

A close-up photograph of a person's hand holding a white pen, pointing at a bar chart displayed on a tablet screen. The chart features several horizontal bars in shades of green, brown, and red, set against a blue grid background. The person is wearing a blue suit jacket. The text 'Hampshire County Council' is overlaid in yellow on the left side of the image.

Hampshire County
Council

Value for Money report

Year ended 31 March 2023

February 2024

07 February 2024



Dear Audit Committee Members

2022/23 Value for Money Report

We are pleased to attach our interim Value for Money report for Hampshire County Council. The report summarises the findings from our 2022/23 value for money work and to date in 2023/24. 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 Committee meeting on 7 March 2024.

Yours faithfully

Kevin Suter

Partner

For and on behalf of Ernst & Young LLP

Encl

Contents

01 Executive Summary



02 Value for Money Commentary



03 Appendices



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

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

This report is made solely to the Audit Committee and management of Hampshire County Council in accordance with our engagement letter. Our work has been undertaken so that we might state to the Audit Committee and management of Hampshire County 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 Committee and management of Hampshire County 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.



BOARDROOM

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, and including information also covering the 2023/24 financial year to the date of drafting this report. 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 Deputy Chief Executive and Director of Corporate Operations, and other finance officers; and
- evaluation of associated documentation through our regular engagement with Council management and the finance team.

We identified no risks of significant weakness in the Council's arrangements as part of our risk assessment procedures.

Executive Summary (continued)

Reporting

Our commentary for 2022/23 and to date for 2023/24 is set out over pages 9 to 14. 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 and 2023/24 to date.

Whilst we have not identified any risks of significant weaknesses in arrangements, we include within the VFM commentary a recommendation we have agreed with the Council in relation to Financial Sustainability

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 risk of significant weakness in arrangements identified in 2022/23 and 2023/24. Recommendation for continued action made on page 12	No significant weakness identified
Governance: How the Council ensures that it makes informed decisions and properly manages its risks	No risk of significant weakness in arrangements identified in 2022/23 and 2023/24	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 risk of significant weakness in arrangements identified in 2022/23 and 2023/24	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 1 April 2022 to the date of this report, which we consider may reasonably be thought to bear on our independence and objectivity.

During the year to 31 March 2023 we have undertaken the following non-audit service, against which we have identified the potential threats to our independence and adopted the safeguards as shown below.

Description of service	Related independence threat	Safeguards adopted and reasons considered to be effective
Non-audit work in relation to the ISAE 3402 report on the integrated business centre (IBC)	Self-review / Self-interest	The work will be led and delivered by a separate SOC reporting team. No members of the audit team will work on this project.

As of the date of this report, future services have been contracted to provide the same non-audit service for the year ended 31 March 2024.



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

2022/23 financial performance and position

Net service expenditure for the year was £3.5 million lower than planned against a cash limited budget of over £1.1 billion. Within that net underspend, Adults Health and Care and Children's Services both incurred net overspends against budget reflecting both permanent increases in care costs and growth in demand for services. Cost pressures in home to school transport and increasing numbers of children with special educational needs (SEN) were particular pressures in Children's Services. Performance in the delivery of savings was good, with £23.4 million or 83% of remaining targeted savings delivered under the Council's Transformation to 2021 Programme, and a further £20.8 million of savings delivered under the Savings Programme to 2023.

At the end of the 2022/23 financial year the total reserves held by the Council, including the general fund balance and individual schools' balances, but excluding the Dedicated Schools Grant (DSG) deficit, totalled £845 million. This reflects a £38 million net reduction in reserves from the prior year, with £34 million of that relating to the net draw from directorate reserves used for a number of purposes including cash flow funding for delayed savings, funding to offset inflation and demand pressures and investment in services. £25.9 million was also drawn from the Budget Bridging Reserve in line with the plan to support the budget ahead of the Savings Programme for 2023. The General Fund balance continued to be maintained at 2.5% of the Council's budget requirement, and stood at £25 million at the end of the year. The total cumulative deficit on the DSG reserve stood at £86 million at the end of 2022/23. The DSG deficit is currently ring fenced under statute until 2025/26. Should this ring fencing end that would generate a further financial pressure on the General Fund.

Arrangements during the financial year

The Council produces a three year MTFS on a rolling basis, which is updated annually. The strategy that the Council follows involves planning ahead of time, releasing resources in advance of need and using those resources to help fund transformational change. This strategy has served the Council well as it has delivered transformation programmes on time and on budget with minimum disruption.

