

# Governance Committee

Monday, 14th February,  
2022  
at 5.00 pm

## PLEASE NOTE TIME OF MEETING

Conference Room 3 and 4 - Civic Centre

### HYBRID MEETING

In light of the current Covid Omicron variant surge this meeting will be held as a hybrid meeting. To be lawfully constituted it will still be held in the Civic Centre and open to the public but only core members of the Cabinet/committee along with key supporting officers will be in the room in order to keep everyone as safe as possible. Other officers, elected members and the public are encouraged to join the meeting via Microsoft Teams and contribute and/or make formal deputations that way.

### Members of the Committee

Councillor Fuller (Chair)  
Councillor D Galton (Vice-Chair)  
Councillor Bunday  
Councillor Leggett  
Councillor Magee  
Councillor J Payne  
Councillor Shields

### Contacts

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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 2021/2022**

<b>2021</b>	<b>2022</b>
14 June	14 February
26 July	25 April
4 October	
16 November	
13 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 3.

## **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 **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.

### 3 **STATEMENT FROM THE CHAIR** (Pages 1 - 2)

### 4 **MINUTES OF PREVIOUS MEETING (INCLUDING MATTERS ARISING)** (Pages 3 - 10)

To approve and sign as a correct record the Minutes of the meetings held on 16 November 2021 and 10 January 2022 and to deal with any matters arising.

### 5 **INTERNAL AUDIT PROGRESS REPORT** (Pages 11 - 32)

Report of the Chief Internal Auditor detailing the Internal Audit Progress report for the period from 1 November 2021 to 24th January 2022

### 6 **CORPORATE PLAN AND PROJECTS GOVERNANCE REPORT** (Pages 33 - 46)

Report of the Head of Intelligence, Innovation & Change outlining project governance and progress on the Corporate Plan, and approach for major projects.

### 7 **AUDITOR'S ANNUAL REPORT** (Pages 47 - 82)

Report of the Ernst and Young Y LLP External Auditors providing the Auditors Annual Report 2020-21

### 8 **TREASURY MANAGEMENT STRATEGY AND PRUDENTIAL LIMITS 2022/23 TO 2025/26** (Pages 83 - 128)

Report of the Executive Director for Finance and Commercialisation (S151 Officer) seeking approval of the Treasury Management Strategy and Prudential Limits 2022/23 to 2025/26.

### 9 **FINANCIAL MANAGEMENT CODE** (Pages 129 - 142)

Report of the Executive Director for Finance and Commercialisation reporting on the introduction of a new Financial Management Code from the Chartered Institute of Public Finance and Accountancy and the responsibilities within it.

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# Agenda Item 3

## COVID – 19 MEETING PROTOCOL – CONFERENCE ROOM 3&4

### GENERAL POINTS FOR ALL IN ATTENDANCE

- All attendees are strongly encouraged to undertake the free Covid-19 lateral flow test within 24 hours prior to attendance at any meetings available from <https://www.gov.uk/order-coronavirus-rapid-lateral-flow-tests>
- If you are experiencing COVID-19 symptoms, have tested positive for COVID-19, or are self-isolating you must not attend the meeting.
- We advise that you should not attend the event if you are a close contact of a positive case even when exempt from self-isolation, in order to protect other people who may be vulnerable.
- Please consider in advance how you will safely travel to and from the meeting. Walking or cycling recommended where possible
- Hand Sanitising points will be available on entry and exit to the venue.
- Consideration should be given to the wearing of face coverings to reduce the risk to individuals and others. Face coverings in crowded enclosed spaces are expected and recommended.
- Identified seating plan will be devised that allows for space between seats. Side to side seating advised rather than face to face seating where possible.
- You will be responsible for your own refreshments while in attendance at the meeting.
- There should be no unnecessary movement around the meeting room.
- There should be no sharing of stationery, documents or other equipment. We request that attendees do not adjust any ventilation settings in the room or close windows that have been left open.

### COUNCILLORS AND OFFICERS

- All Councillors and Officers attending the meeting are strongly encouraged to take a staggered approach to arrival/departure and avoid any socialising and mixing before or after the meeting.
- A seating plan will be devised and seating will be labelled accordingly.
- Consideration should be given to the wearing face coverings, especially if attendees are coming into close contact with people they do not usually meet. Face coverings in crowded enclosed spaces are expected and recommended.
- Microphones in Conference Room 3 & 4 are free standing, there is no requirement for these to be shared or passed around.

### PUBLIC/MEDIA ATTENDANCE

- Public and Media attendees are encouraged to please provide some advance notice of their intention to attend the meeting by contacting [democratic.services@southampton.gov.uk](mailto:democratic.services@southampton.gov.uk) or by telephoning 023 8083 2302 as we may need to review the venue to ensure we can facilitate a covid-safe meeting.
- There will be clearly defined seating areas for members of the public and media.
- Consideration should be given to the wearing of face coverings, especially if attendees are coming into close contact with people they do not usually meet. Face coverings in crowded enclosed spaces are expected and recommended.
- Members of the public/media wishing to attend conference rooms 3&4 for particular agenda items will be escorted in and out of the room by a member of council staff.

***It is important to note that although the impact of the COVID-19 testing and vaccination programmes has been positive, COVID-19 remains a serious risk to health and the 'Hands Face Space Fresh Air' message is still crucial. People who have been vaccinated and/or tested negative for COVID-19 should still apply COVID-safe measures such as social distancing, good hand hygiene and wearing of face coverings where recommended.***





# Agenda Item 4

Minutes of the Previous Meetings:-

Appendix 1 – Minutes of the Governance Committee meeting held on 16 November 2021

Appendix 2 – Minutes of Special Governance Committee meeting held on 13 January 2022

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## GOVERNANCE COMMITTEE

### MINUTES OF THE MEETING HELD ON 16 NOVEMBER 2021

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

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

**RESOLVED:** that the minutes for the Committee meeting on 4 October 2021 be approved and signed as a correct record.

20. **REVIEW OF PRUDENTIAL LIMITS AND TREASURY MANAGEMENT MIDYEAR 2021/22**

The Committee considered the report of the Executive Director Finance and Commercialisation providing a review of prudential limits and treasury management for 2020/21 to date.

**RESOLVED** that the Committee

- (i) Noted the Treasury Management (TM) activities for 2021/22 and performance against Prudential Indicators.
- (ii) Noted that the continued proactive approach to TM has led to reductions in borrowing costs and safeguarded investment income during the year.
- (iii) Delegated authority to the S151 Officer to make any future changes which benefit the authority and to report back at the next Treasury update.

21. **SOUTHAMPTON CITY COUNCIL ANNUAL COMPLAINTS REVIEW 2020/21**

The Committee considered the report of the Service Director: Legal and Business Operations summarising the type and number of complaints received from the 1 April 2020 to 31 March 2021 together with the Local Government and Social Care Ombudsman annual review for the same period.

**RESOLVED** that the Committee:

- (i) noted the report on complaints outcomes for 2020/21; and
- (ii) Requested that officers seek to overcome any disparities within the way that complaints are dealt with, especially within Children's Services, by ensuring that staff are fully aware and trained on how to deal with the complaints function.

22. **INTERNAL AUDIT PROGRESS REPORT**

The Committee considered the report of the Chief Internal Auditor detailing the Internal Audit Progress report for 2021-2022

**RESOLVED:** that the Governance Committee noted the Internal Audit Progress report for the period 1<sup>st</sup> April 2021 to 29<sup>th</sup> October 2021.

23. **ANNUAL REVIEW OF THE HEALTH AND SOCIAL CARE CONTRACTS MANAGED BY THE ICU**  
The Committee considered the report of the Director of Quality and Integration detailing the current contracts managed by the Integrated Commissioning Unit and the arrangements for monitoring and management of these contracts.  
**RESOLVED** that the Committee noted the report's contents and the work of the Integrated Commissioning Unit (the ICU) to ensure contracts with external agencies for health and care services are properly managed, provide good quality and best value.
24. **LOCAL APPOINTMENT OF EXTERNAL AUDITORS**  
The Committee considered the report of the Executive Director for Finance, Commercialisation and S151 Officer setting out proposals for appointing the external auditor to the Council for the 2023/24 accounts and beyond.  
**RESOLVED** That the Committee recommended to Council that it accepts the Public Sector Audit Appointments Ltd (PSAA) invitation to 'opt-in' to the sector led national scheme for the appointment of external auditors.
25. **EXCLUSION OF THE PRESS AND PUBLIC - EXEMPT PAPERS INCLUDED IN THE FOLLOWING ITEM**  
**RESOLVED** That the Chair moved that in accordance with the Council's Constitution, specifically the Access to Information Procedure Rules contained within the Constitution, the press and public be excluded from the meeting in respect of any consideration of the exempt appendix to the following item.  
  
It was noted that Appendix 2 is considered to be exempt from general publication based on Category (5) of paragraph 10.4 of the Council's Access to Information Procedure Rules. It is not the public interest to disclose this because it includes information in respect of which a claim to legal professional privilege could be maintained in legal proceedings.
26. **ANNUAL RISK MANAGEMENT REPORT 2021**  
The Committee received noted the report of the of Executive Director for Finance and Commercialisation and Section 151 Officer detailing the annual report.
27. **EXCLUSION OF THE PRESS AND PUBLIC - EXEMPT PAPERS INCLUDED IN THE FOLLOWING ITEM**  
**RESOLVED** That the Chair moved that in accordance with the Council's Constitution, specifically the Access to Information Procedure Rules contained within the Constitution, the press and public be excluded from the meeting in respect of any consideration of the exempt appendix to the following item.  
  
It was noted that Appendix 1 was considered to be exempt from general publication based on Category (7a) of paragraph 10.4 of the Council's Access to Information Procedure Rules. That it was not the public interest to disclose this because doing so could place the Council at a commercial disadvantage.
28. **STRATEGIC CONTRACTS ANNUAL REPORT 2020 2021**

The Committee received and noted the report of the Head of Supplier Management providing an overview of the performance, governance and contractual matters relating to the council's most strategically important contracts.

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GOVERNANCE COMMITTEE

MINUTES OF THE MEETING HELD ON 10 JANUARY 2022

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

29. **EXCLUSION OF THE PRESS AND PUBLIC - EXEMPT PAPERS INCLUDED IN THE FOLLOWING ITEM**

RESOLVED: That in accordance with the Council's Constitution, specifically the Access to Information Procedure Rules contained within the Constitution, the press and public be excluded from the meeting in respect of the following item based on Categories 1, 2 and 3 of paragraph 10.4 of the Access to Information Procedure Rules.

The information contained therein is exempt as it relates to individual personal details and information held under the Data Protection Act 1998. Having applied the public interest test it is not appropriate to disclose this information as the individuals' legal expectation of privacy outweighs the public interest in the exempt information.

30. **HR MATTER**

The Committee considered the confidential joint report of the Service Director HR and OD and the Service Director Legal and Businesses Operations regarding an HR Matter.

RESOLVED: that the terms of the financial settlement as detailed in the report for the exit of Sandy Hopkins, Chief Executive be confirmed and approved.

RECORDED VOTE:

For - Councillors Fuller, D Galton, Magee and J Payne

Against – Councillors Bunday, Leggett and Shields

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# Agenda Item 5

<b>DECISION-MAKER:</b>	<b>GOVERNANCE COMMITTEE</b>
<b>SUBJECT:</b>	<b>INTERNAL AUDIT PROGRESS REPORT 2021-22</b>
<b>DATE OF DECISION:</b>	<b>14<sup>th</sup> FEBRUARY 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:</b> <b>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:</b> <b>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>The Public Sector Internal Audit Standards 2017 (PSIAS), requires the Chief Internal Auditor (CIA) to provide periodical updates to the Governance Committee on:</p> <ul style="list-style-type: none"><li>• Progress made against the agreed annual audit plan.</li><li>• Results of audit activities and</li><li>• Management’s response to risk that in the CIA’s judgement maybe unacceptable to the Authority</li></ul> <p>All other PSIAS requirements are communicated in either the charter or annual audit opinion, which are reported separately to this committee at various times throughout the year.</p> <p>There are a total of 74 audit reviews in the revised plan for 2021/22. To date 68 (92%) of the audits have been completed or are in progress as at 24<sup>th</sup> January 2022. This represents 44 (59%) audits where the report has been finalised, 10 (14%) where the report is in draft and 14 (19%) audits currently in progress.</p> <p>There are currently no ‘no assurance’ reports or critical exceptions contained in this report for this period. Progress has been made implementing agreed actions despite significant pressures across the organisation with the ongoing COVID-19 requirements. In addition to this, it is positive to note that the internal control environment specifically in relation to compliance has also improved.</p> <p>Internal Audit progress for the period 1<sup>st</sup> November 2021 to 24<sup>th</sup> January 2022 is covered in in the report attached as Appendix 1.</p>

<b>RECOMMENDATIONS:</b>	
(i)	That the Governance Committee notes the Internal Audit Progress report for the period 1 <sup>st</sup> November 2021 to 24 <sup>th</sup> January 2022.
<b>REASONS FOR REPORT RECOMMENDATIONS</b>	
1.	In accordance with the Public Sector Internal Audit Standards the Chief Internal Auditor is required to provide an update on progress against the annual audit plan to the Governance Committee for information.
<b>ALTERNATIVE OPTIONS CONSIDERED AND REJECTED</b>	
	None
<b>DETAIL (Including consultation carried out)</b>	
	As above
<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>	
	The report is for note only, there is no decision to be made.
<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.	Internal Audit Progress Report for the period 1 <sup>st</sup> November 2021 to 24 <sup>th</sup> January 2022.
<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 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</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.		
2.		

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**SOUTHAMPTON**  
CITY COUNCIL

**Internal Audit Progress Report**  
14<sup>th</sup> February 2022

Elizabeth Goodwin, Chief Internal Auditor

## **1. Introduction**

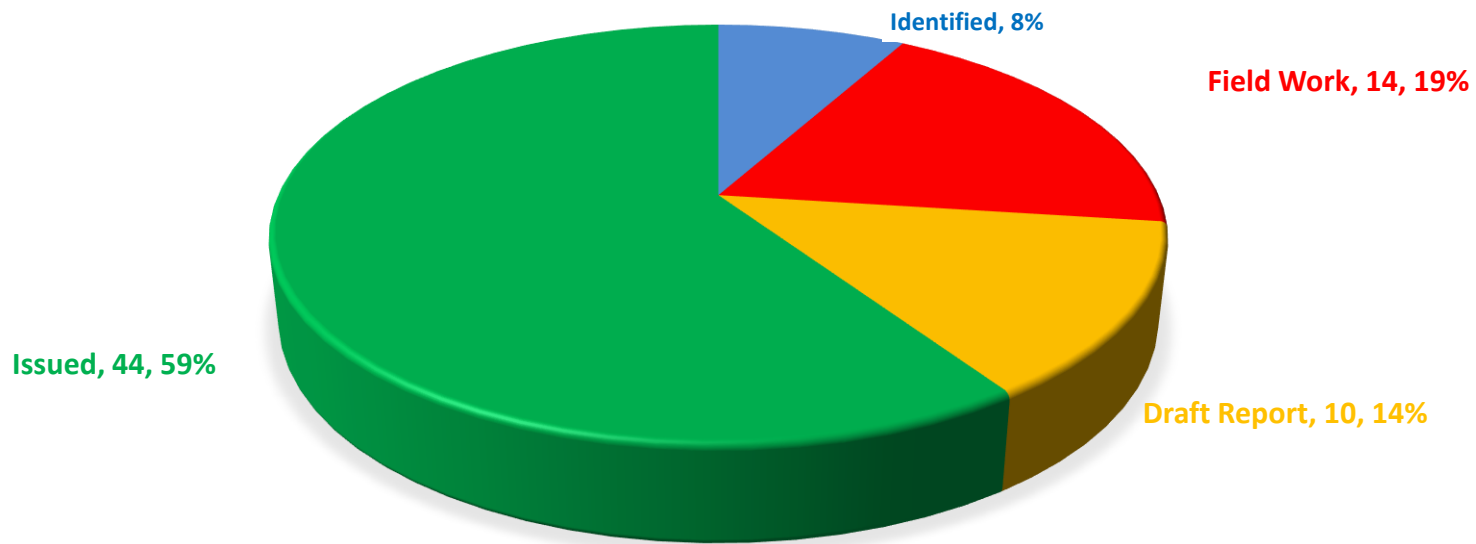
This report includes the status against the 2021/22 internal audit plan for this reporting period (30<sup>th</sup> October 2021 to 24<sup>th</sup> January 2022).

In summary 92% of the 2021/22 plan has been concluded or are in progress. All items yet to be fully completed will be finalised by the end of the financial year to enable an annual opinion to be given.

There are currently no 'no assurance' reports or critical exceptions contained in this report for this period. Progress has been made implementing agreed actions despite significant pressures across the organisation with the ongoing COVID-19 requirements. In addition to this, it is positive to note that the internal control environment specifically in relation to compliance has also improved.

All items completed since the last committee attendance are detailed at a summary level in this report. This includes, full audits, follow up work and grant work completed.

## 2. Audit Plan Progress as of 24<sup>th</sup> January 2022



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There are a total of 74 reviews in the 2021/22 Audit Plan. The previous position was at 29<sup>th</sup> October 2021, the current is as at 24<sup>th</sup> January 2022.

To date, 68 (92%) have been completed or are in progress as at 24<sup>th</sup> January 2022. This represents 44 (59%) audits where the report has been finalised, 10 (14%) where the report is in draft and 14 (19%) audits currently in progress.

Status	Previous Position	Current Position
Identified	28	6
Fieldwork	18	14
Draft Report	5	10
Final Report	26	44
<b>Total</b>	<b>77</b>	<b>74</b>

### 3. Audit Plan Status/Changes

The Audit Plan has been more flexible this year to take into account the additional work noted above. Since the last reporting period the following should be noted; **Additions, removals and amendments to the 2021/22 Audit Plan:**

- Addition – Mount Pleasant School – Due a follow up audit review
- Addition – St Monica School – Due a follow up audit review
- Addition – Additional Home to School Survey – Requirement for audited figures by Department for Education.
- Addition – Bus Restart Grant – The scheme has now finished.
- Removed – Music Service – Removed to accommodate the addition of the two school reviews.
- Removed – Accounts Receivable – Removed due to staffing pressures, it has been audited annually.
- Removed – Carers (Care Act) – Removed as actions are post 31<sup>st</sup> March 2022 so will be picked up in the next financial year.
- Removed - Deferred Payments - Removed due to staffing pressures
- Removed - HMO Licensing - Removed due to staffing pressures
- Removed - Safety Compliance (Tower Blocks) - Removed due to staffing pressures
- Removed - Contract & procurement ICU F/U - Removed due to staffing pressures

### 4. Areas of Concern

There are no 'no assurance' opinion audits being reported on this period, all other findings are noted below.



## 5. Assurance Levels

Internal Audit reviews culminate in an opinion on the assurance that can be placed on the effectiveness of the framework of risk management, control and governance designed to support the achievement of management objectives for the area under review.

Assurance Level	Description / Examples
<b>Assurance</b>	<i>No issues or minor improvements noted within the audit but based on the testing conducted, assurance can be placed that the activity is of low risk to the Authority</i>
<b>Reasonable Assurance</b>	<i>Control weaknesses or risks were identified but overall the activities do not pose significant risks to the Authority</i>
<b>Limited Assurance</b>	<i>Control weaknesses or risks were identified which pose a more significant risk to the Authority</i>
<b>No Assurance</b>	<i>Major individual issues identified or collectively a number of issues raised which could significantly impact the overall objectives of the activity that was subject to the Audit</i>
<b>NAT</b>	<i>No areas tested</i>

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*Audits rated 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.*

## 6. Exception Risk Ranking

The following table outline the exceptions raised in audit reports, reported in priority order and are broadly equivalent to those previously used.

Priority Level	Description
<b>Low Risk (Improvement)</b>	<i>Very low risk exceptions or recommendations that are classed as improvements that are intended to help the service fine tune its control framework or improve service effectiveness and efficiency. An example of an improvement recommendation would be making changes to a filing system to improve the quality of the management trail.</i>
<b>Medium Risk</b>	<i>These are control weaknesses that may expose the system function or process to a key risk but the likelihood of the risk occurring is low.</i>
<b>High Risk</b>	<i>Action needs to be taken to address significant control weaknesses but over a reasonable timeframe rather than immediately. These issues are not 'show stopping' but are still important to ensure that controls can be relied upon for the effective performance of the service or function. If not addressed, they can, over time, become critical. An example of an important exception would be the introduction of controls to detect and prevent fraud.</i>
<b>Critical Risk</b>	<i>Control weakness that could have a significant impact upon not only the system function or process objectives but also the achievement of the Council's objectives in relation to: The efficient and effective use of resources, The safeguarding of assets, The preparation of reliable financial and operational information, Compliance with laws and regulations and corrective action needs to be taken immediately.</i>

*Any critical exceptions found the will be reported in their entirety to the Governance Committee along with Director's comments*

## 7. 2021/22 Audits completed since the last reporting period

### National Non-Domestic Rates (NNDR)

**Exceptions Raised**

Critical	High	Medium	Low
0	0	0	0

**Overall Assurance Level**

<b>Assurance</b>
------------------

**Assurance Level by Scope Area**

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

No concerns have been raised as a result of this review; therefore, Internal Audit can offer assurance that NNDR processes are working effectively during the period of testing.

### Council Tax

**Exceptions Raised**

Critical	High	Medium	Low
0	0	1	1

**Overall Assurance Level**

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

Achievement of Strategic Objectives	<b>Assurance</b>
Compliance with Policies, Laws & Regulations	<b>Reasonable</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 medium risk raised, relates to testing of 25 accounts where a discount had been applied and 1/25 had been due a follow up review awaiting a probate decision, however, the account was yet to be updated. The low risk related to testing of 25 write-offs where findings identified 1/25 that did not hold evidence of recovery action, this related to a 2016 period.

**School Deficits**
**Exceptions Raised**

Critical	High	Medium	Low
0	2	0	0

**Overall Assurance Level**

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

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

The first high risk relates to the Scheme for Financing Schools (SFFS) document which should be completed if the school are anticipating a deficit budget. For three deficit schools testing reviewed 3 sets of governing body minutes for the meetings where the 2021/22 budget was agreed, testing found that zero of the three complied with the steps required in the SFFS. The second high risk relates to a review of deficit recovery plans finding that 5 deficit schools did not have a deficit recovery plan with 2 of the deficits occurring in 2020/21 and the final 3 schools having been in deficit since at least 2016/17. Action has been taken by the Authority to resolve these deficits.

**Travel and Expenses**
**Exceptions Raised**

Critical	High	Medium	Low
0	4	5	0

**Overall Assurance Level**

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

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

The first high risk relates to where testing identified 4,777 of 67,856.43 total mileage value included home in the description, a sample of 10 were reviewed which found 8/10 covered commuter mileage. The second high risk relates to where testing identified that from 10 mileage claimants, 2/10 did not have business insurance. The third high risk relates to subsistence expenses which found 4/10 claims tested had split values and did not comply with the agreed limits, 2/10 of which had unclear receipts. The fourth high risk relates to contractual car user allowance testing finding 3/10 were recorded as not needing an allowance for their role. The medium risks relate to long journey claims not justifying the use of own vehicles, subsistence claims being made for clients/young persons, 2/10 hotel expenses being over the daily allowance (11% on average), 862 claims were over the 6 month limit and finally allowances were applied incorrectly for first aid and fire marshals.

**Feeder Systems**
**Exceptions Raised**

Critical	High	Medium	Low
0	3	1	0

**Overall Assurance Level**

Limited
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**Assurance Level by Scope Area**

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

The first high risk relates to extracted data from feeder systems requiring significant manual checks/work, due to a lack of automated validation of source system data going into Business World, with the current level of checking being inconsistent between services. The second high risk relates to there being three key single points of failure in the infrastructure supporting bulk data feeds into Business World. The third high risks related to temporary servers being used to hold data files transiting from source systems to Business World. Finally, the medium risk relates to multiple manual steps required for data transfer into Business World for nine systems tested.

**Operator Licence**
**Exceptions Raised**

Critical	High	Medium	Low
0	3	1	0

**Overall Assurance Level**

Limited
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**Assurance Level by Scope Area**

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

The first high risk relates to where testing has identified a lack of a Driver policy, outlining responsibilities and requirements for complying with the operator's licence. The second high risk relates to a backlog of driver infringements which were not actioned promptly at the time of the infringement and a lack of enforcement action as a result of tachograph infringements. The third high risk relates to a lack of senior/executive management oversight on the performance on the authority in complying with operator licence requirements. The medium risk relates to Tranman Safety Inspection Records not working to optimal capacity and recording a number of safety inspections which audit verified had been undertaken.

