

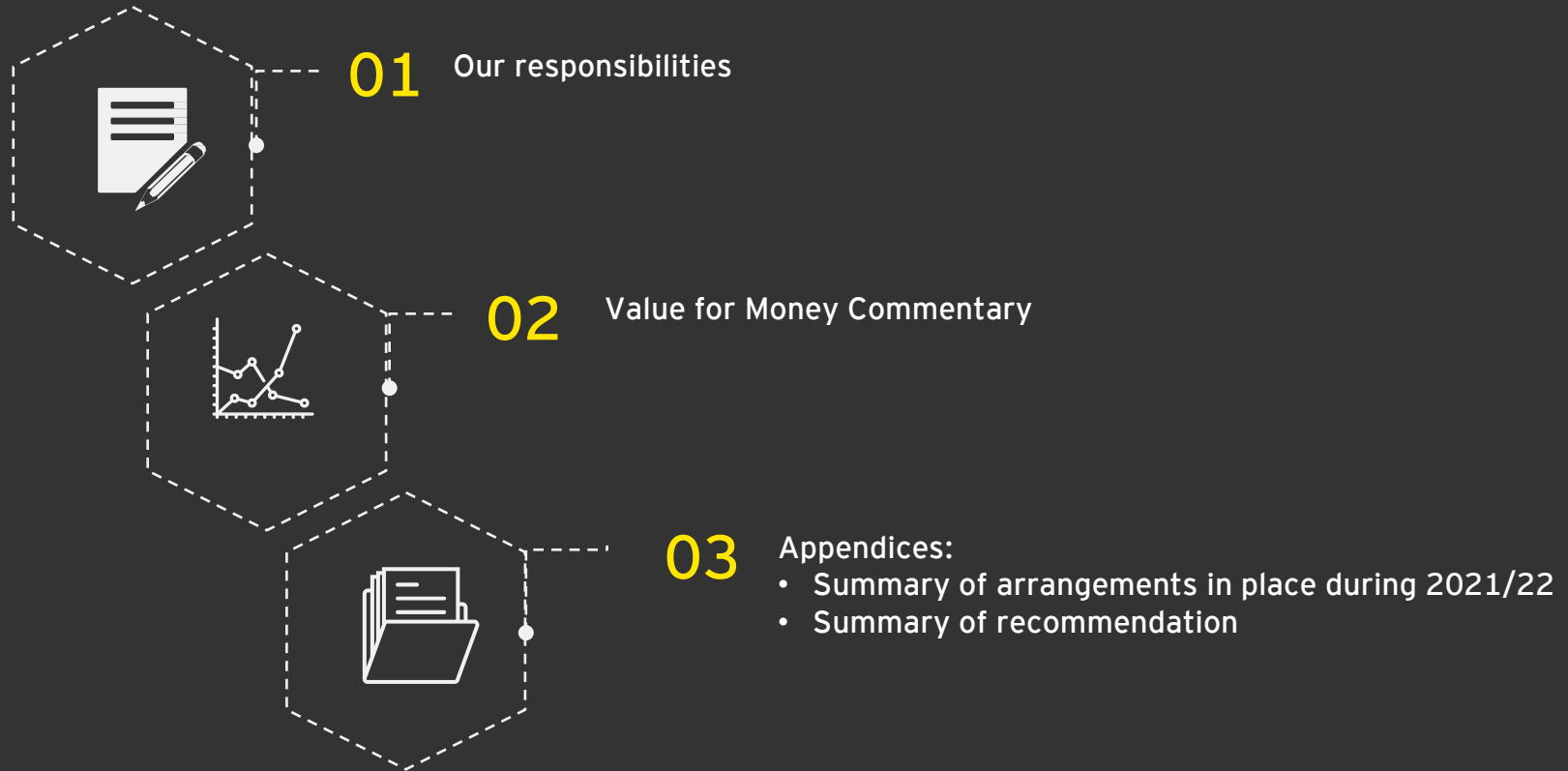
A photograph of a modern, glass-walled interior space, likely a council chamber or meeting room. The room features a polished, reflective floor and a ceiling with recessed lighting. The glass walls provide a view of the exterior, which includes trees and a building. A yellow rectangular overlay is positioned on the left side of the image, containing text.

**Southampton City
Council**

**Value for Money
Arrangements
2021/22**

March 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 Our responsibilities



Our Responsibilities

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 guidance notes require us to carry out a risk assessment which gathers sufficient evidence to enable us to document our evaluation of the Council's arrangements, in order to enable us to draft a commentary under the three reporting criteria. This includes identifying and reporting on any significant weaknesses in those arrangements and making appropriate recommendations.

