



Winchester City Council
Value for Money report

Year ended 31 March 2023

February 2024



Winchester City Council
City Offices
Colebrook Street
Winchester
SO23 9LJ

08 February 2024

Dear Audit and Governance Committee Members
2022/23 Value for Money Report

We are pleased to attach our interim Value for Money report for Winchester City Council. The report summarises the findings from our 2022/23 value for money work. The report sets out the risks identified and the findings from our detailed assessment including a commentary on the three reporting criteria and a summary of the arrangements in place.

This report is intended solely for the information and use of the Audit Committee and management. It is not intended to be and should not be used by anyone other than these specified parties.

We welcome the opportunity to discuss the contents of this report with you at the Audit and Governance Committee meeting on 29 February 2024.

Yours faithfully

A handwritten signature in blue ink that reads "Kevin Suter".

Kevin Suter
Partner
For and on behalf of Ernst & Young LLP
Encl

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



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01 Executive Summary



Executive Summary

Purpose

The purpose of the report is to set out the Value for Money (VFM) work undertaken up to and including the 2022/23 financial year. The report 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.

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).

The report sets out the following areas which have been assessed up to the point of issuing this interim report to the Audit Committee:

- Risks of significant weakness and procedures planned to mitigate these
- Findings of our work against the three value for money reporting criteria and the sub-criteria
- Summary of arrangements in place over the period covered by this report.

We will summarise our final view of the value for money arrangements as part of the Auditor's Annual Report once the audit report has been issued for 2022/23.



Executive Summary (continued)

Risks of Significant Weakness

Our value for money procedures are based on the judgements reached from 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.

We completed our risk assessment procedures 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 have no matters to report by exception in this report.

Executive Summary (continued)

Reporting

Our commentary for 2022/23 is set out over pages 9 to 12. The commentary on these pages summarises our conclusions over the arrangements at the Council in relation to our reporting criteria (see table below) throughout 2022/23.

Appendix A includes the detailed arrangements and processes underpinning the reporting criteria. These were reported in our 2021/22 Annual Auditors Report and have been updated for 2022/23.

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 weakness identified
Governance: How the Council ensures that it makes informed decisions and properly manages its risks	No significant risks identified	No significant weakness 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 weakness identified



Executive Summary (continued)

Independence

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 01 April 2022 to the date of this report, which we consider may reasonably be thought to bear on our independence and objectivity.



02

Value for Money Commentary

Value for Money Commentary

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

No significant weakness identified

Winchester City Council have managed financial pressures in previous years including 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 a history of being able to set a balanced budget and have delivered surpluses for several years, allowing them to build additional reserves in preparation for potential future deficits. Earmarked reserves have grown to £38.2m as at 31/03/2023 (£37.9m as at 31/03/2022). The Council has a policy of setting a minimum General Fund Reserve at £2m (currently maintained at £3.5m as of 31/03/2023).

Medium-Term Financial Plan for 2022/23 onwards was taken to Cabinet in October 2021. For 2022/23 the budget indicated a budget surplus of £0.136m with a further one year of £0.391m one off budget to support the delivery of the Council Plan to be funded from this allocation. As per the Outturn report in relation to 2022/23, the final net surplus of £0.952m was transferred to earmarked reserves.

A £1.0m deficit was forecast for 2023/24 but it was noted that this can be covered by the existing Transitional Reserve to ensure the Council can maintain a balanced budget through to March 2024. 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.

The Council set a balanced budget for 2022/23 and more recently for 2023/24. The 2023/24 medium term financial strategy forecast deficit positions of £1.037m, £1.962m and £3.592 in 23/24, 24/25 and 25/26 respectively. The most recent medium term financial strategy shows that these deficits have been reduced to a balanced budget for both 2023/24 and 2024/25 and a smaller deficit of £1.365m for 2025/26. This evidences that management have a process for identifying funding gaps and bridging these gaps as required.