A budget is prepared and approved annually, ahead of the financial year. The draft budget should include allocation to different services and projects, proposed taxation levels and contingency funds. The budget will be approved by the County Council and proposed by the Cabinet on the advice of the Chief Financial Officer.

The Cabinet is responsible for issuing annual guidelines on the revenue budget and capital programme, in consultation with the Chief Financial Officer, ahead of the preparation of the revenue budget and capital programme.

Throughout the financial planning i.e. annual budget and MTFS processes, consideration of other plans such as capital and treasury management also take place. The Capital and Investment strategy also forms part of the annual budget setting process with the strategy being taken to Cabinet for approval at the same time as the revenue budget.

Value for Money Commentary

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

As part of medium term financial planning undertaken in the 2022/23 year the Council forecast it could be facing a recurring deficit of between £180 million and £300 million by 2025/26 without further action, and additional arrangements were implemented to seek to close the budget gap. Directors have been required to review each service area and consider differing service delivery options with increasing levels of impact and severity, as well as to come up with any cost cutting measures. There is a monthly financial resilience meeting of the Directors of Social Services to monitor ongoing pressures.

Management and Members have maintained an open dialogue with the Department of Levelling-Up, Housing and Communities as they work through their action plan, and are in active dialogue with Government regarding the longer-term issues facing the Council. Management have highlighted that changes to legislation that reduce service cost or allow the Council to charge for services is also an option. However management note that no legislative changes have been made and therefore the Council are focusing on internal processes and continuing to lobby the Government.

We continue to be satisfied that management has a detailed grasp of the financial challenges the Council faces, and have put in place the necessary arrangements and processes in response. Therefore, in our judgement we assessed the Council's arrangements to be appropriate and without significant weakness within the financial year assessed.

Commentary on the latest financial position

In the VFM narrative commentary set out in our 2021/22 Auditor's Annual Report, which was issued in November 2023, we included details of the Council's forecast financial position up to and including the Medium Term Financial Strategy Update and Savings Programme proposals presented to Cabinet in October 2023.

The purpose of that October 2023 update was to consider the overall financial strategy for dealing with the budget gap to 2025/26. The report also updated the current year (2023/24) position which showed significant pressures in school transport which could lead to an additional demand of around £18 million by 2025/26, and also identified emerging concerns in Adults' Services and the SEN service that will need to be closely monitored to determine whether they will impact on the medium term forecast to 2025/26. Review processes identified a total of £90.4 million savings across all directorates, of which £75.1 million are expected to be delivered by 2025/26, leaving an unmet budget gap of £56.9 million for 2025/26. This is currently assumed to have to be financed by reserves. As a change to previous policy, savings that are made earlier than planned will be used to support the budget bridging reserve rather than retained and reinvested by the relevant directorate. Reserves, over the three year period 23/24 to 25/26, are expected to be used at an average level of £58.9 million per year. This is not sustainable, which the Council recognises and reports.

Value for Money Commentary

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

Subsequent to the October 2023 update a further report was presented to Cabinet in December 2023 setting out a 2023/24 financial update and 2024/25 budget setting proposals. That report continued to note building pressure on the Adults, School Transport and SEN budgets in 2023/24. The 2023/24 impact of the transport and SEN pressures was still being assessed, however the increase in Adult Social Care clients was expected to add £10.5 million to the cost of service delivery in 2024/25. In addition, the Council reported it could face extra costs in relation to cyber security, other IT pressures and health and safety improvement work. The report also flagged the risk to delivery of some planned savings.

We note that the Revenue Budget for 2024/25 was published for the 6 February 2024 Cabinet meeting. This includes a recommendation for a 4.99% precept increase for a Council Tax Band D property, of which 2% is specific to Adult Social Care. It includes a draw on the Budget Bridging Reserve of £84.7 million. The Council's share of the national £600m additional funds for social care will reduce the annual deficit by approximately £10m

Actions including a further review for additional savings are continuing, as is an exercise to review the Council's legal minimum service level reported to the December 2023 Cabinet. The Council is also consulting, from 8 January 2024, on options for making savings in 13 service areas. This will inform the decisions on those services expected in the summer of 2024. This follows on from the earlier public consultation called 'Making the most of your money' which ran for six weeks from 12 June to the 23 July 2023.

We continue to conclude that reporting of the Council's budget position and forecasts continues to show that it has appropriate arrangements in place to identify risks to its financial sustainability. However, the solution to use reserves is only a temporary mitigation to the budget problems over the medium term strategy period, and is not sustainable. The pressures it is experiencing will require strong political engagement and officer management and discipline in implementing the savings it has identified and will also require further significant decisions regarding its services to be taken over the next budget cycles, to address the recurring budget gap and to be able to maintain a balanced budget. While we do not consider there to be a risk of, or actual, significant weaknesses in the Council's arrangements in this area we continue to raise the recommendation raised as part of our 2021/22 VFM work that was reported in our 2021/22 Auditor's Annual Report in November 2023.