In relation to the Council's arrangements, we are required to consider:

- The Council's governance statement
- Evidence that the Council's arrangements were in place during the reporting period;
- Evidence obtained from our work on the accounts;
- The work of inspectorates (such as OfSTED) and other bodies; and
- Any other evidence source that we regard as necessary to facilitate the performance of our statutory duties.



Our Responsibilities

Our responsibilities under the NAO Code 2020 (continued)

Risk Assessment

We consider whether there is evidence to suggest that there are significant weaknesses in arrangements. The NAO's guidance is clear that the assessment of what constitutes a significant weakness and the amount of additional audit work required to adequately respond to the risk of a significant weakness in arrangements is a matter of professional judgement. However, the NAO states that a weakness may be said to be significant if it:

Exposes - or could reasonably be expected to expose - the Council to significant financial loss or risk;

- Leads to - or could reasonably be expected to lead to - significant impact on the quality or effectiveness of service or on the Council's reputation;
- Leads to - or could reasonably be expected to lead to - unlawful actions; or
- Identifies a failure to take action to address a previously identified significant weakness, such as failure to implement or achieve planned progress on action/improvement plans.

We should also be informed by a consideration of:

- The magnitude of the issue in relation to the size of the Council;
- Financial consequences in comparison to, for example, levels of income or expenditure, levels of reserves, or impact on budgets or cashflow forecasts;
- The impact of the weakness on the Council's reported performance;
- Whether the issue has been identified by the Council's own internal arrangements and what corrective action has been taken or planned;
- Whether any legal judgements have been made including judicial review;
- Whether there has been any intervention by a regulator or Secretary of State;
- Whether the weakness could be considered significant when assessed against the nature, visibility or sensitivity of the issue;
- The impact on delivery of services to local taxpayers; and
- The length of time the Council has had to respond to the issue



Our Responsibilities

Our responsibilities under the NAO Code 2020 (continued)

Responding to identified risks

Where our planning work has identified a risk of significant weakness, the NAO's guidance requires us to consider what additional evidence is needed to determine whether there is a significant weakness in arrangements and undertake additional procedures as necessary, including where appropriate, challenge of management's assumptions.

Reporting on VFM

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. In addition, where we are not satisfied that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources the 2020 Code requires us to refer to this by exception in the audit report on the financial statements for the year in question.



02

Value for Money commentary

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

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

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

Reporting

We completed our risk assessment procedures in January 2022 and did not identify any significant weaknesses in the VFM arrangements for the Council for the year to 31 March 2022.

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

This report sets out commentary for 2021/22 and our identification of the significant weakness in the Council's value for money arrangements for 2022/23 and our recommendations thereon. We are reporting below against the specified Value for Money criteria relating to the Council's arrangements for financial sustainability and governance. We have no points to raise at this stage on the specified Value for Money reporting criteria relating to the Council's arrangements for improving economy, efficiency and effectiveness.

In accordance with the NAO's 2020 Code, we are required to report a commentary against three specified reporting criteria:

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



Value for Money (continued)

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

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

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

The latest financial monitoring report shows that the Council have struggled to keep to the budgeted position in 2022/23. They were reporting a forecast deficit for the year of £10.34m after taking into account in year savings of £4.7m, with the most significant deficit being for the Children & Learning portfolio of £11.02m. The Council have implemented mitigation plans to reduce the forecast deficit, however, these are not expected to reduce the deficit in full.

We note from a review of the 2023/24 budget that 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 are £21.0m, a reduction of £65m over the previous 5 years from £86m at the end of 2018/19.

Both the position in 2022/23 and the actual revenue budget setting process for 2023/24 and beyond are issues relating to 2022/23, and not 2021/22.

The medium term financial strategy includes a statement from the S151 Officer, in which he set out 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.”*

In our initial risk assessment and year-end update, we have previously identified that the Council was forecasting significant budget gaps and had savings plans in place. However, the already existing budget gaps, combined with additional cost pressures experienced during 2022/23 have put significant additional pressure on the finances of the Council, which were not and could not have been known in 2021/22.

