Public Document Pack

Governance Committee

Monday, 11th February, 2019
at 5.00 pm

PLEASE NOTE TIME OF MEETING

Committee Room 1 - Civic Centre

This meeting is open to the public

Members of the Committee

Councillor Keogh (Chair)
Councillor Kataria (Vice-Chair)
Councillor Harwood
Councillor Noon
Councillor Parnell
Councillor White
Councillor Whitbread

Contacts

Director of Legal and Governance
Richard Ivory
Tel. 023 8083 2394
Email: richard.ivory@southampton.gov.uk

Senior Democratic Support Officer
Claire Heather
Tel. 023 8083 2412
Email: claire.heather@southampton.gov.uk

PUBLIC INFORMATION

Role of the Governance Committee

Information regarding the role of the Committee's is contained in Part 2 (Articles) of the Council's Constitution.

02 Part 2 - Articles

It includes at least one Councillor from each of the political groups represented on the Council, and at least one independent person, without voting rights, who is not a Councillor or an Officer of the Council.

Access – Access is available for disabled people. Please contact the Democratic Support Officer who will help to make any necessary arrangements.

Public Representations At the discretion of the Chair, members of the public may address the meeting on any report included on the agenda in which they have a relevant interest. Any member of the public wishing to address the meeting should advise the Democratic Support Officer (DSO) whose contact details are on the front sheet of the agenda

The Southampton City Council Strategy (2016-2020) is a key document and sets out the four key outcomes that make up our vision.

- Southampton has strong and sustainable economic growth
- Children and young people get a good start in life
- People in Southampton live safe, healthy, independent lives
- Southampton is an attractive modern City, where people are proud to live and work

Smoking policy – The Council operates a no-smoking policy in all civic buildings.
Mobile Telephones:- Please switch your mobile telephones to silent whilst in the meeting
Use of Social Media:- The Council supports the video or audio recording of meetings open to the public, for either live or subsequent broadcast. However, if, in the Chair's opinion, a person filming or recording a meeting or taking photographs is interrupting proceedings or causing a disturbance, under the Council's Standing Orders the person can be ordered to stop their activity, or to leave the meeting.
By entering the meeting room you are consenting to being recorded and to the use of those images and recordings for broadcasting and or/training purposes. The meeting may be recorded by the press or members of the public.
Any person or organisation filming, recording or broadcasting any meeting of the Council is responsible for any claims or other liability resulting from them doing so.
Details of the Council's Guidance on the recording of meetings is available on the Council's website.

Fire Procedure – in the event of a fire or other emergency a continuous alarm will sound and you will be advised by Council officers what action to take.

Dates of Meetings: Municipal Year 2018/19

2018	2019
11th June	11th February
30th July	15th April
10th September	
12th November	
10th December	

CONDUCT OF MEETING

Terms of Reference

The terms of reference of the Governance Committee are contained in Part 3 of the Council's Constitution.

03 - Part 3 - Responsibility for Functions

Business to be discussed

Only those items listed on the attached agenda may be considered at this meeting.

Quorum

The minimum number of appointed Members required to be in attendance to hold the meeting is 3.

Rules of Procedure

The meeting is governed by the Council Procedure Rules as set out in Part 4 of the Constitution.

DISCLOSURE OF INTERESTS

Members are required to disclose, in accordance with the Members' Code of Conduct, ***both*** the existence ***and*** nature of any "Disclosable Pecuniary Interest" or "Other Interest" they may have in relation to matters for consideration on this Agenda.

DISCLOSABLE PECUNIARY INTERESTS

A Member must regard himself or herself as having a Disclosable Pecuniary Interest in any matter that they or their spouse, partner, a person they are living with as husband or wife, or a person with whom they are living as if they were a civil partner in relation to:

(i) Any employment, office, trade, profession or vocation carried on for profit or gain.

(ii) Sponsorship:

Any payment or provision of any other financial benefit (other than from Southampton City Council) made or provided within the relevant period in respect of any expense incurred by you in carrying out duties as a member, or towards your election expenses. This includes any payment or financial benefit from a trade union within the meaning of the Trade Union and Labour Relations (Consolidation) Act 1992.

(iii) Any contract which is made between you / your spouse etc (or a body in which the you / your spouse etc has a beneficial interest) and Southampton City Council under which goods or services are to be provided or works are to be executed, and which has not been fully discharged.

(iv) Any beneficial interest in land which is within the area of Southampton.

(v) Any license (held alone or jointly with others) to occupy land in the area of Southampton for a month or longer.

(vi) Any tenancy where (to your knowledge) the landlord is Southampton City Council and the tenant is a body in which you / your spouse etc has a beneficial interests.

(vii) Any beneficial interest in securities of a body where that body (to your knowledge) has a place of business or land in the area of Southampton, and either:

a) the total nominal value of the securities exceeds £25,000 or one hundredth of the total issued share capital of that body, or
b) if the share capital of that body is of more than one class, the total nominal value of the shares of any one class in which you / your spouse etc has a beneficial interest that exceeds one hundredth of the total issued share capital of that class.

Other Interests

A Member must regard himself or herself as having an, ‘Other Interest’ in any membership of, or occupation of a position of general control or management in:

Any body to which they have been appointed or nominated by Southampton City Council

Any public authority or body exercising functions of a public nature

Any body directed to charitable purposes

Any body whose principal purpose includes the influence of public opinion or policy

Principles of Decision Making

All decisions of the Council will be made in accordance with the following principles:-

- proportionality (i.e. the action must be proportionate to the desired outcome);
- due consultation and the taking of professional advice from officers;
- respect for human rights;
- a presumption in favour of openness, accountability and transparency;
- setting out what options have been considered;
- setting out reasons for the decision; and
- clarity of aims and desired outcomes.

In exercising discretion, the decision maker must:

- understand the law that regulates the decision making power and gives effect to it. The decision-maker must direct itself properly in law;
- take into account all relevant matters (those matters which the law requires the authority as a matter of legal obligation to take into account);
- leave out of account irrelevant considerations;
- act for a proper purpose, exercising its powers for the public good;
- not reach a decision which no authority acting reasonably could reach, (also known as the “rationality” or “taking leave of your senses” principle);
- comply with the rule that local government finance is to be conducted on an annual basis. Save to the extent authorised by Parliament, ‘live now, pay later’ and forward funding are unlawful; and
- act with procedural propriety in accordance with the rules of fairness.

AGENDA

1 **APOLOGIES**

To receive any apologies.

2 **DISCLOSURE OF PERSONAL AND PECUNIARY INTERESTS**

In accordance with the Localism Act 2011, and the Council's Code of Conduct, Members to disclose any personal or pecuniary interests in any matter included on the agenda for this meeting.

NOTE: Members are reminded that, where applicable, they must complete the appropriate form recording details of any such interests and hand it to the Democratic Support Officer.

3 **STATEMENT FROM THE CHAIR**

4 **MINUTES OF PREVIOUS MEETING (INCLUDING MATTERS ARISING)** (Pages 1 - 2)

To approve and sign as a correct record the Minutes of the meeting held on 12th November 2018 and to deal with any matters arising, attached.

5 **QUARTERLY HR STATISTICS** (Pages 3 - 8)

Report of Director of Human Resources and Organisational Development detailing Quarter 3 HR Statistics.

6 **ANNUAL GOVERNANCE STATEMENT 2018-19** (Pages 9 - 18)

Report of the Chief Financial Officer seeking approval of the assurance gathering process to support development of the 2018-19 Annual Governance Statement

7 **TREASURY MANAGEMENT STRATEGY AND PRUDENTIAL LIMITS 2019/20 TO 2022/23** (Pages 19 - 72)

Report of the Interim Director, Finance and Commercialisation detailing the context within which the Council's treasury management activity operates and sets out a proposed strategy for the coming year in relation to the Council's cash flow, investment and borrowing, and the management of the numerous risks related to this activity.

8 **EXTERNAL AUDIT ANNUAL CERTIFICATION** (Pages 73 - 82)

Report of the External Auditor detailing the External Audit Annual Certification.

9 **EXTERNAL AUDIT PROGRESS REPORT** (Pages 83 - 122)

Report of External Auditor providing a progress report.

10 **<u>PROCUREMENT AUDITS - UPDATE</u>** (Pages 123 - 136)

A consolidated report to update the Governance Committee on progress against the actions which resulted from three procurement-related audits.

11 **<u>EXCLUSION OF THE PRESS AND THE PUBLIC</u>**

Chair to move that in accordance with the Council's Constitution, specifically the Access to Information Procedure Rules contained within the Constitution, the press and public be excluded from the meeting in respect of the appendix to the following item based on Categories 1,2,3 and 7 of paragraph 10.4 of the Access to Information Procedure Rules.

The information contained therein is exempt as it relates to information about individual/ financial affairs and contracts and contractors which may be deemed to be confidential. Having applied the public interest test it is not appropriate to disclose this information.

12 **<u>INTERNAL AUDIT PROGRESS REPORT 2018-19</u>** (Pages 137 - 202)

Report of the Chief Internal Auditor providing an Internal Audit Progress Report for 2018/19.

Friday, 1 February 2019 Director of Legal and Governance

GOVERNANCE COMMITTEE

MINUTES OF THE MEETING HELD ON 12 NOVEMBER 2018

Present: Councillors Keogh (Chair), Kataria (Vice-Chair), Harwood, Noon, Parnell (minutes 28 - 35), White and Whitbread

28. **DISCLOSURE OF PERSONAL AND PECUNIARY INTERESTS**

In accordance with the Localism Act 2011 and the Council's Code of Conduct, Councillor Noon declared a personal interest in item 6 on the agenda and withdrew from the meeting.

29. **MINUTES OF PREVIOUS MEETING (INCLUDING MATTERS ARISING)**

RESOLVED: that the minutes for the Committee meeting on 10th September 2018 be approved and signed as a correct record.

30. **SOUTHAMPTON CITY COUNCIL COMPLAINTS REVIEW 2017/2018**

The Committee received and noted the report of the Director of Legal and Governance detailing the City Council's Annual Complaints Review for 2017/2018. The report summarised the type and number of complaints received from the 1st April 2017 – 31st March 2018 together with the Local Government and Social Care Ombudsman Annual Review for the same period. Overall complaints registered with the Council had decreased by 16%.

31. **HEALTH AND SOCIAL CARE CONTRACTS MANAGED BY THE INTEGRATED COMMISSIONING UNIT**

The Committee received and noted the report of the Director of Quality and Integration detailing Health and Social Care Contracts managed by the Integrated Commissioning Unit and the arrangements for monitoring them and the mechanisms for assurance of quality, performance and governance.

NB: Councillor Noon withdrew from the meeting and took not part in the discussion.

32. **REVIEW OF PRUDENTIAL LIMITS AND TREASURY MANAGEMENT MIDYEAR REVIEW 2018/19**

The Committee considered the report of the Director of Finance and Commercialisation (Section 151 Officer) detailing the review of Prudential Limits and Treasury Management Midyear Review 2018/19.

In particular the Committee noted that since the last update there had been 2 key issues which now included the requirement to report on non-treasury investments and the HRA borrowing cap had been removed on 29th October 2018.

RESOLVED:

(i) That the current and forecast position with regards to these indicators be noted and any changes approved;

(ii) That the continued proactive approach to treasury management had led to reductions in borrowing costs and safeguarded investment income during the year be noted;

(iii) That the cost implications of the capital programme on the Council as detailed in table 4 of the report which had been taken into account in the revenue budget be noted; and
(iv) That the recommendation to Full Council to continue to delegate authority to the S151 Officer to make any future changes which benefitted the authority and to report back at the February 2019 Governance Committee be endorsed.

33. **STRATEGIC RISK REGISTER**

The Committee received and noted the report of the Director of Finance and Commercialisation detailing the process in place in respect of the identification, management and review of the Council's Strategic Risks.

The Committee particularly noted that two new risks had been added in respect of "failure to improve air quality to legal levels by 2020" and "Service areas fail to adhere to and comply on a consistent basis with the Council's Contract Procedure Rules".