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.

Recommendation: The County Council should maintain the level of monitoring and review it currently has in place whilst the identified strains and pressures continue. Focus should be placed on implementing savings plans as soon as possible, and continually reviewing further options.

Value for Money Commentary (continued)

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

The Council has an effective corporate risk management framework embedded in its Corporate Governance Code which is in place to identify, mitigate and monitor the risks to the Council in delivering strategic and service organisations. The Council manages risk through robust internal control and strong public financial management.

The risk register is reviewed throughout the year by the Cabinet, Corporate Management Team, Risk Management Board and the Audit Committee

Quarterly reports are received from the internal auditors highlighting their work carried out including a breakdown of fraud investigations with any significant issues detailed in summary format. The internal audit plan incorporates both reactive and proactive fraud work along with fraud thematic reviews to identify and mitigate fraud risk.

Cases of alleged or proven incidents of fraud are investigated or tracked by internal audit and reported to the Audit Committee. Relevant trends are also reported to Audit Committee as would any incidents of fraud detected through internal audit checking procedures.

Financial regulations and procedures have been developed and are kept under review to ensure they provide an effective control framework. Compliance is monitored through appropriate review by service managers and finance staff together with independent review by internal audit.

The Annual Budget process, including the responsibilities and procedures in the annual budget process, is clearly set out within the Constitution of the Council as part of its Financial Regulations. The Financial Regulations state that the Chief Financial Officer is responsible for “preparing and controlling forward financial plans, budget strategies, the revenue budget, the capital strategy and capital programme” with Chief Officers being responsible for “controlling expenditure and income, monitoring performance and taking the necessary action to remain within budgets and cash limits”.

Within the Constitution of the Council there are processes and procedures in place to ensure the Council has effective processes and systems in place to ensure budgetary control, produce relevant accurate and timely management information, support its statutory financial reporting requirements and to ensure it is able to take corrective action where needed

Conclusion: Based on the work performed, the Council had proper arrangements in place in 2022/23 to enable it 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

The Council is currently operating under the “Serving Hampshire - Strategic Plan for 2021-2025”.

The Plan has 4 strategic aims:

- Hampshire maintains strong and sustainable economic growth and prosperity
- People in Hampshire live safe, healthy and independent lives
- People in Hampshire enjoy a rich and diverse environment
- People in Hampshire enjoy being part of strong, inclusive communities

To report progress against Serving Hampshire, departments are asked to rate performance against a core set of performance metrics on a quarterly basis. Each year a performance report is produced which sets out the Council’s performance throughout the year, both financial and non-financial. The report provides strategic oversight of the Council’s performance in year against the “Serving Hampshire” and sets out ways to refresh the Plan and update the Council Performance Management Framework.

During 2022/23 the Council implemented a new Directorate structure, including creating a Hampshire 2050 directorate to focus on Hampshire as a place, and to deliver the wider Hampshire 2050 vision. Enabling functions, such as finance, strategic procurement, IT and HR, have been reviewed with a view to consolidating into the corporate centre and Corporate Operations or People and Organisation Directorates as appropriate, aiming to reduce duplication and create efficiencies and consistency in their relevant activities.

There are clear processes to govern Procurement and Contracts which are set out as part of Standing Orders in the Council’s constitution. This includes the procedures and statutory requirements in terms of the procurement of services. The Council has also developed a Procurement Strategy which sets the framework in which Hampshire County Council will work to ensure that procurement delivers value for money across all services and directly contributes to the achievement of strategic goals.

Conclusion: Based on the work performed, the Council had proper arrangements in place in 2022/23 to enable it to use information about its costs and performance to improve the way it manages and delivers services.