**Deprivation of Liberty Safeguards (DoLS)**
**Exceptions Raised**

Critical	High	Medium	Low
0	5	0	0

**Overall Assurance Level**

Limited
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**Assurance Level by Scope Area**

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

The first high risk relates to where testing had identified 10 out of 10 urgent referrals had failed to meet the 7 day authorisation deadline. The second high risk identified that while the monitoring of DoLS applications being very robust and proactive, the availability of staff members to take on new cases and lack of internal communication between departments meant that the DoLS applications were not completed in a timely manner. The third high risk relates to testing of a sample of signed Independent DoLS Mental Capacity Advocacy and Paid Relevant Person's Representative forms, where 3/10 were signed and returned within a month of being referred and the remaining 7 being outstanding of this period. The fourth high risk relates to individual records being on file three years after death which is not compliant with the Care Act Standards 2000. The final high risk relates to 4/10 external assessors having an overdue DBS check.

**Shirley Warren Primary School**
**Exceptions Raised**

Critical	High	Medium	Low
0	3	4	0

**Overall Assurance Level**

Limited
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**Assurance Level by Scope Area**

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

The first high risk relates to where testing identified responses to 3 Schools Financial Values Standards (SFVS) questions not being compliant with best practice guidance. The second high risk relates to the retention of staff confidential records, which required disposal. The third high risk relates to the school inventory not being compliant with expected requirements. For the medium risks these cover areas relating to; purchase orders only being raised for 1/6 purchases sampled, the Business Continuity Plan being out of date (November 2017), a lack of a CCTV policy and finally there has been no Finance Lead allocated or bottom-line budgetary figures reported to the Governing Body for the period reviewed.

List of Completed Grants

Grant Outcomes:	Assurance/Certified
Additional Home to School Transport Survey	
Bus Support Restart Grant	
Culture Recovery Plan	
Disabled Facilities Grant	
Income Loss Claim - No certification is required for this claim, however checks performed by Internal Audit was in support of assertions and statements submitted. Therefore no areas of concern were found.	

## 8. 2021/22 Follow-up Audits completed since the last reporting period

### St Monica Primary School – 2<sup>nd</sup> Follow Up Audit

#### Original Exceptions Raised

Critical	High	Medium	Low
0	4	1	0

Latest implementation date scheduled was June 2021.  
 Revised date: N/A

#### Original Assurance Level

Reasonable
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#### 2<sup>nd</sup> Follow Up Level

Assurance
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#### Follow Up Action

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

Follow up testing was able to close three high risks and one medium risk. The remaining high risk relates to budget monitoring, whilst highlighted there has been a favourable movement in the overall budget position although the deficit still remain.

### Care Leavers – 2<sup>nd</sup> Follow Up Audit

#### Original Exceptions Raised

Critical	High	Medium	Low
0	1	2	0

Latest implementation date scheduled was December 2020.  
 Revised date: March 2022

#### Original Assurance Level

Reasonable
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#### 2<sup>nd</sup> Follow Up Level

Reasonable
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#### Follow Up Action

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

Follow up testing was able to close both medium risk exceptions. The remaining high risk has not been closed as testing identified residue issues in the timeliness of case supervision, although there has been improvement.



**Flood Risk Management – 2<sup>nd</sup> Follow Up Audit**
**Original Exceptions Raised**

Critical	High	Medium	Low
0	1	2	0

Latest implementation date scheduled was March 2021  
 Revised date: March 2022

**Original Assurance Level**

Reasonable
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**Follow Up Assurance Level**

Reasonable
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**Follow Up Action**

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

Follow up testing was able to close the high risk exception. The first medium risk that remains in progress relates to the Local Flood Management Strategy not having been completed. The second medium risk relates to incomplete flood records while the service awaits IT to construct the online form.

**Recruitment and Retention – 1<sup>st</sup> Follow Up Audit**
**Original Exceptions Raised**

Critical	High	Medium	Low
0	4	0	0

Latest implementation date scheduled was June 2021  
 Revised date: May 2022

**Original Assurance Level**

Limited
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**Follow Up Assurance Level**

Reasonable
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**Follow Up Action**

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

Follow up testing was able to close two high risk exceptions. The first high risk in progress, relates to a new talent management/succession planning tool looking to be implemented by the end of March 2022. The second high risk relates to recruitment training for managers having been implemented but awaiting a list of mandatory training.

**Pension– 1<sup>st</sup> Follow Up Audit**

**Original Exceptions Raised**

Critical	High	Medium	Low
0	0	0	0

**Original Assurance Level**

Limited
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**Follow Up Assurance Level**

Limited
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**Follow Up Action**

Open	Pending	In Progress	Implemented but Not Effective	Closed: Verified	Closed: Not Verified	Closed: Management Accepts Risks	Closed: No Longer Applicable
0	0	0	0	0	0	0	0

In summary, SCC have received positive feedback from the Hampshire Pension Fund (HPF) regarding their ongoing commitment to ensuring that pension returns are accurate and timely, however SCC maintained schools are an ongoing concern. Joint meetings between schools, SCC, payroll providers and HPF have been helpful in identifying areas for improvement and it is hoped that the meeting outcomes will assist with future return compliance.

## 9. Follow-up Action Categorisation

The following table outlines the follow up categories used to describe the outcome of follow up testing completed.

Follow Up Categories	Description
Open	<i>No action has been taken on agreed action.</i>
Pending	<i>Actions cannot be taken at the current time but steps have been taken to prepare.</i>
In Progress	<i>Progress has been made on the agreed action however they have not been completed.</i>
Implemented but not Effective	<i>Agreed action implemented but not effective in mitigating the risk.</i>
Closed: <i>Verified</i>	<i>Agreed action implemented and risk mitigated, verified by follow up testing.</i>
Closed: <i>Not Verified</i>	<i>Client has stated action has been completed but unable to verify via testing.</i>
Closed: <i>Management Accepts Risk</i>	<i>Management has accepted the risk highlighted from the exception.</i>
Closed: <i>No Longer Applicable</i>	<i>Risk exposure no longer applicable.</i>

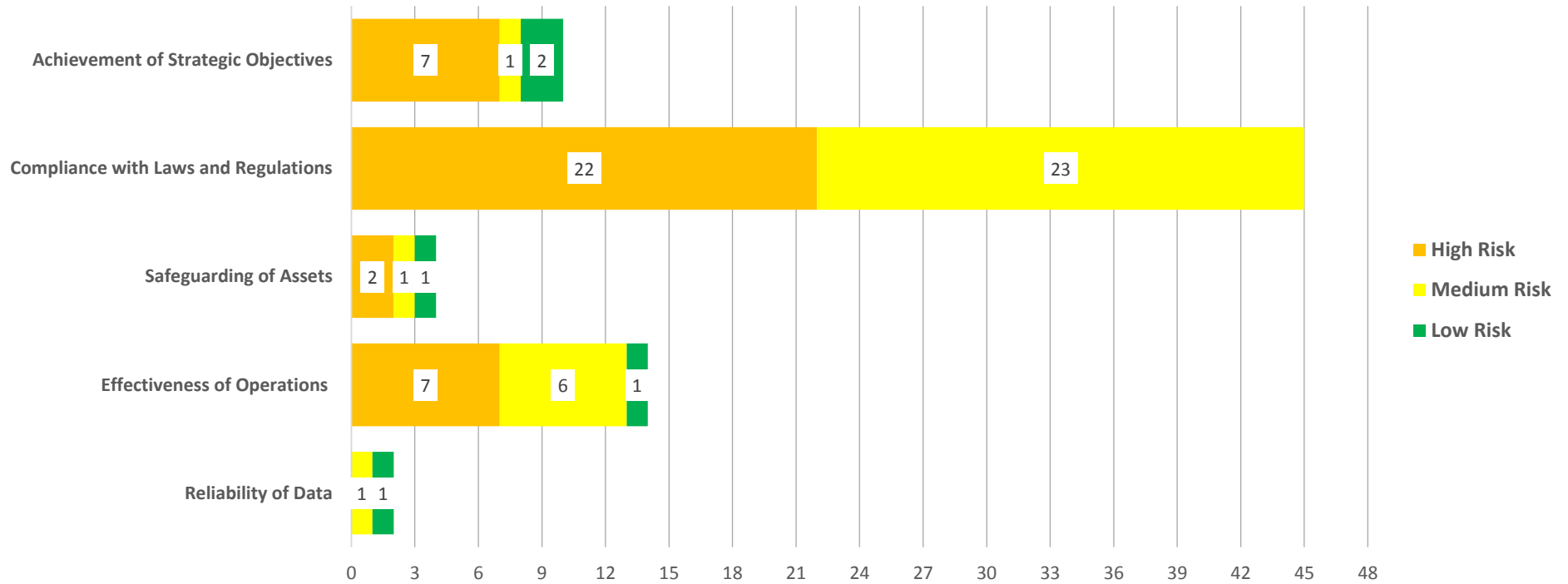
## 10. Audits in Draft

Audit	Directorate	Projected Reporting	Revised	Comments
Bank Account	Finance	April 2022		
Blue Badge	Wellbeing (Health & Adults)	April 2022		
Business World	Finance	April 2022		
Direct Payments Children	Wellbeing (Children & Learning)	April 2022		
Fleet Management	Place	April 2022		
Housing Rents and Arrears	Finance	April 2022		
IT Procurement and Disposal	Business Services	April 2022		
Parking (Income Collection)	Place	April 2022		
Public Protection Notices	Wellbeing (Children & Learning)	April 2022		
Short Breaks	Wellbeing (Children & Learning)	April 2022		

## 11. Audits in Progress

Audit	Directorate	Comments
Adult Safeguarding	Wellbeing (Health & Adults)	
Child Protection Planning	Wellbeing (Children & Learning)	
Contract Management ICU	Wellbeing (Health & Adults)	
Direct Payments	Wellbeing (Health & Adults)	
Emergency Procedures / Fire Safety	Communities, Culture & Homes	
Families Matter Grant	Wellbeing (Children & Learning)	
Ground Maintenance	Place	
Mandated Services	Wellbeing (Health & Adults)	
Mount Pleasant School	Wellbeing (Children & Learning)	
Paris replacement (CareDirector)	Wellbeing (Children & Learning)	
Public Health Outcomes	Wellbeing (Health & Adults)	
Ridge Review Project Progress	Place	
Supplier Performance	Finance & Commercialisation	
Woodlands Secondary School	Wellbeing (Children & Learning)	

## 12. Exception Analysis to Date



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	Achievement of Strategic Objectives	Compliance	Effectiveness of Operations	Reliability & Integrity	Safeguarding of Assets	Total
Critical Risk						
High Risk	7	22	7		2	38
Medium Risk	1	23	6	1	1	32
Low Risk - Improvement	2		1	1	1	5
<b>Grand Total</b>	<b>10</b>	<b>45</b>	<b>14</b>	<b>2</b>	<b>4</b>	<b>75</b>

# Agenda Item 6

<b>DECISION-MAKER:</b>	Governance Committee
<b>SUBJECT:</b>	Corporate Plan and projects governance overview
<b>DATE OF DECISION:</b>	14 <sup>th</sup> February 2022
<b>REPORT OF:</b>	<b>Head of Intelligence, Innovation and Change</b>

<b><u>CONTACT DETAILS</u></b>			
<b>Executive Director</b>	<b>Title</b>	Executive Director – Business Services	
	<b>Name:</b>	Mike Harris	Tel: 023 8083 2882
	<b>E-mail</b>	Mike.harris@southampton.gov.uk	
<b>Author:</b>	<b>Title</b>	Head of Intelligence, Innovation and Change	
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## **STATEMENT OF CONFIDENTIALITY**

## **BRIEF SUMMARY**

This paper provides an update on the continued refinement of the council’s project management governance approach. It also provides progress of the key programmes and initiatives in the 2021-25 Corporate Plan that was approved at full council on 21<sup>st</sup> July 2021. The plan set out the key projects for the period as understood at that time.

A copy of the 2021-25 Corporate Plan is attached as an appendix.

A copy of the progress on the Corporate Plan is attached as an appendix.

## **RECOMMENDATIONS:**

	(i)	Report to be noted.
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	(ii)	
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## **REASONS FOR REPORT RECOMMENDATIONS**

1.	In order to update the Governance Committee on the continued development of project and programme governance and reporting.
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2.	
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## **ALTERNATIVE OPTIONS CONSIDERED AND REJECTED**

3.	Not to update the committee, not considered to be an appropriate option.
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## **DETAIL (Including consultation carried out)**

4.	The Association of Project Management (APM) methodology was adopted as the recognised approach for managing projects and programmes in 2020.
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5.	Updates are reported to the relevant project or programme board and to the Change Authority Board (CAB) which meets every two months, as well as to Cabinet Member Briefings and other update meetings as appropriate.
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6.	The programme board (chaired by the Senior Responsible Officer (SRO)) is responsible for driving the programme forward, and oversight to ensure outcomes and benefits are delivered. Programme boards generally meet monthly, although may meet more frequently depending on the stage of delivery.
7.	The Change Authority Board (CAB) is an Executive Management meeting that reviews progress, provides independent challenge, and acts as a gateway for progression through the project lifecycle. CAB will also discuss new opportunities, prioritisation where appropriate
8.	Governance of projects and programmes that do not form part of the Corporate Plan are also managed using the APM methodology and monitored through the council's Change Authority Board.
9.	Where initiatives in the Corporate Plan are 'business as usual' rather than defined as a project or programme, their progress is be monitored through the standard council governance processes including Business Plan reviews and Cabinet Member Briefings.
10.	Each initiative on the Corporate Plan has a red/amber/green (RAG) where <ul style="list-style-type: none"> <li>• Red – delivery is going to be later than the planned Corporate Plan date</li> <li>• Amber – the planned date/target is at risk</li> <li>• Green – on track</li> </ul> Progress commentary is also provided
11.	Where 'red' or 'amber' status is identified, appropriate recovery plans are expected to bring the RAG back to green. In some instances, this may require a re-baselining of the delivery plan which will change the target date. To re-baseline appropriate governance must be followed.
12.	For some areas (including the Corporate Plan), project/programme planning, monitoring and reporting is now completed through Project Online, our project management system, which allows for real time updates to be accessed and viewed through Power BI (an online reporting tool). This is being rolled out further across the organisation.
13.	Project Online is continuing to be developed and refined to support better reporting, pipeline and resource planning.
14.	Work is underway to develop and embed a rigorous corporate benefits management framework for projects. This will be linked to Project Online to support 'one stop' reporting capabilities and directly align assessment/achievement of benefits with project milestone achievements allowing for appropriate actions to be undertaken in a timely way.
15.	Where appropriate, detailed reports on specific projects are submitted to Overview and Scrutiny Management Committee for more detailed review.

## **RESOURCE IMPLICATIONS**

### **Capital/Revenue**

16.	All resource implications should be considered as part of the project/programme business case and managed through project governance.

### **Property/Other**



17.	All resource implications should be considered as part of the project/programme business case and managed through project governance.
<b>LEGAL IMPLICATIONS</b>	
<b><u>Statutory power to undertake proposals in the report:</u></b>	
18.	<b>S.1 Localism Act 2011, S.111 Local Government Act 1972.</b>
<b><u>Other Legal Implications:</u></b>	
19.	None
<b>RISK MANAGEMENT IMPLICATIONS</b>	
20.	All projects and programmes will have risk registers included as part of their project management governance arrangements. These include mitigating actions and timelines for implementation. The Executive Management Team review escalated and joint risks as part of the Change Authority Board to ensure a risk management overview at a corporate level.
<b>POLICY FRAMEWORK IMPLICATIONS</b>	
21.	The projects identified are part of the council's approved Corporate Plan 2021-25.

<b>KEY DECISION?</b>	<b>Yes/No</b>
<b>WARDS/COMMUNITIES AFFECTED:</b>	
<b><u>SUPPORTING DOCUMENTATION</u></b>	
<b>Appendices</b>	
1.	<a href="#">Southampton Corporate Plan 2021-25</a>
2.	SCC Corporate Plan progress report (January 2022)
<b>Documents In Members' Rooms</b>	
1.	
2.	
<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.		
2.		

# SCC Corporate Plan 2021-25

January 2022 update

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Agenda Item 6  
Appendix 1



**SOUTHAMPTON**  
CITY COUNCIL

PRIORITY	FINISH	RAG	CABINET MEMBER	LEAD OFFICER	COMMENTARY
Growth	29/03/2024				
1,000 new parking spaces across our city's estates	21/02/2022	✓			Delivery to date: 21 new spaces. Balfour Beatty have now completed assessments of 49 out of 119 sites (41%) which can potentially deliver 350 spaces (39%) - all 49 sites have been reviewed initially with a shortlist of 9.
Full programme developed and agreed in 2021.	21/02/2022	✓	Cllr Vassiliou	Smith; Steve (Housing)	Programme of activity developed and agreed, with work packaged into tranches to support timely delivery.
Phase 1 implementation started in 2021.	31/12/2021	✓	Cllr Vassiliou	Smith; Steve (Housing)	Phase 1 implementation activity commenced.
Bringing forward a plan for regeneration in our districts and promote home ownership	29/03/2024	✓			Estate regen. Part of new resource in Property team. Promote home ownership. New tenancy strategy in train, consultation launch before end of year. Different models of home ownership to be presented to the New Homes board.
Bitterne District Improvement Plan	29/03/2024	●	Cllr Moulton	Boustred; Pete, Dyer-Slade; Tina	Following Cabinet Member feedback, the project will now focus on environmental and public realm enhancements to the Bitterne District Centre. A capital budget allocation of £3m proposed.
Lordshill District Improvement Plan	31/03/2023	●	Cllr Moulton	Boustred; Pete, Dyer-Slade; Tina	The priority is to focus on a housing development on the Andromeda Road site and the Lordshill District Centre. Meetings taken place with Housing Associations regarding these sites.
Housing Estate Improvement Programme	31/03/2023	●	Cllr Moulton	Dyer-Slade; Tina	Drew Smith have been appointed to pre contract services agreement for plot 2, 9 and 10 Townhill Park and have started design work. They plan a start on site by the end of 2022.
Housing Growth Partnership with Developer to deliver more home ownership homes across the city - Partnership launched	28/04/2023	●	Cllr Moulton	Dyer-Slade; Tina	Report to Cabinet is planned in March setting out the approach
Submission of a new Local Plan	29/12/2023	●	Cllr Moulton	Barton; Paul	Ongoing collation of evidence and initial policy development. "Call for Sites" that asks land owners/developers to provide details of sites available for development is live.
Bring forward a plan for a world class waterfront at Mayflower Park and support the delivery of the Spitfire National Monument	28/04/2023				Home Office have recommended a Project Manager. £45,000 payment to be processed to enable this.
Start on site for Spitfire National Monument in 2023 with Spitfire Trust	02/01/2023	●	Cllr Moulton	Dyer-Slade; Tina	A project manager has been appointed. He is working on a 2 month outline business case and a 6 month full business case.
Consult and adopt Phase 2 of the Mayflower Quarter Growth Plan	28/04/2023	●	Cllr Moulton	Dyer-Slade; Tina	Mayflower Quarter MasterPlan commission has been closed and the information generated will be used for individual area action plans.
Deliver a transport plan that provides a range of options to travel across the city whilst pursuing a 'Southampton Mass Transit System' solution such as improved rail, Park and Ride or trams.	31/03/2023				Bus Service improvement plan approved. Awaiting outcome of submitted business case for Northam bridge. Relevant working groups established.
Sign Enhanced Bus Partnerships	31/03/2022	●	Cllr Moulton	Boustred; Pete	Enhanced Partnership public consult in the winter 21/22 and then adoption by April 2022. Cabinet Member briefings ongoing and bus operators now being consulted on detail of EP. Cabinet approval planned for March. Tight timescales creating project pressures
Finalise the Southampton Mass Transit System Strategy and delivery plan	31/03/2023	●	Cllr Moulton	Boustred; Pete	Consultant support to be in place in Q4 21/22. TfSE proposals that support southampton mass transit to be presented to informal cabinet in early 2022.
Submit a business case for Northam Bridge replacement	31/03/2023	●	Cllr Moulton	Boustred; Pete	SOBC submitted to DfT summer 2021. Awaiting outcome that would include DfT funding for project development if approved. Ongoing partnership work with Network Rail. A BBLP brief submitted for highways design elements. MPs recently briefed.

PRIORITY	FINISH	RAG	CABINET MEMBER	LEAD OFFICER	COMMENTARY
Improve the highways for all users.	31/03/2023				
Agree additional road repair programme	31/12/2021	✓	Cllr Moulton	Paskins; Paul	Additional programme agreed and Cabinet member briefed
Implement road repair programme	31/03/2023	●	Cllr Moulton	Paskins; Paul	2021/22 strong progress programme on target. 2022/23 programme planned on target
Introduce repair to roads outside of the conventional intervention standard	20/08/2021	✓	Cllr Moulton	Paskins; Paul	Completed: Pothole Patrol implemented in July 2021 – this increases 'find and fix' resource from one team to three. Impact being monitored and reported to Cabinet Member
School Street programme - Design the conversion of the experimental trial sites to permanent	31/03/2022	●	Cllr Moulton	Boustred; Pete	Existing school streets that were installed under a Temporary Traffic Regulation Order (used for covid emergency) are now being advertised as an Experimental Traffic Regulation Order to commence 6th September 2021 (9 schools)
School Street programme - Deliver the conversion of the experimental trial sites to permanent	31/03/2023	●	Cllr Moulton	Boustred; Pete	Residents informed via Cabinet Member letter to all properties impacted. 01/11/21 - Cantell School street goes live (bus gate).
Deliver two additional Active Travel Zones which include new 20mph speed limits - co-design	31/03/2022	●	Cllr Moulton	Boustred; Pete	
Deliver two additional Active Travel Zones which include new 20mph speed limits - Delivery	31/03/2023	●	Cllr Moulton	Boustred; Pete	
Economy and Growth Strategy Action Plan 2021 - 2030	31/03/2022				
Launch the new Action Plan supporting International City, Business growth, Employment, Skills and and place shaping	31/03/2022	◆	Cllr Moulton	Barton; Paul	The action plan development was delayed due to resource priorities and will now be ready for launch in early 2022
Support Southampton's Maritime economy, employment, skills and growth as part of the National Freeport Programme UK.	15/04/2022				
Submit Solent Freeport outline business case in Autumn 2021	30/11/2021	✓	Cllr Moulton	Barton; Paul, Martin; Kate	Ongoing work to develop business case. Will require Cabinet/Council decision
Submit full business case in Spring 2022	15/04/2022	●	Cllr Moulton	Martin; Kate, Barton; Paul	Outline Business Case submitted and decision by Govt expected in Jan 2022. Further approvals sought by Council in March 2022.

PRIORITY	FINISH	RAG	CABINET MEMBER	LEAD OFFICER	COMMENTARY
Address the need for all children to have sufficient food during the school year and in holidays.	22/07/2022				
Review and expand the 'Feed the Future' programme	22/07/2022	●	Cllr J Baillie	Chase; Debbie	Each school that was previously benefitting from the FareShare scheme was provided a £5k grant. The grant was allocated by a member of the Education team.
Ensuring that all those eligible for Free School Meals receive appropriate support.	29/04/2022	●	Cllr J Baillie	Wiles; Derek	HAF Winter programme has been delivered for the period of 18th – 29th Dec accessible for children and young people on free school meals (FSM). Range of activities, including: Testlands Hubs across 6 sites; tickets for Pantomime at Mayflower; Saints ticket
Reduce the number of children looked after current levels of 98 per 10,000 (figure at May 2021).	31/03/2023				
Quarter 2 2021/22	05/10/2021	▲	Cllr P Baillie	Watkins; Julian, Murray; Steph	The rate per 10,000 in the August data report was 100. There has been an continued increase in children in care over the last month - this has been exacerbated by 2 large sibling groups who have entered care.
Quarter 3 2021/22	04/01/2022	▲	Cllr P Baillie	Watkins; Julian, Murray; Steph	The rate of looked after children continues to rise at present. The Deputy Director has reviewed the reasons as to why the last 20 children entered the care and has agreed that the threshold that was applied was appropriate.
Improve the quality of learning opportunities including a viable post-16 provision in the city that meets the needs of learners.	31/03/2023				
St Mark's school opening September 2022.	30/09/2022	●	Cllr J Baillie	Wiles; Derek	Still on track to be completed on time. Building (in part) has now been handed over to the school. Pupils have moved into the primary part of the school, and the temporary classrooms are being removed
Increase the percentage of year 12 and 13 children in education, employment and training with accredited study	31/03/2022	●	Cllr J Baillie	Wiles; Derek	October 21: 87.4% increased to December 21: 91.27%. We have employed 3FTE engagement officers to provide advice and support to YP who are NEET, with an aim to re-engage into learning.
Find a solution to the Sixth Form colleges challenges in the city	31/03/2023	●	Cllr J Baillie	Wiles; Derek	There has been a delay to the City Wide Solution Report – we await the outcome of that which is expected in Early/mid-February 2022.
Improve partnership working across the health and social care system to improve outcomes for our residents - An agreed Integrated Care System (ICS) set of arrangements with the NHS at a place level in line with the White Paper implemented	01/07/2022				
An agreed Integrated Care System (ICS) set of arrangements with the NHS at a place level in line with the White Paper implemented	01/07/2022	◆	Cllr White	RAMSEY; Stephanie (NHS SOUTHAMPTON CCG)	Ongoing work both locally and HIOW to develop proposed models for both Integrated Care Boards and Integrated Care Partnership. Integrated Care Partnership will be a joint committee of 5 statutory and equal partners: SCC, PCC, IOW, HCC and the HIOW ICB.
Reduce the number of permanent admissions to residential placements from 720 people per 100,000 population to 590 per 100,000 population	31/03/2022				
Quarter 2 2021/22	05/10/2021	▲	Cllr White	RAMSEY; Stephanie (NHS SOUTHAMPTON CCG)	Current performance 294.3 per capita which is slightly better than the projected target of 295 which is required if we are to achieve 590 admissions per capita by the end of the year. A fluctuating picture due to pressures and backlogs in the NHS
Quarter 3 2021/22	31/12/2021	●	Cllr White	RAMSEY; Stephanie (NHS SOUTHAMPTON CCG)	Recent performance indicates we are on track to achieve target, however there is a fluctuating picture due to pressures and backlogs in the NHS.

