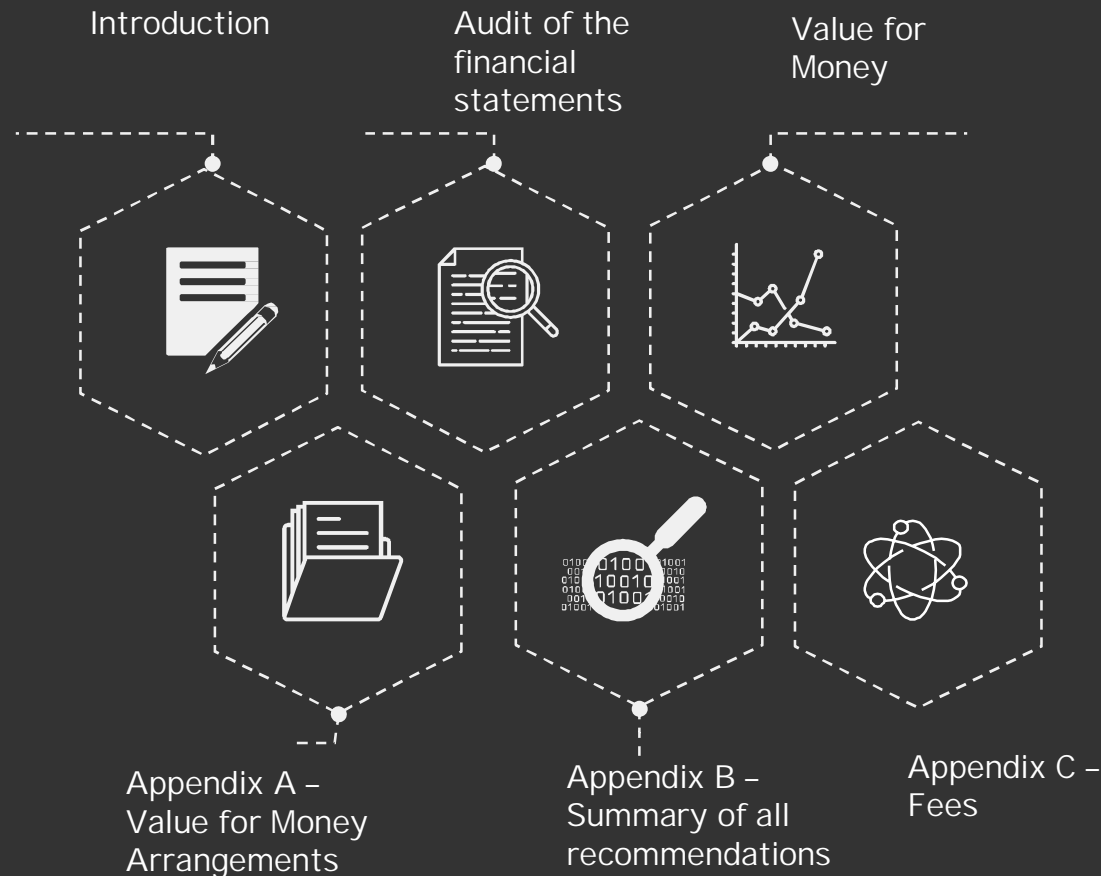


The background image shows a modern, multi-story building with a glass facade. The interior is visible through the glass, showing a bright, open-plan space with a polished floor that reflects the ceiling lights. The ceiling has recessed lighting fixtures. The glass panels are held together by dark metal frames. The overall atmosphere is clean, professional, and contemporary.

# Winchester City Council Auditor's Annual Report

Year ended 31 March 2022

# Contents



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

The “Terms of Appointment and further guidance (updated July 2021)” issued by the PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and in legislation, and covers matters of practice and procedure which are of a recurring nature.

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



# Introduction

## Purpose

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

## Responsibilities of the appointed auditor

We have undertaken our 2021/22 audit work in accordance with the Audit Plan that we issued on 11 July 2022. We have complied with the National Audit Office's (NAO) 2020 Code of Audit Practice, other guidance issued by the NAO and International Standards on Auditing (UK).

As auditors we are responsible for:

Expressing an opinion on:

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

Reporting by exception:

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

Responsibilities of the Council:

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



## Introduction (continued)

### 2021/22 Conclusions

Financial statements	Unqualified – the financial statements give a true and fair view of the financial position of the Council as at 31 March 2022 and of its expenditure and income for the year then ended. We issued our auditor's report on 28 February 2023.
Going concern	We have concluded that the Chief Financial Officer's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.
Consistency of the other information published with the financial statement	Financial information in the narrative statement and published with the financial statements was consistent with the audited accounts.
Value for money (VFM)	We had no matters to report by exception on the Council's VFM arrangements. We have included our VFM commentary in Section 03.
Consistency of the annual governance statement	We were satisfied that the annual governance statement was consistent with our understanding of the Council.
Public interest report and other auditor powers	We had no reason to use our auditor powers.
Whole of government accounts	We have performed the procedures required by the National Audit Office (NAO) on the Whole of Government Accounts submission.
Certificate	We will be able to issue our certificate once the NAO have confirmed whether there are any additional group audit procedures required as part of the Whole of Government Accounts submission.

# Audit of the financial statements

## Key findings

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

On 28 February 2023, we issued an unqualified opinion on the financial statements. We reported our detailed findings to the 30 January 2023 Audit & Governance Committee meeting. We outline below the key issues identified as part of our audit, reported against the significant risks and other areas of audit focus we included in our Audit Plan. We reported 2 areas for improvement in the control environment in the Audit Results Report.

## Significant risk

## Conclusion

Risk of fraud in revenue and expenditure recognition - inappropriate capitalisation of revenue expenditure

Under ISA 240 there is a presumed risk that revenue may be misstated due to improper revenue recognition. In the public sector, this requirement is modified by Practice Note 10 issued by the Financial Reporting Council, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition.

From our risk assessment, we have assessed that the risk manifests itself through the potential to inappropriately capitalise revenue expenditure to improve the financial position of the general fund.