These cost pressures are as a consequence of a variety of national issues which the section 151 officer lists as including (but not limited to):

- Unusually high levels of inflation and the cost of living crisis impact
- Very sharp increases in the costs of energy for the Council
- Higher than expected nationally set pay awards
- Sharply rising interest rates, after a prolonged period of very low interest rates



Value for Money (continued)

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

- Continuing high demand for Council services, especially in the field of social care for both Adults and Children, but also other key areas such as Home-to-School Transport.
- Inflation has also impacted on contractual costs and continues to influence the costs arising from the capital programme
- On-going effects of Covid-19, in terms of the demands for local services and on the Council's income streams

The section 151 officer continued that he has 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."*

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

We are 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 they are working to identify and mitigate against any overspend. The Council is considering the savings options available to them and intends to issue a revised MTFS in July 2023 once the new section 151 officer has 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.

This will include a clear gap analysis. These savings need to be identified as soon as possible, and included within the expected Medium Term Financial Forecast update in July 2023. In our view, to do so within the 2024/25 budget will be too late.

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

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

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

One of the concerns raised has been that the Council is only on track to achieve approximately 39% of the planned savings for 2022/23. This is a departure from prior years, where the Council has achieved a significant amount of the planned savings and an overall underspend against its annual budgets.



Value for Money (continued)

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

As stated above, we have been informed that the Council did not include all of the cost saving options that were potentially identified, within their 2023/24 budget. Given the financial position, this has left the Council more vulnerable than the position could have been, with more time to consider the implement them during 2023/24, and we believe these should savings should be brought forward.

The Council will also be undertaking a spending review as part of the MTFS refresh, this is expected to involve but not be limited to:

- Targets for Directors to reduce spend by target amounts
- A review of the significant areas of expenditure to determine how reductions can be made and income generation projects to see where income can be increased (staffing and procurement reductions, fees and charges increase)
- A review of individual activity budget lines
- Capital investment being outcome based

This work will continue beyond the refresh of the MTFS through to the setting of the 2024-25 budget, while continuing to hold the whole Council to account over the 2023-24 budget, targets and delivering planned savings.

Conclusion:

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

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

Recommendation:

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

These savings need to be identified as soon as possible, and included within the expected Medium Term Financial Forecast update in July 2023. To do so within the 2024/25 budget will be too late.

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



Value for Money (continued)

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

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

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

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

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

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

A former staff member made an objection to the 2021/22 accounts in relation to Children's Direct Payments. In our discretion we declined to accept the objection given that this had already been investigated by the Council and an action plan has been put in place to address the issues identified. However, we do note that the action plan has not yet been implemented.

Conclusion:

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

Recommendation:

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



Value for Money (continued)

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

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

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

As previously documented, the Council has been forecasting a deficit for 2022/23 throughout it's regular outturn reporting, including the reporting on the additional cost pressures as they arose during the 2022/23 year and has struggled to achieve the planned savings for 2022/23. This is indicative that the Council has struggled to use information about its costs and performance to improve its services timely and accurately in 2022/23.

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

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

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

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

Recommendation:

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



03 Appendices

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

Financial Sustainability

Reporting Sub-Criteria

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

Findings

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

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

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

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

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

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

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

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

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

Financial Sustainability

Reporting Sub-Criteria	Findings
How the body ensures that it identifies all the significant financial pressures that are relevant to its short and medium-term plans and builds these into them (continued)	The Council maintains a Strategic Risk Assurance Report that is reviewed quarterly by the Executive Management Board. This report includes the risk of "Failure to address the significant and ongoing financial pressures in a sustainable way and to enable service provision to reflect key strategic outcomes and be aligned with the associated budget envelopes". This includes consideration of any financial pressures and how these reflect on key strategic outcomes and the associated budgets. The Council's risk monitoring records the key financial risks over the short term and medium-term, and the mitigating actions that have been implemented to address the identified issues.
How the body plans to bridge its funding gaps and identifies achievable savings	The Council has a Medium Term Financial Forecast (MTFF) which includes a 4-year forecast of planned savings. In the budget setting for 2022/23 and beyond, the Council acknowledged that extensive work will be undertaken to identify savings and mitigations to address the gaps.
How the body plans finances to support the sustainable delivery of services in accordance with strategic and statutory priorities	<p>The Council's vision in 2021/22 focussed on:</p> <ol style="list-style-type: none"> <li data-bbox="701 772 2139 836">I. Customers - residents, business and visitors. To deliver high quality customers experiences and to deliver quality public services <li data-bbox="701 852 2139 948">II. Communities, culture & Homes. To help communities to develop into thriving neighbourhoods that reflects Southampton as a vibrant and diverse city. To celebrate diversity of cultures within Southampton and to enhance cultural offer. <li data-bbox="701 963 2139 1027">III. Green City. To provide sustainable, clean and healthy and safe environment. To support economic growth and to obtain sustainable environment, resilient to effect of climate change. <li data-bbox="701 1043 2139 1075">IV. Place Shaping. To deliver city of future generations and to continue the grow of local economy <li data-bbox="701 1091 2139 1123">V. Wellbeing. To ensure that customers and residents get the right help at the right time. <li data-bbox="701 1139 2139 1171">VI. Successful and Sustainable Business. To build sustainable, agile and flexible services with people <p>The Council set out its longer-term strategic plan within the Council Strategy 2015-2025, underpinned by the Corporate Plan 2020-2025, wherein the Council sets out its priorities. This provides the strategic framework for its decision making, and informs the Medium Term financial forecast and annual budget setting.</p>

