with the Senior Manager Property, Procurement and Contract Management, and the intended start and completion dates, for each management stage of the scheme.
  - xiv. Equality Impact Assessment

- xv. Environmental Impact Assessment
- xvi. Any approvals or consents that are required from Government Departments or third parties.
- xvii. Change Requests where delegated tolerance levels will be exceeded.

There is a separate process for proposals that are identified by officers outside of the business planning process:

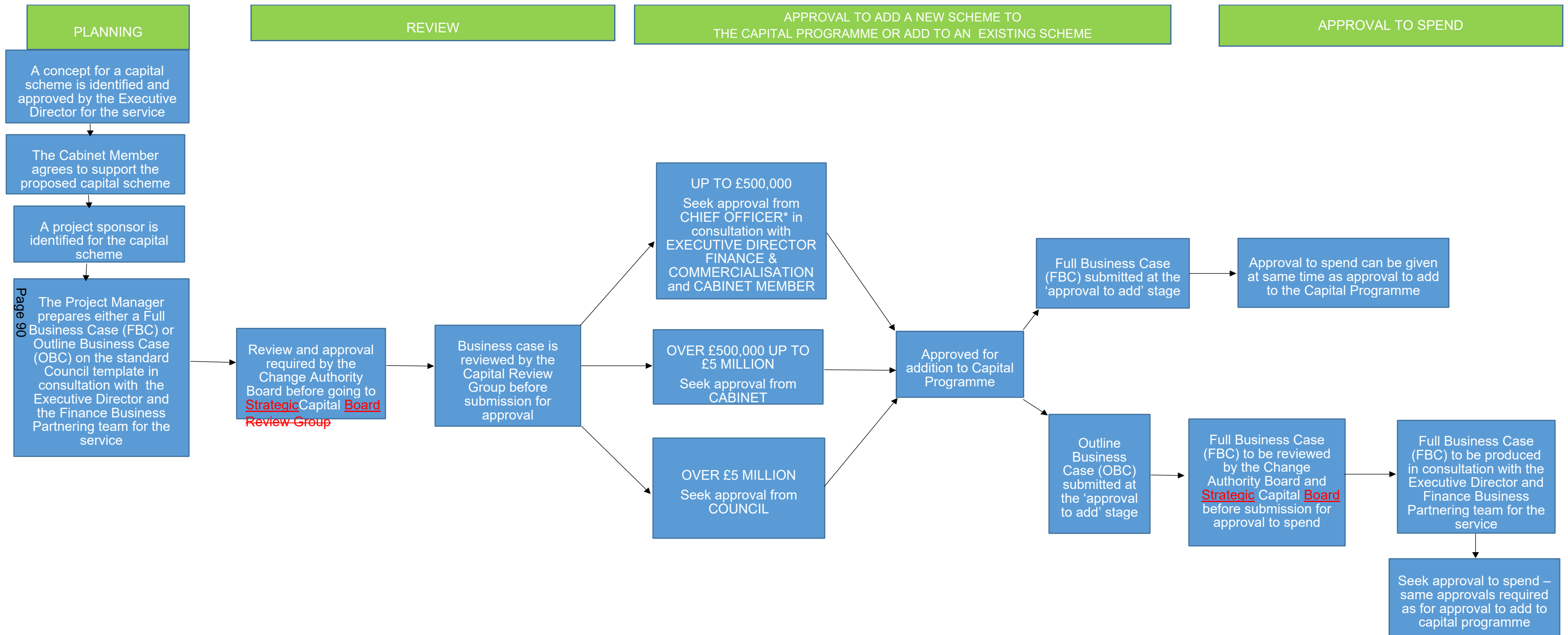
- i. Support for the initial concept of the project must be sought from the relevant Cabinet Member before proceeding with an outline or full business case.
- ii. A full business case as detailed above, or a streamlined version if a less complex project, should normally be prepared in consultation with the Executive Director and Finance Business Partner for the service.
- iii. Once completed and reviewed by the Executive Director and Finance Business Partner, the business case should be taken to the Change Authority Board to review and agree the proposal.
- iv. Once agreed by the Change Authority Board, the business case should be taken to the Strategic Capital Board Review Group for review and agreement before it goes for final approval as required in Table 1 and any appropriate constitutional requirements.

Where there is already an agreed asset management plan the Capital Review Group Strategic Capital Board can choose to request elements of the above business case come forward as they see fit.

**APPENDIX 4 – DECISION PATHWAY FOR CAPITAL APPROVALS**

**Approval to add a new scheme to the capital programme or to add to an existing capital scheme**

**\*The Chief Officer is the Executive Director for the service that holds the budget for the capital project**





<p><b>APRIL TO SEPTEMBER</b></p> <p>As part of business planning cycle, detailed business plans for new capital projects for the next financial year are prepared</p>	<p><b>OCTOBER</b></p> <p>Detailed business plans are reviewed by Heads of Service and Finance before going to the Change Authority Board and then on to the Strategic Capital Board for review</p>	<p><b>NOVEMBER</b></p> <p>Final review of business plans following any amendments requested or additional info. No new business cases – updates only.</p>	<p><b>DECEMBER</b></p> <p>Executive Director - Finance &amp; Commercialisation and Cabinet Member for Finance and Capital Assets liaise to agree the additions to the budget</p>	<p><b>JANUARY</b></p> <p>Detailed business plans are reviewed by EMB and Cabinet</p>	<p><b>FEBRUARY</b></p> <p>Capital and revenue budgets are approved by Full Council for the following financial year</p>
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<p><b>MONTHLY</b></p> <p>Meeting of Change Authority Board to monitor and discuss capital issues</p> <p>Proposals for additions to the annual capital programme are reviewed by the Change Authority Board before submission to the <u>Strategic Capital Board Review Group</u> for review.</p> <p>Business plans for new capital projects during the year are accepted by exception only i.e. urgent capital projects not previously anticipated or fully funded capital projects</p>	<p><b>QUARTERLY</b></p> <p>Meeting of the <u>Strategic Capital Board Review Group</u> to monitor the capital programme, give approvals to spend and approve additions to the capital programme by exception only i.e. urgent capital projects not previously anticipated or fully funded capital projects</p>
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## APPENDIX 6 – GLOSSARY OF TERMS AND ACRONYMS

### Glossary

Change Request	A proposal to significantly alter a project
Delegated Decision Notice	A form to record details of a key decision that has been delegated to a Chief Officer
Project Sponsor	An individual with overall accountability for the project
Rephasing	Moving a budget for a future year into a previous year if, for example, a project progressed more quickly than originally expected
Ringfenced resources	Funding that has restrictions placed upon it and can only be used for a particular purpose
Slippage	Moving a budget for one year into a future year if, for example, there was a delay in the progress of the project
Un-ringfenced resources	Funding that is not restricted to a particular purpose and which can be allocated as required
Virement	The planned transfer of a budget for use in a different purpose to that originally intended

### Acronyms

BAU	Business As Usual
CAB	Change Authority Board
CFO	Chief Financial Officer
CMB	Cabinet Member Briefing
<b>CRG</b>	<b>Capital Review Group</b>
DDN	Delegated Decision Notice
EMB	Executive Management Board
EMT	Executive Management Team
FBC	Full Business Case
HRA	Housing Revenue Account
OBC	Outline Business Case
PMO	Project Management Office



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<b>DECISION-MAKER:</b>	<b>GOVERNANCE COMMITTEE</b>
<b>SUBJECT:</b>	<b>EXTERNAL AUDIT – VALUE FOR MONEY ARRANGEMENTS UPDATE JULY 2023</b>
<b>DATE OF DECISION:</b>	24 JULY 2023
<b>REPORT OF:</b>	<b>EY LLP (EXTERNAL AUDIT)</b>

<b><u>CONTACT DETAILS</u></b>			
<b>Executive Director</b>	<b>Title</b>	Executive Director Corporate Services	
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	<b>E-mail:</b>	<a href="mailto:Mel.creighton@southampton.gov.uk">Mel.creighton@southampton.gov.uk</a>	
<b>Author:</b>	<b>Title</b>	EY Engagement Partner	
	<b>Name:</b>	Kevin Suter	Tel:
	<b>E-mail:</b>	<a href="mailto:ksuter@uk.ey.com">ksuter@uk.ey.com</a>	

<b>STATEMENT OF CONFIDENTIALITY</b>	
N/A	
<b>BRIEF SUMMARY</b>	
<p>We raised concerns regarding the Council’s financial sustainability at the Governance Committee’s meeting of 24 April 2023.</p> <p>This report contains our updated observations, following publication of the Council’s Medium Term Financial Strategy update for the 19 July 2023 Council meeting.</p>	
<b>RECOMMENDATIONS:</b>	
	(i) To note the External Audit Value for Money update
<b>REASONS FOR REPORT RECOMMENDATIONS</b>	
1.	Please see summary above.
<b>ALTERNATIVE OPTIONS CONSIDERED AND REJECTED</b>	
2.	None
<b>DETAIL (Including consultation carried out)</b>	
3.	See attached External Audit report.
<b>RESOURCE IMPLICATIONS</b>	
<b><u>Capital/Revenue</u></b>	
4.	None
<b><u>Property/Other</u></b>	
5.	None
<b>LEGAL IMPLICATIONS</b>	

<b><u>Statutory power to undertake proposals in the report:</u></b>	
6.	None
<b><u>Other Legal Implications:</u></b>	
7.	None
<b>RISK MANAGEMENT IMPLICATIONS</b>	
8.	None
<b>POLICY FRAMEWORK IMPLICATIONS</b>	
9.	None

<b>KEY DECISION?</b>	<b>No</b>
<b>WARDS/COMMUNITIES AFFECTED:</b>	N/A
<b><u>SUPPORTING DOCUMENTATION</u></b>	
<b>Appendices</b>	
1.	Southampton CC VFM Arrangements Update - July 2023

**Documents In Members' Rooms**

1.	N/A
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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.	None

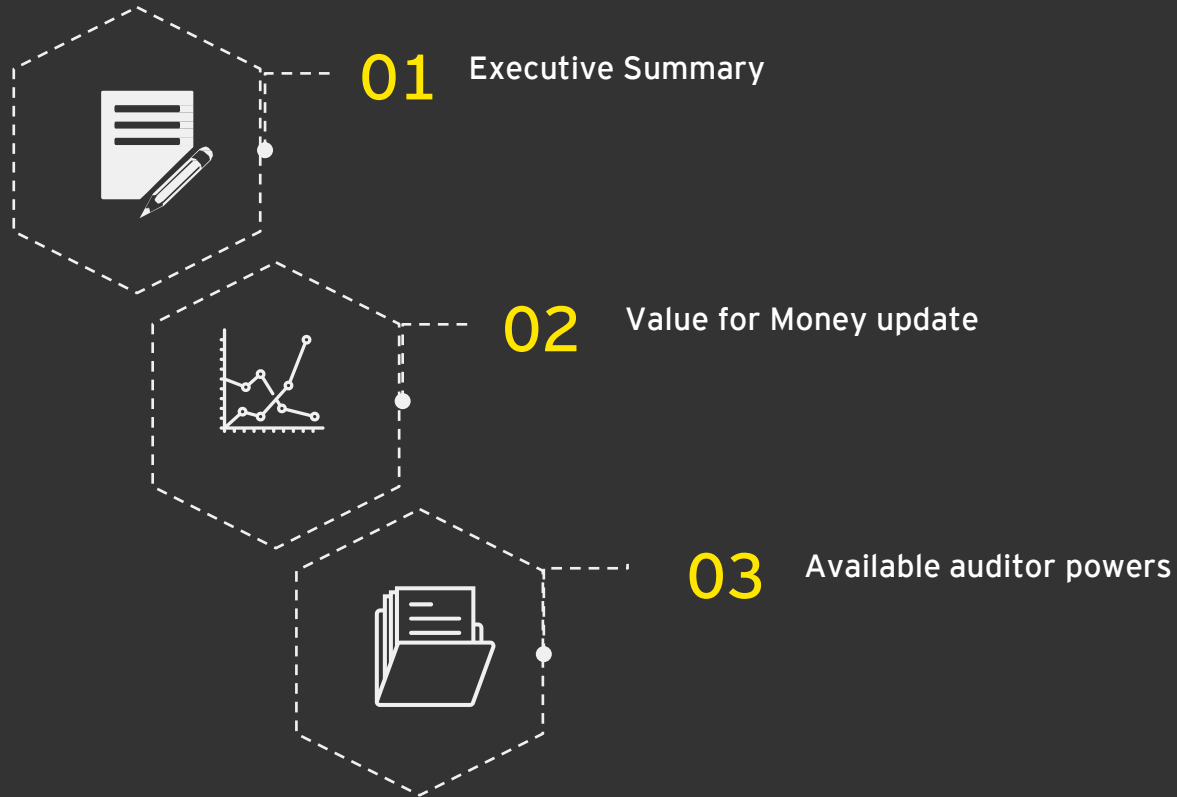


**Southampton City  
Council**

**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.

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## 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.

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- 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.

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#### 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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# Agenda Item 8

<b>DECISION-MAKER:</b>	<b>GOVERNANCE COMMITTEE</b>
<b>SUBJECT:</b>	<b>ANNUAL INTERNAL AUDIT OPINION 2022-23</b>
<b>DATE OF DECISION:</b>	<b>24<sup>th</sup> JULY 2023</b>
<b>REPORT OF:</b>	<b>CHIEF INTERNAL AUDITOR</b>

<b><u>CONTACT DETAILS</u></b>			
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<b>Author:</b>	<b>Title</b>	<b>CHIEF INTERNAL AUDITOR</b>	
	<b>Name:</b>	<b>Elizabeth Goodwin</b>	<b>Tel: 023 8083 4616</b>
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<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 2022-23 Internal Audit &amp; Counter Fraud completed:</p> <ul style="list-style-type: none"><li>• 31 full audits,</li><li>• 15 grant reviews,</li><li>• 15 follow ups and</li><li>• 1 data analytics project.</li></ul> <p>The results identified one 'No Assurance' audited area, which will be shared as part of the September 2023 'Internal Audit Progress Report' alongside Executive Director comments.</p> <p>In addition, for the year there is, a combined 42% of results rated as 'no assurance' or 'limited assurance' and 58% rated as 'reasonable assurance' or 'assurance' (full audits). Compared with the previous year's results (2021-22) which was 35% and 65% respectively, showing a decline in the level of reasonable or full assurance attributed to work performed.</p> <p>Whilst the overall movement in the audit results for 2022-23 was not, in itself, so significant to impact on the opinion, the opinion is also informed and influenced by the vulnerability of the governance framework and the associated emerging risks,</p>

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 2022-23.

The full details can be found in Appendix A.

**RECOMMENDATIONS:**

	(i)	That the Governance Committee notes the Chief Internal Auditor's Annual Audit Opinion for 2022-23.
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**REASONS FOR REPORT RECOMMENDATIONS**

1.	In accordance with proper internal audit practices (Public Sector Internal Audit Standards) and the Internal Audit Charter, the Governance Committee is required to receive the Chief Internal Auditor's Annual Report & Opinion for 2022-23.
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**ALTERNATIVE OPTIONS CONSIDERED AND REJECTED**

2.	None
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**DETAIL (Including consultation carried out)**

3.	The opinion has been shared with members of the Executive Management Board including the s151 officer.
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**RESOURCE IMPLICATIONS**

**Capital/Revenue**

4.	None
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**Property/Other**

5.	None
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**LEGAL IMPLICATIONS**

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

6.	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.
----	--

**Other Legal Implications:**

7.	None
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**RISK MANAGEMENT IMPLICATIONS**

8.	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.
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**POLICY FRAMEWORK IMPLICATIONS**

9.	None
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**KEY DECISION?** No

**WARDS/COMMUNITIES AFFECTED:** None

**SUPPORTING DOCUMENTATION**

<b>Appendices</b>	
1.	Annual Internal Audit Opinion for 2022-23

**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:		
Title of Background Paper(s): Results of work carried out to date.	Relevant Paragraph of the Access to Information Procedure Rules / Schedule 12A allowing document to be Exempt/Confidential (if applicable)	

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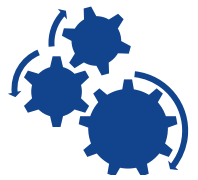


**SOUTHAMPTON**  
CITY COUNCIL

## Southampton City Council Annual Audit Report 2022/23

Elizabeth Goodwin, Chief Internal Auditor

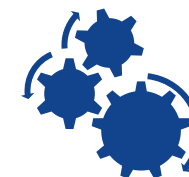




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## 1. Executive Summary

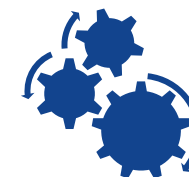
### Annual Opinion

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 (2022/23) 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 significant financial pressures which have escalated during 2022-23 along with an increased emerging strain on the internal control framework have resulted in an opinion level of 'limited assurance' being attributed. The previous years assessment of 'reasonable assurance' was provided following two years of sustained improvement and no indications of systemic failings. It was previously noted that there were examples across the council where further work was required to enhance the control environment, this requirement has grown following structural changes, changes in key staff and organisational transformational changes. This position is likely to deteriorate further over the course of 2023-24 and audit work will remain flexible to align to the council's risk exposure.

### 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. The 'No Assurance' Appointeeship audit will be shared in the next reporting period (September 2023) alongside Executive Director comments.



## 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*

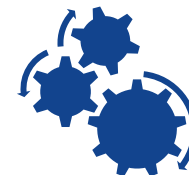
**2.3** The responsibility for maintaining an adequate and effective system of internal audit within Southampton City Council lies with the Executive Director of Corporate Services (Section 151 Officer).

**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.

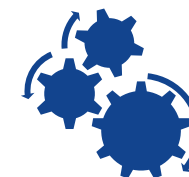
**2.8** An annual self-assessment is carried out, as part of *PSIAS*. The assessment for 2022/23 confirmed that Southampton City Council Internal Audit Service is compliant with requirements. For 2022/23 an External Assessment (required every five years) confirmed this assessment.

