The Chartered Institute of
Public Finance & Accountancy

CIPFA

Southampton City Council

External Assurance Review

August 2024

A Report by:

The Chartered Institute of Public Finance and Accountancy **in partnership with Grant Thornton UK LLP**

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

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1.1 Summary of Findings, Issues, Evidence and Analysis

This review has evaluated Southampton City Council's ('the council') financial management practices, focusing on its capital programme strategy, debt management, governance structures, and service delivery mechanisms. The objective was to provide assurance regarding the council's current position and arrangements and to identify areas for improvement that would enhance financial sustainability moving forward.

The council has relied on the use of reserves to balance the budget in prior years, with £22m of reserves used to balance the 23/24, and has been described as having a "culture of overspending" in a recent review by CIPFA. In March 2024, the council agreed the Medium-Term Financial Strategy (MTFS), which highlighted a £39.2m budget gap for 2024-25, which would need to be bridged through the use of Exceptional Financial Support (EFS) for one year. The council's earmarked reserve levels at the end of 2023/24 were £40m, insufficient to cover the council's expected requirements limiting financial resilience

Thee council outlined its "adapt | grow | thrive" transformation programme to delivery £42.65m savings across seven portfolios to address the significant structural budget deficit and enhance service delivery. Several projects are still in the early stages of development, lacking detailed implementation plans and robust delivery assurances which creates uncertainty around the timing and achievability of the expected benefits. The council has engaged external transformation support which provides access to specialist skills, knowledge and challenge. However, reliance on external consultants also presents risks, including potential over-dependence and challenges integrating external advice with internal practices. Delivery of the transformation programme will be a significant challenge for a council with limitations identified in the current workforce capacity and capability.

It is on that basis that we conclude that the council is likely to require EFS beyond the current financial year to deliver a balanced budget in future financial years to give the council the necessary space and time for the transformation programme to be fully substantiated, delivered and the related savings realised.

The council has begun to realise savings in the early months of 2024/25, with the most recent budget monitoring showcasing a £7.3m underspend at Month 4. The forecast underspend highlights the benefits of increased financial monitoring and the very beginning of a cultural shift towards greater financial management and accountability but there is significant, sustainable action that needs to be taken to deliver the financial improvement required over the medium term. Further challenge is presented through the current instability in the council's Executive Management Team. The council should, therefore, ensure succession planning is in place throughout the organisation, particularly for senior leadership, who play a key role in directing core transformation activity.

There is a lack of finance capacity within the organisation. This includes some individuals who act as single points of failure within the finance team, which could pose a substantial risk to the organisation and a loss of corporate knowledge if these individuals leave. Concurrently, finance business partnering is not fully developed so that business partners can act as financial advisors. Service areas have been overly reliant on finance to interpret budgets, and there needs to be greater accountability for budget management across directorates alongside building capability within the finance business partners to support services effectively.

The prompt mitigation and resolution of issues is an issue in the council. This is particularly relevant to the Equal Pau issue where there was historic awareness of the problem but no attempts were previously made to address the issue. This has now been addressed and the council is seeking to mitigate the scale of the liability.

In recent years the council has experienced significant slippage in the delivery of its capital programme, and slippage against the capital programme has been reported in Quarter 1 of 2024/25. We have raised a recommendation for the council to establish a governance framework that improves accountability and delivery of the capital programme.

Based on current levels of debt, the council's debt position does not benchmark as high risk. However, the council is forecasting a significant increase in its external debt over the MTFS to fund the capital programme and to fund borrowing for EFS. We note that the current MTFS does not include the increased revenue cost of borrowing associated with EFS. This should be reflected in reporting to Members.

The council has a significant asset disposal plan to support its financial sustainability over the period of the MTFS. However, we note that there is some doubt that the scale of disposals can be delivered at the pace required and consider this an important risk that the council needs to mitigate. We also note that the business plan for the Asset Development and Disposal Programme (ADDP) and reporting progress against the ADDP does not reflect the expected market value of the assets identified for disposal. We recommend that the council incorporate this into its reporting in a timely manner to give confidence that the required level of asset disposals are deliverable based on the assets identified for disposal.

From a governance perspective there some improvements that the Council could make. There are considerations with regards to the Audit Committee and the need to ensure that all Internal Audit recommendations are tracked, managed, and actioned throughout the year to make necessary improvements to the control environment.

The council's culture is one characterised by a lack of pace and prioritisation, defined as an organisation with action done to it rather than driving forward its own agenda. The council needs to understand what type of local authority it aspires to be and the path it will take to get there. There is also an ingrained element of siloed working at the council, which has led to a lack of awareness of interdependencies between service areas, which appears to be causing some frustrations across the council.

Our review has identified that there are a number of areas where the quality-of-service delivery is not at the desired standard. Specifically, there are significant issues within the housing directorate in terms of the standard of the housing stock and the quality of delivery in areas such as voids. The council needs to continue the improvements that have started to be made in the housing directorate but there needs to be a detailed consideration of the future of the housing stock within the context of the affordability of the capital improvements required and the pressure on the HRA.

The council has a clear Corporate Plan that sets out the desired strategic direction of the council but there are some areas of the service plans that do not align with the key drivers of the Corporate Plan, the financial challenges facing the council. While ensuring appropriate outcomes are delivered, these financial challenges are the most significant risk area. The individual service plans need to acknowledge the need to address the financial challenges facing the council to deliver the strategic outcomes that services want to achieve.

Key Risks and Recommendations

This table provides the improvement plan and roadmap that we recommend the council follows with priority actions indicated by the RAG rating and the recommended timeline included with the recommendations.

Key risk	Risk rating (see details in Annex 1)	Recommendation (including timeline)
1. The council's MTFS uses scenario analysis ranging from pessimistic to optimistic, highlighting a cumulative budget gap of between £9.35m and £34.28m by 2028/29. Closing the budget gap is dependent upon the council delivering its transformation programme. This programme is currently in its infancy and there is a significant risk that the council will be unable to develop the detail required at the pace and scale to deliver the required recurrent savings in future financial years.	9	1. We recommend that the council undertake further scenario modelling to understand the impact of requesting EFS for future years to meet this gap. Therefore, it is imperative that the assumptions built into the MTFS are regularly revisited. The council have recognised this and for 2024/25, quarterly updates on the MTFS will be presented to Cabinet. It is important that senior leaders use this to look beyond just the next financial year, as it may be necessary to make difficult decisions now, to realise the impact further into the future. The aim should be to close the budget gap for several years ahead not just for 2024/25 and 2025/26. **Immediate**
2. The council is exposed to financial resilience risks due to the critically low level of reserves to provide resilience for the medium-term. Earmarked reserves have been reduced from £96.19m to £40.58m over the last 3 financial years.	N/A	N/A - No recommendation raised. The council has a policy that shows the level of reserves the council wishes to retain and how the reserves may be used in the future. This policy sets out the plans to rebuild and maintain the level of reserves but we note the risk that this is dependent upon delivery of the savings required in the MTFS. **Over the medium-term**
3. There is a risk that financial accountability is not yet fully embedded. This is hindered by finance business partnering which is not yet fully developed. Service areas have been overly reliant on finance to interpret budgets, and there needs to be greater accountability for budget management across directorates. However, budget managers also need to be involved in	7	2. The council should further develop business partners to ensure they can support services fully, and embed financial management skills within service areas, to achieve more effective business partnering relationships. **Throughout 2024/25** 3.The council has begun embedding the fundamental component of

budget setting at an earlier stage to gather buy-in for budgets and ensure alignment with service priorities and standards.		accountability for budgets as part of overall improvement of financial management, however this should be supported by a suite of training for budget holders, well-developed relationships with technically skilled business partners and access to timely budgetary information and support with deficit recovery planning. **Throughout 2024/25**
		4. Budget managers should be more actively involved in budget setting at an earlier stage in the process. This will help to ensure that budgets are deliverable and compatible with the service delivery levels and performance standards, but also that there is sufficient buy-in from service managers. **Throughout 2024/25**
4. There is a lack of financial capacity within the organisation. This includes some individuals who act as single points of failure within the finance team, particularly in treasury management, which could pose a substantial risk to the organisation and a loss of corporate knowledge if these individuals leave. A lack of capacity will impede the council from achieving transformational change over the medium term. The finance team will be focused on rebalancing the council budget and restoring sound financial management across the organisation; there is a high risk in terms of delivery without additional capacity.	**5**	5. The organisation needs to make further provisions to enhance the capacity of the finance team and increase its resilience around treasury management activities. **Throughout 2024/25**
5. The ability to deliver savings and transformation in line with the 2024/25 budget targets and medium-term financial plan.	**9**	Recommendations to address the risk are covered under key risks #1 and #3.
6. There is a risk that the concurrent governance arrangements in place may not speak to each other. The council has in place business planning processes reviewed by the Executive Management Board, the transformation programme overseen by the Transformation Board, and monthly budget reviews overseen by the Budget Review Panel.	**N/A**	N/A - Our discussions highlight that the council are aware of this risk, and as part of deficit recovery planning, trying to ensure decisions are appropriately aligned to ensure they do not impact transformation planning for future years.

7. There is a risk that the financial gap will lead to decision-making that is focused on short-term priorities, which may prevent the achievement of longer-term ambitions for the city. The council would benefit from a longer-term horizon for council decision-making. There are currently limited linkages between the Corporate Plan and the MTFS. There is also weak alignment of the service plans with the council's Corporate Plan.	**5**	6. We recommend that the council reviews all service strategies to ensure that they are aligned with the key focus areas of the Corporate Plan, both in terms of the financial challenges facing the council and the outcomes it seeks to achieve from its transformation activity. **Throughout 2024/25**
		7. The council should present the Corporate Plan alongside the budget in February/March to ensure the two remain aligned, particularly as the financial realities change in the future due to the current uncertainties. This is planned for February 2025. 8. The council should also ensure that the medium-term financial planning process is an integral component of the corporate and business planning processes to guarantee financial planning is realistic and based on horizon scanning so there is a balance between ambition and reality to help achieve successful implementation of desired outcomes. **As part of 2025/26 budget setting**
8. The instability of the Executive Management Team could risk the continuity of the council's transformation journey, particularly as the Chief Executive post is currently interim and could lead to inconsistent strategic direction and decision-making.	**9**	9. Immediately begin succession planning for all interim members of the Executive Management Team and the departing Adult Social Care Director. Develop a long-term strategy for reducing dependence on interim staff by investing in permanent leadership recruitment and retention. **Immediate**
9. The risk of resistance or change fatigue at the more junior levels of the organisation, particularly as senior leaders move on, may have substantial impacts on the realisation of savings. Some officers highlighted a disconnect between the Executive Management	**N/A**	N/A - No recommendation raised. It will be imperative to maintain an open dialogue, using diverse communication channels, with all levels of the organisation, to support a shared understanding of the importance of improvement and assurance.

Team and more junior staff surrounding the transformation programme and the need to deliver business as usual.		
10. There is a lack of focus on outcomes or service improvement in the overall transformation programme.	**6**	10. The council should seek to further develop the benefits realisation plan with a more in depth focus on non-financial benefits. **Throughout 2024/25**
11. There is a risk that workforce transformation is driven by financial savings rather than strategic decision-making or retaining and upskilling.	**6**	11. The council should ensure individuals in keys roles such as Heads of Service and Director roles, who deal with pressure from above and below, are sufficiently supported and empowered, particularly as the Executive Management Team continues to deal with instability. **Immediate**
12. It is evident that there are a number of service areas under pressure and a need for robust accountability mechanisms to bring about improved standards within each of these areas. Whilst planning is underway and the council are aware of each of the issues, the systemic change needed will be a challenge. Variability in business case readiness creates uncertainty around project timelines and benefit realisation. The council have a lack of organisational capacity to deliver business as usual, savings, transformation and service improvement. There is also a need for clearer strategic direction and prioritisation, combined with a requirement for increased awareness of the dependencies across service areas, overcoming siloed working practices and a cultural lack of pace. In some services the council are dependent on a transformation partner to realise savings which may have impacts on service delivery. This should be closely monitored. There is an awareness of the need to make change within each of the services, despite some pockets of resistance, but this will require outcome focused investment into service areas, enabling technology and staff.	**8**	12. Significantly reduce the reliance on external consultancy and external contracts. Build and use internal capacity. **Over the medium term period**
		13. Conduct a capacity assessment and invest in additional operational staff to support the execution of transformation projects at the service level. **Over the medium term period**
		14. Ensure a structured knowledge transfer process from external consultants to internal teams, embedding long-term sustainability within the organisation. **Over the medium term period**
		15. Accelerate the completion of business cases and create detailed delivery plans to mitigate risks associated with project delays and incomplete implementation planning. **Over the medium term period**
		16. The Council should clearly define the key objectives and route map of its transformation programme, in order to

		demonstrate a plan that is truly transformative.
13. An absent workforce and a high turnover including recent redundancies risks a loss of corporate knowledge and reduced capacity, combined with a risk of a lack of confidence in leadership, this is a key issue. These would be a challenge for any organisation, but particularly during a large-scale transformation programme this risks overwhelming staff, staff burnout and reduced resilience.	**7**	17. The council do not currently have a permanent HR Director in post to drive effective strategic workforce planning with a focus on upskilling, retaining and retraining, the council should consider additional HR expertise to help develop career opportunities and drive effective succession planning. **During 2024/25**
14. The Independent Improvement Board's hands-on approach may limit internal decision-making autonomy, delaying programme implementation.		18. Foster close collaboration with the Independent Improvement Board to balance external oversight with internal operational control, ensuring timely and effective decision-making. **Immediate**
15. The constant revisions of the capital programme can be indicative of a lack of strategic clarity, something that is important to ensure that the overall programme is deliverable and meets the needs of the council over the short-term and medium-term.	**6**	19. We recommend that the council undertakes a review of the delivery and monitoring arrangements of the capital programme and establishes a governance framework that improves accountability and delivery of projects to reduce the level of slippage. **Immediate**
16. The council have taken initial steps to provide effective briefings on the scale of the financial challenge, but there is a danger that this will be viewed as a technical financial issue, that will be resolved in one year through EFS. The impact of the financial challenge on the operation of the council and the services it will be able to deliver should be set out explicitly, along with the tough decisions that need to be made, including the implications of borrowing to fund EFS. Members will be faced with many challenging decisions in future months and years so it will be vital that they understand the financial position as part of their consideration.	**9**	20. Mandatory briefings should be provided to all members on the scale of the financial challenge including the implications of EFS funding on revenue, alongside specific training, particularly to members of the new Audit Committee who will have a key governance role. **Immediate**
17. There is a risk in relation to the affordability of the council's borrowing relative to its net revenue budget, with the council's internal threshold increasing from 11% to 15%. CIPFA	**6**	21. We recommend the council to keep its borrowing levels and cost of borrowing under constant review to ensure that it remains affordable as

recommends that the net annual capital financing cost should not exceed the threshold of 10%. This risk will be exacerbated once the borrowing required to service the EFS is included in the treasury management strategy.		does not place undue increased pressure on the revenue budget. **Throughout the medium term**
18. There is the risk that the council are creating a longer-term financial pressure due to taking the least prudent of accepted approaches to calculating Minimum Revenue Provision (MRP). This methodology is in accordance with the guidance but it enables the council to reduce the amount of principal repaid in the early years with a higher principal repayment in future years. This means a lower MRP can be charged currently which assists the overall financial position of the council but there is a risk of increased pressure on the council's budget in the future as MRP figures will need to be much higher than the current level.	**3**	22. The council should continue to consider the most appropriate and prudent approach to calculating MRP whilst considering both the short-term and long-term implications on the revenue budget. **Throughout the medium term**
19. There is a risk that governance arrangements may impede decision making if not kept under regular review to align with organisational changes, or if not adequately recorded or understood by officers and members.	**4**	23. Ensure that the planned review of governance arrangements including the Constitution is carried out in 2024/25. The council needs to keep schemes of delegation under regular review, as changes are made in line with the transformation programme. 24. The council need to ensure political clarity between officers and members particularly as priorities may shift. 25. The council need to ensure that delegated decisions are recorded in line with the Constitution and legal framework **Throughout the medium term**
20. There is a risk that the Audit Committee is not able to provide the required oversight and scrutiny required due to the lack of independent members and the Chair of the Audit Committee, being a recent ex-Cabinet member.	**4**	26. We encourage the council to a) review the membership of the audit committee by considering the merits of appointing at least one independently, ideally two, co-opted independent members to its Audit Committee and reconsidering appointment of ex-Cabinet members **b)** ensure that the Audit Committee reports directly to full council

		and that this is documented within the Constitution. **c)** include quarterly presentation of the Strategic Risk Register to the Audit Committee. **During 2024/25**
21. There is a risk that legal or ethical issues may not be considered as part of decision-making without the expertise of the Monitoring Officer in Executive Management Team meetings.	**4**	27. The council should review the decision to not make the Monitoring Officer a full-time member of the Executive Management Team. **Immediate**
22. There is a risk of gaps in scrutiny or duplication of work due to the sometimes-overlapping elements of reporting to the Governance Committee, Overview & Scrutiny Committee (OSMC) and the Audit Committee. This is necessary but requires co-ordination.	**3**	28. The council should ensure robust co-ordination of workplans for the Governance, Audit and Oversight & Scrutiny Committees. The audit committee should oversee systems, processes and controls to gain assurance that the right systems are in place and are working. Whereas scrutiny should focus on policies and outcomes, by understanding if the outcomes are both right and deliverable. 29. Additionally, the OSMC should look to focus more on delivery of achievement of outcomes and performance metrics in future to ensure to hold the executive to account for delivery of the objectives in the refreshed corporate plan. **Over the medium term**
23. There is a risk that the council's internal control arrangements continue to operate ineffectively following the 'limited assurance' opinion from Internal Audit. This opinion has been in place for a number of years, with limited evidence of a council who are engaging with Internal Auditors to improve the control environment. This highlights a lack of accountability and a lack of focus on improvement.	**4**	30. The council have now established a 'management action' tracking system for Internal Audit actions. They should also emphasise to all staff the importance of Internal Audit and that identified actions can be used for continuous improvement within service areas, which will support the overall transformation programme. **Immediate**
24. There is a risk that decision-making will not be fully informed due to the council's current lack of use of data and insight in report writing.	**N/A**	N/A – The council are undertaking work to enhance the council data and insight functions to enable better evidence-based decision-making.
25. There is a risk of ineffective decision-making represented by	**N/A`**	N/A – training is being developed on report writing alongside an action plan

instances of inconsistent and poor quality report writing.		of work to respond to recommendations raised as part of the Centre for Governance & Scrutiny review.
26. There is a risk of uncertainty around the risk appetite of the organisation, which could lead to a disconnect between the risk the council has agreed it is willing to take in achieving its strategic objectives and the action that management take in delivering them. The organisation has been described as one unwilling to take difficult decisions, this will be necessary as part of the transformation programme and overcoming the current financial challenge.	**3**	31. The council should review and publish a Risk Appetite Statement to support informed decision-making, reduce uncertainty and improve consistency. **During 2024/25**
27. Risk management is not fully developed at directorate levels, and there is a risk of development of inconsistencies in practice across the organisation as a result. Without effective risk management the council may not be able to effectively anticipate potential issues and challenges which could impact on service delivery, financial sustainability, reputation, dangers to residents or protection of resources.	**7**	32. The council should ensure that risk management practices across the council are clear and regularly monitored to prevent inconsistencies or confusion in practice. This should include review of the newly introduced directorate risk registers to ensure they are fit for purpose. 33. Additionally, the Audit Committee should review the corporate risk register on a quarterly basis in order to be kept up to date with significant areas of strategic risk and any major operational or project risks, in order to seek assurance from officers that these risks are being appropriately owned and effectively managed (as part of recommendation 18). It is also good practice to regularly conduct 'deep dives' into directorate level risk registers. **Throughout 2024/25**
28. There is a risk that the council will not act swiftly enough to introduce the changes needed to realise the savings identified in the MTFS. The external auditor, EY, identified a significant weakness as part of their 2022/23 Value for Money assessment in relation to Southampton's budget and management of financial risks. The report highlighted that whilst the council has in place regular monitoring and reporting of financial metrics, they did	**8**	N/A – No recommendation raised. Whilst the findings of the external audit align with our discussions with officers and members, there are some areas of progress identified. The council have now introduced monthly budget monitoring and preparation of deficit recovery plans, which have resulted in the council forecasting a £7.3m underspend in Month 4 of 2024/25.

not act swiftly enough to take actions to address the issues that were identified. It was also noted that savings so far have been made through cost control and income generation measures rather than true transformation of delivery of services, which is a key expectation of a transformation plan. Additionally, the external auditor has highlighted issues with capacity within the finance team, exacerbated by recent voluntary redundancies. This is a particular concern for an organisation in the midst of a comprehensive transformation programme, which will require significant support from finance officers to achieve objectives and manage finances throughout.		
29. There is a risk that service standards in waste will not improve due to the variety of issues currently facing the service area. These include dated working practices, resistance to change, absenteeism, low productivity, low digital and IT literacy, a need for improved data and systems, an ageing fleet and lack of depot space.	**7**	N/A – no recommendation. The council have in place an Outline Business Case (OBC) to tackle the key issues.
30. There is a risk that rectifying the quality of the housing stock, to bring it in line with standards, will not be affordable.	**9**	34. Resolving issues with quality of housing stock and voids in a timely manner is crucial to ensure that the council can understand affordability to both the capital programme and the Housing Revenue Account (HRA). There is a need for the council to decide on how the required improvements to the housing stock are best delivered. It is likely that the council will need to dispose of housing stock and understand whether the Direct Labour Organisation (DLO) is the most efficient and effective service delivery model. **During 2024/25**

2 Introduction

2.1 Background

The Ministry of Housing, Communities and Local Government (MHCLG) (formerly known as the Department of Levelling Up, Housing and Communities (DLUHC)) commissioned CIPFA to perform an independent review to assess Southampton City Council's financial arrangements.