10 Appendices

Appendix A - Summary of arrangements

Financial Sustainability

We set out below the arrangements for the financial sustainability criteria covering the 2022/23 year and to date in 2023/24

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	<p>Net service expenditure for the year was £3.5 million lower than planned against a cash limited budget of over £1.1 billion. Within that net underspend Adult's Health and Care and Children's Services both incurred net overspends against budget reflecting both permanent increases in care costs and growth in demand for services. Cost pressures in home to school transport and increasing numbers of children with special educational needs (SEN) were particular pressures in Children's Services. Performance in the delivery of savings was good with £23.4 million or 83% of remaining targeted savings delivered under the Council's Transformation to 2021 Programme, and a further £20.8 million of savings delivered under the Savings Programme to 2023.</p> <p>At the end of the 2022/23 financial year the total reserves held by the Council, including the general fund balance and individual schools' balances, but excluding the Dedicated Schools Grant (DSG) deficit, totalled £845 million. This reflects a £38 million net reduction in reserves from the prior year, with £34 million of that relating to the net draw from directorate reserves used for a number of purposes including cash flow funding for delayed savings, funding to offset inflation and demand pressures and investment in services. £25.9 million was also drawn from the Budget Bridging Reserve in line with the plan to support the budget ahead of the Savings Programme for 2023. The General Fund balance continued to be maintained at 2.5% of the Council's budget requirement, and stood at £25 million at the end of the year.</p> <p><u>Medium Term Financial Strategy (MTFS):</u></p> <p>The Council produces a three year MTFS on a rolling basis, which is updated annually. The strategy that the Council follows involves planning ahead of time, releasing resources in advance of need and using those resources to help fund transformational change. This strategy has served the Council well as it has delivered transformation programmes on time and on budget minimum disruption. The MTFS consists of a Reserves and Savings Strategy, which is summarised below:</p> <ul style="list-style-type: none">▶ Deliberate policy to make savings ahead of need to generate surplus funds▶ Using those reserves to fund the next phase of changes to release further savings and increase capital investment▶ Two year programme of savings to give the time and capacity to implement effectively▶ Straight line approach to allocating savings and corporate funding made available to fund spending pressures▶ Significant use of the Grant Equalisation Reserve to fund deficits in intervening years▶ Using other corporate reserves to fund voluntary redundancy programmes and corporate invest to save programmes

Appendix A - Summary of arrangements

Financial Sustainability (continued)

We set out below the arrangements for the financial sustainability criteria covering the 2022/23 year and to date in 2023/24

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 (cont'd)

Findings

In addition to the above, the Council focus on the commercialisation of Local Government as part of the MTFS. A summary of over-arching objectives on this is shown below:

- ▶ Charging users for the direct provision of services.
- ▶ Investing money or using assets to generate a return.
- ▶ Expanding traded services to other organisations.
- ▶ Developing joint ventures that yield additional income or generate a return.

Annual Budget Setting Process:

A budget is prepared and approved annually, ahead of the financial year. The draft budget should include allocation to different services and projects, proposed taxation levels and contingency funds. The budget will be approved by the County Council and proposed by the Cabinet on the advice of the Chief Financial Officer.

The Cabinet is responsible for issuing annual guidelines on the revenue budget and capital programme, in consultation with the Chief Financial Officer, ahead of the preparation of the revenue budget and capital programme. These guidelines will take into account:

- ▶ legal requirements;
- ▶ the medium-term planning prospects;
- ▶ the corporate strategy;
- ▶ available resources;
- ▶ spending pressures; and
- ▶ any other relevant plans.

The Chief Financial Officer is responsible for ensuring that a revenue budget and capital programme is prepared on an annual basis. The County Council may amend the budget and capital programme or ask the Cabinet to reconsider it before approving it.

Appendix A - Summary of arrangements

Financial Sustainability (continued)

We set out below the arrangements for the financial sustainability criteria covering the year 2023/24 and to date in 2023/24

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 (continued)	<p>Saving targets and other headline issues are agreed as part of the MTFS as noted above. The Council uses this information to devise and implement savings strategies. These strategies had previously been through their “Transformation To” plans. These “Transformation To” plans have been replaced by “Saving Programmes” plans. Through this process the Council sets out clear savings strategies which it needs to implement to remain sustainable.</p> <p>Management note that each successive savings programme is becoming more difficult to deliver as the potential to achieve further permanent cost reductions through early intervention and demand management and prevention approaches is reduced. In addition, the Council have implemented a “Working towards Economic Recovery” initiative which sets out the current economic challenges and the Council’s response to them.</p>
How the body plans to bridge its funding gaps and identifies achievable savings	<p>The Council has a Medium-Term Financial Forecast (MTFF) which includes a 4-year forecast of planned savings.</p> <p>In the budget setting for 2022/23 and beyond, the Council acknowledged that extensive work will be undertaken to identify savings and mitigations to address forecast budget gaps.</p>
How the body plans finances to support the sustainable delivery of services in accordance with strategic and statutory priorities	<p>The Council’s saving plans and initiatives focus around its four strategic aims, which bring together a number of priorities forming an overarching framework for services:</p> <ul style="list-style-type: none">▶ Hampshire maintains strong and sustainable economic growth and prosperity - The first strategic aim relates to Hampshire’s future economic growth and prosperity.▶ People in Hampshire live safe, healthy and independent lives - The second strategic aim is about supporting people to live safe, healthy and independent lives by focusing the County Council’s resources where need is greatest, and where they can make the biggest difference.▶ People in Hampshire enjoy a rich and diverse environment - The third strategic aim balances the first by ensuring that Hampshire’s economic success does not come at the expense of the county’s environment and heritage.▶ People in Hampshire enjoy strong, inclusive communities - The fourth strategic aim is about recognising the resources, skills and strengths that exist in local communities and that, when utilised, can help reduce the demand and dependency on County Council services.”