### Statement of Organisational Independence

**2.9** The Internal Audit Section has no operational responsibilities for any financial systems, including system development and installation. It does 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.

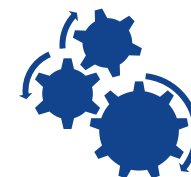
**2.11** The Internal Audit Section has free and unfettered access to the Section 151 Officer, Chief Executive, Monitoring Officer the Leader of the Council and the Chair of the Governance Committee.



### 3. Annual Opinion for 2022/23

- 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 later.
- 3.2** For the financial year 2022-23 Internal Audit & Counter Fraud completed 31 full audits, 15 grant reviews, 15 follow ups and 1 data analytics project. The results identified one 'No Assurance' audited area, which is shared within this report. In addition, for the year there is, a combined 42% of results rated as 'no assurance' or 'limited assurance' and 58% rated as 'reasonable assurance' or 'assurance' (full audits). Compared with the previous year's results (2021-22) which was 35% and 65% respectively, showing a decline in the level of reasonable or full assurance attributed to 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. Whilst last year's (2021-22) results, compared to the previous years (2020-21) were consistent and showed an indication of controls being maintained, there is a decline for this year (2022-23) and an emerging pattern.
- 3.3** An area of concern flagged in various reports during 2022-23, relates to the debt recovery where levels are increasing from previous years. A contributing cause of this will be a direct result of the council and governments directive to taking a 'softer approach' to recovery during the COVID-19 period, as well as more recent cost of living impacts. That said, the longer-term ability to collect debts as they age will be hindered, resulting in a higher percentage of debt written off in future years when savings targets become even tighter, and reserves have been eroded further.
- 3.4** 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 several substantial changes to its senior management team, most recently in the last 12 months, culminating in directorate restructuring and further changes to staffing arrangements. Most positions are filled with permanent incumbents and there is now a new corporate plan and a wide reaching transformational programme.
- 3.5** The embedding of new arrangements (management styles) and delivery of priorities moving forward is against a backdrop of immediate and unprecedented financial pressures the Council is facing with a significant budget deficit. Therefore, the internal control and governance framework, which has already been tested as part of previous reducing Local Authority budgets, will be challenged significantly due to the planned extensive system transformations, the anticipated further loss of experienced staff (via the VS initiative) and a further reduction of resource, all contributing to increasing the risk exposure, be it immediate and longer term.

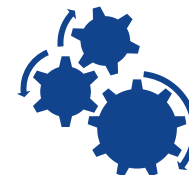
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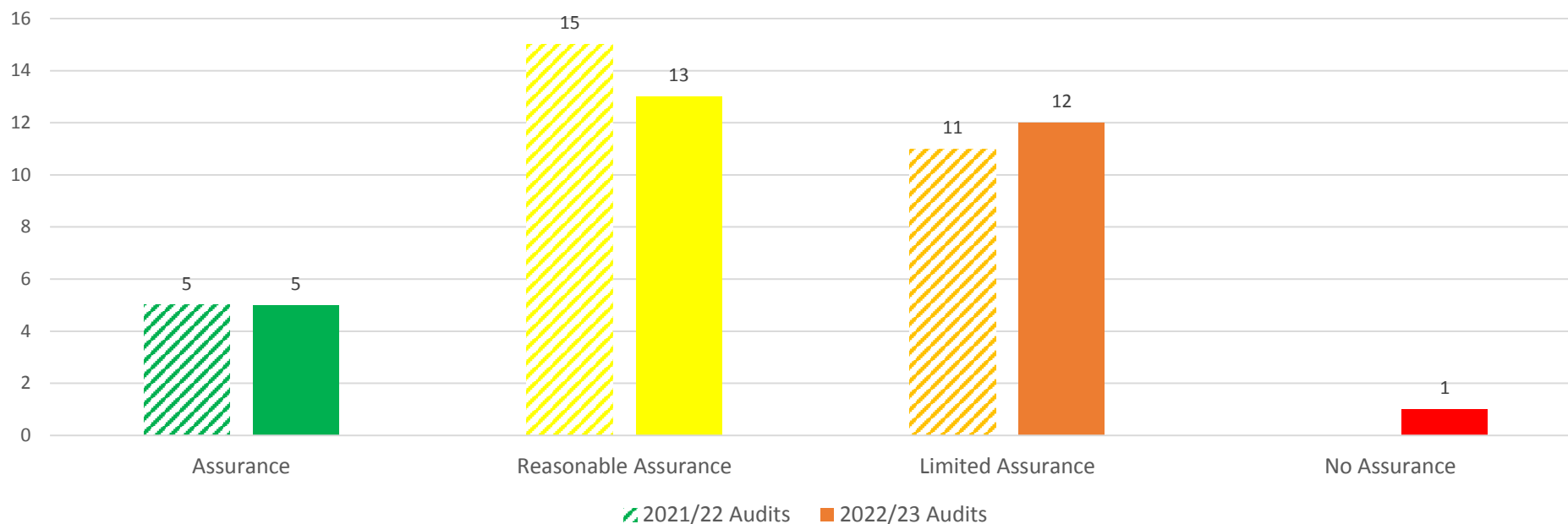
- 3.6 Directorates have reported their own decline in the effectiveness of controls as noted within the annual governance self-assessments with a deteriorated overall assurance level provided for a number of key controls. There are also patterns emerging locally and nationally relating to fraud and theft, 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. Alongside the economic pressures and cost of living implications these risks become more exposed.
- 3.7 Whilst the overall movement in the audit results for 2022-23 was not, in itself, so significant to impact on the opinion, the opinion is also 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 2022-23.



- 3.8 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.
- 3.6 Any significant corporate weaknesses and agreed actions will be reflected in the Annual Governance Statement. The impact of the Internal Audit work for 2022/23 may affect that year's work for External Audit. It may also inform their work for 2023/24 and 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.

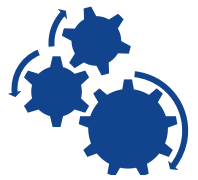


#### 4. 2021/22 & 2022/23 Full Audit Assurance Levels

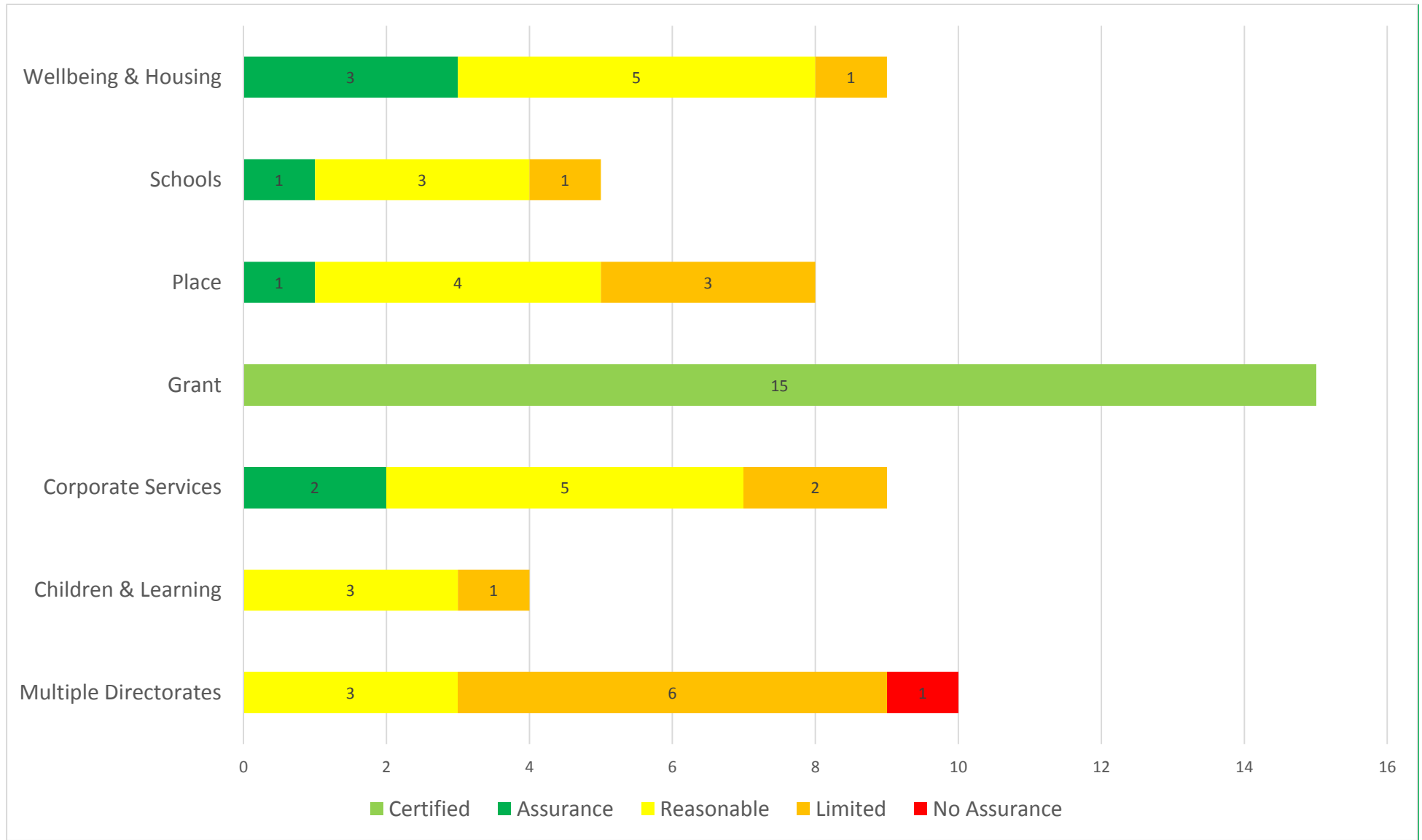


Note: The 15 Follow Ups, 15 Grant Certifications and 1 Data Analytics Project have not been included in this graph and table.

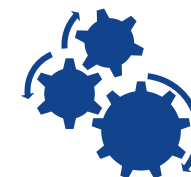
	2021/22 Full Audits	2022/23 Full Audits
<b>Assurance</b>	5 (16%)	5 (16%)
<b>Reasonable Assurance</b>	15 (48%)	13 (42%)
<b>Limited Assurance</b>	11 (35%)	12 (39%)
<b>No Assurance</b>	0	1 (3%)
<b>TOTAL</b>	<b>31</b>	<b>31</b>



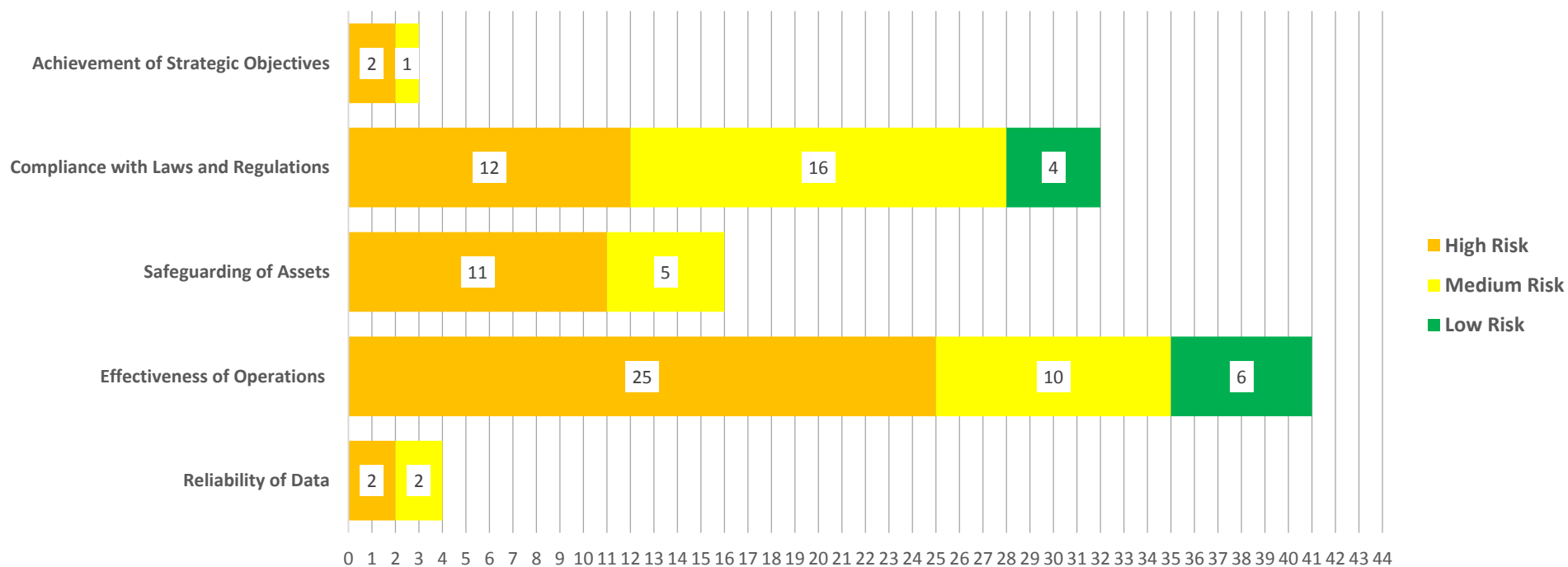
### 5. 2022/23 Audit Assurance by Executive Directorate



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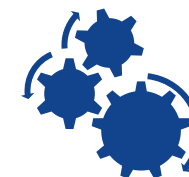


## 6. 2022/23 Exception Analysis by Risk Classification

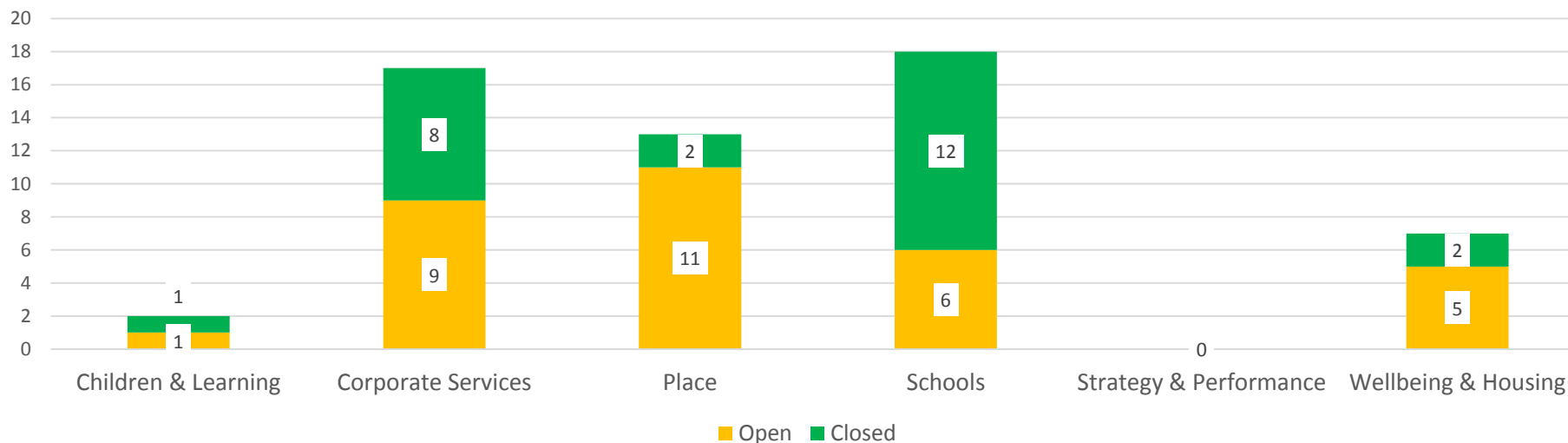


	High Risks	Medium Risks	Low Risks	TOTAL
Achievement of Strategic Objectives	2	1	0	3
Compliance with Laws and Regulations	12	16	4	32
Safeguarding of Assets	11	5	0	16
Effectiveness of Operations	25	10	6	41
Reliability of Data	2	2	0	4
<b>TOTAL</b>	<b>52</b>	<b>34</b>	<b>10</b>	<b>96</b>





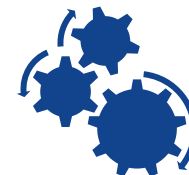
### 7. 2022/23 Open and Closed Risks by Directorate



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	Children & Learning		Corporate Services		Place		Schools		Wellbeing & Housing	
	Open	Closed	Open	Closed	Open	Closed	Open	Closed	Open	Closed
<b>High Risk</b>	1	1	6	4	8	1	4	5	2	0
<b>Medium Risk</b>	0	0	3	3	3	1	2	7	3	1
<b>Low Risk</b>	0	0	0	1	0	0	0	0	0	1
<b>TOTAL</b>	1	1	9	8	11	2	6	12	5	2

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 57 exceptions followed up through 2022/23 shows that 25 (44%) have been closed by audit, however 32 (56%) are overdue due to the actions being in progress or outstanding. The overall percentage closed this year has reduced from 47% to 44%.

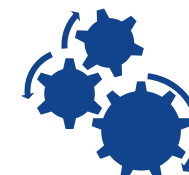


## 8. Quality Assurance

**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 2022/23 from key stakeholders, all feedback supported the quality assurance assessment reflecting that the service provided complies with *PSIAS* criteria.



## Skills Gap Analysis for 2022/23

### 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 with the retirement of three senior officers (two due to ill health). Two within the partnership, one directly employed at SCC. This has led to a vulnerability as knowledge within certain areas has decreased. Professional training and mentoring 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 investigating across the partnership for counter fraud work, including grant related fraud prevention and assessment work, which has placed this area of the service under pressure.
- *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 a gap emerged representing a shortfall in this area. One implication is the ability to verify certain grant work, where the accounting qualification is restricted. This position has improved as the Principal Auditor at SCC is now fully qualified under Chartered Institute of Management Accountants.