The review aims to provide a separate standalone product that scrutinises the council's assumptions, aims and the viability of its transformation plans so that MHCLG can be provided with an assessment of the council's planned trajectory with a view to providing recommendations for improvement. This review builds on CIPFA's previous work to assess Southampton's financial arrangements.

Southampton is a city in Hampshire, in the south of England. It has the largest cruise port in the UK and is home to around 263,769 people, covering a total area of 49.km, making it one of the most populous cities in Southern England.

The resident population is relatively young, with 18.6% of residents aged between 16 and 24, compared to 10.6% in England. This is mainly due to being a university city, with an estimated 37,800 higher education students. It is home to both the University of Southampton, which is ranked 17th nationally in league tables, and Solent University. Children aged 0 to 5 make up 6.3% of the population, whilst those aged 65 and over account for 14.5% of the population.

Southampton is a diverse city. In 2021, 80.7% of the population in Southampton identified their ethnic group as White (with various sub-groups), whilst 10.6% identified as Asian/Asian British (with sub-groups), 3.3% as Mixed/Multiple Ethnic Groups (with sub-groups) and 2.1% as Black/Black British/Caribbean/African. Additionally, the census identified that 73.8% of the local population were born in England, with 4.7% and 2% of residents reporting their country of birth as Poland and India respectively.

The Index of Multiple Deprivation (IMD 2019) illustrates how Southampton continues to be a relatively deprived city. Based on the average deprivation rank of its neighbourhoods (LSOAs), Southampton is now ranked 55th (where 1 is the most deprived) out of 317 local authorities.

As of March 2023, there were 7,615 businesses in Southampton. Business density (per head of population) remains significantly lower in Southampton than the England average (440 per 10,000 working-age population, compared to 660). This may be reflective of the local industry profile (large public sector employers) and the large student population in Southampton. However, it may also reflect the lack of suitable premises for new businesses in the city, as total business floor space has declined by -17.2% between 2000/01 and 2022/23.

Southampton City Council is a unitary authority with 17 wards, each represented by 3 councillors. It is Labour-led, and the most recent local election took place in May 2024. The council employs over 3,000 Full-Time Equivalent staff.

2.2 Requirement

MHCLG asked CIPFA to undertake the external assurance review on which the council's EFS is conditional. They invited us to provide an assessment of the council's financial resilience, financial management, governance arrangements, capital programme, debt position, and service delivery, with a view to providing recommendations for improvement.

To provide this assessment, we were asked to look at five key themes:

- *financial management and sustainability:* an assessment of the council's financial management and management of risk to reach a view on the council's overall financial resilience and sustainability

- *capital programme, debt, investments and assets:* an assessment of the council's capital programme / overall debt position including short- and long-term borrowing, and approach to investment / asset management to reach a view on the suitability, Value for Money (VfM) and risk exposure of the council in this space, and how this may impact on the overall financial resilience / sustainability of the council

- *governance:* an assessment of the council's approach to overall governance / management processes, leadership, operational culture, capacity and capability to reach a view on whether the council is operating in line with the Nolan Principles and in a way to secure continuous improvement

- *service delivery:* an assessment of the effectiveness of council service delivery reflecting the importance of delivering outcome orientated, citizen focused services to reach a view on the council's ability to deliver services that are economic, efficient and effective, striking the right balance between cost and quality of service

- *improvement plan and roadmap:* in consideration of the findings of the review areas, targeted, tangible and timely recommendations to assist the council in designing and implementing an improvement plan to address the identified risks and issues.

2.3 Methodology

Our approach comprised the following elements:

Desktop analysis

DLUHC provided appropriate background. We reviewed the material and made supplementary document requests to the council. The team has analysed over 100 documents and other items that have been shared by the council as being relevant for the review. We also examined relevant comparator material. We would like to record our thanks to officers for their ready compliance with our request for reports and data.

Specialised inputs

Comparative data analyses were conducted to assess the council's position across top level statistics, financial resilience and service expenditure. This included analysis against CIPFA's Financial Resilience Index.

Interviews

The bulk of the fieldwork comprised of interviews. These provided the invaluable 'triangulation' of our analysis. Council officers, members, auditors, and other experts were invited to give views and respond to queries provoked by documentary evidence. We would like to thank everyone involved for their courtesy and constructiveness.

Report drafting, feedback and fact-checking

The above inputs were then analysed and subjected to our professional and expert judgement. The result is this report.

This report was fact checked as far as possible and is based on the fieldwork completed within the time frame for the review. The report does not represent a comprehensive audit of the council's finances. Consequently, the conclusions do not constitute an opinion on the status of the council's financial accounts. Our review of the council's Minimum Revenue Provision (MRP) considers the reasonableness of the council's MRP policy and does not constitute an audit of the full application of the policy. Similarly, our review of the council's productivity does not constitute an audit of the council's productivity plan but represents an overview of the arrangements in place to consider productivity and take account of any publicly available information on historic or relevant performance.

CIPFA's review team consisted of three experienced consultants from Grant Thornton UK LLP with relevant backgrounds in all areas of the review's scope. CIPFA and Grant Thornton would like to take this opportunity to thank the council for being so amenable and open to meeting with the review team and for the considerable effort that has been expended in collating and sharing key documents with CIPFA. We also thank everyone involved for the openness, tact, and honesty in what is a sensitive issue for the council.

Report Structure

The key findings and analysis, together with supporting evidence, are set out under each of the review areas requested (as detailed in the commission). Risks and recommendations are detailed under each of the review areas.

3 Areas Reviewed

3.1 Review Area 1 – FINANCIAL MANAGEMENT AND SUSTAINABILITY

An.assessment.of.the.council"s.financial.management.and.management.of.risk.to. reach.a.view.on.the.council"s.overall.financial.resilience.and.sustainability¡.

The council's financial management, governance processes including the effectiveness of the audit and scrutiny committee(s), as well as compliance with Local Government accounting codes and international finance reporting standards.

The annual budget process

The Council has an annual budget setting process that meets legislative requirements along with a clear internal framework, which has been followed.

The 2024/25 net revenue budget was agreed on 6 March 2024, which highlighted that a balanced budget was now only achievable with EFS from the government, in the form of a capitalisation direction. This was needed to allow the council to meet revenue expenditure through use of capital resources. The report presented to both Cabinet and council made clear that without this measure the council would have had to issue a S114 notice. By this stage the council were reporting that earmarked reserves (excluding schools balances) were likely to reduce to £21.1m at year end 2023/24, from £49.6m at the end of 2022/23.

Changes to the budget setting process included the introduction of cash limited budgets and in-depth savings targets. These were overseen by Cabinet and Executive Management Team through deep dive and 'star chamber' style challenge sessions, whereby all savings proposals were reviewed to ensure they were supported by clear delivery plans, a status rating on viability and a finance opinion completed in conjunction with the Executive Director regarding achievability. In addition, accountability statements were introduced in 2024/25. These were established for all budget holders, setting out their responsibilities for managing within cash limited budgets. Their introduction was a rapid adjustment for an organisation which has previously been described by CIPFA as having a "culture of overspending" therefore there was an initial resistance from officers. This highlighted that many budget managers were not confident in the delivery of budgets and financial management skills, necessitating more in-depth discussions with finance teams. It became clear in some areas that whilst budgets had been agreed and signed off by Executive Directors and Heads of Services, individual budget managers may not have been involved, and in some cases the senior staff members had also now left the organisation. As a result, the council have had a record number of virements, but over 90% of accountability statements have now been signed and there is recognition that managing budgets will be a key part of performance management going forwards, and that this will no longer be an organisation which accepts consistent overspending. To prevent this resistance in future years, budget managers should be more actively involved in budget setting at an earlier stage in the process. This will help to ensure that budgets are deliverable and compatible with the service delivery levels and performance standards, but also that there is sufficient buy-in from service managers.

Internal Audit highlighted in their audit opinion for 2023/24 that "Work has also gone into improving the accuracy of the budget setting process. The reshaping financial management programme for 2024-25 includes reform to financial planning to improve accountability, reporting and ensuring monitoring leads to management actions including deficit recovery plans. A lessons learned exercise focusing on the 2024/25 budget setting has commenced and any findings will be incorporated into future reforms." The council has begun embedding the fundamental component of accountability for budgets as part of overall improvement of financial management, however this should be supported by a suite of training for budget holders, and well-developed relationships with technically skilled business partners.

Budget monitoring

During 2023/24 the council were able to significantly reduce a forecast budget gap from £20.91m in Month 3, to £1.1m overspend in Month 12. Whilst the general fund was protected, remaining at a balance of £10.1m, the financial position still required the substantial use of reserves, which reduced by £10.3m over the 2023/24 year. This included some transfers to reserves such as the Organisation Redesign Reserve (£2.5m), the Transformation & Improvement Reserve (£4.66m) and the Social Care Demand Risk Reserve (£2m), however the council's Medium Term Financial Risk (MTFR) reserve reduced from £28.4m to £9.7m, a substantial reduction.

Despite this tackling budget overspends was a key priority for the council during this timeframe. The organisation introduced a cost control panel regime which involved a weekly review of spend by the Executive Management Team. Whilst this has now come to an end, it was used to focus minds within the council to ensure all spend was thoroughly considered and appropriately signed off.

Other actions that were undertaken included introduction of cash limited budgets, £22.68m of savings targets and monthly monitoring reports to Cabinet in addition to the more detailed quarterly monitoring reports, allowing for quicker responses to overspending. The Financial Procedure Rules (FPRs) were also amended to reflect the new Financial Strategy and strengthen sound financial governance as a key priority. Whilst the significant overspend at quarter one may cast doubt on the robustness of the budget setting process in terms of the reasonableness of assumptions, the council responded quickly and proactively to the adverse variance by implementing control arrangements. These were effective, as demonstrated by the reduction in the overspend over the course of the 2023/24 year.

Additionally from Month 1 2024/25, a monthly Budget Review Panel, which includes the Chief Executive as Chair and the S151 officer, has been established to ensure overspends are addressed quickly, through development of deficit recovery plans.

The outturn at Month 4 2024/25 is positive, with an overall position of a £7.43m underspend forecast. However, it must be noted that as the budget is predicated on £39.28m of EFS, this will simply reduce the need for EFS to £31.85m, rather than be used to top up reserves, to provide for risks and uncertainties into future years. There will also be associated revenue costs with utilising the EFS at an expected cost of £2.9m per year (based on the current forecasted underspend).

Whilst it is clear that the council have made improvements to budget accountability and oversight, which is reducing the historical culture of monthly overspending and failure to address financial pressures in year, the risk remains that reserve levels are low, impacting the financial resilience of the organisation. Additionally, short-term decision-making was necessary to meet the immediate financial challenge, could have a longer-term impact on the council's ability to remain financially sustainable into the future if decisions need to be revisited or only have a limited impact.

There is a mixed picture at the time of writing in terms of the level of skill and experience in the finance business partners and the consequent level of support they can offer in budget monitoring. To ensure that budget management is as effective as possible, the council should ensure that budget managers are consistently and effectively supported in their role, whilst ensuring personal responsibility is maintained. Ensuring access to timely budgetary information and support with deficit recovery planning will be particularly important given the current capacity struggles within the organisation and the pressure for officers to manage 'business as usual' activity, budget responsibilities and transformational projects.

There is a risk that the concurrent governance arrangements in place may not speak to each other. The council have in place business planning processes reviewed by the Executive Management Board (the Council's Executive Directors), the transformation programme overseen by the Transformation Board and monthly budget review overseen by the Budget Review Panel. Whilst there is overlap of membership on these Boards which should mitigate this risk, but decisions made as part of deficit recovery planning at Budget Panel should be appropriately aligned, to ensure they do not have a knock-on impact on transformation planning for future years.

Medium term financial planning

The council agreed the MTFS in March 2024, and subsequently revisited it in July 2024, in line with the new Financial Strategy, which provides for quarterly updates to the MTFS, to ensure it remains fit for purpose whilst the council deal with the financial challenges. The update also integrates the transformation programme within the financial planning to understand the impact on the budget gap.

The net revenue budget for 2024/25 is now £290.7m, which includes a council tax increase of 4.99% (2.99% general council tax and 2% Adult Social Care precept). However, this assumption of a 4.99% increase is not continued into future years, due to the uncertainty around whether this will be agreed by Government. This highlights an element of prudence in the council's financial assumptions. When setting the budget the council considers three different scenarios from optimistic (O) to pessimistic (P), alongside a 'middle' (M) scenario.

There is a significant risk, at the time of writing, associated with the MTFS. The 2024/25 budget has only been balanced with support from central government and, even with the most optimistic scenario, which includes full delivery of savings within 2024/25 and 2025/26, and positive Government confirmation on funding levels, via grants and the Adult Social Care Council Tax Precept, there will be a remaining budget gap of £12.83m in 2025/26. The remaining residual budget gap over the MTFS will only be met through delivery of a substantial transformation programme. At the time of writing, the transformation programme is still in its infancy, with the governance framework established but detail and Outline Business Cases remaining a work in progress. The council has appointed a Transformation Partner to help identify further savings, and they are currently mobilising. There are risks around whether the organisation has sufficient capacity and capability to deliver the transformation work at the pace and scale required to support the MTFS. This is particularly concerning due to the lack of stability within the Executive Management Team, which have been a real driving force so far, but the risk of resistance or change fatigue at the more junior levels of the organisation, particularly as senior leaders move on, may have substantial impacts on the realisation of savings. There is also an MTFS risk associated with the revenue cost of borrowing as EFS is planned to be funded through external borrowing. The scale of the equal pay liability facing the council will have an impact on the amount of EFS required and, subsequently, the impact that increase revenue costs of borrowing have on the MTFS.

Whilst the council may be able to utilise reserves to plug the gap, the Medium-Term Financial Risk Reserve balance is only £9m, therefore this will not be sufficient and may force the council to make use of the general fund reserve, which at £10.1m, at the time of writing, is already lower than the minimum balance recommended by CIPFA (5% of net revenue expenditure). The council will therefore struggle to grapple with any unforeseen uncertainties and risk, highlighting a council that is not currently financial resilient. Whilst there is ongoing work to identify further strategic savings in those areas not currently in scope with the transformation programme, this may lead to decisions being made with short-term aims in mind, that have longer term impacts. It is on this basis that we recommend that the council undertake scenario modelling to understand the impact of requesting EFS for future years to meet this gap.

Financial resilience requires reserves to support the council to deal with unforeseen circumstances and risks, providing for continuity into the long-term. The council aims to rebuild reserve balances over time, by using one off gains.

Due to the current challenges facing local government it is a given that financial forecasting will always involve some degree of uncertainty. Therefore, it is imperative that the assumptions built into the MTFS are regularly revisited. The council have recognised this and for 2024/25, quarterly updates on the MTFS will be presented to Cabinet. It is important that senior leaders use this to look beyond just the next financial year, as it may be necessary to make difficult decisions now, to realise the impact further into the future. The aim should be to close the budget gap for several years ahead not just for 2024/25 and 2025/26.

The council are continuing work on the development of the MTFS, with a further update expected in October 2024, which will include outcomes of analysis on demand, outcome of policy discussions and individual service business planning. This will be important to ensure synergy between the council's Corporate Strategy and priorities, as currently there is limited linkages between the MTFS and the Corporate Plan. The council have also been working on understanding what type of council they want to be into the future, which will help to further inform the MTFS, with the ambition of developing a longer term financial, investment and growth plan which reflects priorities for Southampton.

The council should present the Corporate Plan alongside the budget in February/March 2025 to ensure the two remain aligned, particularly as the financial realities change into the future due to the current uncertainties. Alongside this the council need to ensure that the medium-term financial planning process is an integral component of the corporate and business planning processes to guarantee financial planning is realistic and based off horizon scanning, so there is a balance between ambition and reality to help achieve successful implementation of desired long-term outcomes.

Compliance with Local Government accounting codes and international finance reporting standards

The External Auditor's report for 2022/23 and 2023/24 are not yet available. This is due to complex factors which have contributed to audit delays across the sector rather than significant delays to the council's production of their accounts. The External Auditor's report for 2021/22 was presented to the Governance Committee in April 2023 and did not identify any significant areas of non-compliance with International Financial Reporting Standards (IFRS) or other accounting rules. Additionally, Internal Audit have not raised any compliance with accounting issues in their 2023/24 annual report and the Treasury Management report presented at the July 2024 Audit Committee, has not indicated any compliance issues with the Prudential Code.

Risks

- Risks 1, 2, 3, 5, 6, 7, 8 and 9

Recommendations

- Recommendations 1, 2, 3, 4, 6, 7, 8 and 9

The capacity and capability of the council to deliver an effective finance function to the council commensurate with the complexity of its particular circumstances, this should include the ability to undertake any transformation activity as required and consider whether officers / members are provided with the right information and training to take necessary financial decisions.

Capacity and capability of the finance function

The council's finance team have undergone a recent restructure within the finance team, with the headcount as of early July sitting at 190+ team members, including the finance business partner team, capital & treasury team, the revenues and benefits team, AP/AR, MTFS Team, Debt Management and Systems Support.

Our discussions with the external auditor have highlighted that there are no significant concerns in relation to the capacity or capability of the current team to complete a satisfactory set of financial statements. This is underpinned by the fact that the council have consistently met statutory reporting timelines in previous years. However, it has been highlighted that the council does have multiple single points of failure in the finance team, where certain individuals are heavily relied upon to complete tasks and understand processes. This represents a significant risk to the organisation, as if these individuals were to leave the council, there could be a significant loss in corporate knowledge. This also is likely to cause bottlenecks in processes, which could represent a barrier to the organisation moving at pace to address the financial gaps, support service areas and implement the transformation programme.

