



---

# NOTICE OF MEETING

---

## **GOVERNANCE & AUDIT & STANDARDS COMMITTEE**

**WEDNESDAY, 20 JULY 2022 AT 10.00 AM**

**COUNCIL CHAMBER - THE GUILDHALL, PORTSMOUTH**

Telephone enquiries to James Harris on 023 9260 6065

Email: [james.harris@portsmouthcc.gov.uk](mailto:james.harris@portsmouthcc.gov.uk)

If any member of the public wishing to attend the meeting has access requirements, please notify the contact named above.

---

### **Information with regard to public access due to Covid precautions**

- Following the government announcement 'Living with COVID-19' made on 21 February and the end of universal free testing from 1<sup>st</sup> April, attendees are no longer required to undertake an asymptomatic/ lateral flow test within 48 hours of the meeting however we still encourage attendees to follow the PH precautions we have followed over the last two years to protect themselves and others including vaccination and taking a lateral flow test should they wish.
- We strongly recommend that attendees should be double vaccinated and have received a booster.
- If symptomatic we encourage you not to attend the meeting but to stay at home. Updated government guidance from 1 April advises people with a respiratory infection, a high temperature and who feel unwell, to stay at home and avoid contact with other people, until they feel well enough to resume normal activities and they no longer have a high temperature. From 1 April, anyone with a positive COVID-19 test result is being advised to follow this guidance for five days, which is the period when you are most infectious.
- We encourage all attendees to wear a face covering while moving around crowded areas of the Guildhall.
- Although not a legal requirement, attendees are strongly encouraged to keep a social distance and take opportunities to prevent the spread of infection by following the 'hands, face, space' and 'catch it, kill it, bin it' advice that also protects us from other winter viruses.
- Hand sanitiser is provided at the entrance and throughout the Guildhall. All attendees are encouraged to make use of hand sanitiser on entry to the Guildhall.
- Those not participating in the meeting and wish to view proceedings are encouraged to do so remotely via the livestream link.

## **Membership**

Councillor Leo Madden (Chair)  
Councillor Dave Ashmore  
Councillor Stuart Brown  
Councillor Judith Smyth  
Councillor Benedict Swann  
Councillor Daniel Wemyss

## **Standing Deputies**

Councillor Simon Boshier  
Councillor Graham Heaney  
Councillor Ian Holder  
Councillor Abdul Kadir  
Councillor Scott Payter-Harris  
Councillor John Smith

---

(NB This Agenda should be retained for future reference with the minutes of this meeting.)

Please note that the agenda, minutes and non-exempt reports are available to view online on the Portsmouth City Council website: [www.portsmouth.gov.uk](http://www.portsmouth.gov.uk)

**Deputations by members of the public may be made on any item where a decision is going to be taken. The request should be made in writing to the contact officer (above) by 12 noon of the working day before the meeting, and must include the purpose of the deputation (for example, for or against the recommendation/s). Email requests are accepted.**

## **A G E N D A**

- 1 Apologies for Absence**
- 2 Declarations of Members' Interests**
- 3 Minutes of the meeting held on 4 March 2022 (Pages 5 - 8)**

**RECOMMENDED that the minutes of the meeting held on 4 March 2022 be approved and signed by the Chair as a correct record.**

- 4 External Audit Plan 2021-22**

Presentation of the 2021-22 Audit Plan from the External Auditors for noting.

Report to follow under separate cover.

**5 Internal Audit Performance Status Report to 20 July 2022 & Annual Audit Opinion 2021/22 (Pages 9 - 58)**

The purpose of this report is to update the Governance and Audit and Standards Committee on the Internal Audit Performance for 2021/22 to 20<sup>th</sup> July 2022 against the Annual Audit Plan, highlight areas of concern and areas where assurance can be given on the internal control framework.

In addition to this the Annual Opinion on the effectiveness of the Internal Control Environment is provided in Appendix B. This opinion feeds into the Annual Governance Statement and is a requirement of the Local Government Act 1999 and the Public Sector Internal Audit Standards.

**RECOMMENDED that the Governance, Audit & Standards Committee notes:**

- (i) the Audit Performance and results for 2021/22 to 20 July 2022;**
- (ii) any highlighted areas of concern in relation to audits completed from the 2021/22 Audit Plan, including follow up work performed; and**
- (iii) the Annual Audit Report and Opinion for 2021/22.**

**6 Draft Annual Governance Statement (Pages 59 - 84)**

The purpose of the report is to seek approval from the Governance and Audit and Standards Committee for the council's draft Annual Governance Statement (AGS) for 2021/22.

**RECOMMENDED that the Governance and Audit and Standards Committee:**

- (i) agree the Annual Governance Statement 2021/22 (Appendix 1); and**
- (ii) approve the refreshed Local Code of Governance (Appendix 2)**

**7 Treasury Management Outturn Report 2021/22 (Pages 85 - 96)**

The purpose of the report is to inform members and the wider community of the Council's treasury management activities in 2021/22 and of the Council's treasury management position as at 31 March 2022.

**RECOMMENDED that the actual prudential and treasury management indicators based on the unaudited accounts, as shown in Appendix B, be noted (an explanation of the prudential and treasury management indicators is contained in Appendix C).**

**8 Consideration of the political balance rules in relation to the constitution of Sub-Committees considering complaints against Members (Pages 97 - 98)**

The purpose of the report is to ask the Committee to consider whether it wishes to disapply the political balance rules in respect of its Sub-Committees which consider complaints against Members and to agree that the same rule shall apply to the Initial Filtering Panel.

**RECOMMENDED that the political balance rules are disapplied in respect of Governance and Audit and Standards Sub-Committees which are considering complaints against Members and also the same arrangement should apply in respect of Initial Filtering Panel membership.**

**9 Exclusion of Press and Public**

In view of the contents of the appendices to the following item on the agenda the Committee is **RECOMMENDED** to adopt the following motion:

**"That, under the provisions of Section 100A of the Local Government Act, 1972 as amended by the Local Government (Access to Information) Act, 1985, the press and public be excluded for the consideration of the following item on the grounds that the appendices to the report contains information defined as exempt in Part 1 of Schedule 12A to the Local Government Act, 1972" The public interest in maintaining the exemption must outweigh the public interest in disclosing the information. Under the Local Authorities (Executive Arrangements) (Meetings and Access to Information) England Regulations 2012, regulation 5, the reasons for exemption of the listed appendices are shown below.**

**(NB The exempt/confidential committee papers on the agenda will contain information which is commercially, legally or personally sensitive and should not be divulged to third parties.**

**Members are reminded of standing order restrictions on the disclosure of exempt information and are asked to dispose of exempt documentation as confidential waste at the conclusion of the meeting.**

<b>Item Exemption</b>	<b>Para No.*</b>
<b>10. Procurement Management Information (Exempt Appendices 1, 2, 3 &amp; 4)</b>	<b>3</b>

**\*3. Information relating to the financial or business affairs of any particular person (including the authority holding that information.**

## **10 Procurement Management Information (Pages 99 - 140)**

The purpose of the report is to provide evidence to allow the committee to evaluate the extent that Portsmouth City Council is producing contracts for goods, works and services in a legally compliant value for money basis.

The report also updates the Committee on progress developing procurement performance reporting and seeks comments in respect of proposed further developments.

The report is for noting.

Members of the public are permitted to use both audio visual recording devices and social media during this meeting, on the understanding that it neither disrupts the meeting nor records those stating explicitly that they do not wish to be recorded. Guidance on the use of devices at meetings open to the public is available on the Council's website and posters on the wall of the meeting's venue.

Whilst every effort will be made to webcast this meeting, should technical or other difficulties occur, the meeting will continue without being webcast via the Council's website.

This meeting is webcast (videoed), viewable via the Council's livestream account at <https://livestream.com/accounts/14063785>

This page is intentionally left blank

## GOVERNANCE & AUDIT & STANDARDS COMMITTEE

MINUTES OF THE MEETING of the Governance & Audit & Standards Committee held on Friday, 4 March 2022 at 2.00 pm at the Council Chamber - The Guildhall, Portsmouth

(NB These minutes should be read in conjunction with the agenda for the meeting which can be found at [www.portsmouth.gov.uk](http://www.portsmouth.gov.uk).)

### Present

Councillor Leo Madden (in the chair)  
Councillor Daniel Wemyss (Vice-Chair)  
Councillor Stuart Brown  
Councillor Charlotte Gerada  
Councillor Lee Hunt  
Councillor John Smith

### Officers

Peter Baulf, City Solicitor  
Elizabeth Goodwin, Chief Internal Auditor  
Michael Lloyd, Finance Manager (Technical & Financial Planning)  
Paul Somerset, Deputy Chief Internal Auditor

### External Auditor

Helen Thompson, Executive Director, Ernst & Young  
David White, Manager, Assurance - Government and Public Sector, Ernst & Young

#### 13. Apologies for Absence (AI 1)

There were no apologies for absence.

#### 14. Declarations of Members' Interests (AI 2)

There were no declarations of members' interests

#### 15. Minutes of Meeting held on 21 January 2022 (AI 3)

**RESOLVED** that the minutes of the meeting held on 21 January 2022 be approved and signed by the Chair as a correct record.

#### 16. External Audit - Auditors Annual Report: Year ended 31 March 2021 (AI 4)

(TAKE IN REPORT)

Helen Thompson and David White from Ernst & Young introduced the report which presented Portsmouth City Council's Annual Report for the year ended 31 March 2021 to the committee for information.

**RESOLVED that the committee NOTED the report.**

**17. Data Security Breach Report (AI 5)**

(TAKE IN REPORT)

Elizabeth Goodwin, Chief Internal Auditor, introduced the report which updated the committee of any Data Security Breaches which had occurred since September 2021 and any subsequent actions which had been taken to address them.

She advised the committee that there had been no significant breaches or changes in patterns.

In response to questions the Chief Internal Auditor explained that the vast majority of data breaches were reported by the officer who made the breach. Deliberate breaches were rare and might occur when an officer looked up a family member on a particular database. She outlined the security measures protecting sensitive data which included restrictions to only those who needed to access the data and the logging of who had viewed it.

In respect of the cyber security measures of contractors she advised the committee that this formed part of the Procurement Framework used when appointing contractors to deliver services on behalf of the council.

**RESOLVED that the committee NOTED the report.**

**18. Treasury Management Policy 2022/23 (AI 6)**

(TAKE IN REPORT)

Michael Lloyd, Finance Manager introduced the report which contained the updated Treasury Management Policy Statement which included the Annual Investment Strategy. It was before the committee for scrutiny and comment before being considered by Cabinet prior to submission to Full Council for approval.

In response to a question the Finance Manager explained that the purpose of the UK Infrastructure Bank was to loan money for large scale infrastructure, which it would do at a more favourable rate than the Public Works Loan Board (PWLb).

In respect of questions around the reporting process for officers with delegated authority it was confirmed that these delegations were not new and necessary for the treasury management function to operate. The Governance & Audit & Standards Committee received quarterly Treasury Management updates to provide awareness of such decisions.



**RESOLVED** that the committee **NOTED** the recommendations in section 3 of the report which would go on to Cabinet and then to Full Council for approval.

**19. Internal Audit Performance Status Report to 15 February 2022 (AI 7)**

(TAKE IN REPORT)

Elizabeth Goodwin, Chief Internal Auditor introduced the report which updated the committee on the Internal Audit Performance for 2021/22 to 15 February 2022 against the Annual Audit Plan and highlight areas of concern and areas where assurance could be given on the internal control framework.

In response to questions the committee was advised that whilst a number of remedial actions remained outstanding for Portico, progress was being made and a number of actions had been completed. Outstanding actions would be followed up and reported on as part of the 2022/23 audit.

For a large organisation such as the council she was not unduly worried by there being 47 high risk items and reminded the committee of the improvements made over recent years.

**RESOLVED** that the **Governance & Audit & Standards Committee** **NOTED:**

(i) the Audit Performance for 2021/22 to 15 February 2022; and

(ii) the highlighted areas of concern in relation to audits completed from the 2021/22 Audit Plan, including follow up work performed

**20. Internal Audit Plan 2022/23 and Audit Charter, including Code of Ethics (AI 8)**

(TAKE IN REPORT)

Elizabeth Goodwin, Chief Internal Auditor introduced the report which presented the proposed Internal Audit Plan for 2022/23 to the committee for approval as detailed in Appendix A of the report and the updated Audit Charter and Code of Ethics detailed in Appendix B.

**RESOLVED** that the **Governance & Audit & Standards Committee** **APPROVED:**

(i) the proposed Internal Audit Plan for 2022/23 as set out in Appendix A of the report; and

(ii) the updated Audit Charter and Code of Ethics as shown in Appendix B of the report.

## **21. Anti-Fraud, Bribery & Corruption Policy (AI 9)**

(TAKE IN REPORT)

Elizabeth Goodwin, Chief Internal Auditor, introduced the report which updated the committee following a review of the Anti-fraud Bribery and Corruption Policy. The committee was advised of one minor change which related to an amendment of Deputy Chief Executive and Monitoring Officer to Monitoring Officer.

### **RESOLVED that**

- (i) Bullet point two of Paragraph 5.3 of the Anti-Fraud Bribery & Corruption Policy be amended to read:**

**"Dealing with investigations into matters referred by the Governance & Audit & Standards Assessment Sub-Committee and making reports or recommendations in respect of them to the Governance & Audit & Standards ~~Consideration Sub-Committee~~"**

- (ii) Members of the Governance and Audit and Standards Committee NOTED the Anti-Fraud Bribery & Corruption Policy, Appendix A (as amended above), where there was one minor change relating to a job title amendment (Deputy Chief Executive and Monitoring Officer to Monitoring Officer).**

The meeting concluded at 2.40 pm.

---

Councillor Leo Madden  
Chair



<b>Title of meeting:</b>	Governance & Audit & Standards Committee
<b>Date of meeting:</b>	20 <sup>th</sup> July 2022
<b>Subject:</b>	Internal Audit Performance Status Report to 20 <sup>th</sup> July 2022 & Annual Audit Opinion 2021/22
<b>Report by:</b>	Chief Internal Auditor
<b>Wards affected:</b>	All
<b>Key decision:</b>	No
<b>Full Council decision:</b>	No

---

## **1. Summary**

- 1.1 This is an Internal Audit Performance Status Report for the 2021-22 planned audit activities along with the Annual Audit Report and Opinion for 2021-22. Appendix A includes the detail of progress made against the annual plan and documents individual audit findings. Appendix B is the Annual Audit Report and Opinion for 2021/22 report.

## **2. Purpose of report**

- 2.1 This report is to update the Governance and Audit and Standards Committee on the Internal Audit Performance for 2021/22 to 20<sup>th</sup> July 2022 against the Annual Audit Plan, highlight areas of concern and areas where assurance can be given on the internal control framework.
- 2.2 In addition to this the Annual Opinion on the effectiveness of the Internal Control Environment is provided in the attached Appendix B. This opinion feeds into the Annual Governance Statement and is a requirement of the Local Government Act 1999 and the Public Sector Internal Audit Standards.

## **3. Recommendations**

- 3.1 That Members note the Audit Performance and results for 2021/22 to 20<sup>th</sup> July 2022.
- 3.2 That Members note any highlighted areas of concern in relation to audits completed from the 2021/22 Audit Plan, including follow up work performed.
- 3.3 That Members note the Annual Audit Report and Opinion for 2021/22.

#### **4. Background**

- 4.1 The Annual Audit Plan for 2021/22 has been drawn up in accordance with the agreed Audit Strategy and was approved by this Committee on 5<sup>th</sup> March 2022 following consultation with Directors and relevant parties.

#### **5. Integrated Impact Assessment**

- 5.1 The contents of this report do not have any relevant equalities and environmental impact and therefore an Integrated Impact assessment is not required.

#### **6. Legal Implications**

- 6.1 The City Solicitor has considered the report and is satisfied that the recommendations are in accordance with the Council's legal requirements and the Council is fully empowered to make the decisions in this matter.
- 6.2 Where system weaknesses have been identified he is satisfied that the appropriate steps are being taken to have these addressed.

#### **7 Finance Comments**

- 7.1 There are no financial implications arising from the recommendations set out in this report.
- 7.2 The S151 Officer is content that the progress against the Annual Audit Plan and the agreed actions are sufficient to comply with his statutory obligations to ensure that the Authority maintains an adequate and effective system of internal audit of its accounting records and its system of internal control.

.....  
Signed by: Elizabeth Goodwin, Chief Internal Auditor

#### **Appendices:**

Appendix A – Internal Audit Progress Report  
Appendix B - Annual Audit Report and Opinion for 2021/22

#### **Background list of documents: Section 100D of the Local Government Act 1972**

The following documents disclose facts or matters, which have been relied upon to a material extent by the author in preparing this report:

Title of document	Location
-------------------	----------

1	Accounts and Audit Regulations	<a href="http://www.legislation.gov.uk/ukxi/2011/817/contents/made">http://www.legislation.gov.uk/ukxi/2011/817/contents/made</a>
2	Previous Audit Performance Status and other Audit Reports	Refer to Governance and Audit and Standard meetings – reports published online.
3	Public Sector Internal Audit Standards	<a href="http://www.cipfa.org/policy-and-guidance/standards/public-sector-internal-audit-standards">http://www.cipfa.org/policy-and-guidance/standards/public-sector-internal-audit-standards</a>

The recommendation(s) set out above were approved/ approved as amended/ deferred/ rejected by ..... on .....

.....  
Signed by:

This page is intentionally left blank



Portsmouth  
CITY COUNCIL

## Internal Audit Progress Report 20<sup>th</sup> July 2022

Elizabeth Goodwin, Chief Internal Auditor

## 1. Introduction

Internal Audit is a statutory function for all local authorities.

The requirement for an Internal Audit function in local government is detailed within the Accounts and Audit (England) Regulations 2015 as to:

*Undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance*

The standards for 'proper practices' are set out in the Public Sector Internal Audit Standards [the Standards – updated 2016].

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

This report includes the status against the 2021/22 internal audit plan.



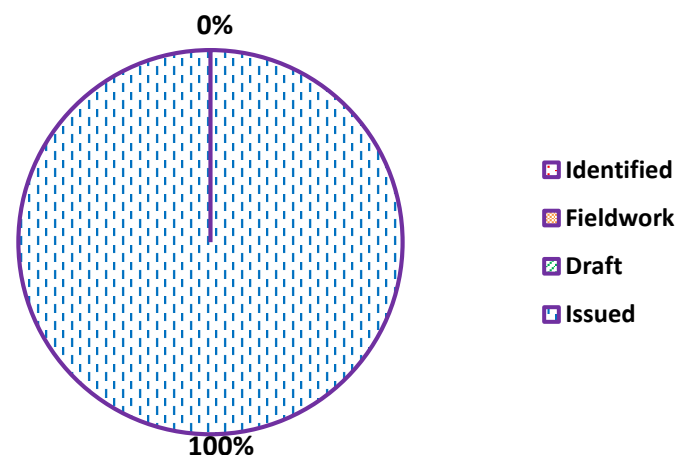
## 2. Audit Plan Progress as of 20<sup>th</sup> July 2022

There are 33 Full Audits, 7 Follow ups, 6 2<sup>nd</sup> follow up reviews and 25 grants, in the revised plan for 2021/22, totalling 71 reviews.\*

To date, 71 (100%) have been completed or are in progress as of 20<sup>th</sup> July 2022. This represents 71 (100%) audits where the report has been finalised.

Status	Audits
Identified	0
Fieldwork	0
Draft Report	0
Final Report	71

### Audit Plan Progress as of 20th July 2022



*\*Figures are only in relation to PCC audits and are excluding any SLEP or Portico reviews.*

### 3. Ongoing Internal Audit Involvement

Internal Audit has provided advice, ongoing reviews and involvement work in the following areas. (For reference, advice is only recorded when the time taken to provide the advice exceeds one hour):

- Data matching in relation to payroll records and apprentices. Work has been undertaken using data analytics software to identify potential apprentices on the wrong national insurance tax code.
- Regulation of Investigatory Powers Act (RIPA) - authorisations (if applicable) and policy review
- Anti-Money Laundering - monitoring, reporting and policy review
- Financial Rules Waivers
- National Fraud Initiative (NFI) to facilitate national data matching carried out by the Cabinet Office
- National Anti-Fraud Network (NAFN) bulletins and intelligence follow up
- Counter Fraud Programme - proactive work to reduce the risk exposure to the authority
- Governance & Audit & Standards Committee - reporting and attendance
- Audit Planning and Consultation
- Risk Management & Annual Governance Statement
- Performance Management
- 10 special investigations - (excludes Benefit and Council Tax Support cases)
- 24 items of advice, (where the advice exceeds an hour's work)

## 4. Covid-19 Assurance Reporting

Internal Audit & Counter Fraud have been performing a number of assurance work items in the 2021/22 municipal year in relation to COVID 19. A break-down of activities performed in addition to bespoke COVID 19 audit testing contained in normal audits is detailed below and covers work completed since the last reporting period. Areas covered but excluding grants were as follows:

- Test and Trace £500 Support Payment - Reasonable Assurance
- Purchase Card's - Reasonable Assurance
- Income Compensation Claim - Assurance

## 5. Audit Plan Status/Changes.

The following changes have been made to the plan since the issue of the last progress report.

### **Audits removed from the Audit Plan:**

- Direct Payments F/U - Deferred to the 2022/23 plan as implementation dates are during the 2022/23 year.
- Coffee Shops F/U - Removed as service has not operated for a significant period.

### **Audits added to the Audit Plan:**

- Protect and Vaccinate 31/5912 - Grant added to the 2021/22 plan due to verification required from the Chief Internal Auditor.

## 6. Areas of Concern

One critical risk exception has been raised as part of the 2021/22 Accounts Payable Audit in relation to the lack of sufficient checks that could be evidenced on a suppliers record when a supplier's bank details are being changed. It should be noted that processes are in place (however testing has highlighted that these controls were not evidenced). There is a growing development in cyber-fraud which is a nation-wide issue. Figures from 'UK Finance' shows that fraudsters stole almost £93 million from UK firms in 2018 through invoice and mandate fraud. This authority itself experienced an attempt to defraud by means of changing supplier bank details, as have all neighbouring Unitary Authorities, not all of the funds were recovered. As such, it is heavily advised that additional checks beyond those normally deployed must now be conducted to ensure that bank details are accurate and due care is taken to prevent cases of invoice and mandate fraud.

Below is an extract of the critical risk exception from the Accounts Payable exceptions report.