## 9. 2022/23 Audits Completed - not previously reported

### Accounts Payable

#### Exceptions Raised

Critical	High	Medium	Low
0	1	4	0

#### Overall Assurance Level

Limited
---------

Latest implementation date scheduled is July 2023

#### Assurance Level by Scope Area

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

The high risk exception was raised in relation to supplier due diligence and verifications against bank mandate fraud. Additional checks are required to safeguard against losses, this is a national issue with increased risk exposure. The first medium risk exception covered the timeliness of payments with 11% of payments being paid after standard payment terms. The second medium risk relates to a large number of invoices not having a corresponding purchase order raised. The third medium risk relates to 6/20 (30%) invoices tested where there was no evidence of goods received notes having been received. The final medium risk was raised where testing identifying duplicate active supplier records in Business World.

### Accounts Receivable

#### Exceptions Raised

Critical	High	Medium	Low
0	0	2	0

#### Overall Assurance Level

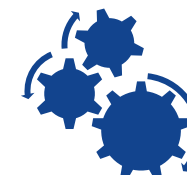
Reasonable
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Latest implementation date scheduled is June 2023

#### Assurance Level by Scope Area

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

The first medium risk exception relates to where 1/25 sampled outstanding invoices did not have timely recovery action. Furthermore, a review of invoices which were over one month since the invoice date and had not been collected was at £10.9 million. The second medium risk covers the absence of a report identifying clients lacking mental capacity awaiting either deputyship or the completion of a financial assessment to monitor and ascertain whether they should be charged at full or at part cost.



**Annual Governance Statement**

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

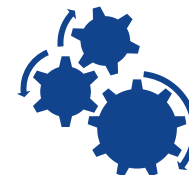
The self-assessment itself continues to be a good annual exercise that provides an opportunity for managers to reflect on the governance arrangements in place and whether there are potential gaps. The returns by directorates and services as a whole, show a decline in assurances that can be provided on the effectiveness of the governance framework. This position is supported by Internal Audits own assessment. There are emerging and actual significant risks impacting on the governance framework at the council, increased focus on governance effectiveness is essential in order to maintain stability while the council navigates its way through a difficult time financially.

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**Appointeeships**

Exceptions Raised				Overall Assurance Level	Assurance Level by Scope Area	
Critical	High	Medium	Low	No Assurance		
0	9	0	0			Achievement of Strategic Objectives
					Compliance with Policies, Laws & Regulations	Reasonable
					Safeguarding of Assets	No Areas Tested
					Effectiveness and Efficiency of Operations	No Assurance
					Reliability and Integrity of Data	No Areas Tested

A summary of this appointeeship report will be provided in the September 2023 'Internal Audit Progress Report' alongside Executive Director comments.



**Expenses, Travel And Subsistence**

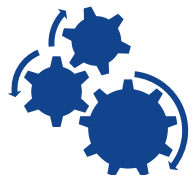
<b>Exceptions Raised</b>				<b>Overall Assurance Level</b>	<b>Assurance Level by Scope Area</b>	
<b>Critical</b>	<b>High</b>	<b>Medium</b>	<b>Low</b>	<b>Limited</b>	Achievement of Strategic Objectives	<b>No Areas Tested</b>
0	4	3	1	<b>Latest implementation date scheduled is July 2023</b>	Compliance with Policies, Laws & Regulations	<b>Limited</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>Limited</b>

The first high risk exception relates to commuter mileage with testing identifying 21/25 potential commuter mileage claims which found a total of 178 miles was overclaimed which has a 59% failure rate. The second high risk covers where 15/20 officers with allowances did not have the requirement cited in their job description. The third high risk relates to a sample of 25 high value expenses found 14 did not have attachments to be able to reclaim VAT and 6 did not meet the criteria for a valid VAT receipt. The fourth high risk is raised as testing of 115 claims found 60 (52%) did not have an attachment in Business World to support the claim. The medium risks relate to overclaimed subsistence claims, 25 hotel claims were over the price limit and the absence of valid motor documentation.

**Fostering**

<b>Exceptions Raised</b>				<b>Overall Assurance Level</b>	<b>Assurance Level by Scope Area</b>	
<b>Critical</b>	<b>High</b>	<b>Medium</b>	<b>Low</b>	<b>Limited</b>	Achievement of Strategic Objectives	<b>No Areas Tested</b>
0	3	1	0	<b>Latest implementation date scheduled is June 2023</b>	Compliance with Policies, Laws & Regulations	<b>Limited</b>
					Safeguarding of Assets	<b>Limited</b>
					Effectiveness and Efficiency of Operations	<b>Limited</b>
					Reliability and Integrity of Data	<b>No Areas Tested</b>

The first high risk exception relates to only 1/10 foster cares having an in-date and signed Foster Carer Agreement. The second high risk covers where 3/5 foster carer payments sample tested had discrepancies between Business World and the payment. The third high risk relates to where only 1/9 carers training records sampled had completed all the required training. The medium risk is raised as testing identified gaps in evidence to support recruitment and assessment checks for 3/5 foster carers.



**Hardmore School**

**Exceptions Raised**

Critical	High	Medium	Low
0	6	4	0

**Overall Assurance Level**

Limited
---------

Latest implementation date scheduled is October 2023

**Assurance Level by Scope Area**

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

6 high risk exceptions have been raised relating to insufficient documentation of budgetary discussions at the Governing Body meetings, a review of the Schools Financial Value Standard (SFVS) finding 4/15 answers could not be substantiated with evidence, audit being unable to confirm the existence or suitability of the IT asset register, a lack of a finalised business continuity plan, 1/5 recruitment files still had DBS certificate on file, childcare payments were not banked intact in line with Financial Procedure Rules, purchase cards are not being raised before goods are invoiced and 4/10 purchase card transactions were not available in Business World. The medium risks related to a lack of formally recordings of lettings, insufficient separation of duties for banking cash, the website was non-compliant with Department of Education published guidance and there was inadequate benchmarking activities.

**Housing Rents & Arrears**

**Exceptions Raised**

Critical	High	Medium	Low
0	2	3	0

**Overall Assurance Level**

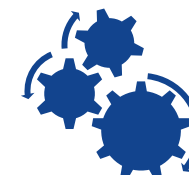
Limited
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Latest implementation date scheduled is February 2024

**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	Limited
Reliability and Integrity of Data	No Areas Tested

The first high risk exception is raised as testing identified that 5/10 former tenant arrears accounts sampled did not have appropriate and timely recovery with the total value of former tenant arrears at £3.24 million at time of testing. The second high risk relates to current tenant arrears which found they had increased from £6.1 million in April 2020 to £8.41m in November 2022. The first medium risk cover where discrepancies between the Northgate and Keystone systems were identified. The second medium risk relates to surplus credits on accounts being £1.38 million at the time of testing. The final medium risk relates to debt collection caseworker key performance indicators (KPIs) being insufficient.



**Key Financial Controls**

**Exceptions Raised**

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

**Overall Assurance Level**

<b>Limited</b>
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Latest implementation date scheduled is July 2023

**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

Key financial controls have been tested in various systems throughout the year. Where failings have been identified exceptions have been raised within the relevant audit, for example, Purchase cards, Expenses and Subsistence and Accounts Receivable etc. In addition to this, areas such as 'gifts & hospitality' and 'safe security and contents' have also been tested. The cumulative results provide only limited assurance that key financial controls are working effectively. Exceptions raised, that are not reported elsewhere have been included in Key Financial Controls. The first high risk exception relates to a lack of awareness of the gifts & hospitality arrangements, where 23% of staff surveyed had not read and acknowledged the gifts and hospitality policy. The medium risk exception relates to a safe having unclaimed jewellery items, which had been stored in the safe for over 10 years.

**Corporate Compliance (Payroll)**

**Exceptions Raised**

<b>Critical</b>	<b>High</b>	<b>Medium</b>	<b>Low</b>
0	3	1	0

**Overall Assurance Level**

<b>Limited</b>
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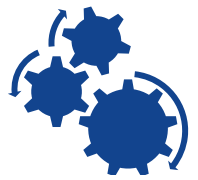
Latest implementation date scheduled is May 2023

**Assurance Level by Scope Area**

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

The first high risk exception covers a review of payroll overpayments finding that between April 2020 and January 2023 there had been 150 overpayments worth £179k and only 35% had been recovered to date. The second high risk relates to maintained schools providing pension returns which were at an unacceptable standard in terms of data quality, it should be noted that SCC are reliant on a third party for this data. The third high risk relates to the veracity of new starter records with several documents cited as missing across the sample of 20 new starter records tested. The medium risk covers 3/127 registered apprentices being on an incorrect National Insurance deduction code.





**Public Health Outcomes**

**Exceptions Raised**

Critical	High	Medium	Low
0	1	0	0

**Overall Assurance Level**

<b>Reasonable</b>
-------------------

Latest implementation date scheduled is December 2023

**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	Limited
Reliability and Integrity of Data	Reasonable

The first high risk exception relates to testing identifying inaccurate billing and overpayments covering the Supervised Consumption and Needle Syringe Programmes with local pharmacies. Furthermore, the authority does not have access to Health check Data making it harder to measure the outcomes of high risk individuals.

**Operational Risk Management**

**Exceptions Raised**

Critical	High	Medium	Low
0	2	0	0

**Overall Assurance Level**

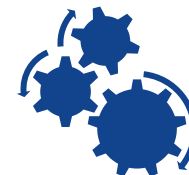
<b>Limited</b>
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Latest implementation date scheduled is December 2023

**Assurance Level by Scope Area**

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

The first high risk exception is raised as testing identifying that while risk management gets discussed at management meetings it is not necessarily documented, minuted or presented as a specific agenda item. From the 10 service areas audit held conversations with, only 1 (10%) was in the process of implementing a service risk register. The second high risk relates to risk management analysis skills with a review of 5 business cases highlighting concerns with the quality and consideration of risk along with the quality of mitigating controls, potentially highlighting training needs.



**Safety Compliance**

Exceptions Raised

Critical	High	Medium	Low
0	2	1	0

Overall Assurance Level

<b>Reasonable</b>
Latest implementation date scheduled is September 2023

Assurance Level by Scope Area

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

The first high risk exception identified concerns with a lack of data sharing, lagged uploads of certification and ensuring tower block servicing records are up to date in InfoExchange and its replacement system Keystone. The second high risk covers testing where 10 high, 19 medium and 15 low risk fire risk actions were overdue their action date. 68.2% of these related to one address which is currently undergoing a programme of works. The medium risk relates to the Electrical Installation Condition Report at Wyndham Court being overdue.

**Transition Children to Adults Services**

Exceptions Raised

Critical	High	Medium	Low
0	1	0	0

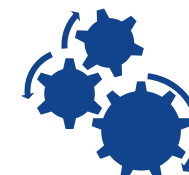
Overall Assurance Level

<b>Reasonable</b>
Latest implementation date scheduled is October 2023

Assurance Level by Scope Area

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

The high risk exception identified 1/8 case files that had not ensured consent to share information had been obtained and only 2/22 information sharing agreements had been reviewed in line with the document’s review schedule.



**Ukraine Accommodation Support**

**Exceptions Raised**

Critical	High	Medium	Low
0	0	0	0

**Overall Assurance Level**

<b>Assurance</b>
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**Assurance Level by Scope Area**

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

This review identified that the council has reacted to the scheme promptly, complied with government's conditions, and ensured the scheme was delivered in such a way, that it provided aid to Ukrainians fleeing the war. Payments were efficient, with good communication between internal and external stakeholders. The grant monies received can be evidenced as being used for its purpose, and in line with legislation. Data has been suitably recorded and provides an insight to how the scheme has been managed since the beginning.

**Voids**

**Exceptions Raised**

Critical	High	Medium	Low
0	1	1	0

**Overall Assurance Level**

<b>Limited</b>
<b>Latest implementation date scheduled is May 2023</b>

**Assurance Level by Scope Area**

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

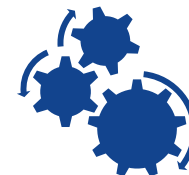
The high risk exception relates to testing identifying that the length of time a property is void is considerably over target and there had been a 45.7% increase in the number of days all voids have taken to be completed over the past 12 months. When properties remain void it results in the authority losing rental income, during 2022-23 it was established through extrapolating that £1.16 million had been lost in rental income due to the authority not meeting its void targets. The medium risk exception relates to gaps in the voids repair and maintenance records.



**Waste Operations**

Exceptions Raised				Overall Assurance Level	Assurance Level by Scope Area	
Critical	High	Medium	Low	Limited	Achievement of Strategic Objectives	Assurance
0	2	1	1	Latest implementation date scheduled is March 2024	Compliance with Policies, Laws & Regulations	Limited
					Safeguarding of Assets	Limited
					Effectiveness and Efficiency of Operations	Assurance
					Reliability and Integrity of Data	Reasonable

The first high risk exception relates to testing identifying that 9/10 waste risk assessments reviewed were overdue a review. The second high risk covers the recycling contamination rate being 20.15% which is significantly higher than the national average of 17%. In financial comparisons this can produce savings around £93,229 in disposal costs each year, when compared with neighbours. A medium risk relates to waste operations using paper timesheets which are inefficient and increase the likelihood of data being transposed into the payroll system.



## 10. 2022/23 Follow-Up Audits Completed - not previously reported

### Project Governance Review

#### Original Exceptions Raised

Critical	High	Medium	Low
0	1	0	0

#### Original Assurance Level

Reasonable
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#### Follow up Assurance

Assurance
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#### Follow Up Action

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 found was able to close the high risk exception due to audit being able to evidence the service continued to enforce governance controls in line with the previous audits' recommendations leading up to the go live date for CareDirector. Note: the original review covered governance arrangements only, not the effectiveness or delivery of the system itself.

### Fleet Management

#### Original Exceptions Raised

Critical	High	Medium	Low
0	2	0	0

Latest implementation date scheduled for follow up action is July 2022

#### Original Assurance Level

Reasonable
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#### Follow up Assurance

Reasonable
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#### Follow Up Action

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

Follow up testing found that the high risk relating to the vehicle replacement strategy, remains in progress, as while there has been vehicle and plant purchases as part of the Capital Strategy there is no replacement strategy in place to ensure forward planning when it comes to vehicle purchases and disposal. The second high risk remains in progress as the driver policy and liquid fuels procurement exercise remains ongoing.



**Grounds Maintenance**

**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 2023**

**Original Assurance Level**

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

<b>Reasonable</b>
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**Follow Up Action**

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

Follow up testing was able to close one high risk exception relating to staff training. The second high risk remains in progress while framework options are explored for machinery purchases. The medium risk relating to green space monitoring remains in progress as not all actions are being recorded. The final medium risk also remains in progress as the plotting of maintenance plots on land records is put on hold until resources allow for it to be continued.

**HMO Licensing**

**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 **April 2023**

**Original Assurance Level**

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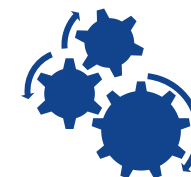
**Follow up Assurance**

<b>Reasonable</b>
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**Follow Up Action**

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 found that the high risk relating to condition monitoring, remains in progress, as testing found that 429 (64%) of 675 licences with specific conditions associated with them had been followed up to ensure compliance with the higher risk conditions prioritised early on. The second high risk relating to applications remains in progress as the number of licenses awaiting processing reduced from 638 to 250. The medium risk covering enforcement action has been closed due to proactive enforcement action resuming since COVID-19 restrictions lifted.



**Operator Licence**

**Original Exceptions Raised**

Critical	High	Medium	Low
0	3	1	0

Latest implementation date scheduled for follow up action is October 2023

**Original Assurance Level**

Limited
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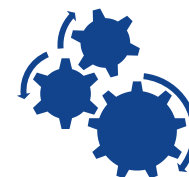
**Follow up Assurance**

Limited
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**Follow Up Action**

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

Follow up testing found that the high risk relating to the driver policy remains in progress while it is being drafted. The second high risk, covering enforcement action, remains in progress as there has been a lack of ongoing monitoring of driver infringements. The third high risk, relating to executive management oversight, also remains in progress, due to a lack of monitoring and oversight from senior management. The medium risk is pending due to the Tranman system requiring a system upgrade before the action can be implemented.



## 11. Counter Fraud & Audit Unplanned Reactive Work

A summary has been provided of Counter Fraud and Audit reactive work conducted during the 2022/23 year.

### 11.1 Investigations

There were three cases recorded as whistleblowing during the year. Two raised concerns, relating to potential fraud/ bribery. Preliminary investigations were performed for both, no evidence was found to support the allegations raised. For the third case, insufficient information was provided to enable a full investigation, however in the absence of this, control checks were evaluated, and the service director was informed who also carried out their own assessments. The concerns raised related to compliance with H&S processes.

In addition to this there have been two recorded frauds where the Internal Audit section have either performed the investigation, carried out control evaluations or provided the operational service with guidance and advice.

The first was committed by external parties by means of supplier bank mandate fraud, the value of this was £27k. SCC were unable to fully demonstrate that it had performed all reasonable checks to verify the authenticity of the requester. This case has been reported to the police.

The second fraud was facilitated unknowingly by a SCC School against a school outside of the city to the value of £13,750. The actual loss incurred is £4,500. This case has been reported to the police.

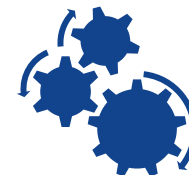
### 11.2 Ongoing NFI

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 2021/22. Advice is recorded if the time spent to conduct the required work exceeds 2 hour of officer time.





## 12. Public Sector Internal Audit Standards

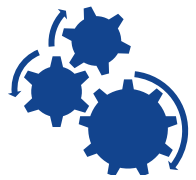
**12.1** Under the *Public Sector Internal Audit Standards (PSIAS, the Standards) Standard 1310* requires that, as part of the quality assurance and improvement programme internal and external assessments (of conformance with the *PSIAS*) must be undertaken. *Standard 1311* allows for periodic self-assessments, 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.