Appendix A - Summary of arrangements

Financial Sustainability (continued)

We set out below the arrangements for the financial sustainability criteria covering the year 2023/24 and to date in 2023/24

Reporting Sub-Criteria	Findings
How the body plans finances to support the sustainable delivery of services in accordance with strategic and statutory priorities (cont'd)	<p>The Council recognises that its ability to continue to deliver front line services will depend on its capacity to generate new funding streams, streamline the way that residents access services and support and encourage self-sufficiency, whilst protecting the most vulnerable. Their focus is on targeting resources at the most vulnerable people while becoming more efficient in the delivery of its services.</p> <p>The Council has also implemented a strategic plan which is intended to guide decision making to ensure that money is targeted where it is needed most and where it can make the greatest difference.</p> <p>As noted above, the Council reviews its budgetary position annually and produces a rolling three year plan, known as the MTFS. This enables the entity to consider the financial climate at both the local and national level together with available resources and budgetary pressures in order to arrive at a financial strategy. Throughout these processes, each service line is considered individually in order to ascertain whether savings can be made in each of these areas and the potential impact these savings may have. This enables the Council to ensure consistent delivery of services throughout the County and enables them to monitor progress and risks relating to each service area.</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>Throughout the financial planning i.e. annual budget and MTFS processes, consideration of other plans such as capital and treasury management also take place. The Capital and Investment strategy also forms part of the annual budget setting process with the strategy being taken to Cabinet for approval at the same time as the revenue budget.</p> <p>The Capital and Investment Strategy gives a high-level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of local public services along with an overview of how associated risk is managed and the implications for future financial sustainability. This strategy covers:</p>

Appendix A - Summary of arrangements

Financial Sustainability (continued)

We set out below the arrangements for the financial sustainability criteria covering the year 2023/24 and to date in 2023/24

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 (cont'd)

- ▶ Governance arrangements for capital investment.
- ▶ Capital expenditure forecasts and financing.
- ▶ Prudential indicators relating to financial sustainability.
- ▶ Minimum Revenue Provision for the repayment of debt.
- ▶ Treasury Management definition and governance arrangements.
- ▶ Investments for service purposes, linked to the County Council's Commercial Strategy.
- ▶ Knowledge and skills.
- ▶ CFO's conclusion on the affordability and risk associated with the Capital and Investment Strategy.
- ▶ Links to the statutory guidance and other information

All of the Council's financial strategies and planning interlink and are presented in a way that informs clear and effective decision making.

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

Please see commentary above about the annual budget setting process, MTFS and saving initiatives. Throughout the preparation of each of these, risks are taken into consideration in order to determine how they impact certain areas and what the financial implications of these risks might be.

The Council has an effective corporate risk management framework in place to identify, mitigate and monitor the risks to the Council in delivering strategic and service organisations. This includes both financial and non-financial risks. The elements of the Council's risk management's framework are outlined on its website. The risk register is reviewed throughout the year by the Cabinet, Corporate Management Team, Risk Management Board and the Audit Committee.

Appendix A - Summary of arrangements

Financial Sustainability (continued)

We set out below the arrangements for the financial sustainability criteria covering the year 2023/24 and to date in 2023/24

Reporting Sub-Criteria

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'd)

Findings

Budget Monitoring and Control:

The Chief Financial Officer is responsible for providing appropriate financial systems to enable budgets to be monitored effectively. The Chief Financial Officer must monitor expenditure against budget allocations and report to the Cabinet on the overall position on a regular basis.

It is the responsibility of Chief Officers to control income and expenditure on their budgets and to monitor performance taking account of financial information provided by the Chief Financial Officer. They should report to the relevant Executive Member on variations and take any action necessary to avoid exceeding their budgets and alert the Chief Financial Officer to any problems.

