

# Governance Committee

Monday, 25th July, 2022  
at 5.00 pm

## PLEASE NOTE TIME OF MEETING

Conference Room 3 and 4 - Civic Centre

This meeting is open to the public

### Members of the Committee

Councillor Shields (Chair)  
Councillor Denness  
Councillor Furnell  
Councillor D Galton  
Councillor White

### Contacts

Service Director – Legal and Business Operations  
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## **PUBLIC INFORMATION**

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

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

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

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

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

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

Southampton: Corporate Plan 2020-2025 sets out the four key outcomes:

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

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

**Mobile Telephones**:- Please switch your mobile telephones to silent whilst in the meeting

**Use of Social Media**:- The Council supports the video or audio recording of meetings open to the public, for either live or subsequent broadcast. However, if, in the Chair's opinion, a person filming or recording a meeting or taking photographs is interrupting proceedings or causing a disturbance, under the Council's Standing Orders the person can be ordered to stop their activity, or to leave the meeting. By entering the meeting room you are consenting to being recorded and to the use of those images and recordings for broadcasting and or/training purposes. The meeting may be recorded by the press or members of the public.

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

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

### **Dates of Meetings: Municipal Year 2022/2023**

<b>2022</b>	<b>2023</b>
13 June	13 February
25 July	24 April
26 September	
15 November	
12 December	

## CONDUCT OF MEETING

### **Terms of Reference**

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

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

### **Rules of Procedure**

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

### **Business to be discussed**

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

### **Quorum**

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

## **DISCLOSURE OF INTERESTS**

Members are required to disclose, in accordance with the Members' Code of Conduct, **both** the existence **and** nature of any "Disclosable Pecuniary Interest" or "Other Interest" they may have in relation to matters for consideration on this Agenda.

### **DISCLOSABLE PECUNIARY INTERESTS**

A Member must regard himself or herself as having a Disclosable Pecuniary Interest in any matter that they or their spouse, partner, a person they are living with as husband or wife, or a person with whom they are living as if they were a civil partner in relation to:

- (i) Any employment, office, trade, profession or vocation carried on for profit or gain.
- (ii) Sponsorship:

Any payment or provision of any other financial benefit (other than from Southampton City Council) made or provided within the relevant period in respect of any expense incurred by you in carrying out duties as a member, or towards your election expenses. This includes any payment or financial benefit from a trade union within the meaning of the Trade Union and Labour Relations (Consolidation) Act 1992.

(iii) Any contract which is made between you / your spouse etc (or a body in which the you / your spouse etc has a beneficial interest) and Southampton City Council under which goods or services are to be provided or works are to be executed, and which has not been fully discharged.

(iv) Any beneficial interest in land which is within the area of Southampton.

(v) Any license (held alone or jointly with others) to occupy land in the area of Southampton for a month or longer.

(vi) Any tenancy where (to your knowledge) the landlord is Southampton City Council and the tenant is a body in which you / your spouse etc has a beneficial interests.

(vii) Any beneficial interest in securities of a body where that body (to your knowledge) has a place of business or land in the area of Southampton, and either:

- a) the total nominal value of the securities exceeds £25,000 or one hundredth of the total issued share capital of that body, or
- b) if the share capital of that body is of more than one class, the total nominal value of the shares of any one class in which you / your spouse etc has a beneficial interest that exceeds one hundredth of the total issued share capital of that class.

## **Other Interests**

A Member must regard himself or herself as having an, 'Other Interest' in any membership of, or occupation of a position of general control or management in:

Any body to which they have been appointed or nominated by Southampton City Council

Any public authority or body exercising functions of a public nature

Any body directed to charitable purposes

Any body whose principal purpose includes the influence of public opinion or policy

## **Principles of Decision Making**

All decisions of the Council will be made in accordance with the following principles:-

- proportionality (i.e. the action must be proportionate to the desired outcome);
- due consultation and the taking of professional advice from officers;
- respect for human rights;
- a presumption in favour of openness, accountability and transparency;
- setting out what options have been considered;
- setting out reasons for the decision; and
- clarity of aims and desired outcomes.

In exercising discretion, the decision maker must:

- understand the law that regulates the decision making power and gives effect to it. The decision-maker must direct itself properly in law;
- take into account all relevant matters (those matters which the law requires the authority as a matter of legal obligation to take into account);
- leave out of account irrelevant considerations;
- act for a proper purpose, exercising its powers for the public good;
- not reach a decision which no authority acting reasonably could reach, (also known as the "rationality" or "taking leave of your senses" principle);
- comply with the rule that local government finance is to be conducted on an annual basis. Save to the extent authorised by Parliament, 'live now, pay later' and forward funding are unlawful; and
- act with procedural propriety in accordance with the rules of fairness.

## AGENDA

### 1 **APOLOGIES**

To receive any apologies.

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

To elect a Vice-Chair for the Municipal Year 2022-23.

### 3 **DISCLOSURE OF PERSONAL AND PECUNIARY INTERESTS**

In accordance with the Localism Act 2011, and the Council's Code of Conduct, Members to disclose any personal or pecuniary interests in any matter included on the agenda for this meeting.

NOTE: Members are reminded that, where applicable, they must complete the appropriate form recording details of any such interests and hand it to the Democratic Support Officer.

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

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

(Pages 1 - 2)

To approve and sign as a correct record the Minutes of the meeting held on 25<sup>th</sup> April, 2022 and to deal with any matters arising, attached.

### 6 **ANNUAL GOVERNANCE STATEMENT** (Pages 3 - 24)

Report of the Executive Director Finance & Commercialisation and Section 151 Officer seeking to review the draft Annual Governance Statement 2021-22 and to note the status of the 2020-21 Annual Governance Statement Action Plan.

### 7 **DRAFT STATEMENT OF ACCOUNTS 2021-22** (Pages 25 - 164)

Report of the Executive Director for Finance, Commercialisation & S151 Officer detailing the Draft Statement of Accounts 2021/22

### 8 **REVIEW OF PRUDENTIAL LIMITS AND TREASURY MANAGEMENT OUTTURN 2021/22** (Pages 165 - 198)

Report of the Executive Director Finance and Commercialisation (S151 Officer) to inform Governance Committee of the Treasury Management activities and performance for 2021/22 against the approved Prudential Indicators for External Debt and Treasury Management.

**9 ANNUAL INTERNAL AUDIT OPINION 2021-22** (Pages 199 - 226)

Report of the Chief Internal Auditor detailing the Annual Internal Audit Opinion 2021-22.

Friday, 15 July 2022

Director, Legal and Business Services

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GOVERNANCE COMMITTEE  
MINUTES OF THE MEETING HELD ON 25 APRIL 2022

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Present: Councillors Fuller (Chair), D Galton (Vice-Chair), Bunday, Leggett, Magee, J Payne and Shields

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

**RESOLVED:** that the minutes for the Committee meeting on 14 February 2022 be approved and signed as a correct record.

38. **ANNUAL REVIEW OF THE CONSTITUTION**

The Committee received and noted the report of the Service Director, Legal and Business Operations and Monitoring Officer detailing the annual review of the Council's Constitution.

The Committee noted that a further report on the membership of the Health and Wellbeing Board would be presented to them to consider in the near future.

39. **INTERNAL AUDIT PROGRESS REPORT**

The Committee received and noted the report of the Chief Internal Auditor detailing the internal Audit Progress report for the period 25 January to 5 April 2022.

The Committee discussed progress with the Internal Auditor on the following activities detailed in the report:

- Removal and rationale of the Multi Agency Safeguarding Hub (MASH)
- Woodlands Community College – Finance and Personnel Group
- Business World – implementation of financial planning and analysis software
- Direct Payments Audit
- IT procurement, inventory control and disposal
- Short breaks – agreed further information would be brought back to the Committee.

40. **ANNUAL AUDIT PLAN & CHARTER 2022-23**

The Committee considered and noted the report of the Chief Internal Auditor detailing the Annual Internal Audit Plan 2022-23 and the Internal Audit and Counter Fraud Charter and Code of Ethics.

**RESOLVED:**

- (i) To approve the provisional Annual Internal Audit Plan for 2022-23 as attached; and
- (ii) To approve the Internal Audit and Counter Fraud Charter and Code of Ethics.

41. **EXTERNAL AUDIT - AUDIT PLAN**

The Committee considered and noted the report of the External Auditors detailing the External Audit Plan for 2021-22.



# Agenda Item 6

<b>DECISION-MAKER:</b>	Governance Committee
<b>SUBJECT:</b>	Annual Governance Statement 2021-22
<b>DATE OF DECISION:</b>	25 <sup>th</sup> July 2022
<b>REPORT OF:</b>	<b>COUNCILLOR LEGGETT CABINET MEMBER FOR FINANCE AND CHANGE</b>

<b><u>CONTACT DETAILS</u></b>			
<b>Executive Director</b>	<b>Title</b>	<b>Executive Director for Finance and Commercialisation and Section 151 Officer</b>	
	<b>Name:</b>	<b>John Harrison</b>	<b>Tel:</b> 023 8083 4879
	<b>E-mail</b>	john.harrison@southampton.gov.uk	
<b>Author:</b>	<b>Title</b>	<b>Peter Rogers</b>	
	<b>Name:</b>	<b>Risk &amp; Insurance Manager</b>	<b>Tel:</b> 023 8083 2835
	<b>E-mail</b>	peter.rogers@southampton.gov.uk	

## **STATEMENT OF CONFIDENTIALITY**

Not applicable

## **BRIEF SUMMARY**

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

In accordance with CIPFA Guidance, Audit [Governance] Committees should be provided with early sight of a draft of the AGS noting that the final version will be signed as part of the SoA.

## **RECOMMENDATIONS:**

	(i)	To review and approve the draft 2021-22 AGS (Appendix 1);
	(ii)	To note the 2020-21 AGS - Action Plan Status (Appendix 2).

## **REASONS FOR REPORT RECOMMENDATIONS**

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

## **ALTERNATIVE OPTIONS CONSIDERED AND REJECTED**

3.	No alternative options have been considered. The development and publication of an AGS is a requirement under the Accounts and Audit Regulations.
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<b>DETAIL (Including consultation carried out)</b>	
4.	Regulation 6 (1) of the Accounts and Audit (England) Regulations 2015 requires that the relevant body must conduct a review at least once a year of the effectiveness of its system of internal control and to prepare a statement on internal control in accordance with proper practices.
5.	The purpose of the AGS, which is published with the SoA, is to provide an accurate representation of the corporate governance arrangements in place during the year and to identify or highlight those areas where there are significant gaps or where improvements are required.
6.	The AGS is produced following a review of the council's governance arrangements. The review requires the systems and processes that comprise the council's corporate governance arrangements to be brought together and reviewed.
7.	The key elements of the assurance gathering process comprise completion of an 'Assurance Framework' document (based on Delivering Good Governance in Local Government Framework [CIPFA/Solace, 2016] Guidance Notes) together with 'Annual Governance - Self Assessment Statements'. Both documents cover the key processes and systems that comprise the council's governance arrangements and are intended to identify any areas where improvement or further development is required. In respect of the latter, these are completed by Heads of Service with Executive Director sign off.
8.	The draft AGS has been developed by the council's 'Controls Assurance Management Group' which comprises the Section 151 Officer, Chair of the Governance Committee (at the time), Monitoring Officer, Executive Director Business Operations (at the time) and the Chief Internal Auditor. This Group reflects CIPFA/Solace guidance whereby "authorities should nominate an individual or group with appropriate knowledge, expertise and levels of seniority to evaluate the assurances and supporting evidence provided and draft the AGS".
9.	Both the assurance gathering process and the format of the AGS remain largely unchanged from the previous year. This reflects that they are aligned with good practice and noting that the council's external auditors, Ernst & Young, review the AGS for 'completeness of disclosures, consistency with other information from their work and whether it complies with relevant guidance.' As per their 'Audit results report for the year ended 31 March 2021', presented to the Governance Committee at the October 2021 meeting, they did not identify any areas of concern.
10.	Although the AGS covers the period 1 <sup>st</sup> April 2021 to 31 <sup>st</sup> March 2022 it is a requirement that the AGS is current at the time of publication, noting that for this year final approval of the Statement of Accounts is not until September 2022. The draft AGS is therefore required to be reviewed periodically to ensure that it continues to reflect the current position noting that, in particular, the section referring to the 'Impact of the Covid-19 Pandemic on Governance' will be drafted in advance of the September meeting to reflect the position at the time.
11.	A draft AGS was presented and reviewed by the Executive Management Board on 13th April 2022 noting, however, that there have been some updates to the draft AGS since this date and these are highlighted in blue.

12.	The final draft AGS will be presented to the Governance Committee for approval at the meeting on 26th September 2022. The AGS will then be required to be signed by both the Leader of the Council and the Chief Executive.
<b>RESOURCE IMPLICATIONS</b>	
<b><u>Capital/Revenue</u></b>	
13.	None
<b><u>Property/Other</u></b>	
14.	None
<b>LEGAL IMPLICATIONS</b>	
<b><u>Statutory power to undertake proposals in the report:</u></b>	
15.	Regulation 6 (1) of the Accounts and Audit (England) Regulations 2015 require that the Council must each financial year conduct a review of the effectiveness of the system of internal control and prepare an AGS for approval by a committee or members of the authority. The AGS must be approved in advance of the relevant authority approving the SoA.
<b><u>Other Legal Implications:</u></b>	
16.	None
<b>RISK MANAGEMENT IMPLICATIONS</b>	
17.	None
<b>POLICY FRAMEWORK IMPLICATIONS</b>	
18.	None

<b>KEY DECISION?</b>	No
<b>WARDS/COMMUNITIES AFFECTED:</b>	Not applicable
<b><u>SUPPORTING DOCUMENTATION</u></b>	
<b>Appendices</b>	
1.	Draft Annual Governance Statement 2021-22
2.	2020-21 Annual Governance Statement – Action Plan Status
<b>Documents In Members' Rooms</b>	
1.	n/a
<b>Equality Impact Assessment</b>	
<b>Do the implications/subject of the report require an Equality and Safety Impact Assessment (ESIA) to be carried out.</b>	<b>No</b>
<b>Data Protection Impact Assessment</b>	
<b>Do the implications/subject of the report require a Data Protection Impact Assessment (DPIA) to be carried out.</b>	<b>No</b>
<b>Other Background Documents</b>	

<b>Other Background documents available for inspection at:</b>		
<b>Title of Background Paper(s)</b>	<b>Relevant Paragraph of the Access to Information Procedure Rules / Schedule 12A allowing document to be Exempt/Confidential (if applicable)</b>	
1.	n/a	

### Annual Governance Statement

#### SCOPE OF RESPONSIBILITY

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

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

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

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

or can be obtained from the:

Service Director – Legal and Business Operations  
Southampton City Council,  
Civic Centre,  
Southampton,  
SO14 7LY

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

#### THE PURPOSE OF THE GOVERNANCE FRAMEWORK

The governance framework comprises the systems and processes, cultures, and values by which the council is directed and controlled and its activities through which it accounts to, engages with, and leads its communities. To demonstrate compliance with the principles of good corporate governance, the council must ensure that it does the right things, in the right way, for the right people, in a timely, inclusive, open, honest, and accountable manner.

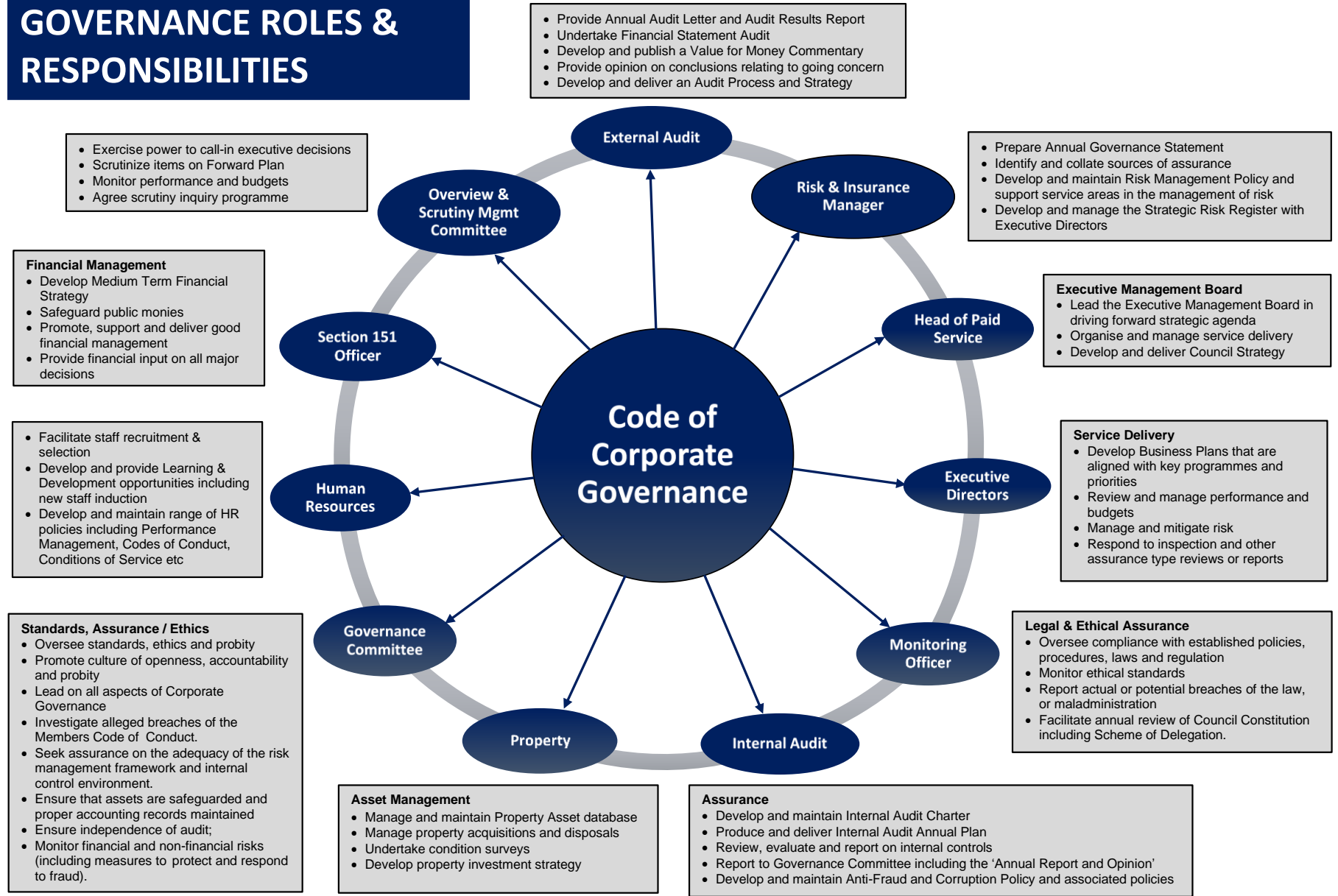
Good governance is crucial as it leads to good management, good performance, good stewardship of public money, good public engagement and ultimately good outcomes for citizens and service users. Further, good governance enables an authority to pursue its aims effectively whilst controlling and managing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

The system of internal control is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the council’s policies, aims and objectives, to evaluate the likelihood and potential impact of those risks being realised, and to manage them efficiently, effectively, and economically.

The governance framework has been in place at the council for the year ended 31st March 2022 and up to the date of approval of the statement of accounts.

# Annual Governance Statement

## GOVERNANCE ROLES & RESPONSIBILITIES



# Annual Governance Statement

## The Governance Framework

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

## Impact of the Covid-19 Pandemic on Governance

**NOTE:** *As per CIPFA Guidance, the 2021-22 AGS is still expected to include a section that summarises the 'impact of the Covid-19 Pandemic on Governance'. This is notwithstanding that the 2020-21 AGS, approved at the end of September 2021, included a detailed and up to date comment on the position at the time. The comments for the 2021-22 AGS (which must be current at the time it is published) will be developed in advance of the September meeting and will comment briefly on any adaptations to reflect new ways of working, changes to 'business as usual' activities and longer-term changes to priorities, strategies, and plans.*

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

The council's Constitution sets out how the council operates, how decisions are made and the procedures which are followed to ensure that these are efficient, transparent, and accountable to local people. Some of these processes are required by the law, while others are a matter for the council to choose. The Constitution is divided into 15 Articles which set out the basic rules governing the council's business. The Constitution is published on the council's website at:

<http://www.southampton.gov.uk/council-democracy/meetings/council-constitution.aspx>

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

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

As part of the council's 'Collaborative Leadership Programme' training, one of the modules is 'Ethics and Values' which explores the seven principles of public life and the values and behaviours that underpin these.

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

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

# Annual Governance Statement

procedures that must be followed (for example reporting of suspicions of money laundering activity) to enable the council and staff to comply with their legal obligations.

Investigations and special reviews into suspected fraud or irregularities are overseen by an 'Investigation Steering Panel', comprising the Monitoring Officer, Chief Internal Auditor, Section 151 Officer (Chief Finance Officer) and the Service Director - Human Resources & Organisational Development.

The council takes any complaint that it receives seriously and has processes to ensure that every complaint is dealt with fairly and investigated and responded to as quickly as possible. The council welcomes hearing customers' comments, compliments, and complaints to better understand how they view our services and use these valuable opportunities to learn and improve for the future. There is a Corporate Services and Adult Social Care 'Customer Comments, Compliments and Complaints Policy' that is published on the council's website and explains how to make a complaint and how it will be dealt with. There is also a separate 'Children Statutory Complaint Procedure' which is also published on the council's website. Both policies were reviewed and updated in 2021/22. In addition, a "paper" complaints form has been designed and made available at "in person" contact points e.g. Libraries and Housing Offices etc, in order to make complaints compliments and comments accessible to those without internet access.