We have not identified any material weaknesses in controls or evidence of material management override. We tested a sample of PPE additions and confirmed they met the capitalisation requirements under IAS16. We tested a sample of REFCUS items and confirmed they were appropriately classified. We have not identified any instances of inappropriate judgements being applied.

Misstatements due to fraud or error - management override of controls

Our work did not identify any material weaknesses in the design of controls or evidence of material misstatements, whether due to fraud or error, related to the inappropriate capitalisation of revenue expenditure. Our work did not identify any instances of inappropriate judgements being applied.

Our work did not identify any other transactions during our audit which appeared unusual or outside the Council's normal course of business.

We have not identified any unusual or unsupported journals, or other adjustments made in preparing the financial statements.



# Audit of the financial statements

## Significant risk

Valuation of Land and Buildings (FV/EUV) and Investment Properties

## Conclusion

Property, Plant and Equipment land and buildings (L&B) measured at Fair Value or Existing Use Value (EUV) and Investment Properties (IP) represent significant balances in the Council's accounts and are subject to valuation changes, impairment reviews and depreciation charges.

Material judgemental inputs and estimation techniques are required to calculate the year-end L&B and IP balances held in the balance sheet.

As the Council's asset base is significant, and the outputs from the valuers are subject to estimation, there is a higher risk that L&B and IP may be misstated or the associated accounting entries incorrectly posted. We are required to undertake procedures on the use of experts and assumptions underlying fair value estimates.

We identified 3 misstatements following the work of our specialist EY Real Estates, who we engaged to test a sample of 4 key assets. They challenged the valuation of some assets as follows:

- Former Antiques Market (Kings Walk) - the condition of the asset is considered to be worse than the valuer has recorded
- Winchester Sport and Leisure Park – the valuation approach did not take into consideration the actual build cost, which due to the recency of construction was considered to be a useful indicator of depreciated replacement cost
- Surplus Asset – The original valuation overstated the site area, incorporating other assets already included in the fixed asset register. The valuation also did not factor in a discount for planning risk.

Our local team testing identified 1 misstatement in relation to the Investment Property 48-50 High Street (Lloyds). The valuation was overstated due to a double counting of the rent in the calculation.

The cycle of valuations was appropriate and we did not identify any material misstatements for assets not revalued.

We consider the useful economic lives of the assets to be reasonable and all accounting entries have been correctly processed in the financial statements.



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

## Scope

We are required to report on whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. We have complied with the guidance issued to auditors in respect of their work on value for money arrangements (VFM) in the 2020 Code of Audit Practice (2020 Code) and Auditor Guidance Note 3 (AGN 03). We presented our VFM risk assessment to the 30 January 2023 Audit & Governance Committee meeting which was based on a combination of our cumulative audit knowledge and experience, our review of Council committee reports, meetings with the Chief Financial Officer and evaluation of associated documentation through our regular engagement with Council management and the finance team.

## Reporting

We completed our risk assessment procedures on 30 January 2023 and did not identify any significant weaknesses in the Council's VFM arrangements. We have also not identified any significant risks during the course of our audit. As a result, we had no matters to report by exception in the audit report on the financial statements.

Our commentary for 2021/22 is set out over pages 8 to 10. The commentary on these pages summarises our conclusions over the arrangements at the Council in relation to our reporting criteria (see below) throughout 2021/22. Appendix A includes the detailed arrangements and processes underpinning the reporting criteria. These were reported in our 2020/21 Auditor's Annual Report and have been updated for 2021/22.

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

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

Reporting criteria	Risks of significant weaknesses in arrangements identified?	Actual significant weaknesses in arrangements identified?
Financial sustainability: How the Council plans and manages its resources to ensure it can continue to deliver its services	No significant risks identified	No significant weaknesses identified
Governance: How the Council ensures that it makes informed decisions and properly manages its risks	No significant risks identified	No significant weaknesses identified
Improving economy, efficiency and effectiveness: How the Council uses information about its costs and performance to improve the way it manages and delivers its services	No significant risks identified	No significant weaknesses identified

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



## Value for Money (continued)

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

Winchester City Council have managed financial pressures, including from Covid-19, and more recently increases in energy and contract inflation. These pressures are not unique to the Council and are affecting all Local Government bodies.

The Council have delivered surpluses for several years, allowing them to build additional reserves in preparation for potential future deficits, such as due to inflationary pressures. Earmarked reserves have grown to £38m at 31/3/22 (£34m at 31/3/21). The Council has a policy of setting a minimum General Fund Reserve at £2m as per the risk register (currently maintained at £2.8m).

Budgeting at the Council is prudent to help provide a factor of safety against unexpected risks. An example of this was the budgeting for income recovery post Covid-19, where there was a positive variance against budget as the recovery was better than expected.

The Council also plan ahead through their Medium Term Financial Strategy, which has identified future budget shortfalls to be offset through the Strategic Service Review process (Transformation challenge 2025 (TC2025) programme). This programme aims to identify options for reducing net operating costs by £3m by March 2025. The Council have previously stated that more commercial ventures have not created the gains expected and therefore have not been considered as a short term solution to funding gaps. The option to not implement savings proposals and to rely on reserves to meet projected shortfalls has also been considered but ultimately not recommended to Cabinet. The uncertainty regarding future funding makes it essential to retain a reasonable level of operational reserves. This is particularly important when the existing commitments from these reserves are recognised and their importance in supporting the capital programme.

The Council have progressed with the strategy of creating a Housing Company to support the new build programme, and has sought external legal and business planning advice to ensure the Council has the most appropriate and effective solution and that any developments are only undertaken if they are financially viable.

The Council has borrowings of £167m, but this is solely from the PWLB (part of the UK Treasury) and relates solely to Housing Revenue Account. There is no other external borrowing. This level of borrowing is not considered unusual for a body of Winchester's size.