In future years, financial challenges are expected to be mitigated through the Strategic Service Review process (Transformation challenge 2025 or TC2025 programme). This is a comprehensive and detailed review of the operating model for the delivery of all services to deliver necessary savings and protect core services for residents in the greatest need. An initial strategic budget review in relation to TC2025 identified 12 themes for consideration. TC2025 has been elevated to a tier one strategic project, sponsored by a new Transformation Board. The Board has clear terms of reference, setting out the transformation, financial, workforce and consultation principles of the programme. A Programme Lead and Programme Manager have also recently been appointed to drive the programme and ensure success can be achieved and measured.

The Council has borrowings of £162m. This is from the PWLB (part of the UK Treasury) and relates solely to the Housing Revenue Account. There is no other external borrowing. This level of borrowing is not considered unusual for a body of Winchester's size and housing stock.

Conclusion: Based on the work performed, the Council had proper arrangements in place in 2022/23 to enable it to plan and manage its resources to ensure that it can continue to deliver its services.

Value for Money Commentary (continued)

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

No significant weakness identified

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 considers 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 before being put forward for Cabinet and Full Council for approval. While the budget scrutiny comes from top down, there is also a bottom up approach, with meetings held with managers where they put forward proposals for budget growth 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. Trends and changes are then considered in the next budget setting.

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 quarterly Financial and Performance monitoring report.

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 2022/23 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 2022/23, Internal Audit have issued an overall opinion of "reasonable" assurance, with one limited assurance opinion.

Conclusion: Based on the work performed, the Council had proper arrangements in place in 2022/23 to make informed decisions and properly manage its risks.

Value for Money Commentary (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

No significant weakness identified

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 2022/23 to enable it to plan and manage its resources to ensure that it can continue to deliver its services.



03

Appendices

Appendix A - Summary of arrangements

Financial Sustainability

We set out below the arrangements for the financial sustainability criteria covering the year 2022/23

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

Winchester City Council 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 Income & Expenditure, 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.

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 Taxpayers 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 to 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 all of which is for the Housing Revenue Account (HRA) of £161.7m. The General Fund currently has no external/PWLB borrowing. As at 31/3/23 borrowing (all PWLB) stands at:

- Long term borrowing - £156.7m
- Short term borrowing - £5.1m

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 assets of the Council, which reflect its more commercial activity were as follows at 31/3/23:

Appendix A - Summary of arrangements

Financial Sustainability (continued)

We set out below the arrangements for the financial sustainability criteria covering the year 2022/23

Reporting Sub-Criteria

Findings

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

Significant account	Balance	Description of asset
Investment property	£71.03m	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: - Retail- £28.6m
Long term investment	£5.4m	£5.3m relates to investment in the CCLA pooled property fund.
Short term Investment	£7.1m	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 (£21.2m) due to an increase in grant funding close to year end. In 22/23, these levels have reduced back down.

For 22/23 the Council's budget indicated a budget surplus of £0.136m with a further one year of £0.391m one off budget to support the delivery of the Council Plan to be funded from this allocation. A £1.0m deficit was forecast for 2023/24 but it was note this could be covered by the existing Transitional Reserve to ensure the Council can maintain a balance budget through to March 2024. The Council 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.

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

Appendix A - Summary of arrangements

Financial Sustainability (continued)

We set out below the arrangements for the financial sustainability criteria covering the year 2022/23

Reporting Sub-Criteria

Findings

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

Concern note itself as well as their supporting cashflow forecast.

The general assumptions underpinning the annual budget and MTFP include:

- District Council Tax increase of 3%
- Fees and Charges increase of 3%
- Income contingency of -10%
- Contractual inflation of 3%
- Employee Pay inflation of 2%

As per the Outturn report in relation to 22/23, the final net surplus of £0.952m was transferred to earmarked reserves.

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 £3.5m as of 31/03/2023). There are also a number of earmarked reserves with a total balance of £38.4m (at 31/3/2023) to meet specific liabilities when they fall due.