Complaints relating to the conduct of Members are dealt with under the Members' Code of Conduct.

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

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

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

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

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

Where appropriate, public consultation is used to seek the views of residents and stakeholders. For example, a public engagement exercise, between 14th February 2022 and 3rd April 2022, was undertaken with residents and stakeholders on the Southampton City Vision (the new Local Plan). It provided an opportunity for residents and stakeholders to help shape the city by "telling us your views about how we can make sure we build the right things in the right places and create somewhere you want to live with the right facilities around you".



# Annual Governance Statement

Southampton City Council, in conjunction with other local public service providers, also undertakes a 'City Survey' every two years to collect residents' views on a range of topics. This provides an opportunity to get views of a representative sample of Southampton residents on key / priority issues and to gain better understanding of perceptions of how we are doing as a council and as a city. The surveys also include a set of common Local Government Association questions, which allows Southampton to be benchmarked against the national average and for trends to be tracked over time. Full results are available on the Southampton Data Observatory: <https://data.southampton.gov.uk/> The latest survey ran between October 2020 and December 2020 and included questions on:

- Opinion on the local area
- Opinion on council and other public services
- Communications and Digital exclusion
- Employment
- City of Culture bid
- Transport
- Wellbeing

The council has in place a 'People's Panel' which now has a membership of over 3,500 people and is open to any resident over the age of 18 to join. This Panel comprises a group of residents who take part in surveys and other opportunities to express their views on council services, health services and living in the city. Run by Southampton City Council and with support from the University of Southampton, the People's Panel has been active since 2015 and the results from surveys have been used to inform a number of decisions and service changes. In order to understand the demographic makeup of People's Panel, members are asked questions like age, gender, ethnicity, and this information may be used to target engagement activities to certain groups in the city. On all wider engagement and consultation exercises, the demographic breakdown of respondents is reviewed to help ensure they are representative of Southampton residents and to identify where further targeted communications may be appropriate.

There is a strong focus on children and young people in the city, with a vision to become a Child Friendly City and working towards the goal of accreditation with UNICEF UK by 2024/25. The programme aims to create cities and communities in the UK where all children have meaningful say in, and truly benefit from, the local decisions, services and spaces that shape their lives. To support this a 'Southampton's Children and Young People's Participation Strategic Plan 2022/27' is now in place and has replaced the 'Southampton Speak Up! - Children and Young People's Participation Strategy 2016-2020'. This new Strategic Plan forms part of an overarching 'Children and Young People's Strategy' that comprises eight strategic plans, alongside a range of service delivery and improvement plans.

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

The Southampton City Council Corporate Plan ('Corporate Plan') sets out how the council will create the environment to achieve the vision of Southampton as a 'city of opportunity'.

The 'Corporate Plan' was revised following the local elections in May 2021 to articulate the priorities and ambitions of the new political administration and set out specific deliverables and timescales. This revised '2021-2025 Corporate Plan' was published on the council website and provided a framework for assessing progress towards those priorities. Progress in respect the commitments, initiatives and priorities was monitored, reviewed, and updated on a six-monthly basis by both the council's Executive Management Board and Cabinet.

# Annual Governance Statement

Following the local elections in May 2022, a new 2022-2030 Council Plan has been developed [which is to be presented to Full Council in September 2022 for approval](#). *[this section will need to be further populated when a final draft of the new plan is available and to reference key themes]*

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



Customer focused



Collaborative



Curious and creative



Can-do



Commercially minded

There are also other key strategies that reflect the vision and ambition of both the city and wider region, including the Southampton City Strategy (2015-2025) which is a partnership strategy that sets out the vision for the whole city. Southampton Connect is responsible for the delivery of the Southampton City Strategy with the vision that Southampton is a city of opportunity where everyone thrives. Southampton Connect is an independent partnership which brings together senior city representatives seeking to address the key challenges and opportunities for Southampton and working with the city's key partners to improve the outcomes of the people of Southampton.

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

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

The Solent Local Enterprise Partnership ('LEP') is a locally owned partnership between the business community and local authorities and plays a central role in determining local economic priorities and undertaking activities to drive economic growth and the creation of local jobs. The Board of the Solent LEP is democratically elected by its members, who are drawn from the area's key business, universities, the further education sector, and local authorities. [In 2021, a national review of the future role of LEPs was commissioned and a Levelling-Up White Paper, published in February 2022, set a course for LEPs and their future relationship with national and local government. LEPs are to be integrated into local democratic institutions over a timeframe linked to devolution across local government and will continue to provide an independent business voice. Where a devolution deal does not yet exist, as is currently the case in the Solent sub-region, LEPs will continue to play "their vital role in supporting local businesses and the local economy"](#).

Solent Transport is a sub-regional transport partnership that comprises Portsmouth, Southampton, the Isle of Wight, and Hampshire County Council. It was created in 2007 as Transport for South Hampshire and was rebranded to Solent Transport in 2014. Solent Transport and its partner bodies are important

# Annual Governance Statement

members of Transport for the South East (TFSE). The partnership creates a platform for joint working, standards and partnership leading to innovation, excellence, and parity in transport provision across the Solent Transport area. The partnership works strategically with private industry, key stakeholders, and other agencies to deliver transport infrastructure, networks, and systems crucial to keep the region moving and generate economic growth, wealth, and sustainability.

In July 2021, Government invited expressions of interest from Local Authorities who were interested in progressing dialogue over devolution of powers through a 'County Deal' approach. Subsequently, in addition to a submission by Hampshire County Council, Southampton City Council, Portsmouth City Council and Bournemouth, Christchurch, and Poole Council, all submitted expressions of interest. The Hampshire or Solent region was not selected to be a pilot, but dialogue between the relevant authorities continues, both to establish a preferred geography for any such deal, and to identify the key elements of any such deal between Government and the constituent authorities. This work continues, whilst further information about timescales for the next round of deals is awaited.

Southampton City Council has supported the process of establishing the Solent Freeport, with representation by the Leader of the Council on the Solent Freeport Consortium Limited (SFCL) company from 2020/21 and beyond, along with other local councils and local private sector representation. The Solent Freeport will encompass Southampton and Portsmouth, as well as areas of the New Forest, Isle of Wight, and southern Hampshire. Freeports are an important Government programme that are expected to play an important part in the UK's post-Covid and post-Brexit economic recovery. Freeport status means that normal tax and customs rules do not apply and varying forms of tariff flexibility, tax measures and planning concessions deployed by the Government should help to incentivise private sector investment. Its aim is to contribute to Government's levelling up agenda by bringing jobs, investment, and high-value opportunities to coastal communities. [The Full Business Case for the establishment of the Freeport was submitted to Government in April 2022 and is awaiting approval.](#)

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

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

The council's Overview and Scrutiny Management Committee ("OSMC") manages the council's overview and scrutiny process which includes scrutinising items on the council's Forward Plan and exercising the power to call-in executive decisions, agreeing the scrutiny inquiry programme and monitoring performance and budgets, Scrutiny provides the role of the "critical friend" to the decision makers and assists in policy development, drives improvement in public services and enables the voice of the public to be heard. There are a number of Scrutiny Panels that support the work of the Executive and the council as a whole. The Scrutiny Inquiry Panel carries out a work programme of scrutiny inquiries approved by the OSMC. In addition, the Health Overview and Scrutiny Panel undertakes the

# Annual Governance Statement

statutory scrutiny of health and adult social care agencies in Southampton, and the Children and Families Scrutiny Panel scrutinises services for children and families in the city, including education.

From April 2020 to May 2021, due to Covid-19, all scrutiny meetings were held remotely with members of the public able to view meetings live via the council's website. To enable public engagement interested residents or groups were invited to submit questions in writing in advance of the committee or panel meeting. At the discretion of the Chair, members of the public or stakeholder groups who have expressed an interest in contributing on a specific agenda item were invited to attend the virtual scrutiny meeting to contribute to the discussion. In addition, scrutiny inquiries continue to consider written evidence and members of the public, community groups, or other key stakeholders can write in to bring evidence to the attention of the Inquiry Panel members. Scrutiny meetings have now transitioned back to in person meetings with the opportunity for members of the public to attend in person or view the meeting on-line.

In 2022 the Council engaged the Centre for Governance and Scrutiny (CfPS) to undertake an informal peer review of aspects of decision making and relationships between officers and members. A draft report has been produced by the Lead Reviewer and once finalised Group Leaders, the Chief Executive and the Director of Legal and Business Services will agree an action plan including the likely dissemination to all members and Leadership Group.

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

The council's current Workforce Strategy is to be replaced in the 2022 financial year by a 'People Strategy' that will show how the council develops its current and future workforce to ensure the council's employees have the right skills, competencies, and behaviours to deliver services. The People Strategy will set out a high-level vision, priorities, and outcomes to develop and nurture a motivated and effective workforce who will deliver the council's priorities. The priority outcomes will be:

- Reshape and enable the organisation to deliver continuous improvement, effectiveness, efficiency and change;
- Customer First;
- Build Leadership and Management Capability;
- Attract and Retain Talent (Employer of Choice within a shifting economy);
- Learning and Development for all;
- Performance and Reward; and
- Healthy, Safe and Supportive Working Environment.

The People Strategy is a key document that sits alongside both the Medium-Term Financial Forecast, the Wellbeing Strategy and the Customer Strategy and takes account of challenges in relation to the overall council budget. It is used to inform resource allocation decisions, organisational development, and business planning, drive positive change and the delivery of agreed outcomes.

A new 'Collaborative Leadership Programme', aimed at people new to line managing others, existing team leaders, supervisors, and managers up to middle managers and Service manager and above, was formally launched in January 2022 based on the council's core values and built around the leadership competencies. In addition, new 'Senior Leader Development' programmes are being developed that will follow similar models.

In respect of Elected Members, an internal Member Induction and Development programme is in place and offers a suite of learning and development opportunities via targeted service focused sessions or via a monthly briefing programme. Alongside the internal offer, a range of externally delivered training

# Annual Governance Statement

events and courses were delivered by the 'Local Government Association, the Local Government Information Unit and South East Employers. These opportunities ranged from 'being a new councillor', supported skill development such as chairing meetings, speed reading and retention, to portfolio based and leadership development training. A review of the Member Learning and Development offer took place during 2021 with input from both Elected Members and internal service areas in order to identify further development and training opportunities. The refreshed programme, for the 2022/23 financial year offers a wide range of training and development events.

The council also has in place a Workplace equalities policy which reflects the council's long-standing commitment towards the elimination of discrimination and the achievement of equality of outcomes for residents, communities and staff as reflected in our published priorities and organisational values. The policy reaffirms the council's commitment to eliminate discrimination in all that we do and help achieve equality of opportunity and outcomes for our staff and the communities it serves. In November 2021 the council formally adopted a 'Diversity and Inclusion' pledge linked to the Equalities Act 2010. The pledge seeks to commit the council as an employer and partner in exceeding its responsibilities under the legislation and ensuring that support is provided to all those who work with the council and that it is the most diverse and inclusive employer that it can be.

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

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

The Committee receives an annual Risk Management Report that summarises the framework and arrangements that the council has in place to manage risk and is intended to provide the Committee with both information and assurance regarding how risk is managed. The report also provides information on the key risk management activities and initiatives undertaken in the year and those planned for the next 12 months. The council also has a 'Risk Management Policy' that sets out the framework, arrangements, and responsibilities in respect of how risks relating to the delivery of key outcomes and priorities are identified and managed. This policy is intended to support the application of robust risk management principles and practices across all service areas. There is also a range of associated guidance documents, templates, and other tools to support officers in identifying and managing risk.

A key element of the council's risk management framework is the council's Strategic Risk Register which is developed in consultation with Executive Directors. This document reflects the key strategic risks that have been identified as needing to be managed in order to support the delivery of the council's key initiatives and priorities. The Strategic Risk Register is updated on a quarterly basis with a report presented to the council's Finance, Commercialisation and Performance Board which comprises the Executive Management Team. The report identifies how the individual risks are being managed together with an assessment of the effectiveness of the arrangements in place. An 'exceptions report' identifies any gaps or weaknesses with a requirement that further mitigating actions be developed and actioned as necessary. Risk management is increasingly being used to assess the impacts and risks to the council and its services arising from unforeseen events for example the Afghan refugee resettlement and the conflict in Ukraine. In addition, the need to identify and manage risk runs throughout the council's project and programme management governance process from initiation to implementation.

Effective financial management is key to managing the delivery of a vast range of council services either directly or through/with others and ultimately improving the quality of life for residents. The council's

# Annual Governance Statement

Medium Term Financial Strategy ('MTFS') 2022/23 – 2025/26 provides a strategic financial framework and a forward looking approach to achieving long term financial sustainability for the council. It is central to the delivery of the council's priorities in an affordable and sustainable way over the medium term. It also aids robust and methodical planning as it forecasts the council's financial position taking into account known pressures, major issues affecting the council's finances, including external economic influences as well as local priorities and factors.

The MTFS helps the council to respond, in a considered manner, to pressures and changes as a result of internal and external influences. This is particularly important during a period when the council faces considerable pressures and challenges, such as those relating to the Covid-19 pandemic and the increased demand for social care. The MTFS recognises the key role that financial resources play in the future delivery of priorities and in enabling the effective planning, management, and delivery of services. The approach concentrates on the principles that will provide a strong direction for the medium term. The key objectives of the MTFS are to:

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

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

The Chartered Institute of Public Finance and Accountancy ('CIPFA') published a new Financial Management Code ('FM Code') for authorities to adhere to, with 2021/22 being the first year of compliance. The FM Code is designed to support good practice in financial management and to assist local authorities in demonstrating their financial sustainability. It sets out the standards of financial management for local authorities based on broad principles and requires each authority to demonstrate that its processes satisfy the principles of good financial management.

In 2020/21, as part of its preparations for embedding enhanced standards of financial management, officers undertook a self-assessment against the new FM Code in order to identify any significant gaps or areas for development. The conclusion was that there is good practice in financial management but also areas where the need for improvement has been identified. The self-assessment was reviewed by the council's Executive Management Board and was then presented to the Governance Committee in February 2022. In addition, the 2022/23 Budget Report presented to both Cabinet and Council in February 2022 included specific reference to the FM Code. An action plan has been developed which sets out the activities that will improve compliance with the FM Code.

In addition, officers also undertook a self-assessment, using guidance issued by CIPFA, in respect how effectively the organisation's governance arrangements support the achievement of outcomes and delivery of value for money. The self-assessment reflects that the guidance that the AGS should focus on evaluation rather than description of arrangements. The assessment, which considered 'Planning

# Annual Governance Statement

for outcomes and VfM', 'Implementation and Delivery', 'Monitoring', 'Assurance Arrangements' and 'Adapting and Learning' identified some areas for improvement. These are reflected in Item 3 of the Significant Governance Issues section at the end of the document.

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

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

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

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

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

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

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

# Annual Governance Statement

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

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

## REVIEW OF EFFECTIVENESS

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

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

- The views of Internal Audit regularly reported to Governance Committee via periodic 'Internal Audit: Progress Reports' which include executive summaries of new reviews undertaken in the period and noting that any audits rated as 'No Assurance' are specifically highlighted to the Governance Committee along with any Director's comments. The Committee is able to request any director attends a meeting to discuss the issues.
- The views of external auditors, regularly reported to the Governance Committee, including regular progress reports, the Annual Audit Letter, the Auditors Annual Report, and the Audit Results Report.
- The Chief Internal Auditors 'Annual Report and Opinion' for 2021-22 was that [improvements have been maintained from the previous year to the extent that the overall opinion level can increase to 'Reasonable Assurance'](#). This is an improvement from the previous year which was rated as 'Limited Assurance'. The results across audit work performed during 2021-22 have not identified any systemic failings however, there are pockets across the council that require further work to enhance the control environment, noting that some of these areas have been impacted by structural changes that will need to settle. The impact of Covid 19 and changes to working patterns, including transformational changes across the council, may also highlight additional areas for focus and auditing over time.
- The Internal Audit Charter and delivery of the annual Internal Audit plan.
- The work of the Chief Executive, Executive Directors and Service Directors who have responsibility for the development and maintenance of the control and governance environment.
- The completion of 'AGS Self-Assessment Statements' that cover the key processes and systems that comprise the council's governance arrangements and are intended to identify any areas where improvement or further development is required. The self-assessments are completed by individual Heads of Service or Service Directors on behalf of their service areas in order to ensure that the most representative and comprehensive oversight is obtained. The returns are then reviewed and signed off by the relevant Executive Director.



# Annual Governance Statement

- Completion of an 'Assurance Framework' document which reflects the key components of the council's overall governance and internal control environment. This document, based on CIPFA/SOLACE guidance, records the key controls in place, and sources of assurance, and identifies any significant gaps or weaknesses in key controls.
- The independent views of regulatory inspection agencies such as Ofsted and the Care Quality Commission.
- The annual Risk Management report that is presented to the Governance Committee.
- The work of the Governance Committee in relation to the discharge of its responsibility to lead on all aspects of corporate governance.

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

## SIGNIFICANT GOVERNANCE ISSUES

The following significant governance issues have been identified:

### 1. Governance Issue

The 2020-21 AGS identified that there was inconsistency in respect of the extent to which succession planning had been formally considered within service areas across the council and that there were areas where there was reliance on a limited number of key individuals. The agreed action was that Heads of Service would work with their 'Human Resources Business Partner' to fully understand the tools available to develop and have in place appropriate service resilience and succession planning arrangements.

During 2021-22 the Human Resources & Organisational Development Team developed a draft 'Talent Management and Succession Planning Strategy'. In developing this strategy, a range of research was analysed, including by the Chartered Institute of Personnel and Development and how other organisations have managed these processes. The council also secured three LGA consultancy days to support the work in this area, with desktop reviews of relevant policies and processes being undertaken together with interviews and focus groups with managers, employees, and the Trades Unions.

**Planned Action:** The new 'People Strategy' is to be considered by the Executive Management Board ('EMB') on 19<sup>th</sup> July. Aligned with this is a new 'Talent Management and Succession Planning Strategy' that has been developed by HR & OD and has been shared with Heads of Service for their input. Subject to approval by EMB on 9<sup>th</sup> August, this strategy will be rolled out across the organisation with the support of the respective Human Resources Business Partners and the Organisational Development Team.

**Responsible Officer:** Service Director Human Resources & Organisational Development

**Target Date for completion:** Strategy agreement by End Q2 2022/23 and implementation thereafter, which will occur across 2022/23 and beyond.

# Annual Governance Statement

## Governance Issue

2.

Full compliance with the new CIPFA Financial Management Code noting that in 2020/21, as part of its preparations for embedding enhanced standards of financial management, officers undertook a self-assessment against the new FM Code in order to identify any significant gaps or areas for development. The conclusion was that there is good practice in financial management but also areas where improvement was identified.

**Planned Action:** Implementation of the activities and actions arising out of the 'self-assessment' that will improve compliance with the FM Code, with an annual update on a 'self-assessment' basis to be provided to councillors via the Annual Governance Statement.

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

**Target date for completion:** End Q3 2022/23

## Governance Issue

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

### Planned Action:

a) **Benchmarking** – This is undertaken in a number of areas and as a base activity when new projects are initiated and good use is made of peer reviews with, where appropriate, results used to understand cost and service comparables. To support a consistent approach to benchmarking at a corporate level the council is assessing the potential use of benchmarking tools that consolidate and utilise national data. This work is being led by Intelligence Innovation & Change in partnership with Finance and other areas across the council.

**Lead:** Head of Intelligence, Innovation & Change and Head of Financial Planning & Management

b) **Benefits realisation** - Post implementation and lessons learned reviews are standard, with lessons learned papers (including user/employee feedback) feeding into new project initiation sessions and relevant role forums. A 'benefits realisation framework' has been developed (along with additional templates such as a benefit map, profile, and post investment report) with the support of a commercial partner. This will be rolled out across a small number of teams initially, with training during the summer, and once piloted with the phase one teams across the council as a standard part of key project monitoring going forwards.

**Lead:** Head of Intelligence, Innovation and Change

c) **Contracting arrangements** - Whilst commercial contract monitoring is robust and undertaken in accordance with a contract management framework and performance is measured against contractual indicators for Strategic and Key Managed contracts, a wider review of contracted delivery arrangements across the council is being scoped to ensure that there is a consolidated view of all such arrangements and that outcomes and vfm are being

# Annual Governance Statement

delivered and savings opportunities are considered. This review will be undertaken in alignment with the Strategic Procurement Programme. This exercise is being undertaken as a cross-council exercise, led by Supplier Management.