The Council have also not pursued riskier commercial ventures. There are £69.3m of investment properties of which £23.8m are retail properties which are considered to be a higher risk with current downward trends in this sector. However, we do not consider the investments to be unusual for a Local Government Body and not indicative of a higher risk profile.

For future years the general fund budget has been set using a council tax increase of 2.7% for 22/23 and other assumptions we consider reasonable, and then more recently 2.65% for the 23/24 financial year.

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





## Value for Money (continued)

### Governance: How the Council ensures that it makes informed decisions and properly manages its risks

Primary oversight in relation to making decisions and managing risk lies with the Council's Cabinet or Full Council in accordance with the Council's constitution. Cabinet are supported by several other committees, who are informed by detailed reports produced by officers. There is an established Scrutiny Committee and Audit & Governance Committee which is the body formally charged with governance at the Council. The role of the Scrutiny Committee is to hold the Cabinet to account, review decisions made or actions taken in connection with the discharge of any of the Council's functions (including executive functions), and to monitor performance of the Council. The Audit & Governance Committee combines both audit functions, for example considering the work of both internal and external audit and the adequacy of risk management arrangements, and governance functions, for example promoting and maintaining high standards of conduct by Councillors and any co-opted members, and assisting the Councillors and co-opted members to observe the Members' Code of Conduct.

The budget is reviewed by the Scrutiny Committee and then the Audit and Governance Committee before being put forward for Cabinet approval. While the budget scrutiny comes from top down, there is also a bottom up approach, with meetings held with managers where they make changes to the starting budget as they see appropriate, based on their knowledge and forecasts.

In order to make informed decisions with the latest information, the budget is reviewed quarterly, and where significant changes are identified in year, the budget is updated. An example of this process in action relates to the 22/23 budget, where the negative impacts of Covid-19 on income was revised following better than expected performance in areas such as car parks in 21/22. Therefore the reduction compared to pre-pandemic levels was reduced from 10% to 7%.

There is a requirement to monitor expenditure against budget allocations and report to the Cabinet on the overall position on a regular basis, as part of the Council's overall financial and performance management reporting process. The Council's financial performance (revenue and capital), savings delivery and business performance are formally reported quarterly through a Performance Monitor

The Council have a risk register that is regularly kept up to date to ensure risks are identified and mitigations are put in place to ensure the risks to the Council are reduced to an acceptable level. The Corporate Risk Register is managed by the Council's Executive Leadership Board (ELB) with an owner from the ELB assigned to each risk to ensure risk monitoring and actions are being implemented. There are a number of 'red' risks within the risk register for 2021/22 which we considered as part of our value for money risk assessment. These are risks that we would expect to see for the Council and are not an indication of a weakness in governance arrangements.

The Council have an Internal Audit function which tests whether the controls in place to manage risk are effective. During 2021/22, Internal Audit have issued an overall opinion of "reasonable" assurance, with 1 limited assurance finding in relation to the documentation, monitoring and policies for Disabled Facilities Grants (DFGs). This was appropriately recorded in the Annual Governance Statement, with action items recorded for completion in 22/23. We have reviewed the follow up work completed by Internal Audit on DFGs and confirmed that all actions had been either completed or were nearing completion in early 2023.

**Conclusion:** Based on the work performed, the Council had proper arrangements in place in 2021/22 to enable it to make informed decisions and properly manage its risks.



## Value for Money (continued)

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

The Council produces a report of its Strategic Key Performance Indicators within their Quarterly Performance Reports. These KPIs are linked back to the key priorities within the Corporate Plan. The scorecard is used to flag areas of required improvement, devise actions to address any weakness identified and monitor progress. KPIs are given RAG ratings to clearly identify those items that are underperforming, or perhaps require closer monitoring.

The Council produces certain documents throughout the year which give the stakeholders, i.e. the public, employees etc an understanding of how the Council is performing, i.e. budget reports.

The Scrutiny Committee and Cabinet are responsible for considering reported performance against the KPIs and ensuring effective and efficient mitigating actions are taken to ensure targets set are being met. In order to give the performance reports detailed attention, the Scrutiny Committee have set up a Performance Panel to scrutinise the quarterly performance and financial monitoring reports on behalf of the Committee.

There is a 'Transparency' section on the Council website, which gives the public the ability to review the Council expenditure, enabling the Council to be open to scrutiny. Winchester City Council purchases goods and services from a variety of suppliers. Details of procurements are documented on the Council website, which includes details on the terms and conditions and general procurement process. The Council also has a contracts management framework to ensure contracts are delivering best value and to foster long-term collaborative relationships with suppliers that strive for continuous improvement in service delivery and efficiencies.

The Internal Audit function tests whether the controls in place are effective. There are regular committee meetings to discuss the Council performance, and any issues can be raised here.

The Council are utilising the information above as part of its Transformation challenge 2025 (TC2025) programme in order to reduce £3m of baseline costs in the medium term.

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

# Appendices



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## Appendix A – Summary of arrangements

### Financial Sustainability

#### Reporting Sub-Criteria

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

#### Findings

WCC has various methods in place to ensure it can identify financial pressures, including keeping updated budget reports, to ensure the Council is on plan to meet budget requirements. The Council has a Narrative Statement which shows the annual comparison between budgeted and actual I&E, which assists in showing whether there are financial pressures.

A going concern note is also prepared within the accounts, which details levels of cash and reserves which are currently strong in spite of Covid-19 and inflationary pressures.

Regular meetings are held, and minutes are available on the Council's website showing this, and any financial issues would be discussed here. A risk register is kept and updated, and one example from the risk register is Lack of sufficient funding and/or escalating costs over the medium term reducing financial viability and inability to achieve a balanced budget, and the potential impact this could have on Council Tax payers and services that are provided.

There are ongoing financial pressures in the local government sector, which has resulted in several councils making significant commercial investments using cheap borrowing through the 'Public Works Loan Board' (PWLB). PWLB is part of the UK treasury and makes loans to local authority at 80BPS above the equivalent UK government Gilt rate. PWLB is also a non-discretionary lender. There is therefore no limit the amount a local government body can borrow, risk premium attached to the level of borrowing, or covenants attached to the borrowing.