The feedback from service areas on finance business partners and the wider finance team have been varied, although consistent concerns have been raised around capacity of the team, availability to support service areas with budget monitoring, savings development and transformation planning. There have also been concerns in relation to timely provision of financial information, and frustrations around finance data being inconsistent with data from other areas of the organisation such as HR. It is clear finance business partnering is not fully developed and that service budget managers have been overly reliant on finance to interpret budget positions. The council need to further develop the approach to business partnering and build greater accountability within service areas for budget management, however this will require time to fully embed. The council are aware of these issues, and plans are underway to commence a new Target Operating Model in finance and to develop business partners with the aim of developing a true end to end finance function. The ambition is to have business partners who act in a financial advisory role, rather than just act as support on budget monitoring arrangements. This will require significant training, support and improvements to systems and data.

The S151 officer at Southampton is on the Executive Management Team and plays a key role in helping to develop and implement strategy. They are actively involved in and able to influence material decisions as part of ensuring they are aligned with the organisation's overall financial strategy. The S.151 officer is supported by an interim Director of Finance who started with the council in February, this has helped to ensure that the S151 is not routinely drawn into operational issues and can focus on strategic actions. Given that the current chief executive is interim it is crucial that the S151 officer continues to drive forwards the momentum that the chief executive has been able to bring to the programme of work. The S151 officer will be critical in holding the organisation to account and it will be imperative that the S.151 continues to build confidence and provide high quality advice and guidance through regular and open communication across the organisation, but also with members and other stakeholders.

Risks

- Risks 3 and 4

Recommendations

- Recommendations 2, 3, 4 and 5

The Local Authority's approach to financial risk management including identification, management and treatment of risk.

Financial risk management

The council has insufficient reserves to manage the financial risks identified in the MTFP. The council have contingencies in place funded by the EFS awarded in principle for 2024/25 to help bridge the financial gap of circa £40m. There is also additional support to fund the investment in transformation and redundancies pending the realisation of capital receipts from the asset disposal programme.

The S151 Officer and wider Executive Management Team have urged the council not to view the utilisation of the EFS as a replacement for robust cost control measures or savings delivery, as any failure to achieve savings will impact the increasing need for EFS, and potentially higher interest payments on borrowing.

The council recognise that there is a risk that the financial position of the council will be adversely affected by non-achievement of proposed budget savings, non-delivery of capital receipts through the Asset Disposal Programme (ADDP) and non-delivery of transformational plans for redesign of services. Without service transformation, the council state that it is at risk of failing to safely meet its statutory duties and/or preserve the existing service standards for non-statutory services. There is therefore significant reliance on the transformation programme for the council's medium term financial sustainability.

The council have a Risk Management Policy 2022-2025 which sets out how the council ensures risks are effectively managed and opportunities exploited to deliver strategic priorities for the city. The strategic risks are reported to the Executive Management Team on a quarterly basis. In April 2023, the Executive Management Team compared the Strategic Risk Register to those of other members of the 'Key Cities' group. This was to enable consideration as to how the council's strategic risks compared to those identified by other similar sized councils. Additionally, there is a 'Key Financial Risks' document produced by Finance and included as part of the quarterly budget monitoring report.

The Governance Committee (with responsibility now transferred to the Audit Committee) review the Strategic Risk Register on an annual basis. Best practice indicates that this should be at least quarterly, as the Audit Committee should be kept up to date with significant areas of strategic risk and any major operational or project risks, in order to seek assurance from officers that these risks are being appropriately owned and effectively managed.

The council undertakes an annual business planning and budgeting process with all Service Business Plans required to be reviewed to ensure that they reflect changing circumstances, methods of service provision, impact on the budget and the needs of customers. Significant risks that may threaten or adversely impact delivery of their key priorities and outcomes would be expected to be considered. However, Internal Audit reported in July 2023, that there was limited assurance that directorate risk management was working in practice, with limited documentation in place, however this has now been followed up and improvements have been made, with the introduction of Directorate Risk Registers. This aligns with officer discussions which highlighted that escalation routes from the middle management to executive management are not always clear. All officers need to understand how operational risk links to wider corporate risk. Risk needs to be known, understood and acted on. However, this is about behaviour, not just processes, therefore change will take time to embed. It remains important that risk management practices across the council are clear and regularly monitored to prevent inconsistencies or confusion in practice in future, particularly given the multiple streams of work being undertaken across the business planning, savings and transformation programme, on top of ‘business as usual’.

The external auditor, EY identified a significant weakness as part of their 2022/23 Value for Money assessment in relation to Southampton’s budget and management of financial risks. The report highlighted that whilst the council have in place regular monitoring and reporting of financial metrics such as level of reserves and forecasting including additional cost pressures, they did not act swiftly enough to take actions to address the issues that were identified. This aligns with our discussions, which has highlighted a council that does not act at pace; however, this appears to have been mitigated by the introduction of monthly budget monitoring and preparation of deficit recovery plans which have resulted in the council to be forecasting a £7.3m underspend in Month 4 of 2024/25.

Internal Audit

The Internal Audit function has been covered under Review Area 3 – Governance.

Risks

- Risks 2 and 28

Recommendations

No new recommendations identified

The underlying drivers of any financial fragility and risk and the council’s ability to successfully manage those drivers so that issues do not materialise.

Drivers of financial fragility

In July 2023, CIPFA identified five indicators of financial stress at the authority. These were: Running down of reserves, Failure to plan and deliver savings, Short term financial planning, Tendence to overspend and Lack of detail in business decisions

As part of the recommendations, CIPFA suggested that a plan to replenish reserves should be put in place, that the council needed to immediately initiate tighter controls over savings delivery, implement cash limits on spending and develop mitigation plans for non-delivery. Work was to begin on a MTFS aimed at reducing expenditure to within budget for 2023/24, achieving a sustainable budget over the medium term and improving financial resilience. This was agreed at Full Council in July 2023.

A new Financial Strategy was developed as a result of the CIPFA findings and implemented during 2023/24 and for 2024/25 onwards with the aim of balancing the council’s finances across the medium term. This set out five steps to stabilise the general fund account: Review budgets to establish the financial position, Right sizing the budget to ensure there is clarity on affordable expenditure levels, Stabilisation to remove in year overspend and ensure the structural deficit has been addressed and reliance on reserves removed, Sustainable budget to ensure the council is sustainable and able to withstand economic and financial shocks and

Purposeful investment – all investment, either revenue or capital, to have a clear purpose and strong business case.

In response to the recommendations made by CIPFA, the council also developed a financial management improvement plan and has established the Reshaping Financial Management programme. This has five key workstreams: People & Leadership, Process, Data & Reporting Technology and Debt

Work is already underway to address the concerns identified by the CIPFA reports. The MTFS has been rebased and presented to Cabinet in July 2023, with integration of the transformation plans and removal of substantial reliance on reserves, with plans in place to rebuild these over the life of the MTFS. To improve clarity on budgets, the council has asked all budget holders to sign accountability statements, although this is only a first step in obtaining greater ownership, it allowed for greater discussion between budget holders, business partners and the wider finance team on how budgets are constructed and realised. It remains important that this is built upon for the next iteration of the budget setting process to ensure buy-in. There is a clear ask from services for improved financial management training and better working with business partners. This is being actively pursued with the council building a Finance Academy and hiring new business partners.

Unplanned overspends

CIPFA's review highlighted a culture of overspending in 2022/23, which continued in 2023/24. However, the forecast overspends in 2023/24 reduced from £29.99m in July 2023 to £1.1m by the end of the financial year, showcasing that the council were able to bring this under some element of control throughout the financial year, with introduction of a weekly cost control panel.

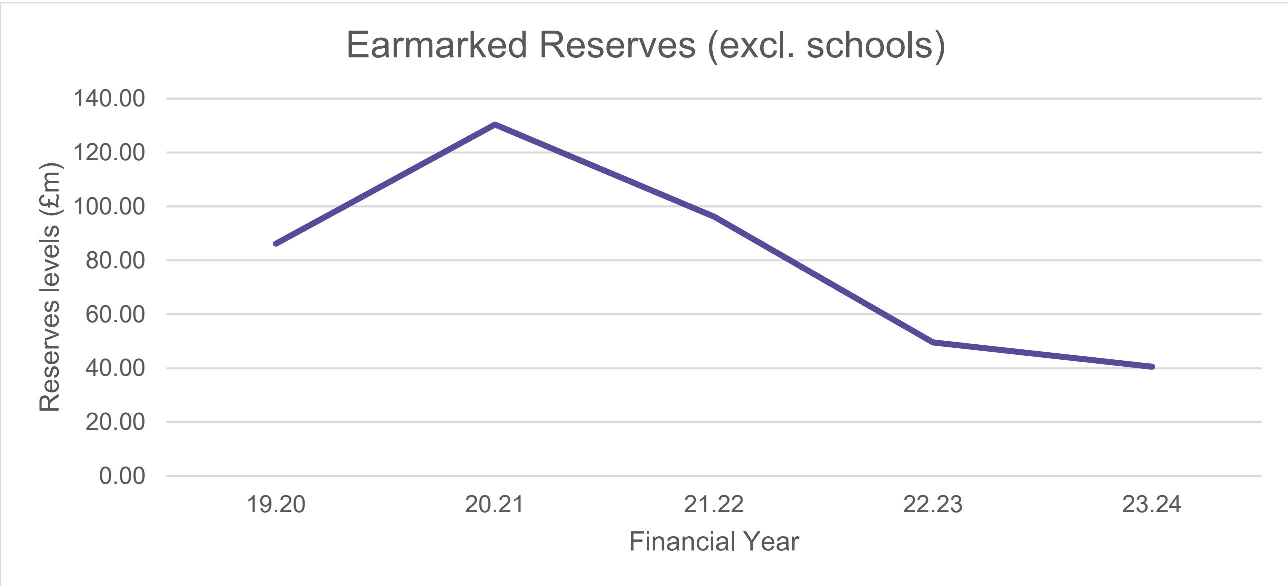
During the 2024/25 financial year, budgetary control appears to be much more robust, with monthly monitoring of the financial position, and identified overspends becoming the subject of deficit recovery plans as soon as they begin to appear. In Month 4 2024/25 there is currently a forecast overspend for the financial year of £7.7m, mainly driven by earlier than anticipated delivery of transformation programme savings, including reduced care package cost.

Whereas previously the budget setting process was not always based on a thorough understanding of costs and demand drivers, which has led to issues with managing budget pressures, this has started to change, with the introduction of the budget accountability statements and the associated discussions. The Financial Procedure Rules (FPRs) were updated in April 2024 highlighting that budget overspend forecasts must be offset by mitigation measures or underspends elsewhere and is the responsibility of the Executive Director to develop a mitigation plan and present to the Chief Finance Officer (CFO). The council also introduced budget accountability statements for all budget holders, to ensure they agree to budgets and have full understanding of their role as a budget holder. This introduction was also included in the FPRs.

The council are also receiving external support to further understand demand drivers and will be using this to input into future budgets. However, the council are aware that lessons could be learned from the 2024/25 budget setting process and therefore earlier engagement with service areas, and the support and financial information provided to budget holders should be improved to facilitate discussions and gain agreement before the beginning of the financial year and delivery begins. There is a financial management improvement plan that will so staff are strengthened in their financial acumen, understand the importance of financial challenges and are thinking commercially when redesigning services. It is clear the organisation is becoming more aware of the financial picture and the financial strategy, but this still needs further refining and embedding, particularly when it comes to how this aligns with the transformation programme, demand management and the delivery of key council priorities.

Running down reserves

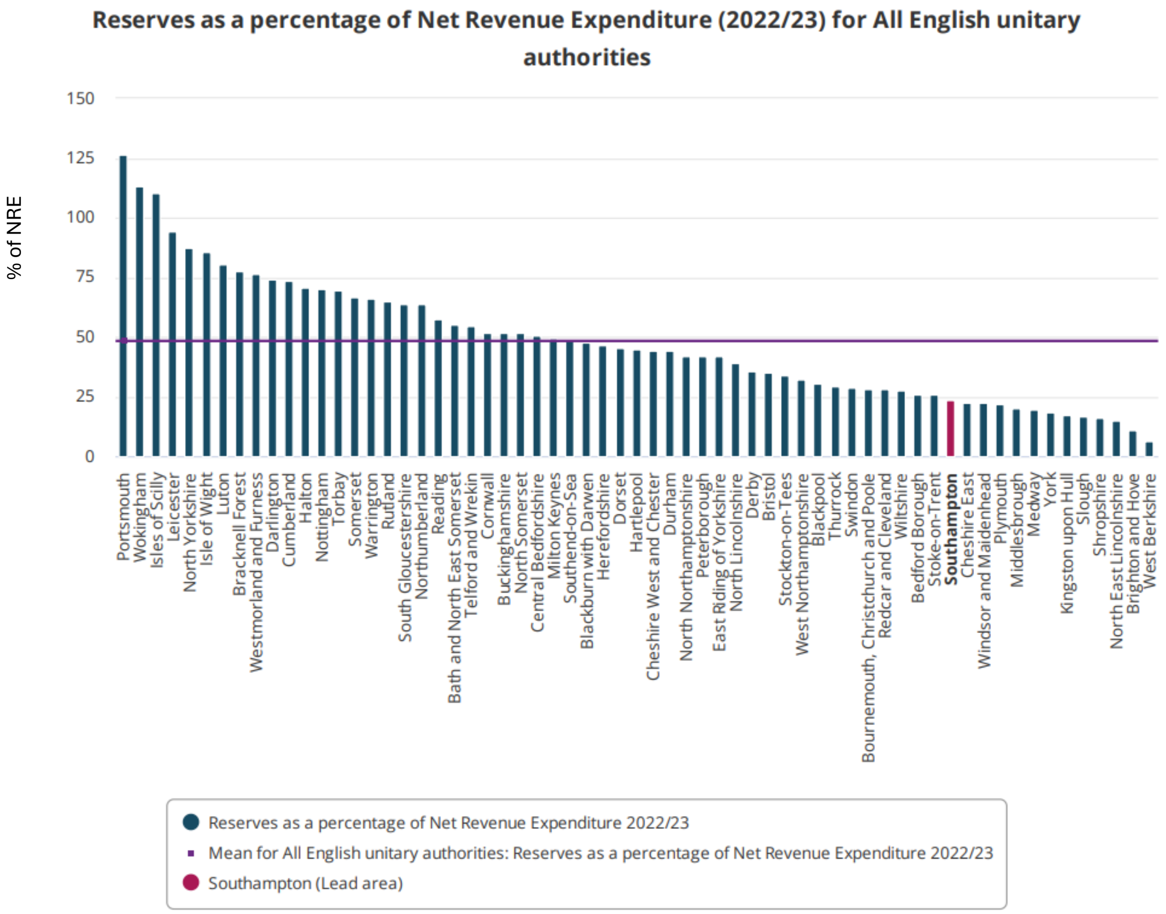
The council have relied on the use of reserves for a number of years, which has led to a significant decrease in the earmarked reserves levels, as shown in the below graph. Reserves had increased to £130.38m in 2020/2021 during the Covid-19 pandemic. However, these were rapidly utilised in 2021/22 which saw a reduction to £96.19m by year end, and then again in 2022/23 to £49.59m. Current reserve levels are £40.58m, showcasing almost £90m of utilised reserves across the last three financial years. Whilst much of this will have been to respond to the impact of the pandemic and demand increases, this is not sustainable into the future and significantly impacts the resilience of the organisation to deal with future potential risks and uncertainties.



Graph 1: Annual Earmarked Reserves

As a result the council now has one of the lowest level of total General Fund reserves as a proportion of net revenue expenditure when compared to all unitary councils in England

Graph 2: Reserves as a percentage of Net Revenue Expenditure (2022/23) (Source: LG Inform)



The council adopted a new policy on reserves in July 2023. This has established the building of reserves from one-off gains to be utilised for purposeful investment or spend. Examples used during 2023/24 have include Leisure Services VAT reclaim and business rates refunds which have been used by the council to establish a Transformation & Improvement Reserve and Organisational Redesign Reserve with balances of £4.7m and £2.5m. The council have also introduced an Investment Risk Reserve and Social Care Demand Risk Reserve valued at £0.8m and £2.0m.

This shows a plan to maintain the General Fund balance and to modestly build back and replenish earmarked reserves. This is undoubtedly positive to note but it is important to recognise that this plan hinges on:

- The council being able to deliver an unprecedented level of savings

- The council being able to sell the assets necessary as part of its Asset Development and Disposal Programme (ADDP)

- The council being able to start realising benefits from the transformation programme in 2024/25 (as it will no longer be covered by EFS from 31 March 2025)

These assumptions are not without significant risk. Any failure to deliver savings, any failure to sell assets or any failure to realise benefits/savings from the transformation programme to plug the budget gap will likely result in further depletion of reserves. Any unplanned overspending on the revenue budget will also likely result in further depletion of reserves. The council must be willing to make difficult financial decisions and maintain a ruthless grip on finances to deliver against this reserve strategy.

Short termism

There is an element of short termism to the council's financial management arrangements, leading to a failure to address financial pressures. Identified examples include:

- The council's reserves balance has reduced from £96m (31/03/2022) to £40.58m showing a clear erosion of reserve levels to a level which represents a key risk to financial resilience. The 2023/24 budget included the use of £20m of reserves.

- The council sought one year of EFS whilst recognising that it has a medium-term budget gap, which it aims to plug with the transformation programme. The council does not currently have a plan in place for if the authority is no able to realise the savings from the transformation programme in time.

- There was a failure to plan and deliver savings, with only 39% of savings delivered in 2022/23 despite some awareness of the precarious financial position.

- The decision was made to freeze rents and service charges for one-year in 2022/23 (when most authorities implemented a 4.1% rise), as well as rent reductions of 1% pa between 2016/17 and 2019/20, producing a significant loss of base income which has a continuing effect.

- The council is currently reliant on the statutory override on the DSG deficit which is temporarily allowing councils to keep the balance outside of the revenue budget. The council delivered a £3m surplus in 2023/24 on the DSG, reducing the deficit on the balance from £10.1m to £7.1m. The overspend is primarily driven by the deficit on the High Needs Block (HNB). The council is dependent on the statutory override to remain financially sustainable. The council does not have enough reserves in place to cover the DSG deficit when the statutory override elapses and it is assumed that the council will need to fund the gap from the General Fund, although current forecasting suggests a further reduction of £1.2m for 2024/25. Despite this, the council is relying on the short-term measure in the form of the statutory override to remain financially sustainable.

- Previously money was invested into social care directorates due to the poor Ofsted performance and rising demand, but with no plans to reduce this spend over the longer term, to bring the finances into a sustainable position. As a result, using 2022/23 comparable data, Adult Social Care and Children Social Care net expenditure per head is classified as 'Very High' (top 20%) in comparison to statistical nearest neighbours. Now, money is currently being taken out of services to plug the financial gap in the council's overall finances. However, there is limited consideration of what needs to change within the service to enable this and how the performance of the service and the outcomes for local people will be realised.

- A lack of capital investment in the council's housing stock over the period. Priority has been given to using capital investment to fund fire safety improvements over other areas of capital improvements. Based on the current capital programme the council expects that the quality of its housing will continue to decline as it is not sufficient to meet the improvement needs of the housing stock. From our discussions with the council the scale of capital investment required in the council's housing stock to get it to the required level for the Decent Homes Standard is c.£70m. This presents a significant risk to the council as the capital programme does not have the capacity to meet this requirement.

The focus on the short term is driven by :

- Southampton council operates on the Elections by Thirds model. Whilst this has many merits such as more opportunity for residents to vote and influence the council and helps to ensure continuity of membership it can hinder a more stable, strategic and long-term approach to planning, as this is not completed over a four-year timeline. This means political priorities may change more regularly and prevent focus on key issues and activities. All-out as opposed to multiple elections within the four-year cycle can enhance political stability and reduce ongoing campaigning that can hinder improvement.

- The instability of the Executive Management Team. With high leadership turnover, and an over-reliance on interim officers, this creates a lack of strategic direction, continuity and accountability, and can mean decisions are not always in the long-term interest of the council.