PRIORITY	FINISH	RAG	CABINET MEMBER	LEAD OFFICER	COMMENTARY
Increase the number of people using care technology from 687 installations in 2020/21 to 756 by April 2022.	31/03/2022				
Quarter 2 2021/22	05/10/2021	▲	Cllr White	Haynes; Lisa	Overall position at end of Q2 is 30 short of projected target, but number of installs is likely to increase over the next quarter due to seasonal variance in demand.
Quarter 3 2021/22	31/12/2021	●	Cllr White		529 installations up to 31 Dec 21 (38 below target for this stage of the year). Installation rate increased over last 2 months, and if this continues the year end target will be met. New initiative to support people being discharged home with 24 hour care
Improve carers experience	31/03/2022				
Increase the proportion of carers receiving support.	31/03/2022	●	Cllr White	Littlemore; Adrian	This is ongoing and will be monitored closely when the action plan is complete (anticipated w/c 6 Dec)
Carers' Strategy in place by end of March 2022 and actions from Scrutiny into Carers implemented	31/03/2022	✓	Cllr White	Littlemore; Adrian	Carers and Young Carers Strategies have been approved by Cabinet, all Scrutiny Inquiry actions have been included in the action plan.
Reduce childhood obesity.	29/07/2022				
Increase the number of Healthy Early Years Awards achieved.	29/07/2022	●	Cllr P Baillie	Wiles; Derek	HEYA Physical Activity training delivered in September was attended by 31 practitioners from 16 early years settings, and Healthy Eating training was attended by 28 practitioners from 13 settings. 2 settings have completed an award since August.
Increase the take up of the Healthy High-5 programme (a city-wide initiative with five achievable elements (stars) designed to have a positive impact on the health and wellbeing of all school pupils).	29/07/2022	●	Cllr P Baillie	Chase; Debbie	Award continues to be promoted by PH School Nursing service. Plans are being developed with Education to increase school engagement with this award.
Sign up to the Local Authority Declaration on Healthy Weight.	01/04/2022	●	Cllr P Baillie	Chase; Debbie	Plans are on track although the briefing will be presented to Cllr Baillie at the 28th February CMB. Briefings are being prepared to share plans (to sign up to the LA Declaration on Healthy Weight) with Cllr White and Health and Wellbeing Board.

PRIORITY	FINISH	RAG	CABINET MEMBER	LEAD OFFICER	COMMENTARY
Deliver Electric Vehicle (EV) charging across our estates and introduce new EV buses to the city	01/09/2022				Cabinet decision to approve tender process due December 2021. Business case for EV buses due to be submitted January 2022.
First phase of electric charging points installed	31/03/2022	●	Cllr S Galton	Boustred; Pete	Charge points installed at City Depot (6 vehicles can now charge). Decision to Cabinet on Jan 22 on concession proposals. Agreement in principal from SSE for use of lamp columns for on street residential charging.
EV Bus ZEBRA Bid and Partnership - Full business Case submitted	31/01/2022	●	Cllr S Galton	Boustred; Pete	An Expression of Interest was successful and a full business case is now being prepared to be submitted in January 2022
EV Bus ZEBRA Bid and Partnership - delivery start	01/09/2022	●	Cllr S Galton	Boustred; Pete	
Clean up our city- improving our parks, open spaces waterfronts and city/district centres, planting more trees and green walls, whilst increasing enforcement against fly tipping	31/12/2024				Experienced public realm resource secured and recruitment of additional resource underway, to be concluded by 5th November. 18,000sqm verge planting starting November; additional 3,500ms wildflower meadows planned.
Waterfront and Mayflower Park	31/12/2024	●	Cllr Harwood	Tyrie; David	Funding for Mayflower Park is being sourced, draft proposals in development. LU fund proposals in progress. Revetment study completed, discussions with ABP Southampton underway. Spitfire Trust have appointed Project Manager who is preparing the programme
Increase enforcement activity against those fly-tipping.	31/03/2022	●	Cllr S Galton	Zambra; Rosie	Environmental Protection Officer started 10th Jan, 1 withdrew application further recruitment required.
Encourage wildflower growth.	31/03/2025				
Wildflower verges introduced	31/03/2022	●	Cllr Harwood	Tyrie; David	On track
Plant wildflower meadows by 2025.	31/03/2025	●	Cllr Harwood	Tyrie; David	On track
Develop a Natural Environment policy and Green Grid Action Plan	31/05/2022	●	Cllr S Galton	Tyrie; David	
Improve waste management and recycling.	07/04/2025				
Consult on and adopt a new Waste Management Strategy 2032	31/03/2023	●	Cllr Harwood	Tyrie; David	New Joint Municipal Waste Strategy to Cabinet in November 2021. Further public consultation will be required in 2022 and 2023 after Environment Bill detail becomes known.
Increase the percentage of household waste sent for recycling.	07/04/2025	▲	Cllr Harwood	Tyrie; David	The council is expected to adopt the Waste Improvement Transformation Plan in February 2022 with a core focus on raising recycling rates.
Economy and Growth Strategy Action Plan 2021-2030	31/03/2022				
Launch the new Action Plan supporting International City, Business growth, Employment , Skills and Placeshaping	31/03/2022	◆	Cllr Moulton	Barton; Paul	The action plan development was delayed due to resource priorities and will now be ready for launch in early 2022
New Greener City Action Plan 2022-27	31/03/2022	●	Cllr S Galton	Boustred; Pete	Agreed the Greener City year 2 (21/22) commitments with the Cabinet Member focussing on COP26 and key outputs alongside development of evidence base.



PRIORITY	FINISH	RAG	CABINET MEMBER	LEAD OFFICER	COMMENTARY
Restore and promote our city's heritage assets to the world creating pride in our city's past.	31/05/2022				A report approved at Full Council on 21 July includes provision for £3.68m for restoring the city's heritage assets, with an additional (separate) £2.3m for restoring the medieval vaults, this is being revised following Member briefing
Finalise our Heritage Asset Management Strategy	31/12/2021	✓	Cllr Vassiliou	Abel; Carolyn	Work on the Heritage Asset Management Strategy has been completed. Following the appointment of a PM a detailed action plan is being developed to deliver the repairs programme with a priority focused on public health and safety and conservation of assets
Develop and publish our Cultural Strategy	17/01/2022	✓	Cllr Vassiliou	Abel; Carolyn	Approved at Cabinet meeting in January 2022
Be selected as the UK City of Culture 2025.	31/05/2022				
Longlisted	30/09/2021	✓	Cllr Vassiliou	Whitaker; Claire	Longlisting of the EOIs will take place over the summer, with successful bids announced September 2021
Full bid submission	02/02/2022	●	Cllr Vassiliou	Whitaker; Claire	Work continues with appropriate reviews, on track to submit bid on time.
Shortlisted	31/03/2022	●	Cllr Vassiliou	Whitaker; Claire	Precise date not known but will be before end March.
Announcement	31/05/2022	●	Cllr Vassiliou	Whitaker; Claire	The winning bid will then be announced in May 2022 at the conclusion of Coventry's 2021 year.
Work with our partners to tackle anti-social behaviour, violence and begging	31/03/2023				CCTV procurement ongoing; mapping with Police to identify violence against women & girl hotspots. CCTV to be installed; Riverside Park & Empress; approved lighting at UHS. Further partnership working with action groups. Other ASB hotspots being mapped.
Work with the Safer City Partnership to publish our revised Safe City Strategy	31/03/2022	◆	Cllr Vassiliou	Murphy; Jason	On track for full Council in March.
Anti-social Behaviour review	30/11/2021	●	Cllr Vassiliou	Derrick; Gavin	Consultation to extend PSPO for street drinking launched on 21.1.22, decision to be taken at Cabinet in March 2022
Community Fund - open for first applications	29/10/2021	✓	Cllr Vassiliou	Brown; Chris	Completed - have gone live
Community Fund distributed £500k funds	31/03/2023	●	Cllr Vassiliou	Brown; Chris	First round complete and awards to the total value of £150,000 have been awarded. Engagement with community groups is ongoing and future rounds will be advertised in due course
Strengthen and increase the reach of our hate crime network	31/03/2022	●	Cllr Vassiliou	Murphy; Jason	Tender will be launched week of 10th January 2022 for award to start contract delivery from 1st April
Implement the provisions of the new Domestic Abuse Bill to support the victims of abuse to access safe accommodation and pathways to support	31/12/2021	✓	Cllr Vassiliou	Murphy; Jason	Safe Accommodation Strategy now published.
Review of CCTV	13/09/2021	✓	Cllr Vassiliou	Paskins; Paul, Zambra; Rosie	A review of CCTV has been undertaken, the findings were reported to CMB on the 13/09/21 with actions agreed, these actions are all in progress and it is anticipated that outline proposals will be available no later than 30/11/2021.
Complete CCTV Actions - CCTV and mapping of ASB hot spots in the City, New CCTV camera procurement, CCTV to be installed in Riverside Park; Empress road and lighting improvements at UHS.	31/03/2022	●	Cllr Vassiliou	Paskins; Paul	All actions in train to be completed by end March 2022 and future sites being scoped for 22/23

PRIORITY	FINISH	RAG	CABINET MEMBER	LEAD OFFICER	COMMENTARY
Achieve our ambition to become a UNICEF Child Friendly City by 2024/25	29/12/2023				
Acceptance onto accreditation programme	30/11/2021	✓	Cllr Vassiliou	Murphy; Jason	Formally accepted onto programme by UNICEF.
Install first children's mayor	31/05/2022	●	Cllr Vassiliou	Murphy; Jason	Work underway, with Mayoralty sighted and agreeable to programme plan. 33 schools have expressed interest in taking part and scheme is on track.
New programmes of support and engagement involving children and young people	31/03/2022	●	Cllr Vassiliou	Murphy; Jason	Establish a Youth Council, made up of representatives from representative bodies in schools and youth settings. Hopefully launch in Autumn 2021. Likely venue will be Solent University Conference suite
Rights of children enshrined in local policy making and scrutiny processes	29/12/2023	●	Cllr Vassiliou	Murphy; Jason	Meetings with Democratic Services scheduled to brief team on involvemem of children in scrutiny processes. Youth Council will contribute to design work for a Youth Cabient from there. Now that UNICEF has accepted city onto programme work can begin at pa
Support Southampton's visitor economy and ensure Southampton is a destination of choice.	31/03/2022				
Publish our Southampton City Destination Management Plan	30/07/2021	✓	Cllr Vassiliou	Abel; Carolyn	The Destination management plan has been published, and we are supporting next steps, but these are a partnership programme of work which requires a more detailed discussion internally about how that is reflected in the plan
Develop an Events and Festival strategy	31/03/2022	●	Cllr Vassiliou	Abel; Carolyn	Discussion with regional partners around joint bidding/resourcing to attract high profile events is ongoing. Commission for the development of the strategy to be completed in Q1 2022/23 in light of these discussions
Support the businesses within our city and promote the city centre as a destination of choice for business and leisure by removing evening parking charges in the city centre and reviewing all parking charges across the city	31/03/2022	✓			Evening parking charges scrapped and a full review of charges in underway
New evening and Sunday charging framework in place	02/08/2021	✓	Cllr Moulton	Alderson; Richard	Completed 01/08/2021
Wider review of charging completed	31/03/2022	✓	Cllr Moulton	Zambra; Rosie	Initial review completed, no further changes to charging proposed at this time and future proposals to be kept under review'

PRIORITY	FINISH	RAG	CABINET MEMBER	LEAD OFFICER	COMMENTARY
Improve the customer experience through developing a greater customer service focus, supporting the improvement in digital literacy in the city, and improving and expanding services available online.	31/03/2022				
Customer Service Telephony upgrade	30/11/2021	✓	Cllr Harwood	Marshall; James	Use of the new platform embedding well. Closing down activities for old system Avaya to conclude over next couple of months.Phase 2 transition of social media and emails to the new platform has been paused.
Refresh and improve our website including Southampton Information Directory (SID)	31/03/2022	●	Cllr Harwood	Marshall; James	SID definition stage to complete in March 2022 with a business case including technology platform options. SID content refresh and transfer to SCC site in progress.
Continue the transformation of services and our workplace	29/04/2022				
Implement new social care system	31/01/2022	✓	Cllr Harwood	Henderson; Robert	System live on 31 January. Expected post-go live activities under way.
Implement MS Teams calling across the organisation	31/03/2022	●	Cllr Harwood	Muncaster; Gavin	Project is still progressing with a target of having migrations complete by end of March 2022,however with the pausing of the 'The Way We Work' programme this is impacting on resource available to support the migrations and will likely impact the timeline
All employees (irrespective of role) will have IT access	29/04/2022	●	Cllr Harwood	Muncaster; Gavin	New equipment is being installed in City Depot to give PC's that front line staff can use. ASC staff (approx 120 staff) using the Cold Harbour application are receiving smart phones and SCC logins as part of an application upgrade.
Ensure that we buy products and services efficiently and secure best value for money	31/03/2022				
Increase percentage of council spend with local suppliers	31/03/2022	●	Cllr Harwood	Paskins; Paul	The Q3 2021/2022 % total spend spent with Southampton suppliers is 44.4% which is up on the Q2 2021/2022 % of 31.5% and up on the Q3 2020/2021 figure of 41.9%.
Continue work to be an employer of choice.	31/03/2022				
Reduce the number of days lost to sickness absence	31/03/2022	●	Cllr Fitzhenry	King; Janet	Average sick days is 8.3 for Qtr3,sickness remains slightly higher than the target of 8 days lost per FTE,however with the backdrop of Covid, sickness remains at a very reasonable level.Work is ongoing with the HR BP's and services to look at intervention
Finalise our People strategy	31/03/2022	●	Cllr Fitzhenry	King; Janet	Design and development work in progress
Identify and use the right data to make better, more informed decisions, drive improved performance, and to use forecasting and analytics to improve our services and products for our customers.	31/03/2022				
Discovery completed including delivery of quick wins	31/03/2022	◆	Cllr Harwood	Holloway; Munira	Progress slower than planned due to lack of resources; planned core data clean-up and governance work has been completed. Data strategy in development. Programme replan being undertaken.

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# Agenda Item 7

<b>DECISION-MAKER:</b>	<b>GOVERNANCE COMMITTEE</b>		
<b>SUBJECT:</b>	<b>EXTERNAL AUDIT – AUDITORS ANNUAL REPORT 2020-21</b>		
<b>DATE OF DECISION:</b>	14 February 2022		
<b>REPORT OF:</b>	EY LLP (EXTERNAL AUDIT)		
<b><u>CONTACT DETAILS</u></b>			
<b>AUTHOR:</b>	<b>Name:</b>	David White	<b>Tel:</b>
	<b>E-mail:</b>	<a href="mailto:dwhite@uk.ey.com">dwhite@uk.ey.com</a>	
<b>Director</b>	<b>Name:</b>	Kevin Suter	<b>Tel:</b>
	<b>E-mail:</b>	<a href="mailto:ksuter@uk.ey.com">ksuter@uk.ey.com</a>	

<b>STATEMENT OF CONFIDENTIALITY</b>	
N/A	
<b>BRIEF SUMMARY</b>	
<p>The National Audit Office’s Code of Audit Practice requires auditors to prepare an Auditors Annual Report and issue it to each audited body. The Auditors Annual Report summarises key findings from across the range of the auditor’s work and responsibilities under statute and the Code, in relation to the 2020/21 audit. It provides a clear, readily understandable commentary on the results of the auditor’s work and highlights any issues that the auditor wishes to draw to the attention of the public. Under the new requirements of the 2020 Code regarding the value for money conclusion, it also includes a commentary on the Council’s arrangements regarding financial sustainability, governance, and improving economy, efficiency and effectiveness. The Auditors Annual Report is a public facing document and is written for a wider audience because it must be published by the audited body.</p>	
<b>RECOMMENDATIONS:</b>	
	(i) To note the Auditors Annual Report 2020-21 as attached
<b>REASONS FOR REPORT RECOMMENDATIONS</b>	
1.	Please see summary above, with regard to the requirement to issue an Auditors Annual Report. The Accounts and Audit Regulations require the Auditors Annual Report to be published on the Authority’s website.
<b>ALTERNATIVE OPTIONS CONSIDERED AND REJECTED</b>	
1.	None
<b>DETAIL (Including consultation carried out)</b>	
	<p>See summary above, and attached Auditors Annual Report.</p> <p>The Auditors Annual Report has been shared with officers (the Executive Director: Finance and Commercialisation, and the Head of Financial Planning and Management) for comment prior to submission into papers, and the comments received have been reflected in the report.</p>
<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>	
	<ul style="list-style-type: none"> <li>• Local Audit and Accountability Act 2014</li> <li>• Accounts and Audit Regulations 2015</li> </ul>
<b><u>Other Legal Implications:</u></b>	
	None
<b>RISK MANAGEMENT IMPLICATIONS</b>	
	None
<b>POLICY FRAMEWORK IMPLICATIONS</b>	
	None

<b>KEY DECISION?</b>	No
<b>WARDS/COMMUNITIES AFFECTED:</b>	N/A
<b><u>SUPPORTING DOCUMENTATION</u></b>	
<b>Appendices</b>	
1.	Auditors Annual Report 2020-21

**Documents In Members' Rooms**

1.	N/A
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**Equality Impact Assessment**

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

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

**Other Background documents available for inspection at:**

<b>Title of Background Paper(s)</b>	<b>Relevant Paragraph of the Access to Information Procedure Rules / Schedule 12A allowing document to be Exempt/Confidential (if applicable)</b>
1. None	

**Southampton City Council**

**Auditor's Annual Report  
Year ended 31 March 2021**

02 February 2022



Building a better  
working world

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

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

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

Our Complaints Procedure – If at any time you would like to discuss with us how our service to you could be improved, or if you are dissatisfied with the service you are receiving, you may take the issue up with your usual partner or director contact. If you prefer an alternative route, please contact Hywel Ball, our Managing Partner, 1 More London Place, London SE1 2AF. We undertake to look into any complaint carefully and promptly and to do all we can to explain the position to you. Should you remain dissatisfied with any aspect of our service, you may of course take matters up with our professional institute. We can provide further information on how you may contact our professional institute.



A close-up portrait of a woman's face, focusing on her eyes and nose. The image is partially obscured by a bright yellow rectangular overlay on the left side. The woman has light brown hair and green eyes.

Section 1

# Executive Summary

## Executive Summary: Key conclusions from our 2020/21 audit

Area of work	Conclusion
<b>Opinion on the Southampton City Council:</b>	
Financial statements	Unqualified – the financial statements give a true and fair view of the financial position of the Southampton City Council as at 31 March 2021 and of its expenditure and income for the year then ended. The financial statements have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21. We issued our auditor's report on 25 November 2021.
Going concern	We have concluded that the Section 151 Officer's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.
Consistency of the Southampton City Council Statement of Accounts and other information published with the financial statements	Financial information in the Southampton City Council Statement of Accounts and published with the financial statements was consistent with the audited accounts.

Area of work	Conclusion
<b>Reports by exception:</b>	
Value for money (VFM)	We had no matters to report by exception on the Council's VFM arrangements. We have included our VFM commentary in Section 04.
Consistency of the annual governance statement	We were satisfied that the annual governance statement was consistent with our understanding of the Council.
Public interest report and other auditor powers	We had no reason to use our auditor powers.

# Executive Summary: Key conclusions from our 2020/21 audit

As a result of the work we carried out we have also:

Outcomes	Conclusion
Issued a report to those charged with governance of the Council communicating significant findings resulting from our audit.	We issued an Audit Results Report dated 22 September 2021 to the Governance Committee.
Issued a certificate that we have completed the audit in accordance with the requirements of the Local Audit and Accountability Act 2014 and the National Audit Office's 2020 Code of Audit Practice.	We have not yet issued our certificate for 2020/21 as we have not yet performed the procedures required by the National Audit Office on the Whole of Government Accounts submission. The guidance for 2020/21 has not yet been issued.

## Fees

We carried out our audit of the Council's financial statements in line with PSAA Ltd's "Statement of Responsibilities of auditors and audited bodies" and "Terms of Appointment and further guidance (updated April 2018)". As outlined in the Audit Results Report we were required to carry out additional audit procedures to address audit risks in relation to the valuation of property, plant and equipment and investment property, and other additional procedures as included in this report. As a result, we are to agree an associated additional fee with the Section 151 Officer, and for approval by PSAA Ltd. We include details of the proposed audit fees in Appendix 1.

We would like to take this opportunity to thank the Southampton City Council staff for their assistance during the course of our work.

Kevin Suter

Associate Partner  
For and on behalf of Ernst & Young LLP

Section 2

## Purpose and responsibilities

# Purpose and responsibilities

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This report summarises our audit work on the 2020/21 financial statements.

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## **Purpose**

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

## **Responsibilities of the appointed auditor**

We have undertaken our 2020/21 audit work in accordance with the Audit Plan that we issued on 9<sup>th</sup> July 2021. We have complied with the NAO's 2020 Code of Audit Practice, International Standards on Auditing (UK), and other guidance issued by the NAO.

As auditors we are responsible for:

Expressing an opinion on:

- The 2020/21 financial statements;
- Conclusions relating to going concern; and
- The consistency of other information published with the financial statements, including the annual report.

Reporting by exception:

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

## **Responsibilities of the Council**

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

Section 3

# Financial Statement Audit

# Financial Statement Audit

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We have issued an unqualified audit opinion on the Council's 2020/21 financial statements.

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## Key issues

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

On 25 November 2021, we issued an unqualified opinion on the financial statements. We reported our detailed findings to the 4 October 2021 Governance Committee meeting. We outline below the key issues identified as part of our audit, reported against the significant risks and other areas of audit focus we included in our Audit Plan.