For Winchester, they have used PWLB Borrowing almost entirely for HRA self-financing (£156m of the £166m). A recent additional £10m was also for the HRA. The General Fund currently has no external/PWLB borrowing. As at 31/3/22 borrowing (all PWLB) stands at:

- Short term borrowing - £5.1m
- Long term borrowing - £161.7m

The Council has developed a reasonable portfolio of investment properties, and made some investments in order to generate a return on cash at greater levels than current bank rates. However, they have not pursued investments in riskier commercial ventures.

# Appendix A – Summary of arrangements

## Financial Sustainability (Continued)

### Reporting Sub-Criteria

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

### Findings

The long term assets of the Council, which reflect its more commercial activity were as follows at 31/3/22:

Significant account	Balance	Description of asset
Investment property	£69.3m	The council hold a significant portfolio of investment property, although the most significant of these are garages that have been transferred over from the HRA. The investment properties that would be considered the higher risk would be retail assets which stands at: <ul style="list-style-type: none"> <li>Retail - £23.8m</li> </ul>
Long term investment	£6.5m	£6.3m relates to investment in the CCLA pooled property fund
Short term Investment	£21.1m	All ST investments held as bonds or short term fixed interest deposits with either banks or other Local Authorities

We do not consider the above investments to be unusual for a Local Government Body and not indicative of a higher risk profile. There was a significant uplift in the amount of short term investments in 21/22 due to an increase in grant funding close to year end, which are being held in investments on a short term basis to generate a greater rate of return while waiting to be allocated as expenditure.

Although some of its commercial activity such as retail property investments have reduced its level of income due to general market trends, as well as additional Covid-19 pressures, this has been factored into the Council's budget and MTFP.

The budget for 21/22 and the Medium Term Financial Plan for 22/23 onwards incorporated Covid-19 pressures and factored in Central Government's C-19 grants which have helped to alleviate the pressures on the Council. During 21/22 the Council outperformed its original budget in part due to Covid-19 impacts not being as severe as initially budgeted, with overall income 14% below previous budgets rather than the 20% forecasted. For 22/23 the impact of the one year spending review was added into the budget, with a further one year of New Homes Bonus allowing for £1.3m of "one off" proposals to support the delivery of the Council Plan to be funded from this allocation. The 2022/23 budget was balanced with a £0.3m deficit forecast for 2023/24 to be covered by the existing Transitional Reserve. However, it was noted significant uncertainty remains in relation to future funding of local government and projections indicate the potential for longer term deficits, subject to Government funding announcements.

## Appendix A – Summary of arrangements

### Financial Sustainability (Continued)

#### Reporting Sub-Criteria

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

#### Findings

The Council have not flagged a material uncertainty in the going concern basis of preparation disclosure in its financial statements around its ability to continue providing the current level of services, this has been supported within the Going Concern note itself as well as their submitted cashflow forecast to March 2023, both of which we have reviewed and agreed as reasonable at Canvas Step Determine appropriateness of going concern basis of accounting.

For general assumptions underpinning the annual budget and MTFP:

- Income reduction of 7% for 22/23 due to Covid-19, returning to normal levels in 24/25
- Pay inflation is captured in the MTFP/Budget at 2% for current year and future years. This is for staff related inflationary adjustments, such as pay awards, living wage, NI, Pension etc.
- Increase to fees and charges averaging 3%
- Contract inflation is also captured at 4% in 22/23 and sliding scale back to 2% over 3 years.
- This is offset somewhat by an annual 2.7% increase in Council Tax, as well as a 1.2% increase in the Council Tax base.
- All budget surpluses to be transferred to major investment reserve (subsequently updated that £2m a separate reserve to mitigate against the significant increase in inflation and energy costs since the 2022/23 budget was approved)

For Interest Rates and Investments and Borrowing the Council has a Treasury Management strategy. Monitoring of Treasury performance is also performed. The management strategy confirms the changes to the PWLB lending criteria which precludes a local authority from borrowing from PWLB for any purpose if it plans to purchase assets primarily for yield, but the Borrowing Strategy (section 15) confirms the Council has no such plans.

The Council also has a risk management policy which includes a risk register, which includes documenting financing pressures. Lack of funding is noted in the risk register item CR007, but current controls including 1 year funding settlement from central govt., quarterly finance monitoring and maintain the General Fund at a consistent level are noted to keep this risk below a Red rating.



## Appendix A – Summary of arrangements

### Financial Sustainability (Continued)

#### Reporting Sub-Criteria

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

#### Findings

WCC has various methods in place to ensure it can identify financial pressures, including keeping updated budget reports, to ensure the Council is on plan to meet budget requirements. The Council has a Narrative Statement which shows the annual comparison between budgeted and actual I&E, which assists in showing whether there are financial pressures.

A going concern note is also prepared within the accounts, which details levels of cash and reserves which are currently strong in spite of Covid-19 pressures.

Regular meetings are held, and minutes are available on the Council's website showing this, and any financial issues would be discussed here. A risk register is kept and updated, and one example from the risk register is Lack of sufficient funding and/or escalating costs over the medium term reducing financial viability and inability to achieve a balanced budget, and the potential impact this could have on Council Tax payers and services that are provided.

There are ongoing financial pressures in the local government sector, which has resulted in several councils making significant commercial investments using cheap borrowing through the 'Public Works Loan Board' (PWLB). PWLB is part of the UK treasury and makes loans to local authority at 80BPS above the equivalent UK government Gilt rate. PWLB is also a non-discretionary lender. There is therefore no limit the amount a local government body can borrow, risk premium attached to the level of borrowing, or covenants attached to the borrowing.