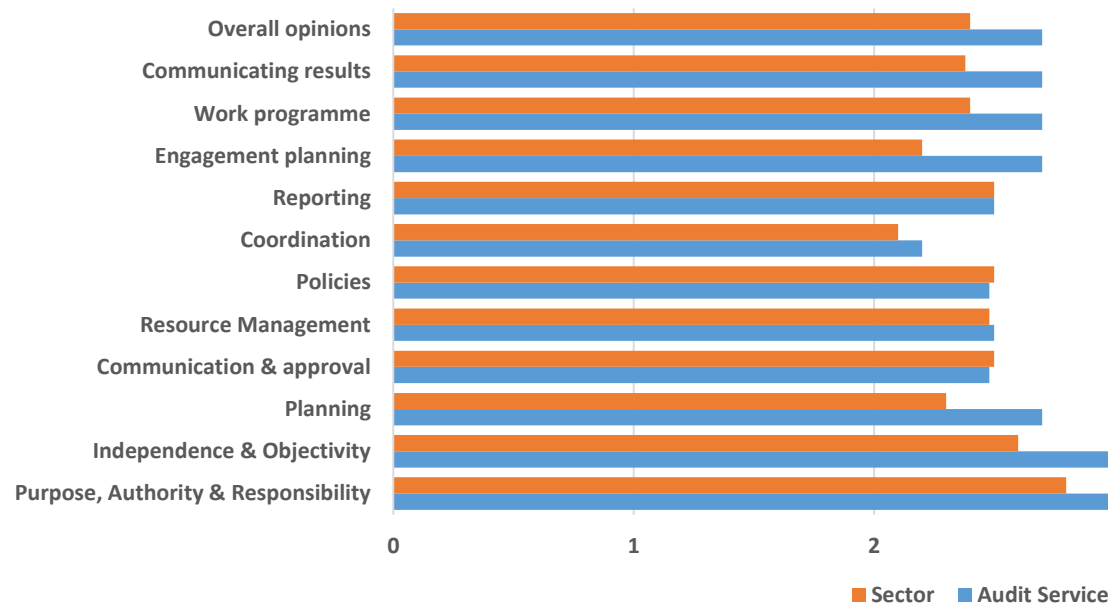
**12.3** During 2022/234 an External Quality Assessment (EQA) was carried out of the Internal Audit Service (including arrangements in place in the Island), to comply with the Public Sector Internal Audit Standards (PSIAS) identified above. The EQA assessed the Service against key PSIAS standards, confirming:

- 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.



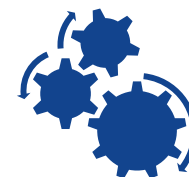
**12.5** The assessment was grouped under 12 high level headings. An indicative assessment, against the wider local government sector, is provided below (Developing: 1, Established: 2, Excelling: 3):



As above Internal Audit is rated as 'established/ excelling', for all 12 areas of the assessment.

**12.6** While no substantive gaps were identified against the PSIAS, a number of recommendations were made to enable the Service 'to better reflect the application of the PSIAS' and its proposed direction, which is currently out for consultation. These are summarised below:

- *Audit Universe*: increase alignment of auditable units with the Council's risk management process.
  - This is currently performed at a strategic level with each auditable area aligned to the corporate risks. Operational risks are discussed with Directors and individual service managers; however, amendments have been made to the Audit Planning Memorandum (APM) to explicitly reflect this.



- *Governance*: formalise mapping of Internal Audit activity, to the Council’s Code of Governance/Annual Governance Statement.
  - Amendments have been made to the Internal Audit Charter to capture this.
- *Assurance Mapping*: enhance capture of wider sources of assurance in the planning of individual audit reviews.
  - Where applicable this is already reflected in the APM, i.e., that the scope excludes areas already covered either by IA or other relevant parties. Also see comment below under Annual Report.
- *Engagement Planning*: increase alignment of audit scopes, with the Council's operational risks.
  - See action taken under Audit Universe.
- *Grading of Recommendations*: align finding ratings with the Council’s risk assessment framework.
  - These are discussed with relevant officers at the close of the audit and are presented as a narrative or risk and consequence, consideration to adopting scoring system will be explored in discussion with the s151 officer.
- *Annual Report*: more fully capture wider sources of assurance.
  - The annual audit opinion has been expanded to adequately reflect the sources of assurance consider when forming the overall opinion.
  - Internal Audit is progressing all of the enhancements summarised above. Implementation will commence during 2023/24, scheduled to be fully implemented by the of the 2023/24 financial year.

**12.7** Internal Audit Standards, covering four areas, Integrity, Objectivity, Confidentiality and Competency. The steps taken by Internal Audit to ensure compliance with the CoE are set out in the Internal Audit Charter, as part of the Quality Assurance and Improvement Programme (QAIP).

For 2022/23 the Chief Internal Auditor assesses Internal Audit as fully complaint with the CoE, as detailed below:

- Integrity is ensured through the recruitment process, with any issues addressed through disciplinary processes; no issues have materialised during 2022/23.
- Individual auditors update their register of interests annually. This is used to inform resourcing for individual audits, to confirm that these are carried out objectively.
- The Internal Audit Manual and supporting processes/systems ensure that client information is treated in line with Council data protection requirements, maintaining confidentiality.
- A workforce plan is maintained by the Chief Internal Auditor at the team level, with a combination of recruitment and training used to address any gaps. For individual audits only auditors with the requisite competency are used, for the area under review.

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# Agenda Item 9

<b>DECISION-MAKER:</b>		<b>GOVERNANCE COMMITTEE</b>	
<b>SUBJECT:</b>		<b>DRAFT STATEMENT OF ACCOUNTS 2022/23</b>	
<b>DATE OF DECISION:</b>		<b>24 JULY 2023</b>	
<b>REPORT OF:</b>		<b>EXECUTIVE DIRECTOR CORPORATE SERVICES</b>	
<b><u>CONTACT DETAILS</u></b>			
<b>Executive Director</b>	<b>Title:</b>	<b>Executive Director Corporate Services</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 2022/23 was signed on 31 May 2023 by the Head of Financial Planning &amp; Management, as Deputy S151 Officer acting on behalf of the S151 Officer. This is in line with the statutory requirement to have the unaudited accounts signed by that date, with the deadline reverting to the 31 May as set out in the Accounts and Audit Regulations 2015 for the first time since 2019. A copy of the draft unaudited Statement of Accounts is available in the Members' Room.</p>	
<p>The annual audit, carried out by our auditors Ernst &amp; Young (EY) LLP, is expected to commence in August 2023 and to be completed in October 2023, subject to confirmation by EY. Any major changes to the Statement of Accounts arising from the annual audit are expected to be reported to the 13 November 2023 Governance Committee after the completion of the audit.</p>	
<b>RECOMMENDATIONS:</b>	
(i)	Notes that the draft Statement of Accounts 2022/23 has been signed by the Deputy S151 Officer and is now brought to Committee for comment.
(ii)	Notes that the audited Statement of Accounts 2022/23 is expected to be presented to the Committee on 13 November 2023 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 2023 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 November. It is

	envisaged that the November report will detail any non-trivial amendments made as a result of the audit along with an amended Statement of Accounts (if necessary). A full report on the 2022/23 outturn position was presented to Cabinet on 19 July 2023.
<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 2023.
<b>DETAIL (Including consultation carried out)</b>	
	<b>CONSULTATION</b>
4.	Not applicable.
	<b>STATUTORY TIMETABLE</b>
5.	In May 2022 the Government consulted on extending 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 its measures to improve local audit delays. The Accounts and Audit (Amendment) Regulations 2022 came into force on 22 July 2022 to bring these changes into effect. The regulations do allow for the deadline being missed, which is likely to be the case for the Council's 2022/23 accounts given the audit is not expected to start until August 2023.
6.	In February 2023 the Government asked for views on extending the deadline for publishing unaudited local authority accounts beyond 31 May, although said it was minded for this deadline to remain in place. Following this consultation the Government confirmed its decision not to make any changes and therefore the deadline for publishing the draft accounts reverted to 31 May as set out in the Accounts and Audit Regulations 2015.
	<b>STATEMENT OF ACCOUNTS</b>
7.	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 Committee are detailed below.
	<b>ACCOUNTING AND OTHER POLICIES</b>
8.	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), as updated, which is recognised by statute as representing proper accounting practice and meets the requirements of the Accounts and Audit Regulations 2015.
9.	The accounting policies are described in detail on pages 33 to 47 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>
10.	There have been no significant changes to the accounting policies in 2022/23. A temporary solution was put in place to address issues raised by auditors

	nationally in relation to accounting for infrastructure assets. An update to the Code was made in November 2022, which applied to both the 2021/22 and 2022/23 editions, and new regulations were enacted to provide for a statutory override for infrastructure asset disclosures. The Council made use of the statutory override and changes afforded by the Code update 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.
11.	The accounting policies adopted by the Council are in line with the CIPFA Code of Practice on Local Authority Accounting, as updated, and the Governance Committee would therefore be more likely to be interested if the Council were to depart from the recognised practice.
12.	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 47) and details of key areas of estimation uncertainty are provided in Note 4 of the accounts (page 50).
	<b>2022/23 OUTTURN</b>
13.	The Narrative Statement provides a summary of the revenue and capital financial performance for the year on pages 11 to 19. Full details of the outturn position were reported in the Revenue and Capital Outturn 2022/23 report to Cabinet on 19 July 2023.
	<b>PREVIOUS YEARS' STATEMENT OF ACCOUNTS</b>
14.	<p>The audit of the 2021/22 accounts has not yet been completed. The main areas subject to further work are:</p> <ul style="list-style-type: none"> <li>• Infrastructure assets – depreciation calculation and revised disclosures</li> <li>• Pension liability – revised figures following the issue of the Local Government Pension Scheme triennial review as at 31 March 2022</li> <li>• Going concern – updated assessment and cash flow forecast to the end of August 2024</li> </ul> <p>The issuing of the audit completion certificate for 2020/21 is also dependent on completing the 2021/22 audit.</p> <p>EY are prioritising closing local authority audits for 2021/22 (or earlier) before commencing work on 2022/23 audits. The Department for Levelling Up, Housing and Communities is also considering what actions could be taken to clear the backlog of delayed audits.</p>
<b>RESOURCE IMPLICATIONS</b>	
<b><u>Capital/Revenue</u></b>	
15.	The capital and revenue implications are considered as part of the outturn report that was presented to Cabinet on 19 July 2023.
<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 and the Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2022.
<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 2022/23, as updated.

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

**Documents In Members' Rooms**

1.	Draft Unaudited Statement of Accounts 2022/23
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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



<b>DECISION-MAKER:</b>	<b>GOVERNANCE COMMITTEE</b>
<b>SUBJECT:</b>	<b>DRAFT ANNUAL GOVERNANCE STATEMENT 2022-23</b>
<b>DATE OF DECISION:</b>	<b>24<sup>th</sup> July 2023</b>
<b>REPORT OF:</b>	<b>EXECUTIVE DIRECTOR CORPORATE SERVICES</b>

<u><b>CONTACT DETAILS</b></u>			
<b>Executive Director</b>	<b>Title</b>	<b>Executive Director of Corporate Services</b>	
	<b>Name:</b>	<b>Mel Creighton</b>	<b>Tel:</b> 023 8083 3528
	<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>Risk &amp; Insurance Manager</b>	
	<b>Name:</b>	<b>Peter Rogers</b>	<b>Tel:</b> 023 8083 2835
	<b>E-mail</b>	<a href="mailto:peter.rogers@southampton.gov.uk">peter.rogers@southampton.gov.uk</a>	

<b>STATEMENT OF CONFIDENTIALITY</b>
Not Applicable

<b>BRIEF SUMMARY</b>
<p>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 areas where there are significant gaps or where improvements are required.</p> <p>In accordance with CIPFA Guidance, Audit [Governance] 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.</p>

<b>RECOMMENDATIONS:</b>				
<table border="1"> <tr> <td style="width: 10%; text-align: center;">(i)</td> <td>To review the draft 2022-23 AGS (Appendix 1)</td> </tr> <tr> <td style="text-align: center;">(ii)</td> <td>To note the status of the agreed actions from the 2021-22 AGS (Appendix 2)</td> </tr> </table>	(i)	To review the draft 2022-23 AGS (Appendix 1)	(ii)	To note the status of the agreed actions from the 2021-22 AGS (Appendix 2)
(i)	To review the draft 2022-23 AGS (Appendix 1)			
(ii)	To note the status of the agreed actions from the 2021-22 AGS (Appendix 2)			

<b>REASONS FOR REPORT RECOMMENDATIONS</b>	
1.	The Governance Committee has responsibility to provide independent assurance on the adequacy of the risk management framework and the internal control and reporting environment, including (but not limited to) the reliability of the financial reporting process and the AGS.
2.	This responsibility extends to receiving, reviewing, and approving the draft AGS prior to the document being presented to the Chief Executive and Leader of the Council for signing.

<b>ALTERNATIVE OPTIONS CONSIDERED AND REJECTED</b>
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3.	No alternative options have been considered. The development and publication of an AGS is a requirement under the Accounts and Audit Regulations.
<b>DETAIL (Including consultation carried out)</b>	
4.	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.
5.	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 or highlight those areas where there are significant gaps or where improvements are required.
6.	The AGS is produced following a review of the council's governance arrangements. The review requires the systems and processes that comprise the council's corporate governance arrangements to be brought together and reviewed.
7.	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 'Annual Governance - 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.
8.	The self-assessment returns are subsequently analysed with an overall summary report then being shared with the Executive Management Board recognising that the process of preparing the governance statement should, itself, add value to the effectiveness of the corporate governance and internal control framework.
9.	The draft AGS has been developed by the council's 'Controls Assurance Management Group' which comprises the Executive Director for Corporate Services (Section 151 Officer), Chair of the Governance Committee (at the time), Director of Legal, Governance and HR (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".
10.	The assurance gathering process and the format of the AGS remain largely unchanged from the previous year. This reflects that it is aligned with good practice and noting that the council's external auditors, Ernst & Young, review the AGS for 'completeness of disclosures, consistency with other information from their work and whether it complies with relevant guidance.' As per their 'Audit results report for the year ended 31 March 2022', presented to the

	Governance Committee at the April 2023 meeting, they did not identify any areas of concern.
11.	The draft 2022-23 AGS was presented and reviewed by the Executive Management Board on 25th April 2023.
12.	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 draft AGS is therefore required to be reviewed periodically to ensure that it continues to reflect the current position up to the point that it is able to be signed off by the Leader of the Council and the Chief Executive, together with the SoA for the relevant period.
13.	It should be noted that the final draft 2021-22 AGS was presented to the Governance Committee at its meeting on 26 September 2022 and was subsequently signed off by the Leader of the Council and the Chief Executive. At that time, the audit of SoA for 2021-22 was substantially complete but will some final audit work still needed. Since September 2022, the audit of the SoA has not however been able to be completed, largely due to accounting issues beyond the control of the authority.
14.	The 2021-22 AGS therefore remains in draft and continues 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 2021-22 SoA.
<b>RESOURCE IMPLICATIONS</b>	
<b><u>Capital/Revenue</u></b>	
15.	None
<b><u>Property/Other</u></b>	
16.	None
<b>LEGAL IMPLICATIONS</b>	
<b><u>Statutory power to undertake proposals in the report:</u></b>	
17.	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. The AGS must be approved in advance of the relevant authority approving the SoA.
<b><u>Other Legal Implications:</u></b>	
18.	None
<b>RISK MANAGEMENT IMPLICATIONS</b>	
19.	None
<b>POLICY FRAMEWORK IMPLICATIONS</b>	
20.	None

<b>KEY DECISION?</b>	<b>No</b>
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<b>WARDS/COMMUNITIES AFFECTED:</b>		
<u>SUPPORTING DOCUMENTATION</u>		
<b>Appendices</b>		
1.	Draft Annual Governance Statement 2022-23	
2.	Summary of the status of the agreed actions from the 2021-22 AGS	

**Documents In Members' Rooms**

1.	n/a
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**Equality Impact Assessment**

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

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

Other Background documents available for inspection at:

Title of Background Paper(s)	Relevant Paragraph of the Access to Information Procedure Rules / Schedule 12A allowing document to be Exempt/Confidential (if applicable)
1.	n/a

### 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 Governance, Legal and HR  
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, in a timely, inclusive, open, honest, and accountable manner.