Additionally, the continuing short-term urgency to respond to the significant financial pressures may prevent the development of long-term solutions to underlying problems. There is not currently evidence that the council's transformation programme is truly transformative and will enable the council to become a more efficient and effective organisation in the long term. This is combined with the request for EFS for only one year and the continuing instability of the Executive Management Team, therefore the short-termism nature of decision-making continues to be a risk for Southampton City Council. The council will need to stabilise the leadership team and ensure that transformation savings currently under development for future years, are built and delivered within the frame of a long-term vision for the council.

However, some progress has been made. The council now have a plan in place to build reserves, and savings progress in 2023/24 was much improved, with 93% of the target achieved. Internal Audit reviewed budget savings and proposals and concluded there had been clear improvements. However further work will be needed to bridge the budget shortfall in 2024/25 to ensure efficiency savings can continue to be achieved over future years. The Council's report made two recommendations in relation to the rollout of a compulsory financial management training programme and a benefit realisation plan for the transformation programme."

Dedicated Schools Grant

The council delivered a £3m surplus in 2023/24 on the DSG, reducing the deficit on the balance from £10.1m to £7.1m through increased High Needs funding which helped to mitigate some of the pressure but the council remains reliant on the statutory override. This is in place until the end of 2025/26, after which it will need to be serviced by the council's General Fund reserves, subject to the decision from the government on its future at the end of the override period. The pressure on the HNB element of the DSG is being tackled through the council's transformation programme by aiming to reduce the number of Education Health and Care Plans (EHCPs) by focusing on earlier interventions and better support for schools.

Risks

- Risks 2, 7, 8 and 12

Recommendations

- Recommendations 6, 7, 8 and 9

Specifically?.in.terms.of.fragility?.an.assessment.of.the.Local.Authority"s.Equal.Pay.Liability. and.Housing.Revenue.Account.pressures¡

Equal Pay Liability

On March 6 2024, the council outlined in the 2024/25 Budget and MTFS that it carries a contingent liability to cover potential equal pay claims. Internal Audit reviewed equal pay claims on management request to establish the causal factors for the claims and parties involved, along with any lessons learnt. The findings from the work established that there was historical awareness of unintended working practices but that corrective action had not been completed or followed through to conclusion. Key parties involved no longer work for the council. The council's EFS includes up to £52M to create a provision for such claims as and when they can be quantified.

Since the equal pay issues were highlighted, the council has taken significant steps to address and eliminate the working practices that contributed to these claims. By actively modifying policies and practices, the council has been able to limit the potential for the liability to grow further in the initially highlighted areas. These proactive measures have helped contain the risk associated with the original equal pay claims, demonstrating the council's commitment to fair and equitable treatment of its workforce.

However, the situation remains complex. The council is currently finalising the results of its equal pay audit, which has identified additional areas of liability. This ongoing audit has revealed that the scope of the problem may be broader than initially anticipated with a wider cohort of cases, potentially leading to a significant increase in the total liability the council may face. These findings suggest that equal pay issues could represent a more substantial financial burden than previously calculated, underscoring the need for ongoing vigilance and action. At the point of this report the council has included £52m in its EFS application relating to equal pay. If the council is unable to mitigate the increased cohort of cases through settlement agreements and the scale of the liability increases then it is likely that the council will need to access additional EFS to fund this. This is due to the level of reserves available to the council and will have subsequent impacts on the scale of external borrowing and the pressure this places on the revenue budget.

Despite these challenges, the council has opportunities to manage and mitigate this liability, depending on its approach to settling individual claims. By carefully considering settlement strategies, the council can potentially reduce the financial impact while addressing the concerns of affected employees. This will require a balanced approach considering the legal and financial implications of various settlement options.

Equal pay issues continue to represent one of the most significant financial risks to the council, necessitating a sustained commitment of resources to address and resolve these claims. Recognising the critical importance of this issue, the council has taken steps to strengthen its leadership team by reinstating a senior workforce-related role. This position, previously removed through efficiency initiatives, is crucial for overseeing workforce-related issues, including equal pay.

The reintroduction of this role and the direct involvement of the monitoring officer reflects the council's recognition of the need for dedicated leadership to navigate the complexities of equal pay and ensure that appropriate measures are in place to manage and mitigate this ongoing risk effectively.

Housing Revenue Account (HRA)

The council provide 15,851 council houses (as of 31st March 2024) For 2023/24, the HRA delivered a surplus of £0.59m, increasing the balance from £2m to £2.59m at year-end. Outturn shows that this result was mainly driven by a lower-than-budgeted depreciation charge, which delivered a favourable variance of £4.1m. This was due to reduced asset values as part of the valuation for the 2023/24 financial statements. The working balance was historically set at £2M. This is inadequate against the current level of annual expenditure and the current capital programme. The HRA business plan, therefore, assumes an increase to £3M in 2024/25, £4M in 2025/26, and £7M in 2026/27.

The HRA is forecasting a balanced position at Month 4, with a reduction in depreciation due to the reduced asset values due to the valuation for 2023/24 financial statements. However, this is being balanced by an increase in direct revenue financing of the capital programme. The Landlord Controlled Heating Account carried a £2.35M deficit into 2024/25, and this is now expected to reduce to £1.32M by year end rather than the original forecast of £3m by the end of 2023/24.

Whilst rents were increased in line with inflation in 2020/21 and 2021/22, there was a decision made in February 2022, to freeze both rents and service charges for 2022/23. The council estimates that the compounding impact of this decision over 40 years will result will in £157m of lost income. For 2023/24 the council did agree to apply increases in line with the rent cap of 7.7% set by Government. The business plan assumed the national government policy of CPI + 1% will continues in 2025/26 and from 2026/27, this will be in line with CPI. This is a prudent approach as guidance has not yet been issued for future years. The budget proposals recommend no increase in service charges for 2024/25 pending further review work, and an increase in Landlord Controlled Heating charges of 6.5% as part of a longer-term plan to address the deficit on the account.

Risks

No risks identified

Recommendations

No recommendations identified

An assessment of steps the council is undertaking to ensure it remains within its spending envelope, including deliverability and appropriateness of current savings / transformation plans, income generating activity, and ensuring activities that are no longer required are being scaled back (e.g. teams that were previously expanded during Covid) etc.

Managing budget pressures within the financial envelope

The council aims to manage its spend via the following:

- Savings plans – this is where the council is making efficiencies in the current service provision in order to reduce costs

- The transformation programme – this is where the council is changing the way a service is delivered/currently configured to generate savings (discussed further in part H)

- Robust budget management and implementation of deficit recovery planning to address overspends in a timely manner

- EFS for 2024/25 – the council's request for EFS has allowed the organisation to manage its 2024/25 spend as it has addressed the forecast budget gap that was preventing the council from submitting a balanced budget

- Flexible Use of Capital Receipts Strategy – this is the means by which the council is planning to fund its transformation programme (discussed further in Part I)

In 2022/23 the council delivered £3.53m (39%) of planned savings. CIPFA's Financial Management Review published in July 2023 recommended immediate tight controls over savings delivery. In response the council introduced their updated MTFS and introduced a 'cash limited' budget approach. The updated strategy highlighted that all savings plans were to be underpinned by delivery plans, which included both a finance and Executive Director opinion on achievability, alongside status ratings ranging from "concept", "work in progress", "delivery plan in place" and "implemented".

Plans were also reviewed by the Project Management Office to ensure robustness. This allowed clarity for Cabinet and Executive Management Team when considering proposals. Additionally, Cabinet requested a short monthly monitoring statement to complement the quarterly monitoring report, and quarterly MTFS updates to strengthen executive monitoring arrangements.

It appears that these measures have been successful in improving savings delivery, with £39m of savings delivered in 2023/24, representing 93% of the £41m target. The approved savings included in the 2024/25 budget, agreed in March 2024 totalled £22.68m, plus £1.96m of shortfall from the 2023/24 financial year, giving a total of £24.65m. This balance was removed from budgets as part of setting the MTFS. At Month 4, the vast majority of this (£21.26m) is also considered to be achieved. The council are confident a further £2.3m will be delivered primarily related to contract savings within the Community Wellbeing Directorate. The £1.09m of remaining savings are at risk of delivery and are subject to Deficit Recovery Plans to develop mitigating actions.

In addition to this the council have stipulated £7.3m of transformation savings need to be made during 2024/25, which are not currently included in the budget. So far £1.02m of this has been delivered at Month 4, mainly within Home to School Travel. Any sustained budget variances made in 2024/25 will also be removed from Directorate budgets in September, this is currently likely to be an estimated £6.13m which will be used to reduce reliance on the EFS.

It is clear the council have made substantial progress in reaching their savings targets during 2023/24 and throughout early 2024/25. However, the scale of the challenge must not be under-estimated. Currently the forecast budget gap identified in the MTFS is £72.76m by 2028/29, so even with full delivery of the total transformation savings identified across the life of the MTFS (£41.6m), the remaining gap is over £30m. This also does not currently include the additional revenue cost of utilised borrowing which will widen the gap even further or provision for demographic growth from 2026/27, which is assumed to be contained within service budgets, both could widen the gap even further. The council have developed some mitigating actions to bridge the gap, such as demand management savings and reduction in procurement spend. However further ideas will be needed to ensure transformational savings targets are reached, therefore the resilience of the organisation will be a key component in delivering savings over the medium-term.

The current benefits realisation performance tracker looks at delivery of savings from a financial perspective only. There is a lack of focus on outcomes or service improvement in the overall transformation programme, although this focus is more evident within service area plans. This is due to the current tranche of transformation savings for 2024/25 being very much focused on cost reduction rather than true transformation of services. It will be imperative that the council's tactical savings programme to reduce the budget gap in the current year does not undermine the longer-term transformational savings programme. At this stage it is not clear whether there is likely to be an impact. The council are trying to pull together a regular performance report across the organisation, to feed into the Business Planning & Performance Group and Directorate Management Team meetings. Currently this is a key challenge for the council as discussed under the Performance Management section of this report. Internal Audit has also previously raised as part of their review of savings delivery that the transformation programme needs to develop a benefits realisation plan.

Risks

- Risk 10

Recommendations

- Recommendation 10

An assessment of the council's efforts to maximise productivity and minimise waste. This should include consideration of the council's approach to EDI activity.

Productivity plan

In April 2024, the then Minister for Local Government wrote to all local council Chief Executives, asking councils to produce productivity plans as part of the terms of the Local Government Finance Settlement. Additionally the EFS requirement for an improvement and transformation, must take "into account broader work required by the Department to produce productivity plans to improve service performance and reduce wasteful expenditure".

The council's Productivity Plan is available on the council website. The plan sets out the council's approach to improving its productivity and is embedded within the current Transformation Plan. Progress against the plan will be embedded within the quarterly performance and budget outturn reports to Cabinet.

The council's approach to EDI activity

The council have an Equality Policy in place. The policy "re-affirms the council's long-standing commitment to work towards the elimination of discrimination and to achieve equality of outcomes for residents and communities in the city."

The council currently have one Wellbeing, Diversity and Inclusion Lead at Grade 8, with an internal focus. There is no specific budget for this work, but it is funded within the Organisational Development team budget. There is also an Inclusion, Diversity & Participation Lead at Grade 10. This is a new post with an external focus. Elsewhere there is a Community Cohesion & Diversity Officer sitting within Employment & Skills, three FTE Community Engagement Officers plus an Engagement Officer - Armed Forces all at Grade 7 with an external focus. Finally, the council also has a Senior Commissioner - Tackling Inequalities post which is an NHS role in the Integrated Care Unit, with an external focus.

Risks

No risks identified

Recommendations

No recommendations identified

An assessment of the viability of the Local Authority's plans for transformation and to confirm whether the Local Authority has governance arrangements in place to offer challenge and scrutiny of those proposals.

Transformation planning

The council's "adapt | grow | thrive" transformation programme is ambitious, targeting significant savings of £42.65 million while aiming to improve service delivery and achieve long-term financial sustainability. The programme's design, which includes seven service-focused portfolios, addresses key areas such as Adult Social Care, Children's Services, and Growth & Prosperity, reflecting a comprehensive approach to transformation.

The use of a structured business case methodology to outline strategic needs, scope of change, delivery approach, and expected benefits is a strong feature of the programme. This provides a clear framework for planning and implementation, essential for managing a programme of this scale. However, the varying stages of readiness among the business cases present a challenge. Some projects are still in preliminary phases and lack detailed implementation plans and robust delivery assurances, which creates uncertainty around the timeline and achievability of the expected benefits. A programme of work is in development, which includes 24 service-focused projects alongside five cross-organisational enablement programmes. This was approved by Full Council in July 2024.

The programme's focus supports the Corporate Plan's aim of financial sustainability, allowing the council to operate within its means and invest strategically in priority areas. By restructuring service delivery models, enhancing digital capabilities, and improving efficiency, the programme aims to provide better, more accessible services to residents, aligning with the Corporate Plan's goal of improving the quality of life for all community members.

In addition, the programme's emphasis on fostering economic growth through initiatives like the Growth & Prosperity Strategy and enhancing community well-being via preventive measures and early intervention directly supports the Corporate Plan's vision of creating a thriving, inclusive city. The integration of digital innovation and sustainable practices further aligns with the Corporate Plan's commitment to modernising council operations and promoting environmental sustainability. This comprehensive alignment ensures that the Transformation Programme addresses the current budget deficit and lays the foundation for a resilient and prosperous future for Southampton.

New governance arrangements have been implemented to support the transformation activity, including a Transformation Board chaired by the Chief Executive, which sits above seven Portfolio Boards led by each Executive Director. This work is supported by a newly appointed Transformation Director, with additional recruitment to the core Programme Management Office underway. Updates will be provided to both the Cabinet and Overview and Scrutiny Management Committee, aligned to the quarterly budget reporting schedule.

The council have developed 28 Outline Business Cases (OBCs) to shape delivery of the programme. These have been produced by all service areas, with activity on cross-cutting workstreams such as HR & People, Procurement, and ICT & Digital support. For 2024/25, it is expected the funding will be up to £10.62m, the value of the EFS application, which is expected to draw from capital resources, although future years will require further resource requests.

Moreover, the reliance on external consultants to supplement internal capabilities brings valuable expertise but also introduces risks of over-dependence and integration challenges. Effective knowledge transfer and capability building within the council will be essential to ensure the sustainability of the changes beyond the initial implementation phases.

The programme also faces the inherent risk of balancing the drive for cost savings with maintaining or improving service quality. If cost-cutting measures undermine the quality of services, resident satisfaction and political support may be adversely affected, potentially threatening the programme's success.

Transformation Governance

The governance structure for the "adapt | grow | thrive" transformation programme is designed to provide strategic oversight, accountability, and effective management of transformation activities. While the structure aims to cover all aspects of governance, there are potential weaknesses that need to be monitored to ensure its effectiveness.

- **Transformation Board:** The Transformation Board is the central governance body overseeing the transformation programme, chaired by the Chief Executive. It provides leadership, sets strategic direction, and ensures alignment with the council's broader goals. While this central oversight is crucial, the effectiveness of the Transformation Board relies heavily on the ability of its members to consistently coordinate and communicate across all portfolios. There is a risk that a lack of consistent engagement or a fragmented approach could lead to misalignment or delays in decision-making.

- **Portfolio Boards:** The programme is organised into seven service-focused portfolios, each led by an Executive Director. These portfolios include Adult Social Care & Health, Children's Services, Schools & Special Education Needs & Disability (SEND), Customer & Community, Enabling Excellence, Growth & Prosperity, and Resident Services. Each portfolio has a Portfolio Board responsible for overseeing implementation within its area. However, the challenge lies in ensuring that these boards do not operate in silos, which could result in a lack of coherence and integration across the programme. Regular cross-portfolio communication and collaboration are essential to mitigate this risk.

- **Change Authority Board and Technical Design Authority:** The Change Authority Board and Technical Design Authority play critical roles in reviewing significant change requests and ensuring alignment with design principles. While these bodies help maintain consistency and quality, there is a potential risk of bottlenecks if the approval processes become too cumbersome or insufficient agility to respond to changing circumstances quickly. Streamlining decision-making processes while maintaining thorough review protocols will be necessary to avoid delays.

- **Cabinet and Council Oversight:** The programme includes regular reporting to the Cabinet and the Overview and Scrutiny Management Committee (OSMC), with Cabinet members overseeing specific portfolios. While this provides political accountability and aligns the programme with council policies, there is a risk of politicising decisions or conflicts between political priorities and operational needs. It will be essential to ensure that decision-making remains focused on strategic objectives and evidence-based outcomes.

- **Project Management Office (PMO):** A central PMO supports the programme, providing essential resources and coordination. While the PMO is designed to ensure consistent reporting and monitoring, its effectiveness depends on the adequacy of its resources and the quality of its project management practices. Over-reliance on the PMO without adequate empowerment of individual portfolio teams could lead to inefficiencies. Balancing centralised oversight with empowering portfolio teams to manage their own projects effectively is crucial.

- **External Support and Internal Audit:** Engaging external transformation support brings valuable expertise and innovative thinking to the programme. However, reliance on external consultants carries risks, including potential over-dependence and challenges integrating external insights into existing practices. To mitigate these risks, there should be a clear plan for knowledge transfer to internal teams to ensure sustainability. Additionally, the council's Internal Audit function is crucial in providing assurance, but regular and thorough audits are necessary to catch issues early and ensure adequate controls.

In summary, while the governance arrangements for the "adapt | grow | thrive" transformation programme are robust and well-structured, their effectiveness will depend on maintaining strong coordination, communication, and integration across all levels. Potential weaknesses related to siloed operations, decision-making bottlenecks, and over-reliance on external support need to be proactively managed to ensure the programme delivers its intended outcomes and supports the financial sustainability of the council.

Risks

- Risk 12

Recommendations

- Recommendation 12

An overall view on the ability of the council to manage identified budget pressures through its own resources. This should include a view on whether the council could and should take further action to minimise the need to use / seek a capitalisation direction. If it is apparent the council requires capitalisation to manage its budget, an assessment of how the council expects to 'fund' the capitalisation (i.e. through external / internal borrowing or through capital receipts), and the viability / risks of their proposed approach.

The council has assumed that the budget gap for 2024/25 will be closed by using EFS. This allows the council to use capital receipts and borrowing to fund revenue expenditures up to an agreed-upon limit. However, this is only available for one financial year, meaning the structural deficit will need to be addressed in 2025/26.

The use of capital receipts will not lead to additional revenue payments but will be limited by the asset sales the council is likely to achieve. The Asset Disposal Programme is considered in more detail in Part 2 of this report. Currently, the council has £14m of useable capital receipts, and the transformation funding strategy is to use these first. This will protect the Transformation reserve (£6.1m) for future years when EFS may not be made available to the council.

However, £14m of capital receipts will not bridge the £39.3m budget gap identified in the MTFS (March 2024). The council's approach has been to reduce this gap by implementing transformation savings as early as possible to reduce the amount of potential borrowing, thereby reducing borrowing costs. The repayment costs for the borrowing have not been included in the MTFS values at an estimated £3.6m per annum if the full £39.3m is borrowed. Currently, the Month 4 outturn position is a £7.43m underspend; if this is maintained, this would reduce the borrowing needed to £31.87m. This would reduce borrowing costs by £0.7m to £2.9m per annum.

Due to the scale of the challenge, even with the forecast underspend in year, and significant progress on savings, it is likely the council will need to extend the EFS over more than one year. This would allow the council to ensure that savings are truly transformational in nature and allow for changes to service delivery and a focus on outcomes.

No evidence suggests the council did not need the capitalisation direction to balance 2024/25. The council does not intend to use the whole direction and, therefore, seeks to minimise its use.

Risks

- Risks 1, 5, 10 and 12

Recommendations

No new recommendations identified

3.2 Review Area 2 – CAPITAL PROGRAMME/ DEBT/ INVESTMENTS /ASSETS

An assessment of the Local Authority's capital programme/overall debt position including short and long term borrowing, and approach to investment/asset management to reach a view on suitability, VfM and risk exposure of the Local Authority in this space, and how this may impact on the overall financial resilience/sustainability of the Authority.