For Winchester, they have used PWLB Borrowing almost entirely for HRA self-financing (£156m of the £166m). A recent additional £10m was also for the HRA. The General Fund currently has no external/PWLB borrowing. As at 31/3/22 borrowing (all PWLB) stands at:

- Short term borrowing - £5.1m
- Long term borrowing - £161.7m

The Council has developed a reasonable portfolio of investment properties, and made some investments in order to generate a return on cash at greater levels than current bank rates. However, they have not pursued investments in riskier commercial ventures.

The long term assets of the Council, which reflect its more commercial activity were as follows at 31/3/22:

## Appendix A – Summary of arrangements

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### Financial Sustainability (Continued)

#### Reporting Sub-Criteria

#### Findings

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

The Council has a policy of setting a minimum General Fund Reserve at £2m as per the risk register (currently maintained at £2.8m). There are also a number of earmarked reserves with a total balance of £33.9m (at 31/3/22) to meet specific liabilities when they fall due.

The Council set a balanced budget for 21/22 and more recently for 22/23. At year end 21/22 the Council performed better than expected against budget due to the positive recovery of parking income, higher than budgeted garden waste income, a number of additional grants received to support expenditure and higher than forecast collection of business rates. £2m of the surplus has been designated to “Exceptional Inflation Pressures” reserve with the remainder to the Major Investment reserve.

As noted in sub criteria 1, the budget has been balanced. In future years, there are additional budget shortfalls which are expected to be mitigated through the Strategic Service Review process Strategic Service Review process (Transformation challenge 2025 (TC2025) programme). This programme aims to identify options for reducing net operating costs by £3m by March 2025. The strategic service review is expected to take place by July 2023. It is noted that the Council have previously stated that more commercial ventures have not created the gains expected and therefore are not considered to be a viable short term solution to funding gaps, as well as making reference to the changes to the PWLB restrictions on lending. The Council have progressed with the idea of creating a Housing Company to support the new build programme, and has sought external legal and business planning advice to ensure the Council has the most appropriate and effective solution and that any developments are only undertaken if they are financially viable.

The option to not implement savings proposals and to rely on reserves to meet projected shortfalls has been considered but ultimately not recommended to Cabinet. The uncertainty regarding future funding makes it essential to retain a reasonable level of operational reserves. This is particularly important when the existing commitments from these reserves are recognised and their importance in supporting the capital programme.

## Appendix A – Summary of arrangements

### Financial Sustainability (Continued)

Reporting Sub-Criteria	Findings
How the body plans finances to support the sustainable delivery of services in accordance with strategic and statutory priorities	<p>The annual budget and MTFP sit alongside and facilitate the Council's Corporate Plan for 2020-25. The Council Plan was developed collaboratively with elected members, staff, partners and other stakeholders to prioritise the most important areas the Council needs to focus on in the future. This is done for the Council's limited resources to be spent on the areas where it is needed most. It considered in parallel with the budget. As it is aligned to the budget and MTFP, it is intended to act as the framework in which investment decisions can be made based on agreed priorities and the outcomes the Council wants to achieve.</p> <p>The Council's overriding objective is to provide services to residents in the area. The corporate plan details the overall vision of WCC, with its main priorities being:</p> <ul style="list-style-type: none"><li>• Tackling the climate emergency and creating a greener district</li><li>• Homes for all</li><li>• Vibrant local economy</li><li>• Living well</li><li>• Your services. Your voice</li></ul> <p>The process of preparing the budget begins with using approved MTFP and updating with more detailed information as this becomes known. The financial and delivery performance against the Corporate plan priorities is performed quarterly. This document also provides monitoring of the overall financial performance against budget, Capital spend and project management reports. Where this performance information suggests a financial impact this is reflected within the proposed budget.</p>
How the body ensures that its financial plan is consistent with other plans such as workforce, capital, investment, and other operational planning which may include working with other local public bodies as part of a wider system	<p>Also see the commentary against sub-criteria 1. above for how the MTFP and budget is derived. This information is incorporated into other reports such as HRA budget and business plans. This budget includes details of the HRA capital programme, with increases of £41m to help build new homes. This also fits in with Corporate plan priority of Homes for All. The Capital Strategy is published over a 10 year period in order to allow this to be factored into the MTFP.</p>
How the body identifies and manages risks to financial resilience, e.g. unplanned changes in demand, including challenge of the assumptions underlying its plans	<p>The Council has regularly reviews and monitors potential risks to financial resilience. We consider there to be no specific risks to WCC that are outside the normal risks faced by all local government bodies. The main risks to the Council's financial resilience are driven by:</p> <ul style="list-style-type: none"><li>• Reduced Government funding</li><li>• Macro economy, including war in Ukraine, leading to higher energy prices and high inflation</li><li>• Reliance on strategic partners to deliver services and projects and inflationary pressures incorporated into contract prices</li><li>• Failure to achieve income targets</li></ul>

## Appendix A – Summary of arrangements (continued)

### Governance

#### Reporting Sub-Criteria

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

#### Findings

The Council has sought to develop systems to identify, evaluate and mitigate risks which threaten its Council's ability to meet its objectives to deliver services to the public. To ensure that risks are appropriately mitigated, a Risk Register has been developed. These risks are regularly reviewed by WCC.

This details the risks facing the Council and the impact on critical services. The Corporate Risk Register is managed by the Council's Executive Leadership Board (ELB) and updated for newly stated risks and ongoing matters on a regular basis. Risk owners for corporate risks are generally a member of ELB. This risk register is included with the Risk Management Policy and formally agreed by Cabinet. Audit and Governance Committee reviews the risks and policy to make comments to cabinet on the efficacy of the arrangements for managing risk at the council. The Council operates a "Three line of defence" model in order to identify and manage risks, as follows:

First line of defence:

As the first line of defence, Service Lead or service managers own and manage risks within their service area. They are also responsible for implementing appropriate corrective action to address, process and control weaknesses.

Service Leads are also responsible for maintaining effective internal controls and managing risk on a day to day basis. They identify, assess, control and manage risks ensuring that their services are delivered in accordance with the council's aims and objectives.