**Lead:** Head of Supplier Management

**Responsible Officer:** Executive Director for Finance and Commercialisation and Section 151 Officer

**Target date for completion:** End Q4 2022/23

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

## Signed

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

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

on behalf of Southampton City Council

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## 2020-21 AGS – Significant Governance Issues: Status Report

The following is a summary of the status of the agreed actions that were identified to address the significant governance issues were identified and recorded on the Council's Annual Governance Statement 2020-21:

1. Governance Issue	Planned Action	Status	Comments
<p>The council's response to the Covid-19 Pandemic has tested both overall organisational resilience as well as the resilience within individual service areas. In respect of the latter it is recognised that, particularly in areas where specialist technical or professional advice is provided, there is reliance on a limited number of key individuals. In part, this is also reflected in the inconsistency in respect of the extent to which succession planning has been formally considered within individual service areas across the council.</p> <p><b>Responsible Officer:</b> Directorate Management Teams with the support of their respective HR Business Partner</p>	<p>Heads of Service to work with their 'HR Business Partner' to understand the tools available to develop, and have in place, appropriate service resilience and succession planning arrangements. The activity may be informed by information and data such as workforce age profile, structures etc. to identify key areas or 'pinch points' where focussed attention is required.</p> <p>In addition, three days of assistance is being provide by the Local Government Association ('LGA') to support the council in terms of understanding where the current challenges and opportunities are for talent management and succession planning. This activity will include some Heads of Service, Service Managers, Trade Union representatives and HR&amp;OD staff being interviewed and also workshops involving groups of employees and managers.</p>	<b>Completed</b>	In 2021-22 the Human Resources & Organisational Development Team engaged with a number of Heads of Service as well as the LGA in order to better understand the challenges and opportunities in respect of service resilience and succession planning. This work culminated in the development of a 'draft' Talent Management and Succession Planning Strategy. In developing this strategy, a range of research was analysed, including by the 'Chartered Institute of Personnel and Development' and consideration of how other organisations have successfully managed this issue. It is anticipated that this draft strategy will be formally approved in Q1 2022/23 and rolled out across service areas.
2. Governance Issue	Planned Action	Status	Comments
<p>As part the preparations for embedding the enhanced standards of financial management reflected in new CIPFA Financial Management Code 2019 for 2021-22, the council undertook a self-assessment against the new Code to identify whether there were any significant gaps or areas for further development. The conclusion was that the council broadly operates within the expected principles, however some areas to further strengthen existing processes were identified.</p>	<p>The necessary areas for improvement to be tabled at the senior management team (Executive Management Board 'EMB') for discussion and the plan monitored for its implementation.</p>	<b>Completed</b>	The completed self-assessment was discussed at EMB with a subsequent report to the Governance Committee in February 2022 which included a copy of the self-assessment and action plan.

<p><b>Responsible Officer:</b> Executive Director for Finance and Commercialisation and Section 151 Officer</p>			
<p><b>3. Governance Issue</b></p>	<p><b>Planned Action</b></p>	<p><b>Status</b></p>	<p><b>Comments</b></p>
<p>It is recognised that as a large complex organisation that delivers over 700 services there is an ongoing challenge to ensure consistency in terms of staff (both new and existing) awareness, understanding and compliance and with key policies, process and procedures.</p> <p><b>Responsible Officer:</b> Service Director Human Resources / Directorate Management Teams</p>	<p>As part of the existing 'Performance and Development Review ('PDR') guidance, Human Resources to develop further information regarding what is deemed to be 'mandatory' training for staff.</p> <p>A standalone 'Ethics and Values' training module forms part of a new 'Collaborative Leadership Programme', has been developed. This module explores the council's organisational values and ethics and looks at key council policies and frameworks.</p>	<p><b>Completed</b></p> <p><b>Completed</b></p>	<p>'PDR' guidance published on the staff intranet now has a link to a list of mandatory training (elements of which will vary according to the individuals' role). The list includes information governance, buying for the council, whistleblowing etc. This mandatory training/reading is also included on the induction checklist for new starters in SCC.</p> <p>Managers, through interactions as part of the 'Performance Management and Development Framework and 'one to one' supervision meetings, will be required to determine who should attend this training.</p>

# Agenda Item 7

<b>DECISION-MAKER:</b>		<b>GOVERNANCE COMMITTEE</b>	
<b>SUBJECT:</b>		<b>DRAFT STATEMENT OF ACCOUNTS 2021/22</b>	
<b>DATE OF DECISION:</b>		<b>25 JULY 2022</b>	
<b>REPORT OF:</b>		<b>EXECUTIVE DIRECTOR FOR FINANCE, COMMERCIALISATION &amp; S151 OFFICER</b>	
<b><u>CONTACT DETAILS</u></b>			
<b>Executive Director</b>	<b>Title:</b>	<b>Executive Director for Finance, Commercialisation &amp; S151 Officer</b>	
	<b>Name:</b>	<b>John Harrison</b>	<b>Tel: 023 80834897</b>
	<b>E-mail:</b>	<a href="mailto:John.Harrison@southampton.gov.uk">John.Harrison@southampton.gov.uk</a>	
<b>Author</b>	<b>Title:</b>	<b>MTFS &amp; Revenue Manager</b>	
	<b>Name:</b>	<b>Stephanie Skivington</b>	<b>Tel: 023 80832692</b>
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<b>STATEMENT OF CONFIDENTIALITY</b>			
NOT APPLICABLE			
<b>BRIEF SUMMARY</b>			
<p>In 2021 the Government amended the statutory timetable to allow more time for completing and publishing the 2021/22 annual accounts (and those for 2020/21) in response to one of the recommendations made following Sir Tony Redmond's Independent Review of Local Audit financial reporting and external audit. The draft Statement of Accounts 2021/22 was signed by the Executive Director for Finance, Commercialisation &amp; S151 Officer on 30 May 2022. This is earlier than the revised statutory requirement to have the unaudited accounts signed by the 31 July 2022. A copy of the draft unaudited Statement of Accounts is available in the Members' Room.</p>			
<p>The annual audit, carried out by our auditors Ernst &amp; Young LLP, commenced on 22 June 2022 and is due to be completed in September 2022. Any major changes to the Statement of Accounts arising from the annual audit are expected to be reported to the 26 September 2022 Governance Committee after the completion of the audit.</p>			
<b>RECOMMENDATIONS:</b>			
	(i)	Notes that the draft Statement of Accounts 2021/22 has been signed by the S151 Officer and is now brought to Committee for comment.	
	(ii)	Notes that the audited Statement of Accounts 2021/22 is expected to be presented to the Committee on 26 September 2022 for approval.	
<b>REASONS FOR REPORT RECOMMENDATIONS</b>			
1.	It is a legal requirement that the S151 Officer signs the draft Statement of Accounts by 31 July 2022 and certifies that it presents 'a true and fair view of the financial position of the authority at the end of the year to which it relates and of the authority's income and expenditure for that year'.		
2.	The draft Statement of Accounts has been brought to the July committee in order to give members plenty of opportunity and time to comment on them before final approval, which is expected to take place in September. It is		

	envisaged that the September report will detail any non-trivial amendments made as a result of the audit along with an amended Statement of Accounts (if necessary). A full report on the 2021/22 outturn position was presented to Cabinet on 19 July 2022.
<b>ALTERNATIVE OPTIONS CONSIDERED AND REJECTED</b>	
3.	The Statement of Accounts has been prepared in accordance with statutory requirements. No other options have been considered as it is a legal requirement that the draft Statement of Accounts is prepared and signed by the S151 Officer no later than 31 July 2022.
<b>DETAIL (Including consultation carried out)</b>	
<b>REVISED STATUTORY TIMETABLE</b>	
4.	<p>The Accounts and Audit Regulations 2015 set out detailed requirements in relation to local authority annual audit and accounting processes. The regulations were amended in 2021 to extend the deadlines for local authorities to publish and make available for public inspection their annual accounts and supporting documents in relation to the financial years beginning on 1 April 2020 and 2021. These amendments extend the deadline for publishing the audited statement of accounts for those years to 30 September. The period for the exercise of public rights must commence on or before the first working day of August. This effectively means the unaudited accounts must be prepared and signed by the S151 Officer and published on the Council's website by 31 July. The requirement for the public inspection period to include the first 10 working days of June was also removed for the annual accounts for the years beginning on 1 April 2020 and 2021.</p> <p>In December 2021 the Government announced its intention to further extend the deadline for publishing the audited accounts for 2021/22 to 30 November as part of its Measures to Improve Local Audit Delays. Changing the deadline for publication requires a further amendment to the Accounts and Audit Regulations 2015. In May 2022 the Government consulted on both extending the deadline for publishing audited local authority accounts for 2021/22 from 30 September to 30 November 2022, and reverting to the 30 September deadline for the following six years (i.e. starting for the 2022/23 accounts and concluding with the 2027/28 accounts). There are no proposals to extend the deadline for publishing the draft local authority accounts, which will revert to 31 May for the 2022/23 accounts. The Accounts and Audit (Amendment) Regulations 2022 come into force on 22 July 2022 to bring these changes into effect.</p>
<b>STATEMENT OF ACCOUNTS</b>	
5.	The Statement of Accounts is a complex document and the layout and information provided are defined by statutory requirements. The key issues that should be drawn to the attention of Committee are detailed below.
<b>ACCOUNTING AND OTHER POLICIES</b>	
6.	The Council's accounts are prepared in accordance with the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice on Local Authority Accounting in the UK (the Code), which is recognised by statute as representing proper accounting practice and meets the requirements of the Accounts and Audit Regulations 2015.



7.	<p>The Accounting Policies are described in detail on pages 33 to 46 of the Draft Statement of Accounts and cover such items as:</p> <ul style="list-style-type: none"> <li>• Property, Plant and Equipment</li> <li>• Employee Benefits</li> <li>• Financial Instruments</li> <li>• Grants and Contributions</li> <li>• PFI contracts</li> </ul> <p>There have been no significant changes to the Accounting Policies in 2021/22. The accounting policy for Property, Plant and Equipment has been extended to clarify that Infrastructure Assets are measured at a modified depreciated historical cost, due to the absence of reliable records for the years before capital accounting was introduced in 1994/95. In addition, movements in the gross book value and accumulated depreciation for Infrastructure Assets have been removed from the movement on Property, Plant and Equipment disclosure (Note 12) and only shown net in line with the CIPFA consultation on temporary changes to the Code for Infrastructure Assets.</p>
8.	<p>The accounting policies adopted by the Council are in line with the CIPFA Code of Practice on Local Authority Accounting and the Governance Committee would therefore be more likely to be interested if the Council were to depart from the recognised practice.</p>
9.	<p>The accounts include estimates and assumptions as at 31 March 2022. As with every year, there is a risk of material adjustment to the carrying amounts of some assets and liabilities within the next financial year, however with the uncertainty caused by the Ukrainian conflict, cost of living crisis and any ongoing effects from the COVID-19 pandemic, the risk remains heightened this year. Further details are provided in Note 4 of the accounts (page 49).</p>
	<p><b>COVID-19</b></p>
10.	<p>The Council has received additional grant funding as part of the government's response to the COVID-19 pandemic, some to cover the Council's own expenditure/income shortfalls and some for passing on to local businesses, social care providers and individuals. Judgements have been made about whether the Council is acting on behalf of the government in administering the grants (agent) or whether it is acting in its own right (principal). Where the Council is acting as principal the grant receipts have been recognised as income and associated payments as expenditure. Where the Council is acting as agent the grant receipts and corresponding payments are not accounted for as income or expenditure. Further details of COVID-19 grant funding are provided in Note 37 (page 103).</p>
11.	<p>The accounting arrangements for business rates income mean that the loss for rate reliefs introduced by the Government in 2020/21 to support particular business sectors during the pandemic was charged to the General Fund in 2021/22 as part of the deficit on the Collection Fund being recouped. The Council received government grant funding in 2020/21 to compensate for this loss which was carried forward via reserves and used to meet the shortfall in 2021/22. Similarly, in 2021/22 the Council received further grant funding for COVID-19 related rates reliefs which were given during the year. This additional grant funding has been transferred to reserves to be used in 2022/23 to make good the shortfall on the Collection Fund and does not</p>

	represent additional resources available to the Council to spend on service provision.
12.	Further details relating to COVID-19 are provided in the Narrative Statement on pages 21 to 22 and in Note 6 (page 51).
	<b>2021/22 OUTTURN</b>
13.	The Narrative Statement provides a summary of the revenue and capital financial performance for the year on pages 11 to 19. Full details of the outturn position were reported in the Revenue and Capital Outturn 2021/22 report to Cabinet on 19 July 2022.
<b>RESOURCE IMPLICATIONS</b>	
<b><u>Capital/Revenue</u></b>	
14.	The capital and revenue implications are considered as part of the outturn report that was presented to Cabinet on 19 July 2022.
<b><u>Property/Other</u></b>	
15.	There are no specific property implications arising from this report.
<b>LEGAL IMPLICATIONS</b>	
<b><u>Statutory power to undertake proposals in the report:</u></b>	
16.	Accounts and Audit Regulations 2015 and the Accounts and Audit (Amendment) Regulations 2021.
<b><u>Other Legal Implications:</u></b>	
17.	None
<b>RISK MANAGEMENT IMPLICATIONS</b>	
18.	Not Applicable
<b>POLICY FRAMEWORK IMPLICATIONS</b>	
19.	Not applicable. It should be noted that the Statement of Accounts is prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting in the UK 2021/22.
<b>KEY DECISION?</b>	<b>Yes/No</b>
<b>WARDS/COMMUNITIES AFFECTED:</b>	None
<b><u>SUPPORTING DOCUMENTATION</u></b>	
<b>Appendices</b>	
1.	None
<b>Documents In Members' Rooms</b>	
1.	Draft Unaudited Statement of Accounts 2021/22.
<b>Equality Impact Assessment</b>	
<b>Do the implications/subject of the report require an Equality and Safety Impact Assessment (ESIA) to be carried out.</b>	<b>Yes/No</b>
<b>Data Protection Impact Assessment</b>	

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

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# Agenda Item 8

<b>DECISION-MAKER:</b>	GOVERNANCE COMMITTEE		
<b>SUBJECT:</b>	REVIEW OF PRUDENTIAL LIMITS AND TREASURY MANAGEMENT OUTTURN 2021/22		
<b>DATE OF DECISION:</b>	25 JULY 2022		
<b>REPORT OF:</b>	<b>EXECUTIVE DIRECTOR FINANCE &amp; COMMERCIALISATION (S151 Officer)</b>		
<b><u>CONTACT DETAILS</u></b>			
<b>Executive Director</b>	<b>Title:</b>	<b>Executive Director for Finance, Commercialisation &amp; S151 Officer</b>	
	<b>Name:</b>	<b>John Harrison</b>	<b>Tel: 023 80834897</b>
	<b>E-mail:</b>	<a href="mailto:john.harrison@southampton.gov.uk">john.harrison@southampton.gov.uk</a>	
<b>AUTHOR:</b>	<b>Name:</b>	<b>Steve Harrison</b>	<b>Tel: 023 8083 4153</b>
	<b>E-mail:</b>	<a href="mailto:steve.harrison@southampton.gov.uk">steve.harrison@southampton.gov.uk</a>	

<b>STATEMENT OF CONFIDENTIALITY</b>	
NOT APPLICABLE	
<b>BRIEF SUMMARY</b>	
The purpose of this report is to inform Governance Committee of the Treasury Management activities and performance for 2021/22 against the approved Prudential Indicators for External Debt and Treasury Management.	
<b>RECOMMENDATIONS:</b>	
<b>It is recommended that Governance committee:</b>	
(i)	Notes the Treasury Management (TM) activities for 2021/22 and the outturn on the Prudential Indicators.
(ii)	Notes that the continued proactive approach to TM has led to reductions in borrowing costs and safeguarded investment income during the year.
<b>REASONS FOR REPORT RECOMMENDATIONS</b>	
1.	The reporting of the outturn position for 2021/22 forms part of the approval of the statutory accounts. The Treasury Management (TM) Strategy and Prudential Indicators are approved by Governance Committee in February each year in accordance with legislation and the Chartered Institute of Public Finance & Accountancy (CIPFA) Code of Practice.
2.	The Treasury Management Code requires public sector authorities to determine an annual TM Strategy and now, as a minimum, formally report on their treasury activities and arrangements to Governance Committee mid-year and after the year-end. These reports enable those tasked with implementing policies and undertaking transactions to demonstrate they have properly fulfilled their responsibilities and enable those with ultimate responsibility/governance of the TM function to scrutinise and assess its effectiveness and compliance with policies and objectives.
<b>ALTERNATIVE OPTIONS CONSIDERED AND REJECTED</b>	

3.	No alternative options are relevant to this report.
<b>DETAIL (Including consultation carried out)</b>	
<b>CONSULTATION</b>	
4.	Not applicable.
<b>BACKGROUND</b>	
5.	The Local Government Act 2003 introduced a system for borrowing based largely on self-regulation by local authorities themselves. The basic principle of the new system is that local authorities will be free to borrow as long as their capital spending plans are affordable, prudent and sustainable.
6.	<p>CIPFA published a revised Prudential Code for Capital Finance and Treasury Management Code on 20th December 2021. The key changes in the two codes are around permitted reasons to borrow, knowledge and skills, and the management of non-treasury investments.</p> <p>Whilst the principles of the Prudential Code took immediate effect, local authorities were given the option to defer introducing the revised reporting requirements until the 2023/24 financial year. Due to the timing of the revised code, there was limited time to do a comprehensive review to fit in with our committee cycle, so it was decided to defer until next year. We will be assessing the new requirements during 2022/23 and will introduce changes as appropriate.</p>
7.	The Chartered Institute of Public Finance and Accountancy's Treasury Management Code (CIPFA's TM Code) requires that authorities report on the performance of the treasury management function at least twice a year (mid-year and at year end).
8.	<p>The Authority's TM Strategy for 2021/22 was approved by Governance Committee on 15 February 2021. These were subsequently reviewed and revised as part of the Council's TM Strategy Statement for 2022/23 at Governance Committee on 14 February 2022.</p> <p>The 2017 Prudential Code includes a requirement for local authorities to provide a Capital Strategy, a summary document approved by full Council covering capital expenditure and financing, treasury management and non-treasury investments. The Authority's Capital Strategy, complying with CIPFA's requirement, was approved by full Council on 23 February 2022.</p>
9.	Overall responsibility for treasury management remains with the Council. No TM activity is without risk; the effective identification and management of risk are integral to the Council's treasury management objectives. The Authority has borrowed and invested substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. This report covers treasury activity and the associated monitoring and control of risk.
10.	This report:
	a) is prepared in accordance with the revised CIPFA Treasury Management Code and the revised Prudential Code;
	b) presents details of capital financing, borrowing, debt rescheduling and investment transactions;
	c) reports on the risk implications of treasury decisions and transactions;

	d)	gives details of the outturn position on treasury management transactions in 2021/22; and
	e)	confirms compliance with treasury limits and Prudential Indicators.
11.	The report and appendices highlight that:	
	a)	Borrowing activities have been undertaken within the borrowing limits approved by Governance Committee on 15 February 2021 and reviewed on 14 February 2022.
	b)	There has been full compliance with the Prudential Indicators approved by Governance Committee on 15 February 2021 and reviewed on 14 February 2022.
	c)	<p>As we have an increasing borrowing requirement our overall treasury strategy is to minimise both external borrowing and investments and to only borrow to the level of its net borrowing requirement. The reasons for this are to reduce credit risk, take pressure off the Council's lending list and also to avoid the cost of carry existing in the current interest rate environment.</p> <p>Throughout the year, capital expenditure levels, market conditions and interest rate levels were monitored to minimise borrowing costs over the medium to longer term and to maintain stability.</p>
	d)	<p>CIPFA published a revised Treasury Management in the Public Services Code of Practice and Cross-Sectoral Guidance Notes on 20th December 2021. These define treasury management investments as investments that arise from the organisation's cash flows or treasury risk management activity that ultimately represents balances that need to be invested until the cash is required for use in the course of business.</p> <p>As reported previously SCC holds £27M in the CCLA property fund which was reviewed following the revised CIPFA guidance, and it still meets our medium term investments objectives whilst interest earned is above current PWLB 20 year maturity rates. This will remain under review in conjunction with our financial advisors. For further details on the funds performance see Appendix 2, paragraphs 32 to 35.</p>
	e)	Total investment returns during 2021/22 were £1.1M at an average rate of 3.46%.
	f)	<p>The differential between debt costs and investment earnings continued to be acute, resulting in the use of internal resources in lieu of borrowing often being the most cost effective means of financing capital expenditure.</p> <p>As a result, the average rate for repayment of debt, (the Consolidated Loans &amp; Investment Account Rate – CLIA), at 2.80%, is lower than that budgeted but higher than last year (2.75%), this is mainly as a result of maturing short term debt which was not replaced due to high cash flows.</p> <p>It is the intention to borrow in the short term markets during 2022/23 to take further advantage of the current interest environment.</p>
	g)	Since 2012, the Council has pursued a strategy of internal borrowing – minimising external borrowing by running down its own investment balances and only borrowing short term to cover cash flow

		requirements. This has both reduced the credit risk exposure and saved the Council money in terms of net interest costs.
	h)	In achieving interest rate savings the Council is exposed to interest rate risk by taking out variable debt. This was and continues to be very financially favourable in current markets but does mean that close monitoring of the markets is required to ensure that the Council can act quickly should the situation begin to change, for example, during the year we borrowed £33M to introduce some certainty into the loan portfolio in a rising interest environment.
	i)	Net loan debt decreased during 2021/22 from £246M to £209M (£37M) as detailed in Appendix 2, paragraph 5.  Actual debt charges for the year for borrowing (excluding HCC transferred debt and PFI schemes) was £7.0M at an average interest rate of 2.86%
	j)	The continuing economic recovery from the COVID-19 pandemic, together with the war in Ukraine, higher inflation, and higher interest rates were major issues over the period. This is expected to continue during the current financial year and will be monitored and reported as part of the quarterly monitoring and mid-year reports.
	k)	The impact of the COVID-19 pandemic continued in 2021/22 and central Government continued to assist cash flow by providing up front funding as far as possible, both in terms of the grants to businesses administered by the Council on its behalf and the funding to the local authority itself (under the business rates retention scheme). As a result of this grant funding year end investment balances were higher than expected and borrowing lower.
12.	Appendix 1 summarises the economic outlook and events in the context of which the Council operated its treasury function during 2021/22.	
13.	Appendix 2 summarises treasury activity during the year and covers: <ul style="list-style-type: none"> <li>• Borrowing Requirement and Debt Management</li> <li>• Investment Activity</li> <li>• Non – Treasury Investments</li> </ul>	
<b>COMPLIANCE WITH PRUDENTIAL INDICATORS</b>		
14.	It can be confirmed that the Council has complied with its Prudential Indicators for 2021/22, approved by Governance Committee on 15 February 2021 and reviewed on 14 February 2022.	
15.	In compliance with the requirements of the CIPFA Code of Practice this report provides members with a summary report of TM activity during 2021/22. None of the Prudential Indicators has been breached and a prudent approach has been taken in relation to investment activity with priority being given to security and liquidity over yield. The table below summarises the Key Indicators, further details can be seen in appendix 4.	