34. **PROGRAMME AND PROJECTS OVERVIEW**

The Committee received and noted the report of the Director of Finance and Commercialisation detailing the Programme and Projects Overview. The Committee noted that this was the first time this overview had been presented to the Committee and requested that it became a quarterly monitoring report going forward.

35. **UPDATE ON VALUE FOR MONEY AUDIT CONCLUSION – FINANCIAL STATEMENTS 2017/18**

The Committee received and noted the report of the Director of Finance and Commercialisation providing an update on the value for money audit conclusion – financial statements 2017/18. The Committee noted that since the observations associated with the audit had been made there had been substantial progress made in completing a comprehensive action plan.

36. **INTERNAL AUDIT PROGRESS REPORT 2018-19**

The Committee received and noted the report of the Chief Internal Auditor providing an Internal Audit Progress Report for the period 1st September - 29th October 2018.

The Committee particularly noted that "Limited Assurance" had been provided for "Expenses, Travel and Subsistence" and "Agency/Temps".

37. **EXTERNAL AUDIT ANNUAL AUDIT LETTER**

The Committee received and noted the report of the External Auditor detailing the Annual Audit Letter 2017-18 in accordance with the National Audit Office's Code of Audit Practice.

DECISION-MAKER:		GOVERNANCE COMMITTEE		
SUBJECT:		QUARTERLY HR STATISTICS		
DATE OF DECISION:		11 FEBRUARY 2019		
REPORT OF:		SERVICE DIRECTOR, HR AND OD		
CONTACT DETAILS				
AUTHOR:	**Name:**	**Janet King**	Tel:	023 8083 2378
	E-mail:	**Janet.king@southampton.gov.uk**		
Deputy Chief Executive	**Name:**	**Mike Harris**	Tel:	023 8083 2882
	E-mail:	Mike.harris@southampton.gov.uk		

STATEMENT OF CONFIDENTIALITY	
None. This report contains no personal information relating to specific individuals.	
BRIEF SUMMARY	
The Governance Committee requested quarterly, council wide information on key employment data covering Disciplinaries, dismissals, referrals to the police, suspensions and grievances. Additional summary information on levels of staff sickness was requested from September 2018 onwards.	
The report format is as requested and agreed with the Governance Committee.	
RECOMMENDATIONS:	
(i)	To note the Quarter 3 2018/9 HR statistics as requested.
REASONS FOR REPORT RECOMMENDATIONS	
1.	As requested by the Governance Committee.
ALTERNATIVE OPTIONS CONSIDERED AND REJECTED	
2.	N/A
DETAIL (Including consultation carried out)	
3.	Quarter 3: In the period October - December 2018 the Council had: A total of 7 dismissals: • 0 on disciplinary grounds • 4 as a result of service restructures (3 in Children's Services, 1 in Intelligence, Insight and Communications) • 3 for sickness related absence • 0 during probationary period In addition we had 4 suspensions; no Step 3 grievance resolution cases and no Appeals against dismissal.
4.	Overall sickness levels for the council showed an average 11.87 days per employee (short term absence). The sector "average" is 8.5 days. Short term absence accounts for 92% of overall absence.
5.	The HR team provide managers with monthly absence data and detail and look to identify and address "hot spots" and underlying issues against which

	to target interventions including information, support, occupational health appointments, phased return and in some cases, dismissal.
RESOURCE IMPLICATIONS	
Capital/Revenue	
6.	None
Property/Other	
7.	None
LEGAL IMPLICATIONS	
Statutory power to undertake proposals in the report:	
8.	None
Other Legal Implications:	
9.	None
RISK MANAGEMENT IMPLICATIONS	
10.	None
POLICY FRAMEWORK IMPLICATIONS	
11.	None
KEY DECISION	**No**
WARDS/COMMUNITIES AFFECTED:	none
SUPPORTING DOCUMENTATION	
Appendices	
1.	Q3 HR table of data (Summary)
2.	Q3 Sickness absence data (Summary)

Documents In Members' Rooms

1.	None	
Equality Impact Assessment		
Do the implications/subject of the report require an Equality and Safety Impact Assessment (ESIA) to be carried out.		**No**
Data Protection Impact Assessment		
Do the implications/subject of the report require a Data Protection Impact Assessment (DPIA) to be carried out.		**No**
Other Background Documents, Other Background documents available for inspection at:		
Title of Background Paper(s)	**Relevant Paragraph of the Access to Information Procedure Rules / Schedule 12A allowing document to be Exempt/Confidential (if applicable)**	
1.	None	

Southampton City Council - Quarterly Governance Stats

Quarter 3 (Oct. '18 - Dec. '18)																
Service Area	**Disciplinaries**			**Dismissals**								**Resolutions**	**Suspensions**		**Appeals**	
	Final WW	*Dismissed*	*Referral to Police*	*Total Dismissals*	*Capability*	*Disciplinary*	*Health*	*Probation*	*Restructures*	*Other*	*Commentary*	*Step 3 Resolutions*	*Total Suspensions*	*Length of Suspensions*	*Number*	*Number upheld*
Adults, Housing & Communities	0	0	0	0	0	0	0	0	0	0		0	0		0	0
Children & Families	0	0	0	4	0	0	1	0	3	0		0	1	30th November - 6th December	0	0
Digital & Business Operations	0	0	0	0	0	0	0	0	0	0		0	0		0	0
Finance & Commercialisation	0	0	0	0	0	0	0	0	0	0		0	0		0	0
Growth	0	0	0	0	0	0	0	0	0	0		0	0		0	0
Human Resources & Org Development	0	0	0	0	0	0	0	0	0	0		0	0		0	0
Intelligence Insight & Communications	0	0	0	1	0	0	0	0	1	0		0	0		0	0
Legal & Governance	0	0	0	0	0	0	0	0	0	0		0	0		0	0
Public Health	0	0	0	0	0	0	0	0	0	0		0	0		0	0
Quality & Integration	0	0	0	0	0	0	0	0	0	0		0	0		0	0
Transactions & Universal Services	0	0	0	2	0	0	2	0	0	0		0	3	23rd October - 7th November 24th July - 29th October 5th Dec - to date	0	0
Southampton City Council (Total)	0	0	0	7	0	0	3	0	4	0		0	4		0	0

This page is intentionally left blank

Sickness Absence Report: January 2018 - December 2018

Select Report:	SCC
Status	

Target = < 8.5 days = Green, 8.5 - 10 days = Amber, > 10 days = Red

Team	Metric	Sickness Absence Days Per Employee	Sickness Absence Days Per Employee (Leavers Exc.)	Movement (Month on Month)	Sickness Absence Hours	FTE Days Lost	No. of Employees with 5 or more occurences of sickness absence	No. of Employees with 10 or more days sickness absence	Total No. of Employees who hit a Trigger Point	Total Staff who hit a Trigger Point in the last month	Short Term Sickness Absence %	Long Term Sickness Absence %
	Target	8.5										
	Status											
SCC		11.87	11.41	0.01%	250,721	33,881	173	607	645	56	92%	8%
Adults, Housing & Communities		15.14	14.79	-0.01%	109,876	14,848	69	271	285	20	91%	9%
Children & Families		11.49	10.90	0.04%	46,187	6,241	25	98	106	10	93%	7%
Digital & Business Operations		8.63	8.71	0.25%	9,266	1,252	15	20	25	4	97%	3%
Strategic Finance & Commercialisation		5.72	5.74	-0.09%	6,424	868	7	19	21	0	96%	4%
Growth		5.62	4.89	0.00%	11,752	1,588	9	32	32	3	96%	4%
Human Resources & Org Development		1.65	0.74	0.01%	303	41	0	1	1	0	92%	8%
Intelligence Insight & Communications		2.84	2.78	0.22%	1,229	166	0	3	3	1	92%	8%
Legal & Governance		5.60	5.60	-0.01%	2,450	331	5	9	9	0	97%	3%
Public Health		0.39	0.39	-0.02%	19	3	0	0	0	0	100%	0%
Quality & Integration		7.16	7.59	0.09%	2,396	324	1	9	9	2	92%	8%
Transactions & Universal Services		14.92	14.39	0.02%	60,642	8,195	42	144	153	16	90%	10%

This page is intentionally left blank

DECISION-MAKER:		GOVERNANCE COMMITTEE		
SUBJECT:		ANNUAL GOVERNANCE STATEMENT 2018-19		
DATE OF DECISION:		11 FEBRUARY 2019		
REPORT OF:		CHIEF FINANCIAL OFFICER		
CONTACT DETAILS				
AUTHOR:	**Name:**	Peter Rogers	Tel:	023 8083 2835
	E-mail:	peter.rogers@southampton.gov.uk		
Director	**Name:**	John Harrison	Tel:	023 8083 4897
	E-mail:	john.harrison@southampton.gov.uk		

STATEMENT OF CONFIDENTIALITY

None

BRIEF SUMMARY

In accordance with the Accounts and Audit Regulations the Council is required to develop and publish an Annual Governance Statement ('AGS'). The AGS reports on the extent to which the Council has complied with its Code of Corporate Governance, including how it has monitored and evaluated the effectiveness of its governance arrangements in the year and on any planned changes in the coming period.

RECOMMENDATIONS:

	(i)	To note and approve the assurance gathering process to support the development of the 2018-19 AGS (Appendix 1).
	(ii)	To note the status of the agreed actions arising from the 2017-18 AGS (Appendix 2).

REASONS FOR REPORT RECOMMENDATIONS

1.	The Governance Committee has responsibility to provide independent assurance on the adequacy of the risk management framework and the internal control and reporting environment, including (but not limited to) the reliability of the financial reporting process and the annual governance statement.

ALTERNATIVE OPTIONS CONSIDERED AND REJECTED

2.	The development and publication of an AGS is a requirement under the Accounts and Audit Regulations.

DETAIL (Including consultation carried out)

3.	Regulation 6 (1) of the Accounts and Audit (England) Regulations 2015 requires that the relevant body must conduct a review at least once a year of the effectiveness of its system of internal control and to prepare a statement on internal control in accordance with proper practices.
4.	The purpose of the AGS, which is published with the Statement of Accounts, is to provide an accurate representation of the corporate governance arrangements in place during the year and to identify or highlight those areas where there are significant gaps or where improvements are required.
5.	The AGS is produced following a review of the Council's governance arrangements. The review requires the systems and processes that comprise the Council's corporate governance arrangements to be brought together and reviewed.