Second line of defence:

The second line of defence relates to the strategic direction, policies and procedures provided by the council's oversight functions (e.g. Finance, Legal Services, Procurement and HR). These teams are responsible for designing policies, setting direction, ensuring compliance and providing assurance. Included within the Anti-Fraud and Corruption Policy is the council's Whistleblowing Policy which encourages staff to report concerns which may expose the council to risk.

Third line of defence:

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

The aim of internal audit's work programme is to provide assurance to management, in relation to the business activities, systems or processes under review that the framework of internal control, risk management and governance is appropriate and operating effectively; and risks to the achievement of the council's objectives are identified, assessed and managed to a defined acceptable level. Such risks are identified through senior management liaison and internal audits own assessment of risk. External audit, inspectors and regulators also provide assurance on the management of risk and delivery of objectives.

## Appendix A – Summary of arrangements (continued)

### Governance (Continued)

#### Reporting Sub-Criteria

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

#### Findings

We have reviewed the risk register for March 2022 as taken to Cabinet. The key risks (red rated) identified in the risk register relate to the response to the climate emergency (e.g. moving to carbon neutral by 2024). A new risk added in this latest register also related to climate change and was amber rated, identifying a risk of lack of preparedness and incapability to respond to events caused by climate change, particularly in regards to flooding. Risk areas within the remit of our VfM work, including effective partnership working, financial viability, business continuity and cyber security are all considered to be medium risks due to the mitigations the Council have been able to put in place, which includes the regular performance monitoring that occurs in each of these areas. Financial risks are rated as a medium risk due to the mitigation of the Council's strong levels of reserves.

The Council has an established anti-fraud and corruption strategy, anti-money laundering policy and whistle-blowing arrangements that are accessible on its website.

There is an established internal audit function, performed by the Southern Internal Audit Partnership (SIAP) and programme of work and an annual opinion on internal control is given by the Head of Internal Audit. There is also an Internal Audit Charter which describes the purpose, authority and responsibility of internal audit activity. The Head of Internal Audit opinion for 2021/22 is as follows:

#### Annual Internal Audit Opinion 2021-22

I am satisfied that sufficient assurance work has been carried out to allow me to form a reasonable conclusion on the adequacy and effectiveness of the internal control environment.

In my opinion frameworks of governance, risk management and management control are **reasonable** and audit testing has demonstrated controls to be working in practice.

Where weaknesses have been identified through internal audit review, we have worked with management to agree appropriate corrective actions and a timescale for improvement.

## Appendix A – Summary of arrangements (continued)

### Governance (Continued)

#### Reporting Sub-Criteria

#### Findings

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

The budget is derived both bottom-up and top-down. The original budget for 2020/21 plus any in year permanent budget approvals is rolled forward as a starting budget for 2021/22. Meetings are then held with managers where they make changes to the starting budget as they see appropriate, based on their forecasts. Changes are brought back to Finance for challenge, before scrutiny by the Scrutiny Committee and then the Audit and Governance Committee. The budget is reviewed quarterly, and where significant changes are identified in year which results in the original budget being no longer reflective of the actual conditions in year, the budget is updated. For the 22/23 budget, the negative impacts of Covid-19 on income was revised following better than expected performance in areas such as car parks in 21/22. Therefore the reduction compared to pre-pandemic levels was reduced from 10% to 7%. The budget has been monitored during 22/23 with inflationary pressures being greater than originally forecast. However, the original budget has not been fully revised, with updates being instead made through quarterly reviews.

WCC have a policy/aim of maintaining the general balance at their minimum reserve level of £2m. In addition to the general fund balance, the Council also hold a number of earmarked reserves to cover unexpected liabilities/increases in costs. For example, they hold a transitional reserve to be used to support the Council's response to the climate emergency, and their move towards being carbon neutral. The Council's aim, therefore, is to decrease the general fund balance to the minimum level whilst maintaining sufficient earmarked reserves to cover their risk exposure. During the year, they report internally on the performance of the general fund, and earmarked reserves. In the 20/21 accounts these reserves were as follows;

- General Fund: £14,569k
- Earmarked reserves: £33,902k

At 31/3/22 the Council's reserves position is as follows per the financial statements:

- General Fund: £10,040k
- Earmarked Reserves: £37,990k

Please note that in 2022/23, £7.239 million deficit will be transferred from the Collection Fund Adjustment Account to the General Fund, these resources are not therefore available funds and the General Fund is effectively at £2,801k.

A further £20,286k was also held in the Capital Receipts Reserve which is available for use to support the future capital spending of the Council.



## Appendix A – Summary of arrangements (continued)

### Governance (Continued)

#### Reporting Sub-Criteria

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

#### Findings

The Strategic Director (Resources), alongside the Corporate Head of Strategic Support Resources, are responsible for providing appropriate financial information to enable both the revenue budgets and the capital programme to be monitored effectively. There is a requirement to monitor expenditure against budget allocations and report to the Cabinet on the overall position on a regular basis, as part of the Council's overall financial and performance management reporting process. It is the responsibility of Strategic Directors and Heads of Service to control income and expenditure within their area and to monitor performance, taking account of financial information provided by the Finance team. They should report on variances within their own areas. They should also take any action necessary to avoid exceeding their budget allocation and alert the Strategic Director (Resources) to any problems.

The Council's financial performance (revenue and capital), savings delivery and business performance are formally reported quarterly through a Performance Monitor. The report combines both financial and service performance monitoring to provide a complete view of the Council's performance and includes:

- Council Plan 2020-25 progress update
- Financial update
- Strategic Key Performance Indicators
- Programme and Project Management – Tier 1 project highlight reports
- COVID-19 Council services demand data
- Notes from Performance Panel (part of the Scrutiny Committee)

As part of the process current and proposed corrective actions to address financial and performance risks are also reported.

There is also an internal audit function which provides an interim report and a year-end report to confirm that control are in place properly. We have obtained the report from internal audit at year end which reported 1 item with limited assurance, relating to Disabled Facilities Grants. Internal audit provided the following detail as to why limited assurance was given:

The audit assessed the governance framework to ensure Disabled Facilities Grants are awarded appropriately, in line with legislation. The audit found examples of missing and incomplete documentation; out of data policies and procedures; an absence of performance monitoring; and opportunities to improve financial controls.