16.	<b><u>Table1: Key Prudential Indicators</u></b>		
	<b>Indicator</b>	<b>Limit</b>	<b>Actual at 31/3/2022</b>
	Authorised Limit for external debt	£805M	£316M
	Operational Limit for external debt	£705M	£316M
	Maximum external borrowing year to date	£640M	£259M
	Limit of fixed interest debt	100%	83%
	Limit of variable interest debt	50%	17%
	Limit for long term investments	£100M	£28M
<b>OTHER</b>			
17.	IFRS 16: The implementation of the new IFRS 16 Leases accounting standard was due to come into force for local authorities from 1st April 2022. Following a consultation CIFPA/LASAAC announced an optional two year delay to the implementation of this standard a decision which was confirmed by the Financial Reporting Advisory Board in early April 2022. Therefore, no accounting changes have been made from 1 <sup>st</sup> April 2022 and any proposed changes will be reported as part of the mid-year report.		
<b>RESOURCE IMPLICATIONS</b>			
<b><u>Capital/Revenue</u></b>			
18.	This report is a requirement of the TM Strategy, which was approved at Council on 14 February 2022.		
19.	The capital and revenue implications are considered as part of the outturn report that was presented to Cabinet on 18 July 2022.		
20.	The interest cost of financing the Authority's long term and short term loan debt is charged corporately to the Income and Expenditure account. The interest cost of financing the Authority's loan debt amounted to £7.21M in 2021/22. This is lower than budgeted mainly due to variable interest rates being lower than those estimated and minimal new long term borrowing being taken at preferential rates.		
21.	In addition, interest earned on temporary balances invested externally is credited to the Income and Expenditure account. In 2021/22 £1.4M was earned which was slightly higher than budgeted £1.3M mainly due to higher than expected balances.		
22.	The expenses of managing the Authority's loan debt consist of brokerage and internal administration charges. These are pooled and borne by the HRA and General Fund proportionately to the related loan debt. Debt management expenses amounted to £0.16M in 2021/22.		
<b><u>Property/Other</u></b>			
23.	There are no specific property implications arising from this report.		

<b>LEGAL IMPLICATIONS</b>	
<b><u>Statutory power to undertake proposals in the report:</u></b>	
24.	Local Authority borrowing is regulated by Part 1, of the Local Government Act 2003, which introduced the new Prudential Capital Finance System. From 1 April 2004, investments are dealt with, not in secondary legislation, but through guidance. Similarly, there is guidance on prudent investment practice, issued by the Secretary of State under Section 15(1)(a) of the 2003 Act. A local authority has the power to invest for "any purpose relevant to its functions under any enactment or for the purposes of the prudent management of its financial affairs". The reference to the "prudent management of its financial affairs" is included to cover investments, which are not directly linked to identifiable statutory functions but are simply made in the course of treasury management. This also allows the temporary investment of funds borrowed for the purpose of expenditure in the reasonably near future; however, the speculative procedure of borrowing purely in order to invest and make a return remains unlawful.
<b><u>Other Legal Implications:</u></b>	
25.	None.
<b>RISK MANAGEMENT IMPLICATIONS</b>	
26.	Not Applicable
<b>POLICY FRAMEWORK IMPLICATIONS</b>	
27.	Not applicable. This report has been prepared in accordance with the CIPFA Code of Practice on TM.
<b>KEY DECISION?</b>	Yes/No
<b>WARDS/COMMUNITIES AFFECTED:</b>	NONE
<b><u>SUPPORTING DOCUMENTATION</u></b>	
<b>Appendices</b>	
1.	2021/22 Economic Background
2.	Treasury Activity during 2021/22
3.	Southampton Benchmarking 31 <sup>st</sup> March 2022
4.	Compliance with Prudential Indicators
5.	Glossary of Treasury Terms
<b>Documents In Members' Rooms</b>	
1.	None.
<b>Equality Impact Assessment</b>	
<b>Do the implications/subject of the report require an Equality and Safety Impact Assessments (ESIA) to be carried out.</b>	<b>Yes/No</b>
<b>Privacy Impact Assessment</b>	
<b>Do the implications/subject of the report require a Privacy Impact Assessment (PIA) to be carried out.</b>	<b>Yes/No</b>

**Other Background Documents****Equality Impact Assessment and Other Background documents available for inspection at:**

Title of Background Paper(s)	Relevant Paragraph of the Access to Information Procedure Rules / Schedule 12A allowing document to be Exempt/Confidential (if applicable)
1.	The Medium Term Financial Strategy, Budget Capital Programme 2021/22 to 2026/27 – reported to Council 23 February 2022

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### External Factors Impacting on Treasury during 2021/22

A summary of the external factors in 2021-22 is provided by the council's treasury advisor, Arlingclose Ltd, and is detailed below.

**Economic background:** The continuing economic recovery from coronavirus pandemic, together with the war in Ukraine, higher inflation, and higher interest rates were major issues over the period. Bank Rate was 0.1% at the beginning of the reporting period. April and May saw the economy gathering momentum as the shackles of the pandemic restrictions were eased. Despite the improving outlook, market expectations were that the Bank of England would delay rate rises until 2022. Rising, persistent inflation changed that.

UK CPI was 0.7% in March 2021 but thereafter began to steadily increase. Initially driven by energy price effects and by inflation in sectors such as retail and hospitality which were re-opening after the pandemic lockdowns, inflation then was believed to be temporary. Thereafter price rises slowly became more widespread, as a combination of rising global costs and strong demand was exacerbated by supply shortages and transport dislocations. The surge in wholesale gas and electricity prices led to elevated inflation expectations. CPI for February 2022 registered 6.2% year on year, up from 5.5% in the previous month and the highest reading in the National Statistic series. Core inflation, which excludes the more volatile components, rose to 5.2% y/y from 4.4%.

The government's jobs furlough scheme insulated the labour market from the worst effects of the pandemic. The labour market began to tighten and demand for workers grew strongly as employers found it increasingly difficult to find workers to fill vacant jobs. Having peaked at 5.2% in December 2020, unemployment continued to fall and the most recent labour market data for the three months to January 2022 showed the unemployment rate at 3.9% while the employment rate rose to 75.6%. Headline 3-month average annual growth rate for wages were 4.8% for total pay and 3.8% for regular pay. In real terms, after adjusting for inflation, total pay growth was up 0.1% while regular pay fell by 1.0%.

With the fading of lockdown – and, briefly, the 'pingdemic' – restraints, activity in consumer-facing sectors improved substantially as did sectors such as oil and mining with the reopening of oil rigs but materials shortages and the reduction in the real spending power of households and businesses dampened some of the growth momentum. Gross domestic product (GDP) grew by an upwardly revised 1.3% in the fourth calendar quarter of 2021 according to the final estimate (initial estimate 1.0%) and took UK GDP to just 0.1% below where it was before the pandemic. The annual growth rate was revised down slightly to 7.4% (from 7.5%) following a revised 9.3% fall in 2020.

Having increased Bank Rate from 0.10% to 0.25% in December, the Bank of England hiked it further to 0.50% in February and 0.75% in March. At the meeting in February, the Monetary Policy Committee (MPC) voted unanimously to start reducing the stock of its asset purchase scheme by ceasing to reinvest the proceeds from maturing bonds as well as starting a programme of selling its corporate bonds.

In its March interest rate announcement, the MPC noted that the invasion of Ukraine had caused further large increases in energy and other commodity prices, with the expectation that the conflict will worsen supply chain disruptions around the world and push CPI inflation to around 8% later in 2022, even higher than forecast only a month before in the February Monetary Policy Report. The Committee also noted that although GDP in January was stronger than expected with business confidence holding up and the labour market remaining robust, consumer confidence had fallen due to the squeeze in real household incomes.

GDP growth in the euro zone increased by 0.3% in calendar Q4 2021 following a gain of 2.3% in the third quarter and 2.2% in the second. Headline inflation remains high, with CPI registering a record 7.5% year-on-year in March, the ninth successive month of rising inflation. Core CPI inflation was

3.0% y/y in March, was well above the European Central Bank's target of 'below, but close to 2%', putting further pressure on its long-term stance of holding its main interest rate of 0%.

The US economy expanded at a downwardly revised annualised rate of 6.9% in Q4 2021, a sharp increase from a gain of 2.3% in the previous quarter. In its March 2022 interest rate announcement, the Federal Reserve raised the Fed Funds rate to between 0.25% and 0.50% and outlined further increases should be expected in the coming months. The Fed also repeated its plan to reduce its asset purchase programme which could start by May 2022.

**Financial markets:** The conflict in Ukraine added further volatility to the already uncertain inflation and interest rate outlook over the period. The Dow Jones started to decline in January but remained above its pre-pandemic level by the end of the period while the FTSE 250 and FTSE 100 also fell and ended the quarter below their pre-March 2020 levels.

Bond yields were similarly volatile as the tension between higher inflation and flight to quality from the war pushed and pulled yields, but with a general upward trend from higher interest rates dominating as yields generally climbed.

The 5-year UK benchmark gilt yield began the quarter at 0.82% before rising to 1.41%. Over the same period the 10-year gilt yield rose from 0.97% to 1.61% and the 20-year yield from 1.20% to 1.82%. The Sterling Overnight Rate (SONIA) averaged 0.39% over the quarter.

**Credit review:** In the first half of FY 2021-22 credit default swap (CDS) spreads were flat over most of period and are broadly in line with their pre-pandemic levels. In September spreads rose by a few basis points due to concerns around Chinese property developer Evergrande defaulting but then fell back. Fitch and Moody's revised upward the outlook on a number of UK banks and building societies on the Authority's counterparty to 'stable', recognising their improved capital positions compared to 2020 and better economic growth prospects in the UK.

Fitch also revised the outlook for Nordea, Svenska Handelsbanken and Handelsbanken plc to stable. The agency considered the improved economic prospects in the Nordic region to have reduced the baseline downside risks it previously assigned to the lenders.

The successful vaccine rollout programme was credit positive for the financial services sector in general and the improved economic outlook meant some institutions were able to reduce provisions for bad loans. However, in 2022, the uncertainty engendered by Russia's invasion of Ukraine pushed CDS prices modestly higher over the first calendar quarter, but only to levels slightly above their 2021 averages, illustrating the general resilience of the banking sector.

Having completed its full review of its credit advice on unsecured deposits, in September Arlingclose extended the maximum duration limit for UK bank entities on its recommended lending list from 35 days to 100 days; a similar extension was advised in December for the non-UK banks on this list. As ever, the institutions and durations on the Authority's counterparty list recommended by Arlingclose remains under constant review.

## **Forecast interest Rates (June 2022)**

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

Arlingclose now expects Bank Rate to rise to 2.25% by December, in 25bp steps at each of the next four meetings. We now also expect a reduction in Bank Rate during the forecast period.

High inflation is dampening global economic growth, raising the chances of regional recessions even as policymakers accelerate monetary tightening to reduce the risk of persistently higher long-term inflation expectations.

- The MPC will raise Bank Rate further to dampen aggregate demand and reduce the risk of sustained higher inflation.

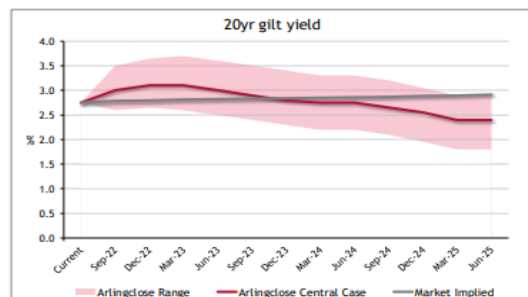
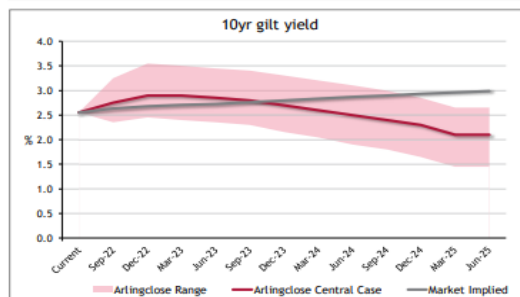
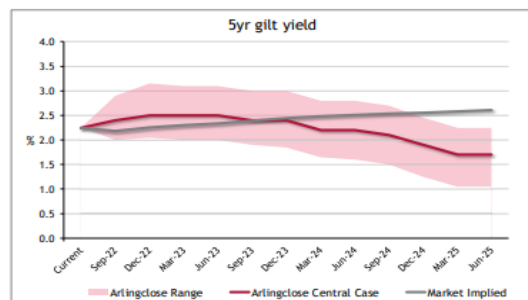
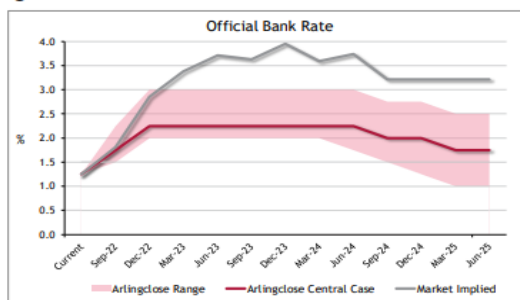
- Risks remain weighted to the upside in the short term following the MPC's more hawkish stance.
- Gilt yields will remain under upward pressure in the short term on inflation and central bank policy expectations, and investor uncertainty. Yields will decline over the medium time as weak growth places pressure on central banks to ease policy.
- The risks around the gilt yield forecasts remain tilted to the upside over the short term, primarily due to US policy uncertainty. Over the medium term, the balance of risks shifts to the downside as growth softens.

	Current	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25
<b>Official Bank Rate</b>													
Upside risk	0.00	0.50	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75
Arlingclose Central Case	1.25	1.75	2.25	2.25	2.25	2.25	2.25	2.25	2.25	2.00	2.00	1.75	1.75
Downside risk	0.00	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.50	-0.50	-0.75	-0.75	-0.75
<b>3-month money market rate</b>													
Upside risk	0.00	0.50	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75
Arlingclose Central Case	1.65	2.00	2.50	2.40	2.30	2.20	2.20	2.20	2.10	2.00	1.90	1.85	1.85
Downside risk	0.00	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.50	-0.50	-0.75	-0.75	-0.75
<b>5yr gilt yield</b>													
Upside risk	0.00	0.50	0.65	0.60	0.60	0.60	0.60	0.60	0.60	0.60	0.55	0.55	0.55
Arlingclose Central Case	2.25	2.40	2.50	2.50	2.50	2.40	2.40	2.20	2.20	2.10	1.90	1.70	1.70
Downside risk	0.00	-0.40	-0.45	-0.50	-0.50	-0.50	-0.55	-0.55	-0.60	-0.60	-0.65	-0.65	-0.65
<b>10yr gilt yield</b>													
Upside risk	0.00	0.50	0.65	0.60	0.60	0.60	0.60	0.60	0.60	0.60	0.55	0.55	0.55
Arlingclose Central Case	2.55	2.75	2.90	2.90	2.85	2.80	2.70	2.60	2.50	2.40	2.30	2.10	2.10
Downside risk	0.00	-0.40	-0.45	-0.50	-0.50	-0.50	-0.55	-0.55	-0.60	-0.60	-0.65	-0.65	-0.65
<b>20yr gilt yield</b>													
Upside risk	0.00	0.50	0.55	0.50	0.60	0.50	0.60	0.55	0.55	0.55	0.50	0.50	0.50
Arlingclose Central Case	2.75	3.00	3.10	3.10	3.00	2.90	2.80	2.75	2.75	2.65	2.55	2.40	2.40
Downside risk	0.00	-0.40	-0.45	-0.50	-0.50	-0.50	-0.50	-0.55	-0.55	-0.55	-0.60	-0.60	-0.60
<b>50yr gilt yield</b>													
Upside risk	0.00	0.50	0.55	0.60	0.60	0.60	0.60	0.55	0.55	0.55	0.50	0.50	0.50
Arlingclose Central Case	2.55	2.80	2.90	2.90	2.80	2.70	2.60	2.60	2.60	2.50	2.40	2.30	2.30
Downside risk	0.00	-0.40	-0.45	-0.50	-0.50	-0.50	-0.50	-0.55	-0.55	-0.55	-0.60	-0.60	-0.60

## Arlingclose and Market Projections June 2022

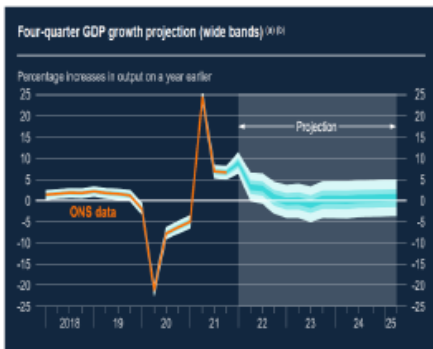
Charts show the Arlingclose central case along with upside and downside risks: Arlingclose judges that the risks around its forecasts are initially to the upside before becoming more balanced over time.

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

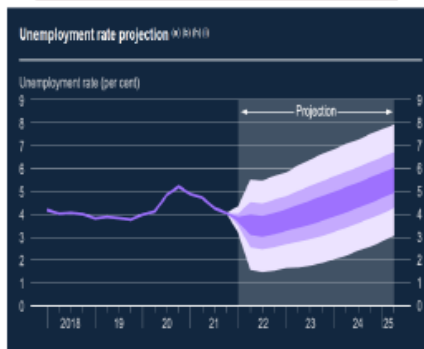


# Bank of England Monetary Policy Report - May 2022

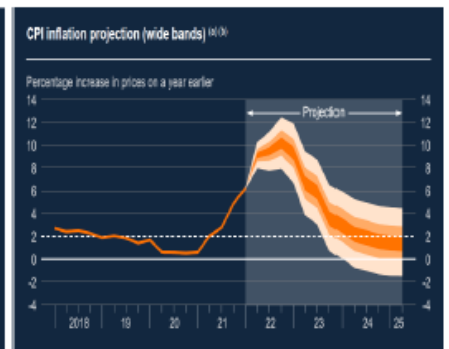
## Outlook for UK GDP



## Outlook for UK Unemployment



## Outlook for UK CPI inflation



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



## TREASURY MANAGEMENT ACTIVITY DURING 2021/22

Appendix 2

### BORROWING REQUIREMENT AND DEBT MANAGEMENT

1. On the 31st March 2022, the Authority had a reduction in its net borrowing need of £12M arising from its revenue and capital income and expenditure. The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR) while useable reserves and working capital are the underlying resources available for investments. These are the core drivers of TM Activity and the year-on-year change is summarised in table 1 below.
2. The Authority's current strategy, as we have an increasing borrowing requirement, is to minimise both external borrowing and investments and to only borrow to the level of the net borrowing requirement. The reasons for this are to reduce credit risk, take pressure off the Council's lending list and also to avoid the cost of carry existing in the current interest rate environment. This has resulted in a decrease in our internal borrowing of £8.3M for 21/22 from £199.9M to £191.6M.

**Table 1 – Balance Sheet Summary**

	31-Mar-21 Actual	31-Mar-22 Strategy	31-Mar-22 Actual	31-Mar-22 Movement in year
	£M	£M	£M	£M
General Fund CFR	337.18	351.14	339.15	1.97
Housing CFR	169.13	171.37	168.73	(0.40)
<b>Total CFR</b>	<b>506.31</b>	<b>522.51</b>	<b>507.88</b>	<b>1.57</b>
Less Other Debt Liabilities*	(64.44)	(60.62)	(60.62)	3.82
<b>Loans CFR</b>	<b>441.87</b>	<b>461.89</b>	<b>447.26</b>	<b>5.39</b>
Less External Borrowing**	(241.95)	(255.65)	(255.66)	(13.71)
<b>Internal (over) Borrowing</b>	<b>199.92</b>	<b>206.24</b>	<b>191.60</b>	<b>(8.31)</b>
Less Usuable Reserves	(208.52)	(144.01)	(165.47)	43.06
Less Working Capital	(58.29)	(58.29)	(38.20)	20.09
<b>New Borrowing or (Investments)</b>	<b>(66.89)</b>	<b>3.94</b>	<b>(12.06)</b>	<b>54.83</b>

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

\*\* See Table 3 below

NB – table includes rounded figures

3. The forecast movement in coming years is one of the Prudential Indicators (PIs). When the strategy was updated in February 2022, the CFR for 31 March 2022 was estimated at £522.51M, the Council's actual CFR at the end of the year was £507.88M. This decrease was due to slippage in borrowing on the capital programme, £11.99M on the General Fund and £2.64M on HRA, as shown in table 2 below.  
  
In addition, usable reserves were £43.06M higher than expected (but are expected to be utilised during 2022/23) resulting in internal borrowing being £36.37M more than expected when Strategy was set, thereby reducing borrowing costs.  
  