Significant risk	Conclusion
<p><b>Misstatements due to fraud or error - management override of controls</b></p> <p>An ever present risk that management is in a unique position to commit fraud because of its ability to manipulate accounting records directly or indirectly, and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.</p>	<p>Our audit work has provided assurance that:</p> <ul style="list-style-type: none"><li>• We have not identified any evidence of material management override.</li><li>• We have not identified any instances of inappropriate judgements being applied or other management bias both in relation to accounting estimates and other balances and transactions.</li><li>• We have not identified any other transaction which appeared unusual or outside the Council's normal course of business.</li></ul>
<p><b>Inappropriate capitalisation of expenditure</b></p> <p>Under ISA 240 there is a presumed risk that revenue may be misstated due to improper revenue recognition. In the public sector, this requirement is modified by Practice Note 10 issued by the Financial Reporting Council, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition. We have identified an opportunity and incentive to capitalise expenditure under the accounting framework, to remove it from the general fund.</p>	<p>We did not identify any instances of inappropriate capitalisation of revenue expenditure.</p>

# Financial Statement Audit (continued)

Significant Risk	Conclusion
<p><b>Valuation of investment properties and land &amp; buildings valued using Existing Use Value (EUV) and Fair Value.</b></p> <p>The fair value of Investment Property and Land &amp; Buildings valued using EUV or Fair Value represent significant balances in the Council's accounts and are subject to valuation changes impairment reviews and market fluctuations. Management is required to make material judgements and apply estimation techniques to calculate the year-end balance recorded in the balance sheet. ISA's (UK and Ireland) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.</p> <p>Covid-19 has brought significant market volatility.</p>	<ul style="list-style-type: none"> <li>• No issues were identified through our work on these valuations, which was informed by a review of the valuation methodology and results by our internal specialists.</li> <li>• No issues were identified through our consideration of the work of the Council's valuer, or through our review of accounting entries.</li> </ul>
Other area of audit focus	Conclusion
<p><b>Valuation of Land and Buildings</b></p> <p>The Value of Land &amp; buildings at DRC, and HRA properties, also represent significant balancers in the Council's accounts and are subject to valuation changes, impairment reviews and depreciation charges. Management is required to make material judgemental inputs and apply estimation techniques to calculate the year-end balances recorded in the balances sheet.</p>	<p>We identified three audit differences as a result of our work which management chose not to adjust. These were:</p> <ul style="list-style-type: none"> <li>• A projected understatement of the valuation of HRA council dwellings of £7.5m,</li> <li>• A judgemental difference of the overstatement of assets not revalued of £6.2m; and</li> <li>• A judgemental overstatement of £3m of the depreciation charge on HRA assets and their components.</li> </ul> <p>No other issues were identified from testing of land and building valuations and no further issues were identified through our consideration of the work of the Council's valuer, or through our review of accounting entries.</p>



## Financial Statement Audit (continued)

Other area of audit focus	Conclusion
<p><b>Pension Liability valuation</b></p> <p>The Pension Fund liability is a material balance in the Balance Sheet. Accounting for this scheme involves significant estimation and judgement and therefore management engages an actuary to undertake the calculations on their behalf. ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.</p> <p>The Local Authority Accounting Code of Practice and IAS19 require the Council to make extensive disclosures within its financial statements regarding its membership of the Local Government Pension Scheme administered by Hampshire County Council.</p>	<p>As a result of our work, we identified one audit difference of £1.6m which management chose not to adjust. This was in relation to the understatement of Pension assets. This difference was not material.</p>
<p><b>Restatement of CIES, EFA and related disclosure notes.</b></p> <p>Under CIPFA's "Telling the Story" agenda, the Council is required to disclose its income and expenditure in accordance with the structure used for internal reporting, rather than the previous presentation as prescribed by SERCOP. The Council has changed its internal reporting structure in 2020/21, which will mean the Comprehensive Income and Expenditure Statement, the supporting Expenditure and Funding Analysis, and related disclosure notes, will need to be restated in line with the new Structure.</p>	<p>As a result of our work we did not identify any audit differences.</p> <p>We were satisfied that the Comprehensive Income and Expenditure Statement, the Expenditure and Funding Analysis and related disclosure notes were restated appropriately following the changes to the internal reporting structures.</p>
<p><b>New Fixed Asset Register</b></p> <p>The Council has used the new fixed asset module of Business World to record its property, plant and equipment and investment property for the first time in 2020/21. The Council needs to ensure opening asset balances are fully and accurately transferred to this system.</p>	<p>Through our testing we have not identified any issues with the use of the new Fixed Asset Register.</p> <p>We have not identified any issues with the completeness and accuracy of information transferred to the new system from the previous fixed asset register.</p>

## Financial Statement Audit (continued)

Other area of audit focus	Conclusion
<p><b>Going concern disclosures</b> The Council is required to carry out an assessment of its ability to continue as a going concern for the foreseeable future, being at least 12 months after the date of the approval of the financial statements. There is a risk that the Council's financial statements do not adequately disclose the assessment made, the assumptions used and the relevant risks and challenges that have impacted the going concern period.</p>	<p>We concluded that based on the evidence available it appears reasonable for the financial statements to be prepared on the going concern basis without material uncertainties in respect of going concern as there is no identified impact on services which is the key consideration and assumption made in the 'continuation of services' approach underpinning the CIPFA accounting framework.</p> <p>The disclosure provides adequate information for the statement of accounts, and context for the interpretation by the reader in the LG context.</p> <p>In our judgement there is no material uncertainty to disclose, as there is no likely impact on the level of statutory services provided..</p>
<p><b>Accounting for Covid-19 related grant funding</b> The Council received government funding in relation to Covid-19. Whilst there is no change in the CIPFA Code or accounting standard (IFRS 15) in respect of accounting for grant funding, the emergency nature of some of the grants received and in some cases the lack of clarity on any associated restrictions and conditions, means that the Council will need to apply a greater degree of assessment and judgement to determine the appropriate accounting treatment in 2020/21.</p>	<p>Our testing focussed on whether covid grants had been properly treated as agent or principal, and consequently removed or included within the CIES respectively.</p> <p>We concluded from our testing that covid grants have been correctly treated as agent or principal in the financial statements, with no audit differences identified.</p>

# Financial Statement Audit (continued)

## Audit differences

In addition to the differences identified in the previous pages, we identified a small number of misstatements in disclosures which management corrected. However, management disagreed that 3 items in our findings were a misstatement and did not adjust the accounts. These were regarding:

- The Financial Instruments disclosure where Pooled Property Funds should be marked as a level 2 investment instead of a level 1.
- 2 differences in relation to Prior Period Adjustments. Management made changes to the prior period values for income from investment properties, and the trade debtors value within the financial instruments disclosure notes. Neither were material, and therefore, in our view should not have been made.

## Our application of materiality

When establishing our overall audit strategy, we determined a magnitude of uncorrected misstatements that we judged would be material for the financial statements as a whole.

Item	Thresholds applied
<b>Planning materiality</b>	We determined planning materiality to be £12.4m as 1.8% of gross revenue expenditure reported in the accounts. We consider gross revenue expenditure to be one of the principal considerations for stakeholders in assessing the financial performance of the Council.
<b>Reporting threshold</b>	We agreed with the Governance Committee that we would report to the Committee all audit differences in excess of £621k.

Section 4

# Value for Money

# Value for Money (VFM)

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## Scope and risks

We have complied with the NAO's 2020 Code and the NAO's Auditor Guidance Note in respect of VFM. We presented our VFM risk assessment to the Governance Committee meeting on 26 July 2021 which was based on a combination of our cumulative audit knowledge and experience, our review of Council and committee reports, meetings with the Governance Committee and evaluation of associated documentation through our regular engagement with Council management and the finance team.

We reported that we had identified a risk of significant weakness in the Council's VFM arrangements in relation to the financial sustainability criteria.

We identified a risk of significant weaknesses in the Council's VFM arrangements for 2020/21.

## Financial Sustainability:

We have identified a risk that the Council's general fund reserves would need to be used to meet budget gaps, arising largely from factors linked to Covid-19. Were this to occur, it would create a risk that future budget gaps or financial shocks could not be met.

We performed the following procedures:

- Reviewed the actions taken by the Council to manage the financial pressures arising from Covid-19
- Assessed the outturn position for 2020/21 and compared this with in-year forecasts
- Reviewed the Council's latest Medium Term Financial Strategy and the key assumptions within it

We set out the key findings and conclusions from our work to address this risk on pages 19-21.

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

## Reporting

We completed our planned VFM arrangements work in September 2021 and did not identify any significant weaknesses in the Council's VFM arrangements including from the work undertaken to address our significant risk. As a result, we had no matters to report by exception in the audit report on the financial statements.

# Value for Money (VFM)

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

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## VFM Commentary

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

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

## Introduction and context

The 2020 Code confirms that the focus of our work should be on the arrangements that the audited body is expected to have in place, based on the relevant governance framework for the type of public sector body being audited, together with any other relevant guidance or requirements. Audited bodies are required to maintain a system of internal control that secures value for money from the funds available to them whilst supporting the achievement of their policies, aims and objectives. They are required to comment on the operation of their governance framework during the reporting period, including arrangements for securing value for money from their use of resources, in a governance statement.

We have previously reported the VFM work we have undertaken during the year including our risk assessment. The commentary below aims to provide a clear narrative that explains our judgements in relation to our findings and any associated local context.

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The Council has had the arrangements we would expect to see to enable it to plan and manage its resources to ensure that it can continue to deliver its services.

For 2020/21, the significant impact that the Covid-19 pandemic has had on the Council has shaped decisions made, how services have been delivered and financial plans have necessarily had to be reconsidered and revised.

We have reflected these national and local contexts in our VFM commentary.

## Financial sustainability

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

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

During the year key areas such as the collection fund were frequently reviewed for any COVID impact. As well as maintaining a "business as usual" forecast, the Council also included a detailed General Revenue Fund & HRA Forecast to consider the additional impact from Covid-19.

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

## Financial sustainability (continued)

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

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

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

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The Council has had the arrangements we would expect to see to enable it to plan and manage its resources to ensure that it can continue to deliver its services.

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

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

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

The Council maintains a Strategic Risk Assurance Report that is reviewed quarterly by the Executive Management Board. This report includes the risk of “Failure to address the significant and ongoing financial pressures in a sustainable way and to enable service provision to reflect key strategic outcomes and be aligned with the associated budget envelopes”. This includes consideration of any financial pressures and how these reflect on key strategic outcomes and the associated budgets. The Council’s risk monitoring records the key financial risks over the short term and medium-term, and the mitigating actions that have been implemented to address the identified issues.



## **Financial sustainability (continued)**

*How the body plans to bridge its funding gaps and identifies achievable savings*

The Council has a Medium Term Financial Forecast (MTFF) which includes a 4-year forecast of planned savings.

In the budget setting for 2021/22 and beyond, the Council acknowledged that extensive work will be undertaken to identify savings and mitigations to address the gaps.

*How the body plans finances to support the sustainable delivery of services in accordance with strategic and statutory priorities*

The Council's vision focuses on:

- I. Customers – residents, business and visitors. To deliver high quality customers experiences and to deliver quality public services
- II. Communities, culture & Homes. To help communities to develop into thriving neighbourhoods that reflects Southampton as a vibrant and diverse city. To celebrate diversity of cultures within Southampton and to enhance cultural offer.
- III. Green City. To provide sustainable, clean and healthy and safe environment. To support economic growth and to obtain sustainable environment, resilient to effect of climate change.
- IV. Place Shaping. To deliver city of future generations and to continue the grow of local economy
- V. Wellbeing. To ensure that customers and residents get the right help at the right time.
- VI. Successful and Sustainable Business. To build sustainable, agile and flexible services with people

The Council set out its longer-term strategic plan within the Council Strategy 2015-2025, underpinned by the Corporate Plan 2020-2025, wherein the Council sets out its priorities. This provides the strategic framework for its decision making, and informs the Medium Term financial forecast and annual budget setting.

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The Council has had the arrangements we would expect to see to enable it to plan and manage its resources to ensure that it can continue to deliver its services.

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## Financial sustainability (continued)

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

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

The Council's annual financial budget is aligned to activity plans, to ensure there is consistency and triangulation between all elements of the organization. Through the regularly quarterly financial monitoring including the General Fund

Forecast, Capital Programme and Key Financial Risks, the Council can identify the significant financial and business risks that might affect the performance of the Council in the future, and act to address them.

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

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

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

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

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

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The Council has had the arrangements we would expect to see to enable it to plan and manage its resources to ensure that it can continue to deliver its services.

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## Addressing our identified risk:

From our review of Council papers and reports, and through discussion with key officers in the finance department, we can see that the Council has appropriate arrangements in place to draw up and keep under review its financial plans:

- There is an appropriate mix of involvement of officers at the detailed departmental level, and those in positions of overall management and oversight, and there is regular reporting to members, with detailed financial information and forecasts provided to support decision making.
- Review and updating of financial plans is sufficiently regular to allow for emerging pressures to be identified and work to be undertaken to address these, and the sources of information and inputs into forecasts are those we would expect in a local government context.
- The Council took an appropriate, cautious approach to its initial expectations around the impact of C-19 during 2020/21, and revised these as the year progressed. In common with much of the sector, the overall effects within the year were less severe than expected as a result of greater than anticipated levels of government support in some areas; however, the Council's approach of caution is judged to have been proper in the circumstances arising from the uncertainty which existed at the start of the year. Additionally, a higher proportion than first anticipated of excess costs relating to Adult Social Care was met by Southampton CCG, meaning that a major area of potential pressure was significantly mitigated. Again, early caution was the right approach, as this was arguably the area of service provision with greatest potential impact on the Council's financial plans.

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The Council has had the arrangements we would expect to see to enable it to plan and manage its resources to ensure that it can continue to deliver its services.

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The overall outturn position of the Council for 2020/21 was a surplus of £8.6m. This included surpluses for both "business as usual" (BAU) and Covid-19-specific income and expenditure. Whilst the outcome for C-19 was in part due to the levels of government funding received, the Council had ensured this was carefully monitored throughout the year and worked with local partnership organisations – principally Southampton CCG - to mitigate risks arising from increased C-19 related costs. The Council's BAU outturn accounted for the bulk of the positive outcome, which in our judgment provides corroborative evidence of the existence of appropriate arrangements to plan and manage the Council's finances.

We undertook a forecast analysis of the impact of factors that impact the Council's Medium Term Financial Strategy and associated resilience, including:

- A base Medium Term outlook and review of underlying assumptions
- Testing sensitivities driving income and expenditure
- Applying locally-specific economic forecasts to the financial outlooks presented in the MTFS

## Addressing our identified risk continued:

Within our analysis the individual indicator with the highest risk outcome is increases in expenditure on Children's Social Care. Further areas of medium risk have been identified around Adult Social Care, Homelessness Services and savings requirements.

There is an increasing pressure with regard to Children's and Adult and Social Care services in SCC. These are common to many upper tier authorities. Children's social care services have been a recent area of focus of the Council as a result of adverse OFSTED findings and there has therefore been a drive to improve provision in this area. We know from regular discussion with the s151 officer and Head of Finance over the year that these are known areas of cost pressure and subject to ongoing review to enable control measures to be put in place. We have also noted that the Council have established Social Care Demand Risk reserve amounting to £7.4mil to help mitigate these pressures.

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The Council has had the arrangements we would expect to see to enable it to plan and manage its resources to ensure that it can continue to deliver its services.

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We looked at three scenarios:

- i. Scenario 1 –utilizing average forecasts for service demand pressures and key funding elements. The assessment quantifies the financial challenge of the Council until 2024/25 as £94.8m, compared to the Council's assessment within the MTFS of £76.4m
- ii. Scenario 2 – This presented increased demand for services and inflationary pressures, with consequential increased pressure on service expenditure. With this scenario the Council will face £117.4m pressures over the MTFS period
- iii. Scenario 3 – presented a position which incorporates the factors from scenario 2 along with assumption based on the national and local economy recovering at a slower rate than what is currently forecast and a flattened funding position, which will result in further increased pressure on both service expenditure and the Council's overall position. The pressures marginally increased further to a potential £118.7m

The analysis of the key areas of Council activity, and the potential scenarios over the medium term, re-emphasises that the Council needs to constantly review its Medium-Term Financial Strategy (MTFS) to identify risks and mitigations, and to plan ahead for closing the forecast deficits. We have noted from the work performed that the Council does have appropriate processes in place to compile and update its MTFS on a regular basis. The Council also has a good recent track record of closing budget gaps which in the early stages of the process are significant, to produce balanced budgets. Further, the arrangements the Council has to monitor income and expenditure against budget during the year have also been shown to be appropriate, with a surplus achieved in 2020/21 despite the challenge of C-19, with a consistency of surpluses being achieved in each of the 2 prior years as well.

## **Addressing our identified risk continued:**

Therefore, whilst the financial challenges facing the Council over the medium term should not be understated, in our judgment the Council has appropriate arrangements in place with respect to financial planning and monitoring to mean it can plan to meet these challenges. We do not judge it necessary to make specific recommendations to the Council as a result of the work performed.

Our overall assessment is that the Council's arrangements in this area are sufficient and appropriate, and we have no matters to report in relation to our value for money conclusion

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The Council has had the arrangements we would expect to see to enable it to plan and manage its resources to ensure that it can continue to deliver its services.

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## Governance

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

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

The Council has had the arrangements we would expect to see to enable to make informed decisions and properly manage its risks.

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

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

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

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

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

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

## Governance (continued)

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

The Council has had the arrangements we would expect to see to enable to make informed decisions and properly manage its risks.

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

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

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

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

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

## **Governance (continued)**

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

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

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

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

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

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

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

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

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

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

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The Council has had the arrangements we would expect to see to enable to make informed decisions and properly manage its risks.

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## **Improving economy, efficiency and effectiveness**

*How financial and performance information has been used to assess performance to identify areas for improvement.*

*How the body evaluates the services it provides to assess performance and identify areas for improvement*

We can observe from the minutes of meetings of the council that financial and performance information has been used to identify areas for improvement.

We have commented before on arrangements for financial monitoring and risk management, reviewed on a quarterly basis.

The most notable area for improvement from the prior year related to the Children's Services Department. In early 2020 the Council received a whistleblower report which followed on from an OFSTED report in 2019 which noted that the council required improvement across all areas of the service. We reviewed these issues on our previous year audit.

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The Council has had the arrangements we would expect to see to enable it to use information about its costs and performance to improve the way it manages and delivers services.

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In this financial year there is evidence of continued improvement. We note that OFSTED performed a 'focused visit'. This report noted a number of considerable improvements, and noted that senior leaders demonstrated a 'balanced, accurate self-assessment on the quality of frontline practice' and that an extensive workforce and practice transformation is in progress. The report also noted that there had been significant cultural change since the whistleblower report. A detailed improvement plan is in place and the improvements are being implemented. Whilst we note there are still points for improvement in this report, the changes made indicate that the authority has the arrangements in place to continue to improve and deliver value for money in this area

*How the body ensures it delivers its role within significant partnerships, engages with stakeholders it has identified, monitors performance against expectations, and ensures action is taken where necessary to improve.*

We can see from published documents that the council has a number of strategies that involve working with key partners including local businesses, local police/fire services and local health services. These include a strategy for Health and Care which detailed its commitment to working with local NHS organizations.

## **Improving economy, efficiency and effectiveness (continued)**

*How the body ensures that commissioning and procuring services is done in accordance with relevant legislation, professional standards and internal policies, and how the body assesses whether it is realising the expected benefits.*

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The Council has had the arrangements we would expect to see to enable it to use information about its costs and performance to improve the way it manages and delivers services.

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The Council has a procurement policy which is publicly available and therefore available for public scrutiny. It clearly states a number of principles, as well as a number of strategic initiatives to further improve its procurement practices. This policy document details a number of the arrangements we would expect to see in good governance, and includes commitments to reduce spending with external suppliers, to maintaining up to date information on all procurement activity, centralization of buying activity over £1k, and maintaining a centralized contract register.

Adherence with procurement policies and best practice was identified as an area of weakness in the Council's arrangements in 2017/18, leading to a qualification of the VFM conclusion. A risk was then identified in this area in 2018/19, but our work in that year confirmed that sufficient progress had been made that the qualification could be lifted. This has been kept under review by internal audit in subsequent years, with no further risks to our VFM responsibilities identified.

No material inappropriate spending has been identified through our financial statement audit.

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We have no recommendations to make for the Council.

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## **Recommendations**

As a result of the VFM procedures we have carried out we have no recommendations to make.

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The Council faces further challenge and change beyond 2021 which will form part of our 2021/22 VFM arrangements work.

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## **Forward look**

As noted within our commentary, the Council continues to work on arrangements to review and address its financial sustainability.

We will continue to review the Council's progress in addressing these challenges as part of our 2021/2022 Value for Money risk assessment and procedures



Section 5

## Other Reporting Issues

## Other Reporting Issues

### **Governance Statement**

We are required to consider the completeness of disclosures in the Council's governance statement, identify any inconsistencies with the other information of which we are aware from our work, and consider whether it complies with relevant guidance.

We completed this work and did not identify any areas of concern.

### **Whole of Government Accounts**

We have not yet performed the procedures required by the National Audit Office (NAO) on the Whole of Government Accounts consolidation pack submission. The guidance for 2020/21 is yet to be issued. We will liaise with the Council to complete this work as required.

### **Report in the Public Interest**

We have a duty under the Local Audit and Accountability Act 2014 to consider whether, in the public interest, to report on any matter that comes to our attention in the course of the audit in order for it to be considered by the Council or brought to the attention of the public.

We did not identify any issues which required us to issue a report in the public interest.

### **Other powers and duties**

We identified no issues during our audit that required us to use our additional powers under the Local Audit and Accountability Act 2014.

### **Control Themes and Observations**

As part of our work, we obtained an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed. Although our audit was not designed to express an opinion on the effectiveness of internal control, we are required to communicate to you significant deficiencies in internal control identified during our audit.

We have adopted a fully substantive approach and have therefore not tested the operation of controls.

Our audit did not identify any controls issues to bring to the attention of the Governance Committee.

Appendix A

## Audit Fees

## Audit Fees

The scale fee for 2020/21 is in line with the audit fee reported in our Audit Plan and Audit Results Report. Included below are details of the proposed additional fees for 2020/21.

Description	Final Fee 2020/21 £	Planned Fee 2020/21 £	Final Fee 2019/20 £
<b>PSAA Scale Fee</b>	109,891	109,891	109,891
Scale fee Rebasing (1)	85,260	68,235	
<b>Revised Proposed Scale Fee</b>	<b>195,151</b>	<b>178,126</b>	
Scale fee variations(2,3)	35,853	TBC	
<b>Total Fees</b>	<b>231,004</b>	<b>TBC</b>	<b>157,871(4)</b>

### Notes:

- (1) In our 2019/20 Annual Audit Letter we detailed a proposed rebasing of the scale fee to reflect changes in work required to address professional and regulatory requirements and scope associated with risk. This has been amended for 2020/21 to reflect confirmed changes in PSAA hourly rates. Whilst PSAA approved elements of the 2019/20 amount, they have not confirmed if these should be considered recurrent. We have therefore included the amount again in full.
- (2) The 2020/21 Code work includes a proposed additional fee of £35,853, for additional work undertaken in relation to property valuations, HRA depreciation, CIES/EFA restatement, new fixed asset register, Covid-19 grants, value for money, and pensions.
- (3) We have identified new and continuing risks for 2020/21 that are not within the scale fee - the impact of amended auditing standards, and the changing requirements for our VFM responsibilities. PSAA has provided outline amounts to charge for the work required to address these areas. The amounts are included in the overall scale fee variation amount of £35,853.
- (4) PSAA determined a total additional fee for 2019/20 of £47,980. This was split across the amounts submitted in respect of scale fee rebasing and in-year scale fee variations. However, as no indication was given by PSAA of which elements were judged recurrent, we have shown the overall impact on the total fees for the year only.

The additional fee for 2020/21 has not yet been discussed and agreed with management, and also remains subject to approval by PSAA Ltd.

We confirm we have not undertaken any non-audit work.

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# Agenda Item 8

<b>DECISION-MAKER:</b>		GOVERNANCE COMMITTEE	
<b>SUBJECT:</b>		TREASURY MANAGEMENT STRATEGY AND PRUDENTIAL LIMITS 2022/23 TO 2025/26	
<b>DATE OF DECISION:</b>		14 FEBRUARY 2022	
<b>REPORT OF:</b>		EXECUTIVE DIRECTOR FOR FINANCE, COMMERCIALISATION & S151 OFFICER	
<b><u>CONTACT DETAILS</u></b>			
<b>AUTHOR:</b>	<b>Name:</b>	Steve Harrison	<b>Tel:</b> 07392 864525
	<b>E-mail:</b>	<a href="mailto:steve.harrison@southampton.gov.uk">steve.harrison@southampton.gov.uk</a>	
<b>Director</b>	<b>Name:</b>	John Harrison	<b>Tel:</b> 023 8083 4897
	<b>E-mail:</b>	<a href="mailto:john.harrison@southampton.gov.uk">john.harrison@southampton.gov.uk</a>	
<b>STATEMENT OF CONFIDENTIALITY</b>			
NOT APPLICABLE			
<b>BRIEF SUMMARY</b>			
<p>With overall annual expenditure in excess of £600M and an extensive capital programme, the Council is required to actively manage its cash-flows on a daily basis. The requirement to invest or to borrow monies to finance capital programmes, and to cover daily operational needs is an integral part of daily cash and investment portfolio management.</p>			
<p>This report explains the context within which the Council's treasury management activity operates and sets out a proposed strategy for the coming year in relation to the Council's cash flow, investment and borrowing, and the management of the associated risks, including the loss of invested funds and the revenue effect of changing interest rates. Investment limits within this report have been increased to allow for a possible change in strategy.</p>			
<b>GOVERNANCE COMMITTEE</b>			
<b>It is recommended that Governance Committee:</b>			
	(i)	Approve the Council's Treasury Management (TM) Strategy and Indicators for 2022/23 to 2025/26, as detailed in appendix 1.	
	(ii)	Note that at the time of writing this report it has been assumed that the budget proposals within the Medium Term Financial Strategy 2022/23 to 2025/26, Revenue Budget 2022/23 and Capital Programme 2020/21 to 2026/27 report, to be submitted to Council on the 23 February 2022, will be approved. Should the recommendations change and have any impact on the Prudential Indicators this will be reported to Council on 23 February 2022.	
	(iii)	The Executive Director - Finance and Commercialism (EDFC) will report any amendments and in year revisions to the TM Strategy as part of quarterly financial and performance monitoring.	
	(iv)	Endorse the proposal to continue to explore an alternative Treasury Strategy to generate additional income that can support local services, whilst maintaining a prudent approach.	