The Council set a balanced budget for 2022/23 and more recently for 2023/24. The 2023/24 medium term financial strategy forecast deficit positions of £1.037m, £1.962m and £3.592 in 2023/24, 2024/25 and 2025/26 respectively. The most recent medium term financial strategy shows that these deficits have been reduced to a balanced budget for both 2023/24 and 2024/25 and a smaller deficit of £1.365m for 2025/26. This evidences that management have a process for identifying funding gaps and bridging these gaps as required.

As noted previously, 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 (Transformation challenge 2025 (TC2025) programme). This is a comprehensive and detailed review of the operating model for the delivery of all services to deliver necessary savings and protect core services for residents in the greatest need. An initial strategic budget review in relation to TC2025 identified 12 themes for consideration. TC2025 has been elevated to a tier one strategic project, sponsored by a new Transformation Board. The Board has clear terms of reference, setting out the transformation, financial, workforce and consultation principles of the programme. A Programme Lead and Programme Manager have also recently been appointed to drive the programme and ensure success can be achieved and measured.

Appendix A - Summary of arrangements

Financial Sustainability (continued)

We set out below the arrangements for the financial sustainability criteria covering the year 2022/23

Reporting Sub-Criteria

Findings

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

The annual budget and Medium Term Financial Strategy (MTFS) 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 is 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.

The Council's overriding objective is to provide services to residents in the area. The corporate plan details the overall vision of the Council, with its main priorities being:

- Tackling the climate emergency and creating a greener district
- Homes for all
- Vibrant local economy
- Living well
- Your services. Your voice

The process of preparing the budget involves using the approved MTFS and updating with more detailed information as this becomes known. The financial and delivery performance against the Corporate Plan priorities is performed quarterly. This performance review 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.

Appendix A - Summary of arrangements

Financial Sustainability (continued)

We set out below the arrangements for the financial sustainability criteria covering the year 2022/23

Reporting Sub-Criteria

Findings

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

Please see above documentation in relation to the budget, MTFS and other financial planning documents on previous pages. Other plans work alongside the financial monitoring and these plans ensure that financial monitoring is incorporated into them so that the body works efficiently and effectively towards to same strategic objectives.

The Council has a Treasury Management strategy relating to the management of the council's cash flows, borrowing and investments, and the associated risks. The Council has borrowed and invested sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of financial risk are therefore central to the council's prudent financial management. Treasury risk management at the council is conducted within the framework of the CIPFA Code which requires the Council to approve a Treasury Management Strategy Statement (TMSS) before the start of each financial year. This report fulfils the council's legal obligation under the Local Government Act 2003 to have regard to the CIPFA Code. Hampshire County Council's Investments & Borrowing Team has been contracted to manage the council's treasury management balances since September 2014 but overall responsibility for treasury management remains with the council.

Treasury Management is monitored through the use of outturn reports which are presented at Cabinet at the end of each financial year. This annual report sets out the performance of the treasury management function during the year, to include the effects of the decisions taken and the transactions executed in the past year. The 2022/23 outturn shows £1,080,000 of income achieved against a budget of £284,000 delivering an additional £796,000 of income above budget. This was primarily due to much higher interest rates receivable than anticipated when the 2022/23 budget was set.

The Capital Investment Strategy sets out the council's capital spending programme and the principles which underpin this in order to deliver the desired priorities as set out in the Council Plan. The strategy details the overall programme for the next 10 years, how this will be financed, and the impact of the programme on the council's MTFS.

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

The Council has regular reviews and monitors potential risks to financial resilience. We consider there to be no specific risks to the Council that are outside the normal risks faced by all local government bodies. The main risks to the Council's financial resilience are driven by:

- Reduced Government funding
- Macro economy, including war in Ukraine, leading to higher energy prices and high inflation
- Reliance on strategic partners to deliver services and projects and inflationary pressures incorporated into contract prices
- Failure to achieve income targets

Appendix A - Summary of arrangements

Financial Sustainability (continued)

We set out below the arrangements for the financial sustainability criteria covering the year 2022/23

Reporting Sub-Criteria	Findings
How the body identifies and manages risks to financial resilience, e.g. unplanned changes in demand, including challenge of the assumptions underlying its plans (cont.)	The Council maintains a Corporate Risk Register in which it highlights the risk of lack of sufficient funding and/or escalating costs over the medium term reducing financial viability. This risk register is monitored and updated regularly to incorporate any emerging issues on unplanned changes.