Actual Movement in year, between the revised strategy position and outturn, is shown in table 2 below.

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

<b>Capital Financing Requirement</b>	<b>31/03/2021 Actual</b>	<b>31/03/2022 Forecast Revised Strategy</b>	<b>31/03/2022 Actual</b>	<b>Movement since last reported position £M</b>
	<b>£M</b>	<b>£M</b>	<b>£M</b>	<b>£M</b>
Balance Brought forward	339.58	337.18	337.18	0.00
New Borrowing	7.51	24.67	12.68	(11.99)
MRP	(6.50)	(6.89)	(6.89)	0.00
Appropriations (to) from HRA	0.00	0.00	0.00	0.00
Movement in Other Liabilities	(3.41)	(3.82)	(3.82)	0.00
<b>Total General Fund Debt</b>	<b>337.18</b>	<b>351.14</b>	<b>339.15</b>	<b>(11.99)</b>
HRA	169.13	171.37	168.73	(2.64)
<b>Total CFR</b>	<b>506.31</b>	<b>522.51</b>	<b>507.88</b>	<b>(14.63)</b>
Estimated Debt	306.39	367.27	316.27	(51.00)
<b>Under / (Over) Borrowed</b>	<b>199.92</b>	<b>155.24</b>	<b>191.61</b>	<b>36.37</b>

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

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

	<b>31-Mar-21 Actual</b>	<b>31-Mar-21 Average Yield / Rate</b>	<b>31-Mar-22 Actual</b>	<b>31-Mar-22 Average Yield / Rate</b>	<b>31-Mar-23 Estimated Balance</b>
	<b>£M</b>	<b>%</b>	<b>£M</b>	<b>%</b>	<b>£M</b>
<b>Long Term Borrowing</b>					
Public Works Loan	222.59	2.88	246.30	2.88	359.60
LOBO Loans from Banks	9.00	4.89	9.00	4.89	9.00
	<b>231.59</b>	<b>2.95</b>	<b>255.30</b>	<b>2.95</b>	<b>368.60</b>
<b>Short Term Borrowing</b>					
Other Local Authorities	10.00	0.92	0.00	0.00	10.00
Other	0.36		0.36		
<b>Total External Borrowing</b>	<b>241.95</b>	<b>0.92</b>	<b>255.66</b>	<b>0.00</b>	<b>378.60</b>
<b>Other Long Term Liabilities</b>					
PFI Schemes	50.97	9.01	47.52	9.01	44.37
Deferred Debt Charges (HCC)	13.47	2.66	13.10	2.66	12.73
<b>Total Gross External Debt</b>	<b>306.39</b>	<b>3.87</b>	<b>316.28</b>	<b>3.87</b>	<b>435.71</b>
<b>Investments:</b>					
<b>Managed In-House</b>					
Cash (Instant access)	(30.13)	0.01	(54.50)	0.51	(10.00)
Short Term Investments	0.00	0.00	(24.41)	0.06	
Long Term Bonds & Shares	(3.17)	5.30	(1.06)	5.27	(1.00)
<b>Managed Externally</b>					
Pooled Funds (CCLA)	(27.29)	4.16	(27.25)	3.81	(27.20)
<b>Total Investments</b>	<b>(60.59)</b>	<b>4.26</b>	<b>(107.22)</b>	<b>3.46</b>	<b>(38.20)</b>
<b>Net Debt</b>	<b>245.80</b>		<b>209.06</b>		<b>397.51</b>

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

Movement during the year	2020/21	Movement £M	2021/22	Average Life
	Actual £M		Actual £M	
Long-term borrowing Carried Forward	266.87		231.59	
Maturities in year	(35.28)		(9.29)	
New borrowing taken in year	0.00		33.00	
<b>Net Long Term Borrowing</b>	<b>231.59</b>	<b>23.71</b>	<b>255.30</b>	<b>24.7 Years</b>
Short-term borrowing Carried Forward	10.36		10.36	
Maturities in year	(40.00)		(10.36)	
New borrowing taken in year	40.00		0.36	
<b>Net Short Term Borrowing</b>	<b>10.36</b>	<b>(10.00)</b>	<b>0.36</b>	<b>12 Months</b>
<b>Total Borrowing at 31st March</b>	<b>241.95</b>	<b>13.71</b>	<b>255.66</b>	

Please note that these figures do not reflect the accounting convention of moving loans maturing in the year from long term to short term so will differ from the maturity analysis.

7. The maturity analysis of the Council's debt at 31 March 2022 is further analysed below, in table 5. Debt due in one year includes both short term and long term loans due in year, LOBO loans are shown as uncertain as although they are within the call option they are unlikely to be called in the current interest environment.

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

Total Financial Liabilities	<u>Outstanding</u>	<u>% of Total</u>
	<u>As at 31</u>	<u>Portfolio</u>
	<u>March 2022</u>	
<b>Source of Loan</b>	<b>£M</b>	<b>%</b>
Public Works Loan Board	246.30	96
Other Financial Institutions (borrowing)	9.00	4
	<b>255.30</b>	<b>100</b>
<b>Analysis of Loans by Maturity</b>		
Less than 1 Year	(7.10)	3
Between 1 and 2 years	(7.10)	3
Between 2 and 5 years	(21.30)	8
Between 5 and 10 years	(35.50)	14
Between 10 and 20 years	(35.45)	14
Between 20 and 40 years	(139.85)	55
Over 40	0.00	0
Uncertain Date**	(9.00)	4
	<b>(255.30)</b>	<b>100</b>

**Borrowing Update**

9. In August 2021 HM Treasury significantly revised guidance for the PWLB lending facility with more detail and 12 examples of permitted and prohibited use of PWLB loans. Authorities that are purchasing or intending to purchase investment assets primarily for yield will not be able to access the PWLB except to refinance existing

	<p>loans or externalise internal borrowing. Acceptable use of PWLB borrowing includes service delivery, housing, regeneration, preventative action, refinancing and treasury management.</p> <p>CIPFA published its revised Prudential Code for Capital Finance and Treasury Management Code on 20th December 2021. The key changes in the two codes are around permitted reasons to borrow, knowledge and skills, and the management of non-treasury investments.</p> <p>The principles of the Prudential Code took immediate effect although local authorities could defer introducing the revised reporting requirements until the 2023/24 financial year. Due to the timing of the revised code, there was limited time to do a full review to fit in with our committee cycle, so it was decided to defer, but key components such as the liability benchmark were included. . We will be assessing the new requirements during 2022/23 and introduce changes as appropriate.</p> <p>To comply with the Prudential Code, authorities must not borrow to invest primarily for financial return. This Code also states that it is not prudent for local authorities to make investment or spending decision that will increase the CFR unless directly and primarily related to the functions of the authority. Existing commercial investments are not required to be sold; however, authorities with existing commercial investments who expect to need to borrow should review the options for exiting these investments.</p> <p>Borrowing is permitted for cashflow management, interest rate risk management, to refinance current borrowing and to adjust levels of internal borrowing. Borrowing to refinance capital expenditure primarily related to the delivery of a local authority's function but where a financial return is also expected is allowed, provided that financial return is not the primary reason for the expenditure. The changes align the CIPFA Prudential Code with the PWLB lending rules.</p> <p>The Treasury Management Code now includes extensive additional requirements for service and commercial investments, far beyond those in the 2017 version.</p> <p>As with the Prudential Code SCC is taking the additional time available to review all processes before formal implementation in the 2023/24 financial year.</p> <p>Following a review of the capital programme the Authority is not planning to purchase any investment assets primarily for yield within the next three years and so is able to take advantage of PWLB borrowing.</p> <p>The Authority currently holds £27M in commercial investments that were purchased prior to the change in the CIPFA Prudential Code. Before undertaking further additional borrowing the Authority will review the benefits of retaining these investments against cost of future borrowing.</p>
<p><b><u>Borrowing Strategy</u></b></p>	
<p>10.</p>	<p>At 31st March 2022 the Authority held £255.66M of loans, (an increase of £13.71M since 31st March 2021), as part of its strategy for funding previous and current years' capital programmes. Outstanding loans are summarised in Table 4 and 5 above.</p>
<p>11.</p>	<p>The Authority's chief objective when borrowing has been to strike an appropriately low risk balance between securing low interest costs and achieving cost certainty over the period for which funds are required, with flexibility to renegotiate loans should the Authority's long-term plans change being a secondary objective.</p>
<p>12.</p>	<p>In keeping with these objectives short term borrowing was kept to a minimum, while existing loans were allowed to mature without replacement. We have remained under our CFR limit and had internal borrowing of £191.60M at the end of the year.</p>

	This strategy enabled the Authority to reduce net borrowing costs (despite foregone investment income) and reduce overall treasury risk.																				
13.	The PWLB remained the Council's preferred source of long term borrowing given the transparency and control that its facilities continue to provide, however PWLB funding margins have lurched quite substantially and there remains a strong argument for diversifying funding sources, particularly if rates can be achieved on alternatives which are below gilt yields + 0.80%. This is kept under constant review, in consultation with our TM advisors.																				
14.	Due to the continued depressed markets and the 'cost of carry' associated with long term debt, the Council deferred long term borrowing and continued to use internal resources to finance the capital programme to minimise the cost of TM by keeping debt interest payments as low as possible without compromising the longer-term stability of the portfolio.																				
15.	<p>During the year 3 loans have been taken from the PWLB; these have been in respect of the HRA for unfinanced debt as the 31 March 2021, as part of the HRA 40 year business plan. Rates have been monitored during the year and timing of loans was taken in consultation of our advisors to secure rates when rates dipped in the year. These loans provide some longer-term certainty and stability to the debt portfolio. Details are shown below:</p> <table border="1"> <thead> <tr> <th>Long Term Loans</th> <th>Amount £M</th> <th>Rate %</th> <th>Period (Years)</th> </tr> </thead> <tbody> <tr> <td>PWLB EIP Loan 1</td> <td>11.00</td> <td>1.45%</td> <td>20</td> </tr> <tr> <td>PWLB EIP Loan 2</td> <td>11.00</td> <td>1.44%</td> <td>20</td> </tr> <tr> <td>PWLB Maturity Loan 1</td> <td>11.00</td> <td>1.50%</td> <td>40</td> </tr> <tr> <td><b>Total Borrowing</b></td> <td><b>33.00</b></td> <td></td> <td></td> </tr> </tbody> </table>	Long Term Loans	Amount £M	Rate %	Period (Years)	PWLB EIP Loan 1	11.00	1.45%	20	PWLB EIP Loan 2	11.00	1.44%	20	PWLB Maturity Loan 1	11.00	1.50%	40	<b>Total Borrowing</b>	<b>33.00</b>		
Long Term Loans	Amount £M	Rate %	Period (Years)																		
PWLB EIP Loan 1	11.00	1.45%	20																		
PWLB EIP Loan 2	11.00	1.44%	20																		
PWLB Maturity Loan 1	11.00	1.50%	40																		
<b>Total Borrowing</b>	<b>33.00</b>																				
16.	<p>This will be kept under review during 2022/23 with the need to resource an increasing capital programme, which will be reported to Council in September and February as part of the capital review.</p> <p>In addition, given the rising costs of materials and of borrowing, the capital programme will be kept under regular review to ensure ongoing Value for Money and the phasing of capital works reviewed to ensure capital financing budgets follow the best estimate of the profile of borrowing needed The Authority with its advisor Arlingclose will evaluate and pursue options for lower cost solutions and opportunities, together with the 'cost of carry' and breakeven analysis.</p>																				
17.	The Authority's borrowing decisions are not predicated on any one outcome for interest rates and a balanced portfolio of short and long term borrowing was maintained.																				
<b><u>Lender's Option Borrower's Option Loans (LOBOs)</u></b>																					
18.	The council continues to hold £9M of LOBO loans where the lender has the option to propose an increase in the interest rate at set dates, following which the council has the option to either accept the new rate or to repay the loan at no additional cost. All of these LOBOS had options during the year, none of which were exercised by the lender, but if they were it is likely that they would be replaced.																				
<b><u>Other Debt Activity</u></b>																					
19.	Although not classed as borrowing the Council has previously raised capital finance via Private Finance Initiative (PFI). The balance at the end of the year, after allowing for repayment in year of £3.14M is £47.52M.																				

20. In addition, the Authority holds debt in relation to debt transferred from Hampshire County Council on the 1 April 1997 when we became a unitary authority, of £13.46M. This is being repaid over 50 years at £0.37M per annum.

## INVESTMENT ACTIVITY

21. CIPFA published a revised Treasury Management in the Public Services Code of Practice and Cross-Sectoral Guidance Notes on 20th December 2021. These define treasury management investments as investments that arise from the organisation's cash flows or treasury risk management activity that ultimately represents balances that need to be invested until the cash is required for use in the course of business.

22. The Authority received central government funding to support small and medium businesses during the COVID-19 pandemic through grant schemes. This was invested in short-dated, liquid instruments such as call accounts and Money Market Funds until dispersed which led to higher investment balances throughout the year. The Council maintained its strategy of offsetting investment and borrowing to reduce treasury costs.

23. The council has held significant invested funds, representing income received in advance of expenditure plus balances and reserves held. During 2021/22 the council's investment balances have ranged between £43.01M and £133.87M. Movement in year is summarised in table 6 below:

24. *Table 6: Investment activity during the year*

	Balance on 01/04/2021	Investments Repaid	New Investments	Balance on 31/03/2022	(Increase)/ Decrease in Investment for Year	Average Life of Investments
	£M	£M	£M	£M	£M	Life
Multi- National Bonds (not subject to bail in)	(3.17)	2.11	0.00	(1.06)	2.11	4 years
Money Market Funds and Call Account	(30.13)	256.64	(281.01)	(54.50)	(24.37)	on day notice
Government & Local Authority	0.00	320.80	(345.21)	(24.41)	(24.41)	53 days
Managed Externally (CCLA Pooled funds)	(27.29)	0.29	(0.25)	(27.25)	0.04	Unspecified
<b>Total Investments</b>	<b>(60.59)</b>	<b>579.84</b>	<b>(626.47)</b>	<b>(107.22)</b>	<b>(46.63)</b>	

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

26. Ultra low short-dated cash rates, which were a feature from March 2020 when Bank Rate was cut to 0.1%, prevailed for much of the 12-month reporting period which resulted in the return on sterling low volatility net asset value (LVNAV) Money Market Funds being close to zero even after some managers temporarily waived or lowered their fees. However, higher returns on cash instruments followed the increases in Bank of England Base Rate in December, February and March. At 31st March, the 1-day return on the Authority's MMFs ranged between 0.45% - 0.54% and average 0.51%.

	Similarly, deposit rates with the Debt Management Account Deposit Facility (DMADF) initially remained very low with rates ranging from 0% to 0.1% but following the hikes to policy rates increased to between 0.55% and 0.85% depending on the deposit maturity.																																																																				
27.	Security of capital has remained the council's main investment objective. This has been maintained by following the Authority's counterparty policy as set out in its TM Strategy Statement for 2021/22. The council has adopted a voluntary measure of its exposure to credit risk by monitoring the value-weighted average credit rating of its investment portfolio, which is supplied by our advisors. This is calculated by applying a score to each investment (AAA=1, AA+=2, etc.) and taking the arithmetic average, weighted by the size of each investment.																																																																				
	<table border="1"> <thead> <tr> <th></th> <th>Target</th> <th>Actual</th> </tr> </thead> <tbody> <tr> <td>Portfolio average credit rating</td> <td>A</td> <td>AA-</td> </tr> </tbody> </table>		Target	Actual	Portfolio average credit rating	A	AA-																																																														
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28.	Counterparty credit quality was assessed and monitored with reference to credit ratings (the Authority's minimum long-term counterparty rating is A-) across rating agencies Fitch, S&P and Moody's); for financial institutions analysis of funding structure and susceptibility to bail-in, credit default swap prices, financial statements, information on potential government support and reports in the quality financial press. The authority also used secured investments products that provide collateral in the event that the counterparty cannot meet its obligations for repayment.																																																																				
29.	The table below summarises the Council's investment portfolio as at 31 March 2022 by credit rating and confirms that all investments were made in line with the Council's approved credit rating criteria. The investment for Pooled funds includes the unrealised estimated gain of £3.89M.																																																																				
	<p><b>Table 7: Credit ratings of Investments held at 31st March 2022</b></p> <table border="1"> <thead> <tr> <th rowspan="3">Credit Rating</th> <th colspan="2">Long Term</th> <th colspan="2">Short Term</th> </tr> <tr> <th>2021</th> <th>2022</th> <th>2021</th> <th>2022</th> </tr> <tr> <th>£000</th> <th>£000</th> <th>£000</th> <th>£000</th> </tr> </thead> <tbody> <tr> <td>AAA</td> <td>1,009</td> <td>1,008</td> <td>2,142</td> <td>52</td> </tr> <tr> <td>AA+</td> <td></td> <td></td> <td></td> <td>24,410</td> </tr> <tr> <td>AA</td> <td></td> <td></td> <td></td> <td></td> </tr> <tr> <td>AA-</td> <td></td> <td></td> <td>12,000</td> <td></td> </tr> <tr> <td>A+</td> <td></td> <td></td> <td>18,028</td> <td>46,750</td> </tr> <tr> <td>A</td> <td></td> <td></td> <td>102</td> <td>7,753</td> </tr> <tr> <td>A-</td> <td></td> <td></td> <td></td> <td></td> </tr> <tr> <td>Unrated local authorities</td> <td></td> <td></td> <td></td> <td></td> </tr> <tr> <td>Shares in unlisted companies</td> <td>20</td> <td>20</td> <td></td> <td></td> </tr> <tr> <td>Unrated pooled funds</td> <td>26,281</td> <td>30,893</td> <td>292</td> <td>253</td> </tr> <tr> <td><b>Total Investments</b></td> <td><b>27,310</b></td> <td><b>31,921</b></td> <td><b>32,564</b></td> <td><b>79,218</b></td> </tr> </tbody> </table>	Credit Rating	Long Term		Short Term		2021	2022	2021	2022	£000	£000	£000	£000	AAA	1,009	1,008	2,142	52	AA+				24,410	AA					AA-			12,000		A+			18,028	46,750	A			102	7,753	A-					Unrated local authorities					Shares in unlisted companies	20	20			Unrated pooled funds	26,281	30,893	292	253	<b>Total Investments</b>	<b>27,310</b>	<b>31,921</b>	<b>32,564</b>	<b>79,218</b>
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30.	<b>Benchmarking:</b> Our advisors produce quarterly benchmarking which shows the breakdown of our investments and how we compare to their other clients and other English Unitary. Details can be seen in Appendix 3. It shows that on average the return on our internal investments at 0.54% is slightly higher than the average of 0.46% and our overall return including the Local Authority Property Fund (income only) is 1.47% compared to the average of 1.08%. This has been achieved without																																																																				