<b>PCC-2122-022-002</b>	<b>Supplier Bank Details</b>	<b>Critical</b>
-------------------------	------------------------------	-----------------

### Safeguarding of Assets

#### Exception

A report of all supplier bank account changes was highlighted using the PCC Supplier Detail Report Outlet from Fusion. The report highlighted 779 changes between 01/04/2021 - 31/01/2022. A sample of 15 were selected and the attachments within the 'supplier module' in Fusion was reviewed to ensure that checks were conducted and no fraudulent changes had been requested. Testing confirmed for 4/15 no bank changes had occurred; however, the PCC Supplier Detail Report Outlet had indicated otherwise. An ongoing ticket (3991) has been raised with the Fusion Support Team to identify the rationale towards this.

1/15 - was due to a migration issue from EBS to Fusion

The remaining 10/15 did not have evidence of sufficient checks conducted prior to the bank details being changed. Below is the justification provided by the Accounts Payable Team Leader and the Business Support Manager:

- 4/10 had made changes due to a different bank details being provided on the invoice following the supplier providing goods/services.
- 5/10 had made the change as the request had come in on a company headed letter signed by the Director/ Group Financial Controller.
- 1/10 had made the change as the bank detail change request came in an email addressed from the contact on file for the supplier.

### Risks and Consequences

Failure to use reliable data could lead to difficulties and inaccuracy for comparing and monitoring data for bank changes.

Failure to ensure appropriate checks are conducted when changing a suppliers bank detail can lead to invoices being paid to fraudulent parties therefore losing out on income that may not be recoverable and the relevant supplier losing out on income that is rightfully theirs.

### Agreed Action

### Person Responsible / Action by Date

To re-iterate the importance to capture all checks conducted when changing a supplier's bank detail.

Accounts Payable Team Leader / Already Implemented - Audit Verified

To explore the option to make checks as automated and advances as possible with software specifically for the use of verifying bank details.

Income and Payments Manager  
31/05/2022

To review and amend the current bank changes process to include additional controls beyond those that have been established.

Income and Payments Manager / Already Implemented - Audit Verified

The Payments team will be attending a Barclays webinar regarding cyber security as some refresher training.

Income and Payments Manager  
09/06/2022

## 7. Assurance Levels

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

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

*Audits rated No Assurance are specifically highlighted to the Governance and Audits and Standards Committee along with any Director's comments. The Committee is able to request any director attends a meeting to discuss the issues.*

## 8. Exception Risk Ranking

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

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

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



## 9. 2020/21 Audits completed to date (20<sup>th</sup> July 2022)

### Domiciliary Care - Director of Adult Social Care

#### Exceptions Raised

Critical	High	Medium	Low
0	0	1	0

#### Overall Assurance Level

**Reasonable Assurance**

Agreed actions are scheduled to be implemented by July 2022

#### Assurance Level by Scope Area

Achievement of Strategic Objectives	NAT
Compliance with Policies, Laws & Regulations	NAT
Safeguarding of Assets	NAT
Effectiveness and Efficiency of Operations	Reasonable Assurance
Reliability and Integrity of Data	NAT

One medium risk exception has been raised in relation to the lack of consistent labelling/ tagging and timely reviews for 3/20 assessment.

### WhatsApp - Director of Children Services and Education

#### Exceptions Raised

Critical	High	Medium	Low
0	2	1	0

#### Overall Assurance Level

**Limited Assurance**

Agreed actions are scheduled to be implemented by September 2022

#### Assurance Level by Scope Area

Achievement of Strategic Objectives	NAT
Compliance with Policies, Laws & Regulations	Limited Assurance
Safeguarding of Assets	NAT
Effectiveness and Efficiency of Operations	NAT
Reliability and Integrity of Data	NAT

Due to the pressures and restrictions from the COVID-19 pandemic the Council implemented the use of 'WhatsApp Messenger' - an internationally available American freeware, cross platform centralised instant messaging and voice-over-IP service. WhatsApp was used to support critical services where there were difficulties due to COVID-19 restrictions. Where an application has been approved for use by the Senior Information Risk Owner (SIRO), Data Protection Office (DPO) and Information Security Officer (ISO), the specifics of the use should only be within the boundaries of the Data Protection Impact Assessment (DPIA). The DPIA considers the benefits and potential privacy impacts the proposed use of WhatsApp may have on the individuals involved. Officers from the 'Through Care Team' were selected for a discussion to establish compliance with the DPIA requirements. Testing highlighted two high risks. The first high risk was in relation to a breach in terms of conditions, it was highlighted that young persons were providing identification documents

(such as passports ect.) to officers through the use of WhatsApp, and as agreed within the DPIA, officers were failing to ensure that a young person has signed a consent form acknowledging the risks of WhatsApp prior to its use. One medium risk exception was also raised.

**Modern Slavery Supplier Audit - Director of Finance and Recourses**
**Exceptions Raised**

Critical	High	Medium	Low
0	0	1	0

**Overall Assurance Level**
**Reasonable Assurance**

Agreed actions are scheduled to be implemented by December 2022

**Assurance Level by Scope Area**

Achievement of Strategic Objectives	Assurance
Compliance with Policies, Laws & Regulations	Reasonable Assurance
Safeguarding of Assets	NAT
Effectiveness and Efficiency of Operations	Reasonable Assurance
Reliability and Integrity of Data	NAT

As part of the Audit Plan for 2021-2022 a review was carried out on the processes and procedures in place to ensure PCC's suppliers are complying with the Modern-Day Slavery Act 2015 and that assurance can be given to the Transparency in the provision in preventing modern slavery from occurring in the supply chains. A PCC Supplier was selected and on-site visits were conducted to ensure compliance with the Modern Slavery Act 2015. One medium risk exception was raised as at the time of testing there were no performance indicators or monitoring conducted on the effectiveness of Modern Slavery controls.

**Accounts Receivable - Director of Finance and Recourses**
**Exceptions Raised**

Critical	High	Medium	Low
0	0	0	0

**Overall Assurance Level**
**Assurance**
**Assurance Level by Scope Area**

Achievement of Strategic Objectives	NAT
Compliance with Policies, Laws & Regulations	Assurance
Safeguarding of Assets	Assurance
Effectiveness and Efficiency of Operations	Assurance
Reliability and Integrity of Data	NAT

No exceptions were raised as a result of this review

**Accounts Payable - Director of Finance and Recourses**
**Exceptions Raised**

Critical	High	Medium	Low
1	1	1	0

**Overall Assurance Level**

Limited Assurance
-------------------

Agreed actions are scheduled to be implemented by June 2022

**Assurance Level by Scope Area**

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

One critical risk exception has been raised as part of this review and has been detailed within section six of this report. The high-risk exception was raised as it was highlighted that if an invoice is within 10% of the original amount on the Purchase Order no further amendments or verification will be required onto the Purchase Order. Discussions with the Fusion Support Team and the Income and Payments Manager has confirmed that there is no such reports available to monitor the effectiveness and impact of the 10% tolerance level. A medium risk exception was also raised as part of this review.

**Payroll - Director of Finance and Recourses**
**Exceptions Raised**

Critical	High	Medium	Low
0	1	3	1

**Overall Assurance Level**

Reasonable Assurance
----------------------

Agreed actions are scheduled to be implemented by July 2022

**Assurance Level by Scope Area**

Achievement of Strategic Objectives	NAT
Compliance with Policies, Laws & Regulations	Reasonable Assurance
Safeguarding of Assets	Assurance
Effectiveness and Efficiency of Operations	Reasonable Assurance
Reliability and Integrity of Data	NAT

One high risk exception was raised as it was highlighted from a list of 178 PCC Apprentices, 34 were on incorrect national insurance contribution code. It should be noted that this impacts only the employer and does not affect the amount payable for the employee. Three medium and one low risk exception was also raised as a result of this review.

### Highway Permit Scheme - Director of Finance and Recourses

#### Exceptions Raised

Critical	High	Medium	Low
0	0	2	0

#### Overall Assurance Level

**Reasonable Assurance**

Agreed actions are scheduled to be implemented by April 2022

#### Assurance Level by Scope Area

Achievement of Strategic Objectives	<b>Reasonable Assurance</b>
Compliance with Policies, Laws & Regulations	<b>Assurance</b>
Safeguarding of Assets	<b>NAT</b>
Effectiveness and Efficiency of Operations	<b>Reasonable Assurance</b>
Reliability and Integrity of Data	<b>NAT</b>

Two medium risk exceptions were raised as part of this review. The first was in relation to the failure to allocate a current employee as the main contact for the contract on the Procurement system (Intend) and failure to record sample checks conducted. The second medium risk exception relates to the failure to complete an evaluation report within the statutory timescales. The evaluation report provides details on how the permit scheme remains cost neutral in compliance with the Statutory Guidance for Highways Authorities Permit Scheme.

### Infection Control Process - Director of Finance and Recourses

#### Exceptions Raised

Critical	High	Medium	Low
0	0	0	0

#### Overall Assurance Level

**Limited Assurance**

#### Assurance Level by Scope Area

Achievement of Strategic Objectives	<b>NAT</b>
Compliance with Policies, Laws & Regulations	<b>Limited Assurance</b>
Safeguarding of Assets	<b>NAT</b>
Effectiveness and Efficiency of Operations	<b>NAT</b>
Reliability and Integrity of Data	<b>NAT</b>

In 2020/21 the Authority was awarded £1,554,659.00 as part of the Adult Social Care Infection Control Fund (round 2) Ring-Fenced Grant 2020. The Awarded amount was paid in 2 tranches, October, and December 2020. A random sample of five service providers from tranche 1 testing were contacted to obtain copies of supporting documentation to evidence that expenditure is compliant with the conditions set out in the individual grant agreements. Testing during October 2020 established that 1/5 providers had not submitted their financial returns as agreed, and a Senior Accountant had begun the process of recovering the fund allocation. Further testing confirmed that the fund was reclaimed from this provider on 9th June 2021. For the remaining 4 providers, sufficient evidence was supplied for 3/4 providers, however 1/4 is yet to respond despite numerous requests. Details of this testing have been

shared with the Finance Manager to determine expenditure compliance for this provider. As a result of this review an opinion level of limited is attributed. This relates to whether providers are compliant with the grant conditions, not the administration framework applied.

**Shared Services - Chief Executive**
**Exceptions Raised**

Critical	High	Medium	Low
0	1	1	0

**Overall Assurance Level**
**Reasonable Assurance**

Agreed actions are scheduled to be implemented by April 2022

**Assurance Level by Scope Area**

Achievement of Strategic Objectives	<b>Assurance</b>
Compliance with Policies, Laws & Regulations	NAT
Safeguarding of Assets	<b>Limited Assurance</b>
Effectiveness and Efficiency of Operations	<b>Reasonable Assurance</b>
Reliability and Integrity of Data	NAT

After consultation with directors two shared services were selected for review, disabled facilities and planning performance arrangements (PPA). One high risk exception was raised as it was highlighted, for PPA's, that there is no prescribed method for calculating the cost based on the type of allocation or number of dwellings and officer's experience is used to calculate expected costs, in addition testing confirmed that the authority does not actively track officer time and the costs during the PPA process. One medium risk exception was also raised.

**Water Safety - Director of Culture, Leisure and Regulatory Services**
**Exceptions Raised**

Critical	High	Medium	Low
0	1	0	1

**Overall Assurance Level**
**Reasonable Assurance**

Agreed actions are scheduled to be implemented by December 2022

**Assurance Level by Scope Area**

Achievement of Strategic Objectives	<b>Reasonable Assurance</b>
Compliance with Policies, Laws & Regulations	<b>Assurance</b>
Safeguarding of Assets	<b>Assurance</b>
Effectiveness and Efficiency of Operations	NAT
Reliability and Integrity of Data	<b>Assurance</b>

One high risk exception was raised as it was highlighted that there is currently no formal policy or strategy covering water safety within the city. One low risk exception was also raised.

### Air Quality Process Review - Director of Regeneration

#### Exceptions Raised

Critical	High	Medium	Low
0	0	1	0

#### Overall Assurance Level

**Reasonable Assurance**

Agreed actions are scheduled to be implemented by March 2022

#### Assurance Level by Scope Area

Achievement of Strategic Objectives	NAT
Compliance with Policies, Laws & Regulations	<b>Reasonable Assurance</b>
Safeguarding of Assets	NAT
Effectiveness and Efficiency of Operations	NAT
Reliability and Integrity of Data	NAT

Internal Audit have reviewed five grant processes, totalling £6,740,295. The grants were received by PCC for the purposes of improving air quality in the city, including the implementation of the clean air zone. One medium risk exception was raised in relation to the organisation of cost centres, and to the evidence gathering in compliance with the individual beneficiary contracts. For the actual grants sufficient testing was able to evidence that the terms and conditions had been met which allowed the Chief Internal Auditor to sign the declaration confirming compliance.

### Covid Response Process - Executive

#### Exceptions Raised

Critical	High	Medium	Low
0	0	0	0

#### Overall Assurance Level

**Assurance**

#### Assurance Level by Scope Area

Achievement of Strategic Objectives	NAT
Compliance with Policies, Laws & Regulations	NAT
Safeguarding of Assets	NAT
Effectiveness and Efficiency of Operations	<b>Assurance</b>
Reliability and Integrity of Data	NAT

As part of the Audit Plan for 2021-2022 a review was carried out on the processes and procedures in place to ensure PCC's response to the Covid -19 Pandemic was aligned to our decision-making framework or was in accordance with Central Government instruction and that governance arrangements were sound. No issues were highlighted as a result of this review.

### Customs Agency - PORTICO

#### Exceptions Raised

Critical	High	Medium	Low
0	0	1	0

#### Overall Assurance Level

Reasonable Assurance

Agreed actions are scheduled to be implemented by March 2022

#### Assurance Level by Scope Area

Achievement of Strategic Objectives	NAT
Compliance with Policies, Laws & Regulations	Assurance
Safeguarding of Assets	Reasonable Assurance
Effectiveness and Efficiency of Operations	Assurance
Reliability and Integrity of Data	NAT

One medium risk exception was raised as it was highlighted from the sample of ten jobs (raised by the victory team and compared by audit to the information on the custom declaration sent to the HMRC) selected, that three had inaccurate readings. Due to the errors not having monetary impact the exception was rated as medium.

### Petty Cash - PORTICO

#### Exceptions Raised

Critical	High	Medium	Low
0	1	2	0

#### Overall Assurance Level

Reasonable Assurance

Agreed actions are scheduled to be implemented by June 2022

#### Assurance Level by Scope Area

Achievement of Strategic Objectives	NAT
Compliance with Policies, Laws & Regulations	Reasonable Assurance
Safeguarding of Assets	Limited Assurance
Effectiveness and Efficiency of Operations	NAT
Reliability and Integrity of Data	NAT

One high risk exception was raised in relation to the failure to comply with the safe limit set by the insurers. Testing highlighted that the safe limit during the commencement of the audit for cash held on the premises during business hours was £500 and a count of the safe confirmed £6,173.82 was being held on the premises. In addition, two medium risk exceptions were also raised as a result of this review.

### Fixed Assets - PORTICO

#### Exceptions Raised

Critical	High	Medium	Low
0	2	1	0

#### Overall Assurance Level

Limited Assurance
-------------------

Agreed actions are scheduled to be implemented by December 2022

#### Assurance Level by Scope Area

Achievement of Strategic Objectives	Reasonable Assurance
Compliance with Policies, Laws & Regulations	Limited Assurance
Safeguarding of Assets	Reasonable Assurance
Effectiveness and Efficiency of Operations	Assurance
Reliability and Integrity of Data	NAT

Two high risk exceptions were raised as a result of this review. The first was in relation to an inaccurate and incomplete fixed asset register, the second high risk exception highlighted that the fixed asset register was not showing the current position of assets and recorded inaccurate depreciation. One medium risk exception was also raised.

### Payroll - PORTICO

#### Exceptions Raised

Critical	High	Medium	Low
0	0	1	1

#### Overall Assurance Level

Reasonable Assurance
----------------------

Agreed actions have been implemented

#### Assurance Level by Scope Area

Achievement of Strategic Objectives	Assurance
Compliance with Policies, Laws & Regulations	Reasonable Assurance
Safeguarding of Assets	Assurance
Effectiveness and Efficiency of Operations	Assurance
Reliability and Integrity of Data	Assurance

One medium risk exception was raised as it was highlighted that there were thirteen instances where overtime claim forms had not been evidenced as authorised. One low risk exceptions was also raised as a result of this review.



### Commercial Enquiries - PORTICO

#### Exceptions Raised

Critical	High	Medium	Low
0	0	3	1

#### Overall Assurance Level

Reasonable Assurance

Agreed actions are scheduled to be implemented by April 2022

#### Assurance Level by Scope Area

Achievement of Strategic Objectives	Reasonable Assurance
Compliance with Policies, Laws & Regulations	Reasonable Assurance
Safeguarding of Assets	NAT
Effectiveness and Efficiency of Operations	Reasonable Assurance
Reliability and Integrity of Data	NAT

Three medium risk exceptions were raised as a result of this review. The first medium risk exception was highlighted as testing could not identify if targets have not been met or exceeded in relation to the number of enquiries received. The second medium risk exception was highlighted as for a sample of five enquiries, all five did not have evidence of client feedback following the completion of the operation and for two of the sample there was no evidence that the quote provided was accepted by the client. In addition, testing noted that all documentation relating to the enquiries is held within a shared outlook email box. The third medium risk exception was raised as it was highlighted no data is compiled from recent campaigns and therefore could not be compiled into meaningful statistics. One low risk exception was also raised as a result of this review.

### Homelessness Prevention Grant - Director of Housing, Neighbourhood and Building Services

Grant Verification - Sample testing was able to evidence that the terms and conditions had been met which allowed the Chief Executive and Chief Internal Auditor to sign the declaration confirming compliance.

### Troubled Families Grant - Director of Children's Services and Education

Grant Verification - Sample testing was able to evidence that the terms and conditions had been met which allowed the Chief Executive and Chief Internal Auditor to sign the declaration confirming compliance.

### Protect and Vaccinate 31/5913 - Director of Housing, Neighbourhood and Building Services

Grant Verification - Sample testing was able to evidence that the terms and conditions had been met which allowed the Chief Executive and Chief Internal Auditor to sign the declaration confirming compliance.

### Bus Service Support Grant, Restart - Director of Regeneration

Grant Verification - Sample testing was able to evidence that the terms and conditions had been met which allowed the Chief Executive and Chief Internal Auditor to sign the declaration confirming compliance.

## 10. 2021/22 Follow-up Audits to date (20<sup>th</sup> July 2022)

### Information Governance - Director of Corporate Services

#### Original Exceptions Raised

Critical	High	Medium	Low
0	3	0	0

#### Follow Up Exception Position

Critical	High	Medium	Low
0	3	0	0

#### Original Assurance Level

Limited Assurance
-------------------

#### Follow Up Assurance Level

Limited Assurance
-------------------

Agreed actions are scheduled to be implemented by December 2022

#### Follow Up Assurance Level by Scope Area

Achievement of Strategic Objectives	Reasonable Assurance
Compliance with Policies, Laws & Regulations	NAT
Safeguarding of Assets	NAT
Effectiveness and Efficiency of Operations	Limited Assurance
Reliability and Integrity of Data	NAT

The original audit highlighted three high risk exceptions. Follow-up testing has confirmed that all exceptions are in progress. The first high risk exception was in relation to the deletion of W:Drive storage, discussions held with relevant officers confirmed that there is currently a project 'SharePoint online' being implemented and this is Phase 2 of the Office 365 project. The SharePoint online project is the migration of the W:Drive to SharePoint. Currently phase 2 is in its early stages and is due to be completed and rolled out across the authority by December 2022. The second high risk exception was in relation to an inaccurate and out-of-date Information Asset Register, the agreed action was for 'GDPR Health Check's' to be implemented, the Health Check comprises of 10 components and timescales have been set for 2021/22 with priorities such as the completion of the mandatory cyber security awareness training and w:drive clear done.

The Information Asset Register is due to be reviewed as part of the Health Check. Due to a lack of resources within the corporate IG team and other priorities this is yet to be conducted; however, the Information Asset Register for the Adult Social Care and Public Health directorates have been completed as part of the NHS Data Security and Protection Toolkit Submission. The third high risk exception is in relation to the management and deletion of data, this highlighted multiple issues which services rely on to be compliant with GDPR such as a lack of mandatory training completed, policies out of date and an out-of-date Information Asset Register as above. Follow up testing has confirmed that the action agreed was for mandatory training results to be circulated to directorates on a monthly basis. The officer explained that due to pressures and a lack of resources in the corporate IG team this has yet to commence, moving forward figures of mandatory training will be shared with the IG panel and results will be sent to directorates. All policies in relation to data protection remain expired; however, follow-up testing has sighted evidence of draft policies which are due to be issued onto Policyhub.

**Homelessness and Temporary Accommodation - Director of Housing, Neighbourhood and Building Services.**
**Original Exceptions Raised**

Critical	High	Medium	Low
0	1	0	0

**Follow Up Exception Position**

Critical	High	Medium	Low
0	1	0	0

**Original Assurance Level**

Reasonable Assurance
----------------------

**Follow Up Assurance Level**

Reasonable Assurance
----------------------

Agreed actions are ongoing

**Follow Up Assurance Level by Scope Area**

Achievement of Strategic Objectives	NAT
Compliance with Policies, Laws & Regulations	NAT
Safeguarding of Assets	Reasonable Assurance
Effectiveness and Efficiency of Operations	NAT
Reliability and Integrity of Data	NAT

Original audit testing highlighted one high risk exception in relation to the effective tracking of expenditure made for accommodation used to the actual goods/services received. Follow up testing found that this exception is in progress as spot checks of accommodation payments had been carried out for the period May/June/July 2021 but a further sample check for the period September/October/November (Q3) 2021 had not taken place. Following discussions with the relevant officer the sample check was subsequently carried out in February 2022. Follow-up testing also found that because of the ongoing COVID-19 pandemic and insufficient available resources, the planned intervention had not taken place.

**Emergency Procedures - Director of Housing, Neighbourhood and Building Services**
**Original Exceptions Raised**

Critical	High	Medium	Low
0	3	0	0

**Follow Up Exception Position**

Critical	High	Medium	Low
0	2	0	0

**Original Assurance Level**

Limited Assurance
-------------------

**Follow Up Assurance Level**

Reasonable Assurance
----------------------

Agreed actions are scheduled to be implemented by January 2022

**Follow Up Assurance Level by Scope Area**

Achievement of Strategic Objectives	Assurance
Compliance with Policies, Laws & Regulations	Assurance
Safeguarding of Assets	NAT
Effectiveness and Efficiency of Operations	Assurance
Reliability and Integrity of Data	NAT

Original audit testing highlighted three high risk exceptions. One has had actions implemented but not effective, one closed not verified and the remaining risk is in progress. The first high risk where actions were implemented but not effective was in relation to three areas of weakness relating to fire drills, stay put policy and checks on fire extinguishers, follow-up testing found that the auditor was advised that reminders had been issued to cover all the risks raised.