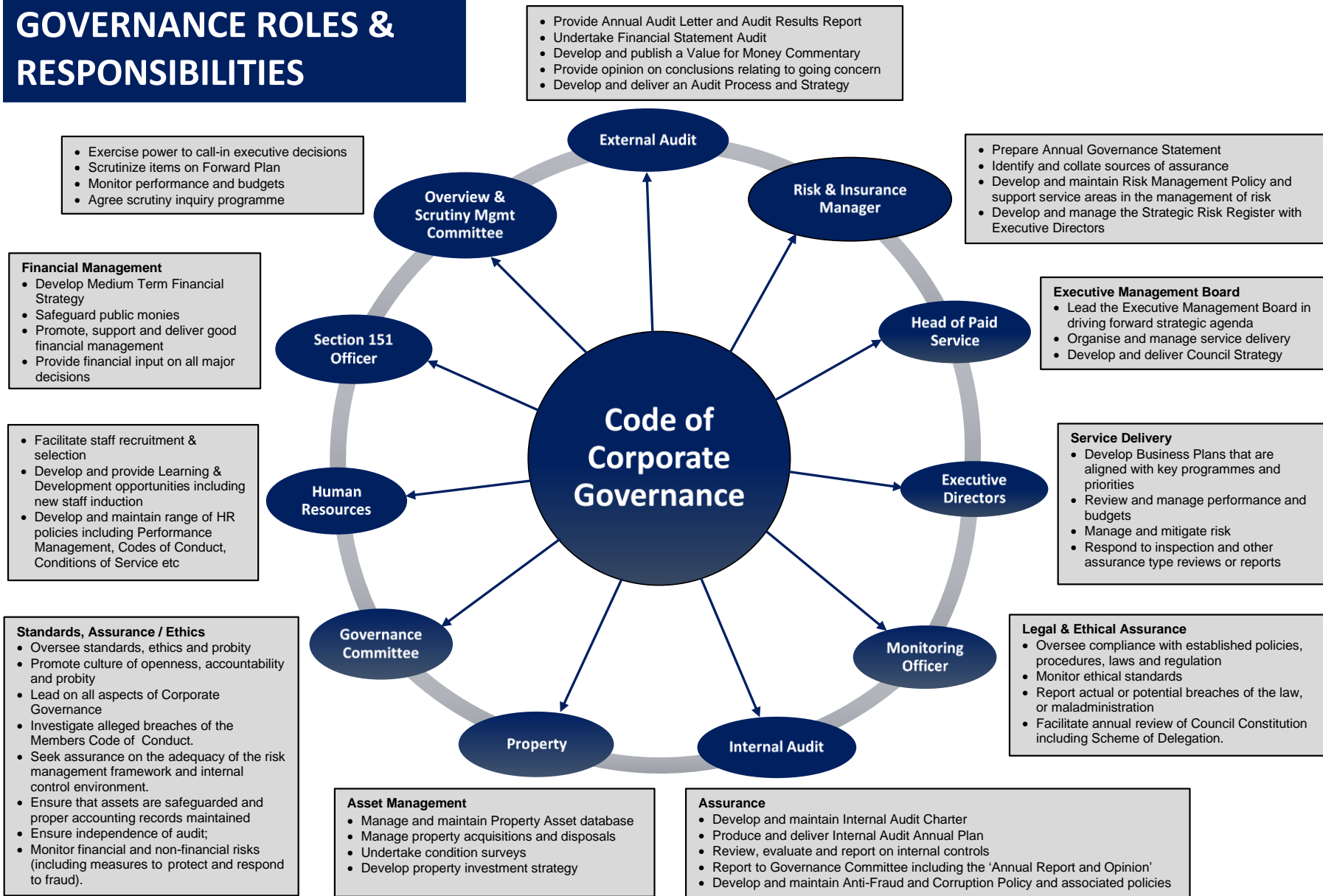
Good governance is crucial as it leads to good management, good performance, good stewardship of public money, good public engagement and ultimately good outcomes for citizens and service users. Further, good governance enables an authority to pursue its aims effectively whilst controlling and managing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

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 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 2023 and up to the date of approval of the statement of accounts.

# Annual Governance Statement

## GOVERNANCE ROLES & RESPONSIBILITIES



# Annual Governance Statement

## The Governance Framework

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 following 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)'.

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

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 Governance, Legal and HR 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 Policy' (Duty to Act) 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.

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 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 'Customer Comments, Compliments and 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 Statutory Complaint Procedure' which is also published on the council's website.

# Annual Governance Statement

In addition, a “paper” complaints form is made available at “in person” contact points e.g. Libraries and Housing Offices etc, in order to make complaints compliments and comments accessible to those without internet access. Complaints relating to the conduct of Members are dealt with under the Members’ Code of Conduct.

On an annual basis the Director of Governance, Legal and HR presents a report council’s Governance Committee on ‘Local Government and Social Care Ombudsman Complaints’ and a separate report on ‘The Members’ Code of Conduct’.

The council’s ‘Social Value and Green City Procurement Policy’ reflects a commitment to proactively work to ensure that all goods, works and services that it procures are sourced ethically and sustainably; both in the way the council procures and in terms of the standards that the council expects its suppliers, service providers and contractors to meet.

The council also has in place a Modern Slavery and Human Trafficking Statement 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, there is e-learning training and associated guidance available to all staff.

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

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, in conjunction with other local public service providers, runs a telephone survey normally every two 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
- City of Culture bid
- Transport
- Wellbeing

The results from the 2020 Southampton City Survey, together with past reports, can be downloaded from the council’s website. The next City Survey is planned for later in 2023.



# Annual Governance Statement

Between 31st October 2022 and 3rd January 2023 1,600 people responded to the latest consultation on the Southampton City Vision which will be the council's new Local Plan and will set out the future development of new homes, workspaces, infrastructure and facilities across the city over the next 20 years and beyond. Responders were asked how they felt about 14 key objectives of the Draft Southampton City Vision Local Plan and which of the key objectives were the most important.

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 has been active since 2015 and the results from our surveys have been used to inform a number of decisions and service changes. In order 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.

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

Following the local elections in May 2022, a new 2022-30 Corporate Plan was developed 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.

The Corporate Plan identifies four organisational goals for the city, and through this plan it outlines what those goals are, why they are being focusing on, and things we are being done both as a council and as a city to achieve them and recognising the importance of working with partners and other organisations in order to be able to 'deliver a city of opportunity'.



The performance management framework for the Corporate Plan comprises implementation plans delivered through service business plans, strategies, and where appropriate, specific project plans together with monitoring through Cabinet Member briefings and a review and update of the Corporate Plan after two years.

# Annual Governance Statement

To achieve the council's priority outcomes employees are expected to demonstrate the council's organisational values. These reflect the importance that the council places on behaviours, and the way that employees engage with customers, partners, and colleagues.



**Customer focused**



**Collaborative**



**Curious and creative**



**Can-do**



**Commercially minded**

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. Southampton Connect is responsible for the delivery of the Southampton City Strategy with the vision that Southampton is a city of opportunity where everyone thrives. Southampton Connect is an independent partnership which brings together senior city representatives seeking to address the key challenges and opportunities for Southampton and working with the city's key partners to improve the outcomes of the people of Southampton.

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.

The Solent LEP is a locally owned partnership between the business community and local authorities and plays a central role in determining local economic priorities and undertaking activities to drive economic growth and the creation of local jobs. The Board of the LEP is drawn from the area's key business, universities, the further education sector, and local authorities. In 2021, a national review of the future role of LEPs was commissioned and a Levelling-Up White Paper, published in February 2022, set a course for LEPs and their future relationship with national and local government.

In the Spring Budget 2023 the announcement was made that the government intends for the functions of Local Enterprise Partnerships (LEPs) to be delivered by local government in the future. Therefore, the government is minded to withdraw central government support for LEPs from April 2024. DLUHC and the Department for Business and Trade will now consult on these proposals, before confirming a decision.

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.

# Annual Governance Statement

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 have taken place, but there remains a substantial amount of work ahead, if any deal can 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.

During 2022/23, the Government accepted the final business case of the Consortium and granted Freeport status. Southampton City Council is a member of the Freeport Board. The Freeport has access to seed capital funding from Government plus freeports will benefit from retaining 100% of the growth in their business rates over the 25-year life of the Freeport. Participant rating authorities in the Freeport have agreed to 'pool' the business rate proceeds to support the objectives of the Freeport. This benefit has been estimated as being worth £485M over 25 years. An investment plan is being finalised by the Freeport as part of the requirements by Government but noting that investment in the short term will be critical to delivering attractive opportunities for business in order to maximise retained rates generated. To overcome this short-term issue, some initial "pump prime investment" will be considered. This could come from local authority borrowing. The Accountable Body (Portsmouth City Council) are clear they will underwrite borrowing risks. There is no proposal for Southampton City Council to borrow to finance the investment needed.

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

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 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

# Annual Governance Statement

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 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 recent 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 has been formulated, agreed by political Group Leaders and is now being implemented incrementally over the next 6 months.

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

The council's Workforce Strategy was replaced in January 2023 by a People Strategy 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. The People Strategy sets out a high-level vision, priorities, and outcomes under six themes:

1. Understand the people we need and get the right people in
2. Have the right people as managers
3. Pay, reward and recognise in the right way
4. Keep people engaged, working to adapt and improve
5. Taking ownership and adding value
6. People who can thrive and grow

The People Strategy is a key document that 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:

- Strategic Thinking
- Continuous Improvement
- Leading Change
- Systems Leadership
- Creative Thinking and Innovation

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

# Annual Governance Statement

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 is in place and offers 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, the Local Government Information Unit and South East Employers. These opportunities ranged from 'being a new councillor', supported skill development such as chairing meetings, speed reading and retention, to portfolio based and leadership development training. Following a view of the Member Learning and Development in 2021, a refreshed programme was offered for the 2022/23 financial year comprising a wide range of training and development events, this has been refreshed further and endorsed by the LGA as comprehensive. Following the Centre for Governance & Scrutiny (CfGS) review and recommendations there will be further emphasis during 2023/24 to encourage members to take up opportunities that are being offered via the programme.

The council also has in place an 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.

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

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 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. The council also has a 'Risk Management Policy' that sets out the framework, arrangements, and responsibilities in respect of how risks relating to the delivery of key outcomes and priorities are identified and managed. This policy is intended to support the application of robust risk management principles and practices across all service areas. There is also a range of associated guidance documents, templates, and other tools to support officers in identifying and managing risk.

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 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

# Annual Governance Statement

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. Risk management is increasingly being used to assess the impacts and risks to the council and its services arising from unforeseen events for example the cost-of-living crisis.

Effective financial management is key to managing the delivery of a vast range of council services either directly or through/with others and ultimately improving the quality of life for residents. The council's Medium Term Financial Strategy ('MTFS') 2022/23 – 2025/26 provides a strategic financial framework and a forward looking approach to achieving long term financial sustainability for the council. It is central to the delivery of the council's priorities in an affordable and sustainable way over the medium term. It also aids robust and methodical planning as it forecasts the council's financial position taking into account known pressures, major issues affecting the council's finances, including external economic influences as well as local priorities and factors.

The MTFS helps the council to respond, in a considered manner, to pressures and changes as a result of internal and external influences. This is particularly important during a period when the council faces considerable pressures and challenges, such as those relating to the cost-of-living crisis, the increased demand for social care etc. 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. The approach concentrates on the principles that will provide a strong direction for the medium term. The key objectives of the MTFS is to:

- Provide financial parameters within which budget and service planning should take place.
- Ensure that the council sets a balanced and sustainable budget.
- Focus and re-focus the allocation of resources so that, over time, priority areas receive additional resources. Ensuring services are defined on the basis of clear alignment between priority and affordability.
- Ensure that the council manages and monitors its financial resources effectively so that spending commitments do not exceed resources available in each service area and, where ring-fenced government funding is reduced, the service area takes action to reduce expenditure accordingly.
- Plan the level of fees, charges, and taxation in line with levels that the council regard as being necessary, acceptable, and affordable to meet the council's aims, objectives, policies, and priorities whilst gradually reducing the council's reliance on Central Government funding.
- Ensure that the council's long term financial health and viability remain sound.

The MTFS enables integrated service and financial planning over the medium term, using a business planning approach. The resulting Medium Term Financial Model provides the framework within which decisions relating to future service provision can be made.

The Chartered Institute of Public Finance and Accountancy ('CIPFA') published a Financial Management Code ('FM Code') for authorities to adhere to, which first applied in 2021/22. The FM Code is designed to support good practice in financial management and promote financial sustainability by setting out the principles of good financial management. Initial work on how the council compared with the standards expected in the FM Code did indicate areas for improvement and this finding was discussed with the Executive Management Board and also formally reported to the council's Governance Committee in February 2022. Actions were identified, to improve compliance, as a part of that report.

One of the major issues that the review drew out was that the scale of the future budget deficit represented a significant risk and needed addressing via further work and progressing longer term plans. This was very clearly articulated in the budget report considered at the Council meeting in February 2023 and included the following statement made by the S151 officer "Financial resilience is much weakened by depleting reserves, and a S114 notice is foreseeable and a major risk during 2023/24". The budget pressure faced during 2022-23 and reflected in the budget for 2023-24 include amongst other things the impact of high inflation, higher than expected pay awards, rising interest rates

# Annual Governance Statement

and demand pressure on services. All have contributed to difficulties in making progress with the budget shortfall issues and a more financially sustainable Medium Term Financial Strategy for the authority.

The new S151 officer has, as part of the strategy to begin to tackle the financial challenges, commissioned the 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 relation to the FM Code.

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 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.

All areas of the council should have in place 'Business Plans' at service level that are aligned with the council's priorities and outcomes as set out in the Corporate Plan. The business plans provide an overview of the services being delivered together with the outcomes (and outputs) that are looking to be achieved. The council undertakes an annual business planning and budgeting process with all Service Business plans required to be reviewed to ensure that they reflect changing circumstances, methods of service provision, impact on the budget and the needs of customers. An important part of the process is the 'sustainability/challenge' sessions that focus on current and future service costs including opportunities for income growth. During 2023-24 a reinvigorated business planning approach will be designed to better support business and budget planning for the medium term.

All significant commercial partnership working arrangements also have a range of performance indicators which are used to monitor, verify, and manage service performance. 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 in order 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 partnership service providers.

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

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 Governance, Legal and HR (Monitoring Officer).

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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 Governance, Legal and HR (Monitoring Officer) 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 2022-23 was that, in summary, the significant financial pressures which have escalated during 2022-23 along with an increased emerging strain on the internal control framework have resulted in an opinion level of 'limited assurance' being attributed. The previous years assessment of 'reasonable assurance' was provided following two years of sustained improvement and no indications of systemic failings. It was previously noted that there were examples across the council where further work was required to enhance the control environment, this requirement has grown following structural changes, changes in key staff and organisational transformational changes. This position is likely to deteriorate further over the course of 2023-24 and audit work will remain flexible to align to the council's risk exposure.
- 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.



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- The completion of 'AGS Self-Assessment Statements' that 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. The self-assessments are completed by Heads of Service for their service areas to ensure that the most representative and comprehensive oversight is obtained. The returns are then reviewed and signed off by the relevant Executive Director.
- 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 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

In 2022 the Council, through the 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.

**Planned Action:** Implementation of the 10-point Action Plan agreed in February 2023

**Responsible Officer:** Director of Governance, Legal and HR

**Target date for completion:** Autumn 2023

### 2. Governance Issue

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.

**Planned Action:** Consideration and implementation of the key actions arising out the CIPFA review to be agreed with Cabinet and reported to Full Council

**Responsible Officer:** Executive Director Corporate Services

# Annual Governance Statement

**Target date for completion:** Actions to be agreed by end July 2023 / Implementation of agreed actions to take place throughout 2023-24 and beyond.

## 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:** 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

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

**Target date for completion:** End Q2 2023-24

## 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:** 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

**Responsible Officer:** Head of Human Resources & Organisational Development

**Target date for completion:** Ongoing throughout 2023-24 with updated position reflected in the 2023-24 AGS Self-Assessment returns from Heads of Service (in Q4 2023-24)

## 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:** HR to issue a reminder to all services of the importance of the Annual Performance Development Review process and the timescales in terms of submission of completed documents to the Corporate HR system. 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.

**Responsible Officer:** Head of Human Resources & Organisational Development

**Target date for completion:** 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.

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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

.....  
**Mike Harris**  
Chief Executive

on behalf of Southampton City Council

.....  
**Councillor Satvir Kaur**  
Leader of the Council

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# Draft 2021-22 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 2021-22:

1. Governance Issue		
<p>There remains inconsistency in respect of the extent to which succession planning had been formally considered within service areas across the council. This issue was identified on the 2020-21 AGS whereby Heads of Service started to work with their 'Human Resources Business Partner' to understand the tools available to develop appropriate succession planning arrangements.</p> <p>During 2021-22 the Human Resources &amp; Organisational ('HR &amp; OD') Development Team started to develop a 'Talent Management and Succession Planning Strategy'. In developing this strategy, a range of research was analysed, including by the Chartered Institute of Personnel and Development and how other organisations have managed these processes. The council also secured three LGA consultancy days to support the work in this area, with desktop reviews of relevant policies and processes being undertaken together with interviews and focus groups with managers, employees, and the Trades Unions.</p>		
Planned Action:	Status	Comments:
<p>The new 'Talent Management and Succession Planning Strategy', which forms part of a new overarching 'People Strategy' was to be shared with Heads of Service for their input and presented to the Executive Management Board ('EMB') for approval. The strategy would then be rolled out across the organisation with the support of the respective HR Business Partners and the Organisational Development Team.</p> <p>Strategy to be agreed by End Q2 2022/23 and implementation thereafter, which will occur across 2022/23 and beyond.</p> <p><b>Responsible Officer:</b> Service Director HR &amp; OD.</p>	Completed	<p>The new 'People Strategy', which incorporates 'Talent Management and Succession Planning', was agreed by the EMB and presented at the Leader's Cabinet Member Briefing in September 2022. Implementation of 'The People Strategy', including the 'Talent Management and Succession Planning' element, will be rolled out across the organisation with the support of the respective HR Business Partners and the Organisational Development Team.</p>
2. Governance Issue		
<p>In 2020/21, as part of its preparations for embedding enhanced standards of financial management, officers undertook a self-assessment against the new CIPFA Financial Management Code in order to identify any significant gaps or areas for development. The conclusion was that there is good practice in financial management but also areas where improvement was identified.</p>		
Planned Action:	Status	Comments:
<p>Implementation of the activities and actions arising out of the 'self-assessment' that will improve compliance with the FM Code, with an</p>	Partially completed	<p>The planned action was implemented in part however it was overtaken by events in terms of the scale of the budget pressure</p>

annual update on a 'self-assessment' basis to be provided to councillors via the Annual Governance Statement.

**Responsible Officer:** Lead by the Executive Director for Finance and Commercialisation and Section 151 Officer but noting that application of the FM Code is the collective responsibility of the council's leadership team which is defined as the collective group of elected councillors and senior officers.

faced during 2022-23 and reflected in the budget for 2023-24. The new S151 officer has, as part of the strategy to begin to tackle the financial challenges, commissioned the 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 relation to the FM Code.

### 3. Governance Issue

CIPFA guidance advises that "the AGS should include how effectively the organisation's governance arrangements support the achievement of outcomes and delivery of value for money ('vfm'). The AGS should focus on evaluation rather than description of arrangements and should reflect the context of the organisation's achievement of outcomes and vfm. A self-assessment, using guidance issued by CIPFA, was undertaken by officers which identified the following areas for improvement.