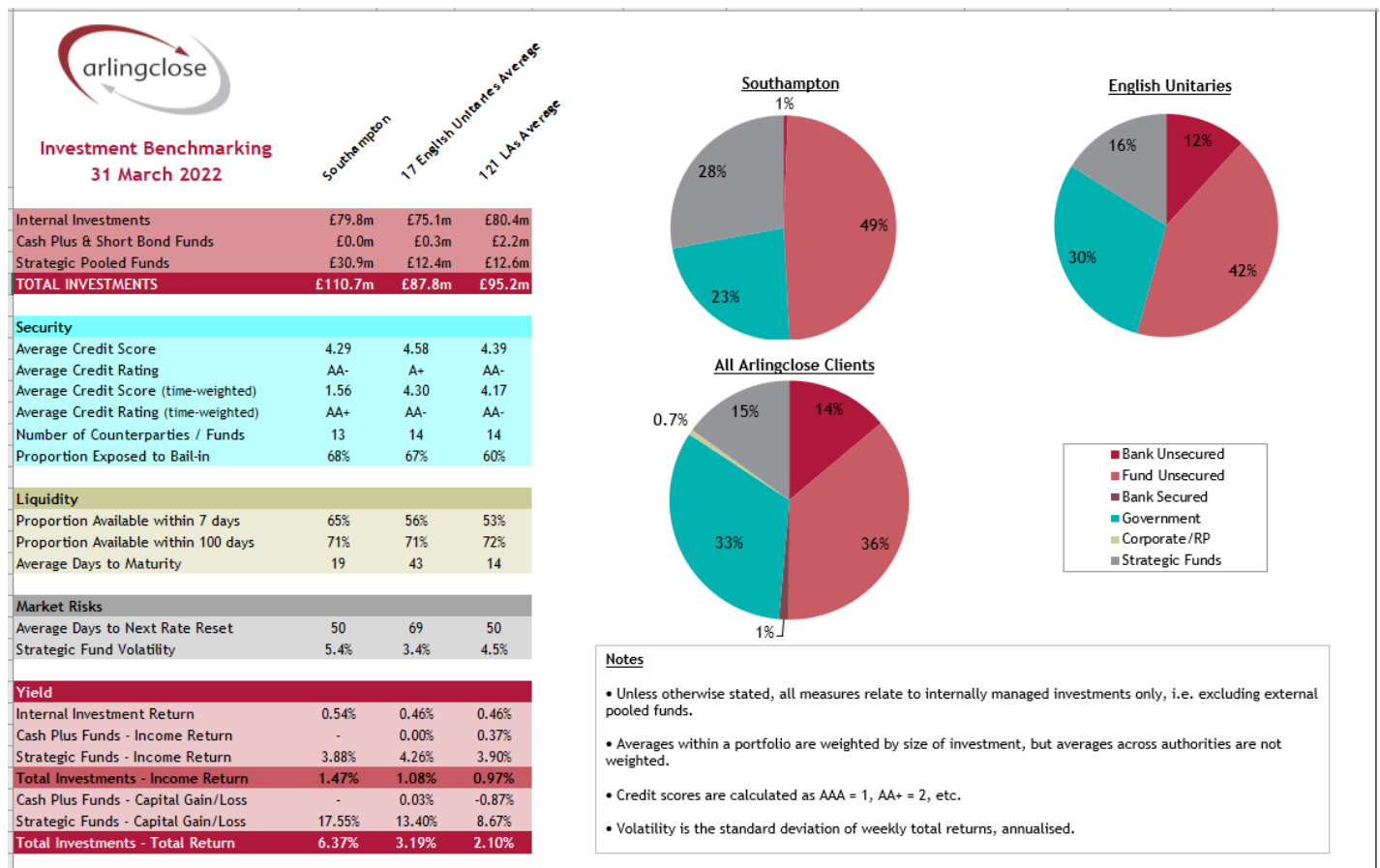
	<p>impacting on our average credit rating which at AA+ which is higher than the average for both other Local Authorities and Unitary Authorities at AA-.</p> <p>In addition, there has been a capital gain on the CCLA Strategic fund of 17.55% (see externally managed funds below for more details) which brings the total return on our investments to 6.37% for the year compared to the Unitary average of 3.19% and all Local Authorities average of 2.10%.</p>
<b>Liquidity Management</b>	
31.	<p>In keeping with the DLUHC's Guidance on Investments, the Council maintained a sufficient level of liquidity through the use of Money Market Funds and call accounts. There is no perceived risk that the Council will be unable to raise finance to meet its commitments. The Council also has to manage the risk that it will be exposed to replenishing a significant proportion of its borrowing at a time of unfavourable interest rates. The Council would only borrow in advance of need where there is a clear business case for doing so and will only do so for the current capital programme or to finance future debt maturities.</p>
<b>Externally Managed Funds</b>	
32.	<p>The Council has invested £27M in property funds which offer the potential for enhanced returns over the longer term but will be more volatile in the shorter term. These funds are managed by professional fund managers which allows the Authority to diversify into asset classes other than cash without the need to own and manage the underlying investments.</p>
33.	<p>In the nine months to December improved market sentiment was reflected in equity, property and multi-asset fund valuations and, in turn, in the capital values of the Authority's property fund. In the January- March quarter the two dominant themes were tighter UK and US monetary policy and higher interest rates, and the military invasion of Ukraine by Russia in February, the latter triggering significant volatility and uncertainty in financial markets.</p> <p>In light of Russia's invasion, Arlingclose contacted the fund managers and confirmed no direct exposure to Russian or Belarusian assets had been identified. Indirect exposures were immaterial. It should be noted that any assets held by banks and financial institutions (e.g. from loans to companies with links to those countries) within MMFs and other pooled funds cannot be identified easily or with any certainty as that level of granular detail is unlikely to be available to the fund managers or Arlingclose in the short-term, if at all.</p>
34.	<p>The market value has increased since last reported in December, £29.53M and at March 2022 had a value of £30.89M. An increase of £4.09M since the March 2021 value of £26.8M and is now £3.89M above the initial investment of £27M.</p> <p>The dividend for the year was £1.02M, 3.78% against the original investment. This is lower than 2020/21 which was boosted by a significant level of one-off receipts.</p> <p>The market value of the investment has continued to improve and at May 2022 was £32.09M, a further increase of £1.201M since end of year.</p>
35.	<p>Because these funds have no defined maturity date, but are available for withdrawal after a notice period, their performance and continued suitability in meeting the Authority's investment objectives is regularly reviewed.</p> <p>Strategic fund investments are made in the knowledge that capital values will move both up and down on months, quarters and even years; but with the confidence that over a three to five-year period total returns will exceed cash interest rates. In light of their performance over the long-term and the Authority's latest cash flow forecasts, investment in these funds has been maintained.</p>
<b>Non – Treasury Investments</b>	



36.	The definition of investments in CIPFA's revised 2021 Treasury Management Code covers all the financial assets of the Authority as well as other non-financial assets which the Authority holds primarily for financial return. Investments that do not meet the definition of treasury management investments (i.e., management of surplus cash) are categorised as either for service purposes (made explicitly to further service objectives) and or for commercial purposes (made primarily for financial return).																																									
37.	Investment Guidance issued by the Department for Levelling Up Housing and Communities (DLUHC) and Welsh Government also broadens the definition of investments to include all such assets held partially or wholly for financial return.																																									
38.	Between 2016 and 2017, SCC implemented a strategy to invest in commercial properties with the expected return on investment being used to fund council services, known as the Property investment fund (PIF). To date the authority has purchased 3 properties. Details of the properties purchased are shown in table 8 below. The rate of return on these investment in 2021/22 was 6.03% gross and 2.13% net (after borrowing costs of £1.16M were incurred), which therefore represents a contribution to the revenue account of around £0.63M.																																									
39.	All of the properties remain fully let and the tenants are meeting their financial obligations under the leases and there are currently no concerns regarding the properties that have currently fallen in value below the debt outstanding on it (by £1.23M) due to the current financial environment and market conditions.																																									
40.	<p><b>Table 8: Property Investment Fund</b></p> <table border="1" data-bbox="264 1037 1318 1453"> <thead> <tr> <th rowspan="2">Property</th> <th>Actual</th> <th colspan="2">31.03.2021 Actual</th> <th colspan="2">31.03.2022 Actual</th> <th>Outstanding Debt 31.03.2022</th> </tr> <tr> <th>Purchase Cost £M</th> <th>Value in Accounts</th> <th>Gain or (Loss) in Year</th> <th>Value in Accounts</th> <th>Gain or (Loss) in Year</th> <th>£M</th> </tr> </thead> <tbody> <tr> <td>Property 1</td> <td>6.47</td> <td>5.21</td> <td>(1.09)</td> <td>4.88</td> <td>(0.33)</td> <td>5.86</td> </tr> <tr> <td>Property 2</td> <td>14.69</td> <td>10.32</td> <td>(0.48)</td> <td>11.64</td> <td>1.32</td> <td>13.32</td> </tr> <tr> <td>Property 3</td> <td>8.53</td> <td>8.73</td> <td>0.34</td> <td>9.16</td> <td>0.43</td> <td>7.73</td> </tr> <tr> <td></td> <td>29.69</td> <td>24.26</td> <td>(1.23)</td> <td>25.68</td> <td>1.42</td> <td>26.91</td> </tr> </tbody> </table>	Property	Actual	31.03.2021 Actual		31.03.2022 Actual		Outstanding Debt 31.03.2022	Purchase Cost £M	Value in Accounts	Gain or (Loss) in Year	Value in Accounts	Gain or (Loss) in Year	£M	Property 1	6.47	5.21	(1.09)	4.88	(0.33)	5.86	Property 2	14.69	10.32	(0.48)	11.64	1.32	13.32	Property 3	8.53	8.73	0.34	9.16	0.43	7.73		29.69	24.26	(1.23)	25.68	1.42	26.91
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### Southampton Benchmarking Scores 31<sup>st</sup> March 2022



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## COMPLIANCE WITH PRUDENTIAL INDICATORS DURING 2021/22 Appendix 4

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

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

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

This is a key indicator of prudence. In order to ensure that over the medium term debt will only be for a capital purpose, the local authority should ensure that debt does not, except in the short term, exceed the total of CFR in the preceding year plus the estimates of any additional CFR for the current and next two financial years. If in any of these years there is a reduction in the CFR, this reduction is ignored in estimating the cumulative increase in the CFR which is used for comparison with gross external debt. The S151 Officer reports that the Authority had no difficulty in meeting this requirement in 2021/22, nor are there any difficulties envisaged for future years. This view takes into account current commitments, existing plans and the proposals in the approved budget.

There is a significant difference between the gross external borrowing requirement and the net external borrowing requirement represented by the Council's level of balances, reserves, provisions and working capital. The Council's current strategy is only to borrow to the level of its net borrowing requirement. The reasons for this are to reduce credit risk, take pressure off the Council's lending list and also to avoid the cost of carry existing in the current interest rate environment. The table below details our estimated and actual debt position at the 31<sup>st</sup> March 2022, details of movement on the CFR can be seen in Appendix 2, table 2.

This shows that we borrowed £51M less than expected, which includes slippage on the capital programme of £14.63M, including £2.64M of HRA expected borrowing and higher cash flows. Although Council Reserves decreased, it was less than the expected fall. Further details can be seen in the General Fund and HRA capital Outturn reports being reported to Council in July.

<b>Gross Debt</b>	<b>31/03/2021 Actual</b>	<b>31/03/2022 Forecast Last Reported</b>	<b>31/03/2022 Current Forecast</b>	<b>Movement since last reported position</b>
	<b>£M</b>	<b>£M</b>	<b>£M</b>	<b>£M</b>
Borrowing (Long Term GF)	95.63	124.93	90.03	(34.90)
Borrowing (Long Term HRA)	135.97	171.37	165.27	(6.10)
Borrowing (Short Term)	10.36	10.35	0.35	(10.00)
<b>Total Borrowing</b>	<b>241.96</b>	<b>306.65</b>	<b>255.65</b>	<b>(51.00)</b>
Finance leases and Private Finance Initiatives	50.97	47.52	47.52	0.00
Transferred Debt	13.47	13.10	13.10	0.00
<b>Total Other Debt</b>	<b>64.44</b>	<b>60.62</b>	<b>60.62</b>	<b>0.00</b>
<b>Total Debt</b>	<b>306.40</b>	<b>367.27</b>	<b>316.27</b>	<b>(51.00)</b>

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

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

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

The S151 Officer confirms that there were no breaches to the Authorised Limit and the Operational Boundary during 2021/22; borrowing at its peak was £269.20M plus other deferred liabilities of £64.43M.

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

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

	<b>Limits for 2021/22 (%)</b>	<b>Maximum during 2021/22 (%)</b>	<b>Compliance with Limits</b>
Upper Limit for Fixed Rate Exposure	100	83.66	Yes
Upper Limit for Variable Rate Exposure	50	18.39	Yes

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

This indicator allows the Council to manage the risk inherent in investments longer than a year and the limit is set at £100M. In 2021/22 the actual principal sum invested peaked at £30.17M but has currently reduced to £28.06M, as £2.11M bond matured in June 2021. This reflects the withdrawal from the Bonds market where the return is no longer attractive and to only borrow when cash flow dictate.

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

This is an indicator of affordability and highlights the revenue implications of existing and proposed capital expenditure by identifying the proportion of the revenue budget required to meet borrowing costs. The ratio is based on the forecast of net revenue expenditure in the medium term financial model. The upper limit for this ratio is currently set at 15% and will remain so for the General Fund to allow for known borrowing decision in the next two years and to allow for additional borrowing affecting major schemes. The table below shows the likely position based on the proposed capital programme (including cost of long term liabilities).

This indicator is not so relevant for the HRA, as financing costs have been built into their 40 year business plan, including the voluntary payment of MRP. No problem is seen with

the affordability but if problems were to arise then the HRA would have the option not to make principle repayments in the early years.

<b>Ratio of Financing Costs to Net Revenue Stream</b>	<b>2020/21 Actual %</b>	<b>2021/22 Strategy %</b>	<b>2021/22 Forecast %</b>	<b>Variance %</b>
General Fund	8.40	9.92	9.69	(0.23)
HRA	6.40	11.31	11.26	(0.05)
<b>Total</b>	<b>8.95</b>	<b>11.69</b>	<b>11.52</b>	<b>(0.17)</b>

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

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

## **7. Summary**

As indicated in this report the Council has operated within the limits set by the Prudential Indicators.

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## GLOSSARY OF TREASURY TERMS

<p><b>Authorised Limit (Also known as the Affordable Limit):</b></p> <p>A statutory limit that sets the maximum level of external borrowing on a gross basis (i.e. not net of investments) for the Council. It is measured on a daily basis against all external borrowing items on the Balance Sheet (i.e. long and short term borrowing, overdrawn bank balances and long term liabilities).</p>
<p><b>Balances and Reserves:</b></p> <p>Accumulated sums that are maintained either earmarked for specific future costs or commitments or generally held to meet unforeseen or emergency expenditure.</p>
<p><b>Bail - in (Risk):</b></p> <p>Following the financial crisis of 2008 when governments in various jurisdictions injected billions of dollars into banks as part of bail-out packages, it was recognised that bondholders, who largely remained untouched through this period, should share the burden in future by making them forfeit part of their investment to "bail in" a bank before taxpayers are called upon.</p> <p>A bail-in takes place before a bankruptcy and under current proposals, regulators would have the power to impose losses on bondholders while leaving untouched other creditors of similar stature, such as derivatives counterparties. A corollary to this is that bondholders will require more interest if they are to risk losing money to a bail-in.</p>
<p><b>Bank Rate:</b></p> <p>The official interest rate set by the Bank of England's Monetary Policy Committee and what is generally termed at the "base rate". This rate is also referred to as the 'repo rate'.</p>
<p><b>Bond:</b></p> <p>A certificate of debt issued by a company, government, or other institution. The bond holder receives interest at a rate stated at the time of issue of the bond. The repayment date is also set at the onset but can be traded during its life, but this will affect the price of a bond which may vary during its life.</p>
<p><b>Capital Expenditure:</b></p> <p>Expenditure on the acquisition, creation or enhancement of capital assets.</p>
<p><b>Capital Financing Requirement (CFR):</b></p> <p>The CFR is simply the total historic outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure of the Council's underlying borrowing need.</p>
<p><b>CD's:</b></p> <p>Certificates of Deposits with banks and building societies</p>
<p><b>Capital Receipts:</b></p> <p>Money obtained on the sale of a capital asset.</p>

**Constant Net Asset Value (CNAV)**

These are Money Market Funds which maintain a stable price of £1 per share when investors redeem or purchase shares which mean that that any investment will not fluctuate in value.

**Corporate Bonds:**

Corporate bonds are bonds issued by companies. The term is often used to cover all bonds other than those issued by governments in their own currencies and includes issues by companies, supranational organisations and government agencies.

**Cost of Carry:**

The "cost of carry" is the difference between what is paid to borrow compared to the interest which could be earned. For example, if one takes out borrowing at 5% and invests the money at 1.5%, there is a cost of carry of 3.5%.

**Counterparty List:**

List of approved financial institutions with which the Council can place investments with.

**Covered Bond:**

Covered bonds are debt securities backed by cash flows from mortgages or public sector loans. They are similar in many ways to asset-backed securities created in securitisation, but covered bond assets remain on the issuer's consolidated balance sheet (usually with an appropriate capital charge). The covered bonds continue as obligations of the issuer (often a bank); in essence, the investor has recourse against the issuer and the collateral, sometimes known as "dual recourse."

**CPI :**

Consumer Price Index – the UK's main measure of inflation.

**Credit Rating:**

Formal opinion by a registered rating agency of a counterparty's future ability to meet its financial liabilities; these are opinions only and not guarantees.

**Department for Communities and Local Government (DCLG) :**

The DCLG is the UK Government department for Communities and Local Government in England. It was established in May 2006 and is the successor to the Office of the Deputy Prime Minister, established in 2001.

**Diversify /diversified exposure:**

The spreading of investments among different types of assets or between markets in order to reduce risk.

**Federal Reserve:**

The US central bank. (Often referred to as "the Fed").

**FTSE 100 Index:**

The FTSE 100 Index is a share index of the 100 companies listed on the London Stock Exchange with the highest market capitalisation. It is one of the most widely used stock indices and is seen as a gauge of business prosperity for business regulated by UK

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

**General Fund:**

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

**Gilts:**

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

**Gross Domestic Product (GDP):**

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

**The G7:**

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

**IFRS:**

International Financial Reporting Standards.

**LIBID:**

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

**LOBO:**

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

**Maturity:**

The date when an investment or borrowing is repaid.

**Maturity Structure / Profile:**

A table or graph showing the amount (or percentage) of debt or investments maturing over a time period. The amount or percent maturing could be shown on a year-by-year or quarter-by-quarter or month-by-month basis.

**Minimum Revenue Provision (MRP):**

An annual provision that the Council is statutorily required to set aside and charge to the Revenue Account for the repayment of debt associated with expenditure incurred on capital assets.

**Money Market Funds (MMF):**

An open-end mutual fund which invests only in money markets. These funds invest in short term debt obligations such as short-dated government debt, certificates of deposit and commercial paper. The main goal is the preservation of principal, accompanied by modest dividends. The fund's net asset value remains constant (eg £1 per unit) but the interest rate does fluctuate. These are liquid investments, and therefore, are often used by financial institutions to store money that is not currently invested. Risk is extremely low due to the high rating of the MMFs; many have achieved AAA credit status from the rating agencies:

- **Constant net asset value (CNAV)** refers to funds which use amortised cost accounting to value all of their assets. They aim to maintain a net asset value (NAV), or value of a share of the fund, at €1/£1/\$1 and calculate their price to two decimal places known as "penny rounding". Most CNAV funds distribute income to investors on a regular basis (distributing share classes), though some may choose to accumulate the income, or add it on to the NAV (accumulating share classes). The NAV of accumulating CNAV funds will vary by the income received.
- **Variable net asset value (VNAV)** refers to funds which use mark-to-market accounting to value some of their assets. The NAV of these funds will vary by a slight amount, due to the changing value of the assets and, in the case of an accumulating fund, by the amount of income received.

This means that a fund with an unchanging NAV is, by definition, CNAV, but a fund with a NAV that varies may be accumulating CNAV or distributing or accumulating VNAV.

**Non Specified Investment:**

Investments which fall outside the CLG Guidance for **Specified investments** (below).

**Operational Boundary:**

This linked directly to the Council's estimates of the CFR and estimates of other day to day cash flow requirements. This indicator is based on the same estimates as the Authorised Limit reflecting the most likely prudent but not worst case scenario but without the additional headroom included within the Authorised Limit.

**Premiums and Discounts:**

In the context of local authority borrowing,

- (a) the premium is the penalty arising when a loan is redeemed prior to its maturity date and
- (b) the discount is the gain arising when a loan is redeemed prior to its maturity date.

If on a £1 million loan, it is calculated that a £150,000 premium is payable on premature redemption, then the amount paid by the borrower to redeem the loan is £1,150,000 plus accrued interest. If on a £1 million loan, it is calculated\* that a £50,000 discount receivable on premature redemption, then the amount paid by the borrower to redeem the loan is £950,000 plus accrued interest. PWLB premium/discount rates are calculated according to the length of time to maturity, current market rates (plus a margin), and the existing loan rate which then produces a premium/discount dependent on whether the discount rate is lower/higher than the coupon rate.

*\*The calculation of the total amount payable to redeem a loan borrowed from the Public Works Loans Board (PWLB) is the present value of the remaining payments of principal and interest due in respect of the loan being repaid prematurely, calculated on normal actuarial principles. More details are contained in the PWLB's lending arrangements circular.*

**Property:**

Investment property is property (land or a building or part of a building or both) held (by the owner or by the lessee under a finance lease) to earn rentals or for capital appreciation or both.

**Prudential Code:**

Developed by CIPFA and introduced on 01/4/2004 as a professional code of practice to support local authority capital investment planning within a clear, affordable, prudent and sustainable framework and in accordance with good professional practice.

**Prudential Indicators:**

Indicators determined by the local authority to define its capital expenditure and asset management framework. They are designed to support and record local decision making in a manner that is publicly accountable; they are not intended to be comparative performance indicators

**Public Works Loans Board (PWLB):**

This is a statutory body operating within the United Kingdom Debt Management Office, an Executive Agency of HM Treasury. The PWLB's function is to lend money from the National Loans Fund to local authorities and other prescribed bodies, and to collect the repayments.

**Quantitative Easing (QE):**

In relation to the UK, it is the process used by the Bank of England to directly increase the quantity of money in the economy. It *“does not involve printing more banknotes. Instead, the Bank buys assets from private sector institutions – that could be insurance companies, pension funds, banks or non-financial firms – and credits the seller’s bank account. So the seller has more money in their bank account, while their bank holds a corresponding claim against the Bank of England (known as reserves). The end result is more money out in the wider economy”*. Source: Bank of England.

**Regularity Method - MRP:**

As detailed under MRP, this is a charge to revenue to repay capital expenditure financed by borrowing. There are a number of options for a prudent provision and this is for debt prior to 2008 which is supported by the Government through the RSG system. Although regulation 28 is revoked by regulation 4(1) of the 2008 Regulations, authorities are able to calculate MRP as if it were still in force.

**Revenue Expenditure:**

Expenditure to meet the continuing cost of delivery of services including salaries and wages, the purchase of materials and capital financing charges.

**RPI:**

Retail Prices Index is a monthly index demonstrating the movement in the cost of living as it tracks the prices of goods and services including mortgage interest and rent. Pensions and index-linked gilts are uprated using the RPI index.