However, audit testing found that there were still gaps in carrying out monthly fire extinguisher checks and annual fire drills for one site. The high risk in progress is in relation to the lack of recording incidents in the Fire Safety Log. Follow-up testing found that fire incident logs are still not filed centrally in line with the originally agreed action.

**Accounts Receivable - PORTICO**
**Original Exceptions Raised**

Critical	High	Medium	Low
0	2	3	0

**Follow Up Exception Position**

Critical	High	Medium	Low
0	1	1	0

**Original Assurance Level**

Limited Assurance
-------------------

**Follow Up Assurance Level**

Reasonable Assurance
----------------------

Agreed actions are scheduled to be implemented by

**Follow Up Assurance Level by Scope Area**

Achievement of Strategic Objectives	Reasonable Assurance
Compliance with Policies, Laws & Regulations	Assurance
Safeguarding of Assets	Assurance
Effectiveness and Efficiency of Operations	Reasonable Assurance
Reliability and Integrity of Data	NAT

One high and two medium risk exceptions have been closed and verified. The remaining high risk is in progress and this in relation to the authorisation of write offs and credits and the medium risk was in relation to the lack of an overarching financial policy, the introduction of Business Central impacted resource within the Finance Team, and the completion of all agreed actions has been delayed.

## 11. 2021/22 2<sup>nd</sup> Follow-up Audits to date (20<sup>th</sup> July 2022)

As raised during the July 2020 Governance & Audits & Standards meeting. Internal Audit has scheduled in 2nd follow-up reviews for all areas where a 1st review highlighted risk exposure/s still unmitigated. The audits below detail the position as at a 2nd review.

### Edge of Care - Director of Children's Families and Education

#### 1<sup>st</sup> Follow-Up Exceptions Raised

Critical	High	Medium	Low
0	0	0	0

#### 2<sup>nd</sup> Follow Up Exception Position

Critical	High	Medium	Low
0	0	1	0

#### 1<sup>st</sup> Follow-Up Assurance Level

Reasonable Assurance

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

Assurance

#### 2<sup>nd</sup> Follow Up Assurance Level by Scope Area

Achievement of Strategic Objectives	NAT
Compliance with Policies, Laws & Regulations	Assurance
Safeguarding of Assets	NAT
Effectiveness and Efficiency of Operations	NAT
Reliability and Integrity of Data	NAT

Follow-up testing has confirmed that the risk has been mitigated and therefore assurance has been provided over this area.

### Guildhall - Director of Culture, Leisure and Regulatory Services

#### 1<sup>st</sup> Follow-Up Exceptions Raised

Critical	High	Medium	Low
0	0	0	0

#### 2<sup>nd</sup> Follow Up Exception Position

Critical	High	Medium	Low
0	1	2	0

#### 1<sup>st</sup> Follow-Up Assurance Level

Limited Assurance

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

Assurance

#### 2<sup>nd</sup> Follow Up Assurance Level by Scope Area

Achievement of Strategic Objectives	Assurance
Compliance with Policies, Laws & Regulations	Assurance
Safeguarding of Assets	Assurance
Effectiveness and Efficiency of Operations	NAT
Reliability and Integrity of Data	NAT

Follow-up testing has confirmed that the high and two medium risk exceptions have now been closed and verified and therefore assurance has been provided over this area.

## 12. Exceptions

Of the 2021/22 full audits completed, 88 exceptions have been raised.\*

Risk	Total
Critical Risk	1
High Risk	33
Medium Risk	45
Low Risk - Improvement	9

*\*These figures are excluding Portico*



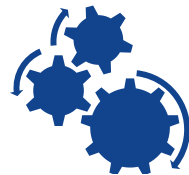
# Portsmouth

## CITY COUNCIL

### **Portsmouth City Council Annual Audit Report 2021/22**

Elizabeth Goodwin, Chief Internal Auditor



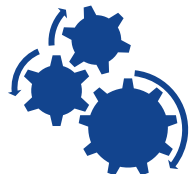


## Contents

- 1** Background - Page 3
- 2** Annual Opinion for 2021/22 - Page 5
- 3** Comparative 2020/21 & 2021/22 Audit Assurance Levels - Page 6
- 4** 2021/22 Audit Assurance by Directorate - Page 7
- 5** Key Areas of Concern for 2021/22 - Page 9
- 6** 2021/22 Assurance Analysis by Risk Classification - Page 10
- 7** Comparative 2020/21 & 2021/22 Exception Risk Rankings - Page 11
- 8** 2021/22 Follow Up Analysis - Page 12
- 9** 2021/22 Grant Audit Summary - Page 13
- 10** Data Analytics / Continuous Auditing - Page 15
- 11** Counter Fraud & Unplanned Reactive Work - Page 16
- 12** External Client Analysis and Performance - Page 18
- 13** Quality Assurance - Page 19
- 14** Public Sector Internal Audit Standards - Page 21

Page 40





# 1. Background

## Public Sector Internal Audit Standards

**1.1** On 1<sup>st</sup> April 2013 the *Public Sector Internal Audit Standards (PSIAS, the Standards)* were formally adopted in respect of local government across the United Kingdom. The *PSIAS* apply to all internal audit providers, whether in-house, shared services or outsourced. The *PSIAS* were revised from 1<sup>st</sup> April 2016, to incorporate the *Mission of Internal Audit* and *Core Principles for the Professional Practice of internal Auditing*.

**1.2** The *Accounts and Audit Regulations 2015 Section 5*, define the requirement for an internal audit function within local government, stating that:

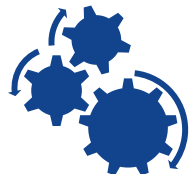
*A relevant authority must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance*

**1.3** The responsibility for maintaining an adequate and effective system of internal audit within Portsmouth City Council lies with the Director of Finance (Section 151 Officer).

**1.4** The Chief Internal Auditor is responsible for effectively managing the internal audit activity, in accordance with the definition of internal auditing, the *Code of Ethics* and the *Standards*.

**1.5** In accordance with the *PSIAS* the definition of internal auditing is:

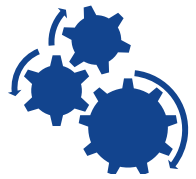
*Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management,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



- 1.6** In addition the Chief Internal Auditor will provide an Annual Internal Audit Opinion, based on an objective assessment of the Authority's framework of governance, risk management and control.
- 1.7** The Annual Internal Audit Opinion must incorporate:
- The Opinion;
  - A summary of the work that supports the Opinion; and
  - A statement on conformance with *PSIAS* and the results of the quality assurance and improvement programme.
- 1.8** An annual self-assessment is carried out, as part of *PSIAS*. The assessment for 2021/22 confirmed that the Portsmouth City Council's, Internal Audit Service is compliant with requirements.

### Statement of Organisational Independence

- 1.9** The Internal Audit Section has no operational responsibilities for any financial systems, including system development and installation. It does however manage Insurance and provides advice on control implementation and risk mitigation where relevant and throughout the design and implementation stages of new systems.
- 1.10** The Chief Internal Auditor is free from interference, although has due regard for the Authority's key objectives and risks and consults with Members and Officers charged with governance, when setting the priorities of the annual audit plan, for example; in determining the scope and objectives of work to be carried out and in performing the work and communicating the results of each audit assignment. There must be and is no compromise on the ability of Internal Audit to provide an independent assurance on the control framework.
- 1.11** The Internal Audit Section has free and unfettered access to the Section 151 Officer, Chief Executive, Monitoring Officer, Leader of the Council and the Chair of the Governance and Audit and Standards Committee.



## 2. Annual Opinion for 2021/22

- 2.1** During 2021-22 Internal Audit & Counter Fraud completed 39 full audits, 23 grant reviews, 14 first follow ups and 6 second follow ups. The results show that the level of 'No Assurance' audited areas have stayed the same as last year. There has been a slight decrease of 'Limited and Reasonable' rated areas and an increase in 'Assurance' areas overall against the 2021/22 plan. As a whole 'Reasonable Assurance' has been attributed indicating that the governance framework is effective despite ongoing and significant pressures on the Authority. The historic annual opinion for numerous years has been Limited. A review of the results across the authority shows that there are no individual directorates that attribute to the majority of high-risk areas, although there are pockets of weakness that require improvement. The results across audit work performed this year have not identified any systemic failings. One critical exception has been raised and is detailed in this report, this relates to growing concerns and attempts of fraud, perpetrated by external parties.
- 2.2** Over the past several years a residual issue has been highlighted in the number of outstanding actions for implementation. This year there has been continued progress as 51% of risks exceptions have been closed. This is also reflected in that 65% of follow up audits achieved improvement for the opinion level, with only 35% remaining the same, due to insufficient movement to deliver actions. Although progress is noted, it is recognised that Covid 19 has had an impact on services for 2021/22 where due to circumstances outside of their control some actions were difficult or impractical to address. This position needs to continue to improve if the Authority is to strive to manage risk exposure more effectively and retain the overall assurance opinion. Corporate Governance Board and individual directorates will be updated on a quarterly basis with all open risk exposures.
- 2.3** Four audit opinion levels are in place and these are: no assurance, limited assurance, reasonable assurance and full assurance. Where there are mainly medium or low risk exceptions the annual audit opinion would be reasonable or full assurance. Reasonable Assurance is provided for this year, with the above narrative that the internal control framework in operation at Portsmouth City Council is improving.

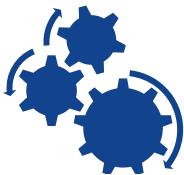
No Assurance

Limited Assurance

Reasonable Assurance

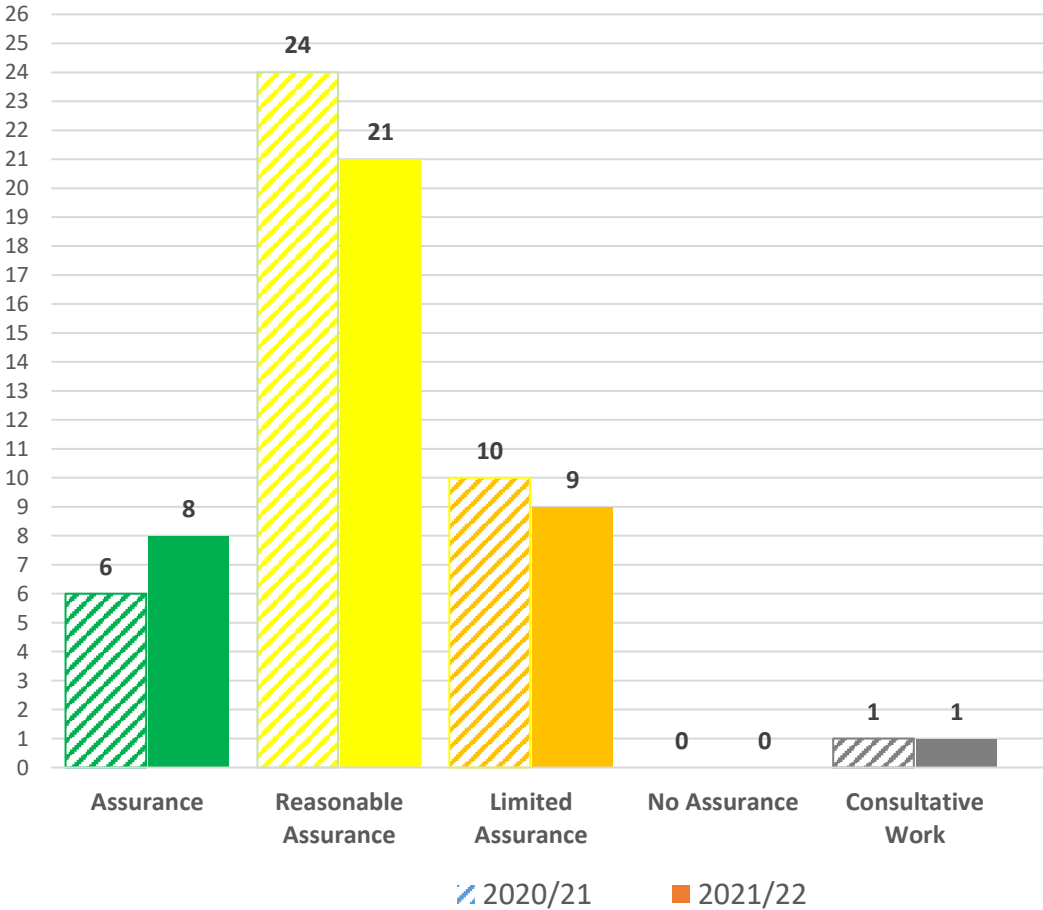
Full Assurance

- 2.4** Any significant corporate weaknesses and agreed actions are reflected in the Annual Governance Statement. The impact of the Internal Audit work for 2021/22 may affect that year's work for External Audit. It may also inform their work for 2022/23 and where they consider there are weaknesses in control that could materially affect the accounts, they may need to carry out further work to gain the necessary audit assurance required for a true and fair view of the financial position and compliance with professional codes of practice.



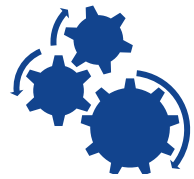
### 3. Comparative 2020/21 & 2021/22 Full Audit Assurance Levels

Page 44

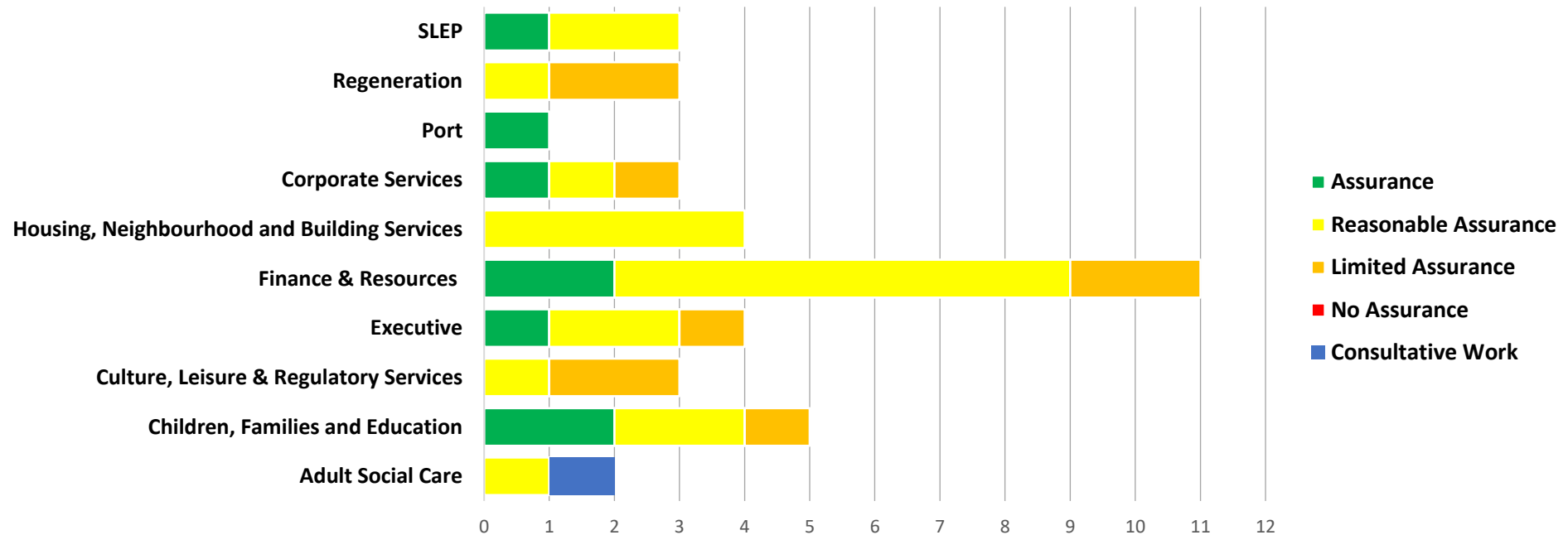


	2020/21	2021/22
Assurance	6	8
Reasonable Assurance	24	21
Limited Assurance	10	9
No Assurance	0	0
Consultative Work	1	1
TOTAL	41	39*

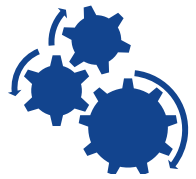
*\*Grant verification reviews have been excluded from the figures above. For context the number of grants requiring review and sign of by Internal Audit has increased from 13 in 2020/21 to 23 in 2021/22*



## 4. 2021/22 Full Audit Assurance by Directorate

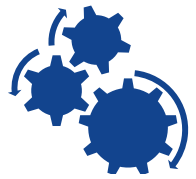


	Assurance	Reasonable Assurance	Limited Assurance	No Assurance	Consultative Work	TOTAL
Adult Social Care	0	1	0	0	1	2
Children, Families and Education	2	2	1	0	0	5
Culture, Leisure & Regulatory Services	0	1	2	0	0	3
Executive	1	2	1	0	0	4
Finance & Resources	2	7	2	0	0	11



Housing, Neighbourhood and Building Services	0	4	0	0	0	4
Corporate Services	1	1	1	0	0	3
Port	1	0	0	0	0	1
Regeneration	0	1	2	0	0	3
SLEP	1	2	0	0	0	3
<b>TOTAL</b>	<b>8</b>	<b>21</b>	<b>9</b>	<b>0</b>	<b>1</b>	<b>39</b>

*\*Grant verification reviews have been excluded from the figures above. For context the number of grants requiring review and sign off by Internal Audit has increased from 13 in 2020/21 to 23 in 2021/22*

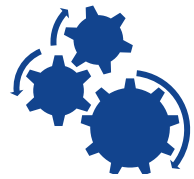


## 5. Key Areas of Concern for 2021/22

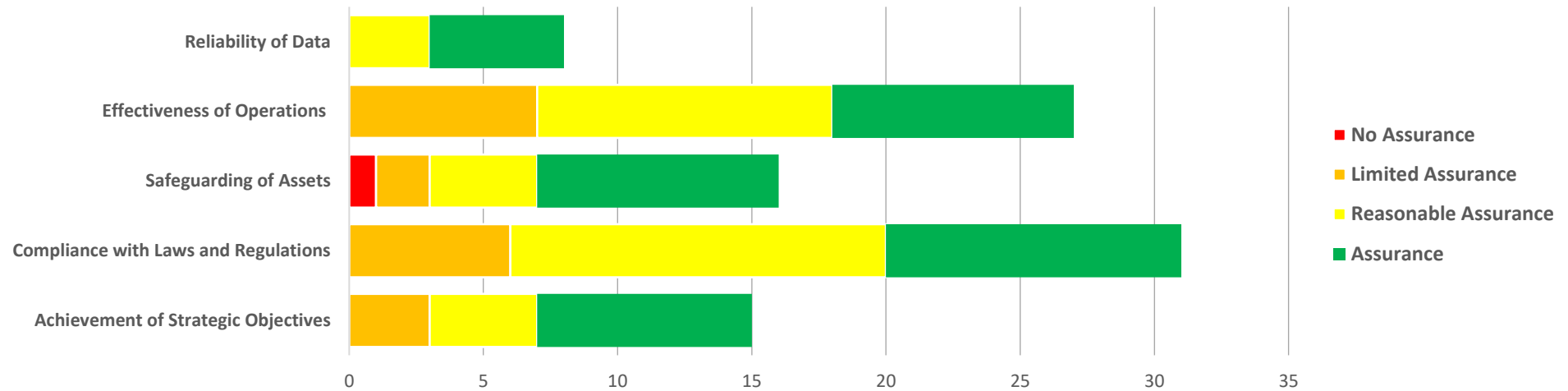
**5.1** There were no 'no assurance' audits noted for this year which is the same position as last year. There has been one area of concern resulting from work conducted during the 2021/22 financial year, resulting in one critical risk exception being raised in relation to:

- **Accounts Payable - Supplier Bank Details (Further details included within the July 2022 Internal Audit Progress Report)**

**5.2** During 2021/22 Internal Audit carried out follow-up reviews on all areas where one or more high risk exception was raised during 2020/21. While progress implementing actions has improved from 2020/21 (despite the impact of COVID 19) there are still areas where not all actions are fully implemented at the point of follow-up. Consequently, to ensure all actions are fully implemented, Internal Audit will continue the approach established in prior years, with second follow-ups carried out where this is the case.



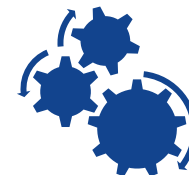
## 6. 2021/22 Assurance Analysis by Risk Classification



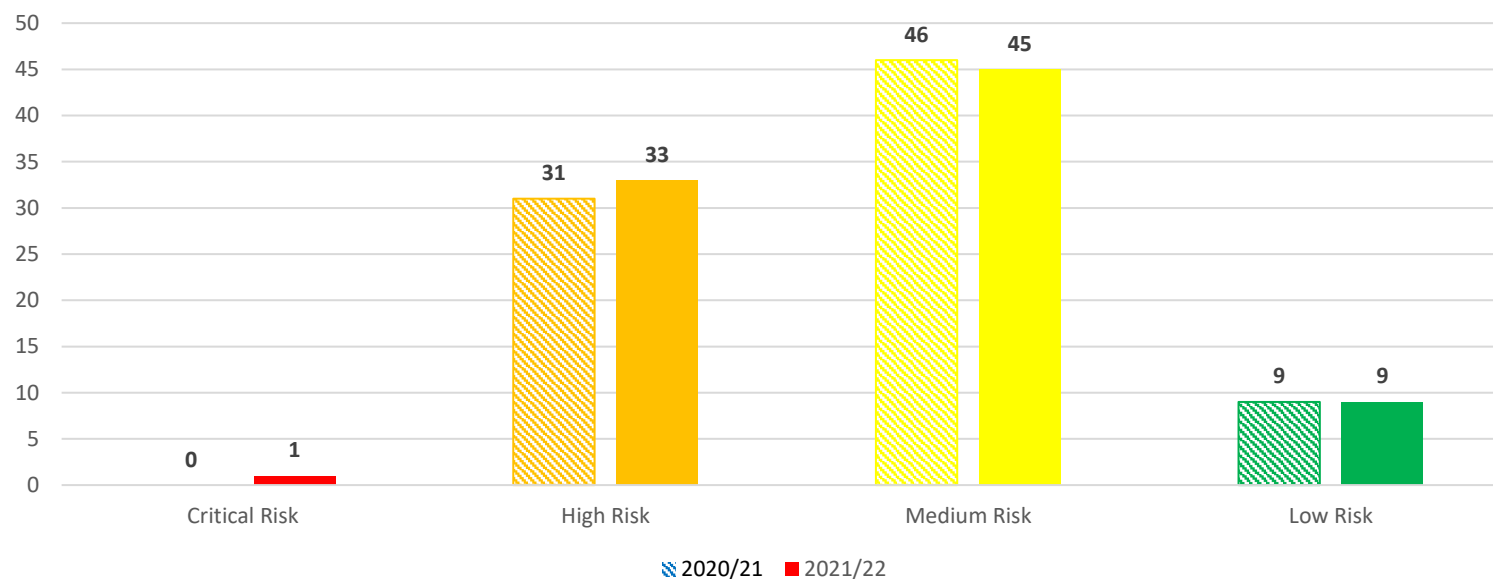
	No Assurance	Limited Assurance	Reasonable Assurance	Assurance	TOTAL
Achievement of Strategic Objectives	0	3	4	8	15
Compliance with Laws and Regulations	0	6	14	11	31
Safeguarding of Assets	1	2	4	9	16
Effectiveness of Operations	0	7	11	9	27
Reliability of Data	0	0	3	5	8
<b>TOTAL</b>	<b>1</b>	<b>18</b>	<b>36</b>	<b>42</b>	<b>97</b>

Note: not all audits assess all risk classifications; information on this page is limited to where audits assign an assurance rating to a risk classification.