The council's management / governance of its capital programme, major projects (whether delivered in-house or via companies) and investments including the adequacy of internal processes, scrutiny of investment decisions, use of external expertise where required, risk management and capacity and capability to deliver. This should include an assessment of the council's exposure to refinancing and any other risks identified as a result of its chosen borrowing strategy.

Management/Governance of the Capital Programme

The CIPFA Prudential Code for Capital Finance in Local Authorities requires authorities to produce a capital strategy, which Full Council must approve. On 6 March 2024, Full Council approved the General Fund Capital Strategy and Programme 2023/24 to 2028/29 ('the Capital Strategy'). This provides an overview of how capital expenditure, capital financing and treasury management contribute to the provision of local public services whilst also considering the management of risk, financial sustainability implications and ensuring all capital programme items deliver optimum value for money.

On an annual basis service managers are required to identify projects for inclusion in the capital programme. Finance are responsible for calculating the estimated financing cost of the proposed projects. For the 2024/25 setting of the capital programme a council Capital Board (CCB) was in place to appraise all projects based on a comparison of service priorities against financing costs. Recommendations are then made by the CCB to Cabinet with the final capital programme then presented to Cabinet and council as part of the annual budget setting process. The CCB has now been disbanded by the council in agreement with the Leader and the Chief Executive. To enable more agile decisions in relation to the capital programme there is now a standing 'Budget Matters' item on the Cabinet agenda where recommendations with regards to the capital programme are brought to Cabinet.

The council's capital programme is also reviewed and reported to Cabinet on a quarterly basis to ensure that any new schemes can proceed and make any changes to the programme to ensure that it delivers optimum value for money. All capital programme schemes are assessed against Purposeful Investment criteria which consider the following;

1. Does it reduce revenue expenditure/increase income in the current year or future years?

2. Does it stop a potential financial pressure in future years?

3. Does it have a significant impact on the lives of residents? Considering affordability, given the current financial challenges and limitations.

These criteria also taken account of the following; solid return on investment, necessity in achieving the Corporate Plan and a key commitment of the Administration.

The most recent revision to the capital programme was presented to Cabinet on 27 August 2024 and set out a revised capital programme for the period 2024/25 to 2028/29 of £446.59m, consisting of £206.06m for the General Fund and £240.53 for the HRA. This revision to the capital programme was in response to the financial environment being faced by the council, both in terms of financial sustainability pressures and the external financial pressures relating to construction costs and borrowing costs. Whilst it is important that the capital programme is affordable, deliverable and reflective of the council's priorities, constant revisions of the capital programme can be indicative of a lack of strategic clarity, something that is important to ensure that the overall programme is deliverable and meets the needs of the council over the short-term and medium-term.

In 2023/24 the council reported slippage of 22.07% against the General Fund capital programme and slippage of 6.14% against the HRA capital programme. In addition to this, at the end of quarter one of 2024/25 the council has reported £6.24m of slippage against the General Fund capital programme to be moved into future years. Significant slippage in the capital programme has an impact on both the service delivery and the revenue budget of the council. We understand that current arrangements in place for the delivery of the capital porgramme are that responsibility sits with the relevant Executive Director with finance undertaking an approval and reporting role. This means that finances role is mechanistic and does not hold directorates to account whilst directorates do not fully understand the revenue implications of slippage in the capital programme delivery. Therefore, we recommend that the council undertakes a review of the delivery and monitoring arrangements of the capital programme and establishes a governance framework that improves accountability and delivery of projects to reduce the level of slippage. This improved governance arrangement should involve closer working between directorates and finance on delivery and monitoring.

Investment Decisions – Treasury Management

As set out in the Local Government Act 2003, local councils must prepare and publish an Annual Investment Strategy for approval by Full Council. The council's 2024/25 Treasury Management Strategy was approved on 6 March 2024 and sets out the council's approach to treasury management and investments. The Treasury Management Policy Statement sets out the governance arrangements for treasury management as follows:

- The council will create and maintain a treasury management policy statement, stating the policy objectives and approach to risk management of its treasury management activities

- The council will create and maintain suitable Treasury Management Practices (TMPs) setting out the way the council will achieve those policies and objectives, and prescribing how it will manage and control those activities

- 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.

- 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.

- The council nominates Governance Committee to be responsible for ensuring effective scrutiny of the treasury management strategy and policies.

The CFO is an appropriately qualified and experienced officer to perform these duties. Day-to-day treasury management activity within the council is delivered by the Capital and Treasury Manager. To supplement its internal resources the council obtains professional, expert external treasury management advice from Arlingclose, an experienced treasury advisor to local councils.

The 2024/25 Treasury Management Strategy details the council's approach to treasury investments with the priority being the security and liquidity of investments over yield. As the treasury activity of the council is not commercial in nature it seeks to balance risk and return appropriately. The council also seeks to be a responsible investor and consider environmental, social and governance issues when investing. The Treasury Management Strategy sets out the detailed considerations of the council when investing and identifies approved counterparties to invest with and also details investment limits to minimise risk.

Overall, the council has robust arrangements to govern investment decisions and utilises appropriate external support to inform its treasury management activities. We do note that there appears to be a lack of resilience within the finance function in relation to treasury management as, due to absence, we were unable to interview the Capital and Treasury Manager and it was unclear if the council has appropriate resilience within this area. We recommend the council reviews this and seeks to increase its resilience around treasury management activities.

Investment Decisions - Commercial

The council's Treasury Management Strategy for 2024/25 identifies that one of the council's reasons for investing money would be to earn investment income through commercial investments where income generation is the main priority. With financial return being the main objective, the council is willing to accept a higher risk on these investments. Decisions on commercial investments are made in line with the Property Investment Strategy approved by the council. This sets out scoring criteria each investment will be subject to, including financial checks on potential tenants to evidence their financial stability and risk level. An independent valuation will also be conducted to obtain a level of assurance that the price quoted, and the rent charged were in line with the expected market rate .Decisions on commercial investments are then made by the Head of Property and Executive Director Corporate Services & S151 Officer, in consultation with the Cabinet Member for Finance & Change and the Leader of the council in line with the criteria and limits in the Property Investment Strategy.

As these commercial investments are also capital expenditure they are approved as part of the capital programme. The relevant service director is responsible for ensuring adequate due diligence before investment is made, including engaging independent and expert advice where necessary. The council has an experienced in-house estates and valuation team, who manage the process and the day-to-day management of any investments. The use of external experts is employed where specialist knowledge is required in the acquisition, disposal, or performance management of commercial property.

The council currently holds three assets as commercial investments that were purchased between 2016 and 2017. The council has indicated that there is no intention to purchase any further assets as commercial investments and that the existing commercial investments are within scope of the asset disposal programme.

No issues have been identified with the council's arrangements for making and scrutinising commercial investment decisions.

Major Projects

The council has established robust governance arrangements around delivery of its transformation programme. For each portfolio within the programme a Board has been established to oversee the delivery of all programmes within its scope. All Portfolio Boards report into the Transformation Board who provide oversight and strategic direction for the overall programme.

In terms of delivery each workstream has a delivery group established to lead on the delivery of programmes. There is central support provided by the Programme Office Team and Change Champions Network to assist in the delivery of programmes. The Transformation Partner will also provide resource and capacity to support with programme delivery. We have not identified any undue concerns with the governance arrangements surrounding delivery of major projects and programmes in the council with regards to the transformation programme.

We do note from our review that there are concerns about the pace at which key regeneration and infrastructure projects are moving. These require the council to work in partnership with other organisations and key to mitigating the risks associated with delays is the recently formed Renaissance Board that brings partners together to focus on the regeneration of Southampton.

Risk Management

The 2024/25 Treasury Management Strategy includes a section on how the council measures and manages its exposure to treasury management risk across a number of risk indicators. These are;

- Security – the exposure to credit risk of the investment portfolio. The council has a target for its portfolio average credit rating of ‘A’. The current portfolio held by the council has an average credit rating of ‘A+’, above the target.

- Liquidity – the exposure to liquidity risk and the availability of immediate cash. The council has a minimum threshold of £20m of cash available in instant access accounts. As at 30 June 2024 the council has £27.21m of cash available in instant access accounts and is compliant with this indicator.

- Interest Rate Exposure – the exposure of the council’s borrowing and investments on rise or fall of interest rates. The council have set upper limits on the revenue impact of rise (£1.5m) and fall of interest rates (£0.5m). This risk is mitigated to an extent as the council does not hold any variable rate borrowing and any negative revenue impact should be offset by a positive revenue impact in relation to investments and borrowing.

- Maturity structure of borrowing – the exposure of the council to refinancing risk. A maturity structure of borrowing is set out in the Treasury Management Strategy with lower limits and upper limits set for different maturity profiles. The council’s was fully compliant with these limits as at 30 June 2024

- Long-term treasury management investments – the exposure of the council to losses being incurred by seeking early repayment of its investments for cashflow purposes. The council has imposed a limit of £30m on principal invested beyond year end as currently has £28.02m invested that meets this criteria, therefore being compliant with the set limit.

On this basis the council has strong risk management arrangements with regards to its treasury management activities and, as at 30 June 2024, was compliant with all the risk indicators detailed in the Treasury Management Strategy. We do not consider the council to be exposed to undue risks with regards to these elements of its treasury management activity.

Risks

- Risk 15

Recommendations

- Recommendation 19

An assessment of the council's approach to any part or wholly owned companies and any associated risks these companies expose the council too.

This section is not relevant to Southampton City Council as the council does not have any part or wholly-owned companies.

Risks

No risks identified

Recommendations

No recommendations identified

A view on the alignment of the capital programme with the broader strategic direction of the council including an assessment of the deliverability and affordability of its capital programme including consideration of how the council plans to fund its programme (i.e., grants, borrowing etc.) set against the overall debt position and potential impact on longer term sustainability, including liability benchmarking.

The council's MTFS is framed by the Southampton City Council Corporate Plan 2022-2030 ('the Corporate Plan') which has, as one if its three goals, a successful and sustainable organisation. The alignment of the MTFS and financial strategies such as the Capital Strategy and the Treasury Management Strategy are clearly articulated in the MTFS presented to council on 6 March 2024.

The total approved capital programme for 2023/24 was £121.44m with £80.73m relating to the General Fund and £40.72m relating to the HRA. The actual delivery of the 2023/24 capital programme was £98.50m, with £61.73m delivery against General Fund plan and £36.77m against the HRA plan. This represents total slippage of 19% with 24% slippage against General Fund plan and 10% against the HRA plan. This is a significant underspend on a capital programme and has implications on both the council's ability to deliver services effectively, future years capital programmes, and revenue budgeting. As detailed earlier in the report, we have raised a recommendation for the council to improve its monitoring and accountability arrangements in relation to capital programme delivery.

As at 31 June 2024 the council held £369.54m in total gross external debt at an average interest rate of 4.08%. This was made up of a mixture of long-term borrowing, short term borrowing and other long term liabilities.

As detailed earlier, the council has appropriate indicators and steps in place to mitigate the risks associated with its borrowing.

The revised Capital Programme for the period 2024/25 to 2028/29 was presented to Cabinet on 27 August 2024, with a proposed spend of £171.82m (£110.59m General Fund and £61.23m HRA) in 2024/25 and a total capital programme spend of £446.59m (£206.06m General Fund and £240.53m HRA) across the period.

This agreed capital programme will see the council need to increase its level of external borrowing by £185.92m (£83.22m General Fund borrowing and £102.70m HRA borrowing). This, alongside the requirement to borrow externally to fund EFS, will require the council's CFR to increase to £744.79m by 31 March 2028 with £471.97m relating to the General Fund and £272.83 relating to the HRA. The estimated debt of the council at 31 March 2028 is £574.22m, meaning that the council will be under-borrowed by £170.57m against the CFR.

In terms of the council's current level of borrowing, no significant issues are identified compared to other, similar local councils. Based on the CIPFA Financial Resilience Index, the council, as at 31 March 2023, had an external debt that was 83% of income. Within the context of the nearest neighbour group, the council is towards the lower end of the data set. It should be noted that this is based on historical data, and the council is planning to significantly increase its level of external borrowing. The council should continue to consider its level of external debt as a percentage of its income, alongside other considerations, to ensure that it is appropriate and affordable in both the short and long term.

In 2023/24 the ratio of financing costs to net revenue stream, one of the council's prudential indicators, was 10.29% for General Fund borrowing. The CIPFA Capital Finance Code of Practice advises that, for sustainability and financial prudence, the net annual capital financing cost should not exceed the threshold of 10% of the net revenue budget. The MTFS forecasts that General Fund borrowing costs will peak in 2025/26 at 12.52% of net revenue stream, continuing to breach the CIPFA threshold. We note from our review that this does not include the revenue costs associated with additional borrowing to fund EFS. Therefore, this figure is likely to increase significantly from the figure currently reported to Cabinet. The council has undertaken scenario planning to assess the potential revenue costs of EFS borrowing but we recommend that this is reflected in the reporting to Members as soon as possible so that they are clear on the additional revenue implications of borrowing to fund EFS. This should be based on the council's best estimates of the level of EFS required and should be revised as actual EFS requirements become clearer.

As part of its prudential indicators the council, utilising the support of Arlingclose, which undertakes liability benchmarking to represent an estimate of external borrowing the council must hold to fund its current capital and revenue plans while keeping treasury investments at the minimum level of £48m required to manage day-to-day cashflow. The forecast increased level of borrowing required across the MTFS period means that the minimum borrowing need of the council is also going to increase significantly but no undue concerns are noted from our review.

Risks

- Risk 16

Recommendations

- Recommendation 20

The council's approach to asset management and valuation, the appropriateness of its asset portfolio, and a view on a proposed asset disposal plan against broader Value for Money considerations.

The council has established an Asset Development and Disposal Programme (ADDP) to frame its future approach to its asset portfolio. External consultants Aecom were engaged to provide external support and expertise to inform decisions on corporate and operational assets, whilst an internal review of investment properties was completed. Following these reviews an ADDP business case has been produced. The stated purpose of the programme is to consider the disposal, development and retention of the council's assets to deliver capital receipts and revenue benefits.

The ADDP identifies 7 key themes to the programme and each of these themes has a dedicated workstream within the ADDP governance structure. The vast majority of the council's assets are operational in nature but the council does hold some assets that are classified as commercial and investment assets. Three of the sites are held specifically for commercial purposes and are held within the Property Investment Fund (PIF). Two of these assets are outside of Southampton and both are within the scope of the ADDP. The third is within Southampton and is currently under consideration as to how the council can maximise commercial return or consider disposal of the asset. The other commercial assets held by the council are historic properties that the council has held for a number of years. These properties are within scope of the ADDP. The ADDP identifies that the council has excess assets to meet its service requirements and therefore is considering disposal of appropriate assets but overall we have no concerns with the asset portfolio of the council, especially given that the council is progressing disposal of its two out-of-area commercial investment.

The council has established a clear governance framework for the ADDP with an ADDP Programme Board established who hold responsibility for the management of the budget, risks, resources and progress of the programme. This board is also responsible for scrutiny and review of disposal decisions brought forward by each of the 7 workstreams identified in the ADDP. An Enabling Services Portfolio Board support the ADDP through a review of the programme process and also a review of decision recommendations made by the Board. Disposal decisions are then reviewed by the Delegated Decision Group which consists of the Executive Director for Growth & Prosperity and relevant Members. It is in this forum that the decisions are made based on the authority delegated by Cabinet/council. The governance structure for the ADDP also has support from the Corporate Transformation Board if escalation is required. We have no concerns with the governance structure established to support the ADDP.

The 2024/25 Budget and MTFS approved by council on 6 March 2024 sets a capital receipts target of £91.24m over the period 2023/24 to 2028/29. From our interviews there is medium confidence levels around delivering the capital receipts at the pace and scale required by the council. The ADDP has given the council oversight of its asset portfolio and sets out clear plans for the assets but there are concerns that the council is able to move at the pace required to deliver these plans. Real estate experts Avison Young have been engaged by the council to support with the delivery of the ADDP but it is crucial that the council is able to deliver at the pace required and the role of the ADDP Programme Board in driving the plan forwards is critical. From our review of the documentation provided by the council relating to the ADDP we have identified two key areas of consideration for the council. These are;

1. The ADDP business plan identifies the value of assets based on its book value. This is an accounting figure relevant to the Statement of Accounts. Therefore, we recommend the council utilise the external expertise of Avison Young to set estimated

market values for the properties identified for disposal. This will provide greater clarity on the scale required to deliver the capital receipts target set out in the MTFS.

2. In the most recent financial monitoring documents presented to Cabinet in August 2024 there is no clear update on the ADDP. Given the importance of this to the council delivering the capital receipts required to support its financial sustainability and transformation activity we recommend that the council incorporates high-level reporting on the progress of the ADDP. The council should consider classifying assets identified for disposal into different categories based on the stage of disposal and reporting on the totals within each of these categories. This will provide a clear view on how well progressed the ADDP and the likelihood of achieving in-year capital receipt targets and capital receipt targets across the MTFS.

To inform the decision making of the ADDP the council have established a financial methodology that assesses the value for money between disposing of an asset versus retention. This methodology has been applied to all income-generating assets within the scope of the ADDP and enables a comparison of whether it is a better financial decision to dispose of the asset for the capital receipt or retain the asset for income over its useful life and use borrowing to fund the capital programme in lieu of the capital receipt. Alongside this financial methodology the council also consider non-financial factors relating to income generating assets such as security of tenure and income risk. This, alongside the detailed commercial feasibility work around valuation, has enabled the council to clearly justification the value for money of the desired course of action for each asset within the ADDP.

Risks

No risks identified

Recommendations

No recommendations identified

The council's commercial investment portfolio (property, bonds etc.) and forward strategy including dependence on commercial income, exposure to debt costs and whether, in CIPFA's view it is prudent to reduce the council's exposure and over what timeframe.

The council's 2024/25 Treasury Management Strategy states that the overall treasury strategy of the council is to minimize borrowing and investments with most cash used for cash flow purposes invested in money market funds, Debt Management Account Deposit Facility (DMADF) and with other local authorities. At 30 June 2024 the council had total investments of £55.23m at an average interest rate of 4.78%. £27.21m of this is invested in instant access cash accounts and £1.02m in long term bonds. The remaining £27.00m is invested in The Churches, Charities and Local Authorities (CCLA) property investment fund. In 2023/24 the CCLA investment fund generated a return of 4.76% in 2023/24 against an original investment of £27M. The value of the fund has continued to fall in 2023/24, with the capital value reducing by £1.0M (3.9%) from £25.8M at 31 March 2023 to £24.8M at 31 March 2024, a loss of £2.2M on the original investment. IFRS9 requires gains and losses from unrealised fair value movements for treasury pooled investments to be recognised in the surplus or deficit on the provision of services. However, a statutory override to IFRS9 for English authorities is in place until the end of 2024/25, requiring such movements to be taken to an unusable reserve and not to be a charge to the General Fund revenue account. The council has set aside £0.8M in the Investment Risk Reserve to mitigate for a potential loss on the value of the CCLA property investment fund when the statutory override ends, with further budgeted contributions to the reserve over the next two years.

Commercial Investments

Between 2016 and 2017 the council implemented a strategy to invest in commercial properties with the intention of making a profit that would be used to fund council services. This was known as the Property Investment Fund (PIF) and the council purchased three properties for commercial returns. In addition to the commercial properties held within the PIF the council also holds a further 190 commercial properties that generate income for the council. These assets are not held specifically for the purpose of making a profit and therefore are not part of the PIF. Two of these commercial investments are outside of the Southampton area and both of these assets are being considered for disposal in the Asset Development and Disposal Plan (ADDP).

In 2023/24 the council's commercial investments generated net income of £6.84m. This equates to 3.36% of the net revenue budget. Over the period of the MTFS the net income from commercial investments is forecast to reduce to 2.29% of the net revenue budget. On this basis the council is not overly reliant on commercial income to support wider activities. We note that, as part of the ADDP, the council has considered the value for money impact of losing income from its commercial properties against the increased revenue costs of borrowing to fund transformation. Therefore, we are comfortable that the impact of lost revenue from the disposal of assets has been adequately considered.