Planned Action	Status	Comments:
<p>a) <b>Benchmarking</b> –To support a consistent approach to benchmarking at a corporate level the council is assessing the potential use of benchmarking tools that consolidate and utilise national data. This work is being led by Intelligence Innovation &amp; Change in partnership with Finance and other areas across the council.</p> <p><b>Lead:</b> Strategy &amp; Performance Director and Head of Financial Planning &amp; Management</p>	Completed	<p>The benefit of developing a consistent approach to the use of benchmarking tools, that consolidate and utilise national data, was given careful consideration. It was identified that benchmarking is undertaken in a number of areas and as a base activity when new projects are initiated and that good use is also made of peer reviews with, where appropriate, with results used to understand cost and service comparables.</p> <p>It was concluded that the current approach, whereby service areas access relevant and specific benchmarking data on an ad hoc basis, was preferable compared with the cost benefit of the council subscribing to a range of providers who collate and provide of suite of general benchmarking data.</p>
<p>b) <b>Benefits realisation</b> - Post implementation and lessons learned reviews are standard, with lessons learned papers (including user/employee feedback) feeding into new project initiation sessions and relevant role forums. A 'benefits realisation framework' has been developed (along with additional templates such as a benefit map, profile, and post investment report) with the support of a commercial partner. This will be rolled out across a small number of teams initially, with training during the summer, and once piloted with the phase one teams across the council as a standard part of key project monitoring going forwards.</p>	Completed	<p>A 'benefits realisation framework' has been rolled out and is now in use on a regular basis for projects and has been adopted as a formal part of the project management methodology and toolkit. They are also being used as a tool to understand and track savings proposals.</p>

<p><b>Lead:</b> Strategy &amp; Performance Director</p>		
<p><b>c) Contracting arrangements</b> - Whilst commercial contract monitoring is robust and undertaken in accordance with a contract management framework and performance is measured against contractual indicators for Strategic and Key Managed contracts, a wider review of contracted delivery arrangements across the council is being scoped to ensure that there is a consolidated view of all such arrangements and that outcomes and vfm are being delivered and savings opportunities are considered. This review will be undertaken in alignment with the Strategic Procurement Programme. This exercise is being undertaken as a cross-council exercise, led by Supplier Management.</p> <p><b>Lead:</b> Head of Supplier Management</p>	<p>Completed</p>	<p>The review to consider the approach to managing contracts was completed and a Contract Management Framework (documented in a guide) is due to be rolled out by End Q2 23/24. This is aligned to the Strategic Procurement Programme which has a robust project and programme governance structure. Resource limitations will, however, mean that a focus will be given to education and support of service areas rather than a comprehensive wrap around support.</p>

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<b>DECISION-MAKER:</b>	GOVERNANCE COMMITTEE		
<b>SUBJECT:</b>	REVIEW OF PRUDENTIAL LIMITS AND TREASURY MANAGEMENT OUTTURN 2022/23		
<b>DATE OF DECISION:</b>	24 JULY 2023		
<b>REPORT OF:</b>	<b>EXECUTIVE DIRECTOR FINANCE &amp; COMMERCIALISATION (S151 Officer)</b>		
<b><u>CONTACT DETAILS</u></b>			
<b>Executive Director</b>	<b>Title:</b>	<b>Executive Director for Finance, Corporate 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>Name:</b>	<b>Steve Harrison</b>	<b>Tel: 023 8083 4153</b>
	<b>E-mail:</b>	<a href="mailto:steve.harrison@southampton.gov.uk">steve.harrison@southampton.gov.uk</a>	

<b>STATEMENT OF CONFIDENTIALITY</b>	
NOT APPLICABLE	
<b>BRIEF SUMMARY</b>	
The purpose of this report is to inform Governance Committee of the Treasury Management activities and performance for 2022/23 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) activities for 2022/23 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 2022/23 forms part of the approval of the statutory accounts. The Treasury Management (TM) Strategy and Prudential Indicators are approved by Governance Committee in February each year 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 now, as a minimum, formally report on their treasury activities and arrangements to Governance 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 themselves. The basic principle is that local authorities will be free to borrow as long as their capital spending plans are affordable, prudent and sustainable.
6.	CIPFA published a revised Prudential Code for Capital Finance and Treasury Management Code (TM Code) on 20th December 2021. The key changes in the two codes are around permitted reasons to borrow, knowledge and skills, and the management of non-treasury investments.
7.	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) which the Council have been doing for a number of years, as good practice and governance.
8.	The Authority's TM Strategy for 2023/24 was approved by Governance Committee on 13 February 2023. The Prudential Code includes a requirement for local authorities to provide a Capital Strategy, a summary document approved by Full Council covering capital expenditure and financing, treasury management and non-treasury investments. The Authority's Capital Strategy, complying with CIPFA's requirement, was approved by full Council on 22 February 2023.
9.	Overall responsibility for treasury management 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 Authority has borrowed and invested substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. This report covers treasury activity and the associated monitoring and control of risk.
10.	This report:
	a) is prepared in accordance with the revised CIPFA Treasury Management Code and the revised Prudential Code;
	b) presents details of capital financing, borrowing, debt rescheduling and investment transactions;
	c) reports on the risk implications of treasury decisions and transactions;
	d) gives details of the outturn position on treasury management transactions in 2022/23; and
	e) confirms compliance with treasury limits and Prudential Indicators.
11.	The report and appendices highlight that:
	a) Borrowing activities have been undertaken within the borrowing limits approved by Governance Committee on 14 February 2022 and

		reviewed on 13 February 2023.
	b)	There has been full compliance with the Prudential Indicators approved by Governance Committee on 14 February 2022 and reviewed on 13 February 2023.
	c)	<p>With an increasing borrowing requirement the overall treasury strategy 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 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 34 to 39.</p>
	e)	Total TM investment returns during 2022/23 were £2.3M at an average rate of 3.78%.
	f)	<p>The differential between debt costs and investment earnings continued to be acute, resulting in the use of internal resources in lieu of borrowing often being 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 2.86%, is slightly lower than that the expected Strategy figure of 2.87%. 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 was cost effective.</p> <p>It is the intention to monitor both short term and long term markets during 2023/24 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 utilising 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 very financially favourable in current markets but does mean that close monitoring of the markets is required to ensure that the Council can act quickly should the situation begin to change, for example,

		during the year we borrowed £50M to introduce some certainty into the loan portfolio in a rising interest environment.																					
	i)	Net loan debt increased during 2022/23 from £209M to £306M (£97M) as detailed in Appendix 2, paragraph 5.  Actual debt charges for the year for borrowing (excluding HCC transferred debt and PFI schemes) was £7.7M at an average interest rate of 2.86%																					
12.	Appendix 1 summarises the economic outlook and events in the context of which the Council operated its treasury function during 2022/23.																						
13.	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>																							
14.	It can be confirmed that the Council has complied with its Prudential Indicators for 2022/23, approved by Governance Committee on 14 February 2022 and reviewed on 13 February 2023.																						
15.	In compliance with the requirements of the CIPFA Code of Practice this report provides members with a summary report of TM activity during 2022/23. None of the Prudential Indicators has been breached and a prudent approach has been taken in relation to investment activity with priority being given to security and liquidity over yield. The table below summarises the Key Indicators, further details can be seen in appendix 4.																						
16.	<p><b>Table1: Key Prudential Indicators</b></p> <table border="1"> <thead> <tr> <th>Indicator</th> <th>Limit</th> <th>Actual at 31/3/2023</th> </tr> </thead> <tbody> <tr> <td>Authorised Limit for external debt</td> <td>£975M</td> <td>£360M</td> </tr> <tr> <td>Operational Limit for external debt</td> <td>£850M</td> <td>£360M</td> </tr> <tr> <td>Maximum external borrowing year to date</td> <td>£785M</td> <td>£304M</td> </tr> <tr> <td>Limit of fixed interest debt</td> <td>100%</td> <td>85%</td> </tr> <tr> <td>Limit of variable interest debt</td> <td>50%</td> <td>15%</td> </tr> <tr> <td>Limit for long term investments</td> <td>£100M</td> <td>£28M</td> </tr> </tbody> </table>		Indicator	Limit	Actual at 31/3/2023	Authorised Limit for external debt	£975M	£360M	Operational Limit for external debt	£850M	£360M	Maximum external borrowing year to date	£785M	£304M	Limit of fixed interest debt	100%	85%	Limit of variable interest debt	50%	15%	Limit for long term investments	£100M	£28M
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<b>OTHER</b>																							
17.	IFRS 16: The implementation of the new IFRS 16 Leases accounting standard was due to come into force for local authorities from 1st April 2022. Following a consultation CIPFA/LASAAC announced an optional two year delay to the implementation of this standard a decision which was confirmed by the Financial Reporting Advisory Board in early April 2022. Therefore, no accounting changes have been made from 1 <sup>st</sup> April 2023 and any proposed changes will be reported as part of the mid-year report.																						

<b>RESOURCE IMPLICATIONS</b>	
<b><u>Capital/Revenue</u></b>	
18.	This report is a requirement of the TM Strategy, which was approved at Council on 13 February 2023.
19.	The capital and revenue implications are considered as part of the outturn report that was presented to Cabinet on 18 July 2023.
20.	The interest cost of financing the Authority's long term and short term loan debt is charged corporately to the Income and Expenditure account. The interest cost of financing the Authority's loan debt amounted to £8.44M in 2022/23. This is lower than originally budgeted mainly due 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.
21.	In addition, interest earned on temporary balances invested externally is credited to the Income and Expenditure account. In 2022/23 £2.3M was earned which was higher than originally budgeted £1.0M mainly due to higher than expected interest rates.
22.	The expenses of managing the Authority's loan debt consist of brokerage and internal administration charges. These are pooled and borne by the HRA and General Fund proportionately to the related loan debt. Debt management expenses amounted to £0.24M in 2022/23.
<b><u>Property/Other</u></b>	
23.	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>	
24.	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>	
25.	None.
<b>RISK MANAGEMENT IMPLICATIONS</b>	
26.	Not Applicable

<b>POLICY FRAMEWORK IMPLICATIONS</b>		
27.	Not applicable. This report has been prepared in accordance with the CIPFA Code of Practice on TM.	
<b>KEY DECISION?</b>		Yes/No
<b>WARDS/COMMUNITIES AFFECTED:</b>		NONE
<b><u>SUPPORTING DOCUMENTATION</u></b>		
<b>Appendices</b>		
1.	2022/23 Economic Background	
2.	Treasury Activity during 2022/23	
3.	Southampton Benchmarking 31st March 2023	
4.	Compliance with Prudential Indicators	
5.	Glossary of Treasury Terms	
<b>Documents In Members' Rooms</b>		
1.	None.	
<b>Equality Impact Assessment</b>		
<b>Do the implications/subject of the report require an Equality and Safety Impact Assessments (ESIA) to be carried out.</b>		<b>Yes/No</b>
<b>Privacy Impact Assessment</b>		
<b>Do the implications/subject of the report require a Privacy Impact Assessment (PIA) to be carried out.</b>		<b>Yes/No</b>
<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 2023/24 to 2027/28 – reported to Council 22 February 2023	

### External Factors Impacting on Treasury during 2022/23

A summary of the external factors in 2022-23 is provided by the council's treasury advisor, Arlingclose Ltd, and is detailed below.

**Economic background:** The war in Ukraine continued to keep global inflation above central bank targets and the UK economic outlook remained relatively weak with the chance of a mild recession. The economic backdrop during the January to March period continued to be characterised by high energy and commodity prices, high inflation, and the associated impact on household budgets and spending.

Central Bank rhetoric and actions remained consistent with combatting inflation. The Bank of England, US Federal Reserve, and European Central Bank all increased interest rates over the period, even in the face of potential economic slowdowns in those regions.

Starting the financial year at 5.5%, the annual CPI measure of UK inflation rose strongly to hit 10.1% in July and then 11.1% in October. Inflation remained high in subsequent months but appeared to be past the peak, before unexpectedly rising again in February. Annual headline CPI registered 10.4% in February, up from 10.1% in January, with the largest upward contributions coming from food and housing. RPI followed a similar pattern during the year, hitting 14.2% in October. In February RPI measured 13.8%, up from 13.4% in the previous month.

Following the decision by the UK government under Rishi Sunak and Jeremy Hunt to reverse some of the support to household energy bills announced under Liz Truss, further support in the form of a cap on what energy suppliers could charge household was announced in the March Budget to run from April until end June 2023. Before the announcement, typical household bills had been due to rise to £3,000 a year from April.

The labour market remained tight albeit with some ongoing evidence of potential loosening at the end of the period. The unemployment rate 3mth/year eased from 3.8% April-June to 3.6% in the following quarter, before picking up again to 3.7% between October-December. The most recent information for the period December-February showed an unemployment rate of 3.7%.

The inactivity rate was 21.3% in the December-February quarter, slightly down from the 21.4% in the first quarter of the financial year. Nominal earnings were robust throughout the year, with earnings growth in December-February at as 5.7% for both total pay (including bonuses) and 6.5% for regular pay. Once adjusted for inflation, however, both measures were negative for that period and have been so throughout most of the year.

Despite household budgets remaining under pressure, consumer confidence rose to -36 in March, following readings of -38 and -45 in the previous two months, and much improved compared to the record-low of -49 in September. Quarterly GDP was soft through the year, registering a 0.1% gain in the April-June period, before contracting by (an upwardly revised) -0.1% in the subsequent quarter. For the October-December period was revised upwards to 0.1% (from 0.0%), illustrating a resilient but weak economic picture. The annual growth rate in Q4 was 0.6%.

The Bank of England increased the official Bank Rate to 4.25% during the financial year. From 0.75% in March 2022, the Monetary Policy Committee (MPC) pushed through rises at every subsequent meeting over the period, with recent hikes of 50bps in December and February and then 25bps in March, taking Bank Rate to 4.25%. March's rise was voted by a majority of 7-2, with two MPC members preferring to maintain Bank Rate at 4.0%. The Committee noted that inflationary pressures remain

elevated with growth stronger than was expected in the February Monetary Policy Report. The February vote was also 7-2 in favour of a hike, and again with two members preferring to keep Bank Rate on hold.

After reaching 9.1% in June, annual US inflation slowed for eight consecutive months to 6% in February. The Federal Reserve continued raising interest rates over the period with consecutive increases at each Federal Open Market Committee meetings, taking policy rates to a range of 4.75%- 5.00% at the March meeting.

From the record-high of 10.6% in October, Eurozone CPI inflation fell steadily to 6.9% in March 2023. Energy prices fell, but upward pressure came from food, alcohol, and tobacco. The European Central Bank continued increasing interest rates over the period, pushing rates up by 0.50% in March, taking the deposit facility rate to 3.0% and the main refinancing rate to 3.5%.

**Financial markets:** Uncertainty continued to be a key driver of financial market sentiment and bond yields remained relatively volatile due to concerns over elevated inflation and higher interest rates, as well as the likelihood of the UK entering a recession and for how long the Bank of England would continue to tighten monetary policy. Towards the end of the period, fears around the health of the banking system following the collapse of Silicon Valley Bank in the US and purchase of Credit Suisse by UBS caused further volatility.

Over the period the 5-year UK benchmark gilt yield rose from 1.41% to peak at 4.70% in September before ending the financial year at 3.36%. Over the same timeframe the 10-year gilt yield rose from 1.61% to peak at 4.51% before falling back to 3.49%, while the 20-year yield rose from 1.82% to 4.96% and then declined to 3.82%. The Sterling Overnight Rate (SONIA) averaged 2.24% over the period.

**Credit review:** Early in the period, Moody's affirmed the long-term rating of Guildford BC but revised the outlook to negative. The agency also downgraded Warrington BC and Transport for London.

In July Fitch revised the outlook on Standard Chartered and Bank of Nova Scotia from negative to stable and in the same month Moody's revised the outlook on Bayerische Landesbank to positive. In September S&P revised the outlook on the Greater London Authority to stable from negative and Fitch revised the outlook on HSBC to stable from negative.

The following month Fitch revised the outlook on the UK sovereign to negative from stable. Moody's made the same revision to the UK sovereign, following swiftly after with a similar move for a number of local authorities and UK banks including Barclays Bank, National Westminster Bank (and related entities) and Santander.

During the last few months of the reporting period there were only a handful of credit changes by the rating agencies, then in March the collapse of Silicon Valley Bank (SVB) in the US quickly spilled over into worries of a wider banking crisis as Credit Suisse encountered further problems and was bought by UBS.

Credit Default Prices had been rising since the start of the period on the back of the invasion of Ukraine, and in the UK rose further in September/October at the time of the then-government's mini budget. After this, CDS prices had been falling, but the fallout from SVB caused a spike on the back of the heightened uncertainty. However, they had moderated somewhat by the end of the period as fears of contagion subsided, but many are still above their pre-March levels reflecting that some uncertainty remains.



On the back of this, Arlingclose reduced its recommended maximum duration limit for unsecured deposits for all UK and Non-UK banks/institutions on its counterparty list to 35 days as a precautionary measure. No changes were made to the names on the list.

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

Local authorities remain under financial pressure, but Arlingclose continues to take a positive view of the sector, considering its credit strength to be high. Section 114 notices have been issued by only a handful of authorities with specific issues. While Arlingclose's advice for local authorities on its counterparty list remains unchanged, a degree caution is merited with certain authorities.