6.	The ‘assurance gathering process’ to support development of a robust AGS remains unchanged from the previous year. This is on the basis that the process is considered to be aligned with good practice and that the council’s external auditors, Ernst & Young, did not identify any areas of concern when considering the AGS. This is reflected in their ‘Annual Audit Letter for the year ended 31 March 2018’ presented to the Governance Committee at the November 2018 meeting. The external auditors, as part of their programme of work “consider the completeness of disclosures in the Council’s AGS, identify any inconsistencies with the other information of which we are aware from our work, and consider whether it is misleading”.
7.	The key elements of the assurance gathering process comprise completion of the updated ‘Assurance Framework’ document together with ‘Annual Governance - Self Assessment Statement’ that is required to completed by each Service Director. Both the documents cover the key processes and systems that comprise the Council’s governance arrangements and are intended to identify any areas where improvement or further development is required.
8.	The Council has in place a ‘Controls Assurance Management Group’ (comprising the Section 151 Officer, Chair of the Governance Committee, Monitoring Officer, Chief Strategy Officer (or equivalent) and the Chief Internal Auditor) which is responsible for evaluating the assurances and supporting evidence provided, and for drafting the AGS. This reflects CIPFA/Solace guidance which confirms that authorities should nominate an individual or group of individuals within the authority who have appropriate knowledge and expertise and levels of seniority to: • Consider the extent to which the authority complies with the principles of good governance; • Identify systems, processes and documentation that provide evidence of compliance; • Identify the individuals and committees responsible for monitoring and reviewing the systems, processes and documentation identified; • Identify issues that have not been addressed in the authority and consider how they should be addressed; and • Identify the individuals who would be responsible for undertaking the actions that are required.
9.	As per Appendix 1 the draft AGS will be presented to the Governance Committee on two occasions for review and approval prior to being forwarded to the Chief Executive and Leader of the Council for signing.
RESOURCE IMPLICATIONS	
Capital/Revenue	
10.	None
Property/Other	
11.	None
LEGAL IMPLICATIONS	
Statutory power to undertake proposals in the report:	
12.	The Accounts and Audit (England) Regulations 2015 require that the Council must each financial year conduct a review of the effectiveness of the system of internal control and prepare an AGS for approval by a committee

	or members of the authority. The AGS must be approved in advance of the relevant authority approving the statement of accounts.
Other Legal Implications:	
13.	None
RISK MANAGEMENT IMPLICATIONS	
14.	The assurance gathering process as detailed in the body of the report together with process and timelines document (Appendix 1) manage the risk in respect of the need to comply with the Accounts and Audit Regulations.
POLICY FRAMEWORK IMPLICATIONS	
15.	None

KEY DECISION	**No**
WARDS/COMMUNITIES AFFECTED:	n/a

SUPPORTING DOCUMENTATION

Appendices

1.	AGS 2018-19: Process and Timelines
2.	AGS 2017-18: Action Plan Status Report

Documents In Members' Rooms

1.	None

Equality Impact Assessment

Do the implications/subject of the report require an Equality and Safety Impact Assessment (ESIA) to be carried out.	**No**

Data Protection Impact Assessment

Do the implications/subject of the report require a Data Protection Impact Assessment (DPIA) to be carried out.	**No**

Other Background Documents
Other Background documents available for inspection at:

Title of Background Paper(s)		**Relevant Paragraph of the Access to Information Procedure Rules / Schedule 12A allowing document to be Exempt/Confidential (if applicable)**
1.	None	

This page is intentionally left blank

Appendix 1

Annual Governance Statement 2018/19 - Process and timelines

Action	Meeting / Target Date	Lead/Responsible body
Review of the Code of Corporate Governance against current CIPFA/SOLACE guidance.	28th Jan - 1st Feb 2019	Service Lead - Risk, Insurance, Assurance & Audit
Review the 'AGS - Service Directors Self Assessment Statement' document to ensure that is remains fit for purpose.	30th Jan - 4th Feb 2019	Service Lead - Risk, Insurance, Assurance & Audit
Report to Governance Committee to outline the assurance gathering process to support development of the 2018-19 AGS.	11th Feb 2019	Governance Committee
Issue 'AGS Self Assessment Statements' to Service Directors for completion	15th Feb 2019	Service Lead - Risk, Insurance, Assurance & Audit
Return of completed 'AGS Self Assessment Statements' and completion of Assurance Framework document.	1st March 2019	Service Directors /Service Lead - Risk, Insurance, Assurance & Audit
Review /validation of self assessments by Internal Audit.	4th - 8th March 2019	Chief Internal Auditor
Draft AGS developed in consultation with Controls Assurance Management Group. NOTE: further ad hoc meetings may be required and will be arranged as necessary.	18th March 2019	Controls Assurance Management Group
Council Management Team review of the draft 2018-19 AGS.	w/c 25th March 2019	Council Management Team
Report to Governance Committee to review draft 2018-19 AGS.	June 2019 (date tbc)	Governance Committee
Final draft Controls Assurance Management Group for noting.	June 2019 (date tbc)	Controls Assurance Management Group
Final draft AGS to Council Management Team.	July 2019 (date tbc)	Council Management Team
Report to Governance Committee for final approval of AGS.	July 2019 (date tbc)	Governance Committee
Signed by Chief Executive and Leader of the Council.	26th July 2019	Service Lead - Risk, Insurance, Assurance & Audit

NOTE: First draft of AGS required by end March for incorporating into the draft Statement of Accounts document

This page is intentionally left blank

ANNUAL GOVERNANCE STATEMENT 2017/18
SIGNIFICANT GOVERNANCE ISSUES: STATUS REPORT

The following is a summary of the status of the agreed actions that were identified to address the significant governance issues were identified and recorded on the Council's Annual Governance Statement 2017-18:

1.	Governance Issue	Planned Action	Status	Comments
	The general level of staff awareness of the existence and content of the 'Whistleblowing Duty to Act' policy, 'Anti-Fraud and Corruption Strategy' and 'Anti Money Laundering Policy' and associated responsibilities is still inconsistent. This is notwithstanding that a suite of 'Essential Stuff' documents has been created which provide summarised versions of key policies that staff may need to have an awareness of. There are separate 'Essentials' documents in respect Anti-Fraud and Anti-Corruption, Anti-Money Laundering, Bribery Act and Whistleblowing'.	It is intended create e-learning modules that staff have to complete so that managers can be assured that their staff are aware.	**Revised Action COMPLETED**	• *The guidance developed is included on web pages and is signposted for new starters. This was seen as a more cost effective option than the development of series of bespoke e-learning modules;* • *In addition there are annual reminders of key policies to the Leadership team.*
	Responsible Officer: Service Director: Human Resources & Organisational Development		**Target Date:** Mar 2019	
2.	Whilst the Workforce Strategy provides the framework in terms of the development the council's current and future workforce in terms of required skills and behaviours there is need for a robust and consistent approach to succession planning for key posts and/or a spread of skills to avoid over reliance on any particular individual.	Service Director, HR&OD to work with CMT to identify key posts or roles where succession planning may be required as part of the council's process for outcomes based planning and budgeting and business planning.	**Revised Action IN PROGRESS**	• *New Chief Executive is to look at wider Organisational Development Board and principles and will review overall management structure.* • *'Job Families' work in progress to help achieve mapping and identification of key positions.*
	Responsible Officer: Service Director, Human Resources & Organisational Development		**Target Date:** Sept 2018 *(Revised to May 2019 – implementation tba)*	

3.	A new Performance Management Framework was approved and implemented in 2017 which was intended to provide a consistent framework for Annual Performance Reviews (APRs). There are however still some significant inconsistencies across service areas in terms of compliance with the APR process. The APR template was reviewed in early 2018 following feedback which suggested that the template and associated process could be much more straightforward to enable the emphasis to be on more meaningful dialogue rather than the process itself.	A redesigned Annual Performance Review template has been issued and includes an on-line "button" to auto submit / record that APRs are completed. This is intended to help managers, with support from the HR team, to track an overall picture so that they are able to take appropriate action where this is not being done. HR Advisors will be asking for feedback on the new template and will be checking for overall compliance to ensure that APRs are being held at all levels.	**IN PROGRESS**	• *Compliance has increased with simplified paperwork however the HR Log of completed APRs is incomplete as not all forms were submitted on-line.* • *Review and stream lining of process in place for 2019 under new HR Lead and informed by feedback on previous forms and process;* • *New employee records allow for completed APRs to be logged - from April 19 onwards.*
	Responsible Officer: Service Director, Human Resources & Organisational Development		**Target Date:** March 2019 (in terms of an overall review of compliance)	
4.	There are a range of controls in place to manage the risk of a cyber security incident and in the event of successful cyber-attack the council's Major Incident process would be followed. It is recognised however that there is a need to test the corporate response in the event of such an incident in order to identify any significant gaps or weaknesses.	A draft 'Cyber Response Plan' is in development and will appear as an annex to the Corporate Business Continuity Plan. An appropriate desktop exercise to be identified and delivered in consultation with key stakeholders.	**COMPLETED**	• *Cyber Response Plan was approved by the Council Management Team in July 2018 and now appears as an annex to the Corporate Business Continuity Plan.* • *A desk top Cyber Security Briefing and Table Top Exercise, organised by the South East Regional Organised Crime Unit, was undertaken on 18th January 2019. Feedback from this exercise will feed into the Local Resilience Forum exercise (planned for Q2-2019) which will partly be based on a cyber scenario.*
	Responsible Officer: Service Director, Digital and Business Operations		**Target Date:** Oct 2018	

5.	For 2017-18, the number of internal audit reviews where the overall level of assurance has been assessed as 'limited' (and in a small number of cases assessed as 'no assurance') has increased compared with 2016-17. It is considered that this reflects a change in the delivery of the internal audit function which is now provided by an in-house audit team including a shared Chief Internal Auditor with Portsmouth City Council. The service has been repositioned in terms of its visibility and profile within the organisation and has developed and delivered a more directed and focussed audit programme.	Internal audit will undertake follow-up reviews of all 'limited' and 'no assurance' reports as part of the 2018-19 Internal Audit plan. This will not only assess the status and effectiveness of agreed actions relating to the individual audit reports but will also provide an overview in terms of overall management response to risk and controls. The foregoing will be reflected in the Internal Audit Progress Reports that are presented to the Governance Committee throughout the year and eventually in the Chief Internal Auditors Annual Report and Opinion.	**IN PROGRESS**	*Follow up reviews are being progressed as part of the 2018-19 Internal Audit plan. To date, the findings from the follow-up reviews reflect a mixed picture in terms of the status of implementation of the agreed management actions. This is reflected in the Internal Audit Progress Reports to the Governance Committee.*
	Responsible Officer: Service Director Finance & Commercialisation		**Target Date:** March 2019	
6.	Whilst the H&S policy, arrangements, safe working procedures (including H&S training), management training, provide the framework in terms of the requirement to identify and deliver training to ensure staff H&S competency, there is a further need for guidance around application of training against roles.	Develop generic training matrices which may thereafter be amended and refined by service managers against local and specific need.	**COMPLETED**	*A Health, Safety and Wellbeing Training matrix has been developed which is available to download online and forms part of the essential H&S training for managers. In addition the APR process is intended to ensure that training needs are identified and allows for managers to pick up competency issues.*
	Responsible Officer: Service Director, Human Resources & Organisational Development		**Target Date:** August 2018	

Page 17

7.	Whilst 'Contract Procedure Rules' are in place that require all council buying to be undertaken in line with legislation and to achieve best value, there is evidence of areas of non-compliance particularly in respect of those procurements where the Procurement Service Team has not been directly engaged in the process.	The actions to address this issue are to be progressed via the council's Strategic Risk Register. This reflects the significance of the issue noting that the Strategic Risk Register identifies and captures the key strategic risks that need to be managed and is directly overseen by the Council Management Team ('CMT'). The Strategic Risk Register is reviewed and reported to the Council Management Team on a quarterly basis. This review process will consider and, where necessary, challenge the status of the mitigating actions.	**COMPLETED**	*A new risk entitled 'Service areas fail to adhere to and comply on a consistent basis with the council's 'Contract Procedure Rules' was added to the Council's Strategic Risk Register in July 2018. The document, which is reviewed on a quarterly basis, is subject to CMT oversight and challenge.* *A comprehensive action plan is in place and substantial progress has been made in completing the actions; others are not yet due. This matter is subject to a separate detailed report to Governance Committee on 11th February 2019.*
	Responsible Officer: Service Director, Digital and Business Operations		**Target Date:** December 2018	

DECISION-MAKER:	GOVERNANCE COMMITTEE COUNCIL			
SUBJECT:	TREASURY MANAGEMENT STRATEGY AND PRUDENTIAL LIMITS 2019/20 TO 2022/23			
DATE OF DECISION:	11 FEBRUARY 2019 20 FEBRUARY 2019			
REPORT OF:	SERVICE DIRECTOR FINANCE AND COMMERCIALISATION (S151)			
CONTACT DETAILS				
AUTHOR:	**Name:**	**Tina Connolly**	**Tel:**	**023 8083 2428**
	E-mail:	**tina.connolly@southampton.gov.uk**		
Director	**Name:**	**Sue Cuerden**	**Tel:**	**023 8083 4153**
	E-mail:	**sue.cuerden@southampton.gov.uk**		
STATEMENT OF CONFIDENTIALITY				
NOT APPLICABLE				

BRIEF SUMMARY

With overall annual expenditure in excess of £600M and an extensive capital programme, the Council is required to actively manage its cash-flows on a daily basis. The requirement to invest or to borrow monies to finance capital programmes, and to cover daily operational needs is an integral part of daily cash and investment portfolio management.

This report explains the context within which the Council's treasury management activity operates and sets out a proposed strategy for the coming year in relation to the Council's cash flow, investment and borrowing, and the management of the associated risks, including the loss of invested funds and the revenue effect of changing interest rates.