# Appendix A – Summary of arrangements (continued)

## Governance (Continued)

### Reporting Sub-Criteria

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

### Findings

While we test REFCUS items which include funding from DFG as part of our substantive testing, we confirm the details of the expenditure relate to the right period and are appropriate to class as REFCUS. No issues were identified as part of our substantive testing. The total value for DFG related capital grants and contributions in 21/22 was £1,231k, with future capital commitments of £369k. As part of their procedures to rectify the issues identified, the Council have recorded the following in the Annual Governance Statement.

3. <b>Disabled Facilities Grants</b> – ensuring the operational procedures and policy meet statutory requirements and roles and responsibilities clearly defined	List of approved contractors updated in consultation with Hampshire County Council	Private Sector Housing Senior Officer	July 2022	Updated contractors list
	Review and update Disabled Facilities Grants Policy and operational procedures	Private Sector Housing Senior Officer	September 2022	Revised Policy adopted
	Embed updated policy into the operational procedures for managing disabled facility grants	Private Sector Housing Senior Officer	October 2022	Training/ workshop sessions held with Public Sector Housing Team

We reviewed the follow up report of DFG completed by Internal audit in January 2023. This confirmed that of the sixteen management actions IA put forward, thirteen of them have been fully implemented. The remaining three management actions are assessed as partially implemented pending the production of additional operational procedures.

Statutory financial reporting is prepared at year-end based on the CIPFA requirements. The annual governance statement and the narrative statement confirm that the accounts are prepared in accordance with the relevant financial CIPFA code.

## Appendix A – Summary of arrangements (continued)

### Governance (Continued)

Reporting Sub-Criteria	Findings
How the body ensures it makes properly informed decisions, supported by appropriate evidence and allowing for challenge and transparency. This includes arrangements for effective challenge from those charged with governance/audit committee	Decisions are taken by the committees of the Council, and are informed by detailed reports produced by officers, with key decisions on Council Policy taken by the Cabinet or Full Council in accordance with the Council's constitution. There is an established Scrutiny Committee and Audit & Governance Committee which is the body formally charged with governance at the Council. The role of the Scrutiny Committee is to hold the Cabinet to account, review decisions made or actions taken in connection with the discharge of any of the Council's functions (including executive functions), and to monitor performance of the Council. The Audit & Governance Committee combines both audit functions, for example considering the work of both internal and external audit and the adequacy of risk management arrangements, and governance functions, for example promoting and maintaining high standards of conduct by Councillors and any co-opted members, and assisting the Councillors and co-opted members to observe the Members' Code of Conduct.
How the body monitors and ensures appropriate standards, such as meeting legislative/regulatory requirements and standards in terms of officer or member behaviour (such as gifts and hospitality or declarations/conflicts of interests)	<p>The responsibilities and statutory requirements of all officers and members is embedded in the Constitution. All significant actions by the Council which may have legal implications either require authorisation by the Monitoring Officer or individuals specifically delegated to act on behalf of the Monitoring Officer as set out in the Council's decision-making rules. Decision makers are also required to act within the Council's Standing Orders and scheme of delegation which makes provision for legal and constitutional advice to inform such decisions. The Council's Constitution contains a number of check points at which officers are able to identify whether decisions are being taken in compliance with the prescribed rules which ensure legal compliance. The Council has also adopted a Code of Corporate Governance (the Code) which is a framework based on guidance published in April 2016 by the Chartered Institute of Public Finance Accountancy (CIPFA) and the Society of Local Authority Chief Executives (SOLACE) around 'Delivering Good Governance in Local Government'. The Code is underpinned by the 7 core principles in the CIPFA/SOLACE framework, and is comprised of policies, procedures, behaviours and values by which the authority is controlled and governed. These Code provide the structures and guidance that members and employees require in order to ensure effective governance across the Council. It also sets out the Council's expectations and arrangements in place to help ensure that the Council conducts its business in accordance with the law and proper standards. One of its objectives is to ensure and that public money is safeguarded, properly accounted for and used economically, efficiently and effectively.</p> <p>There is an established Employee Code of Conduct, Member Code of Conduct and Protocol for Member/Officer Relations. The Members' code of conduct is also set out in Part 5 of the Constitution . Both members and officers are also required to declare related party interests which we consider as part of our work to gain assurance over related party transactions. Member interests are publicly available on the Council's website.</p>