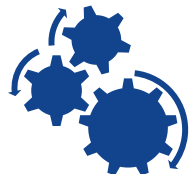




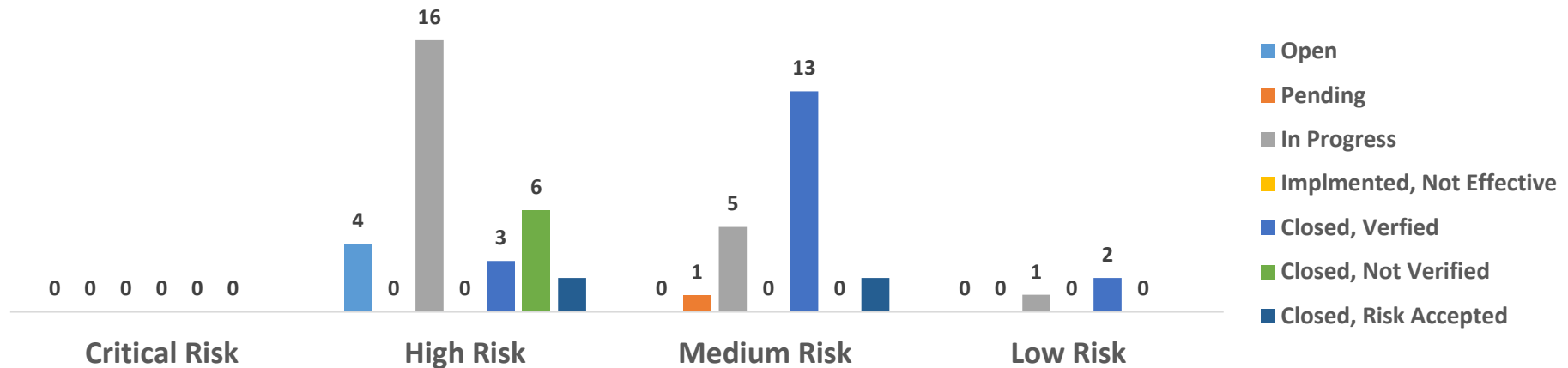
## 7. Comparative 2020/21 & 2021/22 Exception Risk Rankings



	2020/21	2021/22
Critical Risk	0	1
High Risk	31	33
Medium Risk	46	45
Low Risk	9	9
TOTAL	86	88

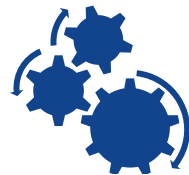


## 8. 2021/22 Follow Up Analysis



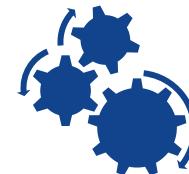
	Open	Pending	In Progress	Implemented, Not Effective	Closed, Verified	Closed, Not Verified	Closed, Risk Accepted	TOTAL
Critical Risk	0	0	0	0	0	0	0	0
High Risk	4	0	16	0	3	6	2	31
Medium Risk	0	1	5	0	13	0	2	21
Low Risk	0	0	1	0	2	0	0	3
<b>TOTAL</b>	<b>4</b>	<b>1</b>	<b>22</b>	<b>0</b>	<b>18</b>	<b>6</b>	<b>4</b>	<b>55</b>

Internal Audit follows up exceptions where at least one high risk exception has been raised. Exceptions are followed up in the next financial year, to allow for agreed actions to be sufficiently implemented. Any critical risk exceptions are followed up within three months due to the potential severity of the risks identified. The figures above also include results from second follow ups. Internal Audit has conducted second follow ups where the first review has highlighted risk exposure still unmitigated. The overall position of the exceptions followed up in 2021/22 show that 51% have been closed which is an improvement from the 2020-21 year by 11%, however it is noted that 49% remain open, pending and or are in progress.



## 9. 2021/22 Grant Audit Summary

Audit	Directorate	Status	Assurance Level	Comments
2SEAS PECS Grant	Port	Final	Assurance	
2SEAS PECS Grant	Port	Final	Assurance	
2SEAS SPEED Grant	Port	Final	Assurance	
Additional Dedicated H2S & College Transport No 31/5137 Tranche 1-4	Regeneration	Final	Assurance	
Additional Dedicated H2S & College Transport No 31/5137 Tranche 5	Regeneration	Final	Assurance	
Bus Subsidy	Regeneration	Final	Assurance	
COVID Income Loss Claim Grant	Finance and Resources	Final	Assurance	
Culture Recovery Grant	Culture, Leisure and Regulatory Services	Final	Assurance	
Disabled Facilities	Housing Neighbourhood and Building Services	Final	Assurance	
Green Homes Grant 1	Regeneration	Final	Assurance	
Homelessness Prevention Grant 2021-22	Housing Neighbourhood and Building Services	Final	Assurance	
Local Transport Capital	Regeneration	Final	Assurance	



Orpheus Grant Claim 2	Children, Families and Education	Final	Assurance	
Orpheus Grant Claim 1	Children, Families and Education	Final	Assurance	
Port Grant	Port	Final	Assurance	
Rough Sleeping Initiative Q1 2021-22 and Rough Sleeping uplift	Housing Neighbourhood and Building Services	Final	Assurance	
Local Growth Deal	SLEP	Final	Assurance	
Troubled Families Grant	Children, Families and Education	Final	Assurance	
Emergency Active Travel Grant	Regeneration	Final	Assurance	
City of Stories Culture Grant	Culture, Leisure and Regulatory Services	Final	Assurance	
Additional Home to School Transport Survey	Regeneration	Final	Assurance	
Bus Service Support Grant - Restart	Regeneration	Final	Assurance	
Protect and Vaccinate 31/5913	Housing Neighbourhood and Building Services	Final	Assurance	



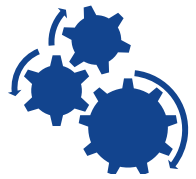
## 10. Data Analytics / Continuous Auditing

**10.1** IDEA data analytics was used extensively throughout the 2021/22 financial year in order to aid Internal Audit & Counter Fraud in using resources efficiently. These include:

- Continuous Auditing
- Audit Testing
- Audit Sampling
- Fraud Testing
- Data Analysis

**10.2** Across all audits, including external clients, IDEA is considered and where appropriate utilised for random & stratified sampling. Examples of where IDEA was used include:

- Accounts Payable - Data Analytic Review, Analysis on contract data - i.e. price and dates, Comparison of training records to current employees.
- Purchase Cards - To highlight (Split transactions / transactions over the limit / and transactions non-compliant with the purchasing cards policy)
- Payroll - Analytic review on employee data/ national insurance number's / bank details.
- Multiple PDF reports converted to excel
- Random Sampling
- Additional Restrictions Grant - duplicate payment checks along with data matching against other grants to ensure businesses only received the grants they were entitled to.



## 11. Counter Fraud & Audit Unplanned Reactive Work

**11.1** A summary has been provided of Counter Fraud and Audit reactive work conducted during the 2021/22 year.

### 11.2 Referrals

The Counter Fraud team receive a number of fraud referrals which are risk assessed to determine if a full investigation is needed. For 2021/22 86 cases were investigated. This is an increase from the previous year as a result of concerns raised from officers in relation to housing tenancy fraud and abandoned properties potentially as a result from the Covid-19 pandemic. The level of overall fraud work increased due to the Covid Pandemic and issuing of grants across multiple areas and impacting all clients. The ability to progress some cases has been hampered by the Council's inability to conduct Interviews under Caution, due to social distancing restrictions as well as relaxing non-critical services. The main areas covered this year are outlined below:

### 11.3 Test & Trace - £500 Isolation Payments.

101 of the Test & Trace Applications were verified in accordance with the terms and conditions of Central Government's request that a minimum of 10% be checked. These required NHS isolation system confirmation and Inland Revenue income checks. For the 101 tested it has been determined that 11 did not meet the criteria and there is a process underway to recover these as invoices will be raised to recover the amounts paid (£5,500).

### 11.4 Ongoing NFI

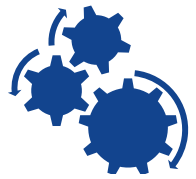
PCC Counter Fraud and Audit are responsible for the management and admin of the Authority's participation in the National Fraud Initiative (NFI) which is a mandatory scheme in which multiple data sets are uploaded and analysed. The results are then presented back to the council for investigation. NFI does not run-in financial years but spans a period of 18 months. The next run is due to be conducted in September 2022.

### 11.5 Right to Buy (RTB)

During 2021/22, PCC Counter Fraud increased its involvement in the fraud checks associated with Right to Buy applications. The right to buy scheme allows long standing council tenants to purchase their council property at a discounted price of up to 70%. Due to the significant discounts involved, fraudulent applications for RTB have become more prevalent in recent years. To combat this risk, PCC Counter Fraud now review all applications for a fraud risk and conduct relevant enquires with the applications.

During 2021/22 Counter Fraud aided in the following:

- 9 Right to Buy enquiry and due diligence checks. There was no evidence that the Right to Buy could not proceed for the 9 queried with Counter Fraud.



Central government guidelines state that each property recovered is a financial benefit to the Authority of £18,000 per property recovered. However it also should be noted the Council has retained the asset without needing to sell at the discounted price.

### 11.6 Social Media Surveillance

Use of social media as a means of carrying out surveillance is not permitted unless a Regulations Investigatory Powers Act 2000 (RIPA) application has been successful. Counter Fraud and Audit maintain oversight and are responsible for monitoring the arrangements in place in this area. Checks have been carried out on all services with the agreed ability to perform initial checks on social media to ensure that they are operating within the legislative boundaries.

### 11.7 Money Laundering

Counter Fraud are responsible for the monitoring and investigation of any suspected money laundering cases presented to the council. PCC policy outlines that any cash payment received over £5000 will be investigated. During 2021/22, 1 money laundering investigation was undertaken however there were no cases that were deemed to require further investigation.

### 11.8 Advice

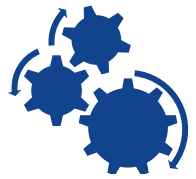
Internal Audit gave 24 items of advice across varying council services on risk and control throughout the financial year 2021/22. Advice is recorded if the time spent to conduct the required work exceeds 1 hour of officer time.

### 11.9 Independent investigations

In addition to the above Counter Fraud and Audit performed investigations into:

- Two cases relating to alleged failure to comply with either contract procedure rules or purchase card requirements. Both cases were substantiated.
- Two additional cases relating to failure to effectively monitor the provision of agency costs.

All whistleblowing cases are reported under a separate report, submitted earlier this year.



## 12. External Client Analysis and Performance

**12.1** The Internal Audit & Counter Fraud service at Portsmouth City Council have maintained the contracts in place for the provision of Internal Audit & Counter Fraud duties with a number of external clients as noted below. These arrangements cover some or all of the following; audits, investigations, NFI administration, anti-money laundering and where applicable the role of the Chief Internal Auditor.

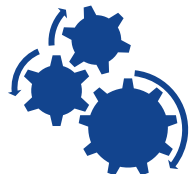
**12.2** External Client Base for 2021/22

- Southampton City Council
- Fareham Borough Council
- Solent Local Enterprise Partnership
- Gosport Borough Council
- Various PCC Schools
- Isle of Wight Council
- Rushmore Borough Council
- Portico (MMD)
- Medina Primary School (IOW)

**12.3** Chief Internal Auditor role is covered for the following organisations;

- Portsmouth City Council
- Southampton City Council
- Isle of Wight Council
- Solent Local Enterprise Partnership
- Gosport Borough Council
- Portico (MMD)



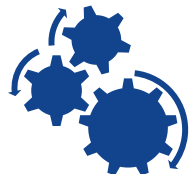


## 13. Quality Assurance

**13.1** As part of the *Public Sector Internal Audit Standards* the Chief Internal Auditor is required to maintain a quality assurance and improvement programme (QA&IP) that covers all aspects of the internal audit activity. This QA&IP must include both internal and external assessments, which are detailed below under section 10.

In addition to this, quality and improvement requirements are assessed by means of:

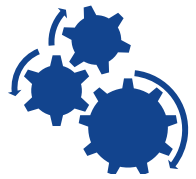
- Sign off by the Chief Internal Auditor or Deputy of all key stages of an audit, for example the scope of work and level of testing to be performed, the conclusion of the work and opinion formed followed by a review of the draft and final reports.
- Weekly or bi-weekly 1:1s with all members of staff, within Internal Audit and colleagues who undertake Counter Fraud activities.
- Annual performance reviews of all staff, including the identification and provision of training. The majority of training needs are provided by a combination of external professional studies, supporting by in-house provisions and mentoring.
- All staff above Auditor level are required to undertake professional training or have achieved an education level of degree or above. For those that have completed professional studies as part of their professional body membership, much complete the required Continuous Professional Development.
- An annual skills gap analysis across the team, (this includes the wider team) to determine specific potential shortages or gaps. Whilst no major gaps are noted at present, historical gaps in areas such as project auditing, contract auditing and IT auditing have been identified following the departure of employees (including retirement). These shortfalls have been addressed by specified recruitment, bespoke training or if required short term, by means of additional sign off/ mentoring of staff. Areas requiring improvement for this year's assessments are noted below, Skills Gap Analysis Results (13.2).
- All staff complete an annual declaration of interests including a nil return, to avoid any impingement on independence or conflict of interest.
- Feedback has been received during 2021/22 from key stakeholders, all feedback supported the quality assurance assessment reflecting that the service provided complies with *PSIAS* criteria.



## Skills Gap Analysis for 2021/22

### 13.2 Essential Areas: where greater coverage of skills is needed moving forward:

- *Auditing, Specialist IT Auditing skills:* these are limited within the overall service (Partnership) with only two officers currently qualified. To address this shortfall, professional training will continue for a third officer and use will also be made of resources employed elsewhere under the various partnerships and shared service arrangements.
- *Counter Fraud skills:* whilst there are three officers qualified in Counter Fraud (CF) and investigative practice these resources are limited. The vacant post for a fourth officer has been successfully filled. There has been a significant increase in investigating and counter fraud work which has placed this area of the service under extreme pressure.
- *Qualified Accountants:* the final area to note is in relation to the level of qualified auditors, specifically 'accountancy qualified'. Following the retirement of three officers within the partnership a gap has emerged representing a shortfall in this area. One implication is the ability to verify certain grant work, where the accounting qualification is restricted. Recruitment is in the process of taking place and further discussions will be held with the s151 officer to review the arrangements moving forward relating to both the accountancy qualifications and counter fraud skills.



## 14. Public Sector Internal Audit Standards

- 14.1** Under the *Public Sector Internal Audit Standards (PSIAS, the Standards)* *Standard 1310* requires that, as part of the quality assurance and improvement programme internal and external assessments (of conformance with the *PSIAS*) must be undertaken. *Standard 1311* allows for periodic self-assessments, which for Portsmouth City Council has been carried out each year since the standards were introduced. The results of the self-assessments have been communicated annual alongside the annual audit opinion to this committee.
- 14.2** *Standard 1312* requires that an external assessment must be conducted at least once every five years by a qualified, independent assessor or assessment team from outside the organisation. The Standards state that a qualified assessor demonstrates competence in two areas; the professional practice of internal auditing and the external assessment process. Competence can be demonstrated through a mixture of experience and theoretical learning. An independent assessor means not having an actual or perceived conflict of interest and not being part of, or under the control of, the organisation to which the internal audit activity belongs. During 2017/18 an external assessment was undertaken on Portsmouth City Council's Internal Audit & Counter Fraud Service. A second external assessment is planned for the financial year 2022/23.

This page is intentionally left blank

# Agenda Item 6



**Title of meeting:** Governance, Audit and Standards Committee

**Date of meeting:** 20<sup>th</sup> July 2022

**Subject:** Annual Governance Statement

**Report by:** Kelly Nash, Corporate Performance Manager

**Wards affected:** n/a

**Key decision:** No

**Full Council decision:** No

---

## 1. Purpose of report

- 1.1 The report seeks approval from Governance, Audit and Standards committee for the council's draft Annual Governance Statement (AGS) for 2021/22.

## 2. Recommendations

- 2.1 Governance, Audit and Standards committee is asked to:
- 1) Agree the Annual Governance Statement 2021/22 (Appendix 1)

## 3. Background

- 3.1 The authority has a duty to produce and publish an Annual Governance Statement (AGS). This sets out how Portsmouth City Council has complied with the Local Code of Governance, and how the authority meets the requirements of Regulation 4 (3) of the Accounts and Audit (England) Regulations 2011.
- 3.2 The purpose of the AGS is to set out the systems and processes in place to ensure that Council business is conducted lawfully and in accordance with proper standards. Compliance helps ensure that public money is safeguarded, properly accounted for and used economically, efficiently and effectively. It also acknowledges the Council's responsibility to secure continuous improvement in the way in which its functions are exercised by outlining significant governance issues facing the organisation, and setting out how these will be addressed.
- 3.3 It is a key role of the Governance and Audit committee to monitor governance issues across the authority and ensure they are performance managed. Governance issues are also reviewed regularly by the Corporate Governance Group which is attended by the Chief Executive, the Monitoring Officer, Director of Finance and Resources, Director of Corporate Resources and the Chief Internal Auditor.

3.4 The AGS reports against seven core principles of governance set out in the International Framework for Good Governance in the Public Sector. The document is attached as Appendix 1. The detail of how the organisation addresses these principles is set out in the Local Code of Governance, which was refreshed in 2021. Every year, a number of sources are analysed, including the Annual Audit Letter, in order to review the council's practices and highlight further governance issues where the authority may be exposed.

3.6 The final Annual Governance Statement will also includes the annual opinion on the effectiveness of the internal system of control from the Chief Internal Auditor. The Chief Internal Auditor has been consulted on the draft document.

#### **4. Reasons for recommendations**

4.1 The 2021/22 Annual Governance Statement has been prepared according to the proper practice framework - Delivering Good Governance in Local Government issued jointly by SOLACE (Society of Local Authority Chief Executives and Senior Managers) and CIPFA (Chartered Institute of Public Finance and Accountancy) in 2016.

#### **5. Integrated impact assessment**

5.1 An integrated impact assessment is not required as the recommendations do not directly impact on service or policy delivery. Any changes made arising from this report would be subject to investigation in their own right.

#### **6. Legal implications**

6.1 Legal considerations have been taken into account in the preparation of this report and where appropriate embodied within it.

#### **7. Director of Finance's comments**

7.1 There are no financial implications arising from the recommendations in this report.

.....  
Signed by: David Williams, Chief Executive

**Appendices:** Appendix 1 - Draft Annual Governance Statement 2021/22

**Background list of documents: Section 100D of the Local Government Act 1972**

The following documents disclose facts or matters, which have been relied upon to a material extent by the author in preparing this report:

<b>Title of document</b>	<b>Location</b>

The recommendation(s) set out above were approved/ approved as amended/ deferred/ rejected by ..... on .....

.....  
Signed by:

This page is intentionally left blank



# Annual Governance Statement 2021-22 (DRAFT)

[www.portsmouth.gov.uk](http://www.portsmouth.gov.uk)

**Contents**

What is the annual governance statement? ..... 2

What do we mean by governance? ..... 2

Scope of responsibility ..... 2

About the Council ..... 2

CIPFA/SOLACE Good governance principles and the local code of governance ..... 4

    A. Behaving with integrity, demonstrating strong commitment to ethical values and respecting the rule of law ..... 4

    B. Ensuring openness and comprehensive stakeholder engagement ..... 5

    C. Defining outcomes in terms of sustainable economic, social and environmental benefits; and D. Determining the interventions necessary to optimise the achievement of the intended outcomes ..... 7

    E. Developing the entity's capacity, including the capability of its leadership and the individuals within it..... 10

    F. Managing risks and performance through robust internal control and strong financial management ..... 11

    G. Implementing good practices in transparency, reporting and audit to deliver effective accountability. .... 13

Significant governance issues for 2020/21 ..... 17

Effectiveness of the system of internal audit ..... 20

Summary of significant governance issues for 2020/21 ..... 20

## What is the annual governance statement?

Legislation<sup>1</sup> requires local authorities to prepare and publish an Annual Governance Statement, in order to report publically on the effectiveness of the Council's governance arrangements. The statement provides an overview of the current governance framework and a summary of the review on the effectiveness of Portsmouth City Council's governance framework for 2019/20 (which coincides with the annual statement of accounts). The statement openly communicates significant governance issues that have been identified during the review and sets out how the authority will secure continuous improvement in these areas during over the coming year.

## What do we mean by governance?

By governance, we mean the arrangements that are put in place to ensure the intended outcomes for local people are defined and achieved. It comprises the systems and processes, cultures and values, by which local government bodies are directed and controlled. Good governance is about making sure the Council does the right things, in the right way for the right people, in a timely inclusive, open, honest and accountable manner.

## Scope of responsibility

Portsmouth City Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded, properly accounted for and used economically, efficiently and effectively. It also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness. In discharging this overall responsibility, Portsmouth City Council is responsible for putting in place proper arrangements for the governance of its affairs, and facilitating the effective exercise of its functions, which includes arrangements for the management of risk.

## About the Council

Portsmouth's Council comprises of 42 Councillors who represent 14 wards across the

City. It currently operates a minority administration under a Leader and Cabinet structure with Cabinet Members responsible for individual portfolios.

