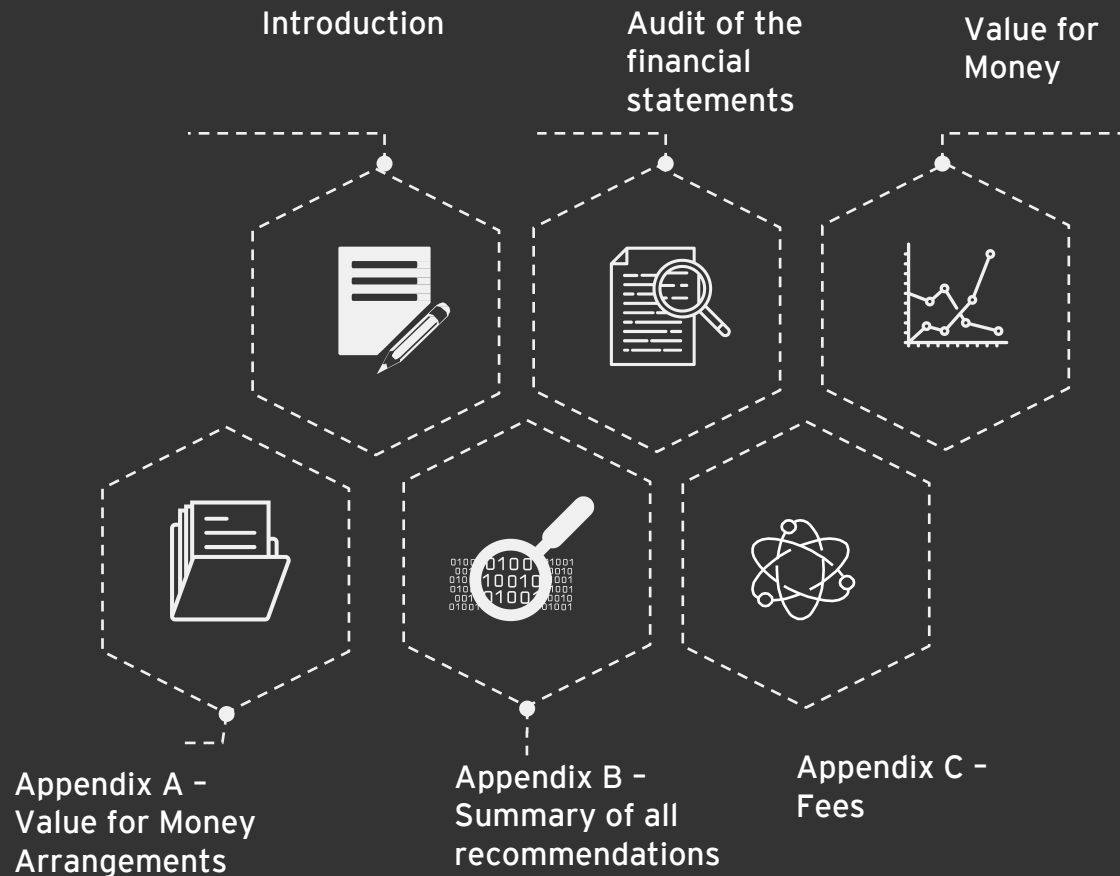


A photograph of a modern, brightly lit interior space, likely a council chamber or meeting room. The room features a high ceiling with recessed lighting and a polished, reflective floor. The walls are primarily glass, with dark frames, and the space is mostly empty, with some faint reflections on the floor. The overall atmosphere is clean, professional, and contemporary.

# **Southampton City Council Auditor's Annual Report**

Year ended 31 March 2022

# 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.



# Introduction

## **Purpose**

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

## **Responsibilities of the appointed auditor**

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

As auditors we are responsible for:

Expressing an opinion on:

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

Reporting by exception:

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

## **Responsibilities of the Council**

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



## Introduction (continued)

### 2012/22 Conclusions

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



# Audit of the financial statements

## Key findings

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

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

## Modified Audit Report

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

The Council published its medium term financial plan in February 2023. This highlighted that the Council was failing to achieve its planned savings for 2022/23, needs to use significant reserves (£23.73m) to balance the budget for 2023/24 and is forecasting significant budget gaps from 2024/25 onwards. An update was then published in July 2023.