<b>REASONS FOR REPORT RECOMMENDATIONS</b>	
1.	In order to comply with Part 1 of the Local Government Act 2003, and the established TM procedures that have been adopted by the Council, each year the Council must set certain borrowing limits and approve the Treasury Management Strategy, as detailed in Appendix 1.
2.	This report only covers treasury investments, investments held for service purposes or that give rise to commercial profit are considered in a separate report being taken to Full Council on 23 February 2022.
<b>ALTERNATIVE OPTIONS CONSIDERED AND REJECTED</b>	
3.	Alternative options for borrowing would depend on decisions taken on the review of the capital programme being reported at Full Council on 23 February 2022.
<b>DETAIL (Including consultation carried out)</b>	
	<b>CONSULTATION</b>
4.	The proposed Capital Programme report on which this report is based has been subject to separate consultation processes.
	<b>BACKGROUND</b>
5.	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. If opportunities arise long term borrowing would be considered in conjunction with our advisors, Arlingclose.
6.	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.
7.	The TM strategy takes into account the impact of the Council’s proposed revenue budget and capital programme, to be report to Council on 23 February 2022, on the balance sheet position, the treasury prudential indicators and the current and projected treasury position. There is no longer a requirement to include indicators relating to Prudence, Affordability & Sustainability in the Treasury Strategy as they are now reported as part of the Capital Strategy which will be approved at Council on 23 February. The economic background and outlook for interest rates (Annex 2 to Appendix 1) has also been taken into account in developing this strategy.
8.	The Council acknowledges that effective TM will provide support towards the achievement of its business and service objectives. It is committed to achieving value for money, and to employing suitable comprehensive performance measurement techniques, within the context of effective risk management. To assist the Council in carrying out its TM function, it has appointed TM Advisors (Arlingclose), who advise on strategy and provide market information to aid decision making. However, it should be noted that the decisions are taken

	independently by the EDFC taking into account this advice and other internal and external factors.
9.	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.
10.	Under the new IFRS 9 standard, the accounting for certain investments depends on the Authority's "business model" for managing them. The Authority aims to achieve value from its treasury investments by a business model of collecting the contractual cash flows and therefore, where other criteria are also met, these investments will continue to be accounted for at amortised cost.
11.	<p>The core elements of the 2022/23 Treasury strategy are:</p> <ul style="list-style-type: none"> <li>• To extend the use of short term variable rate debt to take advantage of the current market conditions of low interest rates.</li> <li>• To constantly review longer term forecasts and to lock into longer term rates through a variety of instruments as appropriate during the year, in order to provide a balanced portfolio against interest rate risk.</li> <li>• To secure the best short term rates for borrowing and investments consistent with maintaining flexibility and liquidity within the portfolio.</li> <li>• To invest surplus funds prudently, the Council's priorities being: <ul style="list-style-type: none"> <li>- Security of invested capital</li> <li>- Liquidity of invested capital</li> <li>- An optimum yield which is commensurate with security and liquidity.</li> </ul> </li> <li>• To approve borrowing limits that provide for debt restructuring opportunities and to pursue debt restructuring where appropriate and within the Council's risk boundaries.</li> </ul>
<b>RESOURCE IMPLICATIONS</b>	
<b><u>Capital/Revenue</u></b>	
12.	The revenue and capital implications are considered as part of ongoing monitoring which is reported to Cabinet each quarter and as part of the budget setting process.
13.	<p>The forecast for borrowing costs in 2022/23 is £18.04M, of which £5.34M relates to the HRA. This is made up of interest on borrowing of £9.66M (based on an average debt portfolio of £351.31M at an average interest rate of 2.65% plus MRP and other costs of £8.38M. This is expected to rise to £26.93M (£7.70M HRA) by 2025/26 to accommodate the capital programme, utilisation of reserves and refinancing of borrowing.</p> <p>Investment income for 2022/23 is forecast at £1.02M based on an average portfolio of £48M at an average of 2.12%.</p> <p>If actual levels of investments and borrowing, and/or interest rates differ from that forecast, performance against budget will be correspondently different.</p>
<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.	Local Authority borrowing is regulated by Part 1, of the Local Government Act 2003, which introduced the new Prudential Capital Finance System.
16.	<p>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.</p> <p>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.</p> <p>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.</p>
<b><u>Other Legal Implications:</u></b>	
17.	None
<b>POLICY FRAMEWORK IMPLICATIONS</b>	
18.	This report has been prepared having regard with the CIPFA Code of Practice on Treasury Management.
<b>KEY DECISION?</b>	No
<b>WARDS/COMMUNITIES AFFECTED:</b>	None
<b><u>SUPPORTING DOCUMENTATION</u></b>	
<b>Appendices</b>	
1.	Treasury Management Strategy 2022-23
2.	Treasury Management Practices
3.	Glossary of Treasury Terms
Annex 1	Treasury Management Policy Statement
Annex 2	Economic and Interest Outlook
Annex 3	Existing Investment & Debt Portfolio Position and Projections
Annex 4	Projected Movement on Capital Financing Requirement
<b>Equality Impact Assessment</b>	
Do the implications/subject of the report require an Equality Impact Assessment (EIA) to be carried out.	<b>No</b>
<b>Privacy Impact Assessment</b>	

Do the implications/subject of the report require a Privacy Impact Assessment (PIA) to be carried out.		<b>No</b>
<b>Other Background Documents</b>		
Title of Background Paper(s)	Relevant Paragraph of the Access to Information Procedure Rules / Schedule 12A allowing document to be Exempt/Confidential (if applicable)	
1.	None	

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## Southampton City Council

# TREASURY MANAGEMENT STRATEGY

2022/23 – 2025/26

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- 1.2 External Context
- 1.3 Local Context
- 1.4 Liability Benchmark

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- 2.3 Sources of Borrowing
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- 3.3 Strategy
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ANNEX 2	Economic and Interest Outlook
ANNEX 3	Existing Investments Debt Portfolio Position and Projections
ANNEX 4	Projected Movement on Capital Financing Requirement

	<b>SECTION 1 - INTRODUCTION</b>
1.1	<b>BACKGROUND</b>
1.1.1	Treasury risk management at the Council is conducted within the framework of the Chartered Institute of Public Finance and Accountancy's <i>Treasury Management in the Public Services: Code of Practice 2017 Edition (the CIPFA Code)</i> which requires the Council to approve a treasury management strategy before the start of each financial year. This report fulfils the Council's legal obligation under the Local Government Act 2003 to have regard to the CIPFA Code.
1.1.2	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 Council 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. Our current policy is shown in Annex 1.
1.1.3	Investments held for service purposes or for commercial profit are considered in a different report, the Investment Strategy.
1.2	<b>EXTERNAL CONTEXT</b>
1.2.1	Annex 2 summarises the economic outlook and events in the context of which the Council operated its treasury function during 2021/22 and forecast movement in interest rates.
1.2.2	For the purpose of setting the budget, it has been assumed that new investments for 2022/23 will be short-term and at a rate of 0.10% and new long-term loans taken over the period of the strategy will be borrowed at an average rate of 2.29%.
1.3	<b>LOCAL CONTEXT</b>
1.3.1	At 31 December 2021 the Council held £322M of debt (£259M borrowing plus £63M other long term liabilities) and £69M investments which is set out in further detail in Annex 3.
1.3.2	The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), which is simply the total historic outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. The CFR is reduced by the application of resources such as capital receipts, grants or revenue funds.
1.3.3	While usable reserves and working capital are the underlying resources available for investment.
1.3.4	The Council's current strategy is to maintain borrowing and investments below their underlying levels, sometimes known as internal borrowing. Table 1 shows that the Council has an increasing CFR due to the impact of the capital programme and a decreasing working balance surplus and will therefore need to borrow up to £298M over the forecast period. Annex 4 shows the projected movement on CFR between years.



1.3.5	<p><b>Table 1: Balance Sheet Summary and Forecast</b></p> <table border="1"> <thead> <tr> <th></th> <th>31-Mar-21 Actual</th> <th>31-Mar-22 Forecast</th> <th>31-Mar-22 Forecast Movement in year</th> <th>31-Mar-23 Forecast</th> <th>31-Mar-24 Forecast</th> <th>31-Mar-25 Forecast</th> <th>31-Mar-26 Forecast</th> </tr> <tr> <th></th> <th>£M</th> <th>£M</th> <th>£M</th> <th>£M</th> <th>£M</th> <th>£M</th> <th>£M</th> </tr> </thead> <tbody> <tr> <td>1 General Fund CFR</td> <td>337.18</td> <td>350.75</td> <td>13.57</td> <td>410.84</td> <td>448.96</td> <td>460.16</td> <td>446.34</td> </tr> <tr> <td>2 Housing CFR</td> <td>169.13</td> <td>171.37</td> <td>2.24</td> <td>190.85</td> <td>243.63</td> <td>271.60</td> <td>276.01</td> </tr> <tr> <td><b>3 Total CFR</b></td> <td><b>506.31</b></td> <td><b>522.12</b></td> <td><b>15.81</b></td> <td><b>601.69</b></td> <td><b>692.59</b></td> <td><b>731.76</b></td> <td><b>722.35</b></td> </tr> <tr> <td>4 Less Other Debt Liabilities*</td> <td>(64.44)</td> <td>(60.62)</td> <td>3.82</td> <td>(57.11)</td> <td>(53.46)</td> <td>(49.12)</td> <td>(45.26)</td> </tr> <tr> <td><b>5 Loans CFR</b></td> <td><b>441.87</b></td> <td><b>461.50</b></td> <td><b>19.63</b></td> <td><b>544.58</b></td> <td><b>639.13</b></td> <td><b>682.64</b></td> <td><b>677.09</b></td> </tr> <tr> <td>6 Less External Borrowing**</td> <td>(241.95)</td> <td>(255.65)</td> <td>(13.70)</td> <td>(248.19)</td> <td>(241.09)</td> <td>(233.99)</td> <td>(226.89)</td> </tr> <tr> <td>7 Internal (over) Borrowing</td> <td><b>199.92</b></td> <td><b>205.85</b></td> <td><b>5.94</b></td> <td><b>296.39</b></td> <td><b>398.04</b></td> <td><b>448.65</b></td> <td><b>450.20</b></td> </tr> <tr> <td>8 Balance sheet Resources</td> <td>(259.50)</td> <td>(202.30)</td> <td>57.20</td> <td>(175.86)</td> <td>(176.00)</td> <td>(176.00)</td> <td>(176.00)</td> </tr> <tr> <td><b>9 New Borrowing or (Investments)</b></td> <td><b>(59.58)</b></td> <td><b>3.55</b></td> <td><b>63.14</b></td> <td><b>120.53</b></td> <td><b>222.04</b></td> <td><b>272.65</b></td> <td><b>274.20</b></td> </tr> </tbody> </table> <p>* finance leases, PFI liabilities and transferred debt which form part of the Council's total debt  ** shows only loans to which the Council is committed and excludes optional refinancing</p>		31-Mar-21 Actual	31-Mar-22 Forecast	31-Mar-22 Forecast Movement in year	31-Mar-23 Forecast	31-Mar-24 Forecast	31-Mar-25 Forecast	31-Mar-26 Forecast		£M	£M	£M	£M	£M	£M	£M	1 General Fund CFR	337.18	350.75	13.57	410.84	448.96	460.16	446.34	2 Housing CFR	169.13	171.37	2.24	190.85	243.63	271.60	276.01	<b>3 Total CFR</b>	<b>506.31</b>	<b>522.12</b>	<b>15.81</b>	<b>601.69</b>	<b>692.59</b>	<b>731.76</b>	<b>722.35</b>	4 Less Other Debt Liabilities*	(64.44)	(60.62)	3.82	(57.11)	(53.46)	(49.12)	(45.26)	<b>5 Loans CFR</b>	<b>441.87</b>	<b>461.50</b>	<b>19.63</b>	<b>544.58</b>	<b>639.13</b>	<b>682.64</b>	<b>677.09</b>	6 Less External Borrowing**	(241.95)	(255.65)	(13.70)	(248.19)	(241.09)	(233.99)	(226.89)	7 Internal (over) Borrowing	<b>199.92</b>	<b>205.85</b>	<b>5.94</b>	<b>296.39</b>	<b>398.04</b>	<b>448.65</b>	<b>450.20</b>	8 Balance sheet Resources	(259.50)	(202.30)	57.20	(175.86)	(176.00)	(176.00)	(176.00)	<b>9 New Borrowing or (Investments)</b>	<b>(59.58)</b>	<b>3.55</b>	<b>63.14</b>	<b>120.53</b>	<b>222.04</b>	<b>272.65</b>	<b>274.20</b>
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1.3.6	<p>Table 1 shows that the Council's CFR is rising over the next 3 years. This is due to increased investment, summarised below are the major projects expected to undertaken:</p> <ul style="list-style-type: none"> <li>• School SEND Expansion Programme</li> <li>• Highways and Integrated Transport Programme</li> <li>• Improving Outdoor Leisure Facilities</li> <li>• Restoring the City's Heritage assets</li> <li>• Townhill Park Regeneration (HRA)</li> <li>• Fire Safety (HRA)</li> </ul>																																																																																								
1.3.7	<p>CIPFA's <i>Prudential Code for Capital Finance in Local Authorities</i> recommends that the Council's total debt should be lower than its highest forecast CFR over the next three years. Table 1 shows that the Council expects to comply with this recommendation during 2022/23, as our committed borrowing (row 6) is significantly below our loans CFR (row 5).</p>																																																																																								
1.4	<p><b><u>Liability Benchmark</u></b></p>																																																																																								
1.4.1	<p>To compare the Council's actual borrowing against an alternative strategy, a liability benchmark has been calculated showing the lowest risk level of borrowing. This assumes the same forecasts as Table 1 above, but that cash and investment balances are kept to a minimum level of £10M at each year-end to maintain sufficient liquidity but to further minimise credit risk.</p>																																																																																								

1.4.2

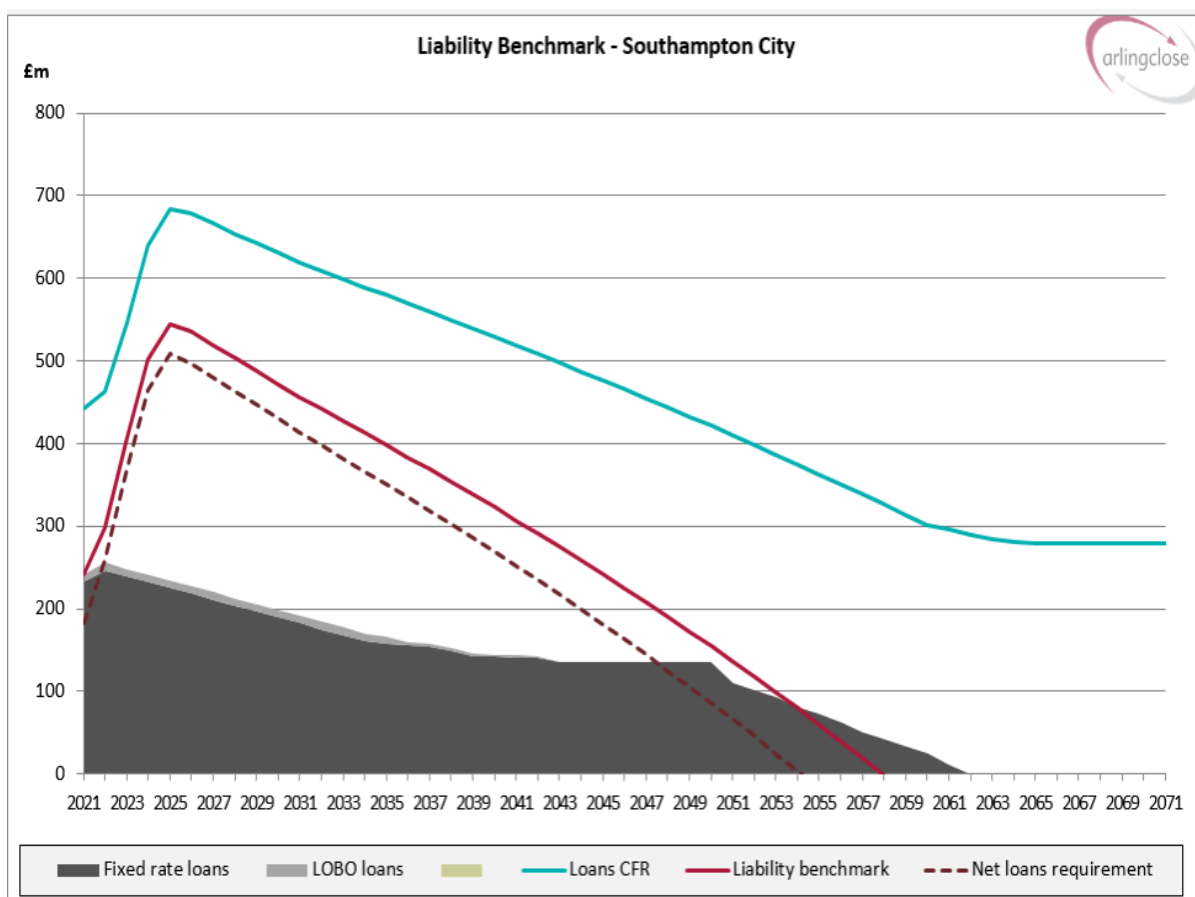
**Table 2: Liability benchmark**

	31/03/2021 Actual £M	31/03/2022 Forecast £M	31/03/2022 Forecast Movement £M	31/03/2023 Forecast £M	31/03/2024 Forecast £M	31/03/2025 Forecast £M	31/03/2026 Forecast £M
<b>Loans CFR</b>	<b>441.87</b>	<b>461.50</b>	<b>19.63</b>	<b>544.58</b>	<b>639.13</b>	<b>682.64</b>	<b>677.09</b>
Less Balance sheet Resources	(259.50)	(202.30)	57.20	(175.86)	(176.00)	(176.00)	(176.00)
Plus Minimum Investments	60.30	38.10	(22.20)	38.10	38.10	37.00	37.00
<b>Liability Benchmark</b>	<b>242.67</b>	<b>297.30</b>	<b>54.63</b>	<b>406.82</b>	<b>501.23</b>	<b>543.64</b>	<b>538.09</b>
Less Committed External Borrowing	(241.95)	(255.65)	(13.70)	(248.19)	(241.09)	(233.99)	(226.89)
<b>Minimum Borrowing Need</b>	<b>0.72</b>	<b>41.65</b>	<b>40.93</b>	<b>158.63</b>	<b>260.14</b>	<b>309.65</b>	<b>311.20</b>

1.4.3

The long term liability benchmark assumes minimum revenue provision based on the life of the asset and income, expenditure and reserves all increasing by inflation. This is shown in the chart below.

1.4.4



1.4.5

This demonstrates that even with lower investment balances that there is still an underlying need for the council to borrow during 2022/23 as our actual committed debt at £248M will be below the benchmark of £407M.

	<b>SECTION 2 - BORROWING STRATEGY</b>
2.0	<p>The Council currently holds £259M of loans, an increase of £17M since the 31 March 2021 which was taken to fund the HRA capital programme and replace maturing debt. No new borrowing has been taken for the General Fund so far, this reflects the Council's policy of only borrowing when cash flows dictate or unless a particular good opportunity arises or to protect itself against an expected material increase in PWLB rates. The balance sheet forecast in Table 1 above shows that the Council expects the total loans CFR to increase by £20M in 2021/22 and by a further £83M in 2022/23 bringing our estimated loans CFR to £545M</p> <p>As can be seen in table 2 Committed borrowing at the end of 2022 is £256M, an increase of £14M from the actual position at 31 March 2021, this net increase reflects maturities in year of £19.3M and new HRA borrowing of £33M. If the forecast capital programme for the year is achieved, then further borrowing of up to £41M will be required by 31 March 2022.</p>
2.1	<b><u>Objectives</u></b>
2.1.1	The Authority's chief objective when borrowing money is to strike an appropriately low risk balance between securing low interest costs and achieving certainty of those costs over the period for which funds are required. The flexibility to renegotiate loans should the Council's long-term plans change is a secondary objective.
2.2	<b><u>Strategy</u></b>
2.2.1	Given the significant cuts to public expenditure and in particular to local government funding, the Council's borrowing strategy continues to address the key issue of affordability without compromising the longer-term stability of the debt portfolio. With short-term interest rates currently much lower than long-term rates, it is likely to be more cost effective in the short-term to either use internal resources, or to borrow short-term loans instead.
2.2.2	By doing so, the Council is able to reduce net borrowing costs (despite foregone investment income) and reduce overall treasury risk. The benefits of internal and short-term borrowing will be monitored regularly against the potential for incurring additional costs by deferring borrowing into future years when long-term borrowing rates are forecast to rise modestly. Arlingclose will assist the Council with this 'cost of carry' and breakeven analysis. Its output may determine whether the Council borrows additional sums at long-term fixed rates in 2022/23 with a view to keeping future interest costs low, even if this causes additional cost in the short-term.
2.2.3	If it was cost effective the Council could also borrow additional sums to pre-fund future years' requirements, providing this does not exceed the authorised limit for borrowing.
2.2.4	<p>Alternatively, the Council may arrange forward starting loans, where the interest rate is fixed in advance, but the cash is received in later years. This would enable certainty of cost to be achieved without suffering a cost of carry in the intervening period.</p> <p>In addition, the Council may borrow further short-term loans to cover unexpected cash flow shortages.</p>

2.3	<b><u>Sources of Borrowing</u></b>
2.3.1	<p>The approved sources of long-term and short-term borrowing are:</p> <ul style="list-style-type: none"> <li>• HM Treasury’s PWLB lending facility (formerly the Public Works Loan Board)</li> <li>• any institution approved for investments (see below)</li> <li>• any other bank or building society authorised to operate in the UK</li> <li>• any other UK public sector body</li> <li>• UK public and private sector pension funds (except HCC Pension Fund)</li> <li>• capital market bond investors</li> <li>• UK Municipal Bonds Agency plc and other special purpose companies created to enable local authority bond issues</li> </ul>
2.3.2	<p>In addition, capital finance may be raised by the following methods that are not borrowing, but may be classed as other debt liabilities:</p> <ul style="list-style-type: none"> <li>• leasing</li> <li>• hire purchase</li> <li>• Private Finance Initiative</li> <li>• sale and leaseback</li> </ul>
2.3.3	<p>The Council has previously raised the majority of its long-term borrowing from the PWLB but will consider long-term loans from other sources including banks, pensions and local authorities, and will investigate the possibility of issuing bonds and similar instruments, in order to lower interest costs and reduce over-reliance on one source of funding in line with the CIPFA Code.</p> <p>PWLB loans are no longer available to local authorities planning to buy investment assets primarily for yield (except for refinancing of existing debt; including internal financing) the Authority intends to avoid this activity in order to retain its access to PWLB. Regeneration aims for investment remain acceptable, but all capital plans will be scrutinised by Government and will require the S151 officer to state they contain no ‘invest for yield’ proposals relying on borrowing.</p>
2.3.4	<b>UK Municipal Bonds Agency plc (MBA)</b>
2.3.5	<p>MBA was established in 2014 by the Local Government Association as an alternative to the PWLB. It issues bonds on the capital markets and lends the proceeds to local authorities. This is a more complicated source of finance than the PWLB for two reasons: borrowing authorities will be required to provide bond investors with a guarantee to refund their investment in the event that the agency is unable to for any reason; and there will be a lead time of several months between committing to borrow and knowing the interest rate payable.</p> <p>A report setting out in full the details, options and risks of the MBA was considered by full Council on 10 February 2016 and any initial proposal to borrow from the Agency will therefore need be the subject of a separate report to both Governance Committee and Full Council.</p>
2.3.7	<b><u>Lender’s Option Borrower’s Option Loans (LOBOs)</u></b>
2.3.8	<p>The Council holds £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 have options during 2022/23 and although the Council understands that lenders are unlikely to exercise their options in the current low interest rate</p>

	environment, there remains an element of refinancing risk. The Council will take the option to repay LOBO loans at no cost if it has the opportunity to do so.
2.4	<b><u>Short Term and Variable Rates</u></b>
2.4.1	<p>Short term loans leave the Council exposed to the risk of short-term interest rate rises and are therefore subject to the limit on the net exposure to variable interest rates in the treasury management indicators.</p> <p>Financial derivatives may be used to manage this interest rate risk but in line with the CIPFA code, the Council would seek and consider external advice before entering into any agreement to ensure that it fully understands the implications.</p>
2.5	<b><u>Debt Rescheduling</u></b>
2.5.1	The PWLB allows authorities to repay loans before maturity and either pay a premium or receive a discount according to a set formula based on current interest rates. Other lenders may also be prepared to negotiate premature redemption terms. The Council may take advantage of this and replace some loans with new loans, or repay loans without replacement, where this is expected to lead to an overall cost saving or a reduction in risk.
	<b>SECTION 3 – TREASURY INVESTMENT STRATEGY</b>
3.0	<p>The Council invests its money for three broad purposes:</p> <ul style="list-style-type: none"> <li>• because it has surplus cash as a result of its day-to-day activities (known as <b>treasury management investments</b>),</li> <li>• to support local public services by lending to or buying shares in other organisations (<b>service investments</b>), and</li> <li>• to earn investment income (known as <b>commercial investments</b> where this is the main purpose).</li> </ul>
3.1	<b><u>Objectives</u></b>
3.1.1	<p>The CIPFA Code require the Council to invest its funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield. Whilst a return is sought, the aim of Treasury activity is not primarily commercial in nature, it reflects addressing the cashflow needs of the council and the need for prudence and risk minimisation with public cash holdings.</p> <p>The Council'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. Where balances are expected to be invested for more than one year, the Council will aim to achieve a total return that is equal or higher than the prevailing rate of inflation, in order to maintain the spending power of the sum invested, however it should be noted that a lower rate is an acceptable offset for higher credit and less risk, for example a covered bond.</p>
3.2	<b><u>Negative Interest Rates</u></b>
3.2.1	The COVID-19 pandemic has increased the risk that the Bank of England will set its Bank Rate at or below zero, which is likely to feed through to negative interest rates on all low risk, short-term investment options. Since investments cannot pay negative income, negative rates will be applied by reducing the value of investments. In this event, security will be measured as receiving the contractually