The Council employs around 3,600 members of staff and provides an extensive range of services to residents, businesses and visitors in the City, including: city development and cultural services, regulatory business and standards services, transport and environmental services, housing and property services, children's and adult's social care and safeguarding, education services, revenues and benefits and health and welfare services.

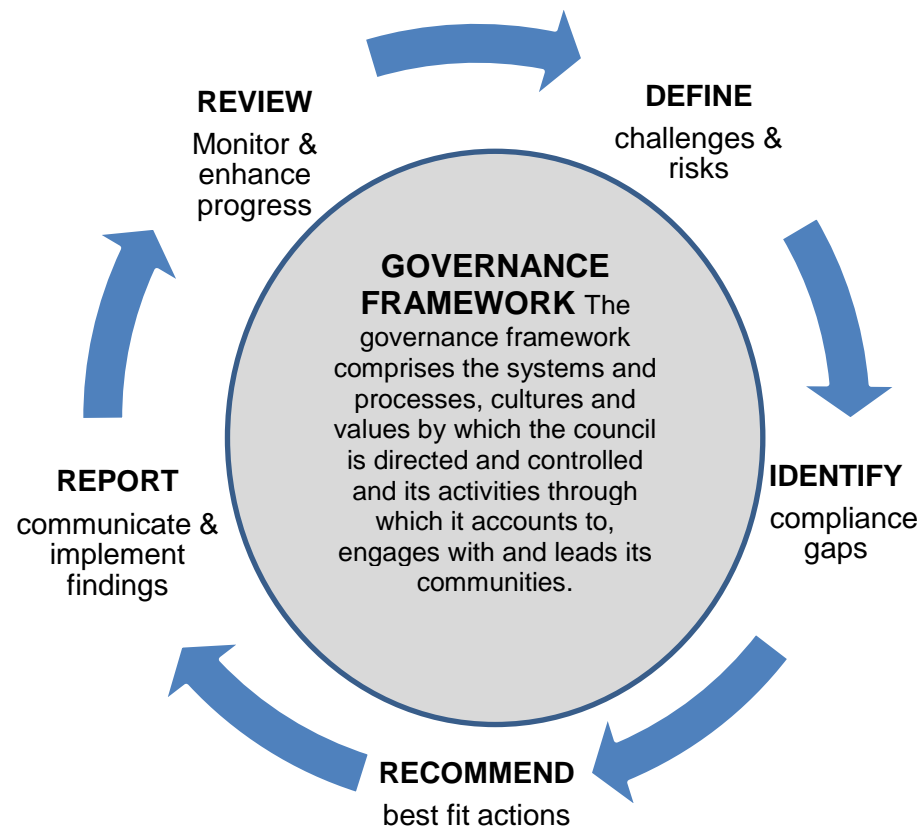
The staff of the council are managed by the **Chief Executive**, David Williams, who is the Head of the Paid Service. The Chief Executive is supported **directors** who have oversight of a number of services, each of which deals with a broad portfolio of the functions of the authority.

---

<sup>1</sup> Accounts and Audit (England) Regulations 2015, regulation 6(1)

## GOVERNANCE PRINCIPLES

- Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law
- Ensuring openness and comprehensive stakeholder engagement
- Defining outcomes in terms of sustainable economic, social and environmental benefits
- Determining the interventions necessary to optimise the achievement of the intended outcomes
- Developing the entity's capacity, including the capability of its leadership and the individuals within it
- Managing risks and performance through internal control and strong public financial management
- Implementing good practices in transparency, reporting and audit to deliver effective accountability



## INTERNAL CONTROLS

### Leadership, Culture and Planning

Organisational goals and priorities  
Strategic and operational plans  
Performance management  
Medium term financial strategy

### Statutory Officers & Decision Making

The Constitution  
The Monitoring Officer  
Section 151 Officer

### Policies & Procedures

Codes of conduct  
Ways of working  
Anti-fraud, Bribery and Corruption Policy  
Whistleblowing Policy  
HR Policies and procedures

### People, Knowledge, Finance, Assets

Robust HR practices  
Information governance  
Performance monitoring and improvement  
Financial management and reporting  
Ethical & legal practices

### Scrutiny and Transparency

Freedom of Information requests  
Complaints procedure  
Reports considered by legal and finance experts  
Equality impact assessments  
Corporate risk directory  
Transparency duty publication

### Partnership Working

Community engagement statement  
'Have your say'  
Consultations  
Terms of reference for partnerships

## CIPFA/SOLACE Good governance principles and the local code of governance

In 2016 CIPFA/SOLACE issued revised best practice guidance for 'Delivering Good Governance in Local Government'<sup>2</sup>. The framework sets out seven principles that should underpin the governance of each Local Authority. The following sections look at how the Council is held to account for these seven principles.

### A. Behaving with integrity, demonstrating strong commitment to ethical values and respecting the rule of law

#### *The Constitution*

The constitution sets out the how the Council operates; the roles and responsibilities of members, officers and the scrutiny and review functions; how decisions are made; and the procedures that are followed to ensure that these are efficient, transparent and accountable to local people. Although there is no longer a statutory requirement, Portsmouth City Council has taken the decision to continue with this arrangement internally and is in the process of updating the constitution to ensure it reflects current practice. As well as working together as a single organisation, it is important that members and officers continue improve their working relations with other organisations too, both locally and sub-nationally, to achieve a common purpose of improved efficiency and effectiveness.

#### *The Monitoring Officer*

The Monitoring Officer is a statutory function and ensures that the Council, its officers, and its elected members, maintain the highest standards of conduct in all they do. The Monitoring Officer is assisted when required by appointed deputies. The Monitoring Officer ensures that the Council is compliant with laws and regulations, as well as internal policies and procedures, and is also responsible for matters relating to the conduct of Councillors and Officers, and for monitoring and reviewing the operation of the Council's Constitution. In PCC, the monitoring officer is Peter Baulf, the City Solicitor and Head of Legal Services.

#### *Section 151 Officer*

Whilst all Council Members and Officers have a general financial responsibility, the s151 of the Local Government Act 1972 specifies that one Officer in particular must be responsible for the financial administration of the organisation and that this Officer must be CCAB qualified. This is typically the highest ranking qualified finance officer and in Portsmouth City Council this is Chris Ward, who is also the Director of Finance and Resources.

#### *Codes of conduct*

On joining the Council, members and officers are provided with a contract outlining the terms and conditions of their appointment. All staff must sign a code of conduct and declare any financial interests, gifts or hospitality on a public register. Additionally, members are expected to declare any interests at the start of every meeting that they attend in accordance with Standing Orders. Members and officers are required to comply with approved policies. The Council uses a system called Policyhub that enables effective dissemination of general and job-specific policies, and has the built in functionality to measure compliance i.e. that a member of staff has read and agreed to the policy.

#### *Anti-fraud, bribery and corruption*

The Council is committed to protecting any funds and property to which it has been entrusted and expects the highest standards of conduct from Members and Officers regarding the administration of

<sup>2</sup> <http://www.cipfa.org/policy-and-guidance/publications/d/delivering-good-governance-in-local-government-framework>

financial affairs. The Council's Anti-Fraud, Bribery and Corruption Policy<sup>3</sup> (revised in May 2016) conforms to legislative requirements and sets out steps to minimise the risk of fraud, bribery, corruption and dishonesty and procedures for dealing with actual or expected fraud.

### *Whistleblowing*

The Council is committed to achieving the highest possible standards of openness and accountability in all of its practices. The Council's Whistleblowing policy sets out the options and associated procedures for Council staff to raise concerns about potentially illegal, unethical or immoral practice and summarises expectations around handling the matter. The Policy is kept under review by the Monitoring Officer, and reports (which include concerns raised and their outcomes) are submitted to the Governance and Audit and Standards Committee quarterly.

### *Governance and Audit and Standards Committee*

As its name suggests, the Governance, and Audit and Standards Committee has the responsibility for receiving many reports that deal with issues that are key to good governance. The Committee undertakes the core functions of an Audit Committee identified in CIPFA's practical guidance. The group has an agreed set of terms of reference, which sets out their roles and responsibilities of its members<sup>4</sup>. On an annual basis the Chair of the Committee is invited to undertake a self-assessment, which informs the overall review of effectiveness of the Council's governance arrangements.

## **B. Ensuring open and comprehensive stakeholder engagement**

### *Engagement and communication*

It is recognised that people need information about what decisions are being taken locally, and how public money is being spent in order to hold the council to account for the services they provide. The views of customers are at the heart of the council's service delivery arrangements. Portsmouth City Council has developed a Community Engagement Statement, which reflects the council's ambition to enable and empower communities to shape the places within which they live and work, influence formal decision making and make informed choices around the services they receive. The Community Engagement Statement asserts the following objectives for the council's engagement activity:

- Active citizens and strong communities,
- Clearer links between consultation and decision-making,
- A City that reflects its diversity and improved use of resources and aims to build upon the council's commitment to finding ways to inform,
- Consult and involve local people in all areas of life.

To be effective this process aims to inspire and support a genuine two-way dialogue with all sections of the community and other stakeholders. There are a number of ways people can get involved and connect with the council, many of which are listed on the council webpage. Local people have the option to engage in a dialogue through: social media sites (including Facebook and twitter), petition schemes, neighbourhood forums, Healthwatch Portsmouth, council meetings (open to the public), their local Councillor.

The importance of our role as a communicator with the public was clear in the pandemic. We focused our communications capacity on the Protect Portsmouth campaign, which saw the city council become a trusted source of information second only to the NHS. Building on the work we

undertook around supporting communities around health needs, we are developing the approach to community engagement, including developing the role of community champions.

### *Consultations*

The council keeps a forward plan of planned consultations. Internally, a consultation toolkit has been developed to guide council staff through the consultation process. The agreed process ensures that engagement activity is relevant, accessible, transparent and responsive. To increase awareness, consultations are proactively promoted. The customer insight team provide professional advice and analysis where required to ensure that consultation processes are robust.

The council issues a free copy of their Flagship magazine to all households keeping them up to date about what's going on in the City. The authority also issues other publications to specific groups, including "Term Times" for schools and "HouseTalk" for tenants.

Portsmouth City Council regularly engages with its employees to ensure they are kept informed about the council and the city. There are communication channels for "off-line" and online employees and a dedicated communications point of contact for staff. Employees are regularly asked to complete opinion surveys so the council can get a better understanding of what's working and what's not. The results are carefully considered and used to address issues.

### *Complaints*

There is a clear and transparent procedure for dealing with complaints. The Council operates a three-stage complaints procedure and promises to acknowledge complaints within 5 working days and respond fully within 10 working days for first-stage complaints, 15 working days for second-stage complaints and 20 working days for third-stage complaints. If complainants remain dissatisfied they have the right to refer the matter to the Local Government Ombudsman.

### *Partnership working*

Partnerships are about the council coming together with right organisations to deliver improved outcomes for local people. The city has excellent partnership working, with other local authorities and with colleagues in health, including the Clinical Commissioning Group (CCG), the police, probation, fire service, university and with business.

The city has excellent partnership working, with other local authorities and with colleagues in health, including the Clinical Commissioning Group (CCG), Solent NHS Trust, Portsmouth Hospitals University Trust, the police, probation, fire service, University of Portsmouth and with business through Shaping Portsmouth.

For many years, the Council had three key theme-based strategic partnerships - the Health and Wellbeing Board, Children's Trust, and the Safer Portsmouth Partnership. Following a review, these partnerships were folded into a single Health and Wellbeing Board - with a broadened remit and membership, to improve efficiency and ensure that issues are being considered strategically and as they affect people and the city across all dimensions. The Board agreed a new Health and Wellbeing Strategy in 2022, with a focus on creating the conditions that will enable people living in the city to thrive.

There are other partnership arrangements around the city's regeneration efforts such as the Solent Local Enterprise Partnership (LEP), Solent Transport, and the Partnership for South Hampshire (PfSH). In addition, Portsmouth City and Gosport Borough Council have come together to form the 'Portsmouth Harbour Partnership' to bid in the central government's One Public Estate programme.



Other examples of working together include the sharing of key management posts with other authorities (such as Gosport, Southampton and the Isle of Wight) and developing shared services across authorities.

Partnerships with colleagues in the health sector have been developing strongly over time, including the strengthening of links with the CCG, by moving to a model for shared functions across adult services, children's services and public health. This is important in order to ensure that services for Portsmouth's population are commissioned and delivered with a strong understanding of local communities and their needs. As the NHS moves towards a different model, working in integrated care systems, we will continue to work closely with colleagues on a place-based basis to ensure that services continue to be as seamless as possible for the people using them.

We continue to develop partnerships across other sectors too. Hive Portsmouth continues to be a key partner for us in working strategically with the voluntary and community sectors, particularly to address the needs of those most vulnerable, including people experiencing financial disadvantage. Portsmouth Creates is developing strongly as a key partner for developing culture and creativity in the city, and Shaping Portsmouth continues to be a significant partner in our work with the business community.

### C. Defining outcomes in terms of sustainable economic, social and environmental benefits; and D. Determining the interventions necessary to optimise the achievement of the intended outcomes

In 2019 and 2020, we embarked on an exercise with partners, "Imagine Portsmouth", to create a shared vision for the city. We worked with 2,500 people representing business and organisations who live and work in Portsmouth to talk about our hopes and dreams for our city. We created big bold plans for what we want in the future; for ourselves, our families, our communities, our businesses and our co-workers.

People described the values they wanted to see lived in the city as:

*'We believe in:*

- *equality*
- *innovation*
- *collaboration*
- *respect*
- *community*

*'By 2040, we want to see a:*

- *happy and healthy city*
- *city rich in culture and creativity*
- *city with a thriving economy*
- *city of lifelong learning*
- *green city*
- *city with easy travel.'*



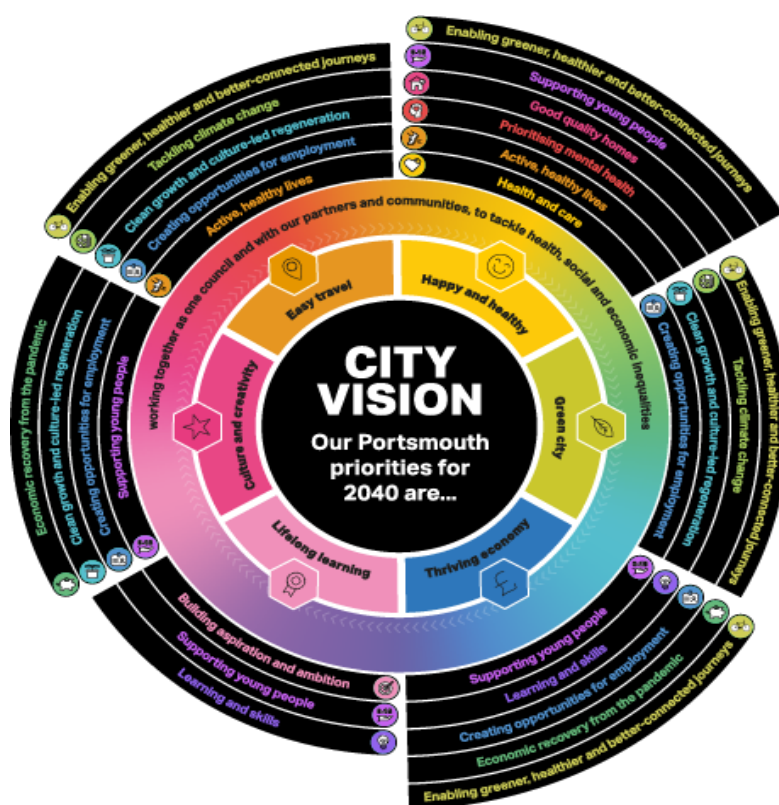
This vision belongs to the city, not just the council. However, we will be an important part of turning the vision into a reality, so we have set clear priorities for the organisation to help us do that, and also to guide the recovery and renewal of the city in light of the pandemic:

- Improve health and care for our local communities
- Support people to live active, healthy lives



- Prioritise mental health
- Make more good quality homes available for our residents
- Build aspirations and encourage ambition for our city and its residents
- Support young people
- Encourage everyone to learn and develop skills
- Create opportunities for employment
- Encourage clean growth and culture-led regeneration
- Support the local economy to recover from the pandemic
- Take positive action to tackle climate change
- Enable greener, healthier and better-connected journeys.

These are set out in the council's plan for recovery and renewal.



### Planning and monitoring

In order to secure these outcomes for residents and service users, the Council needs to respond to some tough challenges. The biggest share of the money that the local authority receives comes from government grant. Since 2011/12, overall central government funding to PCC has reduced significantly. Taken together with other financial pressures (mainly relating to inflation, Covid-19 recovery, the effects of an ageing population on care services and the increased requirements for safeguarding of vulnerable children - total savings of £103m have been made by the council (48% of controllable spend).

Adult and Children's Social Care (representing in excess of 50% of controllable spend) provide services to the most vulnerable, experience the greatest cost pressures, and have historically received significant protection from savings. The Council's medium-term financial strategy seeks to maximise savings through income generation, economic regeneration and efficiency measures.

In February 2022 full council considered proposals outlining its budget and council tax 2022/23. The key proposals recommended a budget for 2022/23 that provides for:

- savings of £1.825m

- new spending initiatives amounting to £0.825m (including a full city wide roll out of the food waste recycling service)
- a council tax increase of 2.99% (1.0% of which is raised specifically to be passported to adult social care)
- new Capital Investment to the City of £67.8m
- no requirement for any budget savings for 2023/24.

The Covid-19 pandemic has had a significant impact on the budget proposals in both the revised budget for the last financial year, the budget for 2022/23 and future years' forecasts. Some of the financial impacts of the pandemic are expected to be short term in nature (one to two years) but others are expected to endure through the longer term. Excluding business rate reliefs which are fully recompensed by government, the cost of responding to the Covid-19 pandemic in the last financial year is expected to amount to £10.1m with associated government funding of £9.1m.

The budget proposals seek to ensure that the financial position of both adult and children's social care remains robust both in the short and medium term. Additional funding is provided as follows:

- children's social care - £3.9m to cover financial pressures relating to residential placements, care leavers, unaccompanied asylum seekers, inflation and to remove unachievable budget savings
- adult social care - £3.3m to cover the uplift in the national living wage of 6.6% that will be passported to care providers as well as all other inflationary pressures.

Over the next three years (commencing 2022/23), the additional costs of managing Covid-19 and income losses are expected to amount to a further £6.6m but with no specific additional government funding. The Government has provided new funding within the provisional local government settlement of £3.3m for 2022/23 in the form of a 'services grant 2022/23' but this is for all Covid-19 risks. This is to cover all new burdens and all other budget pressures. The cost of managing Covid-19 alone dwarfs the new funding by government. While it is not possible to quantify the longer term impacts of Covid precisely, it is anticipated that there will be ongoing impacts on care services, some sources of income and both council tax and business rates receipts. It is likely that inflation and wider economic pressures will become exacerbating factors.

In overall terms, the financial picture over the next two years and beyond is one of increasing costs and demand for services, particularly in essential care services - at the same time as continued reductions in funding, leading to an overall forecast budget deficit. The recent announcement by the Government on moving to a new Target Operating Model for imports to the UK (both EU and non-EU) means that the creation of the new Border Control Post has left the authority with a £7.8m infrastructure cost but also a challenge in having a high specification building with no clear purpose and no way of recovering running costs.

However, the council's financial health is currently considered sound, and well placed to face future uncertainties, including the review of local government funding.

Portsmouth City Council remains a low taxing authority. The council currently receives significantly less in council tax than the average unitary authority within its statistical neighbour group.

Council tax currently represents less than half of the council's overall funding base with annual rises limited by "referendum thresholds" which are set by the government annually. Over recent years, council tax increases have not been sufficient to keep pace with the levels of inflation and other cost pressures experienced by the council.

In Portsmouth, we are rising to the challenge. The council's medium term financial strategy has been developed to respond to these very challenging circumstances. The strategy has a strong regeneration

and value for money focus, with a presumption also that capital investment will be targeted towards cost savings, income generation and economic growth.

### *Social Value*

The Council recently approved a Social Value policy, that means in all our work, including contracting and procurement of services, we will be considering the lasting and positive impact that we create through the way in which we act to shape a resilient future, for our local and regional communities, businesses and environment.

The policy focuses on three key areas of impact:

- **Social:** Improving the physical and mental wellbeing of local people, strengthening community spirit and collaboration to reduce poverty and social isolation, supporting young people, disadvantaged groups and address inequality, by raising aspirations of our future generations.
- **Economic:** Improving opportunities for our local SMEs, greater inclusion of the VSCE and social enterprise sectors within our supply chains, driving down unemployment, upskilling the future workforce and addressing skills gaps through apprenticeships and similar schemes. Driving up inward investment and harnessing the Green Revolution to 'build back better'.
- **Sustainability:** working towards our 2030 Carbon Net Zero goal , improving our air quality, and enhancing our biodiversity through net gains. Evaluating our approach to placemaking and taking care of our heritage as a 'Port City.' Ensuring that communities and businesses are educated and empowered about the vital roles they play in delivering a sustainable future, one which builds back greener

We have considered how social value impacts every element of our activity, including how we use our property portfolio as well, and how we approach work with the local VCS. So for example, our social value policy underpinned a decision to let a unit in a council-owned building to a local community group rather than seek a commercial rent, mindful of the wider value that could be generated for the local community.

In February, the city delivered a "Making Social Value work for Portsmouth" event, engaging contractors and beneficiary groups in promoting the work completed by the council and our aspirations for ways of working to best benefit the residents and city.

## **E. Developing the entity's capacity, including the capability of its leadership and the individuals within it**

### *Recruitment and induction*

The Council operates a robust interview and selection process to ensure that Officers are only appointed if they have the right levels of skills and experience to effectively fulfil their role. If working with children and/or vulnerable adults they will be subject to an enhanced criminal records check prior to appointment. New Officers must attend an induction day, which provides information about how the organisation works. Newly elected Councillors are required to attend an induction which includes information on: roles and responsibilities; political management and decision-making; financial management and processes; health and safety; information governance; and safeguarding.

### *Training and development*

All Officers are required to complete a number of mandatory e-learning courses including health and safety, equalities and diversity, financial rules, and information governance. Officers and Members have access to a range of IS, technical, soft skills and job specific training courses. Compulsory training is provided for Members who sit on the following committees: Governance and Audit and

Standards Committee, Licensing Committee, and the Planning Committee. Other member-led training is available to Councillors through Democratic Services and Learning and Development. The package of support available gives Members the opportunity to build on existing skills and knowledge in order to carry out their roles effectively.