Appendix A - Summary of arrangements

Governance

We set out below the arrangements for the governance criteria covering the 2022/23 year and to date in 2023/24

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 an effective corporate risk management framework embedded in its Corporate Governance Code which is in place to identify, mitigate and monitor the risks to the Council in delivering strategic and service organisations. The Council manages risk through “robust internal control and strong public financial management”. The elements of the Council’s risk management’s framework are outlined below:

- ▶ Ensure that responsibilities for managing individual risks are clearly allocated
- ▶ Align the risk management strategy and policies on internal control with achieving objectives
- ▶ Ensure an audit committee which is independent of the executive and accountable to the County Council:
 - ▶ provides a further source of effective assurance regarding arrangements for managing risk and maintaining an effective control environment; and
 - ▶ that its recommendations are listened to and acted upon.

The risk register is reviewed throughout the year by the Cabinet, Corporate Management Team, Risk Management Board and the Audit Committee. Quarterly reports are received from the internal auditors highlighting their work carried out including a breakdown of fraud investigations with any significant issues detailed in summary format. The internal audit plan incorporates both reactive and proactive fraud work along with fraud thematic reviews to identify and mitigate fraud risk.

Cases of alleged or proven incidents of fraud are investigated or tracked by internal audit and reported to the Audit Committee. Relevant trends are also reported to Audit Committee as would any incidents of fraud detected through internal audit checking procedures.

The Anti-Fraud and Corruption Strategy and related policies (including the Bribery Act Policy) are regularly reviewed and have been approved by the Audit Committee. The County Council fully participate in the National Fraud Initiative with results notified to the Audit Committee through the Chief Internal Auditors Annual Report and Opinion. In accordance with the Local Government Transparency Code 2014 all required fraud indicators are presented quarterly to the Audit Committee (as a public document) as part of the internal audit progress report.

Appendix A - Summary of arrangements

Governance (continued)

We set out below the arrangements for the governance criteria covering the 2022/23 year and to date in 2023/24

Reporting Sub-Criteria

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

Findings

The Annual Budget process including the responsibilities and procedures in the annual budget process is set out within the Constitution of the Council within Part 3, Chapter 5 - Financial Regulations. The Financial Regulations state that the Chief Financial Officer is responsible for “preparing and controlling forward financial plans, budget strategies, the revenue budget, the capital strategy and capital programme” with chief officers being responsible for “controlling expenditure and income, monitoring performance and taking the necessary action to remain within budgets and cash limits”.

Budget Preparation:

The Cabinet is responsible for issuing annual guidelines on the revenue budget and capital programme, in consultation with the Chief Financial Officer, ahead of the preparation of the revenue budget and capital programme. These guidelines will take into account:

- ▶ legal requirements;
- ▶ the medium term planning prospects;
- ▶ the corporate strategy;
- ▶ available resources;
- ▶ spending pressures; and
- ▶ the community plan and other relevant plans.

The Chief Financial Officer is responsible for ensuring that a revenue budget and capital programme is prepared on an annual basis and a forward financial forecast is prepared in line with Government Funding notifications for consideration by the Cabinet, before submission to the County Council. The County Council may amend the budget and capital programme or ask the Cabinet to reconsider it before approving it.

It is the responsibility of chief officers to ensure that revenue and capital budget estimates reflecting agreed service plans are prepared in consultation with the Chief Financial Officer and Executive Member and submitted to the Cabinet and that these estimates are prepared in line with the budget guidance issued by the Cabinet.

Appendix A - Summary of arrangements

Governance (continued)

We set out below the arrangements for the governance criteria covering the 2022/23 year and to date in 2023/24

Reporting Sub-Criteria	Findings
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	<p>Within the Constitution of the Council there are processes and procedures in place to ensure the Council has effective processes and systems in place to ensure budgetary control, to communicate relevant, accurate and timely management information; to support its statutory financial reporting requirements and to ensure the body is taking corrective action where needed, this is documented within the Council's Financial Regulations and is set out further below.</p> <p><u>Budget Monitoring and Control:</u></p> <p>The Chief Financial Officer is responsible for providing appropriate financial systems to enable budgets to be monitored effectively. The Chief Financial Officer must monitor expenditure against budget allocations and report to the Cabinet on the overall position on a regular basis.</p> <p>It is the responsibility of chief officers to control income and expenditure on their budgets and to monitor performance taking account of financial information provided by the Chief Financial Officer. They should report to the relevant executive member on variations and take any action necessary to avoid exceeding their budgets and alert the Chief Financial Officer to any problems. Any new proposal containing significant financial implications must take note of the Chief Financial Officer's advice as well as that of the relevant Chief Officer and executive member.</p>
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	<p>The Council has a number of arrangements in place to ensure that appropriate decisions are made. Council decisions may be made either at Full Council meetings of all members, at committees of Council, at a meeting of all executive members i.e. 'Cabinet' or by individual executive members at 'decision days'. Decisions made by Cabinet or at decision days may be held to account by Select Committees (Overview and Scrutiny). Advisory panels and committees support and inform the decision making process.</p> <p><u>County Council:</u></p> <p>The Full Council is responsible for specified major decisions, such as setting the budget, and debates topical issues. It also receives reports from the Executive, and members are able to question the Executive on their areas of business.</p>