## Appendix A – Summary of arrangements (continued)

### Improving economy, efficiency and effectiveness

Reporting Sub-Criteria	Findings
<p>How financial and performance information has been used to assess performance to identify areas for improvement</p>	<p>The Council produces a report of its Strategic Key Performance Indicators within their Quarterly Performance Reports. These KPIs are linked back to the key priorities within the Corporate Plan. The KPIs are organised into five strategic themes: Tackling Climate Emergency; Living Well; Homes for all; Vibrant Local Economy; Your Services Your Voice. The scorecard is used to flag areas of required improvement, devise actions to address any weakness identified and monitor progress.</p> <p>The Scrutiny Committee and Cabinet are responsible for considering reported performance against the KPIs and ensuring effective and efficient mitigating actions are taken to ensure targets set are being met. In order to give the performance reports detailed attention, the Scrutiny Committee have set up a Performance Panel to scrutinise the quarterly performance and financial monitoring reports on behalf of the Committee.</p>
<p>How the body evaluates the services it provides to assess performance and identify areas for improvement</p>	<p>As set out previously in this assessment, service performance against Council priorities is considered regularly throughout the year through the Quarterly Financial Monitoring Report. Monitoring arrangements therefore present a complete picture of both business and financial performance. This enables the Council to identify services or capital programmes that are not performing as expected by reference to KPI outcomes against targets which are based on the Council's strategic priorities as per the Corporate Plan. KPIs are given RAG ratings to clearly identify those items that are underperforming, or perhaps require closer monitoring. The Council continues to monitor and review its corporate priorities and MTFP to ensure that the plan and KPI's are aligned to the changing environment.</p> <p>We have returned to the performance monitoring at year end and reviewed the Q4 performance report. There was one change between Q3 to Q4 where % of procurement spend with local suppliers – Revenue spend moved from red rated to green rated. The red rating in Q3 was due to having to use agency staff from national firms to address vacancies which reduced in Q4. Within the Project highlights section, there were no red rated items.</p> <p>At year end the Council also produce both a General Fund and HRA financial outturn report. The GF outturn confirmed a net revenue surplus of £1.6m compared to the original budget.</p>
<p>How the body ensures it delivers its role within significant partnerships, engages with stakeholders it has identified, monitors performance against expectations, and ensures action is taken where necessary to improve</p>	<p>The Council participate in regular committee meetings which are available to the public to review, and therefore stakeholders can understand what is happening.</p> <p>The Council produces certain documents throughout the year which give the stakeholders, i.e. the public, employees etc an understanding of how the Council is performing, i.e. budget reports.</p> <p>The annual statements are also available once audited to the public, which include the narrative/governance statement, which provides transparency to the public.</p> <p>There is also a 'Transparency' section on the Council website, which gives the public the ability to review the Council expenditure, enabling the Council to be open to scrutiny.</p>

## Appendix A – Summary of arrangements (continued)

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### Improving economy, efficiency and effectiveness (Continued)

#### Reporting Sub-Criteria

#### Findings

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

Winchester City Council purchases goods and services from a variety of suppliers. Details of procurements are documented at <https://www.winchester.gov.uk/about/access-to-data/procurement>. The website also includes details on the terms and conditions and general procurement process, seen at <https://www.winchester.gov.uk/business/opportunities-to-work-with-the-council/how-we-buy-a-supplier-s-guide/procurement-guidelines-for-suppliers>. WCC also has a contracts management framework to ensure contracts are delivering best value and to foster long-term collaborative relationships with suppliers that strive for continuous improvement in service delivery and efficiencies.

All procurement processes and contract awards must comply with the Council's Contract Standing Orders (CSOs) set out in Part 4.7 of its Constitution which also set out the limited circumstances and processes that need to be followed for those requirements to be waived.

There is an internal audit function that tests whether the controls in place are effective. There are regular committee meetings to discuss the Council performance, and any issues can be raised here.

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## Appendix B – Summary of all recommendations

### Recommendations

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

Issue	Recommendation
Financial statements: PPE Valuation	Following the identification of a number of misstatements in PPE and IP valuations, we request that the estates team involve the Corporate Head of Asset Management as part of their check and challenge of the external valuer's valuation report. This should help identify any inputs that do not reflect the condition or other individual circumstances of the site
Financial statements: Review of Contracts	Following the prior period restatement within Property Plant and Equipment and Finance Lease Liabilities due to the Council identifying a material embedded lease, we request that contract reviews are completed in a timely manner to ensure material items such as embedded leases are included in the appropriate accounting period.
Financial statements: Related Party Transactions	Maintain an up to date register of interests. This is achieved through members and senior officers submitting their declaration of interests annually.



## Appendix C – Fees

### Fees

We carried out our audit of the Council’s financial statements in line with PSAA Ltd’s “Statement of Responsibilities of auditors and audited bodies” and “Terms of Appointment and further guidance (updated April 2018)”. As outlined in the Audit Results Report we were required to carry out additional audit procedures to address audit risks in relation to the valuation of property, plant and equipment. As a result, we have discussed an associated additional fee with the Chief Financial Officer which remains subject to approval by PSAA Ltd.

Our final proposed fees for 2021/22 are set out in the table below:

Description	Final Fee 2021/22 £	Planned Fee 2021/22 £	Final Fee 2020/21 £
Scale Fee	43,379	43,379	43,379
Scale Fee Rebasing (1)	17,153	17,153	24,114
Scale Fee Variation (2)	18,179	8,500	
Total Audit Fee – Code work	78,711	69,032	67,523

(1) As detailed in our 2020/21 Auditor’s Annual Report we have submitted a proposed rebasing of the scale fee. For 2021/22 we continue to submit the same rebasing request as previous years.

(2) The SFV includes the impact of the changes from the 2020 Code of Audit Practice, and ISA540 (revised) on Estimates which impacted on the 2021/22 audit. We have included these impacts at the lower end of the PSAAs communicated ranges.

- £6,075 for additional works required in relation to VfM as per the updated NAO Code of Audit Practise 2020, which is the lower end of PSAAs published expected range,
- £2,512 for additional works required as per the updated ISA 540 (estimates) standard, again at the lower end of PSAA’s published expected range.
- £800 for IAS 19 Protocol Assurance provided by the Hampshire Pension Fund Auditors
- £382 for HB assurance work, where we are not the reporting accountant.
- £1,021 for inclusion of PPE/IP valuations as a significant risk, outside of original scope
- £4,914 for work performed by our PPE Valuation Specialists, EY Real Estates
- £941 for work performed by our Pensions Specialists, EY Pensions Consulting
- £1,534 for work to review the portfolio heading changes and finance lease liability prior period restatement, outside of original scope

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

## Appendix C – Fees

# Relationships, services and related threats and safeguards

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The FRC Ethical Standard requires that we provide details of all relationships between Ernst & Young (EY) and the Council, and its members and senior management and its affiliates, including all services provided by us and our network to the Council, its members and senior management and its affiliates, and other services provided to other known connected parties that we consider may reasonably be thought to bear on the our integrity or objectivity, including those that could compromise independence and the related safeguards that are in place and why they address the threats.

There are no relationships from 1 April 2021 to the date of this report, which we consider may reasonably be thought to bear on our independence and objectivity

EY provided no non-audit services to the council for the year end 31 March 2022. As at the date of this report, there are no future non-audit services which have been contracted and no written proposal to provide non-audit services has been submitted.

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