As a result, we requested that the Council update its going concern assessment and disclosure, so that we could consider the impact on our audit report.

## Conclusion

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

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

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

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

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

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





# Audit of the financial statements

## Key findings

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



## Audit of the financial statements (continued)

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

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

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

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

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

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### Scope

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

### Reporting

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

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

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

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

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

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



Reporting criteria	Risks of significant weaknesses in arrangements identified?	Actual significant weaknesses in arrangements identified?
<b>Financial sustainability:</b> 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
<b>Governance:</b> 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
<b>Improving economy, efficiency and effectiveness:</b> How you use information about your costs and performance to improve the way you manage and deliver their services	No significant risks identified Risk of significant weakness in arrangements identified in 2022/23	No significant weaknesses identified



## Value for Money (continued)

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

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

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

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

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

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



## Value for Money (continued)

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

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

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

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

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

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

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

#### **Conclusion:**

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

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

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



## Value for Money (continued)

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

#### ***Recommendations: (previously made in April 2023)***

**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 the Council ensures that it makes informed decisions and properly manages its risks

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

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

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

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

The Council has been forecasting a deficit for 2022/23 throughout it's 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. Internal Audit has performed a follow up audit of the Children's Direct Payments which received limited assurance and there are still actions from the original action plan that have not yet been implemented.

#### **Conclusion:**

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

#### **Recommendation:**

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



## Value for Money (continued)

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

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

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

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

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

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

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

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

***Recommendation:***

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



# Appendices

## 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> <li data-bbox="701 852 2139 948">II. Communities, culture &amp; 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> <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> <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> <li data-bbox="701 1091 2139 1123">V. Wellbeing. To ensure that customers and residents get the right help at the right time.</li> <li data-bbox="701 1139 2139 1171">VI. Successful and Sustainable Business. To build sustainable, agile and flexible services with people</li> </ol> <p>The Council set out its longer-term strategic plan within the Council Strategy 2015-2025, underpinned by the Corporate Plan 2020-2025, wherein the Council sets out its priorities. This provides the strategic framework for its decision making, and informs the Medium Term financial forecast and annual budget setting.</p>

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

### Financial Sustainability

#### Reporting Sub-Criteria

#### Findings

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

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

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

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

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

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

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

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

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

### Governance

#### Reporting Sub-Criteria

#### Findings

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

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

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

The Council meets every February, to set the Budget and Council Tax. The Budget and MTFF 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 MTFF 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
<p>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>	<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>	<p>Star Chamber sessions have taken place throughout the summer and autumn of 2023 to review savings proposals, efficiencies and income generation options. Working with the programme management office, plans have been developed to deliver cost control measures identified. Status ratings and ratings for finance opinion on achievability have been implemented to help ensure the robustness of savings proposals brought forward. A rigorous cost control panel has been put in place, with decisions being taken at Executive Management Team level on a weekly basis.</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>	<p>The service has been working hard on all actions in the previous Direct Payment Audit Report. There was a follow up audit report published on the 3rd October 2023 which showed progress had been made in mitigating 1 high and 1 medium risk, but a number of high risks remained open, the outcome has remained at “Limited Assurance” primarily linked to staffing capacity within the service. Further follow up actions have been agreed.</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>	<p>The underlying reasons for not delivering the planned budget and savings in 2022/23 were considered in developing the new financial strategy introduced in July 2023 and new measures, such as ensuring better developed savings delivery plans, have been put in place to prevent repetition of failings. These plans are normally published alongside the relevant Cabinet report.</p>

## Appendix C - Fees

### Fees

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

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

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

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

## Appendix C - Fees

### Fees

#### Note 1

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

#### Note 2

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

#### Note 3

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

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



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