	agreed amount at maturity, even though this may be less than the amount originally invested.																																								
3.3	<b><u>Strategy</u></b>																																								
3.3.1	<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>For longer term investments the Council aims to continue to diversify into more secure and/or higher yielding asset classes during 2022/23.</p> <p>The majority of cash used for cash flow purposes is invested in money market funds or with other Local Authorities.</p>																																								
3.4	<b><u>Business Model</u></b>																																								
3.4.1	Under the new IFRS 9 standard, the accounting for certain investments depends on the Authority's "business model" for managing them. The Authority aims to achieve value from its internally managed treasury investments by a business model of collecting the contractual cash flows and therefore, where other criteria are also met, these investments will continue to be accounted for at amortised cost.																																								
3.5	<b><u>Approved Counterparties</u></b>																																								
3.5.1	The Council may invest its surplus funds with any of the following counterparty types, subject to the cash limits (per counterparty) and time limits detailed below. This is the absolute limit and the working limit will be monitored against actual cash flows and movement on reserves together with advice from our financial advisors and will be adjusted each quarter as necessary in agreement with the CFO.																																								
3.5.2	<p><b><u>Table 3: Approved Investment counterparties and Limits</u></b></p> <table border="1"> <thead> <tr> <th>Sector</th> <th>Time limit</th> <th>Counterparty limit</th> <th>Sector limit</th> </tr> </thead> <tbody> <tr> <td>The UK Government</td> <td>50 years</td> <td>Unlimited</td> <td>n/a</td> </tr> <tr> <td>Local authorities &amp; other government entities</td> <td>25 years</td> <td>£10M</td> <td>Unlimited</td> </tr> <tr> <td>Secured investments *</td> <td>5 years</td> <td>£10M</td> <td>Unlimited</td> </tr> <tr> <td>Banks (unsecured) *</td> <td>13 months</td> <td>£5M</td> <td>Unlimited</td> </tr> <tr> <td>Building societies (unsecured) *</td> <td>13 months</td> <td>£5M</td> <td>10%</td> </tr> <tr> <td>Registered providers (unsecured) *</td> <td>5 years</td> <td>£10M</td> <td>25%</td> </tr> <tr> <td>Money market funds *</td> <td>n/a</td> <td>£10M per fund and no more than 0.50% of any investments fund in total for non-government funds</td> <td>Unlimited</td> </tr> <tr> <td>Strategic pooled funds</td> <td>n/a</td> <td>£30M</td> <td>50%</td> </tr> <tr> <td>Real estate investment trusts</td> <td>n/a</td> <td>£20M</td> <td>25%</td> </tr> </tbody> </table>	Sector	Time limit	Counterparty limit	Sector limit	The UK Government	50 years	Unlimited	n/a	Local authorities & other government entities	25 years	£10M	Unlimited	Secured investments *	5 years	£10M	Unlimited	Banks (unsecured) *	13 months	£5M	Unlimited	Building societies (unsecured) *	13 months	£5M	10%	Registered providers (unsecured) *	5 years	£10M	25%	Money market funds *	n/a	£10M per fund and no more than 0.50% of any investments fund in total for non-government funds	Unlimited	Strategic pooled funds	n/a	£30M	50%	Real estate investment trusts	n/a	£20M	25%
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	<p><i>*This is the absolute limit and the working limit will be monitored against actual cash flows and movement on reserves together with advice from our financial advisors and will be adjusted each quarter as necessary in agreement with the CFO.</i></p> <p><b><i>This table must be read in conjunction with the notes below</i></b></p>			
3.6	<b><u>Investment Institutions</u></b>			
3.6.1	<p><b>Minimum Credit Rating:</b> Treasury investments in the sectors marked with an asterisk will only be made with entities whose lowest published long-term credit rating is no lower than [A-]. Where available, the credit rating relevant to the specific investment or class of investment is used, otherwise the counterparty credit rating is used. However, investment decisions are never made solely based on credit ratings, and all other relevant factors including external advice will be taken into account.</p> <p>For entities without published credit ratings, investments may be made either (a) where external advice indicates the entity to be of similar credit quality; or (b) to a maximum of £1M per counterparty as part of a diversified pool e.g. via a peer-to-peer platform.</p>			
3.6.2	<p><b>Banks and Building Societies (unsecured):</b> Accounts, deposits, certificates of deposit and senior unsecured bonds with banks and building societies, other than multilateral development banks. These investments are subject to the risk of credit loss via a bail-in should the regulator determine that the bank is failing or likely to fail. See below for arrangements relating to operational bank accounts.</p>			
3.6.3	<p><b>Secured Investments:</b> Covered bonds, reverse repurchase agreements and other collateralised arrangements with banks and building societies. These investments are secured on the bank's assets, which limits the potential losses in the unlikely event of insolvency, and means that they are exempt from bail-in. Where there is no investment specific credit rating, but the collateral upon which the investment is secured has a credit rating, the highest of the collateral credit rating and the counterparty credit rating will be used to determine cash and time limits. The combined secured and unsecured investments in any one bank will not exceed the cash limit for secured investments.</p>			
3.6.4	<p><b>Government:</b> Loans, bonds and bills issued or guaranteed by national governments, regional and local authorities and multilateral development banks. These investments are not subject to bail-in, and there is generally a lower risk of insolvency, although not zero risk. Investments with the UK Government are deemed to be zero credit risk due to its ability to create additional currency and therefore may be made in unlimited amounts for up to 50 years.</p>			
3.6.5	<p><b>Corporates:</b> Loans, bonds and commercial paper issued by companies other than banks and registered providers. These investments are not subject to bail-in, but are exposed to the risk of the company going insolvent. Loans to unrated companies will only be made either following an external credit assessment or to a maximum of £1M per company as part of a diversified pool in order to spread the risk widely.</p>			
3.6.6	<p><b>Registered Providers (unsecured):</b> Loans and bonds issued by, guaranteed by or secured on the assets of registered providers of social housing and registered social landlords, formerly known as housing associations. These bodies are regulated by the Regulator of Social Housing (in England), the Scottish Housing Regulator, the Welsh Government and the Department for Communities (in Northern Ireland). As</p>			

	providers of public services, they retain the likelihood of receiving government support if needed.
3.6.7	<b>Money Market Funds:</b> Pooled funds that offer same-day or short notice liquidity and very low or no price volatility by investing in short-term money markets. They have the advantage over bank accounts of providing wide diversification of investment risks, coupled with the services of a professional fund manager in return for a small fee. Although no sector limit applies to money market funds, the Authority will take care to diversify its liquid investments over a variety of providers to ensure access to cash at all times.
3.6.8	<b>Strategic Pooled Funds:</b> Bond, equity and property funds offer enhanced returns over the longer term, but are more volatile in the short term. These allow the Council to diversify into asset classes other than cash without the need to own and manage the underlying investments. 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 Council's investment objectives will be monitored regularly.
3.6.9	<b>Real estate investment trusts:</b> Shares in companies that invest mainly in real estate and pay the majority of their rental income to investors in a similar manner to pooled property funds. As with property funds, REITs offer enhanced returns over the longer term, but are more volatile especially as the share price reflects changing demand for the shares as well as changes in the value of the underlying properties.
3.6.10	<b>Other investments:</b> This category covers treasury investments not listed above, for example unsecured corporate bonds and company loans. Non-bank companies cannot be bailed-in but can become insolvent placing the Authority's investment at risk.
3.6.11	<b>Operational bank accounts:</b> The Council may incur operational exposures, for example through current accounts, collection accounts and merchant acquiring services, to any UK bank with credit ratings no lower than BBB- and with assets greater than £25 billion. These are not classed as investments but are still subject to the risk of a bank bail-in, and balances will therefore be kept to a minimum. The Bank of England has stated that in the event of failure, banks with assets greater than £25 billion are more likely to be bailed-in than made insolvent, increasing the chance of the Council maintaining operational continuity.
3.6.12	Given the stresses placed on the council's budget, all forms of investment will be carefully monitored during the year. The Chief Financial Officer (CFO), under delegated powers, will undertake the most appropriate form of investments in keeping with the investment objectives, income and risk management requirements and Prudential Indicators. Decisions taken on the core investment portfolio will be reported quarterly to Cabinet.
3.7	<b><u>Risk Assessment and Credit Ratings</u></b>
3.7.1	Credit ratings are obtained and monitored by the Council's treasury advisers, who will notify changes in ratings as they occur. Where an entity has its credit rating downgraded so that it fails to meet the approved investment criteria then: <ul style="list-style-type: none"> <li>• no new investments will be made,</li> <li>• any existing investments that can be recalled or sold at no cost will be, and</li> </ul>



	<ul style="list-style-type: none"> <li>• full consideration will be given to the recall or sale of all other existing investments with the affected counterparty.</li> </ul> <p>Where a credit rating agency announces that a rating is on review for possible downgrade (also known as “rating watch negative” or “credit watch negative”) so that it may fall below the approved rating criteria, then only investments that can be withdrawn on the next working day will be made with that organisation until the outcome of the review is announced. This policy will not apply to negative outlooks, which indicate a long-term direction of travel rather than an imminent change of rating.</p>
3.8	<b><u>Other Information on the Security of Investments</u></b>
3.8.1	The Council understands that credit ratings are good, but not perfect, predictors of investment default. Full regard will therefore be given to other available information on the credit quality of the organisations in which it invests, including credit default swap prices, financial statements, information on potential government support and reports in the quality financial press and analysis and advice from the Authority’s treasury management adviser. No investments will be made with an organisation if there are substantive doubts about its credit quality, even though it may otherwise meet the above criteria.
3.8.2	When deteriorating financial market conditions affect the creditworthiness of all organisations, as happened in 2008 and 2020, this is not generally reflected in credit ratings, but can be seen in other market measures. In these circumstances, the Council will restrict its investments to those organisations of higher credit quality and reduce the maximum duration of its investments to maintain the required level of security. The extent of these restrictions will be in line with prevailing financial market conditions. If these restrictions mean that insufficient commercial organisations of high credit quality are available to invest the Council’s cash balances, then the surplus will be deposited with the UK Government, via the Debt Management Office or invested in government treasury bills for example or with other local authorities. This will cause investment returns to fall but will protect the principal sum invested.
3.9	<b><u>Investment Limits</u></b>
3.9.1	The Council’s revenue reserves and balances available to cover investment losses (excluding Schools, capital and HRA) are forecast to be £92M at 31st March 2021. In order that there is no immediate pressure on available reserves in the case of a single default, the maximum that will be lent to any one organisation (other than the UK Government and specified investments under advice, such as property funds) will be £10M. A group of banks under the same ownership will be treated as a single organisation for limit purposes. Limits will also be placed on fund managers, investments in brokers’ nominee accounts, foreign countries and industry sectors in Table 4 below. Investments in pooled funds and multilateral development banks do not count against the limit for any single foreign country, since the risk is diversified over many countries.

3.9.2	<p><b><u>Table 4 –Investment Limits</u></b></p> <table border="1" data-bbox="229 264 1410 555"> <thead> <tr> <th data-bbox="229 264 1018 331"></th> <th data-bbox="1018 264 1410 331"><b>Cash limit</b></th> </tr> </thead> <tbody> <tr> <td data-bbox="229 331 1018 450">Any group of pooled funds under the same management</td> <td data-bbox="1018 331 1410 450">25% per manager unless under specific advice as taken with CCLA</td> </tr> <tr> <td data-bbox="229 450 1018 501">Negotiable instruments held in broker’s nominee account</td> <td data-bbox="1018 450 1410 501">£50M per broker</td> </tr> <tr> <td data-bbox="229 501 1018 555">Foreign countries</td> <td data-bbox="1018 501 1410 555">£10M per country</td> </tr> </tbody> </table>		<b>Cash limit</b>	Any group of pooled funds under the same management	25% per manager unless under specific advice as taken with CCLA	Negotiable instruments held in broker’s nominee account	£50M per broker	Foreign countries	£10M per country
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3.10	<b><u>Liquidity Management</u></b>								
3.10.1	<p>The Council undertakes high level cash flow forecasting to determine the maximum period for which funds may prudently be committed. The forecast is compiled on a prudent basis to minimise the risk of the Council being forced to borrow on unfavourable terms to meet its financial commitments. Limits on long-term investments are set by reference to the Council’s medium term financial plan and cash flow forecast.</p> <p>The Authority will spread its liquid cash over at least four providers (e.g. bank accounts and money market funds) to ensure that access to cash is maintained in the event of operational difficulties at any one provider.</p>								
<b>SECTION 4 - TREASURY MANAGEMENT INDICATORS</b>									
4.0	The Council measures and manages its exposure to treasury management risks using the following indicators.								
4.1	<b><u>Background</u></b>								
4.1.1	The Authority typically receives its income (e.g. from taxes and grants) before it pays for its expenditure (e.g. through payroll and invoices). It also holds reserves for future expenditure and collects local taxes on behalf of other local authorities and central government. These activities, plus the timing of borrowing decisions, lead to a cash surplus which is invested in accordance with guidance from the Chartered Institute of Public Finance and Accountancy.								
4.1.2	During the financial year the Council’s investment balances have ranged between £43M and £123M and are currently £103M. Borrowing has ranged between £229M and £259M and is currently £259M.								
4.2	<b><u>Security</u></b>								
4.2.1	<p>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. 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. Unrated investments are assigned a score based on their perceived risk. The average rating of our current portfolio is A+ which is above the target.</p> <table border="1" data-bbox="213 1854 1187 1966"> <thead> <tr> <th data-bbox="213 1854 960 1910"></th> <th data-bbox="960 1854 1187 1910"><b>Target</b></th> </tr> </thead> <tbody> <tr> <td data-bbox="213 1910 960 1966">Portfolio average credit rating</td> <td data-bbox="960 1910 1187 1966">A</td> </tr> </tbody> </table>		<b>Target</b>	Portfolio average credit rating	A				
	<b>Target</b>								
Portfolio average credit rating	A								

4.3	<b><u>Liquidity</u></b>						
4.3.1	The Council has adopted a voluntary measure of its exposure to liquidity risk by monitoring the amount of cash available to meet unexpected payments and has set a £10M minimum threshold on cash available in instant access accounts, if balances were to fall below this limit we would consider taking short term loans which are available without given prior notice and at competitive rates.						
4.4	<b><u>Interest Rate Exposure</u></b>						
4.4.1	<p>This indicator is set to control the Council's exposure to interest rate risk. The upper limits are based on the one-year revenue impact of a 1% rise or fall in interest rates for existing variable rates on long term loans and assumed short term borrowing, offset by variable investments. The cost of an extra 1% per £1M is £10,000. We do not currently have any variable rate borrowing and any increase in short term borrowing rates should be offset by an increase in short term investment income.</p> <p>The liability benchmark (Table 2) has identified our borrowing need as, up to £311M by 2025/26 which could equate to an additional £3.11M in borrowing costs.</p> <p>Outstanding borrowing for current year plus borrowing need for 2022/23 has been used to set indicator below (£41M+£159M).</p> <p>The limits are set at:</p> <table border="1"> <thead> <tr> <th>Interest rate risk indicator</th> <th>£M</th> </tr> </thead> <tbody> <tr> <td>Upper limit on one-year revenue impact of a 1% <u>rise</u> in interest rates</td> <td>2.0</td> </tr> <tr> <td>Upper limit on one-year revenue impact of a 1% <u>fall</u> in interest rates</td> <td>0.5</td> </tr> </tbody> </table>	Interest rate risk indicator	£M	Upper limit on one-year revenue impact of a 1% <u>rise</u> in interest rates	2.0	Upper limit on one-year revenue impact of a 1% <u>fall</u> in interest rates	0.5
Interest rate risk indicator	£M						
Upper limit on one-year revenue impact of a 1% <u>rise</u> in interest rates	2.0						
Upper limit on one-year revenue impact of a 1% <u>fall</u> in interest rates	0.5						
4.4.2	The main risk to the authority comes through the continued use of short term borrowing in place of fixed term long term debt for 2022/23. A 1% increase over the forecast rate would equate to £10,000 for each £1M borrowed, plus a possible ongoing impact on an increase in the long term rate.						
4.4.3	The Authority has more exposure to an increase in interest rates than a reduction as our debt portfolio is higher than our investments. A fall in interest rates of 1% would see investment income fall by about £0.38M but this would be offset by reduction in debt charges.						
4.5	<b><u>Maturity Structure of Borrowing</u></b>						
4.5.1	This indicator is set to control the Council's exposure to refinancing risk. The upper and lower limits on the maturity structure of borrowing as set below.						

4.5.2	<table border="1" data-bbox="395 226 1241 645"> <thead> <tr> <th>Refinancing rate risk indicator</th> <th>Lower Limit %</th> <th>Upper Limit %</th> </tr> </thead> <tbody> <tr> <td>Under 12 Months</td> <td>0</td> <td>50</td> </tr> <tr> <td>12 months and within 24 months</td> <td>0</td> <td>50</td> </tr> <tr> <td>24 months and within 5 years</td> <td>0</td> <td>50</td> </tr> <tr> <td>5 years and within 10 years</td> <td>0</td> <td>55</td> </tr> <tr> <td>10 years and within 20 years</td> <td>0</td> <td>60</td> </tr> <tr> <td>20 years and within 30 years</td> <td>0</td> <td>65</td> </tr> <tr> <td>30 years and above</td> <td>0</td> <td>75</td> </tr> </tbody> </table>	Refinancing rate risk indicator	Lower Limit %	Upper Limit %	Under 12 Months	0	50	12 months and within 24 months	0	50	24 months and within 5 years	0	50	5 years and within 10 years	0	55	10 years and within 20 years	0	60	20 years and within 30 years	0	65	30 years and above	0	75																																				
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4.5.3	<p>Time periods start on the first day of each financial year and the maturity date of borrowing is the earliest date on which the lender can demand repayment. Although all LOBOs are now in their call options they are not expected to be called in the near future so are shown as uncertain, but as they only represent 3% of the total debt portfolio an early call would not pose a material risk in refinancing.</p>																																																												
4.5.4	<p>Details of our current level of debt and maturity is shown in Table 5 below. This shows that all debt is within existing levels.</p>																																																												
4.5.5	<p><b>Table 5 – Current Debt</b></p> <table border="1" data-bbox="217 1016 1362 1525"> <thead> <tr> <th>Analysis of Loans by Maturity</th> <th>Lower Limit</th> <th>Upper Limit</th> <th>Compliance with Limit</th> <th>Outstanding 31/12/2021 £M</th> <th>% of Debt</th> </tr> </thead> <tbody> <tr> <td>Less than 1 Year</td> <td>0</td> <td>50</td> <td>Yes</td> <td>6.85</td> <td>3</td> </tr> <tr> <td>Between 1 and 2 years</td> <td>0</td> <td>50</td> <td>Yes</td> <td>6.85</td> <td>3</td> </tr> <tr> <td>Between 2 and 5 years</td> <td>0</td> <td>50</td> <td>Yes</td> <td>20.55</td> <td>8</td> </tr> <tr> <td>Between 5 and 10 years</td> <td>0</td> <td>55</td> <td>Yes</td> <td>34.25</td> <td>13</td> </tr> <tr> <td>Between 10 and 20 years</td> <td>0</td> <td>60</td> <td>Yes</td> <td>40.95</td> <td>16</td> </tr> <tr> <td>Between 20 and 40 years</td> <td>0</td> <td>60</td> <td>Yes</td> <td>125.14</td> <td>48</td> </tr> <tr> <td>Over 40</td> <td>0</td> <td>75</td> <td>Yes</td> <td>15.25</td> <td>6</td> </tr> <tr> <td>Uncertain Date**</td> <td>0</td> <td>5</td> <td>Yes</td> <td>9.00</td> <td>3</td> </tr> <tr> <td></td> <td></td> <td></td> <td></td> <td><b>258.84</b></td> <td><b>100</b></td> </tr> </tbody> </table>	Analysis of Loans by Maturity	Lower Limit	Upper Limit	Compliance with Limit	Outstanding 31/12/2021 £M	% of Debt	Less than 1 Year	0	50	Yes	6.85	3	Between 1 and 2 years	0	50	Yes	6.85	3	Between 2 and 5 years	0	50	Yes	20.55	8	Between 5 and 10 years	0	55	Yes	34.25	13	Between 10 and 20 years	0	60	Yes	40.95	16	Between 20 and 40 years	0	60	Yes	125.14	48	Over 40	0	75	Yes	15.25	6	Uncertain Date**	0	5	Yes	9.00	3					<b>258.84</b>	<b>100</b>
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4.6	<p><b><u>Principal Sums Invested for Periods Longer than a Year</u></b></p>																																																												
4.6.1	<p>The purpose of this indicator is to control the Council's exposure to the risk of incurring losses by seeking early repayment of its investments. The limits on the long-term principal sum invested to final maturities beyond the period end are shown below. Limits have been increased for future years to allow for the alternative investment strategy referred to in the main report if it were to be adopted.</p>																																																												
4.6.2	<table border="1" data-bbox="288 1832 1353 1998"> <thead> <tr> <th></th> <th>Current £M</th> <th>2022/23 £M</th> <th>2023/24 £M</th> <th>2024/25 £M</th> <th>2025/26 £M</th> </tr> </thead> <tbody> <tr> <td>Limit on principal invested beyond year end</td> <td>100</td> <td>100</td> <td>100</td> <td>100</td> <td>100</td> </tr> </tbody> </table>		Current £M	2022/23 £M	2023/24 £M	2024/25 £M	2025/26 £M	Limit on principal invested beyond year end	100	100	100	100	100																																																
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	<b>SECTION 5 - RELATED MATTERS</b>
5.0	There are a number of related matters that the CIPFA Code requires the Council to include in its Treasury Management Strategy.
5.1	<b><u>Monitoring, Reporting and Financial Implications</u></b>
5.1.1	The Chief Financial Officer will report to the Governance Committee on TM activity / performance as follows: <ul style="list-style-type: none"> <li>(a) A mid-year review against the strategy approved for the year.</li> <li>(b) An outturn report on its treasury activity, no later than 30 September after the financial year end.</li> </ul>
5.1.2	In addition, a quarterly update will be presented to Cabinet as part of Quarterly Revenue Financial Monitoring.
5.1.3	Investment income for 2022/23 is forecast at £1.02M based on an average portfolio of £48M at an average of 2.12%.
5.1.4	The forecast for borrowing costs in 2022/23 is £18.04M, of which £5.34M relates to the HRA. This is made up of interest on borrowing of £9.66M (based on an average debt portfolio of £351.31M at an average interest rate of 2.65% plus MRP and other costs of £8.38M. A significant rise is forecast to £26.93M (£7.70M HRA) by 2025/26 to accommodate the capital programme, utilisation of reserves and refinancing of borrowing. However, this will be subject to movement as the need for further borrowing becomes more certain.  New long-term loans taken over the period of the strategy will be borrowed at an assumed average rate of 2.29% based on our advisors forecast rates.
5.2	<b><u>Policy on Use of Financial Derivatives</u></b>
5.2.1	Local authorities have previously made use of financial derivatives embedded into loans and investments both to reduce interest rate risk (e.g. interest rate collars and forward deals) and to reduce costs or increase income at the expense of greater risk (e.g. LOBO loans and callable deposits). The general power of competence in Section 1 of the Localism Act 2011 removes much of the uncertainty over local authorities' use of standalone financial derivatives (i.e. those that are not embedded into a loan or investment).
5.2.2	The Council will only use standalone financial derivatives (such as swaps, forwards, futures and options) where they can be clearly demonstrated to reduce the overall level of the financial risks that the Council is exposed to.  Additional risks presented, such as credit exposure to derivative counterparties, will be taken into account when determining the overall level of risk. Embedded derivatives, including those present in pooled funds and forward starting transactions, will not be subject to this policy, although the risks they present will be managed in line with the overall treasury risk management strategy.
5.2.3	Financial derivative transactions may be arranged with any organisation that meets the approved investment criteria, assessed using the appropriate credit rating for derivative exposures. An allowance for credit risk calculated using the methodology in the Treasury Management Practices document will count against the counterparty credit limit and the relevant foreign country limit.