Appendix A - Summary of arrangements

Governance (continued)

We set out below the arrangements for the governance criteria covering the 2022/23 year and to date in 2023/24

Reporting Sub-Criteria

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 (cont'd)

Findings

Decision making:

The Council operates a Leader with Cabinet structure. Hampshire's Cabinet is made up of the Leader and executive members who each have a portfolio of responsibilities. The Cabinet make decisions together on strategic issues and individual executive members can take decisions on issues relating directly to their portfolio areas.

Select Committees:

The Select Committees (Overview and Scrutiny) hold the executive members to account on the decisions they make both collectively as Cabinet and individually. They can assist the Cabinet and executive members to make effective decisions by examining issues beforehand and making recommendations - this is called 'pre-scrutiny'. The Select Committees can also challenge decisions before they are implemented, review decisions after they have been implemented to see if they achieved what was intended, and suggest new policy areas or review the effectiveness of existing policies.

Audit Committee:

The purpose of the audit committee is to monitor, review and report on the governance arrangements of the County Council.

The committee meets quarterly and the regulatory framework that the Audit Committee follow is shown below:

- ▶ To monitor the roles, processes and behaviour that affect the way that governance is exercised within the County Council and in particular the adoption, review and amendment of the Corporate Governance Framework for the County Council.
- ▶ To review and consider the reports from the Chief Finance Officer on the treasury management function, including the treasury management strategy, half-yearly report and annual report.

Appendix A - Summary of arrangements

Governance (continued)

We set out below the arrangements for the governance criteria covering the 2022/23 year and to date in 2023/24

Reporting Sub-Criteria

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 (cont'd)

Findings

- ▶ To consider the effect of the County Council's risk management arrangements, the control environment and associated anti-fraud and anti-corruption arrangements, seeking assurances as necessary that action is being taken on risk-related areas identified by auditors and inspectors.
- ▶ To receive and form a view on internal assurances of governance practice and to be satisfied that the County Council's assurance statements, including the Annual Governance Statement, properly reflect the risk environment and any actions required to improve it.
- ▶ To consider the County Council's compliance with its own and other published standards and controls.
- ▶ To make recommendations to the County Council for the making or amending of financial regulations, standing orders related to contracts or regulations related to the conduct of the County Council's business.

The Audit Committee is supported by the Internal Audit Function (Southern Internal Audit Partnership). Quarterly reports are received from the internal auditors highlighting work carried, these reports are presented at Audit Committee where the results and procedures are discussed amongst those charged with governance.

Monitoring Officer:

The Council also has a Monitoring Officer in place. The function and role of the Monitoring Officer is set out in the Council's constitution. The functions of the Monitoring Officer include:

- ▶ Maintaining the constitution.
- ▶ Ensuring lawful and fair decision making
- ▶ Proper Officer for Access to Information - i.e. ensuring that records of decisions, together with the reasons for those decisions and relevant officer reports and background papers, are made publicly available as soon as possible.
- ▶ Checking whether executive decisions are within the budget and policy framework.
- ▶ Supporting the Audit Committee - i.e. giving guidance to the Audit Committee on matters appertaining to the governance of the County Council's affairs.

Appendix A - Summary of arrangements

Governance (continued)

We set out below the arrangements for the governance criteria covering the 2022/23 year and to date in 2023/24

Reporting Sub-Criteria

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)

Findings

To ensure effective leadership throughout the County Council, members and officers work together to deliver agreed plans with defined functions and roles. These roles and responsibilities are set out in the Constitution including those for the Executive, Committees, Full Council and chief officers and the rules under which they operate. In particular, it looks at how decisions are made and how procedures are to be followed to ensure that actions are efficient, legal, transparent and accountable to the community. Many of these processes are required by statute and regulations by Governmental and other bodies (e.g. CIPFA) while the County Council has determined others locally. The Head of Governance (Monitoring Officer) provides advice on the interpretation and application of the Constitution.