<p><b>(Short) Term Deposits:</b></p> <p>Deposits of cash with terms attached relating to maturity and rate of return (Interest).</p>
<p><b>Specified Investments:</b></p> <p>Term used in the CLG Guidance and Welsh Assembly Guidance for Local Authority Investments. Investments that offer high security and high liquidity, in sterling and for no more than one year. UK government, local authorities and bodies that have a high credit rating.</p>
<p><b>Supported Borrowing:</b></p> <p>Borrowing for which the costs are supported by the government or third party.</p>
<p><b>Temporary Borrowing:</b></p> <p>Borrowing to cover peaks and troughs of cash flow, not to fund capital spending.</p>
<p><b>Treasury Management Code:</b></p> <p>CIPFA's Code of Practice for Treasury Management in the Public Services, initially brought in 2003, subsequently updated in 2009 and 2011.</p>
<p><b>Treasury Management Practices (TMP):</b></p> <p>Treasury Management Practices set out the manner in which the Council will seek to achieve its policies and objectives and prescribe how it will manage and control these activities.</p>
<p><b>Unsupported Borrowing:</b></p> <p>Borrowing which is self-financed by the local authority. This is also sometimes referred to as Prudential Borrowing.</p>
<p><b>Variable Net Asset Value (VNAV):</b></p> <p>Redemptions and investments in Money Market Funds (MMF's) are on the basis of the fund's Net Asset Value (NAV) per share. The NAV of any money market fund is the market value of the fund's assets minus its liabilities and is stated on a per share basis. The net value of the assets held by an MMF can fluctuate, and the market value of a share may not always be exactly the amount that has been invested.</p>
<p><b>Yield:</b></p> <p>The measure of the return on an investment instrument.</p>

# Agenda Item 9

<b>DECISION-MAKER:</b>	<b>GOVERNANCE COMMITTEE</b>
<b>SUBJECT:</b>	<b>ANNUAL INTERNAL AUDIT OPINION 2021-22</b>
<b>DATE OF DECISION:</b>	<b>25<sup>th</sup> JULY 2022</b>
<b>REPORT OF:</b>	<b>CHIEF INTERNAL AUDITOR</b>

<b><u>CONTACT DETAILS</u></b>			
<b>Executive Director</b>	<b>Title</b>	<b>FINANCE &amp; COMMERCIALISATION</b>	
	<b>Name:</b>	<b>John Harrison</b>	<b>Tel: 023 8083 4897</b>
	<b>E-mail</b>	<b>John.Harrison@southampton.gov.uk</b>	
<b>Author:</b>	<b>Title</b>	<b>CHIEF INTERNAL AUDITOR</b>	
	<b>Name:</b>	<b>Elizabeth Goodwin</b>	<b>Tel: 023 8083 4616</b>
	<b>E-mail</b>	<b>Elizabeth.Goodwin@southampton.gov.uk</b>	

<b>STATEMENT OF CONFIDENTIALITY</b>	
N/A	
<b>BRIEF SUMMARY</b>	
<p>On an annual basis and in accordance with the Public Sector Internal Audit Standards the Chief Internal Auditor is required to provide an opinion on the adequacy and effectiveness of the Council's framework of risk management, internal control and governance.</p> <p>In addition to the opinion an update is provided within the report of the Internal audit work carried out since the last reporting period.</p> <p>During 2021-22 Internal Audit &amp; Counter Fraud completed 33 audits (including 2 items of consultancy), 15 grant reviews, 14 first follow ups and 8 second follow ups. The results show that the level of 'No Assurance' audited areas have decreased from the previous year, as none were raised during 2021-22.</p> <p>70% of areas tested were rated as 'reasonable assurance' or 'assurance'. This is consistent with the previous year. This is a strong indication that improvements evidenced over the last two years have been maintained. In addition, the results across audit work performed during 2021-22 have not identified any systemic failings. There are pocked however, across the council that require further work and the impact of Covid 19 and changes to working patterns may highlight additional areas for focus and auditing over time.</p> <p>Based on the results 'Reasonable Assurance' has been attributed to the effectiveness of the control framework in operation. This is an improvement from prior years where 'limited assurance' was given. The full details can be found in Appendix A.</p>	
<b>RECOMMENDATIONS:</b>	
(i)	That the Governance Committee notes the Chief Internal Auditor's Annual Audit Opinion for 2021-22.

<b>REASONS FOR REPORT RECOMMENDATIONS</b>	
1.	In accordance with proper internal audit practices (Public Sector Internal Audit Standards) and the Internal Audit Charter, the Governance Committee is required to receive the Chief Internal Auditor's Annual Report & Opinion for 2021-22.
<b>ALTERNATIVE OPTIONS CONSIDERED AND REJECTED</b>	
	None
<b>DETAIL (Including consultation carried out)</b>	
	The opinion has been shared with members of the Executive Management Board including the s151 officer.
<b>RESOURCE IMPLICATIONS</b>	
<b><u>Capital/Revenue</u></b>	
	None
<b><u>Property/Other</u></b>	
	None
<b>LEGAL IMPLICATIONS</b>	
<b><u>Statutory power to undertake proposals in the report:</u></b>	
	The Accounts and Audit (England) Regulations 2015 state 'a relevant body must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account the Public Sector Internal Auditing Standards.
<b><u>Other Legal Implications:</u></b>	
	None
<b>RISK MANAGEMENT IMPLICATIONS</b>	
	Failure to maintain an effective internal audit functions would result in a failure of the organisation meeting its statutory responsibilities in relation to the Annual Governance Statement and Annual Audit Opinion.
<b>POLICY FRAMEWORK IMPLICATIONS</b>	
	None

<b>KEY DECISION?</b>	<b>No</b>
<b>WARDS/COMMUNITIES AFFECTED:</b>	None
<b><u>SUPPORTING DOCUMENTATION</u></b>	
<b>Appendices</b>	
1.	Annual Internal Audit Opinion for 2021-22
<b>Documents In Members' Rooms</b>	
1.	None
<b>Equality Impact Assessment</b>	
<b>Do the implications/subject of the report require an Equality and</b>	<b>No</b>



<b>Safety Impact Assessment (ESIA) to be carried out.</b>		
<b>Data Protection Impact Assessment</b>		
<b>Do the implications/subject of the report require a Data Protection Impact Assessment (DPIA) to be carried out.</b>		<b>No</b>
<b>Other Background Documents</b>		
<b>Other Background documents available for inspection at:</b>		
<b>Title of Background Paper(s):</b> <b>Results of work carried out to date.</b>	<b>Relevant Paragraph of the Access to Information Procedure Rules / Schedule 12A allowing document to be Exempt/Confidential (if applicable)</b>	

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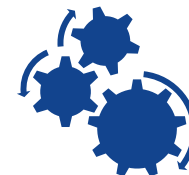


**SOUTHAMPTON**  
CITY COUNCIL

## **Southampton City Council Annual Audit Report 2021/22**

**Elizabeth Goodwin, Chief Internal Auditor**

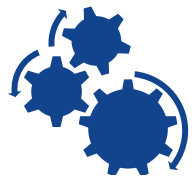




## Contents

- 1** Executive Summary - page 3
- 2** Background - pages 4 to 5
- 3** Annual Opinion for 2021/22 - page 6
- 4** Comparative 2020/21 & 2021/22 Audit Assurance Levels - page 8
- 5** 2021/22 Audit Assurance by Executive Directorate - page 9 to 10
- 6** Key Areas of Concern - page 11
- 7** Comparative 2020/21 & 2021/22 Exception Risk Rankings - page 12
- 8** 2021/22 Exception Analysis by Risk Classification - page 13
- 9** 2021/22 Follow Up Analysis - page 14
- 10** Quality Assurance - page 15 to 16
- 11** 2021/22 Audits Completed - not previously reported - pages 17 to 20
- 12** 2021/22 Follow-Up Audits Completed - not previously reported – page 21
- 13** Counter Fraud & Audit Unplanned Reactive Work - page 22
- 14** Public Sector Internal Audit Standards - page 23

Page 70



## 1. Executive Summary

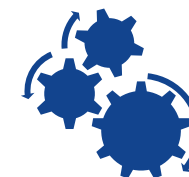
### Annual Opinion

On a yearly basis the Chief Internal Auditor is required to form an annual opinion on the effectiveness of the internal control framework in operation at Southampton City Council. This opinion is based on work carried out over the course of the previous financial year (2021/22) and includes an assessment of results obtained from auditing activities. The details that support the opinion are contained in the body of this report.

In summary the results show that improvements have been maintained from the previous year to the extent that the overall opinion level can increase to 'Reasonable Assurance'. An improvement from previous years which were rated as 'Limited Assurance'. The results across audit work performed during 2021-22 have not identified any systemic failings. There are pockets however, across the council that require further work to enhance the control environment, some of these areas have been impacted by structural changes, that will need to settle. The impact of Covid 19 and changes to working patterns, including transformational changes across the council, currently taking place, may also highlight additional areas, for focus and auditing over time.

### Progress Update

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



## 2. Background

### Public Sector Internal Audit Standards

**2.1** On 1<sup>st</sup> April 2013 the *Public Sector Internal Audit Standards (PSIAS, the Standards)* were formally adopted in respect of local government across the United Kingdom. The *PSIAS* apply to all internal audit providers, whether in-house, shared services or outsourced. The *PSIAS* were revised from 1<sup>st</sup> April 2016, to incorporate the *Mission of Internal Audit* and *Core Principles for the Professional Practice of internal Auditing*.

**2.2** The *Accounts and Audit Regulations 2015 Section 5*, define the requirement for an internal audit function within local government, stating that:

*A relevant authority must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance*

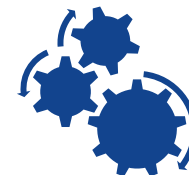
**2.3** The responsibility for maintaining an adequate and effective system of internal audit within Southampton City Council lies with the Executive Director of Finance, Commercialisation & s151 Officer.

**2.4** The Chief Internal Auditor is responsible for effectively managing the internal audit activity, in accordance with the definition of internal auditing, the *Code of Ethics* and the *Standards*.

**2.5** In accordance with the *PSIAS* the definition of internal auditing is:

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

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



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

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

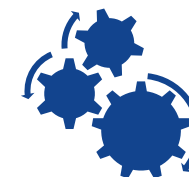
**2.8** An annual self-assessment is carried out, as part of *PSIAS*. The assessment for 2021/22 confirmed that Southampton City Council's Internal Audit Service is compliant with requirements.

### Statement of Organisational Independence

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

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

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



### 3. Annual Opinion for 2021/22

- 3.1 With effect from the 1<sup>st</sup> of April 2017, in partnership with Portsmouth City Council, an in-house team to provide the internal audit service was established. The team currently consists of an Audit Manager and two Auditors, who are both undertaking professional qualifications. The service is provided by a combination of the in-house provision and colleagues from Portsmouth City Council overseen by a shared Chief Internal Auditor employed by Portsmouth City Council.
- 3.2 During 2021-22 Internal Audit & Counter Fraud completed 33 audits (including 2 items of consultancy), 15 grant reviews, 14 first follow ups and 8 second follow ups. The results show that the level of 'No Assurance' audited areas have decreased from the previous year, as none were raised during 2021-22. Grants and consultative work are excluded from the annual evaluation as no opinion is given for consultancy items and if the work is grant related, assurance is provided. This is either immediately, at the conclusion of testing or following required amendments to ensure that the expenditure complies with the terms and conditions of the grant.
- 3.3 70% of areas tested were rated as 'reasonable assurance' or 'assurance', consistent with the previous year. This is a strong indication that improvements evidenced over the last two years have been maintained. In addition, the 2021-22 results have not identified systemic failings. There are areas, across the council that require further work to enhance the control environment and the impact of Covid 19 and changes to working patterns, may highlight additional areas for focus and auditing over time.
- 3.4 Over several years a residual issue has been highlighted in the number of outstanding actions for implementation. This year there has been continued progress as 47% of risks exceptions have been closed. This is also reflected in that 68% of follow up audits achieved improvement for the opinion level, with only 32% remaining the same, due to insufficient movement to deliver actions. Based on all the above, particularly, sustained stability across two years 'Reasonable Assurance' has been attributed to the effectiveness of the control framework in operation. This is an improvement from prior years where 'limited assurance' was given. However as stated the evidence shows consistency and is therefore within the boundaries of a reasonable assessment.
- 3.5 Four audit opinion levels are in place, and these are: no assurance, limited assurance, reasonable assurance, and full assurance. Where there are mainly medium or low risk exceptions the annual audit opinion would be reasonable or full assurance. Reasonable Assurance is provided for this year, with the above narrative that the internal control framework in operation at Southampton City Council is improving.

Page 74

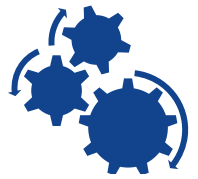
Full Assurance

**Reasonable Assurance**

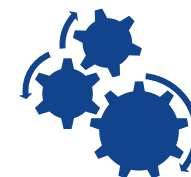
Limited Assurance

No Assurance

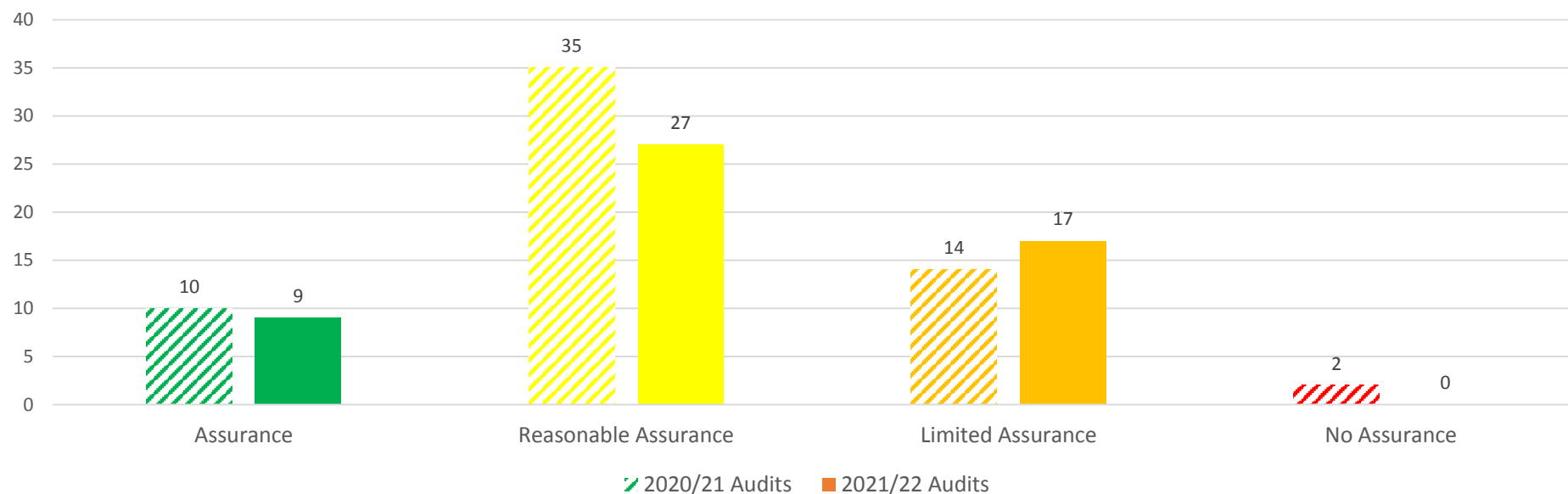




**3.6** Any significant corporate weaknesses and agreed actions will be reflected in the Annual Governance Statement. The impact of the Internal Audit work for 2021/22 may affect that year's work for External Audit. It may also inform their work for 2022/23 and where they consider there are weaknesses in control that could materially affect the accounts, they may need to carry out further work to gain the necessary audit assurance required, for a true and fair view of the financial position and compliance with professional codes of practice.

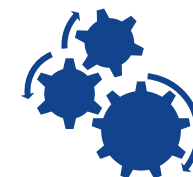


#### 4. Comparative 2020/21 & 2021/22 Audit Assurance Levels

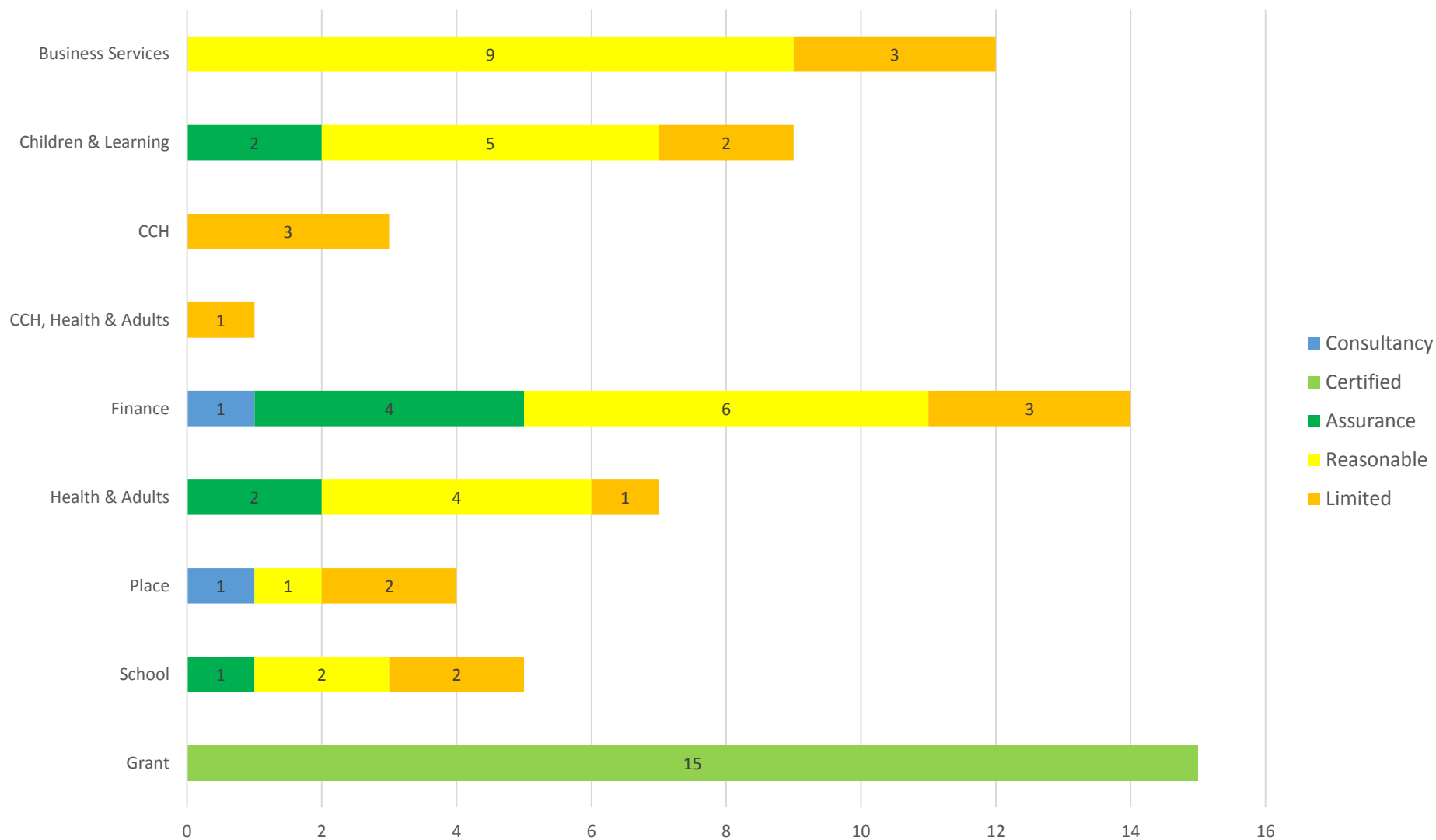


Note: Grant Certifications have not been included in this graph. In the table below the numbers in brackets indicates the change in the number of audits with that assurance level in the 2021/22 financial year compared to 2020/21 financial year.