5.2.4	In line with the CIPFA code, the Council would seek and consider external advice before entering into any agreement to ensure that it fully understands the implications.
5.3	<b><u>Markets in Financial Instruments Directive</u></b>
5.3.1	The Council has opted up to professional client status with its providers of financial services, including advisers, banks, brokers and fund managers, allowing it access to a greater range of services but without the greater regulatory protections afforded to individuals and small companies. Given the size and range of the Authority's treasury management activities, the Chief Financial Officer believes this to be the most appropriate status.
5.4	<b><u>Housing Revenue Account Self-Financing and Limit on Indebtedness</u></b>
5.4.1	On 1st April 2012, the Council notionally split each of its existing long-term loans into General Fund and HRA pools. Since then new long-term loans borrowed are assigned to one pool or the other. Interest payable and other costs/income arising from long-term loans (e.g. premiums and discounts on early redemption) will be charged/ credited to the respective revenue account.
5.4.2	Differences between the value of the HRA loans pool and the HRA's underlying need to borrow (adjusted for HRA balance sheet resources available for investment) will result in a notional cash balance. This balance will be measured, and interest transferred between the General Fund and HRA at an agreed rate. Housing Legislation does not allow impairment losses to be charged to the HRA and consequently any credit related losses on the Council's investments will be borne by the General Fund alone. It is therefore appropriate that the General Fund is compensated for bearing this risk, and all interest transferred to the HRA should be adjusted downwards. The rate will be based on investments with the Debt Management Office. The rate of return on comparable investments with the government is lower and often referred to as the risk-free rate.
5.4.3	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. The process for identifying priorities and sites for new build developments is now taking place and is expected to form the basis of a new delivery strategy incorporating affordability and prudence. As part of the new build strategy relevant Prudential Indicators will be agreed.
5.4.4	The HRA Business Plan supports a number of council strategies, including the Medium Term Financial Strategy, to ensure plans are affordable and budgets are aligned to the assumptions detailed in those strategies. The specific HRA Business Plan can be seen in the report being submitted to Council on 24 February 2021.
5.4.5	The HRA by default will underwrite any programmes that are unable to self-fund
5.5	<b>OTHER OPTIONS CONSIDERED</b>
5.5.1	The MHCLG Guidance and the CIPFA Code do not prescribe any particular treasury management strategy for local authorities to adopt. The Chief Financial Officer, having consulted with relevant officers and members believes that the above strategy represents an appropriate balance between risk management and cost

effectiveness. Some alternative strategies, with their financial and risk management implications, are listed below.

5.5.2	Options	Impact on income and expenditure	Impact on risk management
	Invest in a narrower range of counterparties and/or for shorter times	Interest income will be lower	Lower chance of losses from credit related defaults, but any such losses may be greater
	Invest in a wider range of counterparties and/or for longer times	Interest income will be higher	Increased risk of losses from credit related defaults, but any such losses will be smaller
	Borrow additional sums at long-term fixed interest rates	Debt interest costs will rise; this is unlikely to be offset by higher investment income	Higher investment balance leading to a higher impact in the event of a default; however long-term interest costs will be more certain
	Borrow short-term or variable loans instead of long-term fixed rates	Debt interest costs will initially be lower	Increases in debt interest costs will be broadly offset by rising investment income in the medium term, but long term costs will be less certain
	Reduce level of borrowing	Saving on debt interest is likely to exceed lost investment income	Reduced investment balance leading to a lower impact in the event of a default; however long-term interest costs will be less certain

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	<b><u>TREASURY MANAGEMENT PRACTICES</u></b>
1.	This organisation has adopted and has implemented the key principles of the CIPFA Treasury Management in the Public Services Code of Practice and Cross Sectoral Guidance Notes. This, together with the other arrangements detailed in the operational manual, are considered vital to the achievement of proper corporate governance in treasury management, and the responsible officer will monitor and, if and when necessary, report upon the effectiveness of these arrangements.
	<b>TMP 1 - RISK MANAGEMENT GENERAL STATEMENT</b>
2.	<p>The Council regards a key objective of its treasury management activities to be the security of the principal sums it invests. Accordingly, it will ensure that robust due diligence procedures covering all external investment.</p> <p>The Section 151 Officer will design, implement and monitor all arrangements for the identification, management and control of treasury management risk, will report at least annually on the adequacy/suitability thereof, and will report, as a matter of urgency, the circumstances of any actual or likely difficulty in achieving the organisation's objectives in this respect, all in accordance with the procedures set out in TMP 6 Reporting requirements and management information arrangements.</p> <p>In respect of each of the following risks, the arrangements which seek to ensure compliance with these objectives are set out in the operational manual.</p>
	<b><u>Credit and counterparty risk management</u></b>
3.	The Council will ensure that its counterparty lists and limits reflect a prudent attitude towards organisations with whom funds may be deposited, and will limit its investment activities to the instruments, methods and techniques referred to in TMP4 Approved instruments, methods and techniques. It also recognises the need to have, and will therefore maintain, a formal counterparty policy in respect of those organisations from which it may borrow, or with whom it may enter into other financing arrangements.
	<b><u>Liquidity risk management</u></b>
4.	The Council will ensure it has adequate though not excessive cash resources, borrowing arrangements, overdraft or standby facilities to enable it at all times to have the level of funds available to it which are necessary for the achievement of its business/service objectives. The Council will 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.
	<b><u>Interest rate risk management</u></b>
5.	The Council will manage its exposure to fluctuations in interest rates with a view to containing its interest costs, or securing its interest revenues, in accordance with the amounts provided in its budgetary arrangements as amended in accordance with TMP6 Reporting requirements and management information arrangements. It will achieve this by the prudent use of its approved instruments, methods and techniques, primarily to create stability and certainty of costs and revenues, but at the same time retaining a sufficient degree of flexibility to take advantage of unexpected, potentially advantageous changes in the level or structure of interest rates. This should be the subject to the consideration and, if required, approval of any policy or budgetary implications.

	<b><u>Exchange rate risk management</u></b>
6.	The Council will manage its exposure to fluctuations in exchange rates so as to minimise any detrimental impact on its budgeted income/expenditure levels.
	<b><u>Inflation risk management</u></b>
7.	The Council will keep under review the sensitivity of its treasury management assets and liabilities to inflation and will seek to manage the risk accordingly in the context of its wider exposure to inflation.
	<b><u>Refinancing risk management</u></b>
8.	The Council will ensure that its borrowing, private financing and partnership arrangements are negotiated, structured and documented, and the maturity profile of the monies so raised are managed, with a view to obtaining offer terms for renewal or refinancing, if required, which are competitive and as favourable to the organisation as can reasonably be achieved in the light of market conditions prevailing at the time. It will actively manage its relationships with its counterparties in these transactions in such a manner as to secure this objective and will avoid overreliance on any one source of funding if this might jeopardise achievement of the above.
	<b><u>Legal and regulatory risk management</u></b>
9.	The Council will ensure that all of its treasury management activities comply with its statutory powers and regulatory requirements. It will demonstrate such compliance, if required to do so, to all parties with whom it deals in such activities. In framing its credit and counterparty policy under TMP1[1] credit and counterparty risk management, it will ensure that there is evidence of counterparties' powers, authority and compliance in respect of the transactions they may affect with the organisation, particularly with regard to duty of care and fees charged. The Council recognises that future legislative or regulatory changes may impact on its treasury management activities and, so far as it is reasonably able to do so, will seek to minimise the risk of these impacting adversely on the Council.
	<b><u>Fraud, error and corruption and contingency management</u></b>
10.	The Council will ensure that it has identified the circumstances which may expose it to the risk of loss through fraud, error, corruption or other eventualities in its treasury management dealings. Accordingly, it will employ suitable systems and procedures, and will maintain effective contingency management arrangements, to these ends.
	<b><u>Market risk management</u></b>
11.	The Council will seek to ensure that its stated treasury management policies and objectives will not be compromised by adverse market fluctuations in the value of the principal sum it invests, and will accordingly seek to protect itself from the effects of such fluctuations.
	<b>TMP 2 - PERFORMANCE MEASUREMENT</b>
12.	The Council is committed to the pursuit of value for money in its treasury management activities, and to the use of performance methodology in support of that aim, within the framework set out in its treasury management policy statement. Accordingly, the treasury management function will be the subject of ongoing

	analysis of the value it adds in support of the Council's business or service objectives and performance will be measured against relevant benchmarks.
	<b>TMP 3 - DECISION-MAKING AND ANALYSIS</b>
13.	The Council will maintain full records of its treasury management decisions, and of the processes and practices applied in reaching those decisions, both for the purposes of learning from the past, and for demonstrating that reasonable steps were taken to ensure that all issues relevant to those decisions were taken into account at the time.
	<b>TMP 4 - APPROVED INSTRUMENTS, METHODS AND TECHNIQUES</b>
14.	The Council will undertake its treasury management activities by employing only those instruments, methods and techniques detailed in its annual Investments Strategy, and within the limits and parameters defined in TMP1 Risk management. The Council has reviewed its classification with financial institutions under MIFID II and will set out in its annual Investment Strategy those organisations with which it is registered as a professional client.
	<b>TMP 5 - ORGANISATION, CLARITY AND SEGREGATION OF RESPONSIBILITIES, AND DEALING ARRANGEMENTS</b>
15.	The Council considers it essential, for the purposes of the effective control and monitoring of its treasury management activities, for the reduction of the risk of fraud or error, and for the pursuit of optimum performance, that these activities are structured and managed in a fully integrated manner, and that there is at all times a clarity of treasury management responsibilities. The principle on which this will be based is a clear distinction between those charged with setting treasury management policies and those charged with implementing and controlling these policies, particularly with regard to the execution and transmission of funds, the recording and administering of treasury management decisions, and the audit and review of the treasury management function. If and when it is intended, as a result of lack of resources or other circumstances, to depart from these principles, the Section 151 Officer will ensure that the reasons are properly reported in accordance with TMP6 Reporting requirements and management information arrangements, and the implications properly considered and evaluated. The Section 151 Officer will ensure that there are clear written statements of the responsibilities for each post engaged in treasury management, and the arrangements for absence cover. The Section 151 Officer will also ensure that at all times those engaged in treasury management will follow the policies and procedures set out. The Section 151 Officer will ensure there is proper documentation for all deals and transactions, and that procedures exist for the effective transmission of funds. The delegations to the Section 151 Officer in respect of treasury management are set out in the Council's Financial Regulations and Scheme of Delegation for Financial Management. The Section 151 Officer will fulfil all such responsibilities in accordance with the Council's policy statement and TMPs and the CIPFA Standard of Professional Practice on Treasury Management.
	<b>TMP 6 - REPORTING REQUIREMENTS AND MANAGEMENT INFORMATION ARRANGEMENTS</b>
16.	The Council will ensure that regular reports are prepared and considered on the implementation of its treasury management policies; on the effects of decisions taken and transactions executed in pursuit of those policies; on the implications of changes, particularly budgetary, resulting from regulatory, economic, market or

	<p>other factors affecting its treasury management activities; and on the performance of the treasury management function.</p> <p>The Chief Financial Officer will report to the Governance Committee on TM activity / performance as follows:</p> <ul style="list-style-type: none"> <li>(a) A mid-year review against the strategy approved for the year.</li> <li>(b) An outturn report on its treasury activity, no later than 30 September after the financial year end.</li> </ul> <p>In addition, a quarterly update will be presented to Cabinet as part of Quarterly Revenue Financial Monitoring</p> <p>The Council's Governance Committee has responsibility for the scrutiny of treasury management policies and practices.</p>
	<b>TMP 7 - BUDGETING, ACCOUNTING AND AUDIT ARRANGEMENTS</b>
17.	<p>The Section 151 Officer will prepare, and full Council will approve and, if necessary, from time to time will amend, an annual budget for treasury management, which will bring together all of the costs involved in running the treasury management function, together with associated income. The matters to be included in the budget will at minimum be those required by statute or regulation, together with such information as will demonstrate compliance with TMP1 Risk management, TMP 2 Performance Measurement, and TMP 4 Approved instruments, methods and techniques. The Section 151 Officer will exercise effective controls over this budget and will report upon and recommend any changes required in accordance with TMP 6 Reporting requirements and management information arrangements. The Council will account for its treasury management activities, for decisions made and transactions executed, in accordance with appropriate accounting practices and standards, and with statutory and regulatory requirements in force for the time being.</p>
	<b>TMP 8 - CASH AND CASH FLOW MANAGEMENT</b>
18.	<p>Unless statutory or regulatory requirements demand otherwise, all monies in the hands of the Council will be under the control of the Section 151 Officer and will be aggregated for cash flow and investment management purposes. Cash flow projections will be prepared on a regular and timely basis, and the Section 151 Officer will ensure that these are adequate for the purposes of monitoring compliance with TMP1 Liquidity risk management.</p>
	<b>TMP 9 – MONEY LAUNDERING</b>
19.	<p>The Council is alert to the possibility that it may become the subject of an attempt to involve it in a transaction involving the laundering of money. Accordingly, it will maintain procedures for verifying and recording the identity of counterparties and reporting suspicions and will ensure that staff involved in this are properly trained. The present arrangements, including the name of the officer to whom reports should be made, are detailed in the Council's Anti-Money Laundering Policy.</p>
	<b>TMP 10 - TRAINING AND QUALIFICATIONS</b>
20.	<p>The Council recognises the importance of ensuring that all staff involved in the treasury management function are fully equipped to undertake the duties and responsibilities allocated to them. It will therefore seek to appoint individuals who are both capable and experienced and will provide training for staff to enable them to acquire and maintain an appropriate level of expertise, knowledge and skills. The responsible officer will recommend and implement the necessary</p>

	arrangements. The responsible officer will ensure that elected members tasked with treasury management responsibilities, including those responsible for scrutiny, have access to training relevant to their needs and those responsibilities. Those charged with governance recognise their individual responsibility to ensure that they have the necessary skills to complete their role effectively.
	<b>TMP 11 - USE OF EXTERNAL SERVICE PROVIDERS</b>
21.	The Council recognises that responsibility for treasury management decisions remains with the Council at all times. However, the Council recognises that there may be value in employing external providers of treasury management services, in order to acquire access to specialist skills and resources. When it employs such service providers, it will do so following a full evaluation of the costs and benefits and will also ensure that the terms of their appointment are properly agreed and documented, and subjected to regular review. Where services are subject to formal tender or re-tender arrangements, legislative requirements will always be observed. The monitoring of such arrangements rests with the Section 151 Officer.
	<b>TMP 12 - CORPORATE GOVERNANCE</b>
22.	The Council is committed to the pursuit of proper corporate governance throughout its businesses and services, and to establishing the principles and practices by which this can be achieved. Accordingly, the treasury management function and its activities will be undertaken with openness and transparency, honesty, integrity and accountability.

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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>Amortised:</b></p> <p>Amortisation is an accounting technique used to reduce the value of an asset over its useful life.</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>

**Capital Receipts:**

Money obtained on the sale of a capital asset.

**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.

<p><b>RPI:</b></p> <p>Retail Prices Index is a monthly index demonstrating the movement in the cost of living as it tracks the prices of goods and services including mortgage interest and rent. Pensions and index-linked gilts are uprated using the RPI index.</p>
<p><b>(Short) Term Deposits:</b></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>

## **TREASURY MANAGEMENT POLICY STATEMENT**

### **1. INTRODUCTION AND BACKGROUND**

- 1.1. In accordance with CIPFA's Code of Practice for Treasury Management in the Public Services the Council has regard to the key recommendations when determining the current strategy.
- 1.2. Accordingly, the Council will create and maintain, as the cornerstones for effective treasury management:-
  - A treasury management policy statement, stating the policies, objectives and approach to risk management of its treasury management activities
  - Suitable Treasury Management Practices (TMPs), setting out the manner in which the Council will seek to achieve those policies and objectives, and prescribing how it will manage and control those activities.
- 1.3. The Council delegates responsibility for the implementation and monitoring of its treasury management policies and practices to Governance Committee and for the execution and administration of treasury management decisions to the Chief Financial Officer, who will act in accordance with the organisation's policy statement and TMPs and CIPFA's Standard of Professional Practice on Treasury Management.
- 1.4. Governance Committee will receive reports on its treasury management policies, practices and activities including, as a minimum, an annual strategy and plan in advance of the year, a mid-year review and an annual report after its close, in the form prescribed in its TMPs.
- 1.5. The Council delegates responsibility for the implementation and monitoring of its treasury management policies and practices to Governance Committee and for the execution and administration of treasury management decisions to the Chief Financial Officer, who will act in accordance with the organisation's policy statement and TMPs and CIPFA's Standard of Professional Practice on Treasury Management.
- 1.6. The Council nominates Governance Committee to be responsible for ensuring effective scrutiny of the treasury management strategy and policies.

### **2. POLICIES AND OBJECTIVES OF TREASURY MANAGEMENT ACTIVITIES**

- 2.1. The Council defines its treasury management activities as:

*"The management of the Council's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks*

*associated with those activities; and the pursuit of optimum performance consistent with those risks.”*

- 2.2. This Council regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the organisation, and any financial instruments entered into to manage these risks.
- 2.3. This Council acknowledges that effective treasury management will provide support towards the achievement of its business and service objectives. It is therefore committed to the principles of achieving value for money in treasury management, and to employing suitable performance measurement techniques, within the context of effective risk management.
- 2.4. The Council's borrowing will be affordable, sustainable and prudent and consideration will be given to the management of interest rate risk and refinancing risk. The source from which the borrowing is taken and the type of borrowing should allow the Council transparency and control over its debt.
- 2.5. The Council's primary objective in relation to investments remains the security of capital. The liquidity or accessibility of the Authority's investments followed by the yield earned on investments remain important but are secondary considerations.

The economic background and interest rate outlook provided by the Council's treasury advisor, Arlingclose Ltd is detailed below. The Council will reappraise its strategy from time to time and, if needs be, realign it with evolving market conditions and expectations for future interest rates.

#### Economic Background

The ongoing impact on the UK from coronavirus, together with higher inflation, higher interest rates, and the country's trade position post-Brexit, will be major influences on the Authority's treasury management strategy for 2022/23.

The Bank of England (BoE) increased Bank Rate to 0.25% in December 2021 while maintaining its Quantitative Easing programme at £895 billion. The Monetary Policy Committee (MPC) voted 8-1 in favour of raising rates, and unanimously to maintain the asset purchase programme. Within the announcement the MPC noted that the pace of the global recovery was broadly in line with its November Monetary Policy Report. Prior to the emergence of the Omicron coronavirus variant, the Bank also considered the UK economy to be evolving in line with expectations, however the increased uncertainty and risk to activity the new variant presents, the Bank revised down its estimates for Q4 GDP growth to 0.6% from 1.0%. Inflation was projected to be higher than previously forecast, with CPI likely to remain above 5% throughout the winter and peak at 6% in April 2022. The labour market was generally performing better than previously forecast and the BoE now expects the unemployment rate to fall to 4% compared to 4.5% forecast previously but notes that Omicron could weaken the demand for labour.

UK CPI for November 2021 registered 5.1% year on year, up from 4.2% in the previous month. Core inflation, which excludes the more volatile components, rose to 4.0% y/y from 3.4%. The most recent labour market data for the three months to October 2021 showed the unemployment rate fell to 4.2% while the employment rate rose to 75.5%.

In October 2021, the headline 3-month average annual growth rate for wages were 4.9% for total pay and 4.3% for regular pay. In real terms, after adjusting for inflation, total pay growth was up 1.7% while regular pay was up 1.0%. The change in pay growth has been affected by a change in composition of employee jobs, where there has been a fall in the number and proportion of lower paid jobs.

Gross domestic product (GDP) grew by 1.3% in the third calendar quarter of 2021 according to the initial estimate, compared to a gain of 5.5% q/q in the previous quarter, with the annual rate slowing to 6.6% from 23.6%. The Q3 gain was modestly below the consensus forecast of a 1.5% q/q rise. During the quarter activity measures were boosted by sectors that reopened following pandemic restrictions, suggesting that wider spending was flat. Looking ahead, while monthly GDP readings suggest there had been some increase in momentum in the latter part of Q3, Q4 growth is expected to be soft.

GDP growth in the euro zone increased by 2.2% in calendar Q3 2021 following a gain of 2.1% in the second quarter and a decline of -0.3% in the first. Headline inflation has been strong, with CPI registering 4.9% year-on-year in November, the fifth successive month of inflation. Core CPI inflation was 2.6% y/y in November, the fourth month of successive increases from July's 0.7% y/y. At these levels, inflation is above the European Central Bank's target of 'below, but close to 2%', putting some pressure on its long-term stance of holding its main interest rate of 0%.

The US economy expanded at an annualised rate of 2.1% in Q3 2021, slowing sharply from gains of 6.7% and 6.3% in the previous two quarters. In its December 2021 interest rate announcement, the Federal Reserve continue to maintain the Fed Funds rate at between 0% and 0.25% but outlined its plan to reduce its asset purchase programme earlier than previously stated and signalled they are in favour of tightening interest rates at a faster pace in 2022, with three 0.25% movements now expected.

## **Credit outlook**

Since the start of 2021, relatively benign credit conditions have led to credit default swap (CDS) prices for the larger UK banks to remain low and had steadily edged down throughout the year up until mid-November when the emergence of Omicron has caused them to rise modestly. However, the generally improved economic outlook during 2021 helped bank profitability and reduced the level of impairments many had made as provisions for bad loans. However, the relatively recent removal of coronavirus-related business support measures by the government means the full impact on bank balance sheets may not be known for some time.

The improved economic picture during 2021 led the credit rating agencies to reflect this in their assessment of the outlook for the UK sovereign as well as several financial institutions, revising them from negative to stable and even making a handful of rating upgrades.

Looking ahead, while there is still the chance of bank losses from bad loans as government and central bank support is removed, the institutions on the Authority's counterparty list are well-capitalised and general credit conditions across the sector are expected to remain benign. Duration limits for counterparties on the Authority's lending list are under regular review and will continue to reflect economic conditions and the credit outlook.

## **Interest rate forecast**

The Authority's treasury management adviser Arlingclose is forecasting that Bank Rate will continue to rise in calendar Q1 2022 to subdue inflationary pressures and the perceived desire by the BoE to move away from emergency levels of interest rates.

Investors continue to price in multiple rises in Bank Rate over the next forecast horizon, and Arlingclose believes that although interest rates will rise again, the increases will not be to the extent predicted by financial markets. In the near-term, the risks around Arlingclose's central case are to the upside while over the medium-term the risks become more balanced.

Yields are expected to remain broadly at current levels over the medium-term, with the 5, 10 and 20 year gilt yields expected to average around 0.65%, 0.90%, and 1.15% respectively. The risks around for short and medium-term yields are initially to the upside but shifts lower later, while for long-term yields the risk is to the upside. However, as ever there will almost certainly be short-term volatility due to economic and political uncertainty and events.

The economic interest rate outlook provided by the Council's treasury advisor, Arlingclose Ltd, for December 2021 is detailed below and is based on the following Underlying Assumptions:

- The global recovery from the pandemic has entered a more challenging phase. The resurgence in demand has led to the expected rise in inflationary pressure, but disrupted factors of supply are amplifying the effects, increasing the likelihood of lower growth rates ahead. The advent of the Omicron variant of coronavirus is affecting activity and is also a reminder of the potential downside risks.
- Despite relatively buoyant activity survey data, official GDP data indicates that growth was weakening into Q4 2021. Other data, however, suggested continued momentum, particularly for November. Retail sales volumes rose 1.4%, PMIs increased, and the labour market continued to strengthen. The end of furlough did not appear to have had a significant impact on unemployment. Wage growth is elevated.



- The CPI inflation rate rose to 5.1% for November and will rise higher in the near term. While the transitory factors affecting inflation are expected to unwind over time, policymakers' concern is persistent medium term price pressure.
- These factors prompted the MPC to raise Bank Rate to 0.25% at the December meeting. Short term interest rate expectations remain elevated.
- The outlook, however, appears weaker. Household spending faces pressures from a combination of higher prices and tax rises. In the immediate term, the Omicron variant has already affected growth – Q4 and Q1 activity could be weak at best.
- Longer-term government bond yields remain relatively low despite the more hawkish signals from the BoE and the Federal Reserve. Investors are concerned that significant policy tightening in the near term will slow growth and prompt the need for looser policy later. Geopolitical and coronavirus risks are also driving safe haven buying. The result is a much flatter yield curve, as short-term yields rise even as long-term yields fall.
- The rise in Bank Rate despite the Omicron variant signals that the MPC will act to bring inflation down whatever the environment. It has also made clear its intentions to tighten policy further. While the economic outlook will be challenging, the signals from policymakers suggest their preference is to tighten policy unless data indicates a more severe slowdown.