Appendix A - Summary of arrangements

Governance

We set out below the arrangements for the governance criteria covering the year 2022/23

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 developed 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 management.

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's methods to identify and manage risks, include:

- 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.
- Strategic direction, policies and procedures are 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.
- 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

Appendix A - Summary of arrangements

Governance (continued)

We set out below the arrangements for the governance criteria covering the year 2022/23

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 (cont.)

Findings

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.

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 2022/23 is as follows:

Annual Internal Audit Opinion 2022-23

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.

We have reviewed the risk register for March 2023 as taken to Cabinet. The key risks (red rated) identified in the risk register relate to:

- Availability of suitable sites to meet the strategic need for building new homes
- Failure to effectively respond to the Climate Change Emergency and reduce the council and district carbon emissions
- Nutrient neutrality - Phosphates

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 in the s1515 Officers judgement due to the TC25 programme, and we would agree to the available mitigation of the Council's strong levels of reserves should unforeseen circumstances occur.

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

Appendix A - Summary of arrangements

Governance (continued)

We set out below the arrangements for the governance criteria covering the year 2022/23

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 2021/22 plus any in year permanent budget approvals is rolled forward as a starting budget for 2022/23. 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. The budget is reviewed quarterly, and where significant changes are identified in year which result in the original budget no longer being reflective of the actual conditions in year, the budget is updated.

For the 2022/23 budget there was expectation of greater levels of stability in income and expenditure following the Covid-19 pandemic. However, high inflation has had a significant impact on expenditure. The original budget was not fully revised, with updates being instead made through quarterly reviews.

The Council have a policy/aim of maintaining the general fund balance at the 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 mitigate the risk of future budget shortfalls, and a 'Greener Faster' reserve be used to support the Council's response to the climate emergency, and their move towards being carbon neutral. The Councils 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.

As at 31/3/23 the Council's reserves position as recorded within its financial statements was:

- General Fund: £3,512k
- Earmarked Reserves: £38,248k

A further £18,029k 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

Governance (continued)

We set out below the arrangements for the governance criteria covering the year 2022/23

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 s151 Officer is 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 quarterly Financial and Performance Report'. 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.

Appendix A - Summary of arrangements

Governance (continued)

We set out below the arrangements for the governance criteria covering the year 2022/23

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 considers 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.

Decision makers are 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.

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

The 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.

The Council has 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. This Code provides 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.

Appendix A - Summary of arrangements

Governance (continued)

We set out below the arrangements for the governance criteria covering the year 2022/23

Reporting Sub-Criteria	Findings
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) (cont.)	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.

Appendix A - Summary of arrangements

Improving economy, efficiency and effectiveness

We set out below the arrangements for improving economy, efficiency and effectiveness criteria covering the year 2022/23

Reporting Sub-Criteria

Findings

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

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.

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.

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

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.

We have reviewed the Q4 performance report 2022-23 and note there were no red rated items.

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

The Council participates in regular committee meetings which are available to the public to review, and therefore stakeholders can understand what is happening. 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 annual statements are also available once audited to the public, which include the narrative/governance statement, which provides transparency to the public. 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.

Section 35 of the Constitution sets out that "no Partnership or Joint Venture Arrangement shall be entered into by the Council except with the approval of Cabinet or under the Portfolio Holder Decision Notice Scheme".

Appendix A - Summary of arrangements

Improving economy, efficiency and effectiveness (continued)

We set out below the arrangements for improving economy, efficiency and effectiveness criteria covering the year 2022/23

Reporting Sub-Criteria

Where the body commissions or procures services, how the body ensures that this is done in accordance with relevant legislation, professional standards and internal policies, and how the body assesses with it is releasing the expected benefits

Findings

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>. 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.

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.

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.

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