The core elements of the current 2019/20 Treasury strategy are :

- To extend the use of short term variable rate debt for a further year to take advantage of the current market conditions of low interest rates.
- To constantly review longer term forecasts and to lock into longer term rates through a variety of instruments as appropriate during the year, in order to provide a balanced portfolio against interest rate risk.
- To secure the best short term rates for borrowing and investments consistent with maintaining flexibility and liquidity within the portfolio.
- To invest surplus funds prudently, the Council's priorities being:
    - Security of invested capital
    - Liquidity of invested capital
    - An optimum yield which is commensurate with security and liquidity.
- To approve borrowing limits that provide for debt restructuring opportunities and to pursue debt restructuring where appropriate and within the Council's risk boundaries.
- To approve the 2019 Minimum Revenue Provision (MRP) Statement

Since 2012, the Council has pursued a strategy of internal borrowing – minimising external borrowing by running down its own investment balances and only borrowing short term to cover cash flow requirements. This has both reduced the credit risk to which the Council is exposed and, due to the differential between long-term borrowing and short-term investment rates, has saved the Council money in terms of net interest costs. This is now being reviewed to see if an alternative Treasury Strategy could generate income that can support local services.

One option being considered is further investment in external pooled funds which would require the Council to externalise some or all of debt long term. To assist with the appraisal the Council has engaged the council's financial advisers, Arlingclose, to analyse the scope within the Council's current and projected balance sheet for longer-term investment, and analyse suitable longer-term asset classes and investment options available to the Council.

Any change to the strategy would require approval by full council and additional Treasury Training would be provided to assist members in understanding the risks and implications of any change to the current strategy.

Investment limits within this report have been increased to allow for a possible change in strategy.

RECOMMENDATIONS:

GOVERNANCE COMMITTEE

It is recommended that Governance Committee:

	(i)	Endorse the Treasury Strategy (TS) for 2019/20 as outlined in the report.
	(ii)	Endorse the 2019 Minimum Revenue Provision (MRP) Statement as detailed in paragraphs 106 to 115.
	(iii)	Endorse the Investment Strategy (IS) as detailed in paragraphs 87 to 105.
	(iv)	Note that the indicators as reported have been set on the assumption that the recommendations in the Capital update report will be approved by Council on 20 February 2019. Should the recommendations change, the Prudential Indicators may have to be recalculated.
	(v)	Note that due to the timing of this report, changes may still be required following the finalisation of capital and revenue budgets and therefore any significant changes to this report will be highlighted in the final version that is presented to Full Council.
	(vi)	Endorse the proposal within the Capital Strategy report, that Governance Committee have delegated authority to approve future Treasury Strategy Reports and associated Prudential Indicators.
	(vii)	Endorse the proposal to explore an alternative Treasury Strategy to generate additional income that can support local services, whilst maintaining a prudent approach.

COUNCIL

It is recommended that Council:

	(i)	Approve the Council's Treasury Strategy (TS) and Prudential Indicators for 2019/20 to 2022/23, as detailed within the report.

	(ii)	Approve the 2019 Minimum Revenue Provision (MRP) Statement as detailed in paragraphs 106 to 115 and to delegate authority to the Chief Financial Officer (CFO) to approve any changes necessary that aid good financial management whilst maintaining a prudent approach.
	(iii)	Approve the Investment Strategy as detailed in paragraphs 87 to 105.
	(iv)	Note that at the time of writing this report the recommendations in the Capital update report, submitted to Council on the 20 February 2019, have not yet been approved. The indicators in the report are based on the assumption that they will be approved, but should the recommendations change, the Prudential Indicators may have to be recalculated.
	(v)	Continue to delegate authority to the Chief Financial Officer (CFO) to approve any changes to the Prudential Indicators, Minimum Revenue Provision or borrowing limits that will aid good treasury management. For example, agreeing an increase in the percentage for variable rate borrowing to take advantage of the depressed market for short term rates. Any amendments will be reported as part of quarterly financial and performance monitoring and in revisions to the TM Strategy.
	(vi)	Approve the proposal within the Capital Strategy report, that Governance Committee have delegated authority to approve future Treasury Strategy Reports and associated Prudential Indicators.
	(vii)	Endorse the proposal to explore an alternative Treasury Strategy to generate additional income that can support local services, whilst maintaining a prudent approach.
REASONS FOR REPORT RECOMMENDATIONS		

1.	In order to comply with Part 1 of the Local Government Act 2003, and the established TM procedures that have been adopted by the Council, each year the Council must set certain borrowing limits and approve the various strategies which includes:
	• Treasury Strategy for 2019/20:
	    ○ Borrowing – Paragraphs 34 to 44,
	    ○ Debt Rescheduling – Paragraph 45
	    ○ Investments – Paragraphs 46 to 69
	• Treasury Management Indicators – Paragraphs 70 to 79
	• Investment Strategy – Paragraphs 87 to 105
	• MRP Statement – Paragraphs 106 to 115	

ALTERNATIVE OPTIONS CONSIDERED AND REJECTED		
2.	Alternative options for borrowing would depend on decisions taken on the review of the capital update report being taken at Full Council on 20 February 2019.	
DETAIL (Including consultation carried out)		
	CONSULTATION	
3.	The proposed Capital Update report on which this report is based has been subject to separate consultation processes.	
	BACKGROUND	

4.	Treasury risk management at the Council is conducted within the framework of the Chartered Institute of Public Finance and Accountancy's *Treasury Management in the Public Services: Code of Practice 2017 Edition (the CIPFA Code)* which requires the Council to approve a treasury management strategy before the start of each financial year. This report fulfils the Council's legal obligation under the Local Government Act 2003 to have regard to the CIPFA Code.
5.	Investments held for service purposes or for commercial profit though not part of Treasury are also considered in this report for completeness.
6.	Overall responsibility for treasury management remains with the Council. No TM activity is without risk; the effective identification and management of risk are integral to the Council's treasury management objectives. The Council has borrowed and invested substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. Our current policy is shown in appendix 1. This report covers treasury activity and the associated monitoring and control of risk.
7.	The purpose of this report is to allow Council to approve: • Treasury Strategy and Prudential Indicators for 2019/20 to 2022/23 • Investment Strategy and associated indicators for 2019/20 to 2022/23 • 2019 MRP Statement
8.	The strategy takes into account the impact of the Council's Revenue Budget and Capital Programme on the Balance Sheet position, the Prudential Indicators and the current and projected Treasury position. There is no longer a requirement to include indicators relating to Prudence, Affordability & Sustainability in the Treasury Strategy as they are now required to be reported as part of the Capital Strategy, but these have been included for information as Appendix 2 as they provide the framework around which the Treasury Indicators have been set. The outlook for interest rates (Appendix 3) has also been taken into account in developing this strategy
9.	The Council acknowledges that effective TM will provide support towards the achievement of its business and service objectives. It is therefore committed to the principles of achieving value for money in TM, and to employing suitable comprehensive performance measurement techniques, within the context of effective risk management. To aid the Council in carrying out its TM function, it has appointed TM Advisors (Arlingclose), who advise the Council on strategy and provide market information to aid decision making. However it should be noted that the decisions are taken independently by the CFO taking into account this advice and other internal and external factors.
10.	In accordance with the CLG Guidance, the Council will be asked to approve a *revised Treasury Management Strategy Statement* should the assumptions on which this report is based change significantly. Such circumstances would include, for example, a large unexpected change in interest rates; material change to the Council's capital programme or in the level of its borrowing or investment balances.
11.	The CLG Guidance and the CIPFA Code do not prescribe any particular treasury management strategy for local authorities to adopt. The Chief Financial Officer, having consulted with relevant officers and members believes that the above strategy represents an appropriate balance between risk management

and cost effectiveness. Some alternative strategies, with their financial and risk management implications, are listed below.

Options	Impact on income and expenditure	Impact on risk management
Invest in a narrower range of counterparties and/or for shorter times	Interest income will be lower	Lower chance of losses from credit related defaults, but any such losses may be greater
Invest in a wider range of counterparties and/or for longer times	Interest income will be higher	Increased risk of losses from credit related defaults, but any such losses will be smaller
Borrow additional sums at long-term fixed interest rates	Debt interest costs will rise; this is unlikely to be offset by higher investment income	Higher investment balance leading to a higher impact in the event of a default; however long-term interest costs will be more certain
Borrow short-term or variable loans instead of long-term fixed rates	Debt interest costs will initially be lower	Increases in debt interest costs will be broadly offset by rising investment income in the medium term, but long term costs will be less certain
Reduce level of borrowing	Saving on debt interest is likely to exceed lost investment income	Reduced investment balance leading to a lower impact in the event of a default; however long-term interest costs will be less certain

Economic Background

12. The UK's progress negotiating its exit from the European Union, together with its future trading arrangements, will continue to be a major influence on the Council's treasury management strategy for 2019/20.

13. Following a weak reading in the first quarter of 2018 attributed to weather-related factors, UK GDP growth rebounded in the second quarter to 0.4%, but at an annual rate of only 1.2% this remains below trend. As economic growth had evolved broadly in line with its May Inflation Report forecast, the Bank of England's Monetary Policy Committee (MPC) voted unanimously for a rate rise of 0.25% in August, taking Bank Rate to 0.75%.

14. The headline rate of UK Consumer Price Inflation rose to 2.7% year on year in August 2018, higher than both the consensus forecast and the Bank's August Inflation Report. Labour market data is positive. The ILO unemployment rate fell to 4%, its lowest level since 1975. The 3-month average annual growth rate for pay excluding bonuses rose to 3.1% in August providing some evidence that a shortage of labour is supporting wages. However, adjusting for inflation this means real wages were only up by 0.4% and only likely to have a moderate impact on household spending.

The ILO unemployment rate fell to 4%, its lowest level since 1975. The 3-month average annual growth rate for pay excluding bonuses rose to 3.1% in August providing some evidence that a shortage of labour is supporting wages. However, adjusting for inflation this means real wages were only up by 0.4% and only likely to have a moderate impact on household spending.

15. In contrast, the US economy has continued to perform well, the US Federal Reserve continued its tightening bias throughout 2018, pushing rates to the 2.25%-2.50% range in November while lowering its forecast of rate rises in 2019 to two from the three previously projected. A temporary truce in the ongoing

	trade war between the US and China was announced as the leaders of both countries agreed to halt new trade tariffs for 90 days to allow talks to continue. Tariffs already imposed will remain in place. The fallout continues to impact on economic growth and stock market volatility. Despite slower growth in the region, the European Central Bank has started conditioning markets for the end of quantitative easing as well as the timing of the first interest rate hike, currently expected in 2019, and the timing and magnitude of increases thereafter.
	Credit Outlook
16.	The big four UK banking groups have now divided their retail and investment banking divisions into separate legal entities under ringfencing legislation. Bank of Scotland, Barclays Bank UK, HSBC UK Bank, Lloyds Bank, National Westminster Bank, Royal Bank of Scotland and Ulster Bank are the ringfenced banks that now only conduct lower risk retail banking activities. Barclays Bank, HSBC Bank, Lloyds Bank Corporate Markets and NatWest Markets are the investment banks. Credit rating agencies have adjusted the ratings of some of these banks with the ringfenced banks generally being better rated than their non-ringfenced counterparts
17.	European banks are considering their approach to the UK's exit from the European Union, with some looking to create new UK subsidiaries to ensure they can continue trading here. The credit strength of these new banks remains unknown, although the chance of parental support is assumed to be very high if ever needed. The uncertainty caused by protracted negotiations between the UK and EU is weighing on the creditworthiness of both UK and European banks with substantial operations in both jurisdictions.
	Interest Rate Forecast
18.	Following the increase in Bank Rate to 0.75% in August 2018, the Council's treasury management adviser Arlingclose is forecasting two more 0.25% hikes during 2019 to take official UK interest rates to 1.25%. The Bank of England's MPC has maintained expectations for slow and steady rate rises over the forecast horizon. The MPC continues to have a bias towards tighter monetary policy but is reluctant to push interest rate expectations too strongly. Arlingclose believes that MPC members consider both that ultra-low interest rates result in other economic problems, and that higher Bank Rate will be a more effective policy weapon should downside Brexit risks crystallise when rate cuts will be required.
19.	The UK economic environment remains relatively soft, despite seemingly strong labour market data. Arlingclose's view is that the economy still faces a challenging outlook as it exits the European Union and Eurozone growth softens. Whilst assumptions are that a deal is struck and some agreement reached on transition and future trading arrangements before the UK leaves the EU, the possibility of a "no deal" still hangs over economic activity. As such, the risks to the interest rate forecast are considered firmly to the downside.
20.	Gilt yields and hence long-term borrowing rates have remained at low levels but some upward movement from current levels is expected based on Arlingclose's interest rate projections, due to the strength of the US economy and the ECB's forward guidance on higher rates. 10-year and 20-year gilt yields are forecast to remain around 1.5% and 2% respectively over the interest rate forecast horizon, however volatility arising from both economic and political events are likely to continue to offer borrowing opportunities.