	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24
<b>Official Bank Rate</b>													
Upside risk	0.00	0.00	0.25	0.25	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Arlingclose Central Case	0.25	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Downside risk	0.00	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25
<b>3-month money market rate</b>													
Upside risk	0.05	0.05	0.25	0.35	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Arlingclose Central Case	0.25	0.55	0.55	0.60	0.60	0.60	0.60	0.65	0.65	0.65	0.65	0.65	0.65
Downside risk	0.00	-0.25	-0.25	-0.30	-0.30	-0.30	-0.30	-0.35	-0.35	-0.35	-0.35	-0.35	-0.35
<b>5yr gilt yield</b>													
Upside risk	0.00	0.35	0.45	0.55	0.55	0.55	0.55	0.55	0.55	0.50	0.50	0.45	0.45
Arlingclose Central Case	0.60	0.60	0.60	0.60	0.60	0.60	0.60	0.60	0.60	0.65	0.70	0.75	0.75
Downside risk	-0.10	-0.20	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.30	-0.35	-0.40	-0.40
<b>10yr gilt yield</b>													
Upside risk	0.10	0.25	0.35	0.40	0.45	0.50	0.50	0.50	0.50	0.50	0.55	0.55	0.55
Arlingclose Central Case	0.80	0.85	0.85	0.85	0.85	0.85	0.85	0.85	0.85	0.90	0.90	0.95	0.95
Downside risk	-0.10	-0.25	-0.30	-0.35	-0.35	-0.35	-0.35	-0.35	-0.35	-0.40	-0.40	-0.40	-0.40
<b>20yr gilt yield</b>													
Upside risk	0.30	0.40	0.45	0.45	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Arlingclose Central Case	1.00	1.05	1.10	1.10	1.10	1.10	1.15	1.15	1.15	1.20	1.20	1.20	1.20
Downside risk	-0.15	-0.30	-0.35	-0.40	-0.40	-0.40	-0.40	-0.40	-0.40	-0.45	-0.45	-0.45	-0.45
<b>50yr gilt yield</b>													
Upside risk	0.25	0.30	0.40	0.45	0.45	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Arlingclose Central Case	0.70	0.75	0.80	0.85	0.90	0.95	1.00	1.05	1.05	1.10	1.10	1.15	1.15
Downside risk	-0.15	-0.30	-0.35	-0.40	-0.40	-0.40	-0.40	-0.40	-0.40	-0.45	-0.45	-0.45	-0.45

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

### Forecast:

- The MPC will want to build on the strong message it delivered this month by tightening policy despite Omicron uncertainty.

- Arlingclose therefore expects Bank Rate to rise to 0.50% in Q1 2022, but then remain there. Risks to the forecast are initially weighted to the upside but becoming more balanced over time. The Arlingclose central forecast remains below the market forward curve.
- Gilt yields will remain broadly flat from current levels. Yields have fallen sharply at the longer end of the yield curve, but expectations of a rise in Bank Rate have maintained short term gilt yields at higher levels.
- Easing expectations for Bank Rate over time could prompt the yield curve to steepen, as investors build in higher inflation expectations.
- The risks around the gilt yield forecasts vary. The risk for short and medium term yields is initially on the upside but shifts lower later. The risk for long-term yields is weighted to the upside.

### EXISTING INVESTMENT & DEBT PORTFOLIO POSITION AND PROJECTIONS

	31-Mar-21	31-Dec-21	31-Mar-22	31-Mar-22
	Actual	Actual	Forecast	Forecast
	£M	£M	£M	%
<b>Long Term Borrowing</b>				
Public Works Loan	222.59	249.84	286.89	2.76
LOBO Loans from Banks	9.00	9.00	9.00	4.86
	<b>231.59</b>	<b>258.84</b>	<b>295.89</b>	<b>2.82</b>
<b>Short Term Borrowing</b>				
Other Local Authorities	10.00	0.00	10.00	0.04
Other	0.36	0.36	0.36	0.00
<b>Total External Borrowing</b>	<b>241.95</b>	<b>259.20</b>	<b>306.25</b>	<b>2.78</b>
<b>Other Long Term Liabilities</b>				
PFI Schemes	50.97	49.25	47.52	9.65
Deferred Debt Charges (HCC)	13.47	13.29	13.10	2.09
<b>Total Gross External Debt</b>	<b>306.39</b>	<b>321.73</b>	<b>366.87</b>	<b>3.85</b>
<b>Investments:</b>				
<b><i>Managed In-House</i></b>				
Government & Local Authority	0.00	(31.46)		
Cash (Instant access)	(30.13)	(43.84)	(10.00)	0.01
Cash (Notice Account)	0.00	0.00	0.00	0.00
Long Term Bonds	(3.17)	(1.06)	(1.10)	5.27
<b><i>Managed Externally</i></b>				
Pooled Funds (CCLA) & Shares	(27.00)	(27.00)	(27.00)	3.00
<b>Total Investments</b>	<b>(60.30)</b>	<b>(103.36)</b>	<b>(38.10)</b>	<b>2.28</b>
<b>Net Debt</b>	<b>246.09</b>	<b>218.37</b>	<b>328.77</b>	

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# Agenda Item 8

## Appendix 7

### PROJECTED MOVEMENT ON CAPITAL FINANCING REQUIREMENT

Capital Financing Requirement	31/03/2021	31/03/2022	31/03/2023	31/03/2024	31/03/2025	31/03/2026
	Actual £M	Forecast £M	Forecast £M	Forecast £M	Forecast £M	Forecast £M
Balance Brought forward	339.58	337.18	350.75	410.84	448.96	460.16
New Borrowing	7.52	24.27	71.62	51.94	26.97	1.91
MRP	(6.51)	(6.89)	(8.02)	(10.17)	(11.44)	(11.88)
Appropriations (to) from HRA *	0.00	0.00	0.00	0.00	0.00	0.00
Movement in Other Liabilities	(3.41)	(3.81)	(3.51)	(3.65)	(4.33)	(3.85)
MRP Holiday	0.00	0.00	0.00	0.00	0.00	0.00
<b>Total General Fund Debt</b>	<b>337.18</b>	<b>350.75</b>	<b>410.84</b>	<b>448.96</b>	<b>460.16</b>	<b>446.34</b>
HRA	169.13	171.37	190.85	243.63	271.60	276.01
<b>Total CFR</b>	<b>506.31</b>	<b>522.12</b>	<b>601.69</b>	<b>692.59</b>	<b>731.76</b>	<b>722.35</b>
Estimated Debt	306.39	366.87	472.86	563.72	602.76	599.11
<b>Under / (Over) Borrowed</b>	<b>199.91</b>	<b>155.25</b>	<b>128.83</b>	<b>128.87</b>	<b>129.00</b>	<b>123.24</b>

Capital Financing Requirement	31/03/2021	31/03/2022	31/03/2023	31/03/2024	31/03/2025	31/03/2026
	Actual £M	Forecast £M	Forecast £M	Forecast £M	Forecast £M	Forecast £M
Balance Brought forward	339.58	337.18	350.75	410.84	448.96	460.16
New Capital Borrowing	7.52	24.27	71.62	51.94	26.97	1.91
MRP	(6.51)	(6.89)	(8.02)	(10.17)	(11.44)	(11.88)
Movement in Other Liabilities	(3.41)	(3.81)	(3.51)	(3.65)	(4.33)	(3.85)
<b>Total General Fund Debt</b>	<b>337.18</b>	<b>350.75</b>	<b>410.84</b>	<b>448.96</b>	<b>460.16</b>	<b>446.34</b>
HRA	169.13	171.37	190.85	243.63	271.60	276.01
<b>Total CFR</b>	<b>506.31</b>	<b>522.12</b>	<b>601.69</b>	<b>692.59</b>	<b>731.76</b>	<b>722.35</b>
Less Other Debt Liabilities*	(64.44)	(60.62)	(57.11)	(53.46)	(49.11)	(45.26)
<b>Loans CFR</b>	<b>441.87</b>	<b>461.50</b>	<b>544.58</b>	<b>639.13</b>	<b>682.65</b>	<b>677.09</b>

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<b>DECISION-MAKER:</b>		<b>GOVERNANCE COMMITTEE</b>	
<b>SUBJECT:</b>		<b>CIPFA FINANCIAL MANAGEMENT CODE</b>	
<b>DATE OF DECISION:</b>		<b>14 FEBRUARY 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>Head of Financial Planning &amp; Management</b>	
	<b>Name:</b>	<b>Steve Harrison</b>	<b>Tel: 0739 2864525</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>	
<p>The Chartered Institute of Public Finance &amp; Accountancy (CIPFA) has introduced a new Financial Management Code (FM Code). This sets out for the first time, the standards of financial management for local authorities. The FM Code is designed to support good practice in financial management and to assist local authorities to demonstrate their financial sustainability.</p>	
<p>CIPFA considers application of the FM Code to be the collective responsibility of each authority's organisational leadership team. For the purposes of the code the 'Leadership Team' is defined as the collective group of elected councillors and senior officers. Therefore, it will include the full Council, the Governance Committee as well as senior management across the council. The first full year of compliance with the FM Code is the current year (2021/22).</p>	
<p>Officers have conducted a self-assessment of the council's performance against the code and identified actions to improve our performance against the standard</p>	
<b>RECOMMENDATIONS:</b>	
<b>Governance Committee</b>	
	(i) Notes the introduction of the new Code of Practice on Financial Management, and the responsibilities within it.
	(ii) Notes the principles included in the Code and the self assessment attached, including the action plan to ensure alignment to the Code. The Committee is invited to make comments as appropriate.
<b>REASONS FOR REPORT RECOMMENDATIONS</b>	
1.	To demonstrate the extent to which the Council complies with the FM Code and areas for improvement. This will support good financial management, business practice, governance and risk management within the authority.

2.	To ensure both councillors and management with budget responsibilities are aware of the Code and the expectations within it.
<b>ALTERNATIVE OPTIONS CONSIDERED AND REJECTED</b>	
3.	The FM Code is not a statutory requirement. The Council could therefore choose not to comply with it. However, adopting good practice in relation to financial management is an effective tool for the council's finances and also managing financial risk.
4.	CIPFA states that its members must comply with it as one of their professional obligations.
<b>DETAIL (Including consultation carried out)</b>	
5.	Local government finance in the UK is governed by legislation, regulation and professional standards. The general financial management of a local authority, however, has not, until now, been supported by a professional code. The FM Code has been introduced because of the exceptional financial pressures faced by local authorities in recent years which have revealed concerns about fundamental weaknesses in financial management and the ability of some organisations to maintain services in the future.
6.	Some notable cases have been reported in the press regarding councils in severe financial difficulty. These cases, such as Northamptonshire County Council and the London Borough of Croydon, have added to the need to ensure consistent standards apply, as well as more recently Nottingham City Council. In 2018, in response to financial difficulties, Government sent appointed commissioners into Northamptonshire CC taking over the council's functions associated with governance and scrutiny, appointment of statutory officers and strategic financial management.
7.	The underlying principles that inform the FM Code have been developed in consultation with senior practitioners across the sector and associated stakeholders. The principles have been designed to focus on an approach that will assist in determining whether, in applying standards of financial management, a local authority is financially sustainable.
8.	The 6 Principles of Good Financial Management set out in the FM Code are: <ul style="list-style-type: none"> <li>• <b>Organisational leadership</b> – demonstrating a clear strategic direction based on a vision in which financial management is embedded into organisational culture.</li> <li>• <b>Accountability</b> – based on medium-term financial planning that drives the annual budget process supported by effective risk management, quality supporting data and whole life costs.</li> <li>• <b>Financial management is undertaken with transparency at its core</b> using consistent, meaningful and understandable data, reported frequently with evidence of periodic officer action and elected member decision making.</li> <li>• <b>Adherence to professional standards</b> is promoted by the leadership team and is evidenced.</li> <li>• <b>Sources of assurance</b> are recognised as an effective tool mainstreamed into financial management, including political scrutiny and the results of external audit, internal audit and inspection.</li> </ul>



	<ul style="list-style-type: none"> <li>• <b>The long-term sustainability of local services</b> is at the heart of all financial management processes and is evidenced by prudent use of public resources.</li> </ul>
9.	CIPFA's intention is that the Financial Management Code (FM Code) will have the same standing as the Prudential Code for Capital Finance in Local Authorities (CIPFA, 2021), which promotes the financial sustainability of local authority capital expenditure and associated borrowing. So, although the FM Code does not have legislative backing, it applies to all local authorities.
10.	While the FM Code applies to all local authorities, it recognises that some have different structures and legislative frameworks. Where compliance with the Code is not possible, adherence to the six principles is still considered appropriate.
11.	CIPFA considers application of the FM Code to be the collective responsibility of each authority's organisational leadership team. For the purposes of the code the 'Leadership Team' is defined as the collective group of elected councillors and senior officers. Therefore, it will include the full Council and policy and governance committees as well as senior officers.
12.	As part of the budget setting process, the Council's finance service has completed a self-assessment of compliance with the Code that has included discussion at the paid 'Executive Management Board' <sup>1</sup> (EMB). This is attached at the appendix to this report.
13.	It is clear from this assessment that there is good practice in financial management but also areas where improvement has been identified. The action plan sets out activities which will improve compliance with the Code.
14.	To help councillors ensure compliance with the FM Code, and promote their own responsibilities for adherence to the Code, it is suggested that: <ul style="list-style-type: none"> <li>• Training be included to cover the FM Code</li> <li>• An annual update on a 'self-assessment' basis be included to councillors via the Annual Governance Statement.</li> </ul>
<b>RESOURCE IMPLICATIONS</b>	
<b><u>Capital/Revenue</u></b>	
15.	None
<b><u>Property/Other</u></b>	
16.	None.
<b>LEGAL IMPLICATIONS</b>	
<b><u>Statutory power to undertake proposals in the report:</u></b>	
17.	The FM Code is not a statutory document.
18.	However, adherence to the Code should support good business practice and compliance with statutory duties the council has, including setting an annual balanced budget.
<b><u>Other Legal Implications:</u></b>	
19.	None.
<b>RISK MANAGEMENT IMPLICATIONS</b>	

<sup>1</sup> The board of paid senior management – Executive Directors and CEO

20.	Monitoring compliance with the Code and action plans to promote this should ensure improvement in management of financial risk and act as a safeguard for the authority.
<b>POLICY FRAMEWORK IMPLICATIONS</b>	
21.	Sound and effective management of the council's finances should both support the aims of the council's Corporate Plan and form a part of the decision making process.

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

**Documents In Members' Rooms**

1.	Copy of the Cipfa FM code
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**Equality Impact Assessment**

Do the implications/subject of the report require an Equality and Safety Impact Assessment (ESIA) to be carried out.	<b>Yes/No</b>
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**Privacy Impact Assessment**

Do the implications/subject of the report require a Privacy Impact Assessment (PIA) to be carried out.	<b>Yes/No</b>
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**Other Background Documents**

**Other Background documents available for inspection at:**

Title of Background Paper(s)	Relevant Paragraph of the Access to Information Procedure Rules / Schedule 12A allowing document to be Exempt/Confidential (if applicable)
1.	None

CIPFA Financial Management Standards  
(self-assessment check)

		Assessment & Evidence	Improvement	Timescale
<b>Section 1: The responsibilities of the chief finance officer and leadership team</b>				
<b>A</b>	The leadership team is able to demonstrate that the services provided by the authority provide value for money.	<p>External Audit review (2019/20) indicates no issues with their VFM review. The audit commented on the OFSTED review. The comments of EY were as follows:</p> <p>“The arrangements put in place by the Council to address the OFSTED findings, including setting up a Children &amp; Families Service Improvement Board , creating a detailed action plan and seeking review of that plan by Hampshire County Council, were judged appropriate.</p> <p>The actions taken to address the subsequent whistleblowing allegations – primarily the commissioning of a review by an independent inspector, resulting in a series of recommendations drawing on their work and previous internal reviews of the service – were judged appropriate.</p> <p>We therefore had no matters to report about the Council’s arrangements to secure economy, efficiency and effectiveness in its use of resources.”</p> <p>NB: A report for 2020/21 from the external auditors will be elsewhere on the Governance Agenda and includes value for money.</p> <p>Internal Audit highlight no specific concerns in their reports.</p> <p>There are suitable mechanisms in place to promote value for money - for example Contract procurement rules clearly specify a need to award</p>	None	N/a

		to the most economically advantageous tender (exemptions only allowed via Head of Supplier Management); VFM a key part of business cases for major decisions; VFM and performance considered in the processes reviewed and reported within Annual Governance Statement.		
<b>B</b>	The authority complies with the CIPFA <i>Statement on the Role of the Chief Finance Officer in Local Government</i> .	<p>Note for info that the main principles of the Statement are:</p> <ol style="list-style-type: none"> <li>1. The chief financial officer in a local authority is a key member of the leadership team – <u>COMMENT:</u> <u>yes S151 sits on Executive Management Board<sup>1</sup> (EMB) and Gold command<sup>2</sup></u></li> <li>2. The CFO in a local authority must be 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 alignment with the authority's overall financial strategy. <u>COMMENT:</u> <u>yes via membership of EMB and other strategic meetings e.g Cabinet/EMB, Change Board etc</u></li> <li>3. The CFO in a local authority must lead the promotion and delivery by the whole</li> </ol>	None	n/a

<sup>1</sup> The board of paid senior management – Executive Directors and CEO

<sup>2</sup> Emergency response board for the council – used for Covid19 response and other 24/7 emergencies of the most strategic importance and impactful

		<p>authority of good financial management so that public money is safeguarded at all times and used appropriately, economically, efficiently, and effectively.</p> <p><u>COMMENT:</u>  <u>yes – via Financial Procedure Rules, monthly budget scorecard use of approach of business cases and input from internal audit - all underpin proper governance.</u></p> <p>4. The CFO in a local authority must lead and direct a finance function that is resourced to be fit for purpose.</p> <p><u>COMMENT</u>  <u>Yes- Finance function has adequate budget and resources and high standards of professional qualifications &amp; training</u></p> <p>.</p> <p>5. The CFO in a public service organisation must be professionally qualified and suitably experienced.</p> <p><u>COMMENT</u>  <u>Yes- qualified and many years past experience at S151 level</u></p>	<p>Training package from Finance for staff being introduced for budget holders to promote consistent standards. Training and updates for councillors on LA finance post election</p>	<p>Spring 2022</p>
<b>Section 2: Governance and financial management style</b>				
<b>C</b>	<p>The leadership team demonstrates in its actions and behaviours responsibility for governance and internal control.</p>	<p>All reports to EMB on decisions reflect a 'resource' paragraph to capture issues on revenue and capital and its implications.</p> <p>All democratic reports contain a resource implications section to enable elected councillors to</p>	<p>None</p>	<p>n/a</p>

		<p>review impact on resources and the finances of the council</p> <p>Management letters to EY each year are produced around corporate governance and the Annual Governance Statement (AGS) which are part of a framework of financial and other controls. No fundamental issue reported by External Audit with the approach adopted by SCC.</p>		
<b>D</b>	The authority applies the CIPFA/SOLACE <i>Delivering Good Governance in Local Government: Framework</i> (2016).	The Code of Corporate Governance and Annual Governance Statement (together with assurance gathering process) reflect and apply the framework.	None	n/a
<b>E</b>	The financial management style of the authority supports financial sustainability.	<p>Medium Term Financial Strategy (MTFS) forms a part of each annual budget process. The February 2021 budget report included a full update for 4 years ahead. Increased Budget Gap for year 4 reported at July Council (£27.4M) for year 2.</p> <p>Housing Revenue Account (HRA) – Overview report, with recommendations &amp; 40 year business plan included in budget report. Updates via Cabinet Member briefing during the year.</p>	<p>Longer term robust savings and operational plans need further developing to stay within predicted financial envelope</p> <p>December 2021, HRA now included in the budget update to Cabinet for first time.</p>	<p>For budget 23/24 onwards</p> <p>Done &amp; to include in annual budget updates to cabinet going forward</p>

<b>Section 3: Long to medium-term financial management</b>				
<b>F</b>	The authority has carried out a credible and transparent financial resilience assessment.	<p>Review of the CIPFA resilience index takes place each year to identify funding and risks. Generally SCC is a middle or lower risk on most measures. This year found to be high with regard to Social Care Spending i.e. a large proportion of spend relates to this area (and is demand led)</p> <p>Reserves assessed as part of the budget against the risks faced.</p> <p>Use of reserves is part of the strategy to balance the 2021/22 budget, and is documented in the budget report. Unalloacted Reserves remain in good stead going forward, but the underlying position would be much more of an issue without reserves. And the council has exposure to one-off measures and use of reserve funds supporting budget.</p>	<p>Scale of future deficit a significant risk and needs addressing via further work on longer term plans (currently being undertaken by the management and finance teams)</p> <p>Risk levels compared with reserves will need to be continually addressed.</p>	During 2022/23 and onwards for future years budget
<b>G</b>	The authority understands its prospects for financial sustainability in the longer term and has reported this clearly to elected councillors.	Done via detailed Medium Term Financial Strategy report – separate part of annual budget. Also, updates to cabinet are normally supplied in-year. However Covid uncertainty and uncertainty over future funding from Government (2022/23 is a 1 year settlement & changes to the funding system are in the pipeline for 2023/24). this means funding is hard to predict.	<p>Part of reporting via Dec budget paper to Cabinet</p> <p>Scale of budget shortfall should mean no delay for any savings until 2023/24 budget but in-year actions.</p> <p>Reinforces the need for early plans within a systematic and</p>	On-going & in time for 23/24 budget

			planned/monitored approach to the budget gap and in-year delivery of savings where possible.	
<b>H</b>	The authority complies with the CIPFA Prudential Code for Capital Finance in Local Authorities.	<p>Yes – Met by preparation of Treasury Management, Capital Strategies, and associated policies and prudential indicators. Monitoring thereof and appropriate reporting back to Governance Committee and Council.</p> <p>Update of Code in 2021 outlines that disinvestment should be considered before borrowing &amp; costs of capital financing should be clearly shown as a %age of the revenue budget</p>	<p>None</p> <p>Requirements of the new Code will be reflected in the budget report</p>	n/a
<b>I</b>	The authority has a rolling multi-year medium-term financial plan consistent with sustainable service plans.	<p>Yes – the MTFP as referred to above. The budget shortfall was £27.4M for 2022/23, post July Council.</p> <p>Five year programme for Capital Programme.</p>	No balanced budget after 2022/23 – plans need to be further developed	On-going & in time for 23/24 budget
<b>Section 4: The annual budget</b>				
<b>J</b>	The authority complies with its statutory obligations in respect of the budget setting process.	Yes – most recently as agreed on 24 February 2021 at full council, with budget set for 2021/22 that is balanced. Budgets were widely discussed across the management team before being included in the budget report.	None	n/a



<b>K</b>	The budget report includes a statement by the chief finance officer on the robustness of the estimates and a statement on the adequacy of the proposed financial reserves.	Yes – see paragraphs 18-29 of the annual budget report (Feb 2021). This will also be reported to Feb 2022 Council	None	n/a
<b>Section 5: Stakeholder engagement and business plans</b>				
<b>L</b>	The authority has engaged where appropriate with key stakeholders in developing its long-term financial strategy, medium-term financial plan and annual budget.	Yes –consultation issues considered annually. For 2022/23 budget primarily this relates to proposal for St Mary’s Leisure Centre. The 2021 consultation was limited (5 weeks) due to the pandemic. The long term financial strategy follows the corporate plan, which is produced following consultation with stakeholders.	None	n/a
<b>M</b>	The authority uses an appropriate documented option appraisal methodology to demonstrate the value for money of its decisions.	Business cases are requested for major decisions and option appraisal methods applied, in particular in relation to capital investment. Specialists support is brought in as needed. Finance should have early involvement via the Finance Business Partner for relevant area	If delivered as part of capital programme, project will be monitored via monthly review of progress on Capital Programme.	.
<b>Section 6: Monitoring financial performance</b>				
<b>N</b>	The leadership team takes action using reports enabling it to identify and correct emerging risks to its budget strategy and financial sustainability.	(1) Financial risks picked up in quarterly report to cabinet on in-year monitor (revenue and capital) versus budget.  (2) On a monthly basis (April excluding) EMB receive a scorecard presenting the financial	(1)Continued monitor of position and mitigation. Destination 22 Plan for Children Services  (2)Frequent meetings between S151 and	On-going review of destination 2022 and budget mitigation plans

		<p>forecast versus budget and a written briefing note with key highlights. The Monitor/Scorecard also compares savings delivered with planned budget savings.</p> <p>Cabinet Member Briefings (CMB) also have a standing agenda item for the financial monitor. Formal report to cabinet each quarter.</p> <p>(3) Risks around school deficits (especially where academisation is involved), the overall position with the DSG deficit.</p>	<p>Executive Director (Children &amp; Learning) re in-year budget pressure. External Challenge to budget position via inclusion of Deputy Chief Executive at meetings.</p> <p>Executive Management Team frequently discuss &amp; challenge service budget updates (including Children's budget) during in-year budget monitor reports (monthly)</p> <p>(3) School deficits now part of Budget Monitor meetings between S151/ Head of Finance &amp; Executive Director (Children &amp; Learning)</p>	LGA review of Children Services spending
<b>O</b>	The leadership team monitors the elements of its balance sheet that pose a significant risk to its financial sustainability.	Treasury Management is reported, and a strategy agreed via Governance Committee. Financial health indicators across debtors, creditors and prudential indicators are monitored and reported to EMB and also Cabinet as part of the quarterly in-year budget monitoring.	None	n/a
<b>Section 7: External financial reporting</b>				
<b>P</b>	The chief finance officer has personal and statutory responsibility for ensuring that the	S151 officer reviews statement before signing. Accounts produced following detailed timetable, with qualified and experienced staff who are	None	n/a

	statement of accounts produced by the local authority complies with the reporting requirements of the <i>Code of Practice on Local Authority Accounting in the United Kingdom</i> .	encouraged to update their knowledge for any change in accounting practices.		
<b>Q</b>	The presentation of the final outturn figures and variations from budget allows the leadership team to make strategic financial decisions.	Executive Management Board review the outturn figures and confirm their agreement to the budget carry-forward decisions to be agreed at Council.	None	n/a

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