The Council has a sound management philosophy, demonstrates clarity of purpose and focus, with emphasis on performance and risk management. Our experience and knowledge of senior management is that they act with integrity, have good standards of behaviour and performance and lead by example. Both management and those charged with governance maintain an ethical stance and respond to instances of non-compliance with remedial action. There is an ethos of compliance with laws and regulations.

The County Council has adopted a number of codes and protocols that govern the standards of behaviour expected of members and officers. These include codes of conduct for both officers and members and cover conflicts of interest and gifts and hospitality and appropriate policies for partnership working. These are communicated as part of the induction process. All staff and members are provided with a copy of the respective codes of conduct when joining the Council and are required to read and comply with them.

Appendix A - Summary of arrangements

Improving economy, efficiency and effectiveness

We set out below the arrangements for the improving economy, efficiency and effectiveness criteria covering the 2022/23 year and to date in 2023/24

Reporting Sub-Criteria	Findings
How financial and performance information has been used to assess performance to identify areas for improvement; and	<p>The Council is currently operating under the “Serving Hampshire - Strategic Plan for 2021-2025”. The Plan has 4 strategic aims:</p> <ul style="list-style-type: none">▶ Hampshire maintains strong and sustainable economic growth and prosperity▶ People in Hampshire live safe, healthy and independent lives▶ People in Hampshire enjoy a rich and diverse environment▶ People in Hampshire enjoy being part of strong, inclusive communities
How the body evaluates the services it provides to assess performance and identify areas for improvement	<p>Each year the Council produces a performance report which details on the County Council’s performance throughout the year, both financial and non-financial. This report provides strategic oversight of the Council’s performance in year against the “Serving Hampshire” and sets out ways to refresh the Plan and update the Council Performance Management Framework.</p> <p>To report progress against Serving Hampshire, departments are asked to rate performance against a core set of performance metrics on a quarterly basis. For each measure, a risk-based ‘red, amber, green’ rating is applied, informed by the most recent data and management information. Departments also provide an overview of key achievements and detail any risks/issues and budget pressures that may impact performance against agreed priorities. Within this detail, departments are asked to provide a description of the mitigating actions that are in place where the risk rating exceeds the desired threshold and gives an opportunity to flag if wider support is required. The Insight and Engagement team is responsible for data collation to support the monitoring process, but any mitigating actions are undertaken by departments themselves.</p> <p>During the year a Directorate and leadership review was implemented. This created a new Hampshire 2050 Directorate to focus on Hampshire as a Place. A Universal Services directorate is also created, or par with Childrens and Adults for public facing directorates. To support the organisation the Corporate Operations and People and Organisation Directorates contain the enabling functions to support the place shaping and public facing directorates, with those enabling services to be consolidated for efficiency and consistency across the County Council.</p>

Appendix A - Summary of arrangements

Improving economy, efficiency and effectiveness

We set out below the arrangements for the improving economy, efficiency and effectiveness criteria covering the 2022/23 year and to date in 2023/24

Reporting Sub-Criteria	Findings
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>The Council has a number of collaborative working arrangements. These include pooled budget arrangements with NHS bodies and joint working agreements with Hampshire Constabulary, Hampshire Fire and Rescue Service, Oxfordshire County Council, Westminster City Council, London Borough of Hammersmith and Fulham and the Royal Borough of Kensington and Chelsea. These involve joint use of the assets and resources of each organisation rather than the establishment of a separate entity.</p> <p><u>Integrated Business Centre</u></p> <p>The Integrated Business Centre (IBC) is hosted by Hampshire County Council and was launched in 2014/15 for the provision of shared financial and HR services. The IBC has since extended its services to Oxfordshire County Council, London Borough of Hammersmith and Fulham, City of Westminster Council and Royal Borough of Kensington and Chelsea.</p> <p>Performance is formally reviewed on a quarterly basis, and this includes a range of Performance Measures, overlaid by comprehensive service performance reports, and agreed actions to drive continued collective performance improvement.</p> <p>The IBC provides an annual report under the International Standard on Assurance Engagements 3402, Assurance Reports on Controls at a Service Organization (ISAE3402). This report is a 'type 2' report, which documents the controls and tests how they have been implemented over the year. This allows HCC to monitor the control environment and follow up on any control weaknesses noted, and provide the appropriate level of assurance to the users of the shared service.</p>
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	<p>Within the Constitution of the Council in Part 3, Chapter 6 it sets out the Standing Orders on Procurement and Contracts. This includes the procedures and statutory requirements in terms of the procurement of services. The Council has also developed a Procurement Strategy which sets the framework in which Hampshire County Council will work to ensure that procurement delivers value for money across all services and directly contributes to the achievement of their strategic goals.</p>

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