21.	A more detailed economic and interest rate forecast provided by Arlingclose is attached at Appendix 3
22.	For the purpose of setting the budget, it has been assumed that new investments for 2019/20 will be made at an average rate of 1.12% for short term and 4.25% for long term, and that new long-term loans taken over the period of the strategy will be borrowed at an average rate of 3.25%.
	BALANCE SHEET SUMMARY AND FORECAST
23.	At 31 December 2018 the Council held £307M of debt (£235M borrowing plus £72M other long term liabilities) and £54M investments which is set out in further detail in Appendix 2.
24.	Forecast changes in these sums are shown in the balance sheet analysis shown below.
25.	**Table 1: Balance Sheet Summary and Forecast**

	31-Mar-18 Actual £M	31-Mar-19 Forecast £M	31-Mar-20 Forecast £M	31-Mar-21 Forecast £M	31-Mar-22 Forecast £M	31-Mar-23 Forecast £M
General Fund CFR	322.03	338.93	345.79	347.27	348.58	356.23
Housing CFR	157.92	171.67	182.00	190.54	192.84	199.75
Total CFR	**479.95**	**510.60**	**527.79**	**537.81**	**541.42**	**555.98**
Less Other Debt Liabilities*	(73.39)	(70.93)	(67.55)	(64.02)	(60.08)	(43.41)
Loans CFR	**406.56**	**439.67**	**460.24**	**473.79**	**481.34**	**512.57**
Less External Borrowing**	(251.16)	(231.70)	(169.87)	(150.59)	(147.84)	(147.84)
Internal (over) Borrowing	**155.40**	**207.97**	**290.36**	**323.20**	**333.50**	**364.73**
Less Usable Reserves	(146.28)	(136.00)	(136.00)	(136.00)	(136.00)	(136.00)
Less Working Capital Surplus	(84.82)	(84.82)	(84.82)	(84.82)	(84.82)	(84.82)
New Borrowing or (Investments)	**(75.70)**	**(12.85)**	**69.54**	**102.38**	**112.68**	**143.91**

** finance leases, PFI liabilities and transferred debt which form part of the Council's total debt*

*** shows only loans to which the Council is committed and excludes optional refinancing*

26.	The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), which is simply the total historic outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. Any capital expenditure which has not immediately been paid for, will increase the CFR. The CFR is reduced by the application of resources such as capital receipts, grants or charges to revenue.
27.	While usable reserves and working capital are the underlying resources available for investment.
28.	The Council's current strategy is to maintain borrowing and investments below their underlying levels, sometimes known as internal borrowing. **Table 1** shows that the Council has an increasing CFR due to the impact of the capital programme and a decreasing working balance surplus and will therefore need to borrow up to £145M over the forecast period.
29.	CIPFA's *Prudential Code for Capital Finance in Local Authorities* recommends that the Council's total debt should be lower than its highest forecast CFR over the next three years. **Table 1** shows that the Council expects to comply with this recommendation during 2019/20, using £208M of internal resources.
	Liability Benchmark
30.	To compare the Council's actual borrowing against an alternative strategy, a liability benchmark has been calculated showing the lowest risk level of borrowing. This assumes the same forecasts as **Table 1** above, but that cash

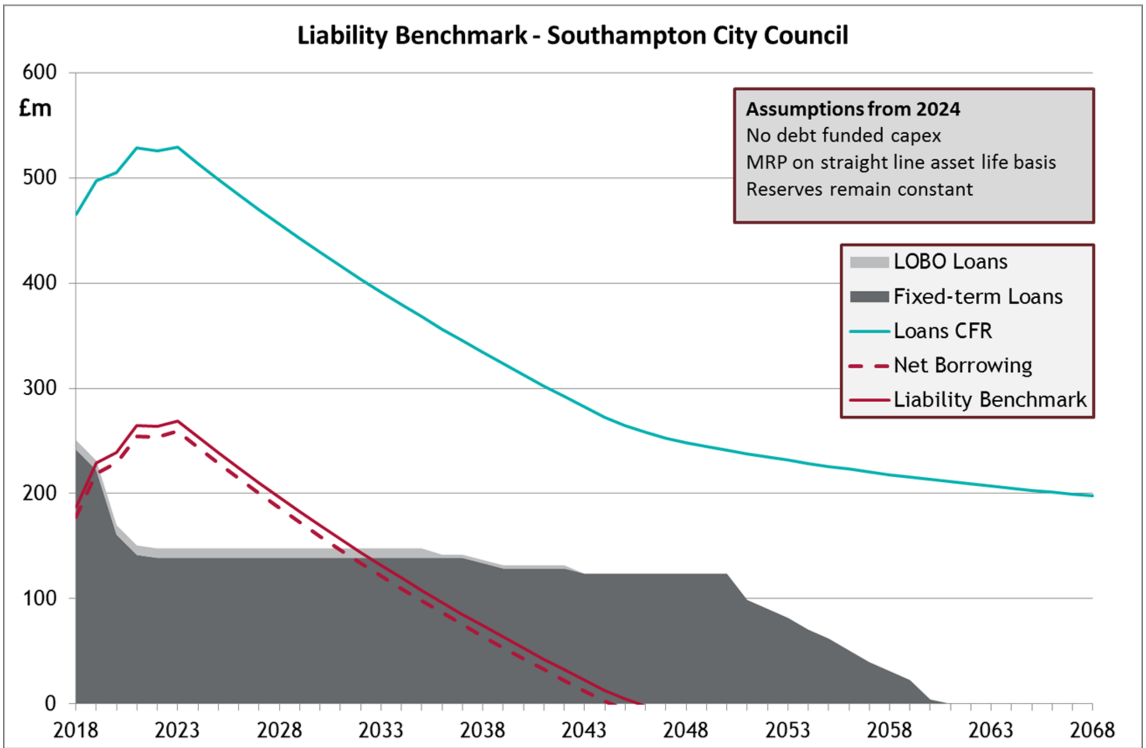
	and investment balances are kept to a minimum level of £10M at each year-end to maintain sufficient liquidity but to further minimise credit risk.

Table 2: Liability benchmark

	31-Mar-18 Actual £M	31-Mar-19 Forecast £M	31-Mar-20 Forecast £M	31-Mar-21 Forecast £M	31-Mar-22 Forecast £M	31-Mar-23 Forecast £M
Loans CFR	**406.56**	**439.67**	**460.24**	**473.79**	**481.34**	**512.57**
Less Usable Reserves	(146.28)	(136.00)	(136.00)	(136.00)	(136.00)	(136.00)
Less Working Capital Surplus	(84.82)	(84.82)	(84.82)	(84.82)	(84.82)	(84.82)
Plus Minimum investments	10.00	10.00	10.00	10.00	10.00	10.00
Liability Benchmark	**185.46**	**228.85**	**249.42**	**262.97**	**270.52**	**301.75**

31. The long term liability benchmark assumes capital expenditure is in line with the forecasts shown in **Appendix 4, table 15**, minimum revenue based on the life of the asset and income, expenditure and reserves all increasing by inflation. This is shown in the chart below.

32.



33. This demonstrates that even with lower investment balances that there is still an underlying need for the council to borrow during 2019/20 as our actual committed debt at £170M will be below the benchmark of £249M.

BORROWING STRATEGY

34. The Council currently holds £235M of loans a decrease of £16M since the 31 March 2018 as part of its strategy for funding previous years' capital programmes. The balance sheet forecast in **Table 1** above shows that the Council expects the total loans CFR to increase by £33M in 2018/19 and a further £21M in 2019/20 bringing our estimated loans CFR to £460M. Our committed borrowing at the end of 2020 is £170M, a reduction £81M from the actual position at 31 March 2018. This would be unsustainable without further borrowing as shown in **Table 1,** which shows a borrowing requirement of £70M, by 31 March 2020.

	If it was cost effective the Council could also borrow additional sums to pre-fund future years' requirements, providing this does not exceed the authorised limit for borrowing.
	Objectives
35.	The Authority's chief objective when borrowing money is to strike an appropriately low risk balance between securing low interest costs and achieving certainty of those costs over the period for which funds are required. The flexibility to renegotiate loans should the Council's long-term plans change is a secondary objective.
	Strategy
36.	Given the significant cuts to public expenditure and in particular to local government funding, the Council's borrowing strategy continues to address the key issue of affordability without compromising the longer-term stability of the debt portfolio. With short-term interest rates currently much lower than long-term rates, it is likely to be more cost effective in the short-term to either use internal resources, or to borrow short-term loans instead.
37.	By doing so, the Council is able to reduce net borrowing costs (despite foregone investment income) and reduce overall treasury risk. The benefits of internal and short-term borrowing will be monitored regularly against the potential for incurring additional costs by deferring borrowing into future years when long-term borrowing rates are forecast to rise modestly. Arlingclose will assist the Council with this 'cost of carry' and breakeven analysis. Its output may determine whether the Council borrows additional sums at long-term fixed rates in 2019/20 with a view to keeping future interest costs low, even if this causes additional cost in the short-term.
38.	Alternatively, the Council may arrange forward starting loans during 2019/20, where the interest rate is fixed in advance, but the cash is received in later years. This would enable certainty of cost to be achieved without suffering a cost of carry in the intervening period. In addition, the Council may borrow further short-term loans to cover unexpected cash flow shortages.
	Sources
39.	The approved sources of long-term and short-term borrowing are: • Public Works Loan Board (PWLB) and any successor body • any institution approved for investments (see below) • any other bank or building society authorised to operate in the UK • UK public and private sector pension funds (except HCC Pension Fund) • capital market bond investors • UK Municipal Bonds Agency plc and other special purpose companies created to enable local authority bond issues
40.	In addition, capital finance may be raised by the following methods that are not borrowing, but may be classed as other debt liabilities: • leasing • hire purchase • Private Finance Initiative • sale and leaseback

41.	The Council has previously raised the majority of its long-term borrowing from the PWLB but it continues to investigate other sources of finance, such as local authority loans and bank loans which may be available at more favourable rates.
42.	UK Municipal Bonds Agency plc (MBA) was established in 2014 by the Local Government Association as an alternative to the PWLB. It plans to issue bonds on the capital markets and lend the proceeds to local authorities. This will be a more complicated source of finance than the PWLB for two reasons: borrowing authorities may be required to provide bond investors with a joint and several guarantee over the very small risk that other local authority borrowers default on their loans; and there will be a lead time of several months between committing to borrow and knowing the interest rate payable. A report setting out in full the details, options and risks of the MBA was considered by full Council on 10 February 2016 and any initial proposal to borrow from the Agency will therefore need be the subject of a separate report to both Governance Committee and Full Council.
	Lender's Option Borrower's Option Loans (LOBOs)
43.	The Council holds £9M of LOBO loans where the lender has the option to propose an increase in the interest rate at set dates, following which the Council has the option to either accept the new rate or to repay the loan at no additional cost. All of these LOBOS have options during 2019/20 and although the Council understands that lenders are unlikely to exercise their options in the current low interest rate environment, there remains an element of refinancing risk. The Council will take the option to repay LOBO loans at no cost if it has the opportunity to do so.
	Short Term and Variable Rates
44.	Included within the PWLB portfolio is £35M of variable rate Loans, which are currently averaging 0.77% and are helping to keep the overall cost of borrowing down. Whilst in the current climate of low interest rates this remains a sound strategy, these loans leave the Council exposed to the risk of short-term interest rate rises and are therefore subject to the limit on the net exposure to variable interest rates in the treasury management indicators (paragraph 70).
	Debt Rescheduling
45.	The PWLB allows authorities to repay loans before maturity and either pay a premium or receive a discount according to a set formula based on current interest rates. Other lenders may also be prepared to negotiate premature redemption terms. The Council may take advantage of this and replace some loans with new loans, or repay loans without replacement, where this is expected to lead to an overall cost saving or a reduction in risk.
	INVESTMENT STRATEGY
46.	The Council invests its money for three broad purposes: • because it has surplus cash as a result of its day-to-day activities, for example when income is received in advance of expenditure (known as **treasury management investments**), • to support local public services by lending to or buying shares in other organisations (**service investments**), and