## **Forecast interest Rates (May 2023)**

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

- Stubborn inflation and tight labour markets have refocused attention on inflation, even as the economic risks increase. The Federal Reserve raised its policy rate to 5.25% despite the rising risk of a US recession. Similarly, as Germany teeters on the edge of recession, the ECB raised its main policy rate to 3.75% and signalled further rises ahead.
- In the UK, with upward revisions to growth and persistent inflation, sticky amid continued solid wage growth, investors are betting on further Bank Rate hikes beyond 4.5%.
- The UK economy has surprised with its strength in the first half of 2023. Government support for the cost of living, stronger wage growth and household savings have partly offset the dual headwinds of high inflation and interest rates. Households will also benefit from a likely decline in retail energy bills in H2 2023.
- However, the lagged effect of aggressive monetary tightening will increasingly pressure economic activity. Household spending will be affected by increases in mortgage payments, while business investment/spending will fall back due to higher borrowing costs. Diminished spending will inevitably increase unemployment.
- The labour market remains tight. Recent signs suggest some loosening, although wage growth has remained solid. As unemployment rises, market imbalances and thus wage growth should ease, but recent data indicates this may take some time.
- Inflation will fall sharply from April, as changes in base effects become the driver of the headline rate. Food price inflation should also decelerate soon. However, the MPC will increasingly target core inflation and wage growth, being especially wary about declining inflation rates creating strong real wage growth, thus supporting on-going consumer-led inflation. Rates will therefore remain higher for longer.
- Global bond yields remain volatile. Resilience in some economic data has supported central bank hawkishness, but also increased the chance of over-tightening. The Federal Reserve and other central banks see persistently higher policy rates through 2023 as key to dampening domestic inflationary pressure.
- However, it is difficult to perceive non-negative growth outcomes from synchronised monetary tightening and slower, perhaps negative, money growth across developed economies. This

suggests more significant reductions in policy rates in the future.

	Current	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26
<b>Official Bank Rate</b>													
Upside rtsk	0.00	0.50	0.50	0.50	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75
Central Case	4.50	4.75	4.75	4.75	4.25	3.75	3.50	3.25	3.00	3.00	3.00	3.00	3.00
Downside rtsk	0.00	0.25	0.50	0.50	0.50	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
<b>3-month money market rate</b>													
Upside rtsk	0.00	0.50	0.50	0.50	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75
Central Case	4.70	4.80	4.80	4.75	4.25	3.70	3.50	3.20	3.10	3.10	3.10	3.10	3.10
Downside rtsk	0.00	0.25	0.50	0.50	0.50	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
<b>5yr gilt yield</b>													
Upside rtsk	0.00	0.70	0.80	0.90	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Central Case	3.55	3.80	3.60	3.50	3.50	3.50	3.50	3.50	3.50	3.50	3.50	3.50	3.50
Downside rtsk	0.00	0.70	0.90	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 rtsk	0.00	0.70	0.80	0.90	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Central Case	3.73	4.00	3.75	3.60	3.60	3.60	3.60	3.60	3.60	3.60	3.60	3.60	3.60
Downside rtsk	0.00	0.70	0.90	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
<b>20yr gilt yield</b>													
Upside rtsk	0.00	0.70	0.80	0.90	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Central Case	4.12	4.00	4.00	4.00	4.00	4.00	4.00	4.00	4.00	4.00	4.00	4.00	4.00
Downside rtsk	0.00	0.70	0.90	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 rtsk	0.00	0.70	0.80	0.90	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Central Case	3.78	3.70	3.70	3.70	3.70	3.70	3.70	3.70	3.70	3.70	3.70	3.70	3.70
Downside rtsk	0.00	0.70	0.90	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00

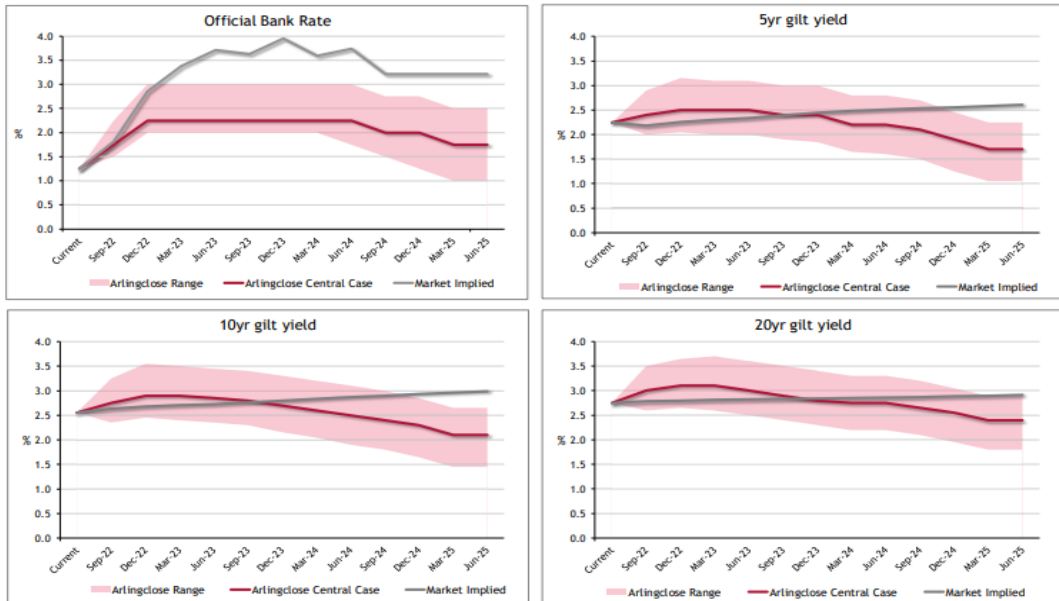
PWLB Standard Rate (Maturity Loans) = Gilt yield + 1.00%; PWLB Certainty Rate (Maturity Loans) = Gilt yield + 0.80%  
 PWLB HRA Rate (Maturity Loans) = Gilt yield + 0.40% (from June 2023); UKIB Rate (Maturity Loans) = Gilt yield + 0.60%

- The MPC raised Bank Rate by 25bps to 4.5% in May. Due to the current policy of reacting to lagging data, we believe it is more likely than not that Bank Rate rises to 4.75% in June, although we consider further hikes to be unnecessary.
- The MPC will cut rates in the medium term to stimulate a stuttering UK economy but will be reluctant to do so until services inflation and wage growth ease. We see rate cuts from the first quarter of 2024 to a low of around 3% by 2025, although the timing and extent of rate cuts remains highly uncertain.
- Arlingclose expects gilt yields to fall from current levels reflecting a lower medium term path for Bank Rate. However, yields will remain relatively higher than in the past, with continued elevated volatility.
- Gilt yields face pressures to both sides. While there are fears of a global decline in economic activity and an expectation of falling inflation rates, these downward effects on gilt yields will be partly offset by hawkish-leaning central bankers, BoE bond sales, and high government borrowing.

# Arlingclose and Market Projections June 2022

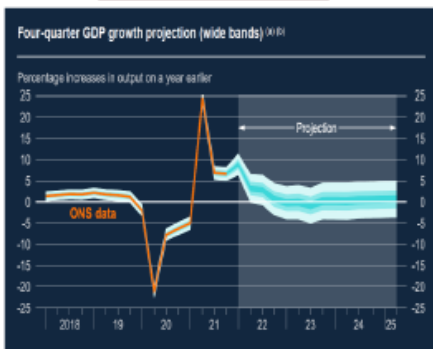
Charts show the Arlingclose central case along with upside and downside risks: Arlingclose judges that the risks around its forecasts are initially to the upside before becoming more balanced over time.

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%

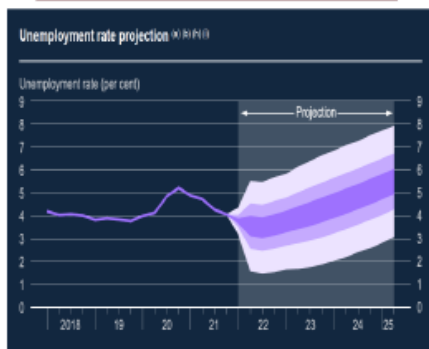


## Bank of England Monetary Policy Report - May 2022

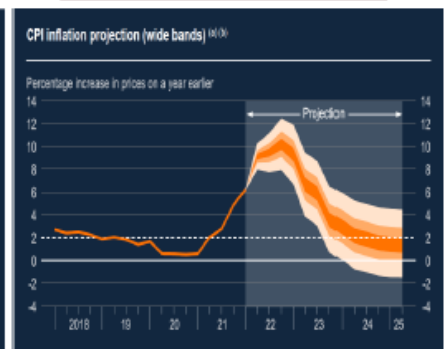
### Outlook for UK GDP



### 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 2022/23** Appendix 2

**BORROWING REQUIREMENT AND DEBT MANAGEMENT**

1. On the 31st March 2023, the Authority had an increase in its net borrowing need of £35M 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 TM Activity and the year-on-year change is summarised in table 1 below.
2. The Authority’s 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) existing in the current interest rate environment. This has resulted in a decrease in our internal borrowing of £34.82M during 2022/23 from £191.96M to £157.14M.

*Table 1 – Balance Sheet Summary*

	31-Mar-22 Actual	31-Mar-23 Strategy	31-Mar-23 Actual	31-Mar-23 Actual Movement in year £M
	£M	£M	£M	£M
General Fund CFR	339.15	352.27	342.57	3.42
Housing CFR	168.73	181.70	174.88	6.15
<b>Total CFR</b>	<b>507.88</b>	<b>533.97</b>	<b>517.45</b>	<b>9.57</b>
Less Other Debt Liabilities*	(60.62)	(57.10)	(57.11)	3.51
<b>Loans CFR</b>	<b>447.26</b>	<b>476.87</b>	<b>460.34</b>	<b>13.08</b>
Less External Borrowing**	(255.30)	(288.65)	(303.20)	(47.90)
Internal (over) Borrowing	<b>191.96</b>	<b>188.22</b>	<b>157.14</b>	<b>(34.82)</b>
Balance sheet Resources	(303.08)	(217.92)	(211.70)	91.38
Treasury Investments	111.12	48.01	54.56	(56.56)
<b>New Borrowing or (Investments)</b>	<b>(0.00)</b>	<b>18.31</b>	<b>0.00</b>	<b>0.00</b>

\* finance leases, PFI liabilities and Transferred debt that form part of the authority's total debt  
 \*\* See Table 3 below

*NB – table includes rounded figures*

3. The forecast movement in coming years is one of the Prudential Indicators (PIs). When the strategy was updated in February 2023, the CFR for 31 March 2023 was estimated at £533.97M, the Council’s actual CFR at the end of the year was £517.45M, a decrease of £16.52M. This was mainly as a result of slippage in borrowing on the capital programme, £10.02M for the General Fund and £6.82M for HRA, as shown in table 2 below.

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

Capital Financing Requirement	31/03/2022 Actual £M	31/03/2023 Forecast Revised Strategy £M	31/03/2023 Actual £M	Movement since last reported position £M
Balance Brought forward	337.18	339.15	339.15	0.00
New Borrowing	12.68	24.55	14.53	(10.02)
MRP	(6.89)	(7.93)	(7.61)	0.32
Movement in Other Liabilities	(3.82)	(3.50)	(3.50)	0.00
<b>Total General Fund Debt</b>	<b>339.15</b>	<b>352.27</b>	<b>342.57</b>	<b>(9.70)</b>
HRA	168.73	181.70	174.88	(6.82)
<b>Total CFR</b>	<b>507.88</b>	<b>533.97</b>	<b>517.45</b>	<b>(16.52)</b>
Estimated Debt ( <i>see below for breakdown</i> )	316.28	364.43	360.29	(4.14)
<b>Under / (Over) Borrowed</b>	<b>191.60</b>	<b>169.54</b>	<b>157.16</b>	<b>(12.38)</b>

4. The movement in actual external debt and usable reserves combine to identify the Authority's borrowing requirement and potential investment strategy in the current and future years.
- 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-22 Actual £M	31-Mar-22 Average Yield / Rate %	31-Mar-23 Actual £M	31-Mar-23 Average Yield / Rate %	31-Mar-24 Estimated Balance £M
<b>Long Term Borrowing</b>					
Public Works Loan	246.30	2.88	289.19	3.52	359.60
LOBO Loans from Banks	9.00	4.89	9.00	4.86	9.00
	<b>255.30</b>	<b>2.95</b>	<b>298.19</b>	<b>3.63</b>	<b>368.60</b>
<b>Short Term Borrowing</b>					
Other Local Authorities	0.00	0.00	5.00	3.36	10.00
Other	0.36	0.38	0.00	0.00	
<b>Total External Borrowing</b>	<b>255.66</b>	<b>2.83</b>	<b>303.19</b>	<b>2.96</b>	<b>378.60</b>
<b>Other Long Term Liabilities</b>					
PFI Schemes	47.52	9.01	44.37	9.56	44.37
Deferred Debt Charges (HCC)	13.10	2.66	12.73	3.27	12.73
<b>Total Gross External Debt</b>	<b>316.28</b>	<b>3.87</b>	<b>360.29</b>	<b>4.08</b>	<b>435.71</b>
<b>Investments:</b>					
<b>Managed In-House</b>					
Government & Local Authority	(24.41)	0.00	(11.06)	4.05	
Cash (Instant access)	(54.50)	0.51	(15.49)	4.08	(10.00)
Long Term Bonds	(1.06)	5.27	(1.01)	5.27	(1.00)
<b>Managed Externally</b>					
Pooled Funds (CCLA)	(27.25)	3.81	(27.00)	4.04	(27.20)
<b>Total Investments</b>	<b>(107.22)</b>	<b>3.46</b>	<b>(54.56)</b>	<b>4.08</b>	<b>(38.20)</b>
<b>Net Debt</b>	<b>209.06</b>		<b>305.73</b>		<b>397.51</b>

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

<b>Movement during the year</b>	<b>2021/22</b>	<b>31-Mar-23</b>	<b>2022/23</b>	<b>Average Life</b>
	<b>Actual £M</b>	<b>Movement £M</b>	<b>Actual £M</b>	
Long-term borrowing Carried Forward	231.60		255.30	
Maturities in year	(9.30)		(7.11)	
New borrowing taken in year	33.00		50.00	
<b>Net Long Term Borrowing</b>	<b>255.30</b>	<b>42.89</b>	<b>298.19</b>	<b>26 Years</b>
Short-term borrowing Carried Forward	10.36		0.36	
Maturities in year	(10.36)		(0.36)	
New borrowing taken in year	0.36		5.00	
<b>Net Short Term Borrowing</b>	<b>0.36</b>	<b>4.64</b>	<b>5.00</b>	<b>1 Months</b>
<b>Total Borrowing at 31st March</b>	<b>255.66</b>	<b>47.53</b>	<b>303.19</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 2023 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 rising interest environment there is a possibility they could be called in.

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

<b>Total Financial Liabilities</b>	<b>Outstanding 31 March 2023</b>	<b>% of Total Portfolio</b>
<b>Source of Loan</b>	<b>£M</b>	<b>%</b>
Public Works Loan Board	289.19	97
Other Financial Institutions (borrowing)	9.00	3
	<b>298.19</b>	<b>100</b>
<b>Analysis of Loans by Maturity</b>		
Less than 1 Year	10.60	118
Between 1 and 2 years	10.60	118
Between 2 and 5 years	31.80	353
Between 5 and 10 years	53.00	589
Between 10 and 20 years	33.35	371
Between 20 and 40 years	149.84	1665
Uncertain Date**	9.00	100
	<b>298.19</b>	<b>3,313</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. PWLB loans are no longer available to local authorities planning to buy investment assets primarily for yield unless these loans are for refinancing purposes.

The Authority currently holds £27M in commercial investments that were purchased prior to the change in the CIPFA Prudential Code. Before undertaking further additional borrowing the Authority will review the benefits of retaining these investments against cost of future borrowing.

**Borrowing Strategy**

10. At 31st March 2023 the Authority held £303.20M of loans, (an increase of £47.90M since 31st March 2022), 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 Authority's chief objective when borrowing has been to strike an appropriately low risk balance between securing low interest costs and achieving cost certainty over the period for which funds are required, with flexibility to renegotiate loans should the Authority's long-term plans change being a secondary objective.
12. We have remained under our CFR limit and had internal borrowing of £157.14M at the end of the year compared to £191.60M for 2021/22.  
This strategy enabled the Authority to reduce net borrowing costs (despite foregone investment income) and reduce overall treasury risk.
13. The PWLB remained the Council's preferred source of long term borrowing 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 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.
14. The Council deferred long term borrowing and continued to use internal resources to finance the capital programme to minimise the cost of TM by keeping debt interest payments as low as possible without compromising the longer-term stability of the portfolio.
15. The cost of both long and short-term borrowing rose dramatically over the year, with rates at the end of March 2023 around 2% - 4% higher than those at the beginning of April 2022. Rate rises have been driven primarily by inflation and the need for central banks to control this by raising interest rates. Particularly dramatic rises were seen in September after Liz Truss' 'mini-budget' included unfunded tax cuts and additional borrowing to fund consumer energy price subsidies: over a twenty-four-hour period some PWLB rates increased to 6%. Rates have now fallen from September peaks but remain volatile and well above recent historical norms. The PWLB 10 year maturity certainty rate stood at 4.33% at 31st March 2023, 20 years at 4.70% and 30 years at 4.66%.
16. During the year 4 loans have been taken from the PWLB, shown in Table 6 below, to cover borrowing needs. 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. These loans provide some longer-term certainty and stability to the debt portfolio.