Risks

No risks identified

Recommendations

No recommendations identified

Whether and to what extent the council is complying with statutory guidance / following best practice with regards to its capital programme, wholly / part-owned companies and investments including but not limited to investment guidance, minimum revenue provision and accounting codes.

Compliance with the Local Government Act 2003, the CIPFA Capital Finance Code of Practice, and the CIPFA Treasury Management Code of Practice requires all councils to approve annually a Treasury Management Strategy and a set of Prudential Indicators which self-regulate the level of capital financing activities of the council and the affordability of the capital programme.

The Full Council meeting on 6 March 2024 approved the Treasury Management Strategy for the council for 2024/25. Included within this approved Treasury Management Strategy were a set of prudential indicators for 2024/25 to 2027/28. Through the approval of this document the council has complied with the requirements as set out in the Local Government Act 2003 and the CIPFA Codes of Practice on Capital Finance and Treasury Management in relation to treasury management.

The council's approach to treasury management is set out in the Treasury Management Strategy, which provides the framework for managing treasury activities, establishes the parameters and criteria that govern day-to-day cashflow management activity and assesses the impact of this on financial planning. This document is the frameworks within which the council will manage its borrowings and investments, how it will deliver treasury management activity, and how the associated risks will be controlled.

Prudential Indicators

Prudential indicators are internal measures designed to assist councils in local decision making on the affordability, sustainability and prudence of proposed capital expenditure. These are reported quarterly by the council with the most recent prudential indicators reported to Cabinet on 27 August 2024. The prudential indicators are as follows:

Prudential Indicator	2024/25	2025/26	2026/27	2027/28	2028/29	Comment
Capital Financing Requirement	£527.41m	£681.37m	£719.25m	£747.43m	£744.79m	The council's CFR is expected to increase by 41% over the MTFS period
Estimated Debt	£366.05m	£499.52m	£558.55m	£573.14m	£574.22m	Statutory guidance is that debt should remain below the CFR. The council has complied with this and expects to comply with this over the medium term.
Net income from commercial investment to net revenue steam	3.36%	2.94%	2.51%	2.38%	2.29%	The council is not reliant on income from investments and this ratio is forecast to reduce over the MTFS
Proportion of financing cost to net revenue stream – General Fund	10.29%	12.48%	12.52%	11.71%	11.73%	The council is in excess of the CIPFA guidance threshold of 10%. The council's upper limit agreed in July 2023 is set at 11% which is exceeded over the MTFS period. The Q1 Treasury Management report states that this limit has temporarily been increased to 15%.
Proportion of financing cost to net revenue stream – HRA	7.55%	7.11%	9.01%	10.72%	10.97%	
Liability Benchmark	£342.50m	£497.03m	£535.91m	£562.38m	£563.86m	
Maturity structure of borrowing						
Long-term treasury management investments						

Security	These have been considered earlier in the report.
Liquidity	
Interest rate exposure	

Table 4. – the most recent prudential indicators reported to Cabinet on 27 August 2024

The council is compliant with all its prudential indicators during Quarter 1 of 2024/25 and did not breach any during 2023/24. Our review has noted that the council's internal threshold for financing costs as a proportion of net revenue budget has increased from 11% to 15% because of the forecast increase in borrowing costs over the MTFS. The CIPFA Capital Finance Code of Practice advises that, for sustainability and financial prudence, the net annual capital financing cost should not exceed the threshold of 10%. The council is currently in breach of this threshold and is forecasting that it will move further away from this threshold over the period of the MTFS. We consider this to be a risk in relation to the affordability of the council's borrowing relative to its net revenue budget. This risk will be exacerbated once the borrowing required to service the EFS is included in the treasury management strategy. Therefore, we recommend the council to keep its borrowing levels and cost of borrowing under constant review to ensure that it remains affordable as does not place undue increased pressure on the revenue budget.

Minimum Revenue Provision

Minimum Revenue Provision (MRP) is an annual revenue provision that is set aside for debt repayment. Councils have the duty to set aside an amount of revenue that is considered "prudent" and they are legally obliged to "have regard" to MRP guidance. There are five common options for prudent provision of MRP and the council has adopted the Annuity Method. Our review of MRP considers the reasonableness of the MRP policy and approach and does not constitute an audit of the full application of the policy.

The approach that the council has taken to calculating MRP is in line with acknowledged methods but it must be noted that there is the risk that the council are creating a longer-term financial pressure due to taking the least prudent of accepted approaches to calculating MRP. By adopting this method, the council is reducing the amount of principal repaid in the early years with a higher principal repayment in future years. This means a lower MRP can be charged currently which assists the overall financial position of the council but there is a risk of increased pressure on the council's budget in the future as MRP figures will need to be much higher than the current level. We note from our discussions with the external auditors of the council, EY, that there have been no historic issues with the council's approach to calculating MRP. The council should continue to consider the most appropriate and prudent approach to calculating MRP whilst considering both the short-term and long-term implications on the revenue budget.

Risks

- Risks 17 and 18

Recommendations

- Recommendations 21 and 22

3.3 Review Area 3 – GOVERNANCE

The adequacy of the Local Authority's decision-making processes including presence / absence of clear schemes of delegation, scrutiny arrangements, quality of council papers and whether there is a clear understanding of governance arrangements across all levels of the authority. This should include a view on the effectiveness of the adopted Governance model and whether it is suitable to drive

Adequacy of decision making

The council have in place financial regulations and procedures with a framework for financial accountability detailed in the Constitution, Scheme of Delegations, Financial Procedure Rules (FPRs) and Contract Procedure Rules (CPRs). However, these are all proposed to be under review as part of the planned enhancement of the Constitution. We have not been made aware of any activity that is contrary to the Scheme of Delegations.

The officer Scheme of Delegations is within Part 10 of the Constitution. The council has refreshed the officer Scheme of Delegations twice recently, both in Autumn 2023 and April 2024, following two senior management restructures.

The council officers can authorise spend or virements up to £500,000 if approved by Chief Officer in consultation with CFO and Cabinet Member. This is in line with standard local authority limits, which depending on the size of the council are regularly between £50,000 and £500,000.

Our discussions with officers and members highlighted some frustrations in relation to decision-making, with comments that officers may anticipate member decisions and write reports accordingly, or members may become involved in more operational decision-making. It is important that there is a consistent understanding between members and officers on political priorities. This clarity will prevent delegation from becoming overwhelmed, so all sensitive issues should be identified ahead of time, with members kept informed, although these should be limited to priorities to ensure efficient running of the council and to prevent delegations from becoming pointless.

It is important to have frequent review of the appropriateness of delegation arrangements as the organisation's context and political appetite for risk changes, as well as keeping financial thresholds in line with inflation and budgetary pressures.

One additional area highlighted in our meetings with the council, was record keeping of decision-making historically. When some instances of delegated decisions were made, there were not always consistent records kept. Whilst not all delegated decisions need to be recorded, accurate recording provides a key part of oversight and accountability, particularly in a council with unstable executive management, where predecessors may have made decisions which are to be implemented by the incumbent.

Effectiveness of Audit Committee

The role of the Audit Committee is to provide an independent and high-level focus on the adequacy of governance, risk and control arrangements, and functions to provide assurance to those charged with governance that the arrangements in this area are effective.

The council previously had a Governance Committee, which has been recently restructured, so that from May 2024, the council have in place both a Governance Committee and a newly formed Audit Committee. This was implemented, due to the Governance Committee's wide terms of reference resulting in lengthy agendas and limited time to fully scrutinise reports during 2023/24. The introduction of a separate Audit Committee with a more focused terms of reference catered to audit and risk management is welcomed, allowing the Governance Committee to focus on standards, ethics, probity and employment issues.

Audit committee effectiveness is usually characterised as influence, persuasion and support, however as only one meeting of the committee has taken place since formation, it is currently too early to comment on effectiveness. However, the terms of reference are clear and encompass the core functions expected, including risk management, audit function, treasury management and elements of corporate governance including review of the annual governance statement.

Several interviewees commented on the tendency for the discussion in Governance Committee (prior to the restructure and establishment of the Audit Committee) meetings to become political, whilst this can be attributed to differences of political opinion, there is the risk this will hinder effective scrutiny. Audit Committees should be non-political in nature; therefore, it is important for the newly formed committee to instead focus on policy and decision-making, highlighting areas for improvement or adaptation. We note that the council are currently in a position where the opposition have decided not to take their seats on the Audit Committee due to the lack of independent members and presence of an ex-Cabinet member as Chair. The council should seek to resolve these issues in a timely manner so as to ensure that Audit Committee operates effectively with appropriate levels of engagement and challenge.

Audit Committee – Compliance with CIPFA Guidance		
Guidance	Southampton council	Recommendation
No more than 8 members	Yes – 5 members of Audit Committee	N/A
Inclusion of 2 independent members	No – no independent members	Consider addition of 2 independent members
No members of executive (including those who have been executive members in previous 2 years)	No – Current Audit Committee chair was a member of the Executive until Summer 2023	Consider whether current arrangement allows for sufficient independence
Minimum of 4 meetings per year	Yes – 6 meetings scheduled for 2024/25	N/A
Appropriate scope	Yes – all appropriate areas included within terms of reference	N/A

The proposal and implementation of the new audit committee demonstrates the council's ability to self-assess and to secure continuous improvement by consulting best practice guidance and using this to influence how it organises the authority. We consider this to be evidence of the council ensuring that the committee remains effective in its role but would encourage the council to follow all guidelines including the introduction of independent members.

Effectiveness of Scrutiny function

The council's overview and scrutiny process is managed by the Overview and Scrutiny Management Committee (OSMC), along with a number of Scrutiny Panels, including the

Scrutiny Inquiry Panel, the Health Overview and Scrutiny Panel, and the Children and Families Scrutiny Panel.

The CfGS report highlighted a heavy use of call-in in 2021 and 2022, however by 2023/24 the use of call-in powers was only used on two occasions, reflective of the political changes in Southampton, which saw members of the Administration comprise a majority on the Scrutiny Committee. Despite this, there were a record number (14) of OSMC meetings in 2023/24 due to three special meetings organised to discuss Holcroft House care home and the financial position of the council. This has had an impact on the alignment of time and resources and has put pressure on the democratic services team to deliver timely and detailed reports to aid decision-making. Additionally, this has led to some overlap between the remit of the Governance, Audit and Scrutiny committees when it comes to financial and budgetary reporting. This is necessary but requires co-ordination to ensure there is no duplication of work or gaps. For example, when it comes to risk management, the Audit Committee should oversee systems, processes and controls to gain assurance that the right systems are in place and are working. Whereas scrutiny should focus on policies and outcomes, by understanding if the outcomes are both right and deliverable. The council have recognised this and plan to review later in 2024/25.

Scrutiny panels can benefit from being chaired by representatives from opposition parties to provide added assurance, and Southampton have recognised this with the chair of the OSMC being a member of the opposition. It must also be noted that the council's scrutiny function makes use of independent members for example school governors, although this post is currently vacant, but also considers the council's role as a community leader, with clear engagement with residents and stakeholders who are regularly invited and engaged on discussions.

The OSMC should look to focus more on delivery of achievement of outcomes and performance metrics in future to ensure to hold the Executive to account for delivery of the objectives in the refreshed corporate plan. Notwithstanding this, performance has been the focus of the Health Overview and Scrutiny Panel who reviewed Adult Social Care performance information on a quarterly basis and the Children and Families Scrutiny Panel who review monthly information on children social care.

Quality of council papers

The council have a clear decision-making guidance document which outlines the process for Key and non-Key decisions, including report writing. The process is managed through CMB and ModGov and includes procedural direction on report-writing and ensuring effective review. All reports are reviewed by relevant Cabinet Member, Executive Director, Legal & Finance, with a corporate clearance meeting including review by the Leader and Democratic Services. The council have a standard corporate report template.

Despite the clear guidance and templates, there is inconsistency and quality issues with reports, with some concerns around time constraints, leading to limited opportunities to improve quality and the potential for the corporate process to be by passed. The CfGS report highlighted that the general quality and level of detail within officer reports has been quite variable, with many lacking detail or failing to present alternative options, or detailed risk management implications, along with low quality equality, diversity and inclusion (EDI) information. Discussions with officers and members have highlighted that whilst many reports can be lengthy in nature, they don't always include facts, figures, data or insights to aid decision-making.

The lack of quality report writing is being addressed by a revised report template with additional guidance built in, a revised decision guide and targeted training to be rolled out in the Autumn, with a focus on report writing rather than just process. The council also recognise as part of the transformation journey that there needs to be further development on the insights derived from the data sources that the council uses to support decision-making. This was also identified in the CIPFA Financial Management Review from May 2024 in relation to the information used to support decision-making. This is being tackled through the Digital workstream of the transformation programme but will require engagement from across service areas.

Internal Audit

Internal Audit services are provided via partnership with Portsmouth City Council using a combination of an in-house team and Portsmouth City Council officers overseen by a shared Chief Internal Auditor employed by Portsmouth City Council. Throughout 2022/23 the Governance Committee received regular outputs from the audit work including key findings, issues of concerns and actions as a result of Internal Audit work. Internal Audit is required to be externally assessed for compliance with Public Sector Internal Audit Standards (PSIAS) every five years. This was last assessed in 2022/23. The council's Internal Audit service is therefore compliant with this requirement. There is an adequate and effective Internal Audit function in place to monitor and assess the effective operational of internal controls.

During 2023/24, Internal Audit & Counter Fraud completed 26 audits, 28 follow ups, 6 pieces of work by management request, 2 consultancy reports and 4 grant reviews. Overall, 46% of results were rated as either 'no assurance' or 'limited assurance'. Therefore, Internal Audit have concluded a **limited assurance** opinion for 2023/24. This has remained unchanged for several years. This conclusion has been driven by the financial instability, the required pace of action to address this and identified failings and weaknesses in the internal control environment.

Improvement is needed by the council in relation to actioning Internal Audit recommendations. Of 120 exceptions followed up throughout 2023/24, only 45% had been closed, with 55% overdue. Internal Audit only perform follow up work where at least one high risk exception has been raised, therefore the rate of inaction could be much higher. This highlights a lack of accountability and a lack of focus on improvement. To tackle this an audit action tracker is being introduced in 2024/25 to aid management of these, but the council should ensure that this is the responsibility of management.

External audit

The council's external audit service is provided by EY. On 3rd October 2023, the external auditor issued an unqualified opinion on the council's financial statements for 2021/22. However, the audit report was modified to include a material uncertainty in respect of going concern due to the fall in reserves indicating the potential for a S114 notice to be triggered. At this stage EY noted that whilst the council were aware of their financial position and had put in place actions to address the situation, these still needed to be embedded and outcomes were not yet assured, therefore presenting a material uncertainty in respect of the council's ability to continue to operate planned services.

The 2022/23 statements of accounts were provided to the external auditors in line with local authority publication deadlines, however the audit was not completed by 30th September 2023, due to audit delays across the sector. This was confirmed by EY in a letter to the S151 officer in September 2023. The draft unaudited statement of accounts for 2023/24 were published on the authority's website on 28th May 2024 in line with statutory deadlines.

There is a significant gap in assurance by the council failing to have audited accounts for the last three years. However, this is not for reasons within the council's control and not a definitive reflection on their financial management and control arrangements. The council have been able to prepare a draft statement of accounts in line with statutory deadlines, and our discussions with external audit have not highlighted any issues with regular material misstatements.

The external auditors have provided their value for money assessment for 2022/23. In February 2024, EY reported to the Governance Committee that they had identified significant weaknesses in arrangements, across all three categories of financial sustainability, governance and improving economy, efficiency and effectiveness. These are all related to the council's arrangements in relation to financial resilience. The external auditor highlighted that progress to reduce expenditure and address the deficit was slower than expected through to December 2023. It was also noted that savings so far have been made through cost control and income generation measures rather than true transformation of delivery of services, which is a key expectation of a transformation plan. Additionally, the external auditor has highlighted issues with capacity within the finance team, exacerbated by recent voluntary redundancies. This is a particular concern for an organisation in the midst of a comprehensive transformation programme, which will require significant support from finance officers to achieve objectives and manage finances throughout.

Risk Appetite

A Risk Appetite Statement is an important part of the risk management framework as it defines the risk the council is willing to tolerate to achieve the objectives set out in the Corporate Plan. The council should review and publish their Risk Appetite Statement, to help minimise the disconnect between the risk the council has agreed it is willing to take in achieving its strategic objectives and the action that management take in delivering them. This will be important as our discussions with officers and members described Southampton council as an organisation which sticks to the status quo and as a result has little appetite for risk taking. Examples provided included system development, which is only brought in if essential or to protect current operations rather than as a key enabler of operational delivery, with innovation normally avoided. The organisation has been described as one unwilling to make difficult decisions, where there is potential for repercussions for the organisation. However, given the current financial challenge and the pace at which is needed to action the transformation programme, it will be imperative that the council is clear on its risk culture.

Currently risk management is not effective and is not fully embedded throughout the organisation. Whilst the council have in place a Corporate Risk Register, an Internal Audit review found that directorates did not actively engage in risk management, and that Directorate Risk Registers were not developed or utilised. The council has introduced these during 2024/25, but this showcases an organisation where effective risk management is still in its infancy. This is underpinned by issues which have not been adequately escalated prior such as those in relation to Equal Pay.

Understanding of governance arrangements

The CfGS report highlighted that the council faced “challenges with the speed and focus of decision-making” and that this was “a member issue as much as an officer issue as members did not always appreciate their own part in the collective responsibility needed to support good governance.” Other findings included difficulties following officer advice to members through the system, a lack of clarity in officer and member roles.

Despite the fact this report was delivered to the council during 2022, not all highlighted issues have been addressed, although a follow up report was commissioned in 2023, which recommended a more in depth set of workshops to tackle key issues. This has been deferred due to CfGS's other work commitments and externally facilitated workshops will be taking place in Autumn 2024.

The follow-up work indicated that steps had been taken to address some of the key areas highlighted in the original review but concerns remained. These included a lack of consistency in decision-making due to siloed working which impeded the sense of working corporately. Decision-making continues to be slow, and there is a hesitancy for making difficult decisions and a lack of clarity on leadership or responsibility for decisions. Discussions with officers highlighted that historically decisions were made in informal meetings and were not effectively recorded, leading to a lack of clarity on who is responsible for them. Internal Audit raised an exception as part of their governance review, which highlighted that the council do not have corporate oversight of the creation and management of internal boards and forums, and that there is no clearly defined practice on their use. This has resulted in many different forums at lower levels with a lack of clear purpose or benefit to the local authority.

The CfGS report also emphasis, that the issues faced by the council in relation to governance are not reflective of the governance systems and processes, but more around the behaviours. As a result, the council are currently undertaking planning for a fundamental review of corporate governance and the Constitution in 2024/25.

Effectiveness of adopted governance model in driving outcomes

Many of our discussions highlighted that Southampton is a council that struggles to make difficult decisions which prevents prioritisation of action and leads to a disconnect from strategy and operational need. The council are under intense pressure from competing interests; therefore, it is more important than ever that decision-making is consistent, connected to outcomes and linked to the overarching strategy. This will allow members and officers to stand behind decisions, proceed with implementation at pace and commit organisational resources to the highest priorities.

The council are currently undertaking planning for a fundamental review of corporate governance and the Constitution in 2024/25.

It is evident that the council has in place a regularly updated Constitution, including a proper Scheme of Delegations, however it is imperative that in practice this ensures frontline responsibility for internal and financial control, starting with budget managers. Good governance is evidenced by actions and behaviours rather than just formal processes and documentation, therefore those responsible for the delivery of services should be held accountable for the financial management of the associated expenditure and income. The tone and action of the leadership team is imperative to secure this behaviour change across the organisation. The council has made recognisable steps in this regard by introducing budget accountability statements for all budget managers. This ensures that all officers are aware of the importance of keeping within the budget envelope, developing mitigating actions to deal with overspends and a full understanding of their role as budget managers. It also communicates to staff the importance of robust budget management. Our discussions with the Executive Management Team have highlighted an initial nervousness from staff on signing budget accountability statements, however considerable progress has now been made with almost 90% now agreed.