	• to earn investment income (known as **commercial investments** where this is the main purpose).
	TREASURY MANAGEMENT INVESTMENTS
47.	The Authority typically receives its income in cash (e.g. from taxes and grants) before it pays for its expenditure in cash (e.g. through payroll and invoices). It also holds reserves for future expenditure and collects local taxes on behalf of other local authorities and central government. These activities, plus the timing of borrowing decisions, lead to a cash surplus which is invested in accordance with guidance from the Chartered Institute of Public Finance and Accountancy.
48.	During the financial year the Council's investment balances have ranged between £53M and £99M and are currently £54M. Projected balances indicate that on present levels of spend balances will be lower than last year, but this will be dependent on any borrowing decisions taken.
49.	The contribution that these investments make to the objectives of the Authority is to support effective treasury management activities
	<u>Objectives</u>
50.	The CIPFA Code require the Council to invest its funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield. The Council's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income. Where balances are expected to be invested for more than one year, the Council will aim to achieve a total return that is equal or higher than the prevailing rate of inflation, in order to maintain the spending power of the sum invested, however it should be noted that a lower rate is an acceptable offset for higher credit and less risk, for example a covered bond.
	<u>Negative Interest Rates</u>
51.	If the UK enters into a recession in 2019/20, there is a small chance that the Bank of England could set its Bank Rate at or below zero, which is likely to feed through to negative interest rates on all low risk, short-term investment options. This situation already exists in many other European countries. In this event, security will be measured as receiving the contractually agreed amount at maturity, even though this may be less than the amount originally invested.
	<u>Strategy</u>
52.	Given the increasing risk and very low returns from short-term unsecured bank investments, the Council aims to continue to diversify into more secure and/or higher yielding asset classes during 2019/20. This is especially the case for the estimated £40M that is currently available for longer-term investment. The majority cash used for cash flow purposes is invested in money market funds. Appendix 2 shows the makeup of the Council's current investments.
	<u>Business Model</u>
53.	Under the new IFRS 9 standard, the accounting for certain investments depends on the Authority's "business model" for managing them. The Authority aims to achieve value from its internally managed treasury investments by a business model of collecting the contractual cash flows and therefore, where other criteria are also met, these investments will continue to be accounted for at amortised cost.

	Approved Counterparties
54.	The Council may invest its surplus funds with any of the following counterparty types, subject to the cash limits (per counterparty) and time limits detailed below. This is the absolute limit and the working limit will be monitored against actual cash flows and movement on reserves together with advice from our financial advisors and will be adjusted each quarter as necessary in agreement with the CFO.
	Table 2: Approved Investment counterparties and Limits

Credit Rating	Banks Unsecured £M	Banks Secured £M	Government & Local Authorities £M	Corporates £M	Registered Providers £M
UK Govt	n/a	n/a	£ Unlimited 50 years	n/a	n/a
AAA	£5M 5 years	£20M 20 years	£20M 50 years	£5M 20 years	£10M 20 years
AA+	£5M 5 years	£20M 10 years	£20M 25 years	£5M 10 years	£10M 10 years
AA	£5M 4 years	£20M 5 years	£20M 15 years	£5M 5 years	£10M 10 years
AA-	£5M 3 years	£20M 4 years	£20M 10 years	£5M 4 years	£10M 10 years
A+	£5M 2 years	£20M 3 years	£10M 5 years	£5M 3 years	£10M 5 years
A	£5M 13 months	£20M 2 years	£10M 5 years	£5M 2 years	£10M 5 years
A-	£5M 6 months	£20M 13 months	£10M 5 years	£5M 13 months	£10M 5 years
None	£1M 6 months	n/a	£5M 25 years	£0.5M 5 years	£5M 5 years
Pooled funds	£10M per fund for MMF, other funds (e.g. CCLA or REITS) subject to specific advice				

55.	**Credit Rating:** Investment limits are set by reference to the lowest published long-term credit rating from a selection of external credit ratings. Where available, the credit rating relevant to the specific investment or class of investment is used, otherwise the counterparty credit rating is used. However, investment decisions are never made solely based on credit ratings, and all other relevant factors including external advice will be taken into account.
56.	**Banks Unsecured:** Accounts, deposits, certificates of deposit and senior unsecured bonds with banks and building societies, other than multilateral development banks. These investments are subject to the risk of credit loss via a bail-in should the regulator determine that the bank is failing or likely to fail. See below for arrangements relating to operational bank accounts.

57.	**Banks Secured:** Covered bonds, reverse repurchase agreements and other collateralised arrangements with banks and building societies. These investments are secured on the bank's assets, which limits the potential losses in the unlikely event of insolvency, and means that they are exempt from bail-in. Where there is no investment specific credit rating, but the collateral upon which the investment is secured has a credit rating, the highest of the collateral credit rating and the counterparty credit rating will be used to determine cash and time limits. The combined secured and unsecured investments in any one bank will not exceed the cash limit for secured investments.
58.	**Government:** Loans, bonds and bills issued or guaranteed by national governments, regional and local authorities and multilateral development banks. These investments are not subject to bail-in, and there is generally a lower risk of insolvency, although not zero risk. Investments with the UK Central Government may be made in unlimited amounts for up to 50 years.
59.	**Corporates:** Loans, bonds and commercial paper issued by companies other than banks and registered providers. These investments are not subject to bail-in, but are exposed to the risk of the company going insolvent. Loans to unrated companies will only be made either following an external credit assessment or to a maximum of £1M per company as part of a diversified pool in order to spread the risk widely.
60.	**Registered Providers:** Loans and bonds issued by, guaranteed by or secured on the assets of registered providers of social housing and registered social landlords, formerly known as housing associations. These bodies are tightly regulated by the Regulator of Social Housing (in England), the Scottish Housing Regulator, the Welsh Government and the Department for Communities (in Northern Ireland). As providers of public services, they retain the likelihood of receiving government support if needed.
61.	**Pooled Funds:** Shares or units in diversified investment vehicles consisting of any of the above investment types, plus equity shares and property. These funds have the advantage of providing wide diversification of investment risks, coupled with the services of a professional fund manager in return for a fee. Short-term Money Market Funds that offer same-day liquidity very low or no volatility will be used as an alternative to instant access bank accounts, while pooled funds whose value changes with market prices and/or have a notice period will be used for longer investment periods. Bond, equity and property funds offer enhanced returns over the longer term, but are more volatile in the short term. These allow the Council to diversify into asset classes other than cash without the need to own and manage the underlying investments. Because these funds have no defined maturity date, but are available for withdrawal after a notice period, their performance and continued suitability in meeting the Council's investment objectives will be monitored regularly.
62.	**Real estate investment trusts:** Shares in companies that invest mainly in real estate and pay the majority of their rental income to investors in a similar manner to pooled property funds. As with property funds, REITs offer enhanced returns over the longer term, but are more volatile especially as the share price reflects changing demand for the shares as well as changes in the value of the underlying properties.
63.	**Operational bank accounts**: The Council may incur operational exposures, for example though current accounts, collection accounts and merchant acquiring

	services, to any UK bank with credit ratings no lower than BBB- and with assets greater than £25 billion. These are not classed as investments, but are still subject to the risk of a bank bail-in, and balances will therefore be kept to a minimum. The Bank of England has stated that in the event of failure, banks with assets greater than £25 billion are more likely to be bailed-in than made insolvent, increasing the chance of the Council maintaining operational continuity.
64.	The Chief Financial Officer (CFO), under delegated powers, will undertake the most appropriate form of investments in keeping with the investment objectives, income and risk management requirements and Prudential Indicators. Decisions taken on the core investment portfolio will be reported quarterly to Cabinet.
	Risk Assessment and Credit Ratings
65.	Credit ratings are obtained and monitored by the Council's treasury advisers, who will notify changes in ratings as they occur. Where an entity has its credit rating downgraded so that it fails to meet the approved investment criteria then: • no new investments will be made, • any existing investments that can be recalled or sold at no cost will be, and • full consideration will be given to the recall or sale of all other existing investments with the affected counterparty. Where a credit rating agency announces that a rating is on review for possible downgrade (also known as "rating watch negative" or "credit watch negative") so that it may fall below the approved rating criteria, then only investments that can be withdrawn on the next working day will be made with that organisation until the outcome of the review is announced. This policy will not apply to negative outlooks, which indicate a long-term direction of travel rather than an imminent change of rating.
	Other Information on the Security of Investments
66.	The Council understands that credit ratings are good, but not perfect, predictors of investment default. Full regard will therefore be given to other available information on the credit quality of the organisations in which it invests, including credit default swap prices, financial statements, information on potential government support and reports in the quality financial press and analysis and advice from the Authority's treasury management adviser. No investments will be made with an organisation if there are substantive doubts about its credit quality, even though it may otherwise meet the above criteria.
67.	When deteriorating financial market conditions affect the creditworthiness of all organisations, as happened in 2008 and 2011, this is not generally reflected in credit ratings, but can be seen in other market measures. In these circumstances, the Council will restrict its investments to those organisations of higher credit quality and reduce the maximum duration of its investments to maintain the required level of security. The extent of these restrictions will be in line with prevailing financial market conditions. If these restrictions mean that insufficient commercial organisations of high credit quality are available to invest the Council's cash balances, then the surplus will be deposited with the UK Government, via the Debt Management Office or invested in government treasury bills for example or with other local authorities. This will cause a reduction in the level of investment income earned, but will protect the principal sum invested.

Investment Limits

68. The Council's revenue reserves and balances available to cover investment losses (excluding Schools, capital and HRA) are forecast to be £60M at 31st March 2019. In order that there is no immediate pressure on available reserves in the case of a single default, the maximum that will be lent to any one organisation (other than the UK Government and specified investments such as property funds) will be £20M. A group of banks under the same ownership will be treated as a single organisation for limit purposes. Limits will also be placed on fund managers, investments in brokers' nominee accounts, foreign countries and industry sectors in **Table 3** below. Investments in pooled funds and multilateral development banks do not count against the limit for any single foreign country, since the risk is diversified over many countries.

Table 3 –Investment Limits

	Cash limit
Any single organisation, except the UK Central Government and specified funds (subject to specific advice)	£20M each*
UK Central Government	unlimited
Any group of organisations under the same ownership	£20M per group*
Any group of pooled funds under the same management	25% per manager unless under specific advice
Negotiable instruments held in a broker's nominee account	£50M per broker
Foreign countries	£10M per country
Registered Providers and registered social landlords	£10M in total
Unsecured investments with Building Societies	£5M in total
Loans to unrated corporates	£1M in total
Real estate investment trusts (REITS)	£20M each*
Money Market Funds**	£10M* per fund and no more than 0.50% of any investments fund in total for non-government funds

**This is the absolute limit and the working limit will be monitored against actual cash flows and movement on reserves together with advice from our financial advisors and will be adjusted each quarter as necessary in agreement with the CFO.*

***We would not normally invest more than 50% of our overall investment portfolio in MMF on the advice of our advisors, however as part of our revised strategy to reduce short term investments and move into longer term investments, there will be occasions as bonds mature when this limit is exceeded. This advice is with regards to cash flow risk, however we feel this is mitigated by spreading over a number of funds and not just the highest yielding ones and having funds in other instant access accounts. In addition money can be borrowed short term from the market on the day.*

Liquidity Management

69.	The Council undertakes high level cash flow forecasting to determine the maximum period for which funds may prudently be committed. The forecast is compiled on a prudent basis to minimise the risk of the Council being forced to borrow on unfavourable terms to meet its financial commitments. Limits on long-term investments are set by reference to the Council's medium term financial plan and cash flow forecast.
	<u>TREASURY MANAGEMENT INDICATORS</u>
70.	The Council measures and manages its exposure to treasury management risks using the following indicators.
	<u>Security</u>
71.	The Council has adopted a voluntary measure of its exposure to credit risk by monitoring the value-weighted average credit rating of its investment portfolio. This is calculated by applying a score to each investment (AAA=1, AA+=2, etc.) and taking the arithmetic average, weighted by the size of each investment. Unrated investments are assigned a score based on their perceived risk.