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

Financial Sustainability

Reporting Sub-Criteria	Findings
How the body ensures that its financial plan is consistent with other plans such as workforce, capital, investment, and other operational planning which may include working with other local public bodies as part of a wider system	<p>The Council's Medium Term Financial Forecast (MTFF) outlines the issues that affect Council services and finances and how these factors are considered in the planning and completion of MTFF. Key financial strategies such as the capital strategy, treasury management, investments and borrowings are considered in the MTFF.</p> <p>The Council's annual financial budget is aligned to activity plans, to ensure there is consistency and triangulation between all elements of the organization. Through the regularly quarterly financial monitoring including the General Fund Forecast, Capital Programme and Key Financial Risks, the Council can identify the significant financial and business risks that might affect the performance of the Council in the future, and act to address them.</p>
How the body identifies and manages risks to financial resilience, e.g. unplanned changes in demand, including challenge of the assumptions underlying its plans	<p>The Council maintains a Strategic Risk Assurance Report and Key Financial Risks Report which are reported quarterly to Cabinet. These reports outline all the risks identified including risks in financial pressures, service disruptions, and risks in sustainable adult social care system among others. The Council also acknowledges the risk of significant and ongoing financial pressures. Mitigations by the Council include:</p> <ul style="list-style-type: none">• Medium term financial modelling and monitoring, which are reviewed quarterly• Having service budgets and financial forecasts that are aligned with the Council outcomes• Identifying and addressing significant in-year budget variances by monitoring of Capital and Revenue Monthly budgets• Identifying delivery of new savings/income opportunities <p>The Council's Executive Management Board (EMB) review quarterly the Strategic Risk Assurance Report. The Risk and Insurance Service will support the EMB in identification, management and review of Council's strategic risks. The Governance Committee also provide oversight.</p> <p>Through these mechanisms, Council can identify significant business risks including key financial risks that might affect the financial performance of the Council in the future. The risk register is updated regularly to include the summary of financial risks, how likely they are to occur, and the mitigations, process and plans the Council is putting in place to address and manage these risk areas. These mitigations are also reflected through regular update of budgets. Budgets are also updated with latest assumptions e.g. updated CPI, RPI, % change in council tax and business rates and other financial considerations including expected grants to be received, and probable financial pressures.</p>

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

Governance

Reporting Sub-Criteria

Findings

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

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

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

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

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

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

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

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

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

Governance

Reporting Sub-Criteria

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

Findings

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

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

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

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

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

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

Governance

Reporting Sub-Criteria

Findings

How the body ensures it makes properly informed decisions, supported by appropriate evidence and allowing for challenge and transparency. This includes arrangements for effective challenge from those charged with governance/audit committee

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

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

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

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

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

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

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

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

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

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

Improving economy, efficiency and effectiveness

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

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

Improving economy, efficiency and effectiveness

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

Appendix B – Summary of recommendations

Recommendations

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

Issue	Recommendation	Management Response
Value for Money: Financial Sustainability	<p>The Council needs to ensure that it has fully considered the achievable savings that it can make to reduce the pressure on reserves. These savings need to be supported by business plans and are monitored closely to ensure that they are delivered within planned timeframes.</p> <p>These savings need to be identified as soon as possible, and included within the expected Medium Term Financial Forecast update in July 2023. To do so within the 2024/25 budget will be too late.</p> <p>The Council will also need a further list of options on top of those savings, to mitigate any risk of overspends in other areas, or current planned savings not being progressed at the scale or speed required.</p>	
Value for Money: Governance	<p>The Council should complete the actions in relation to Children's Direct Payments, to address the weaknesses highlighted by the Internal Audit review</p>	
Value for Money: Improving economy, efficiency and effectiveness	<p>The Council needs to ensure that it has fully considered the underlying reasons for not delivering the planned budget and savings in 2022/23 to ensure that it can improve the way it manages and delivers its services.</p>	

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