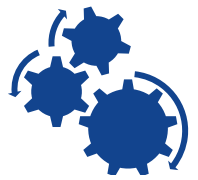
	2020/21	2021/22
<b>Assurance</b>	10	9 (-1)
<b>Reasonable Assurance</b>	35	27 (-8)
<b>Limited Assurance</b>	14	17 (-3)
<b>No Assurance</b>	2	0 (-2)
<b>TOTAL</b>	61	53



### 5. 2021/22 Audit Assurance by Executive Directorate

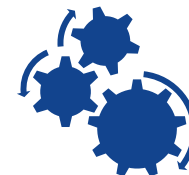


Page 77



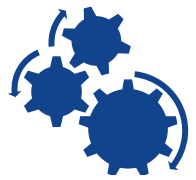
	Assurance/Certified	Reasonable Assurance	Limited Assurance	No Assurance	TOTAL
Business Services	0	9	3	0	12
Children & Learning	2	5	2	0	9
Communities, Culture & Homes	0	0	3	0	3
Communities, Culture & Homes & Health and Adults	0	0	1	0	1
Finance	4 (+1 Consultancy)	6	3	0	14
Health & Adults	2	4	1	0	7
Place	0 (+1 Consultancy)	1	2	0	4
Schools	1	2	2	0	5
Grants	15	0	0	0	15
<b>TOTAL</b>	<b>24 (+2 Consultancy)</b>	<b>27</b>	<b>17</b>	<b>0</b>	<b>70</b>

Page 78

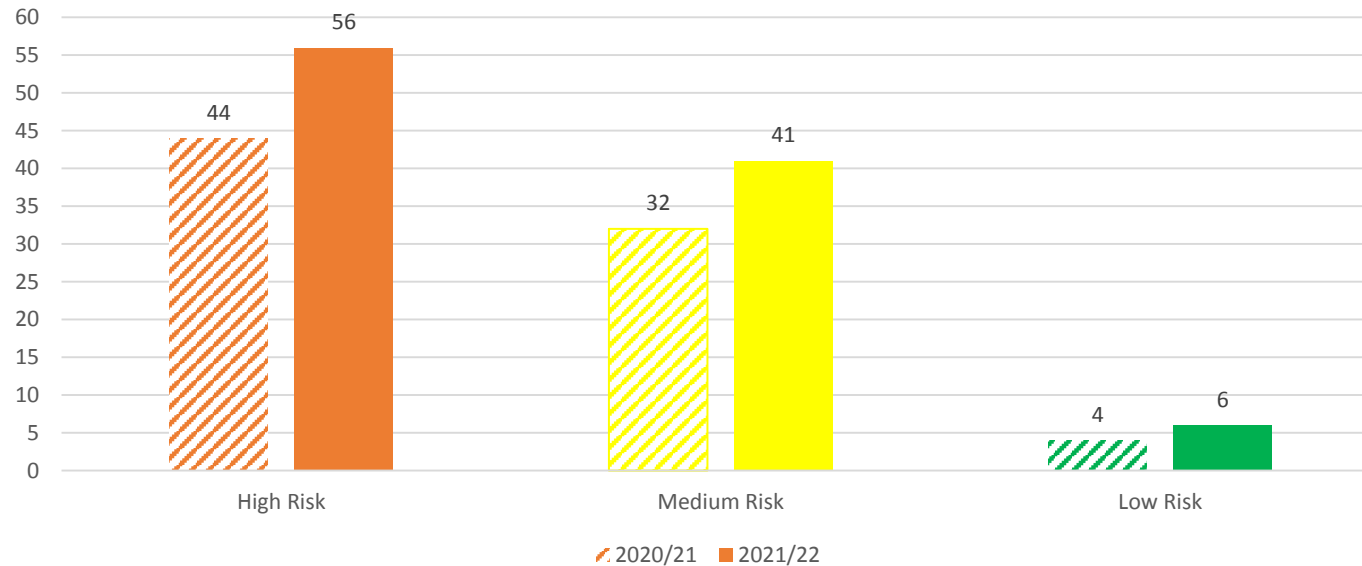


## 6. Key Areas of Concern

- 6.1** During 2021/22 there were no areas of significant concern and no '**no assurance**' reports.
- 6.2** A residual area of concern is in relation to the timeliness of implementing agreed actions to mitigate risk exposure. As noted in the 2021/22 Follow Up Analysis (detailed on page 13) that 47% (an improvement from 43% for 2020-21) of the 87 exceptions followed up through 2021/22 had been actioned within the agreed timeframe, meaning 53 (57% for the previous year) is currently outstanding. This is reflective across the organisation. Proposed actions to address this issue have been impacted by COVID-19 and additional steps have been agreed by the Executive Management Board moving forward. This includes continuing second follow up reviews and enhanced reporting on any areas outstanding to members to the Executive Management Board.
- 6.3** Over the course of the year several reviews have resulted in limited assurance being attributed as an overall opinion. There are no patterns or trends emerging across the organisation in terms of these reviews. Risk exposure in relation to Compliance with Rules, Regulations and Legislation as detailed in 2021/22 Risk Level by Risk Classification will always be highlighted due to the level of testing under compliance. Any specific concerns will always be factored in if relevant to the Annual Governance Statement.
- 6.4** Our opinion is in relation to work performed across 2021/22 and during the COVID-19 pandemic. There will inevitably be some issues emerging because of arrangements and procedures enacted due to the pandemic. Any future emerging concerns will influence work moving forward.

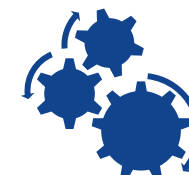


### 7. Comparative 2020/21 & 2021/22 Exception Risk Rankings

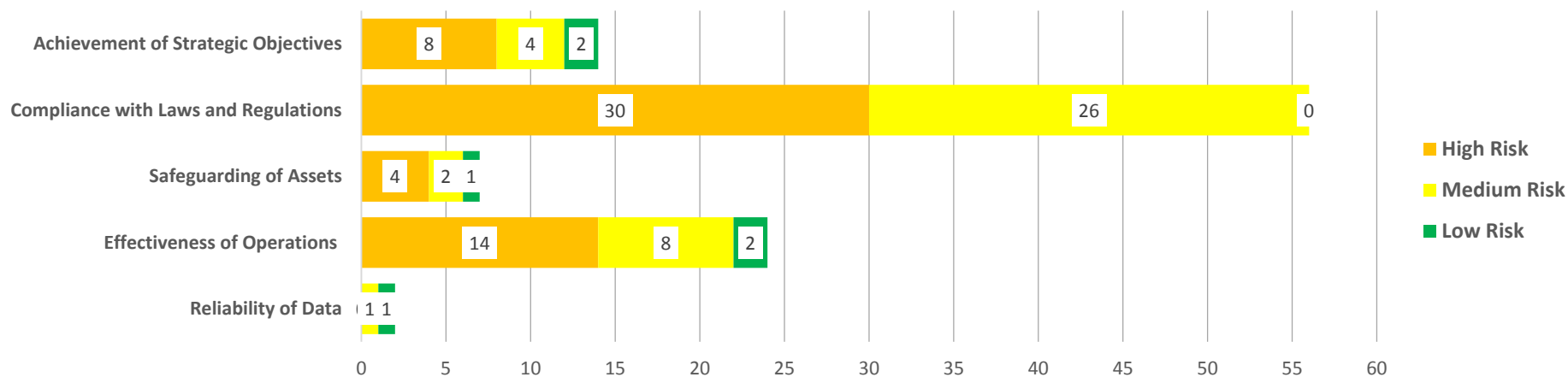


	2020/21	2021/22
<b>Critical Risk</b>	0	0
<b>High Risk</b>	44	56 (+12)
<b>Medium Risk</b>	32	41 (+9)
<b>Low Risk</b>	4	6 (+2)
<b>TOTAL</b>	80	103

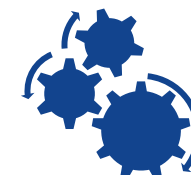
Note: In the table ABOVE the numbers in brackets indicates the change in the number of audits with that assurance level in the 2021/22 financial year compared to 2020/21 financial year.



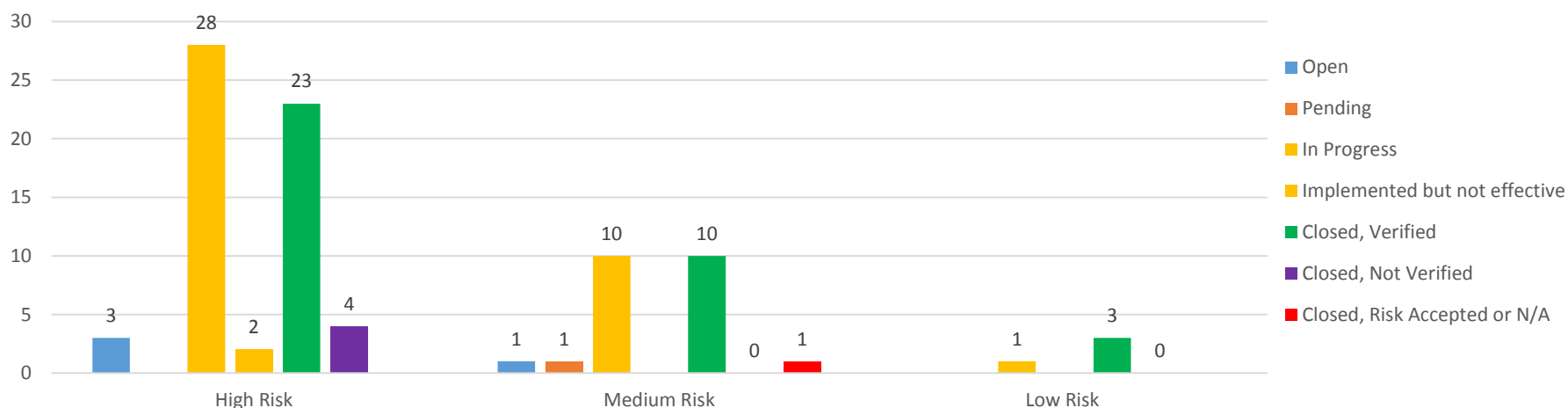
### 8. 2021/22 Exception Analysis by Risk Classification



	High Risks	Medium Risks	Low Risks	TOTAL
Achievement of Strategic Objectives	8	4	2	14
Compliance with Laws and Regulations	30	26	0	56
Safeguarding of Assets	4	2	1	7
Effectiveness of Operations	14	8	2	24
Reliability of Data	0	1	1	2
<b>TOTAL</b>	<b>56</b>	<b>41</b>	<b>6</b>	<b>103</b>



### 9. 2021/22 Follow Up Analysis

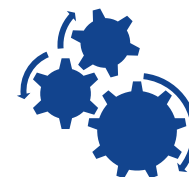


Page 82

	Open	Pending	In Progress	Implemented, Not Effective	Closed, Verified	Closed, Not Verified	Closed, Risk Accepted	TOTAL
High Risk	3	0	28	2	23	4	0	60
Medium Risk	1	1	20	0	10	0	1	23
Low Risk	0	0	1	0	3	0	0	4
<b>TOTAL</b>	<b>4</b>	<b>1</b>	<b>39</b>	<b>2</b>	<b>36</b>	<b>4</b>	<b>1</b>	<b>87</b>

Internal Audit follows up audits where at least one high risk exception has been raised. Exceptions are followed up in the next financial year, to allow for agreed actions to be sufficiently implemented. Any critical risk exceptions are followed up within three months due to the potential severity of the risks identified. The overall position of the 87 exceptions followed up through 2021/22 shows that 41 (47%) have been closed by audit, however 46 (53%) are overdue due to the actions being in progress or outstanding.



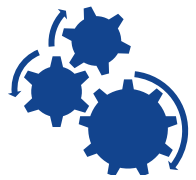


## 10. Quality Assurance

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

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

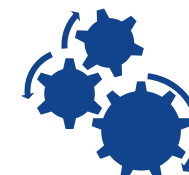
- Sign off by the Chief Internal Auditor or Deputy of all key stages of an audit, for example the scope of work and level of testing to be performed, the conclusion of the work and opinion formed followed by a review of the draft and final reports.
- Weekly 1:1s with all members of staff, within Internal Audit and colleagues who undertake Counter Fraud activities.
- Annual performance reviews of all staff, including the identification and provision of training. The majority of training needs are provided by a combination of external professional studies, supporting by in-house provisions and mentoring.
- All staff above Auditor level are required to undertake professional training or have achieved an education level of degree or above. For those that have completed professional studies as part of their professional body membership, much complete the required Continuous Professional Development
- An annual skills gap analysis across the team, (this includes the wider team) to determine specific potential shortages or gaps. Whilst no major gaps are noted at present, historical gaps in areas such as project auditing, contract auditing and IT auditing have been identified following the departure of employees (including retirement). These shortfalls have been addressed by specified recruitment, bespoke training or if required short term, by means of additional sign off/ mentoring of staff. Areas requiring improvement for this year's assessments are noted below, Skills Gap Analysis Results (10.2).
- All staff complete an annual declaration of interests including a nil return, to avoid any impingement on independence or conflict of interest.
- Feedback has been received during 2021/22 from key stakeholders, all feedback supported the quality assurance assessment reflecting that the service provided complies with *PSIAS* criteria.



## Skills Gap Analysis for 2021/22

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

- *Experience:* experience at a senior level across multiple subject areas has decreased significantly with the retirement of three senior officers (two due to ill health). Two within the partnership, one directly employed at SCC. This has led to a vulnerability as knowledge within certain areas has decreased. Professional training and mentoring will over time bridge this gap. However, the gap is highlighted for information.
- *Auditing, Specialist IT Auditing skills:* these are limited within the overall service (Partnership) with only two officers currently qualified. To address this shortfall, professional training will continue for a third officer and use will also be made of resources employed elsewhere under the various partnerships and shared service arrangements.
- *Counter Fraud skills:* whilst there are three officers qualified in Counter Fraud (CF) and investigative practice these resources are limited. There has been a significant increase in investigating across the partnership for counter fraud work, including grant related fraud prevention and assessment work, which has placed this area of the service under pressure.
- *Qualified Accountants:* the final area to note is in relation to the level of qualified auditors, specifically 'accountancy qualified'. Following the retirement of three officers within the partnership a gap has emerged representing a shortfall in this area. One implication is the ability to verify certain grant work, where the accounting qualification is restricted. Recruitment is in the process of taking place and further discussions will be held with the s151 officer to review the arrangements moving forward relating to both the accountancy qualifications and counter fraud skills.



## 11. 2021/22 Audits Completed - not previously reported

### Adults Safeguarding – Health & Adults

Exceptions Raised				Overall Assurance Level	Assurance Level by Scope Area	
<b>Critical</b>	<b>High</b>	<b>Medium</b>	<b>Low</b>	<b>Reasonable</b>	Achievement of Strategic Objectives	<b>Reasonable</b>
0	2	0	0	Latest implementation date scheduled is December 2022	Compliance with Policies, Laws & Regulations	<b>Reasonable</b>
					Safeguarding of Assets	<b>No Areas Tested</b>
					Effectiveness and Efficiency of Operations	<b>Assurance</b>
					Reliability and Integrity of Data	<b>Assurance</b>

The first high risk exception was raised in relation to the S75 agreement and the dashboard showing a lack of data received from a trust which impacted on the Safeguarding Adults Collection return to Central Government. The second high risk relates to testing of a sample of 38 staff who are most likely to have exposure to potential safeguarding issues, only 27 (71%) had completed any form of safeguarding training.

### Child Protection Planning – Children & Learning

Exceptions Raised				Overall Assurance Level	Assurance Level by Scope Area	
<b>Critical</b>	<b>High</b>	<b>Medium</b>	<b>Low</b>	<b>Limited</b>	Achievement of Strategic Objectives	<b>No Areas Tested</b>
0	6	1	0	Latest implementation date scheduled is July 2022	Compliance with Policies, Laws & Regulations	<b>Limited</b>
					Safeguarding of Assets	<b>Limited</b>
					Effectiveness and Efficiency of Operations	<b>Limited</b>
					Reliability and Integrity of Data	<b>No Areas Tested</b>

The first high risk exception was raised in relation to sample testing of 6/10 section 47 enquiries being unable to evidence a child safety plan or discussions around if an agreement was required or not in line with the service process flowchart. Later discussions confirmed that this flowchart was inaccurate and needed updating. The second high risk relates to 5/10 child protection plans (CPP) sampled, failed to have an initial child protection conference (ICPC) within 15 working days. The third high risk exception relates to 4/10 CCP's failing to provide adequate involvement of the child(ren) and/or parent(s)/guardian(s). The fourth risk relates to 5/10 CCP's failing to evidence a core group meeting being undertaken within 10 working days of the ICPC and 4/10 failed to evidence records to confirm that dates for future meetings had been agreed and actioned. The fifth high risk relates to testing finding 6/10 cases failed to evidence a thorough and clear development and forward-movement with the actions stated in the outline plan. The sixth high risk relates to 8/10 CCP's not having timely supervision of records. Improvement in all areas has been noted by the Quality Assurance teams post audit testing.



**Contract Management ICU – Health & Adults**

**Exceptions Raised**

Critical	High	Medium	Low
0	1	1	0

**Overall Assurance Level**

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

Latest implementation date scheduled is December 2022

**Assurance Level by Scope Area**

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

The high-risk exception was raised in relation to sample testing highlighting that while the framework works well and is commensurate to the value of the key contracts there needed to be established a minimum expectation for resourcing, managing and monitoring contracts which were either unforeseen, reactive or implemented during a health crisis. The medium risk relates to contract extensions remaining unsigned for 2/4 contracts sampled.

**Emergency Procedures (Supported Housing Schemes) – Health & Adults**

**Exceptions Raised**

Critical	High	Medium	Low
0	1	1	0

**Overall Assurance Level**

<b>Reasonable</b>
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Latest implementation date scheduled is June 2022

**Assurance Level by Scope Area**

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

The high-risk exception was raised in relation to testing where 6/61 (9.84%) relevant staff members did not have up to date fire safety training completed and 17 (27.8%) did not have up to date electrical safety training. The medium risk was raised in relation to testing of seven supported housing schemes finding from the last 5 months one health and safety check had not been completed at a supported housing scheme for December 2021.



**Housing Benefit - Finance**

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

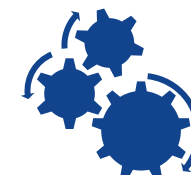
No concerns were raised in relation to housing benefit processes.

Page 87

**Housing Rents & Arrears - Finance**

Exceptions Raised				Overall Assurance Level	Assurance Level by Scope Area	
Critical	High	Medium	Low	Reasonable Latest implementation date scheduled is December 2022		
0	1	2	1			Achievement of Strategic Objectives
					Compliance with Policies, Laws & Regulations	Assurance
					Safeguarding of Assets	Assurance
					Effectiveness and Efficiency of Operations	Limited
					Reliability and Integrity of Data	No Areas Tested

The high-risk exception was raised in relation to testing where the target rate of collection for former tenant arrears was not going to be met for 2021-22 and 74% of write-offs had been written off under debt statute barred. The first medium risk was in relation to requiring a bespoke report to highlight surplus balances. The second medium risk was raised in relation to a lack of timeliness for authorising rent adjustments and 2/10 adjustments sampled being invalid. The low-risk improvement was raised in relation to no longer needing to complete paper write-off forms if the information can be transposed into the system.



**Mandated Services (Public Health)**

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

From the testing undertaken, Internal Audit can provide assurances that the delivery of mandated services during the pandemic was in line with responsibilities and published guidance. This opinion recognises that some of the noted issues are national rather than local and testing has evidenced discussions, minutes and/or action plans for the residual issues brought about by the pandemic.

**Consultancy Work - Accounts Payable**

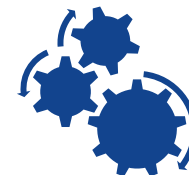
A review of the payment run processes found that the controls are operating effectively and without erroneous controls and a good balance between manual and automated checks. The supplier validations checks are robust and will improve the overall quality of the supplier Masterfile. Some improvement recommendations were provided in instances where bank details cannot be verified by third parties.

**Grant Verification - Homelessness Prevention**

Grant Verification – To the best of our knowledge and belief, and having carried out appropriate investigations and checks, in our opinion, in all significant respects, the conditions attached to the Homelessness Prevention Grant 2021/22 have been complied with.

**Grant Verification - Protect and Vaccinate**

Grant Verification – To the best of our knowledge and belief, and having carried out appropriate investigations and checks, in our opinion, in all significant respects, the conditions attached to Protect and Vaccinate No 31/5912 have been complied with.



## 12. 2021/22 Follow-Up Audits Completed - not previously reported

### Grounds Maintenance – Communities, Culture & Home

**Original Exceptions Raised**

Critical	High	Medium	Low
0	2	2	0

Latest implementation date scheduled for follow up action is June 2022

**Original Assurance Level**

Limited Assurance
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**Follow up Assurance**

Limited Assurance
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**Follow Up Action**

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

Follow up testing found that the high risk relating to machinery purchases remained in progress as there was still a high level of spend without a contract in place. The second high risk remains in progress as while there is a training matrix spreadsheet in place some staff members were overdue on refresher training. The first medium risk remains in progress as the actions from green space monitoring forms were not being recorded. The final medium risk remains in progress while maintenance plots are remapped and analysed in terms of cost and resources.



### 13. Counter Fraud & Audit Unplanned Reactive Work

A summary has been provided of Counter Fraud and Audit reactive work conducted during the 2021/22 year.

#### 13.1 Business Grants:

While processes were put in place to manage the grant application process, like any application, these can be subject to attempts of fraud. Given the national scheme and haste in which local authorities had to implement them. Verification support work has been performed in relation to various business grants administered across the pandemic.

#### 13.2 Investigations

There were two whistleblowing cases during the year that raised various concerns, predominately relating to processes and potential fraud/ bribery. Both areas were subject to full audits with the concerns of fraud or bribery etc, investigated separately. Whilst process issues were found within the systems for both, no evidence was found to support fraud/ bribery etc.

A third case of suspected fraud is still under investigation.

A fourth case was investigated relating to failure to follow contract procedures, evidence was found to support this, which was raised with the relevant Executive Director.

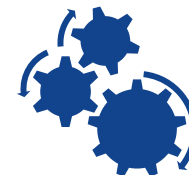
#### 13.3 Ongoing NFI

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

#### 13.4 Advice

Internal Audit gave 11 items of advice across varying council services on risk and control throughout the financial year 2021/22. Advice is recorded if the time spent to conduct the required work exceeds 2 hour of officer time.





## 14. Public Sector Internal Audit Standards

### Introduction

- 14.1** Under the *Public Sector Internal Audit Standards (PSIAS, the Standards) Standard 1310* requires that, as part of the quality assurance and improvement programme internal and external assessments (of conformance with the *PSIAS*) must be undertaken. *Standard 1311* allows for periodic self-assessments, which has been performed on an annual basis for Southampton City Council but also wider on Portsmouth City Council. The results of the self-assessment have been communicated annually alongside the annual audit opinion to this committee.
- 14.2** *Standard 1312* requires that an external assessment must be conducted at least once every five years by a qualified, independent assessor or assessment team from outside the organisation. The Standards state that a qualified assessor demonstrates competence in two areas; the professional practice of internal auditing and the external assessment process. Competence can be demonstrated through a mixture of experience and theoretical learning. An independent assessor means not having an actual or perceived conflict of interest and not being part of, or under the control of, the organisation to which the internal audit activity belongs. During 2017/18 an external assessment was undertaken on Portsmouth City Council's Internal Audit & Counter Fraud Service and an external assessment will be commissioned for Southampton City Council during the next five years. A second external assessment is planned for the financial year 2022/23.

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