	Target
Portfolio average credit rating	A

	<u>Liquidity</u>
72.	The Council has adopted a voluntary measure of its exposure to liquidity risk by monitoring the amount of cash available to meet unexpected payments and has set a £10M minimum threshold on cash available in instant access accounts, if balances were to fall below this limit we would consider taking short term loans which are available without given prior notice and at competitive rates.
	<u>Interest Rate Exposure</u>
73.	This indicator is set to control the Council's exposure to interest rate risk. The upper limits is based on the one-year revenue impact of a 1% rise or fall in interest rates for existing variable rates on long term loans and assumed short term borrowing, offset by variable investments. The main risk to the authority comes through the use of short term borrowing in place of fixed term long term debt which for 2019/20 is £133M, as shown in **Appendix 4 Table 22.** A 1% increase over those forecast would equate to £1.3M, plus any ongoing impact on an increase in the long term rate.
74.	The Authority has more exposure to an increase in interest rates than a reduction as our debt portfolio is higher than our investments. A fall in interest rates of 1% would see investment income fall by about £0.5M but this would be offset by reduction in debt charges.
	Table 4–Interest Rate Exposure

Interest rate risk indicator	**£M**
Upper limit on one-year revenue impact of a 1% **<u>rise</u>** in interest rates	1.5
Upper limit on one-year revenue impact of a 1% **<u>fall</u>** in interest rates	0.5

	<u>Maturity Structure of Borrowing</u>

75. This indicator is set to control the Council's exposure to refinancing risk. The upper and lower limits on the maturity structure of borrowing as set out in **Table 5** below:

	Lower Limit %	Upper Limit %
Under 12 Months	0	45
12 months and within 24 months	0	45
24 months and within 5 years	0	50
5 years and within 10 years	0	55
10 years and within 20 years	0	60
20 years and within 30 years	0	65
30 years and above	0	75

76. Time periods start on the first day of each financial year and the maturity date of borrowing is the earliest date on which the lender can demand repayment. Although all LOBOs are now in their call options they are not expected to be called in the near future so are included within the appropriate classification above based on their maturity date.

77. Details of our current level of debt and maturity is shown in **Table 6** below. This shows that all debt is within existing levels.

78. **Table 6 – Current Debt**

Debt	Lower Limit %	Upper Limit %	Actual Debt as at 31/12/2018 £M	Average Rate as at 31/12/2018 %	% of Debt	Compliance with set Limits?
Under 12 months	0	45	31.11	1.68%	13	Yes
12 months and within 24 months	0	45	50.49	2.05%	22	Yes
24 months and within 5 years	0	50	5.24	3.45%	2	Yes
10years and within 20 years	0	55	16.00	4.81%	7	Yes
20 years and within 30 years	0	65	8.00	4.66%	3	Yes
30 years and within 40 years	0	75	92.60	3.77%	39	Yes
40 years and within 50 years	0	75	31.25	3.56%	13	Yes
			234.69	**3.35%**	**100**	

Principal Sums Invested for Periods Longer than a Year

79. The purpose of this indicator is to control the Council's exposure to the risk of incurring losses by seeking early repayment of its investments. The limits on the long-term principal sum invested to final maturities beyond the period end is shown in **Table 7**.

Table 7 – Principal sums invested for periods longer than a year

	Current £M	2019/20 £M	2020/21 £M	2021/22 £M	2022/23 £M
Limit on principal invested beyond year end	40	100	100	100	100

OTHER ITEMS

80.	There are a number of related matters that the CIPFA Code requires the Council to include in its Treasury Management Strategy.
	Policy on Use of Financial Derivatives
81.	Local authorities have previously made use of financial derivatives embedded into loans and investments both to reduce interest rate risk (e.g. interest rate collars and forward deals) and to reduce costs or increase income at the expense of greater risk (e.g. LOBO loans and callable deposits). The general power of competence in Section 1 of the Localism Act 2011 removes much of the uncertainty over local authorities' use of standalone financial derivatives (i.e. those that are not embedded into a loan or investment).
82.	The Council will only use standalone financial derivatives (such as swaps, forwards, futures and options) where they can be clearly demonstrated to reduce the overall level of the financial risks that the Council is exposed to. Additional risks presented, such as credit exposure to derivative counterparties, will be taken into account when determining the overall level of risk. Embedded derivatives, including those present in pooled funds and forward starting transactions, will not be subject to this policy, although the risks they present will be managed in line with the overall treasury risk management strategy.
83.	Financial derivative transactions may be arranged with any organisation that meets the approved investment criteria. The current value of any amount due from a derivative counterparty will count against the counterparty credit limit and the relevant foreign country limit.
	Markets in Financial Instruments Directive
84.	The Council has opted up to professional client status with its providers of financial services, including advisers, banks, brokers and fund managers, allowing it access to a greater range of services but without the greater regulatory protections afforded to individuals and small companies. Given the size and range of the Authority's treasury management activities, the Chief Financial Officer believes this to be the most appropriate status.
	Housing Revenue Account Self-Financing
85.	On 1st April 2012, the Council notionally split each of its existing long-term loans into General Fund and HRA pools. In the future, new long-term loans borrowed will be assigned in their entirety to one pool or the other. Interest payable and other costs/income arising from long-term loans (e.g. premiums and discounts on early redemption) will be charged/ credited to the respective revenue account.
86.	Differences between the value of the HRA loans pool and the HRA's underlying need to borrow (adjusted for HRA balance sheet resources available for investment) will result in a notional cash balance. This balance will be measured and interest transferred between the General Fund and HRA at an agreed rate. Housing Legislation does not allow impairment losses to be charged to the HRA and consequently any credit related losses on the Council's investments will be borne by the General Fund alone. It is therefore appropriate that the General Fund is compensated for bearing this risk, and all interest transferred to the HRA should be adjusted downwards. The rate will be based on investments with the Debt Management Office. The rate of return on comparable investments with the government is lower and often referred to as the risk-free rate.

INVESTMENT STRATEGY (NON- TREASURY)

Service Investments: Loans

87. The Council is able to lend money to its subsidiaries, its suppliers, local businesses, local charities, housing associations, local residents and its employees to support local public services and stimulate local economic growth.

88. The main risk when making service loans is that the borrower will be unable to repay the principal lent and/or the interest due. In order to limit this risk, and ensure that total exposure to service loans remains proportionate to the size of the Authority, upper limits on the outstanding loans to each category of borrower have been set as in Table 8:

Table 8 – Loans for service purposes

Category of Borrower	2019/20 Approved Limit
Subsidiaries	£2.0M
Suppliers	£2.0M
Other Public Sector Bodies	£20.0M
Charities	£0.5M

89. Accounting standards require the Authority to set aside loss allowance for loans, reflecting the likelihood of non-payment. The figures for loans in the Authority's statement of accounts from 2018/19 onwards will be shown net of this loss allowance. However, the Authority makes every reasonable effort to collect the full sum lent and has appropriate credit control arrangements in place to recover overdue repayments.

90. The Council does not currently have any material loans but loans to subsidiaries may be considered, as part of a wider strategy for local economic growth, even though they may not all be seen as prudent if adopting a narrow definition of prioritising security and liquidity. Such loans will be considered when all of the following criteria are satisfied:

- The loan is given towards expenditure which would, if incurred by the Council, be capital expenditure;
- The purpose for which the loan is given is consistent with the Council's corporate / strategic objectives and priorities;
- Due diligence is carried out that confirms the Council's legal powers to make the loan, and that assesses the risk of loss over the loan term;
- A formal loan agreement is put in place which stipulates the loan period, repayment terms and loan rate (which will be set at a level that seeks to mitigate any perceived risks of a loss being charged to the General Fund, and takes appropriate account of state aid rules) and any other terms that will protect the Council from loss.

Service Investments: Shares

91.	The Council is able to invest in the shares of its subsidiaries, its suppliers, local businesses, local charities, housing associations, local residents and its employees to support local public services and stimulate local economic growth.
92.	One of the risks of investing in shares is that they fall in value meaning that the initial outlay may not be recovered. The Council does not currently have any material investment in shares nor is there any intention to do so at present. If this changed the Council would undertake a risk assessment before entering purchase and would establish appropriate Prudential Indicators.
	Commercial Investments: Property
93.	The Council is able to invest in local, regional and UK commercial and residential property with the intention of making a profit that will be spent on local public services. Between 2016 and 2017, SCC implemented a strategy to invest in commercial properties with the expected return on investment being used to fund council services, known as the Property investment fund (PIF). To date the authority has purchased 3 properties; however following the latest guidance regarding property investments published by central government, SCC has halted this strategy for the foreseeable future. Details of the properties purchased are shown in **table 9** below.
94.	**Table 9: Property Investment Fund**

Property	***Actual***	***31.03.2018 actual***		***31.03.2019 expected***		***Outstanding Debt 31.03.2019***
	Purchase Cost £M	***Value in Accounts***	***Gain or (Loss)***	*Value in Accounts*	***Gain or (Loss)***	***£M***
Property 1	*6.47*	*6.03*	*(0.44)*	*6.27*	*0.24*	*5.98*
Property 2	*14.69*	*13.79*	*(0.90)*	*13.79*	*0*	*13.68*
Property 3	*8.53*	*8.08*	*(0.45)*	*8.17*	*0.09*	*8.01*
	29.69	***27.90***	***(1.79)***	***28.23***	***0.33***	***27.67***

95.	***Security:*** In accordance with government guidance, the Council considers a property investment to be secure if its accounting valuation is at or higher than the amount of debt currently outstanding for the asset. As can be seen from the table above the fair value assessment of these properties at the 31 March 2018 was below the purchase price, this was primarily due to cost associated with the purchase rather than a fall in the value of the assets. In line with the MRP policy in place at the time the difference of £1.79M was charged to revenue in 2017/18. No further material reduction in fair value is expected during 2018/19. Debt repayments are now being made on the annuity basis and debt will reduce by £235k in 2018/19 and £243k in 2019/20.
96.	**Risk assessment:** The council assess the risk of loss before purchasing investment property and monitors both the fair value and the return on the assets to assess the benefits of either retaining or disposing of the assets. This is reported to Capital Board on at least a quarterly basis.
97.	**Liquidity:** Compared with other investment types, property is relatively difficult to sell and convert to cash at short notice. Therefore, in order to assess liquidity, the Council monitors the income stream attached to property purchases, a much

	more liquid asset, comparing budgets to forecasts and actuals. For the PIF properties income for both 2017/18 and current year are in line with the budgeted figure and there are no current indicators to suggest that the forecast future income will not be achieved. If there is any change in this then this would be reported to Capital Board.
98.	In addition to the properties purchased under PIF, the council holds an extensive historic property portfolio. Information relating to purchase price and any associated debt is not held, as local authority legislation does not require this information to be held. The fair value of these properties at the 31 March 2018 was £125.1M an increase of £2.4M from the year before. The Valuation and Estates section are responsible for the ongoing management and monitoring of the portfolio (including PIF) and for 2017/18 net income was for the total portfolio was £7.5M a return of 5.96%.
	<u>Capacity and Skills</u>
99.	**Elected members and statutory officers:** CIPFA's Code of Practice requires the CFO to ensure that all Members tasked with TM responsibilities, including scrutiny of the TM function, receive appropriate training relevant to their needs and understand fully their roles and responsibilities. Treasury training is offered to all members annually, which is undertaken by our advisors, Arlingclose. Further training is also provided if the need arises, for example there was a change in leadership and the makeup of Governance committee changed during 2018, so as part of Members induction Arlingclose provided an introduction to treasury training session. We would also arrange additional training if there was to be a material change in the Treasury Strategy, explaining the reasoning behind it, so that Members understand what they are being asked to approve. For Officers the Council adopts a continuous performance and development programme to ensure staff are regularly appraised and any training needs addressed. Relevant staff also attend regular training sessions, seminars and workshops which ensure their knowledge is up to date. Details of training received are maintained as part of the performance and development process.
100.	**Commercial deals:** As detailed in paragraph 92 above the Council has currently suspended any further purchases of Investment property. Future purchase would be subject to a detailed business plan and need approval from capital board. In addition any potential investments would be subjected to a detailed checking process which ensures that relevant checks and authorisations had been sought prior to the purchase. The process requires 11 desirable criteria, 2 of which are low risk investment properties which had a long term lease and a single let. Should a property be suitable, further financial checks are conducted on the tenants within the property to evidence their financial stability and risk level. An independent valuation would then be conducted on the property to obtain a level of assurance that the price quoted and the rent charged were in line with the expected market rate. Once all criteria is met final sign off is required by the S151 officer and the Leader of the Council.
	<u>Investment Indicators</u>
101.	The Authority has set the following quantitative indicators to allow elected members and the public to assess the Authority's total risk exposure as a result of its investment decisions.
102.	***Total risk exposure***: This indicator shows the Authority's total exposure to potential investment losses. This includes amounts the Authority is contractually

committed to lend but have yet to be drawn down and guarantees the Authority has issued over third party loans.