#### *Performance monitoring*

All Officers receive regular one to ones with their Manager in order to monitor workload and performance. Opportunities are provided for identifying future training and development needs, and to track progress against objectives. The effectiveness of individual performance monitoring is tracked in a number of ways, including by asking staff about it as part of regular employee opinion surveys.

The Covid-19 pandemic was an enormous test of the capacity of the organisation. Many officers were required to work under extreme pressure, and in different circumstances. Others were required to move into different roles to supplement business critical activity. There will be an ongoing challenge for the organisation to ensure that the wellbeing of staff is managed, and that the longer term impacts of the pandemic are sensitively addressed.

## **F. Managing risks and performance through robust internal control and strong financial management**

#### *Risk management*

The Council has reviewed its approach to managing risks over the last year and approved a revised Risk Management Policy, which seeks to embed a culture of risk awareness within everyday activities. Directorates and project teams all maintain their own risk logs, and the most significant risks (defined as something that may result in failure in service delivery, significant financial loss, non-achievement of key objectives, damage to health, legal action or reputational damage) are logged as part of the strategic risk register and considered by the organisational Director team. The new approach minimises formal processes and unnecessary documentation, whilst ensuring that risk management remains an effective part of the governance framework. There is an increased focus on strategic risks.

#### *Performance management*

In usual circumstances, directorates in the authority report on a quarterly basis against a full set of performance measures which reflect the functions and objectives of the directorates. These measures are reported to the Cabinet Members and considered in detail at the Governance and Audit and Standards committee. An annual overview of performance is produced and published alongside the Statement of Accounts. The pandemic situation meant that this process has not been followed in the usual way for 2020/21 but this began to be reestablished for 2021/22.

Budget holder and Portfolio Holder reports are produced and circulated monthly and Cabinet receive a consolidated report of the overall general Fund Position for Quarters 1, 2 & 3. Governance Audit and Standards Committee receives extensive information relating to outturn performance. Reports include recommendations relating to any corrective management/member action required.

#### *Financial management*

The s151 Officer is responsible for leading the promotion and delivery of good financial management so that public money is safeguarded at all times, ensuring that budgets are agreed in advance and are robust, that value for money is provided by our services, and that the finance function is fit for purpose. He advises on financial matters to both the Cabinet and full Council and is actively involved in ensuring that the authority's strategic objectives are delivered sustainably in line with long term

financial goals. The s151 Officer together with finance staff ensure that new policies or service proposals are accompanied by a full financial appraisal which is properly costed, fully funded and identifies the key assumptions and financial risks that face the council.

Financial Rules were revised in 2013/14 by the s151 Officer so that Portsmouth City Council can meet all of its responsibilities under various laws, and continue to be updated on a rolling basis. They set the framework on how we manage our financial dealings and are part of our City Constitution. They also set the financial standards that will ensure consistency of approach and the controls needed to minimise risks. The s151 Officer has a statutory duty to report any unlawful financial activity or failure to set or keep to a balanced budget. He also has a number of statutory powers in order to allow this role to be carried out, such as the right to insist that the local authority makes sufficient financial provision for the cost of internal audit.

The Council maintains a three year future financial forecast and ensures financial sustainability by ensuring all required savings plans will enable a balanced budget to be set within a three year time horizon whilst ensuring the General Fund Balance will not fall below its minimum level. The Council's constitution requires that all Portfolio, Cabinet & Council decisions be fully funded before they are able to be approved into policy. This ensures that decisions made now are sustainable in the medium to long term. Financial policies are shaped to encourage responsible financial management.

During the budget setting process a comprehensive review of the 3 year financial forecast is undertaken including an exercise to identify the financial risks facing the Council over the medium term. Having considered the magnitude and likelihood of these risks an appropriate level of contingency is provided for within the overall council budget. An example of this review in action is that historically the annual contingency was circa £10m with a core contingency level of circa £4m. As a consequence of the COVID pandemic the overall contingency has been increased to circa £26m in 2021/22 reducing to core contingency of circa £6m by 2024/25

In addition an annual review of the minimum level of un-earmarked reserves is undertaken based on potential financial risks facing the council. The resulting MTFS is designed to ensure that savings plans are phased to ensure that the level of un-earmarked reserves does not fall below this minimum balance.

The authority's financial management arrangements conform to the government requirements of the CIPFA Statement on "The role of the chief financial officer in local government (2010)". The Director of Finance (Chief Financial Officer and s151 Officer) works with the Chief Executive and Deputy Chief Executive, helping to develop and implement strategy and deliver the strategic objectives. The Chief Finance Officer has input into all major decisions, and advises on financial matters to the Cabinet. He is responsible for ensuring that budgets are agreed in advance and that the agreed budget is robust, to ensure value for money is provided by our services, and is responsible for ensuring the finance function is fit for purpose.

The Chartered Institute of Public Finance and Accountancy ("CIPFA") has published a new Financial Management Code for authorities to adhere to. The CIPFA Financial Management Code 2019 (FM Code) is designed to support good practice in financial management and to assist local authorities in demonstrating their financial sustainability. The FM Code sets out the standards of financial management for local authorities, based on broad principles. It does not prescribe the financial management processes that local authorities should adopt but requires each authority to demonstrate that its processes satisfy the principles of good financial management. The council has undertaken a rapid review against the new FM Code in order to identify any areas for development. The conclusion of the review was that the council broadly operates within the expected principles, and that there are some adjustments that can be made in future to formalise some processes.

The Council complies with the Prudential Code for Capital Finance in Local Authorities with the Full Council approved the latest capital strategy in February 2022.



### *Value for money*

PCC received an unqualified VFM conclusion from its external auditors on 21<sup>st</sup> January 2022 and considerable assurance with regard to VFM can be drawn from this, GAS Committee meets regularly where it receives and considers reports relating to organisational wide service performance, a corporate plan is maintained, Finance, Procurement & Contract Procedure rules are maintained and enforced to ensure robust operating procedures are in place.

The Council pursues VFM by operating a number of external contracts, PFI's and shared service arrangements in order to improve the value for money achieved during service provision. This approach has been maintained whilst continuing consideration of where social value can be derived, and in ensuring that full consideration is given to the most appropriate delivery of services. The Council maintains an effective internal audit service resourced to provide a comprehensive audit programme that is reviewed regularly by G&A&S Committee.

### *Data Management*

The organisation has a designated data protection officer and clear and established processes for ensuring data is handled appropriately. There is regular reporting to the Governance, Audit and Standards committee on matters of information governance. The organisation undertook thorough preparation for the introduction of the General Data Protection Regulation, including enhanced training for all staff, and is now working to these requirements.

## **G. Implementing good practices in transparency, reporting and audit to deliver effective accountability.**

### *Transparency*

The Council and its decisions are open and accessible to the community, service users, partners and its staff. The Freedom of Information Act 2000 (Fol) gives anyone the right to ask for any information held by a public authority, which includes Portsmouth City Council, subject only to the need to preserve confidentiality in those specific circumstances where it is proper and appropriate to do so.

All reports requiring a decision are considered by appropriately qualified legal, and finance staff with expertise in the particular function area before they are progressed to the relevant committee/group. Portsmouth City Council wants to ensure that equality considerations are embedded in the decision-making and applied to everything the Council does. To meet this responsibility, equality impact assessments are carried out on all major council services, functions, projects and policies in order to better understand whether they impact on people who are protected under the Equality Act 2010 in order to genuinely influence decision making. Information required to be published in made public in timely and accessible fashion.

### *Effective scrutiny*

The Council operates five Scrutiny Panels, overseen by a Scrutiny Management Panel and governed by their own terms of reference. It is important that Scrutiny Panels act effectively as one of their key tasks is to review and challenge the policy decisions that are taken by Cabinet. Topics that are chosen to be scrutinised are looked at in depth by a cross party panel of Councillors. They assess how the Council is performing and see whether they are providing the best possible, cost effective service for people in the city. The panel's findings are reported to the Cabinet and may result in changes to the way in which services are delivered.

## Monitoring and evaluating the effectiveness of the governance framework

Portsmouth City Council has the responsibility for conducting at least annually, a review of the effectiveness of its governance framework. The review of effectiveness is informed by the work of:

- The Chief Executive, Deputy Chief Executive and Directors within the Authority who have responsibility for the development and maintenance of the governance environment.
- The Chief Internal Auditor's annual report and opinion, and also by comments made by the external auditors and other review agencies and inspectorates.
- The Chief Financial Officer whose role is performed by the Director of Finance and Resources (and who is also Portsmouth City Council's Section 151 Officer) who has statutory responsibility for ensuring the proper management of all Portsmouth's financial affairs.
- The Corporate Governance Group, made up of the Chief Executive, the monitoring officer, the Chief Internal Auditor, the Director of Finance and Resources (Section 151 Officer) and the Director of Corporate Services with input from others as relevant. This group meets regularly to discuss corporate governance arrangements and issues, and to reflect on recurring themes and spheres of activity relating to council improvement.
- The Governance and Audit and Standards Committee

There is clear framework for evaluating the effectiveness of internal control, and for 2021/22 this has included:

- An evaluation of progress against previously identified governance issues.
- Reviews of:
  - The effectiveness of Internal and External Audit.
  - External Audit's Annual Plan and opinion.
  - The Annual Internal Audit report and opinion.
  - The corporate strategic risk register.
  - Corporate complaints and any complaints regarding Members.
  - Freedom of information requests.
  - Data protection and information governance issues.
  - Employee and resident survey results
  - The LGA Corporate Peer Challenge.
  - Local Partnerships review of company governance.

## LGA Corporate Peer Challenge

In October 2021 a Local Government Association Corporate Peer Challenge was undertaken - an exercise where a team of local authority experts look at how we work as an organisation.

The peer challenge team found that Portsmouth is a good council, that is performing well and doing some innovative work particularly in housing, social care, and finance. The peer challenge team saw evidence of good performance across many key services, as demonstrated by recent Ofsted Inspections and key performance data. However, some significant challenges remain in terms of the Local Plan and housing delivery. Overall, the review team recognised that the Council is in a good financial position, but felt that the Council should continue to closely monitor the risks from commercial investments, particularly given the complications of Covid-19 and the potential short and medium-term impacts this could have.

The full report can be found at <https://www.portsmouth.gov.uk/wp-content/uploads/2022/03/LGA-Corporate-Peer-Challenge-Final-Report-2021.pdf>

The report outlines eight areas for improvement, highlighting that we need to:

- 1: create more time and space for collective reflection between members and directors
- 2: create more opportunities for Directors, Heads of Service and wider staff to come together to understand, discuss, collaborate, and contribute to future Council agendas.
- 3: collectively grip the issue of the Local Plan, housing supply targets and housing delivery – or risk losing control of its destiny in terms of planning powers. It will need strong cross-party working to do this.
- 4: undertake an Independent Review of the internal governance, constitutional and scrutiny arrangements, to ensure closer member-officer working relationships.
- 5: start a dialogue with members on the approach to training and development
- 6: develop a strong corporate approach to the equalities, diversity, and inclusion agenda
- 7: review key strategies and plans in the light of Brexit, the pandemic and other external changes, balancing short and long-term issues e.g., city centre.
- 8: find the most impactful approach to health and care integration changes that ensures the best outcomes for the people of Portsmouth

As action plan has been prepared in response to these recommendations and progress against this will be regularly reported in 2022/23.

### **Ongoing impact of the pandemic**

It is important to note that in 2021/22, impacts of the pandemic and recovery continue to be felt. These include:

**Changed ways of working** - A significant priority for the corporate services teams in the authority in 2021/22 has been driving the Connectivity Programme, that brings together the elements that are supporting the organisation as it moves on from and adapts to the learning from the pandemic. Connectivity is about ensuring we are a flexible and collaborative council that puts customers at the heart of everything we do, and where everyone is valued.

Connectivity was actually initiated before the pandemic, and was originally developed to support the organisation on its journey to becoming a modern digital council. Since then, the world around us has changed and the programme has reshaped to incorporate our response to changes in the way we work that have happened as a result of the pandemic, as well as our longer-term aspirations.

We are becoming a modern digital council and establishing new ways of working. Through this we have an opportunity to create a better way of working for everyone, and are redefining how and where we work.

The programme scope is to deliver on long term objectives about where we work and how we work. We want:

- **Accommodation that is the right size**, in the right place and is flexible enough to respond to changing needs



- **An attractive place to work**, that enhances staff safety and wellbeing with working culture and practices supporting the delivery of member priorities and the city's vision for Portsmouth
- **Staff in the right locations** and able to dedicate more time to delivering frontline services and to respond to changing customer needs and demands
- **Staff able to work from and manage teams in a variety of settings**— team areas, home, clients' homes – to suit work demands
- **Staff with access to the information and equipment they need** to fulfil their role effectively via efficient information systems, equipment and devices that are secure when required
- **Effective team and partnership working**, facilitated by systems and environments, increasingly including co-location, data sharing and collaboration.

We are aiming to be working as a hybrid organisation by summer 2022.

**Financial risks** - a critical risk for the coming year will be the long-term impact of the Covid-19 pandemic, which may continue to have an impact on some of the Council's income streams such as port dues and leisure income, and expenditure on some services may continue to be higher than anticipated (for example, in social care). However, the Council managed the position well in 2021/22 and although Covid-19 has put the Council under financial pressure, the Council has adequate reserves to absorb this, and developed a financial strategy to ensure that the most significant impacts are absorbed without detriment to the vital services that the authority provides, many of which are under increased pressure because of the impacts of the pandemic. There may be pressures arising from any further waves of Covid-19 and we watch the data and modelling closely to be in a strong position to respond. We have carefully managed Contain Outbreak Management Funding through our Health Protection Board to ensure that we have resilience around possible future outbreak management requirements.

As we come out of the pandemic, we will have to recognise the new duties the organisation is likely to be left with - particularly in the area of public health - and the new ways we will have to work to fulfil the needs of residents. We will also have to recognise that many staff have been under huge pressure in the past year, and experienced difficult things, and we need to support them in their wellbeing.

However, we have also taken the opportunity to develop as an organisation. Our more flexible working will support resilience, and we will continue with evidence-based ways of working to guide decision-making on topics in the future. We have emerged with a strong vision for the city, evidence of what we can achieve working in partnership with organisations and community, and a clear set of organisational priorities to ensure we focus on the things that matter most.

## Significant governance issues for 2022/23

Portsmouth City Council have completed a number of actions over the last year, that have addressed or alleviated significant governance issues identified in the 2021/22 Annual Governance Statement. The following significant governance issues have been identified and further actions have been put in place against each, in order to strengthen the Council's governance arrangements.

Ref	Governance issue	Source	Actions to address the issue	Measures of success	Lead/s	Timescale
1	Re-establishing usual processes and controls as the organisation emerges from an emergency response footing and moves to hybrid working.	Risk Management and audit	<ul style="list-style-type: none"> <li>- Ensure necessary training is completed across the organisation</li> <li>- Clear communication about expectations</li> </ul>	Good state of organisational compliance	Corporate Governance Group	Ongoing progress reporting to portfolio holder and committees.
2	IT resilience and adaptability in new cloudbased environment to facilitate flexible working	Highlighted through risk management and business continuity activity	Moving key elements of the IT infrastructure to the cloud to increase resilience of the systems critical to business continuity, reducing reliance on "on-premises" infrastructure.	Capability to restore key IT functions for the authority more quickly than the current 3-5 days.  High availability of key applications remotely	Director of Corporate Services	Ongoing development and review
3	The council continues to explore different ways of working, including partnering and alternative service delivery models (including with the voluntary, community and social enterprise sector) and taking more commercial approaches, including developing shareholder company arrangements.	Internal and external audit; performance and risk management activity; Local Partnerships report commissioned via Cabinet in 2022.	a) Implement the findings of the Local Partnerships review into PCC companies to ensure robust governance b) Ensure new partnering arrangements have full regard to legal, financial and HR implications c) Look at arrangements for assurance on partner organisations and related parties	Ongoing - various structures for different arrangements	Chief Executive & Chief Internal Auditor	Necessary changes reported on a regular basis to Cabinet, Governance, Audit and Standards Committee and Employment Committee.
4	Compliance with statutory duties and other external requirements and directives: ongoing	Performance and risk management	<ul style="list-style-type: none"> <li>- Service and resource planning to set out scope of requirements and the needs to fulfil these.</li> </ul>	n/a	Chief Executive and all service directors	Ongoing reports to portfolios and committees.

Ref	Governance issue	Source	Actions to address the issue	Measures of success	Lead/s	Timescale
	changes in the work of local government and the role in relation to other agencies means that the organisation needs to monitor the scope of duties, powers and expectations. Examples include Air Quality, emerging adult social care assurance framework, ongoing public health responsibilities, new responsibilities around homelessness and building safety.					
	Budget/ financial position, specifically in respect of demand-led services including Adults and Children's Social Care; and impact of financial uncertainty following the pandemic	External audit plan	Ongoing monitoring of progress - transformation strategies developed	Financial gaps closing and eliminated over the medium term	Director of Finance, Director of Children's Services and Chief of Health and Care Portsmouth	Ongoing quarterly reporting on financial position to Cabinet; updates to portfolio holders
6	New governance and working processes across strategic partnership arrangements, including working with the integrated care system	Internal self-assessment	Monitoring of processes, including s75 agreements, through the Joint Commissioning Board	Robust governance across complex partnership agendas	Chief Executive	Ongoing reporting
7	Capacity within the organisation and key individuals,	External Audit reports; internal self-assessment	Ongoing monitoring of progress, including through quarterly performance reporting; longitudinal study of workforce capacity and risks	n/a	Chief Executive	Ongoing reporting

Ref	Governance issue	Source	Actions to address the issue	Measures of success	Lead/s	Timescale
8	Significant changes around the adult social care agenda, including fair cost of care arrangements, new inspection framework and wider social care reform.	Internal self-assessment; feedback from cost of care exercise	Regular monitoring of progress through ASC project group	Successful achievement of changes	Director of Adult Social Care	Ongoing reporting
9	Address the recommendations in the Corporate Peer Challenge particularly in relation to the requirement to look at arrangements to ensure closer member-officer working relationships.	LGA Corporate Peer Challenge Report	Regular monitoring of action plan 6 month review by LGA Peer Team	Progress on identified issues	Chief Executive	6 month review due Summer 2022' ongoing review

**Effectiveness of the system of internal control**

**TO ADD**

**Summary of significant governance issues for 2022/23**

Clearly, a very significant number of risks and governance exposures for the organisation arose from the immediate response to the Covid-19 pandemic, but we are now in a different phase where we are recovering and adapting to living and working with Covid, and the risks and exposures we have identified reflect this context.

Over the coming year, Portsmouth City Council will take steps to address the issues that have been identified in order to improve the Council's governance arrangements and improve assurance in the areas of most concern. Progress will be monitored and reported to the Governance and Audit and Standards Committee and other relevant bodies regularly over the next year.

**Signed on behalf of Portsmouth City Council**

**Cllr Gerald Vernon-Jackson, Leader of the Council**      **Date**

**David Williams, Chief Executive**      **Date**

This page is intentionally left blank

<b>Title of meeting:</b>	Governance and Audit and Standards Committee Cabinet City Council
<b>Date of meeting:</b>	Governance and Audit and Standards Committee 20 July 2022 Cabinet 26 July 2022 City Council 11 October 2022
<b>Subject:</b>	Treasury Management Outturn Report 2021/22
<b>Report by:</b>	Director of Finance and Resources (Section 151 Officer)
<b>Wards affected:</b>	All
<b>Key decision:</b>	No
<b>Full Council decision:</b>	Yes

---

## 1. Executive Summary

- 1.1 The Chartered Institute of Public Finance & Accountancy's (CIPFA) Prudential Code of Practice requires local authorities to calculate prudential indicators before the start of and after each financial year. The CIPFA Code of Practice on Treasury Management also requires the S.151 Officer to prepare an annual report on the outturn of the previous year. This information is shown in Appendix A of the report.

## 2. Purpose of Report

- 2.1 To inform members and the wider community of the Council's treasury management activities in 2021/22 and of the Council's treasury management position as of 31 March 2022.

## 3. Recommendations

- 3.1 It is recommended that the actual prudential and treasury management indicators based on the unaudited accounts, as shown in Appendix B, be noted (an explanation of the prudential and treasury management indicators is contained in Appendix C).

#### **4. Background**

- 4.1 The Local Government Act 2003 requires local authorities to have regard to the Chartered Institute of Public Finance and Accountancy's (CIPFA) Prudential Code for Capital Finance in Local Authorities.

#### **5. Reasons for Recommendations**

- 5.1 The net cost of Treasury Management activities and the risks associated with those activities have a significant effect on the Council's overall finances. Consequently, in accordance with good governance, the S.151 Officer is required to report to the Council on those activities.

#### **6. Integrated impact assessment**

- 6.1 An integrated impact assessment is not required, as the recommendations do not directly impact on service or policy delivery. Any changes made arising from this report would be subject to investigation in their own right.

#### **7. Legal implications**

- 7.1 The S.151 Officer is required by the Local Government Act 1972 and by the Accounts and Audit Regulations 2015 to ensure that the Council's budgeting, financial management, and accounting practices meet the relevant statutory and professional requirements. Members must have regard to and be aware of the wider duties placed on the Council by various statutes governing the conduct of its financial affairs.

#### **8. Director of Finance & Resources (Section 151 Officer) comments**

- 8.1 All financial considerations are contained within the body of the report and the attached appendices

.....  
Signed by Director of Finance & Resources (Section 151 Officer)

Appendices:

Appendix A: Treasury Management Outturn Report  
Appendix B: Prudential and Treasury Management Indicators  
Appendix C: Explanation of Prudential and Treasury Management Indicators



**Background list of documents: Section 100D of the Local Government Act 1972**

The following documents disclose facts or matters, which have been relied upon to a material extent by the author in preparing this report:

<b>Title of document</b>	<b>Location</b>
1 Information pertaining to the treasury management outturn	Financial Services
2	

**APPENDIX A**

**TREASURY MANAGEMENT OUTTURN REPORT**

**1. GOVERNANCE**

Treasury management activities were performed within the Prudential Indicators approved by the City Council.

Treasury management activities are also governed by the Treasury Management Policy Statement, Annual Minimum Revenue Provision for Debt Repayment Statement and Annual Investment Strategy approved by the City Council.

**2. COMBINED BORROWING AND INVESTMENT POSITION (NET DEBT)**

On 31 March 2022, the Council had gross debt including finance leases and private finance initiative (PFI) schemes of £763m and gross investments of £451m giving rise to a net debt of £312m. Major components of the Council's gross investments of £451m include the Council's general and earmarked reserves of £251m, and capital grants received but yet to be applied to finance capital expenditure of £147m.