**Table 6: New loans taken in 2022/23**

Long Term Loans	Amount £M	Period (Years)	Rate %
PWLB Maturity Loan	10,000.00	25	2.94%
PWLB EIP Loan	15,000.00	15	3.93%
PWLB EIP Loan (HRA)	10,000.00	10	3.87%
PWLB EIP Loan	15,000.00	10	3.98%
<b>Total Borrowing</b>	<b>50,000.00</b>		



17.	<p>This will be kept under review during 2023/24 with the need to resource an increasing capital programme, which will be reported to Council in September and February as part of the capital review.</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 Authority 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>A new HRA PWLB rate of gilt yield plus 0.4% (0.4% below the currently available certainty rate) was announced on 15th March 2023. This discounted rate is to support local authorities borrowing for Housing Revenue Accounts and the delivery of social housing and became available from June 2023, initially for a period of one year.</p>
19.	<p>The Authority's 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>Lender's Option Borrower's Option Loans (LOBOs)</u></b></p>	
20.	<p>The council continues to hold £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. All the LOBOS had options during the year, none of which were exercised by the lender, but if they were it is likely that they would be replaced.</p>
<p><b><u>Other Debt Activity</u></b></p>	
21.	<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 £3.14M is £44.38M.</p>
22.	<p>In addition, the Authority holds debt in relation to debt transferred from Hampshire County Council on the 1 April 1997 when we became a unitary authority, of £12.74M. This is being repaid over 50 years at £0.36M per annum.</p>
<p><b><u>INVESTMENT ACTIVITY</u></b></p>	
23.	<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>
24.	<p>The Council maintained its strategy of offsetting investment and borrowing to reduce treasury costs.</p>
25.	<p>The council has held significant invested funds, representing income received in advance of expenditure plus balances and reserves held. During 2022/23 the council's investment balances have ranged between £47.08M and £109.37M and averaged £83.79M. Movement in year is summarised in Table 7 below:</p>

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

	Balance on 01/04/2022	Investments Repaid	New Investments	Balance on 31/03/2023	(Increase)/ Decrease in Investment for Year	Average Life of Investments
	£M	£M	£M	£M	£M	Life
Multi- National Bonds (not subject to bail in)	(1.06)	(0.05)	0.00	(1.01)	0.05	2 years
Money Market Funds and Call Account	(54.50)	(339.22)	378.13	(15.49)	39.01	on day notice
Government & Local Authority	(24.41)	(232.98)	246.33	(11.06)	13.35	1 Month
Managed Externally (CCLA Pooled funds)	(27.25)	(0.25)		(27.00)	0.25	Unspecified
<b>Total Investments</b>	<b>(107.22)</b>	<b>(572.51)</b>	<b>624.46</b>	<b>(54.56)</b>	<b>52.67</b>	

27. Both the CIPFA Code and government guidance require the Authority to invest its funds prudently, and to have regard to the security and liquidity of its treasury investments before seeking the optimum rate of return, or yield. The Authority's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income.

28. Bank Rate has increased from 0.75% at the beginning of the year to 4.25% at the end of March 2023. Short-dated cash rates, which had ranged between 0.7% - 1.5% at the beginning of April 2022, rose by around 3.5% for overnight/7-day maturities and 3.3% for 6-12 month maturities.

By end March 2023, the rates on DMADF deposits (Debt Management Account Deposit facility) ranged between 4.05% and 4.15%. The return on the Council's sterling Low Volatility Net Asset Value (LVNAV) Money Market Funds ranged between [0.9% - 1.1% p.a.] in early April 2022 and between [4.01% and 4.18%] at the end of March 2023.

29. Security of capital has remained the council's main investment objective. This has been maintained by following the Authority's 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	AA+

30. Counterparty credit quality is assessed and monitored with reference to credit ratings across rating agencies Fitch, S&P and Moody's. The Authority'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 authority also used secured investments products that provide collateral in the event that the counterparty cannot meet its obligations for repayment.

31. The table below summarises the Council's investment portfolio as at 31 March 2023 by credit rating and confirms that all investments were made in line with the

Council's approved credit rating criteria. The investment for Pooled funds includes the unrealised estimated gain of £3.89M.

**Table 8: Credit ratings of Investments held at 31st March 2023**

Credit Rating	Long Term		Short Term	
	2022 £000	2023 £000	2022 £000	2023 £000
AAA	1,008	1,006	52	53
AA+			0	0
AA			24,410	0
AA-			0	11,060
A+			46,750	10,080
A			7,753	5,554
A-				
Unrated local authorities	0	0		
Shares in unlisted companies	20	20		
Unrated pooled funds	30,893	25,801	253	281
<b>Total Investments</b>	<b>31,921</b>	<b>26,827</b>	<b>79,218</b>	<b>27,028</b>

32. **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 4.11% is slightly higher than the average of 3.80% and our overall income return including the Local Authority Property Fund is 3.87% compared to the average of 3.77%. This has been achieved without impacting on our average credit rating which at AA+ is higher than the average for both other Local Authorities and Unitary Authorities at A+.
- It should be noted that there has been a capital loss on the Local Authority Property Fund as detailed in paragraphs 35 to 39 below.

### Liquidity Management

33. 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

34. For long term investments, 2022 was a very difficult year - bonds had their worst year of performance in several decades; long-term government bonds had their worst year ever as central banks delivered larger interest rates hikes than initially expected and promised more to combat inflation. As policy rates rapidly rose from very low levels, bond investors suffered large crystallised or unrealised losses from rising sovereign and corporate bond yields (i.e. falling prices) as well as from widening credit spreads as concern grew over the risk of defaults in a recessionary environment. The return on the All-Gilts index was -16.3% over the 12 months to March 2023. Negative yielding bonds all but disappeared globally. UK and global equities remained volatile against a backdrop of high and sticky inflation, rapid policy rates tightening and an increasing risk of recession. There

was a large sell-off in global equities in April, and again in June and September for both UK and global equities. The total return on the FTSE All Share index for the 12 months ending March 2023 was 2.9% and 5.4% for the FTSE 100.

The negative correlation between bonds and equities, which had featured for some years, turned positive in 2022 as both bonds and equities sold off simultaneously against an outlook of sticky inflation and high interest rates. Simultaneously, tighter financial conditions, higher bond yields and challenges in some segments of commercial real estate (e.g. offices post-COVID, high street shops and shopping centres) saw commercial property values fall during 2022, with a large fall in the final calendar quarter.

35. 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 the Authority to diversify into asset classes other than cash without the need to own and manage the underlying investments.

36. The change in the Authority's funds' capital values and income earned over the 12-month period is shown in Table 9 below.

*Table 9 – Property Fund Performance 2022/23*

Quarter Ending	Valuation £M	Movement since Reported in SOA	Divide £M
1st April	30.89		
30th June	32.51	1.61	0.26
30th September	31.13	0.23	0.30
31st December	26.31	(4.58)	0.28
31st March	25.80	(5.09)	0.28
<b>Total</b>			<b>1.12</b>

37. The market value has decreased further since last reported in December, £26.31M and at March 2023 had a value of £25.80M. This is a decrease of £5.09M since the March 2022 value of £30.89M and is now £1.2M below the initial investment of £27M, so market conditions have proved volatile.

The dividend for the year was £1.12M, 4.14% against the original investment. This is higher than 2022/23 (£1.02M 3.78%).

The market value of the investment has improved slightly from year end and at May 2023 was £25.88M, an increase of £0.08M since end of year.

38. Because these funds have no defined maturity date, but are available for withdrawal after a notice period, their performance and continued suitability in meeting the Authority's investment objectives is regularly reviewed.

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. In light of their performance over the long-term and the Authority's latest cash flow forecasts, investment in these funds has been maintained.

39. The DLUHC published a consultation on the IFRS 9 pooled investment fund statutory override for English authorities for fair value gains and losses on pooled investment funds which was due to expire with effect from 2023/24. The options under evaluation were to allow the override to lapse, to extend it, or to make it permanent. The override will be extended for two years and therefore remain in place for the 2023/24 and 2024/25 financial years. Under the Regulations, gains and losses resulting from

unrealised fair value movements relating to treasury pooled investment funds, that otherwise must be recognised in profit or loss under IFRS 9, are not charges to the revenue account, and must be taken into an unusable reserve account.

**Non – Treasury Investments**

40. The definition of investments in CIPFA’s revised 2021 Treasury Management Code covers all the financial assets of the Authority as well as other non-financial assets which the Authority holds primarily for financial return. Investments that do not meet the definition of treasury management investments (i.e., management of surplus cash) are categorised as either for service purposes (made explicitly to further service objectives) and or for commercial purposes (made primarily for financial return).

41. Investment Guidance issued by the DLUHC also broadens the definition of investments to include all such assets held partially or wholly for financial return.

42. Between 2016 and 2017, SCC implemented a strategy to invest in commercial properties with the expected return on investment being used to fund council services, known as the Property investment fund (PIF). To date the authority has purchased 3 properties.

43. The rate of return on investment in 2022/23 before borrowing costs and other on-costs was 5.74%. Borrowing costs of 3.90% were incurred giving a net rate of return of 1.84%.

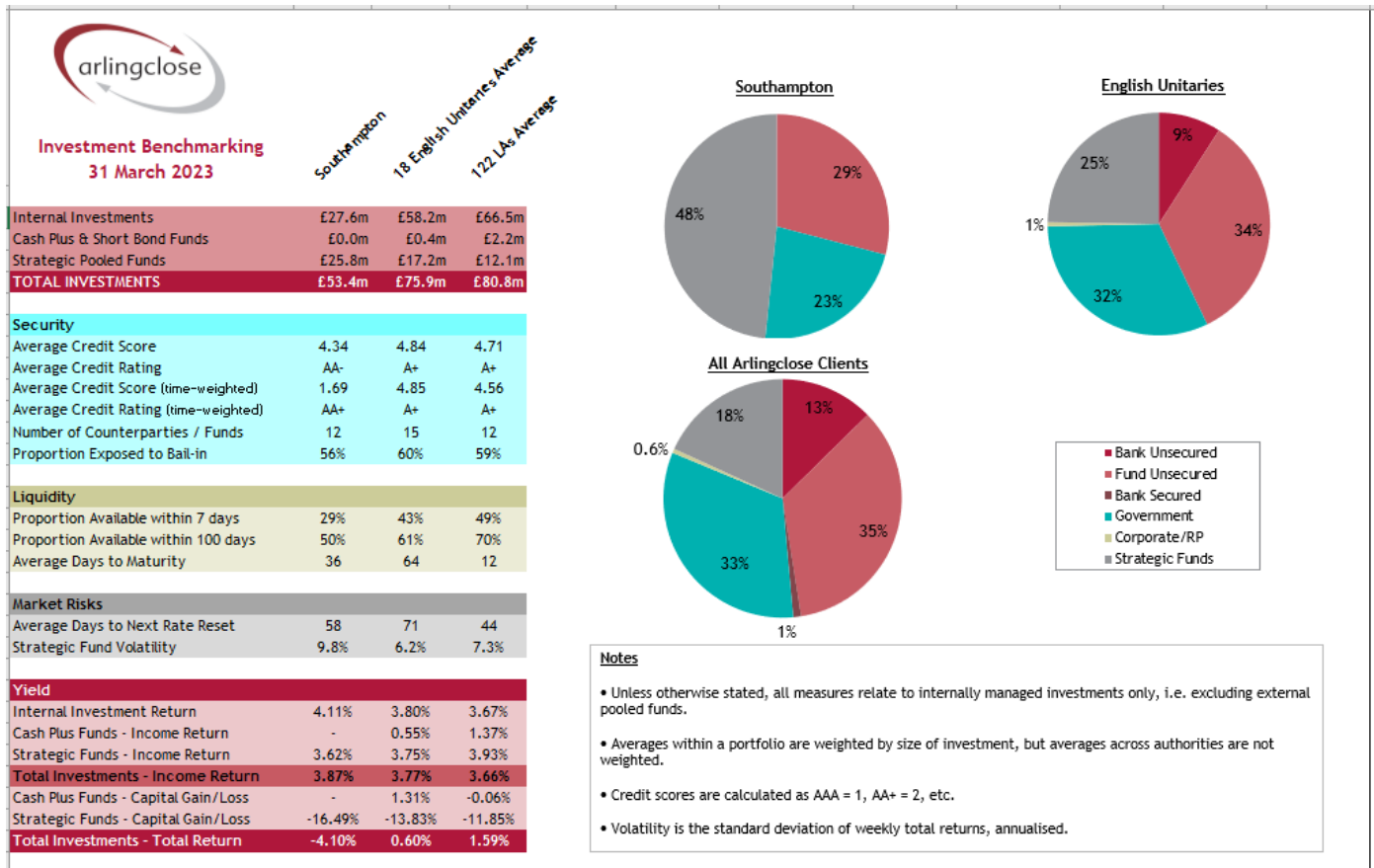
44. All of the properties remain fully let and the tenants are meeting their financial obligations under the leases (although one tenant has vacated the premises but continues to honour the lease) and there are currently no concerns regarding the properties that have currently fallen in value below the debt outstanding on it (by £2.82M) 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.

45. **Table 10: Property Investment Fund**

Property	Actual	31.03.2022 Actual		31.03.2023 Actual		Outstanding Debt 31.03.2023
	Purchase Cost £M	Value in Accounts	Gain or (Loss) in Year	Value in Accounts	Gain or (Loss) in Year	£M
Property 1	6.47	4.88	(0.33)	4.79	(0.09)	5.81
Property 2	14.69	11.64	1.32	10.61	(1.03)	13.18
Property 3	8.53	9.16	0.43	8.42	(0.74)	7.65
	29.69	25.68	1.42	23.82	(1.86)	26.64

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### Southampton Benchmarking Scores 31<sup>st</sup> March 2023



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## COMPLIANCE WITH PRUDENTIAL INDICATORS DURING 2022/23

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

The Council complied with all of its Prudential Indicators. Details of the performance against key indicators are shown below:

### 1. Gross Debt and the Capital Financing Requirement

This is a key indicator of prudence. In order to ensure that over the medium term debt will only be for a capital purpose, the local authority should ensure that debt 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. If in any of these years there is a reduction in the CFR, this reduction is ignored in estimating the cumulative increase in the CFR which is used for comparison with gross external debt. The S151 Officer reports that the Authority had no difficulty in meeting this requirement in 2022/23, nor are there any difficulties envisaged for future years. This view considers current commitments, existing plans and the proposals in the approved budget.

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 reasons for this are to reduce credit risk, take pressure off the Council's lending list and to avoid the cost of carry existing in the current interest rate environment. The table below details our estimated and actual debt position at the 31<sup>st</sup> March 2023, details of movement on the CFR can be seen in Appendix 2, table 2.

This shows that borrowing was £4M less than expected, primarily on the 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>31/03/2022 Actual</b>	<b>31/03/2023 Forecast Revised Strategy</b>	<b>31/03/2023 Current Forecast</b>	<b>Movement since last reported position</b>
	<b>£M</b>	<b>£M</b>	<b>£M</b>	<b>£M</b>
Borrowing (Long Term GF)	90.03	127.02	125.82	(1.20)
Borrowing (Long Term HRA)	165.27	179.87	172.37	(7.50)
Borrowing (Short Term)	0.36	0.44	5.00	4.56
<b>Total Borrowing</b>	<b>255.66</b>	<b>307.33</b>	<b>303.19</b>	<b>(4.14)</b>
Finance leases and Private Finance Initiatives	47.52	44.37	44.37	0.00
Transferred Debt	13.10	12.73	12.73	0.00
<b>Total Other Debt</b>	<b>60.62</b>	<b>57.10</b>	<b>57.10</b>	<b>0.00</b>
<b>Total Debt</b>	<b>316.28</b>	<b>364.43</b>	<b>360.29</b>	<b>(4.14)</b>

## **2. Authorised Limit and Operational Boundary for External Debt**

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

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

The S151 Officer confirms that there were no breaches to the Authorised Limit and the Operational Boundary during 2022/23; borrowing at its peak was £269.20M plus other deferred liabilities of £64.43M.

## **3. Upper Limits for Fixed Interest Rate Exposure and Variable Interest Rate Exposure**

These indicators allow the Council to manage the extent to which it is exposed to changes in interest rates. The upper limit for variable rate exposure allows for the use of variable rate debt to offset exposure to changes in short-term rates on our portfolio of investments.

	<b>Limits for 2022/23 (%)</b>	<b>Maximum during 2022/23 (%)</b>	<b>Compliance with Limits</b>
Upper Limit for Fixed Rate Exposure	100	85.65	Yes
Upper Limit for Variable Rate Exposure	50	14.35	Yes

## **4. Total Principal Sums Invested for Longer Than a Year**

This indicator allows the Council to manage the risk inherent in investments longer than a year and the limit is set at £30M. In 2022/23 the actual principal sum invested peaked £28.06M, and consists of £27M in CCLA property funds.

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

This is an indicator of affordability and highlights the revenue implications of existing and proposed capital expenditure by identifying the proportion of the revenue budget required to meet borrowing costs. The ratio is based on the forecast of net revenue expenditure in the medium term financial model. The upper limit for this ratio is currently set at 15% and will be reviewed in 2023/24 alongside the capital programme review. It includes the cost of long term liabilities but now excludes investment income in line with the revised code. The table below shows the likely position based on the current approved capital programme.

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

<b>Ratio of Financing Costs to Net Revenue Stream</b>	<b>2021/22 Actual %</b>	<b>2022/23 Strategy %</b>	<b>2022/23 Actual %</b>	<b>Variance %</b>
General Fund	10.26	9.81	9.58	(0.23)
HRA	6.41	6.85	6.83	(0.02)
<b>Total</b>	<b>11.92</b>	<b>10.11</b>	<b>8.79</b>	<b>(1.32)</b>

## **6. HRA Limit on Indebtedness**

Following the Chancellor's announcement in the 2018 Autumn Budget, restrictions relating to HRA borrowing have been lifted. This means that the previous HRA debt cap of £199.6m has been removed, and there is now the emphasis for councils to plan their new build strategy and financing at a local level incorporating affordability and prudence. As such it has been agreed that the limit will remain for existing stock and that as part of the new build strategy relevant Prudential Indicators will be agreed.

## **7. 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

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

**General Fund:**

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

**Gilts:**

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

**Gross Domestic Product (GDP):**

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

**The G7:**

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

**IFRS:**

International Financial Reporting Standards.

**LIBID:**

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

**LOBO:**

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

**Maturity:**

The date when an investment or borrowing is repaid.

**LUHC - Department for Levelling Up, Housing and Communities**

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.

**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>(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 MMF can fluctuate, and the market value of a share may not always be exactly the amount that has been invested.</p>
<p><b>Yield:</b> The measure of the return on an investment instrument.</p>