Whilst on paper everything is in place, once decisions are made there is limited governance on accountability and responsibility for implementation of decisions. This leads to a lack of pace across the organisation and is underpinned by a culture of siloed working. Whilst the council have introduced a Transformation Board and Programme/Project Boards for Executive Directors and ADs and Heads of Service, there are concerns that more junior officers will be overwhelmed by the ‘Business as Usual’ work leaving little time for robust project management, risk monitoring and wider governance processes. The current arrangements are in their infancy and there are concerns that they are driven by key individuals across the organisation, many of whom are temporary such as the Chief Executive, members of the

Executive Management Team, Director of Finance and the Director of Transformation. Some elements of the organisation have noted the disconnect between the Executive Management Team and Heads of Service and surrounding transformation programme and the need to deliver business as usual. There is a risk that the concurrent governance arrangements in place may not speak to each other. It will be imperative to maintain an open dialogue, using diverse communication channels, with all levels of the organisation, to support a shared understanding of the importance of improvement and assurance.

Risks

- Risks 6, 16, 19, 20, 22, 23, 24, 25, 26, 27 and 28

Recommendations

- Recommendations 20, 24, 25, 26, 28, 29, 30, 31, 32 and 33 .

The presence / absence of a clear, outcome orientated, measurable and performance driven strategic direction for the Local Authority and whether this is clearly set out through alignment of the key strategy documents (Corporate / Strategic Plan, Annual Governance Statement and Medium Term Financial Plan). This should include an assessment of the extent to which the strategic direction of the Local Authority is present throughout operational implementation or whether it exists in 'name only'.

Corporate planning – strategic direction

The Corporate Plan was updated in March 2024, acknowledging the council's financial challenges, with a focus on economic growth and improving residents' lives. The vision for the council is clearly understood by the Chief Executive and the Executive Management team.

Review of the service plans shows an element of disconnect with the overall Corporate Plan. For example, the Adult Social Care Strategy is not explicit in the need to deliver services more efficiently given the financial challenges of the council. We consider this to be a weakness in the alignment of the service plan with the council's Corporate Plan but we do note that the Adult Social Care Strategy is outcome focused, something that we consider to be important in ensuring that the transformation activity of the council changes the way in which services are delivered, along with delivering the financial savings required.

We recommend that the council reviews all service strategies to ensure that they are aligned with the key focus areas of the Corporate Plan, both in terms of the financial challenges facing the council and the outcomes it seeks to achieve from its transformation activity.

One of the key elements of the Corporate Plan will be delivery of the transformation programme and achievement of financial savings. We have spoken to officers who reflected that the transformation programme has been clearly communicated as a key priority for the council. However, the language used to describe this was mainly focused on the aim of making savings, as opposed to a holistic transformation in the delivery and operation of services or focus on outcomes. The council have run culture engagement workshops and staff Q&A webinars with the Chief Executive, a staff briefing highlighting the need for change to address the £40m gap and are currently preparing a face to face all staff briefing for September 2024. We would encourage the council to also focus on the non-financial benefits of transformation within these sessions.

Corporate Performance Framework

The council's corporate performance framework is currently under development to align with the updated Corporate Plan. During 2023, organisational dashboards were developed to provide an indication of the health of the organisation and presented to the Executive Management Board on a quarterly basis with a focus on HR, Systems and Governance and Customer. However, driven by the new Data and Intelligence Strategy there was a recognition that wider key performance measures would need to be monitored on a more regular basis to provide a holistic view. These have been developed in Power BI, providing a single dashboard containing all information in one place. Despite this, the Overview & Scrutiny Committee (OSMC) Annual Report 2023/24 highlighted that council wide performance data remains "haphazard." This undermines the Corporate Performance Framework.

The Key Performance Indicator (KPI) report includes 122 measures relating to council performance. The ambition is to adapt this for Directorate Management Teams, so they have a bespoke report with more detailed KPIs related to their services.

The Data, Intelligence and Insight Team worked with Directors to define this list of measures to provide a broad understanding of performance at the corporate level; these are made up of:

- Measures already outlined in the Corporate Plan
- Additional measures that align to Corporate Plan and Directorate priorities
- Measures identified and to be monitored by the Office of Local Government (Oflog)

These include both measures that are directly impacted by the activities of the council in the short term, as well as measures that are important for the city to achieve but which are more long term and impacted by wider systems.

The aim is to start to automate the reporting process to make it as efficient as possible and provide the right information to individuals at the right time. Our discussions with officers have highlighted that the council are not yet at this stage, although services are expected to monitor available data monthly. There are also mixed levels of participation in the Business Planning and Performance Group which will hinder effective performance management. Key issues which have been highlighted to us include the lack of automation both for performance reporting purposes and the reliance on manual processes across the council, the disparate nature of data and a lack of capacity to fully engage.

The council are aware of these issues and as part of the Data & Digital element of the transformation programme has plans to develop a centralised Data Warehouse, connect systems and increase involvement of business partners to support services. It has been noted that some key areas have previously not been directly supported including Enabling Services and Housing which prevents consistency of performance management.

Risks

- Risks 7 and 10

Recommendations

- Recommendations 6, 7, 8 and 10

A view on the effectiveness of Local Authority leadership including their ability to work effectively together, set and communicate a clear vision and set of priorities for the local area, as well as their ability to lead the delivery of those priorities (as set out in key strategy documents) through the fostering of a cohesive organisation built on cooperation, trust and respect.

Our review has found that the current arrangements in place showcase an Executive Management Team and Cabinet who are suitably aligned, there is an understanding of the gravity of the current financial position, and whilst there are some examples of friction within these relationships, these are not currently indicative of a lack of respect or inability to co-operate with one another. All discussions with leadership highlighted an ambition to move quickly on key focus areas outlined in the Corporate Plan, progress the asset disposal programme, achieve efficiencies within services and improve services, in particular Housing and Waste for residents.

The council have run culture engagement workshops and staff Q&A webinars with the Chief Executive, a staff briefing highlighting the need for change to address the budget gap and are currently preparing a face to face all staff briefing for September 2024. Whilst there is a new corporate plan, discussions with officers highlighted that the transformation programme is at the forefront of minds, and this is very much focused on making savings to support the financial position, rather than encouraging a holistic change in service delivery, performance improvement or achievement of outcomes. It is clear this is driven by the short timeframe in which Southampton City Council have to turn around their financial position, which is exacerbated by the fact that EFS has only been granted for one year. Whilst this is focusing minds on delivery of savings, there is a risk that the wider strategic aims of the council, as outlined in the strategy will be "placed on the backburner".

Southampton has a history of over-reliance on interim statutory officers, or Executive Directors who remain in post for short periods of time. This undermines effective leadership and management, and results in gaps in corporate memory. The current Executive Management Team at the council consists of interims in the Chief Executive, Executive Director of Resident Services and Director of HR posts. There is also an acting Director in the Growth and Regeneration post, and an Adult Social Care Director, who is leaving before the end of 2024. As a result, the current temporary arrangements in place, undermine the strength of the leadership team to lead delivery, and bring the organisation with them. The council needs to strike the balance between stability, knowledge and expertise within the leadership team in order to effectively embed improvements at the council, however our review has found that there is limited succession planning currently underway for the future gaps in the Executive Management Team. Our discussions with officers, members and other stakeholders regularly highlighted the instability at the top of the organisation as a key cause for concern, particularly in relation to achievement of the savings programme and overall ability of the organisation to transform and deliver effective services. This is an organisation which has become used to churn at the top, and therefore a culture that expects changing priorities to accompany leadership changes has been developed. This poses a risk to the progression of workstreams at the required pace to deliver the transformation activity required by the council. Whilst the current leadership team have made clear that pace is needed, and the organisation is appearing to respond, with a current forecast underspend of £7.3m at Month 4, the council's leadership will be of paramount importance in continuing to steer the course of transformation over the medium term and mitigate the risk identified above.

The independent Committee on Standards in Public Life noted that effective governance relies on a strong working relationship between the Chief Executive, S151 Officer, and the Monitoring Officer. Monitoring officers can be pivotal to upholding ethical conduct, setting high standards and ensuring the council operates fairly, and squarely, within the rule of law. There is a risk that legal or ethical issues may not be considered as part of decision-making without the expertise of the Monitoring Officer. Therefore it is recommended that the council review the decision not to make the Monitoring Officer a member of the Executive Management Team.

One of the key aspects of an effective local government leadership function is well-developed partnership arrangements. Our discussions highlighted that Southampton has been described as a 'passive partner' over recent years, and although involved in discussions, limited evidence of effective change enabled through partnership workings has materialised. The local authority should be functioning as a leader of place, so has been focusing on making improvements in this area with the introduction of the Renaissance Board, a forum for partners to come together to steer the future growth of the city. In May 2024, the Board appointed a consortium of consultancies to deliver new development in the city. Whilst it is too early to assess effectiveness of this partnership working arrangement, it is indicative of leadership who want to seek external support for driving improvements across the city.

Risks

- Risks 8, 21 and 28

Recommendations

- Recommendations 9 and 27

A view on the working culture and working relationships across all levels of the council including between political and officer leadership, and senior officers and

Culture

Our review has identified a the lack of stable leadership at the executive management level of the organisation. This has led to an organisational culture which is accepting of a lack of accountability, and a lack of follow-through, pace and prioritisation. This is alongside an absence of long-term, strategic decision-making and a lack of learning.

The CIPFA Review of Financial Management in July 2023, highlighted that "spend control within directorates has not been effective", and showcases a "culture that overspends will be covered" with the recommendation that a "culture of collective ownership of overspends and demand pressures…needs to be implemented effectively and immediately." The council have recognised that lack of accountability particularly within financial management, and as a result have introduced budget accountability statements and there is a key message from senior leaders that officers will be held responsible for management of budgets and savings delivery.

There is also a need for effective performance management to ensure accountability for improved service delivery. The council are currently one of the worst performers in the country in relation to Housing Standards. This has been due to a deterioration over several years, however this was not escalated to Executive Management Team or dealt with swiftly, despite warning signs within the service. There is also a lack of planning within service areas for known issues such as for fleet, which has been identified by Internal Audit.

There is a clear lack of follow-through when issues are identified, to ensure they are resolved or even mitigated as soon as possible. This has been particularly apparent in relation to the Equal Pay issue the council are currently grappling with. Our discussions with officers highlighted that there has been historic awareness of the problem, but no attempts were ever made to tackle this previously. When queried why this was the case, the council were unable to provide any reasoning or point to who was responsible for this inaction.

The transformation programme has also suffered from a lack of pace and prioritisation, although there is evidence that work has begun to intensify in recent months. However, discussions with officers have highlighted that due to the breadth of work needing to be delivered to achieve savings, alongside service standard improvement, and business as usual, there still feels to be a lack of prioritisation, with key direction on which areas need to be addressed most urgently. This will be particularly important for the council to get right, given the key messaging that capacity is currently insufficient across the organisation. Conversely, it must be noted that our discussions have not highlighted a lack of awareness of the need for transformation. There is recognition, particularly at the Heads of Service level that this is an organisation that needs change, and whilst there are some pockets of resistance, this is not inherently widespread across the organisation, however, there still remains a lack of clarity as to what change will look like and what type of council Southampton wants to be.

The council have also previously suffered from a lack of long-term, strategic thinking, and clear direction. This is mainly due to the over-reliance on interim or short-term members of the Executive Management Team. The permanent appointment of key Executive Directors has yet to be resolved and will be paramount for progressing improvements and ensuring the council is clear about setting a clear direction about what type of organisation it wants to be. The proper recruitment of permanent Executive Directors with the requisite outlook and skills to achieve improvement is necessary.

Therefore, risks remain, particularly in relation to organisational change fatigue, insufficient capacity, continuing instability of the leadership team and the need for a cultural shift towards accountability and responsibility. These may prevent delivery, particularly given the lack of long-term clarity on the current direction of the organisation. Given the scale of the issues facing the council, any inability to move at pace is of concern and will hold the council back from making progress and developing a new culture. Change will be challenging, and the real test will be whether behaviours are modified to help the council move forward. The leadership of senior officers and political leaders will be fundamental, alongside improved financial and performance management, increased scrutiny, making use of lessons learned and embedding a cycle of continuous learning.

Member-officer relationships

Our review highlighted that relationships between members and officers are adequate. Whilst there were some examples of conflict these are not considered to be indicative of wide-spread struggles between officers and members. There appears to be mutual respect and appreciation for respective roles within the organisation and the Leader and Chief Executive have a positive working relationships with a clear focus on transforming the council and prioritising financial sustainability into the future.

Despite this, there are clearly some misunderstandings among members and officers about the boundaries of their roles and responsibilities. This is not due to lack of clarity in the written materials but a rejection of advice by some members, and officers who sometimes second guess the outcome of discussions with members and write reports/advice accordingly. There is also a culture of not wanting to make difficult decisions or reveal challenging circumstances to the public.

Additionally, officers noted some examples where decisions were made to not continue with certain activities, but with mounting pressure from residents or groups, this has in some circumstances led to decisions being overturned when they have proven to be unpopular. This means the council appear to be making decisions in the short-term, leading to quick-fix solutions, which do not always tackle long-term needs such as the deteriorating financial position of the council. This is potentially driven by the political situation, with a lack of stability due to elections by thirds and a history of small majorities.

Cross-party working has been described as limited at the council. Whilst there are some positive examples such as the Scrutiny Inquiry Panel which focuses on a specific issue annually, with backbench members of the Administration and opposition members working closely, in general cross-party working is sporadic and where there are political differences, there can be reluctance to engage with opposition parties.

Officer-Officer relationships

The council has a new People Strategy which has been in place since early 2023, called ‘Our People’. They have leadership development modules available for all senior leaders. There are also learning modules for line managing based on core values and Ethics training based on the seven principles of public life. The review team engaged mainly with executive directors and some heads of services so we cannot comment on the working culture with more junior members of staff. However, some of our discussions with senior staff highlighted that there is an element of change resistance in certain parts of the organisation, a culture of acceptance of poor outcomes and slow pace of work, driven by an absence of accountability, siloed working practices and a lack of awareness of dependencies between service areas. There is therefore a risk that the pace of transformation will not be swift enough to realise the financial savings needed to address the budget gap, particularly as cultural change takes time to embed and true transformation will be delivered in service areas, not through development of Outline Business Cases at the corporate level.

Recruitment, Retention and Staff Satisfaction Rates

Retention of staff particularly at senior levels remains a key issue for the council, with the lack of stability at the Executive Management Level remaining a real risk for the future progress of the transformation programme. The council developed a Talent Management and Succession Planning Policy Strategy in 2022, which has now been absorbed into the wider ‘Our People’ strategy. However, there remains inconsistency across the organisation when it comes to succession planning.

The council have a lack of succession planning in place, which has been exacerbated by recent restructures and redundancies. The council have recognised this and have begun work on a Succession Planning tool for managers. However as the focus of the transformation programme is currently on cost avoidance and savings, there is a risk that workforce transformation is driven by financial savings rather than strategic decision-making on retaining and upskilling. It will be important that those individuals in keys roles such as Heads of Service and Director roles, who deal with pressure from above and below, are sufficiently supported and empowered, particularly as the Executive Management Team continues to deal with instability.

Discussions with officers highlighted that retention issues exist in Children, Adults and Strategy & Performance directorates, with Strategy & Performance suffering from an almost 30% turnover in senior staff. Additionally, the council have monitored the proportion of new joiners leaving the council within 6 months, illustrating high turnover rates in new starters in Enabling Services (14%) and Strategy & Performance (12%).

There are also concerns in relation to sickness days which the council have calculated have cost £2.64m over a rolling 12 months. Every month between January 2023 and June 2024, sickness days have been above the organisational target of 8 days per FTE. Although detailed analysis showcases that this is mainly concentrated within Community Wellbeing & Resident Services, with other areas remaining below target.

An absent workforce and a high turnover including recent redundancies risks a loss of corporate knowledge and reduced capacity. These would be a challenge for any organisation, but particularly during a large-scale transformation programme this risks overwhelm, staff burnout and reduced resilience. The council do not currently have a permanent HR Director in post, to drive effective strategic workforce planning with a focus on upskilling, retaining and retraining, the council should consider additional HR expertise to help develop career opportunities and drive effective succession planning.

Risks

- Risks 7, 8, 9, 11, 13 and 28

Recommendations

- Recommendations 9, 11 and 17

The Local Authority's capacity and capability to improve and transform at an operational level (i.e. sufficient expertise, staff etc.) and at a cultural level (i.e. acknowledgement of problems, openness to constructive criticism and change, delivery with local partners, and collaboration with sector support).

Capacity and capability to transform

The heavy reliance on interim staff at the senior leadership level poses a significant risk to the transformation programme's continuity and strategic leadership. While interim leaders may provide valuable expertise, the transient nature of these positions can affect the council's ability to maintain a consistent vision and long-term commitment to transformation goals. Additionally, there is a risk that interim staff may not be fully integrated into the council's culture or may lack deep institutional knowledge, which can hinder effective decision-making and leadership.

The Independent Improvement Board also plays a critical oversight role in the transformation journey, offering external scrutiny and guidance. However, its hands-on approach could lead to challenges in decision-making autonomy for the council's leadership team. While external oversight ensures accountability, it may also create tension between independent recommendations and internal operational priorities. The balance between governance and operational independence must be carefully managed to ensure swift and effective implementation.

A significant concern for the transformation programme is the council's limited operational capacity to support implementation. Historically, the council has experienced delays and under-delivery at both the service and delivery levels due to a shortage of staff. This resource constraint puts pressure on the council's ability to execute the planned changes, especially when multiple complex projects require simultaneous attention. The lack of operational support exacerbates the risk of delayed benefits realisation and creates strain on existing resources, which are already stretched thin.

The council's dependence on external consultants and support to drive the improvement programme introduces both opportunities and risks. While external expertise is essential in delivering specific projects, it can also lead to over-reliance, which may diminish the council's ability to build internal capacity and sustain improvements over the long term. Ensuring that external consultants are used strategically, alongside a robust plan for knowledge transfer to internal staff, will be critical in maintaining the momentum of the transformation beyond the programme's initial phases.

Risks

- Risks 8, 12 and 14

Recommendations

- Recommendations 9, 13, 14, 15, 16 and 18

3.4 Review Area 4 – SERVICE DELIVERY

The efficiency of service delivery, including against comparator Local Authorities, sector metrics and wider public sector metrics.

Southampton City Council has been compared using CIPFA's Nearest Neighbours Model, which compares against those authorities which are statistically most similar in terms of socio-economic, geographic and demographic metrics, which will be referred to as "nearest

Expenditure data is primarily based on actual expenditure for 2022/23, taken from the Revenue Outturn (RO) publication returns. This ensures the report uses the most up-to-date expenditure figures.

Service area expenditures are provided per head of population: total service expenditure divided by population. This allows us to interrogate whether an authority is relatively cheap or expensive when taking the size of the population it is serving into account.

Self & statistical neighbours	Total service expenditure - NCE	Area (hectares)	Population	People / 1,000 KM^2	NCE / population
Southampton	£466,135	4,988	252,689	5,066	£1,844.70
Minimum	£308,212	4,038	208,420	1,539	£1,365.76
25th percentile	£418,175	7,718	266,019	2,841	£1,581.55
50th percentile	£490,128	9,532	288,484	3,491	£1,626.11
75th percentile	£632,555	11,224	386,456	4,413	£1,717.99
Maximum	£1,076,725	36,793	568,996	5,161	£2,167.45

Table 7. – Benchmarks of Southampton's services

Southampton's total service expenditure is £466.14 million, with a higher expenditure per capita (£1,844.70) compared to both median and 75th percentile figures of its comparable local authorities.