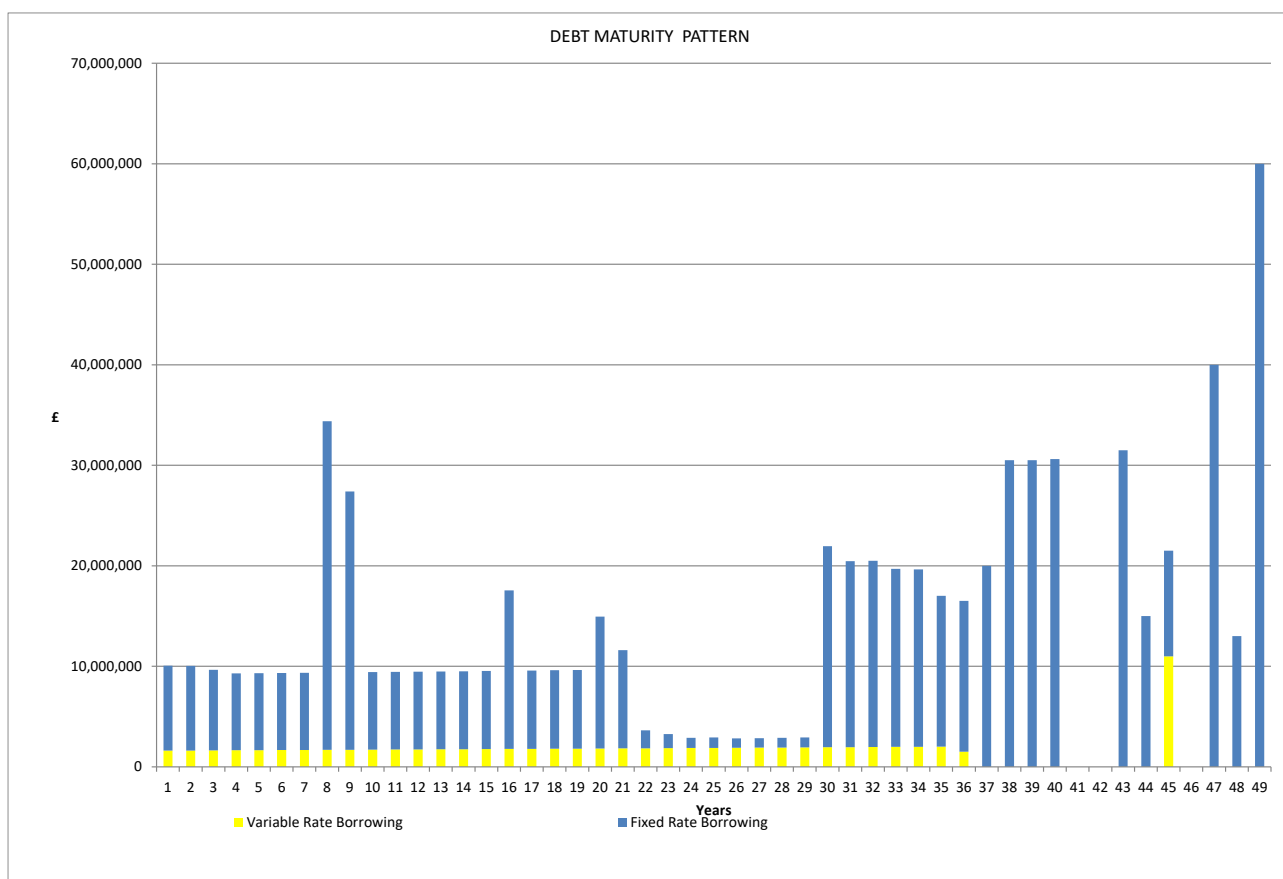
**3. BORROWING ACTIVITY**

Due to investment concerns, both counterparty risk and low investment returns, no borrowing was undertaken during the year.

The Council's underlying need to borrow on 31 March 2022 was £857m, £94m more than its actual gross debt of £763m. This shortfall of £94m is funded by internal borrowing from the Council's reserves and will need to be borrowed externally at some point in the future.

Debt rescheduling opportunities have been limited in the current economic climate and following the various increases in the margins added to gilt yields, which has affected PWLB new borrowing rates since October 2010. No debt rescheduling was undertaken during 2021/22.

The Council's gross debt on 31 March 2022 of £763m is within the Council's authorised limit (the maximum amount of borrowing permitted by the Council) of £876m and the Council's operational boundary (the maximum amount of borrowing that is expected) of £863m. The Council aims to have a reasonably even maturity profile so that the Council does not have to replace a large amount of borrowing in any particular year when interest rates might be high. The maturity profile of the Council's borrowing (see graph below) is within the limits contained in the Council's Treasury Management Policy.



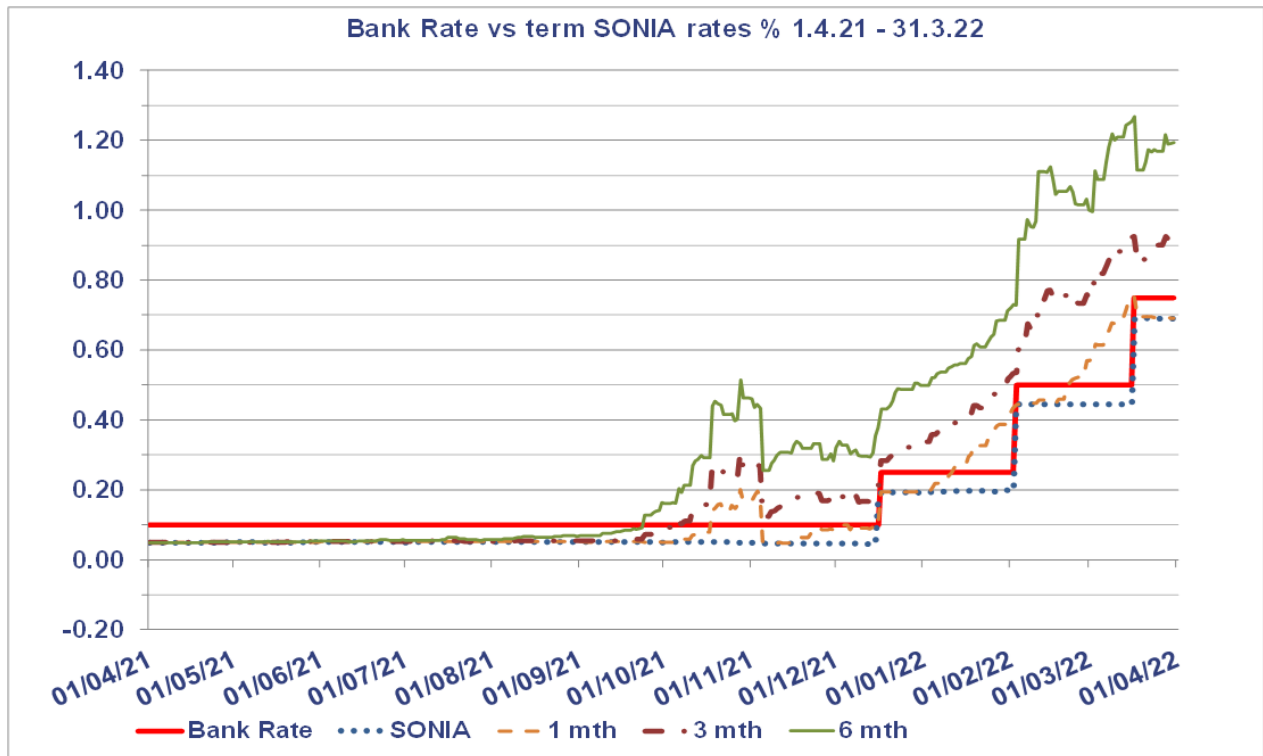
#### 4. INVESTMENT ACTIVITY

Investment returns remained close to zero for much of 2021/22. The expectation for interest rates within the treasury management strategy for 2021/22 was that Bank Rate would remain at 0.1% until it was clear to the Bank of England that the emergency level of rates introduced at the start of the Covid-19 pandemic were no longer necessitated.

The Bank of England and the Government also maintained various monetary and fiscal measures, supplying the banking system and the economy with massive amounts of cheap credit so that banks could help cash-starved businesses to survive the various lockdowns/negative impact on their cashflow. The Government also supplied substantial amounts of finance to local authorities to pass on to businesses. This meant that for most of the year there was much more liquidity in financial markets than there was demand to borrow, with the consequent effect that investment earnings rates remained low until towards the turn of the year when inflation concerns indicated central banks, not just the Bank of England, would need to lift interest rates to combat the second-round effects of growing levels of inflation (CPI was 7.0% in March).

The Bank of England base rate was 0.10% until 16 December 2021 when it was increased to 0.25%. Further increases followed on 03 February 2022 to 0.50%, and on 17 March to 0.75%. This can be seen in the graph below, together with the effect on inter-bank lending rates.

## Investment Benchmarking Data – Sterling Overnight Index Average 2021/22



While the Council has taken a cautious approach to investing, it is also fully appreciative of changes to regulatory requirements for financial institutions in terms of additional capital and liquidity that came about in the aftermath of the budgetary crisis. These requirements have provided a far stronger basis for financial institutions, with annual stress tests by regulators evidencing how institutions are now far more able to cope with extreme stressed market and economic conditions.

Investment balances have been kept to a minimum through the agreed strategy of using reserves and balances to support internal borrowing, rather than borrowing externally from the financial markets. External borrowing would have incurred an additional cost, due to the differential between borrowing and investment rates as illustrated in the charts shown above and below. Such an approach has also provided benefits in terms of reducing counterparty risk exposure, by having fewer investments placed in the financial markets.

The Council's investments averaged £449.5m during 2021/22. As of 31 March 2022, the Council had, £451.1m invested. The performance of the investment portfolio is summarized in the table below.

	<b>Proportion of Portfolio</b>	<b>Return to December 2021</b>	<b>Return to March 2022</b>
Externally Managed Funds Consisting of Tradable Instruments	3%	0.07%	-4.01%
Tradable Structured Interest-Bearing Deposit	2%	-1.76%	-1.21%
Vanilla Interest Bearing Deposits	95%	0.48%	0.48%
<b>Overall Return</b>	<b>100%</b>	<b>0.42%</b>	<b>0.31%</b>

There was a sharp decline in the overall performance of the portfolio in the last quarter of 2021/22 which was attributable to £12.6m invested in externally managed funds consisting of tradable instruments such as corporate bonds. This was caused primarily by a fall in the market value of existing tradable instruments driven by the increase in current interest rates. If a tradable instrument is paying interest at a rate below current market rates, its market value will be less if it is traded at that point. If a tradable instrument is held to maturity its value will still equal the principal invested plus accrued interest.

The Council also has £10m invested in a floating rate tradable structured interest-bearing note paying SONIA (0.69% on 31 March) plus 0.12% with a floor of 1.65% and a cap of 3.50% maturing on 07 June 2023. This note has paid 1.65% since inception. This was a good rate when the note was purchased in June 2018.

The bulk of the investment portfolio, 95%, is invested in vanilla interest-bearing deposits that have generated an average return of 0.48% through 2021/22.

27% of the investment portfolio matures in the first quarter of 2022/23, and this will provide the opportunity to re-invest funds at the higher rates available now.

## 5. REVENUE COSTS OF TREASURY MANAGEMENT ACTIVITIES IN 2021/22

Expenditure on treasury management activities in both the General Fund and the HRA against the revised budget is shown below.

	Revised Estimate 2021/22 £000	Actual 2021/22 £000	Variance +/- £000
<b>Interest Payable:</b>			
PWLB	19,257	19,257	-
Other Long-Term Loans	1,210	1,210	-
HCC Transferred Debt	284	279	(5)
Interest on Finance Lease	191	191	-
Interest on Service Concession Arrangements (including PFIs)	5,149	5,149	-
Interest Payable to External Organisations	9	10	1
Premiums and Discounts on Early Redemption of Debt	100	100	-
	<b>26,200</b>	<b>26,196</b>	<b>(4)</b>
Deduct			
<b>Investment Income:</b>			
Interest on Investments	(1,272)	(1,414)	(142)
Other interest receivable	(1,576)	(1,576)	-
	<b>23,352</b>	<b>23,206</b>	<b>(146)</b>
<b>Provision for Repayment of Debt</b>	<b>10,084</b>	<b>10,214</b>	<b>130</b>
<b>Debt Management Costs</b>	<b>549</b>	<b>560</b>	<b>11</b>
	<b>33,985</b>	<b>33,980</b>	<b>(5)</b>

Interest on investments was £142,000 higher than the budget. Although there was a sharp fall in the market value of tradable investments, the returns on new vanilla interest bearing deposits increased because of anticipation in the financial markets that there would be increases in the Bank of England's base rate.

The provision for the repayment of debt was £130,000 higher than the budget. This was due to additional provision having to be made because of decreases in the market value of some investment properties. Overall, though, the market value of the investment property portfolio did increase.

Overall net treasury management costs were £5,000 above the revised budget.

**APPENDIX B****PRUDENTIAL AND TREASURY MANAGEMENT INDICATORS**

<b>1. Capital financing requirement</b>	<b>Original Estimate £'000</b>	<b>Revised Estimate £'000</b>	<b>Actual £'000</b>
General Fund	720,426	655,251	628,168
Housing Revenue Account (HRA)	224,090	207,608	228,737
<b>Total</b>	<b>944,516</b>	<b>862,859</b>	<b>856,905</b>
<b>2. Authorised Limit</b>	<b>Original Limit £'000</b>	<b>Revised Limit £'000</b>	<b>Actual £'000</b>
Long Term Borrowing	911,532	824,971	711,272
Other Long Term Liabilities	51,340	51,340	51,340
<b>Total</b>	<b>962,872</b>	<b>876,311</b>	<b>762,612</b>
<b>3. Operational Boundary</b>	<b>Original Limit £'000</b>	<b>Revised Limit £'000</b>	<b>Actual £'000</b>
Long Term Borrowing	893,176	811,519	711,272
Other Long Term Liabilities	51,340	51,340	51,340
<b>Total</b>	<b>944,516</b>	<b>862,859</b>	<b>762,612</b>
<b>4. Ratio of financing costs to net revenue stream</b>	<b>Original Estimate</b>	<b>Revised Estimate</b>	<b>Actual</b>
General Fund	18.9%	16.7%	16.0%
Housing Revenue Account (HRA)	7.0%	6.5%	6.3%
<b>5. Maturity Structure of Fixed Rate Borrowing</b>	<b>Lower Limit</b>	<b>Upper Limit</b>	<b>Actual</b>
Under 12 months	0%	10%	1%
12 months and within 24 months	0%	10%	1%
24 months and within 5 years	0%	10%	4%
5 years and within 10 years	0%	20%	13%
10 years and within 20 years	0%	30%	14%
20 years and within 30 years	0%	40%	6%
30 years and within 40 years	0%	40%	34%
Over 40 years	0%	50%	27%
<b>6. Maturity Structure of Variable Rate Borrowing</b>	<b>Lower Limit</b>	<b>Upper Limit</b>	<b>Actual</b>
Under 12 months	0%	10%	2%
12 months and within 24 months	0%	10%	2%
24 months and within 5 years	0%	10%	7%
5 years and within 10 years	0%	20%	11%
10 years and within 20 years	0%	30%	23%
20 years and within 30 years	0%	40%	25%
30 years and within 40 years	0%	40%	15%
Over 40 years	0%	40%	15%
<b>7. Principal sums invested over 365 days</b>	<b>Original Limit £'000</b>	<b>Revised Limit £'000</b>	<b>Actual £'000</b>
Maturing after 31/3/2023	134,000	125,000	48,325
Maturing after 31/3/2024	103,000	50,000	8,800
Maturing after 31/3/2025	-	50,000	4,800

**APPENDIX C****PRUDENTIAL AND TREASURY MANAGEMENT INDICATORS****1. ACTUAL CAPITAL FINANCING REQUIREMENT**

This represents the underlying requirement to borrow for capital expenditure. It takes the total value of the City Council's fixed assets and determines the amount that has yet to be repaid or provided for within the Council's accounts.

The capital financing requirement is increased each year by any new borrowing and reduced by any provision for the repayment of debt. Broadly, the higher the capital financing requirement, the higher the amount that is required to be set aside for the repayment of debt in the following year.

**2. AUTHORISED LIMIT**

The authorised limit for external debt is the maximum amount of debt which the authority may legally have outstanding at any time. The authorised limit includes headroom to enable the Council to take advantage of unexpected movements in interest rates and to accommodate any short-term debt or unusual cash movements that could arise during the year.

**3. OPERATIONAL BOUNDARY**

The Operational Boundary is based on the probable external debt during the year. It is not a limit but acts as a warning mechanism to prevent the authorised limit (above) being breached.

**4. RATIO OF FINANCING COSTS TO NET REVENUE STREAM 2021/22**

This ratio reflects the annual cost of financing net debt as a proportion of the total revenue financing received. It therefore represents the proportion of the City Council's expenditure that is largely fixed and committed to repaying debt. The higher the ratio, the lower the flexibility there is to shift resources to priority areas and/or reduce expenditure to meet funding shortfalls.

For the General Fund, this is the annual cost of financing debt as a proportion of total income received from General Government Grants, Non-Domestic Rates and Council Tax.

The ratio of Housing Revenue Account (HRA) financing costs to net revenue stream is the annual cost of financing capital expenditure, as a proportion of total gross income received including housing rents and charges.

**5. MATURITY STRUCTURE OF FIXED RATE BORROWING**

The Council aims to have a reasonably even debt maturity profile so that it is not unduly exposed to refinancing risk in any particular year when interest rates may be high. The maturity structure of fixed rate borrowing matters less in future years as inflation will reduce the real value of the sums to be repaid.



## **6. MATURITY STRUCTURE OF VARIABLE RATE BORROWING**

Variable rate borrowing could expose the Council to budgetary pressure if the interest rates increase. The maturity structure of variable rate borrowing matters less in future years as inflation will reduce the real value of the liability.

## **7. PRINCIPAL SUMS INVESTED FOR OVER 365 DAYS**

Investing long term at fixed rates provides certainty of income and reduces the risk of interest rates falling.

This page is intentionally left blank

<b>Title of meeting:</b>	Governance & Audit & Standards Committee
<b>Date of meeting:</b>	<b>Wednesday, 20 July 2022</b>
<b>Subject:</b>	Consideration of the political balance rules in relation to the constitution of Sub-Committees considering complaints against Members.
<b>Report by:</b>	City Solicitor
<b>Wards affected:</b>	N/A
<b>Key decision:</b>	No
<b>Full Council decision:</b>	No

---

## 1 Purpose of Report

The Committee is asked to consider whether it wishes to disapply the political balance rules in respect of its Sub-Committees which consider complaints against Members and to agree that the same rule shall apply to the Initial Filtering Panel.

## 2 Recommendation

It is recommended that the political balance rules are disapplied in respect of Governance and Audit and Standards Sub-Committees which are considering complaints against Members and also the same arrangement should apply in respect of Initial Filtering Panel membership.

## 3 Background

- 3.1 The Committee agreed on 16 July 2021 to "disapply" the political balance rules in respect of Sub-Committees of Governance and Audit and Standards Sub-Committees when dealing with complaints. This meant the Sub-Committees' membership would in future not be made up of Members in the same proportion as the political groups are represented on the Council. Instead it was agreed that the Sub-Committees would be "cross party as far as reasonably practicable". This was considered important to ensure the greatest transparency in the decision making of these Sub-Committees where complaints against members were considered. It was also agreed that the same rule would apply to the make-up of the Initial Filtering Panel which is not a formal Sub-Committee of Governance and Audit and Standards.
- 3.2 Section 17 (2) Local Government and Housing Act 1989<sup>1</sup> provides that any decision not to apply the political balance rules shall come to an end if there is any change in the make-up of a committee where they have been disapplied.

---

<sup>1</sup> <http://www.legislation.gov.uk/ukpga/1989/42/section/17>

- 3.3 The decision is one which only this Committee can make but it must be made without any of the Members present voting against it.

#### **4 Reasons for recommendations**

As there has been a change this municipal year in the political make-up of the Council, Members are asked to reconsider this decision, as the decision to disapply the political balance rules, made on 16 July 2021, is only effective for one year or until there is any change in the make-up of a committee where they have been disapplied. If Members decide to disapply the political balance rules then this shall last until May 2023, unless mid-year changes occur, when the decision would again have to be reconsidered.

#### **5 Integrated Impact Assessment**

An integrated impact assessment is not required as the recommendations do not directly impact on service or policy delivery. Any changes made arising from this report would be subject to investigation in their own right.

#### **6 Legal implications**

The City Solicitor's comments are included in this report.

#### **7 Director of Finance's comments**

There are no financial implications arising from the recommendations set out in this report.

.....  
**Signed by:** City Solicitor

**Appendices:** None

#### **Background list of documents: Section 100D of the Local Government Act 1972**

The following documents disclose facts or matters, which have been relied upon to a material extent by the author in preparing this report:

<b>Title of document</b>	<b>Location</b>
None	N/A

# Agenda Item 10

## THIS ITEM IS FOR INFORMATION ONLY

(Please note that "Information Only" reports do not require Integrated Impact Assessments, Legal or Finance Comments as no decision is being taken)



Portsmouth  
CITY COUNCIL

<b>Title of meeting:</b>	Governance & Audit & Standards Committee
<b>Subject:</b>	Procurement Management Information
<b>Date of meeting:</b>	20 <sup>th</sup> July 2022
<b>Report by:</b>	Richard Lock - Procurement Manager
<b>Wards affected:</b>	N/A

---

### 1. Requested by

Governance and Audit and Standards Committee.

### 2. Purpose

To provide evidence to allow the committee to evaluate the extent that Portsmouth City Council is producing contracts for goods, works and services in a legally compliant value for money basis.

To update the Committee on progress developing procurement performance reporting and seek comments in respect of proposed further developments.

### 3. Information Requested

#### Performance Monitoring Elements & Base Line Data Reports

The report covers 3 key performance monitoring elements:

- Spend compliance
- Contract award via waiver
- Contract management performance monitoring

At the request of the Committee at the meeting held on 24<sup>th</sup> July 2020 the base line data used to calculate summary figures is included as the following exempt appendixes:

- EXEMPT - G&A&S - Procurement MI - App 1 Spend Compliance Jun 22 - 11.07.22  
(Pages 115 - 122)
- EXEMPT - G&A&S - Procurement MI - App 2 Waivers Apr - Jun 22 - 11.07.22  
(Pages 123 -125)
- EXEMPT - G&A&S - Procurement MI - App 3 Contract KPIs Apr - Jun 22 - 11.07.22  
(Pages 127 -129)

**THIS ITEM IS FOR INFORMATION ONLY**  
**(Please note that "Information Only" reports do not**  
**require Integrated Impact Assessments, Legal or**  
**Finance Comments as no decision is being taken)**

A further exempt appendix has also been included for which covers analysis of the data by procurement and which includes for some commercially sensitive information:

- EXEMPT - G&A&S - App 4 - Procurement Data Analysis - Apr - Jun 22 - 11.07.22

(Pages 131 - 142)

Performance Comparison & Reports Development

The report provides, where possible, a performance comparison to the data provided within the last report taken to the committee on 21<sup>st</sup> January 2022.

However, as Procurement are working to develop the reports in order to provide a more complete, accurate and relevant assessment of performance this has had some impact on the granularity of comparison that can be achieved at present which will continue until the new reporting models are fully implemented over the coming months.

The changes to the reports, proposed development plans and implementation timescales are detailed within each of the relevant report sections that follow.

Exempt Information

Where detail is required by the committee the Procurement Manager will provide this during the committee meeting, however where questions relate to detail included within the exempt appendices responses cannot be provided whilst the public live streaming is in operation.

**SECTION 1 - SPEND COMPLIANCE**

Introduction

The table on the following page provides a comparison of spend compliance from the last report taken to Committee on 21<sup>st</sup> January 2022 which covered spend in December 2021 to the latest whole month spend information taken from June 2022.

Context & Current Process

The Local Government Transparency Code (2015) requires that all contracts with a lifetime value of £5,000 or above are published. The Council monitors and enforces compliance by requiring every purchase order with a distribution value of £5,000 or above is linked to a contract entry which has been raised and published on the Council's InTend system.

Compliance is measured initially by reporting on spend linked to a contract entry which has been raised on the council's InTend system.

**THIS ITEM IS FOR INFORMATION ONLY**  
**(Please note that "Information Only" reports do not require Integrated Impact Assessments, Legal or Finance Comments as no decision is being taken)**

It should be noted that the 'compliance' definition for this section of the report also includes for approved departures from local constitutional rules and national legislation as set out above. The data and analysis provided in this section therefore relates to compliance with governance processes, in particular financial transaction controls which help to ensure linking to corresponding contract entries.

Broader compliance with rules and regulations is covered under Section 2 of this report which provides an analysis of contracts awarded via waiver approval within the quarter.

**Report Development Status & Future Development Proposals**

Since the last Committee meeting Procurement have developed the spend compliance report to encompass spend processed across a range of Council systems rather than just spend via Oracle FUSION as was previously the case. Spend from the following systems is now also directly included for within the report:

- MOSAIC - Children's Social Care spend
- CONTROCC - Adult Social care spend
- SystemsLink - Utilities spend (Gas, Electricity, Phone, etc.)
- Scala - Port spend

Spend via these systems for June 2022 equates to approx. £12.1M with approx. £16.3M processed via Oracle FUSION within this period. This represents a 43% increase in the value of spend reported on.

However, as the controls in place within Oracle FUSION that enforce linking of financial transactions to parent contract entries are not present within these systems there is currently no method in place for tracking compliance.

This has a dramatic impact upon compliance %s when spend processed within these systems is applied to the totals, although as detailed later within the report this does not necessarily mean that there is definitely high levels of non-compliance associated with this spend.

If the Committee so desires Procurement will work with services to investigate potential solutions for tracking spend compliance within these other systems and report back on feasibility, options and potential roll out timescales.

Two other systems / purchasing routes are not yet included for within the reports, which are:

- CHAPS - used to process PFI payments to partner highways maintenance contractor
- Purchasing Cards - used typically for lower value transactions as per Council policy

Again if the Committee wishes, Procurement will work with services to report on spend for these systems and investigate potential solutions for tracking spend compliance within

**THIS ITEM IS FOR INFORMATION ONLY**  
**(Please note that "Information Only" reports do not**  
**require Integrated Impact Assessments, Legal or**  
**Finance Comments as no decision is being taken)**

these other systems and report back on feasibility, options and potential roll out timescales.

Following the implementation of Oracle FUSION and work undertaken by Procurement to develop its reporting functionality it is now easier for spend reports to be processed. Currently the report only covers the most recent complete month whereas the waiver and KPI reports cover the last quarter.

At the Committee's option, Procurement can also begin to report on spend compliance by quarter as well so that time period comparisons are consistent for each section of this report and a broader view of performance can be provided.

Procurement would also like the Committee to consider whether they wish to see below £5k financial transactions included for within Procurement's analysis of the data. Procurement recommend that this is removed as there is no requirement under the Local Government Transparency Code to publish details of contracts which do not exceed £5k and as such there are no controls within the Oracle FUSION system to enforce matching of below £5k transactions to corresponding contract entries.

Procurement do however recommend developing reports that can be run using Oracle FUSION to monitor aggregation of spend by supplier over a time period of 2 years which will help to identify areas of spend which may not be compliant when transactions by supplier are reviewed on a more holistic basis.

#### June 22 Analysis

The detailed report taken from Oracle FUSION is included as exempt 'Appendix 1 - Spend Compliance Jun 22'. This report shows the compliance figures overall, by service and by sub-service area.

A summary of the analysis undertaken by service area is included within the data following table. A target of 95% compliance overall and by service following any adjustments made by the Procurement Manager has been set previously by the Committee.

When spend processed using other systems is removed and only the June 2022 spend via Oracle FUSION of £16,293,195 is accounted for, as per all previous reports taken to the Committee, compliant spend equates to £15,499,116 / 95.13% before transactions with a distribution value which do not exceed £5,000 are removed.

When transactions which do not exceed £5,000 are removed, on the basis that no contract entry is required under Transparency Code or Oracle FUSION business rules controls, this increases compliant spend to £15,882,255 / 97.48%.

The Committee has also previously requested that the figures are further recalculated to remove transactions which Procurement can provide assurance that the parent contract has been compliantly procured. Such transactions appear in the raw reports due to admin error where the transaction is not linked to its corresponding InTend contract entry or, less



**THIS ITEM IS FOR INFORMATION ONLY**  
**(Please note that "Information Only" reports do not**  
**require Integrated Impact Assessments, Legal or**  
**Finance Comments as no decision is being taken)**

commonly, where a correspond contract entry has not been created on InTend in spite of an actual compliant contract being in place.

When the figures are recalculated to remove transactions where a compliant contract is known to be in place this increases compliant spend to £16,244,033 / 99.7%. This meets the target agreed and shows a significant increase from December 2021 which was at 77% prior to analysis and adjustment by the Procurement Manager.

However, when the additional June 2022 spend via other systems of £12,144,057 is accounted for this increases overall spend for June 2022 to £28,437,253 and decreases % compliance to 56%. This does not mean that spend is necessarily non-compliant or that a contract entry has not been published in line with Transparency Code requirements, it is due to financial transactions made via these other systems not being linked to a contract entry which makes simple compliance reporting problematic.

Whilst the current inability to provide compliance reporting from other systems is an issue that needs to be overcome, it is unlikely that after further analysis there will be many or any significant instances of higher risk non-compliance with Public Contracts Regulations (2015) requirements as:

- Procurement can provide assurance that all utilities contracts which SystemsLink transactions relate have been compliantly procured
- Higher value transactions processed via CONTROCC for adult social care services, via MOSAIC for children's social care services and via SCALA for Port transactions should be able to be tracked back to approved contracts through application of the Council's Procurement Gateway Process which is applied to all contracts with a lifetime value of over £100,000
- Transactions related to waste collection can be traced back to a compliant contract
- PFI payments for Day Services Centre can be traced back to a compliant contract
- Payments made to suppliers for locally commissioned services (pharmacies) can be traced back to a compliant contract
- Payments made to builders for works undertaken for private sector residents for disabled facilities grants, warm homes funding, etc. are not subject to procurement regulations

Due to the significant number of transactions it is not practical to provide the Committee with a full line by line report, however this can be provided by request electronically.

Spend Compliance Comparison - Dec 21 vs Jun 22

The figures by service area are broken down within the following table, with a summary analysis provided following after and detailed information on transactions included within the exempt Appendix Spend Compliance report. All services corrected recalculated figures are above the 95% target when spend from other systems is removed, as per all previous reports taken to Committee. This is the highest compliance figure that has ever been

**THIS ITEM IS FOR INFORMATION ONLY**  
**(Please note that "Information Only" reports do not require Integrated Impact Assessments, Legal or Finance Comments as no decision is being taken)**



**Portsmouth**  
CITY COUNCIL

reported and also represents the first time that a report has been taken to the Committee where all service areas have met the 95% target.

**Key**

- NC - Non-compliant
- C - Compliant

*\*Calculated figures following removal of below £5k transactions and transactions that Procurement can provide assurance that a compliant contract is in place*

	December 2021			June 2022		
Directorate	Total £	NC £	C %	Total £	NC £	C %
Adult Services	£825,147	£3,431	99.58%	£605,229	£1,067	99.82%
Children Families & Education	£285,820	£3,233	98.87%	£275,878	£0	100%
Corporate Services	£452,511	£18,339	95.95%	£396,687	£7,441	98.05%
Culture Leisure & Regulatory Services	£190,684	£9,589	94.97%	£282,258	£0	100%
Executive	£62,921	£6,458	89.74%	£62,921	£2,029	98.93%
Finance	£3,041,380	£71,900	97.64%	£1,722,267	£2,805	99.84%
Housing Neighbourhood & Building Services	£6,302,136	£48,138	99.24%	£6,998,300	£1,070	99.98%
Portsmouth International Port	£6,027,747	£48,279	99.2%	NA - Need to review SCALA		
Public Health	£57,351	£0	100%	£253,539	£0	100%
Regeneration	£4,958,520	£1,809	99.96%	£5,529,974	£0	100%
<b>TOTAL</b>	<b>£22,204,217</b>	<b>£211.176</b>	<b>99.05%</b>	<b>£16,293,195</b>	<b>£794,079</b>	<b>99.7%</b>

The data set from which the above table has been calculated can be found within exempt Appendix 1 (EXEMPT - G&A&S - Procurement MI - App 1 Spend Compliance Jun 22 -

11.07.22). Financial transactions which do not exceed £5,000 have been removed from the report but can be provided electronically to the Committee upon request.

Analysis of non-compliant financial transactions which cannot be traced back to a compliant contract currently by Procurement are included for within Appendix 4 (EXEMPT - G&A&S - App 4 - Procurement Data Analysis - Apr - Jun 22 - 11.07.22).

In summary the analysis shows that there are no financial transactions with an overall distribution value in excess of £100k which cannot be traced back to a compliant contract and only 10 with a distribution value above £5k but below £100k which cannot be traced back to a compliant contract currently by Procurement.

However, it should be noted that detailed analysis of spend processed via other systems other than Oracle FUSION is yet to be undertaken by Procurement and will be progressed over the coming year.

## **SECTION 2 - CONTRACT AWARD VIA WAIVER**

The tables below show a comparison of contracts with a lifetime value of £100,000 or more awarded via application of a waiver between November - December 2021 as reported at the Committee meeting on 21<sup>st</sup> January 2022 with those awarded via waiver over the last reportable quarter being April - June 2022.

Whilst waivers are to be sought for any significant departure from the council's Contract Procedure Rules (CPRs), the report focuses upon waivers with a lifetime value of over £100k as it is at this level that review by Procurement and Legal is mandated under the Council's CPRs. Below this level waivers can be approved by the relevant Director or Assistant Director.

As Procurement involvement is not mandated below £100k there is no comprehensive file of below £100k waivers maintained by Procurement at present. Waivers below this level have therefore been removed from this report as accurate numbers and reasoning behind the waivers cannot be provided under current governance processes.

Under the CPRs waivers can be approved by:

- Director including for Assistant Directors given delegated authority by the Director - up to £100k
- Procurement manager - up to £1M
- Procurement Gateway Board - above £1M

**THIS ITEM IS FOR INFORMATION ONLY**  
**(Please note that "Information Only" reports do not require Integrated Impact Assessments, Legal or Finance Comments as no decision is being taken)**



**Portsmouth**  
CITY COUNCIL

Above £100k Contracts Awarded via Application of Waiver - Reporting Period Comparison

Risk Profile	November - December 2021		April - June 2022	
	No. of Contracts	Contract Value	No. of Contracts	Contract Value
HIGH RISK	0	£0	0	£0
MEDIUM RISK	1	£234,784	9	£7,814,184
LOW RISK	5	£889,106	12	£4,060,493
<b>TOTAL</b>	<b>6</b>	<b>£1,123,890</b>	<b>21</b>	<b>£10,505,075</b>

Summary information regarding the waivers including for service area, contract name, supplier, value, term, etc. can be found within 'Appendix 2, Waivers Apr - Jun 22'.

Analysis

Risk ratings have been applied to the waivers reviewed in accordance with the following criteria / characteristics:

- **HIGH RISK** - In breach of statutory procurement regulations, high probability of market challenge, lack of effective mitigation strategies, no agreed strategy in place to bring the contract into compliance
- **MEDIUM RISK** - In breach of statutory procurement regulations, low probability of market challenge, mitigation strategies in place, agreed strategy in place to bring the contract into compliance, rationale for waiver meets Council CPR requirements
- **LOW RISK** - No breach of statutory procurement regulations, low probability of market challenge, mitigation strategies in place, rationale for waiver meets Council CPR requirements

Whilst the value and number of waivers has increased over the reporting period this largely due to one significant waiver linked to the extension of a framework agreement for Supported Living services and 9 other associated contracts with a total combined value of £9,460,008 which have been extended on a staggered basis whilst the framework agreement is re-procured.

All waivers classified as Medium risk have been subject to financial benchmarking and delivery performance. Procurement have engaged with services to plan and implement procurement processes which will bring the contracts back into compliance where requirements are forecast to be on-going.

**THIS ITEM IS FOR INFORMATION ONLY**  
(Please note that "Information Only" reports do not require Integrated Impact Assessments, Legal or Finance Comments as no decision is being taken)

Information regarding each above £100k waiver reported on above including for summary risk analysis undertaken by Procurement can be found within exempt Appendix 4 (EXEMPT - G&A&S - App 4 - Procurement Data Analysis - Apr - Jun 22 - 11.07.22).

### **SECTION 3 - CONTRACT MANAGEMENT PERFORMANCE MONITORING**

#### **Current KPI Model & Planned Developments**

Contract management performance is currently monitored at summary level by application of a set of 3 standard KPIs which are scored and reported on via the InTend system. The 3 KPIs currently used are:

- KPI 1 - Contract Service Level
- KPI 2 - Customer Perception
- KPI 3 - Business Processes

Procurement recommend that this system is phased out and replaced as the current model causes the following problems:

- Not all contracts relate to front line activities, making the customer perception KPI 2 superfluous in some cases
- Each of the KPIs are weighted equally, which can overemphasise relatively minor business process issues in relation to KPI 2 (e.g. late receipt of an invoice) on contracts that are otherwise performing well and scoring highly in respect of KPI 1 Contract Service Level
- Having to consider 3 KPIs which may not always be relevant and rarely equal importance frustrates contract managers which can lead to inaccurate or non-completion of KPIs where services do not see benefits

Procurement have developed a simplified flexible single KPI model whereby contracts are assessed on a consistent 0-5 basis as per the example below:

- 0 - Unacceptable Performance - grounds for immediate termination and barring from future contract opportunities
- 1 - Poor - significant issues have arisen. May invoke termination and barring from future opportunities unless significant and immediate improvements are implemented.
- 2 - Fair - activities were generally undertaken to a satisfactory level however a number of smaller issues arose that were addressed when improvement notices were issued
- 3 - Satisfactory - met the contractual obligation and performed within the range of expectation
- 4 - Good - met and on occasion exceeded contractual expectations. Activities undertaken to a high standard.
- 5 - Excellent - performed above general contracted requirement by bringing added value and exceeded expectations in multiply areas.

**THIS ITEM IS FOR INFORMATION ONLY**  
**(Please note that "Information Only" reports do not require Integrated Impact Assessments, Legal or Finance Comments as no decision is being taken)**

This revised model has been welcomed by services and has been successfully implemented onto a number of procurement processes undertaken over the last year.

The model by virtue of its core simplicity is flexible and can be applied on a proportionate and relevant basis to any contract irrespective of the value, scale and complexity of the contract.

It can be used to provide a consistent top level summary assessment of simple contracts which may not include for specific KPIs through to high value strategic contracts which may include for a suite of contractual KPIs.

Procurement have worked with Legal to ensure that the revised KPI model has bearing within contract terms and can be used to help enforce performance improvements or issue sanctions where improvements are not made. Simplifying the KPI reporting model within the system will make it possible for non-Procurement users of InTend to easily access consistent and accurate KPI contract performance data.

Procurement have worked with the provider of its e-sourcing solution InTend to successfully develop and test the KPI model within the system. The new model is now at the point where it can be deployed across the Council and Procurement are currently developing a roll out plan for the model which is likely to initially focus upon implementation within higher value strategic contracts and the contracts procured over the last year where the 0-5 model has been applied. Procurement will bring a rollout plan for consideration to the next Committee meeting for consideration.

KPI Performance Analysis for Apr - Jun 2022

In previous reports KPI performance has been assessed against the following criteria:

**Key**

- Gold: Outstanding performance
- Green: Performing to standard
- Amber: Some areas of improvement required
- Red: Failing to perform
- Expired KPI: a schedule is in place, and at least one KPI score has been recorded, but there has been no KPI scoring in the last 12 months
- KPI never scored: a schedule is in place, but there have been no KPI scores for the contract
- KPI not yet due: a schedule is in place, but KPI scores are not due yet. This includes contracts where KPIs are overdue by less than 3 months (grace period)
- No KPI scheduled: no KPI instances have been scheduled.

Whilst the colour coded performance information has proved useful for providing a snapshot of performance over the last quarter the information regarding expired KPIs, never scored KPIs and KPIs not due has not been reliable or viewed as particularly useful

**THIS ITEM IS FOR INFORMATION ONLY**  
**(Please note that "Information Only" reports do not require Integrated Impact Assessments, Legal or Finance Comments as no decision is being taken)**



by the Committee. In view of this KPI analysis has been altered for this report to now cover the following:

- Total number of contracts on InTend system
- Total number of contracts on system with KPI requirement
- Total number of contracts due KPI performance update in last quarter
- Total number of contracts due KPI update in last quarter that KPIs have been reported
- Performance level of contracts KPI scored within the last quarter

The report parameters have also been altered to only report upon KPIs due in the last quarter whereas the previous report included for all KPIs, irrespective of completion date, which meant that KPIs scored a significant time ago were being reported upon. Whilst this means that for this report effective comparison cannot be achieved it will provide for improved analysis within subsequent reports.

Analysis Parameters	Nov - Dec 21		Apr - Jun 22	
Total No. Contracts	1240		1602	
Total No. Contracts with KPI Requirement	625		956	60%
Total No. Contracts with KPI Due Assessment in Last Quarter	Not Reported		72	7%
Total No. Contracts with KPI Assessed in Last Quarter	Not Reported		70	97%
Total No. Contracts Assessed as Red / Poor performance in Last Quarter	Not Reported		0	0%
Total No. Contracts Assessed as Amber / Below Satisfactory performance in Last Quarter	Not Reported		3	4%
Total No. Contracts Assessed as Green / Satisfactory performance in Last Quarter	Not Reported		41	58%
Total No. Contracts Assessed as Gold / Above Satisfactory performance in Last Quarter	Not Reported		26	38%

**THIS ITEM IS FOR INFORMATION ONLY**  
**(Please note that "Information Only" reports do not**  
**require Integrated Impact Assessments, Legal or**  
**Finance Comments as no decision is being taken)**

Contracts with KPI Requirements

Whilst the majority (956 / 60%) of contracts recorded on the InTend system have KPI reporting requirements applied to them a very significant number (646 / 40%) do not and it is not immediately clear how the decision to apply the KPI or not is being applied on a consistent basis. Whilst some contract entries have been established for transparency purposes only - e.g. statutory undertakers, land transactions - this should generally be by exception.

Procurement will undertake a review and report back on findings and proposed business rules for determining whether KPI requirements should be applied or not at the next Committee meeting. Procurement will roll out the revised business rules in parallel with the revised KPI model referred to earlier within this section of the report.

Contracts with KPI Assessment Due in Last Quarter

Only a small proportion (72 / 7%) of the contracts which have KPI requirements were due performance reports within the last quarter which appears to be significantly lower than would be expected as some contracts include for quarterly reporting and those that only include for yearly reporting should still equate to approx. 25% of contracts due in any one quarter.

Again, Procurement will undertake a review and report back on findings and proposed business rules for determining frequency of KPI reporting schedules. Procurement will roll out the revised business rules for determining KPI schedules in parallel with the revised KPI model.

No. of Contracts due KPI Assessment Scored and Levels of Performance

Only two contracts due assessment within the quarter have not had KPIs completed. Upon review one of the contracts is not due KPI assessment yet with a schedule amendment required. The other contract was scored as above satisfactory / gold but the was not fully completed within the InTend system.

No contracts have been scored as poor / red and only 3 / 4% have below satisfactory performance reported against them. A high number of contracts 26 / 38% have above satisfactory performance reported.

Further Detailed Information

Details on the contracts due KPI assessment within the last quarter along with rationale for allocation of less than satisfactory scores can be found within the exempt information which accompanies this report - 'EXEMPT - G&A - Procurement MI - App 3 Contract KPIs Apr - Jun 22 - 11.07.22' and 'EXEMPT - G&A&S - App 4 - Procurement Data Analysis - Apr - Jun 22 - 11.07.22'.

It is proposed by Procurement that for future reports information from council contract managers on why they have scored contracts as above satisfactory is also included for



**THIS ITEM IS FOR INFORMATION ONLY**  
**(Please note that "Information Only" reports do not**  
**require Integrated Impact Assessments, Legal or**  
**Finance Comments as no decision is being taken)**



**Portsmouth**  
CITY COUNCIL

within the exempt information. This will help to provide a more balanced view of performance to the Committee and allow for analysis of whether consistent performance application has been applied which will be important for ensuring that the revised model is effectively implemented.

.....  
Signed by Richard Lock - (Acting) Procurement Manager

This page is intentionally left blank

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A  
of the Local Government Act 1972.

Document is Restricted

This page is intentionally left blank

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A  
of the Local Government Act 1972.

Document is Restricted

This page is intentionally left blank

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A  
of the Local Government Act 1972.

Document is Restricted

This page is intentionally left blank



By virtue of paragraph(s) 3 of Part 1 of Schedule 12A  
of the Local Government Act 1972.

Document is Restricted

This page is intentionally left blank

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A  
of the Local Government Act 1972.

Document is Restricted

This page is intentionally left blank