CIPFA's Financial Resilience Index shows Southampton scoring high against its statistical and geographic neighbours, indicating significant financial commitment to social care and other services.

Southampton spends significantly on Adult Social Care (£139.8 million) and Education (£221.6 million), reflecting priorities in social services and education infrastructure. Southampton allocates a substantial 23.06% of its total expenditure towards Adult Social Care, reflecting a significant financial commitment to this critical service. Compared to near neighbours, Southampton also has a very high spend per child on both education and children's social care services.

Risks

No new risks identified

Recommendations

No new recommendations identified

Identification of particular service areas that are underperforming and the ability of the Local Authority to rectify the issue within its own resources and activity. This should include a view on the authority's management of customer feedback and complaints procedures.

Under performing service area 1 - Waste

The waste collection contract is delivered in-house by the council, and waste disposal contracts are procured and managed by Hampshire County Council. Recent data releases from Oflog show that Southampton council performs poorly in comparison to other local authorities in terms of household waste recycling rates, recycling contamination rates and residual household waste per household.

Indicator (click for source data)	Financial year	Southampton	Median of Southampton's similar local authorities[1]	England median
Recycling contamination rate	2021-22	17.3%	6.6%	5.5%
Household waste recycling rate	2021-22	27.7%	34.5%	41.9%
Residual household waste	2021-22	589.9 kg per household	557.7 kg per household	501.1 kg per household

Table 8. – Benchmarks of Southampton's Waste services

Discussions with officers and members also highlighted there has been significant disruption to household waste collection services following changes to working practices in March 2024. There are also concerns in relation to archaic working practices, resistance to change, absenteeism and low productivity within the service area. This is combined with low digital and IT literacy, a need for improved data and systems and an ageing fleet and lack of depot space. All which remain barriers to improving service standards and enabling transformation and delivery of savings. Therefore, achieving improvements in the waste service area remains a key risk to the council.

The service has prepared an Outline Business Case (OBC) to demonstrate the type of service they want to be, with consideration of alternative delivery models underway, development of fleet strategy, working with other local authorities and partners to agree a local approach and development of more structured training and investment in staff. It will be imperative for the future of the service, that key decisions are made based on reliable data and insight, over a reasonable time period, with robust programme management and support from the transformation and enabling services teams to produce improved service delivery and outcomes.

Under-performing service area 2 - Housing

The council is a landlord for 18,155 properties across the City. The quarterly performance report shows that only 52.29% of the council's homes meet the Decent Homes Standard, against a national target of 93.52%. This changed significantly over the previous 5 years from 6.7% of the stock not meeting the Decent Homes Standard to 47.7% currently, making Southampton the worst performing local authority in the country. Historically, this was not monitored effectively by the service, despite being a key performance indicator in the Corporate Plan.

In August 2024, the council was subject to a review from the Regulator of Social Housing (RoSH) and is awaiting the outcome of this inspection. The expectation of the council is that, based on the performance indicators detailed above, the inspection will not reflect positively on the standard of housing in Southampton and will result in the council being required to take urgent action to address the issues raised and potentially be subject to sanctions from the regulator.

The main cause of this situation is the lack of capital investment in the council's housing stock over the period. Priority has been given to using capital investment to fund fire safety improvements over other areas of capital improvements. The capital budget for major repairs to housing stock is £2m per year for the next five years, an increase of £1.2m per annum but the council expects that the quality of its housing will continue to decline as the scale of the capital programme is not sufficient to meet the improvement needs of the housing stock. From our discussions with the council the scale of capital investment required in the council's housing stock to get it to the required level for the Decent Homes Standard is c.£70m. This presents a significant risk to the council as the capital programme does not have the capacity to meet this requirement. In addition to the capital programme requirements the cost of reactive repairs and voids is a significant pressure on the HRA as the quality of housing stock continues to deteriorate. The 2024/25 budget for reactive repairs and voids is £17.35m.

The council are considering their options with regards to the future of its housing stock. Resolving this in a timely manner is crucial to ensure that the council can rectify the quality of housing stock and ensure that it is affordable to both the capital programme and the HRA. It is likely that the council will need to dispose of housing stock.

The council's performance in completing voids and getting new tenants into properties has been poor. In Quarter 4 of 2023/24 the average time taken to complete a void was 145.39 days. This position deteriorated across 2023/24 with the average void time in Quarter 1 being 132.98 days. The estimated rent loss at Quarter 4 of 2023/24 was £3.20m, which compares to a £2.5m loss modelled in the HRA business plan. This is a significant issue for the council as the rent loss has a significant impact on the income to the HRA, along with additional council Tax charges on the empty properties.

This void performance is driven by the quality of assets detailed above and the scale of repairs required during the void period, as well as the practices in place within the housing directorate. We understand that the council is making steps in reducing the length of voids and there has been a 17.5% decrease in Quarter 1 of 2024/25. The council need to ensure that this positive trajectory is maintained but, as detailed above, there is a need for the council to make a decision on how the required improvements to the housing stock are best delivered.

The delivery of housing repairs at the council is undertaken through a hybrid model with a Direct Labour Organisation (DLO) but also access to external contractors. From our interviews the DLO is an asset to the council but modernisation is required to deliver more efficiently. The DLO need to adapt to new ways of working utilising digital solutions and work is currently underway to action this. Based on this the council need to ensure that the DLO is the most efficient and effective service delivery model given the financial challenges facing the council and the decisions being made on the future of the council's housing stock.

The poor performance of the housing services has also impacted upon the ability of other service areas to deliver services effectively. Particularly this has had an impact on adults services where there has been delays in readying extra care voids and this has reduced the ability of the service to get service users in the most appropriate setting in a timely manner.

Under-performing service area 3 – SEND

Southampton City Council's children's services underwent an Ofsted inspection in June 2023, which found that services had improved substantially since the previous inspection in 2019, moving from requires improvement to good, with an outstanding grade in the impact of leaders on social work practice. This is a positive trajectory; however SEND remains a key area of pressure for the council particularly as local provision is currently insufficient, leading to escalating costs. Additionally, Ofsted and Care Quality Commission (CQC) recently conducted a SEND inspection of the Southampton Local Area Partnership which the council is jointly responsible for along with NHS Hampshire and Isle of Wight Integrated Care Board (ICB). This found that current arrangements lead to inconsistent experiences and outcomes.

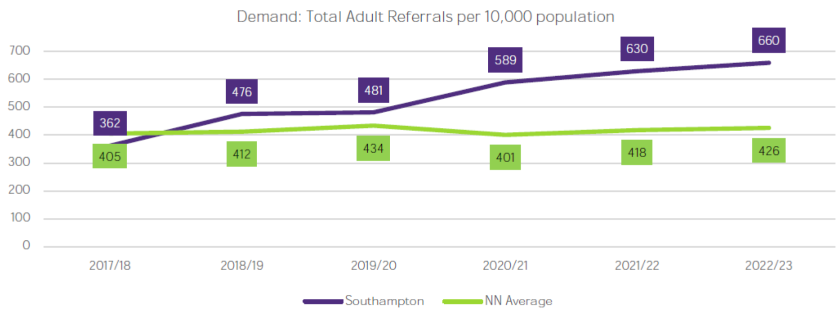
In 2023/24, an increase in High Needs funding in 2023/24 helped mitigate some of the pressure and further work is being undertaken as part of the Department for Education's programme Delivering Better Value in SEND to address the deficit to reduce the need for higher levels of intervention. The council are aware of the need to reduce costs and improve outcomes, with this being a key workstream within the transformation programme, with the aim of reducing SEND Demand via enablement of mainstream schools to improve their inclusion practice and reduce requests for EHCP plans and increasing 176 SEND places through the school's SEND capital programme. The council has put in place a strategy to manage the increase in High Needs which includes developing SEND units and resource provisions within mainstream schools reducing the need for more expensive independent placements. The Capital Programme contains a SEND expansion programme totalling £41.8M, for investment to create the extra SEND school spaces within the city.

Under-performing service area 4 - Adult Social Care

The council has the highest Social Care Ratio (100% geographic rank), which may indicate an above-average population of children, elderly, or those with disabilities requiring care. It could also suggest the council hasn't effectively mitigated costs through care charges. Our discussions with council officers have highlighted that both may be drivers of the high social care ratio.

Spend increases in Adult Social Care were focused on physical support for adults aged 65+ (£9.7m increase) and learning disability support for adults aged 18-64 (£5.9m increase). This aligns with our discussions with officers which have highlighted that there are issues with regards to working arrangements with the NHS, for delivering services from a strategic perspective. The focus has been on hospital discharge rather than independence, as the local authority has become beholden to local partners in terms of funding and outcomes. This has led to higher costs particularly in relation to physical support for older people recently discharged from hospital.

However, demand has also increased. As is clear from the line graph, demand for adult social care services within Southampton has significantly increased since 2019/20. During this period average demand for Southampton's near neighbours has stayed relatively stable.



Graph 3: Demand for Adult Social Care services at Southampton

The current Adult Social Care model benchmarks at 24% higher Full Time Equivalent (FTE) and significantly higher ratio of registered social workers compared to comparator local authorities. High commissioning costs requiring a range of market management techniques. The council have recognised this and are tackling high costs and demand through the six programmes included in the Adults transformation programme. This is the most well established of the transformation workstreams and in Month 4 was beginning to make financial savings due to the reduction in care packages as a result of focusing on enablement, independence and whole life pathways.

Ability/Capacity/Capability to rectify

It is evident that there are a number of service areas under pressure and a need for robust accountability mechanisms to bring about improved standards within each of these areas. Whilst planning is underway and the council are aware of each of the issues, the systemic change needed will be a challenge. The council have a lack of organisational capacity to deliver business as usual, savings, transformation and service improvement. There is also a need for clearer strategic direction and prioritisation, combined with a requirement for increased awareness of the dependencies across service areas, overcoming siloed working practices and a cultural lack of pace. In some services the council are dependent on a transformation partner to realise savings which may have impacts on service delivery. This should be closely monitored. Despite this, there is an awareness of the need to make change within each of the services, despite some pockets of resistance, but this will require outcome focused investment into service areas, enabling technology and staff.

Management of customer feedback and complaints

The Complaints Resolution Team (CRT) is based in the Legal Partnership administers and investigates complaints from all areas within the council (Stage 2) that the service area has been unable to resolve to the satisfaction of the complainant, at initial point of contact (Stage 1), alongside and responsible to the Head of Legal Partnerships who acts as the council's single point of contact for Local Government and Social Care Ombudsman and the Housing Ombudsman.

There is a 'Corporate Services and Adult Social Care Complaints Policy' and a separate 'Children's Services Complaint Procedure' that are published on the council's website and explain how to make a complaint and how it will be dealt with. Complaints relating to the conduct of Members are dealt with under the Members' Code of Conduct. On an annual basis the Director of Legal and Governance presents a report to the council's Governance Committee on 'Local Government and Social Care Ombudsman Complaints' and a separate Annual Review of Complaints' report.

The Local Government & Social Care Ombudsman has provided the council with annual summaries of complaint statistics to "encourage effective ownership and oversight of complaint outcomes". This showcased an above average performance across all categories.

	2022			2023			2024		
	Southampton		Average	Southampton		Average	Southampton		Average
Complaints upheld	43%	3/7	64%	61%	11/18	72%	88%	7/8	79%

Compliance with Ombudsman recommendations	100%	2/2	99%	100%	7/7	99%	100%	5/5	100%
Satisfactory remedy provided by the organisation	67%	2/3	12%	18%	2/11	13%	14%	1/7	13%

Table 11. – Complaints about Southampton's Adult Social Care services

The most recent Annual Review of Complaints was presented to the Governance Committee in November 2023, and covered complaints received from 1 April 2022 to 31 March 2023, and showed that complaints decreased from 537 in the prior year to 506. The report noted that Adult Social Care had seen an increase in complaints mainly in relation to care fees. The Children and Learning Services experienced a decrease in reporting which was attributed to a single point of contact officer for complaints within the service which allowed for a more robust triage procedure for concerns. However, the 2022/23 did give rise to a higher number of Stage 2 complaints, generally these are for review of the resolution offered at Stage 1. 100% of Stage 2 complaints were dealt with in time (20 days). The Annual Report 2022/23 highlighted that the common thread giving rise to complaints related to clear communication, and as a result updates were made to the council's website and inclusion of web links in communications to signpost recipients more effectively to further information. The council also commissioned an independent survey company Acuity Research and Practice to undertake a survey on tenant satisfaction, with response accounting for 11% of tenants. Results highlighted a 64% satisfaction rate with the overall service. However, only a 25% satisfaction rate in relation to handling complaints. There were 21 Stage 1 complaints per 1,000 homes of which 41% were responded to within Complaint Handling timescales, and 2 Stage 2 complaints per 1,000 homes of which 97% were responded to within the timescales.

Our discussions with officers and members highlighted that the complaints from residents and service users were understood and improving satisfaction rates were a key priority. However, these would be addressed through improving service standards via the transformation programme, to help tackle the key drivers of complaints, rather than an overhaul of the complaints management system.

Risks

- Risks 29 and 30

Recommendations

- Recommendation 34

A view on the extent to which service plans are aligned to the Local Authority's overall strategic priorities and long-term plan.

Alignment of service plans

The council's updated Corporate Plan for 2024 was presented to Full Council on 20 March 2024 and set out the overall strategic vision, goals and outcome ambitions. The update for 2024 was predominantly to reflect the financial pressures facing the council and also aligns with other key strategies of the council. It is the financial pressures that the council is facing that are the drivers of its transformation programme and the changes that are required in the way in which services are delivered. The Corporate Plan frames this clearly and how securing the financial future of the council is critical to enable to overall strategic vision to be delivered.

Service areas have developed plans setting out the direction of travel for these services. From reviewing the Adult Social Care Strategy 2024-2029 we note that, although it talks to early intervention and a sustainable service, it is not explicit in the need to deliver services more efficiently given the financial challenges of the council. We consider this to be a weakness in the alignment of the service plan with the council's Corporate Plan but we do note that the Adult Social Care Strategy is outcome focused, something that we consider to be important in ensuring that the transformation activity of the council changes the way in which services are delivered, along with delivering the financial savings required.

We recommend that the council reviews all service strategies to ensure that they are aligned with the key focus areas of the Corporate Plan, both in terms of the financial challenges facing the council and the outcomes it seeks to achieve from its transformation activity.

Risks

- Risk 7

Recommendations

- Recommendation 6

A consideration of the effectiveness of the chosen approach in delivering services (i.e. in house or external). This should include a consideration of how the operation of the procurement functions is geared towards effective service delivery, including overall management of the pipeline, capacity and capability of officers, the adequacy of the processes, and culture and attitude towards procurement.

Effectiveness of service delivery (in house vs external)

The council has a mixed approach to the delivery of its services with some areas, such as leisure services, delivered by an outsourced provider whilst other areas are delivered in-house. There are some areas that have are predominantly delivered in-house but make use of external providers to provide capacity, an example of this is Adult Social Care where social worker activity is delivered in-house but the council access external providers for appropriate placements and support. Our review has not identified that the council does not consider the most appropriate delivery model for its services and we note that the council is currently exploring options for waste disposal delivery and the options include outsourcing. The council is also considering options around delivery of its leisure services and we encourage the council to ensure that the most appropriate delivery method is chosen to deliver the outcomes, both financially and operationally, the council wants to deliver.

Procurement

During 2023/24, the procurement function has moved to more self-serve procedures to allow the procurement team to focus resource on contracts falling within the Public Contracts Regulation 2015. As a result, service areas now have responsibility for 'Medium Value Transaction Procedures' which were previously within the remit of the procurement team. This has resulted in an update to the Contract Procedure Rules to provide clarity to officers on appropriate procedural requirements and cost considerations. Our discussions with the procurement highlighted that this has helped to release capacity in the team.

Internal Audit identified issues with procurement during their follow up on audit on ‘Engaging Third Parties’ (End to End Procurement). “Follow up testing has been able to close one high-risk exception. However, a high-risk exception raised in relation to specifying and finalising procurement documentation remains in progress as while the time taken for procurement documents to be prepared has come down 10%, for 37 projects the average time waiting for a specification was 464 days. The second high risk remained in progress as while there had been work undertaken in relation to workplans and reducing unplanned work, there was still concerns with the level of workloads required on Procurement Business Partners.” This aligns with our discussions with service areas which highlighted delays with procurement processes and an understanding of capacity issues across Enabling Services teams.

A review by Local Partnerships of the council’s Environment Function in February 2024, emphasizes that there were a lack of resources and support to ensure procurements could be managed effectively and smoothly, and the procurement approvals system was unwieldy requiring successive corporate team approval, leading to stalled procurements. As a result, contract extensions are viewed as an easy default option with a heavy reliance on existing frameworks and a tendency within waste teams to favour suppliers with long standing relationships. This may not represent value for money for the council.

The move to self-serve should help to release capacity in the procurement function, which will be imperative to achieve the priorities in the transformation programme which rely quite heavily on procuring improved digital systems such as the Social Care Client Case Management System and Waste Operations Software. It will be important the procurement team members are still aware of procurement activity to ensure consistency and compliance across the organisation and prevent procurement professionals becoming involved too late in more risky or higher value procurement activity. This has been recognised with the agreement of Annual Business Plans which are signed by each of the Executive Directors to highlight key procurement activity. Our discussions highlighted that work under the transformation programme is being completed to bring together multiple but similar contracts e.g. cleaning, spot purchases under single arrangements to consolidate expenditure under existing contracts. This was supported by the Cost Control Panel that was in in place during 2023/24, but further work is needed to consolidate spend under corporate contracts to prevent duplication.

Risks

No risks identified

Recommendations

No recommendations identified

Annex

A1 Risk Assessment – Method

Likelihood:

- Improbable – possible, but unlikely to happen.
- Occasional – might happen, might not happen, in the order of 50/50
- Probable – most likely will happen.

Impact:

- Marginal – some minor (less than £1000) costs involved, possible minor operating difficulties largely contained within the council, some awareness / action may be required by members.
- Moderate – financial losses / costs up to £100k, operating impacts hitting services for some of the community, a significant issue for members to deal with
- Critical – major financial losses / costs in excess of £100k, subsequent intervention by DLUHC or other 3rd parties, reaches national press interest, major political embarrassment for members.

A2 Documents Reviewed

The review team has reviewed over 150 documents kindly provided by the council.

A full list is available on request.

A3 Interviews Conducted

In order of interviews conducted:

Name of interviewee	Role
Councillor Lorna Fielker	Leader of the Council
Theresa Grant	Chair of Improvement Board
Andrew Travers	Chief Executive
Jacquie McGeachie	Interim HR Director
Mel Creighton	s.151/ Executive Director Enabling Services
Councillor Simon Letts	Deputy Leader, Finance Portfolio Holder
Paul Paskins	Head of Supplier Management
Richard Ivory	Head of Legal & Governance, Monitoring Officer
Claire Edgar	Executive Director Community & Wellbeing (DASS)
Rob Henderson	Executive Director Children & Learning
Debbie Ward	Executive Director Resident Services
Nawaz Khan	Acting Executive Director Growth & Prosperity
Lizzi Goodwin	Chief Internal Auditor
Tina Dyer-Slade	Head of Corporate Estate & Assets
Munira Holloway	Strategy & Performance Director
Kevin Suter	External Auditor: Ernst & Young LLP
Councillor Steve Leggett	Chair of Audit Committee
Jonathan Evans	Finance Business Partner
Juno Hollyhock	Acting Head of SEND
James Wills-Fleming	Transformation Director
Richard Williams	Finance Director
Paula Johnston	Head of Service Living and Ageing Well
Kate Concannon	Head of Quality, Governance & Professional Development
Hannah Balzaretti	Head of Service – Whole Life Pathway
Ian Collins	Environment Director
Jamie Brenchley	Housing Director

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