Table 10:Total investment exposure

Total Investment Exposure	*31.03.2018 Actual*	*31.03.2019 Forecast*	*31.03.2020 Forecast*
	£M	*£M*	*£M*
Treasury management investments	*72.4*	*50.0*	*50.0*
Service investments: Loans	*0.0*	*0.0*	*0.0*
Commercial Investments: PIF	*27.9*	*27.7*	*27.4*
TOTAL EXPOSURE	*100.3*	*77.9*	

103. ***How investments are funded***: Government guidance is that these indicators should include how investments are funded. Since the Authority does not normally associate particular assets with particular liabilities, this guidance is difficult to comply with. However, the following investments could be described as being funded by borrowing. The remainder of the Authority's investments are funded by usable reserves and income received in advance of expenditure.

Table 11: Investments funded by borrowing and loan to value ratio

Investment funded by borrowing	*31.03.2018 Actual*	*Loan to Value Ratio*	*31.03.2019 Forecast*	*Loan to Value Ratio*	*31.03.2020 Forecast*	*Loan to Value Ratio*
	£M	*%*	*£M*	*%*	*£M*	*%*
Commercial Investments: Property	*27.9*	*100*	*27.7*	*99*	*27.4*	*98*
Service investments: Loans	*0.0*		*0.0*		*0.0*	

The maximum loan to value indicator is set at 100% if the fair value of the asset was to fall below the outstanding loan value then this would be reported to Council and the authority would look to take steps to assess the viability of holding the investment.

104. ***Rate of return received***: This indicator shows the investment income received less the associated costs, including the cost of borrowing, as a proportion of the debt outstanding. Note that due to the complex local government accounting framework, not all recorded gains and losses affect the revenue account in the year they are incurred.

Table 12: Investment rate of return (net of all costs)

Investment net rate of return	*2017/18 Actual*1*	*2018/19 Forecast*	*2019/20 Forecast*
	%	*%*	*%*
Property 1	*-4.09*	*2.25*	*2.27*
Property 2	*-3.55*	*2.14*	*2.16*
Property 3	*-3.95*	*0.78*	*0.79*
Total Average Rate of Return	*-3.78*	*1.77*	*1.79*

	**1 negative rate of return is due to the cost of purchase of £1.78M being written off to reflect the Fair Value of the assets*
105.	***Voids and Maintenance***: Budgeted income for investment income allows for voids and maintenance costs, but in addition the council has set aside an earmarked reserve of £200k to cover unforeseen void and maintenance costs. To ensure the reserve is maintained at the correct level balances are reviewed as part of budget monitoring and individual property balances are monitored to ensure they continue to provide the correct level of risk management.
	2019/20 MINIMUM REVENUE PROVISION (MRP) STATEMENT
106.	Where the council finances capital expenditure by debt, it must put aside resources to repay that debt in later years. The amount charged to the revenue budget for the repayment of debt is known as Minimum Revenue Provision (MRP), although there has been no statutory minimum since 2008, the council is required to make a prudent provision. The Local Government Act 2003 requires the Council to have regard to the Department for Communities and Local Government's Guidance on Minimum Revenue Provision (the CLG Guidance) most recently issued in 2018.
107.	The broad aim of the CLG guidance is to ensure that MRP charges on unsupported borrowing should be made over a period commensurate with the period the assets financed from borrowing continue to provide benefit. Where it is practical or appropriate to do so, the Council may make voluntary revenue provision, or apply capital receipts, to reduce debt over a shorter period.
108.	The CLG Guidance requires the Council to approve an Annual MRP Statement each year. For borrowing prior to the prudential regime we use the regulatory method (over a 50 year life) and for prudential borrowing the asset life method, this now also includes MRP for investment property, as the depreciation method which was previously used, is no longer available for Investment property following the revised guidance.
109.	We will continue to review MRP and it is proposed that delegated powers should be given to the CFO to change the proposed methods to aid good financial management whilst maintaining a prudent approach. Any changes to the original MRP Statement during the year will be reported as part of quarterly financial and performance monitoring and in revisions to the TM strategy as part of the year end and midyear reviews.
110.	Where loans are made to other bodies for their capital expenditure and are to be repaid in annual instalments, no MRP will be charged. However, the capital receipts generated by the annual repayment on those loans will be put aside to repay debt instead. MRP will be charged where there is no repayment.

111.	There is no requirement for the HRA to make debt repayments but it has opted to make voluntary repayments and provision has been made within its business plan to show that it can pay down debt over the life of the 30 year business plan.
112.	MRP in respect of leases and Private Finance Initiative schemes brought on Balance Sheet under the International Financial Reporting Standards (IFRS) based Accounting Code of Practice will match the annual principal repayment for the associated deferred liability.
113.	Capital expenditure incurred during 2019/20 and funded from borrowing will not be subject to a MRP charge until 2020/21.
114.	Based on the Council's latest estimate of its Capital Financing Requirement on 31 March 2019 the budget for MRP has been set on the assumption that we will be using the regulatory method for borrowing prior to the prudential regime (over the remainder of a 50 year life) and using the asset life method for prudential borrowing where it applies. As previously reported the Council has been taking a holiday from MRP payments due to over provision in the past, the balance of which will be used during 2019/20, hence the main increase in MRP liability.
115.	The current and estimated levels of MRP and CFR are shown in **Table 13** below:

Table 13 - Current and Estimated MRP and CFR for 2019/20

	31/03/2018 Actual CFR £M	2018/19 MRP Liability £M	31/03/2019 Estimated CFR £M	2019/20 Estimated MRP £M
Capital expenditure before 01.04.2008	96.60	1.84	94.75	1.83
Unsupported capital expenditure after 31.03.2008	152.03	3.81	173.25	4.43
Transferred debt	14.55	0.37	14.19	0.37
Finance leases and Private Finance Initiative	58.84	2.10	56.74	3.01
Total General Fund CFR and MRP Liability	**322.02**	**8.12**	**338.93**	**9.64**
MRP Holiday	0.00	(0.55)	0.00	0.00
Net General Fund CFR and MRP Liability *(Table 11)*	**322.02**	**7.57**	**338.93**	**9.64**
Assets in the Housing Revenue Account	61.33	Nil	76.91	Nil
HRA subsidy reform payment	96.60	5.50	94.76	Nil
Total Housing Revenue Account *(Table 17)*	**157.93**	**5.50**	**171.67**	**0.00**
Total	**479.95**	**13.07**	**510.60**	**9.64**

MONITORING AND REPORTING

116.	The Chief Financial Officer will report to the Governance Committee on TM activity / performance as follows: (a) A mid-year review against the strategy approved for the year. (b) An outturn report on its treasury activity, no later than 30 September after the financial year end.
117.	In addition, a quarterly update will be presented to Cabinet as part of Quarterly Revenue Financial Monitoring.

HRA Limit on Indebtedness

118.	Following the Chancellor's announcement in the 2018 Autumn Budget, restrictions relating to HRA borrowing have been lifted. This means that the previous HRA debt cap of £199.6m has been removed, and there is now the emphasis for councils to plan their new build strategy and financing at a local level. The process for identifying priorities and sites for new build developments is now taking place and is expected to form the basis of a new delivery strategy

	in 2019, incorporating affordability and prudence. As part of the new build strategy relevant Prudential Indicators will be agreed.
119.	The HRA Business Plan supports a number of council strategies, including the Medium Term Financial Strategy, to ensure plans are affordable and budgets are aligned to the assumptions detailed in those strategies. The specific HRA Business Plan priorities are summarised below, further details can be seen in the report being submitted to Council on 29 February 2019. • All HRA debt is sustainable and can be serviced over the life of the Business Plan. • Investment in existing HRA stock can be achieved within the Government's previously set borrowing limit of £199.6M as shown in **Table 14** below. • Currently, large scale new stock provision is not provided for in the Business Plan, any new build development will be subject to a business case and financial appraisal to assess the financial viability of the scheme.
120.	**Table 14 - Borrowing Forecast for Existing Stock**

	31-Mar-18 Actual £M	31-Mar-19 Forecast £M	31-Mar-20 Forecast £M	31-Mar-21 Forecast £M	31-Mar-22 Forecast £M	31-Mar-23 Forecast £M
General Fund CFR	322.03	338.93	345.79	347.27	348.58	356.23
Housing CFR	157.92	171.67	182.00	190.54	192.84	199.75
Total CFR	**479.95**	**510.60**	**527.79**	**537.81**	**541.42**	**555.98**
Less Other Debt Liabilities*	(73.39)	(70.93)	(67.55)	(64.02)	(60.08)	(43.41)
Loans CFR	**406.56**	**439.67**	**460.24**	**473.79**	**481.34**	**512.57**
Less External Borrowing**	(251.16)	(231.70)	(169.87)	(150.59)	(147.84)	(147.84)
Internal (over) Borrowing	**155.40**	**207.97**	**290.36**	**323.20**	**333.50**	**364.73**
Less Usable Reserves	(146.28)	(136.00)	(136.00)	(136.00)	(136.00)	(136.00)
Less Working Capital Surplus	(84.82)	(84.82)	(84.82)	(84.82)	(84.82)	(84.82)
New Borrowing or (Investments)	**(75.70)**	**(12.85)**	**69.54**	**102.38**	**112.68**	**143.91**

121.	The HRA by default will underwrite any programmes that are unable to self-fund

RESOURCE IMPLICATIONS

Capital/Revenue

122.	The revenue and capital implications are considered as part of ongoing monitoring which is reported to Cabinet each quarter and as part of the budget setting process.
123.	The forecast for borrowing costs in 2019/20 is £15.9M. This is made up of borrowing of £9.1M based on an average debt portfolio of £316.9M at an average interest rate of 2.76% plus MRP and other costs of £6.8M. Investment income for 2019/20 is forecast at £1.4M based on an average portfolio of £42M at an average of 3.36%. If actual levels of investments and borrowing, and/or interest rates differ from those forecast, performance against budget will be correspondently different

Property/Other

124.	None

LEGAL IMPLICATIONS

Statutory power to undertake proposals in the report:	
125.	Local Authority borrowing is regulated by Part 1, of the Local Government Act 2003, which introduced the new Prudential Capital Finance System.
126.	From 1 April 2004, investments are dealt with, not in secondary legislation, but through guidance. Similarly, there is guidance on prudent investment practice, issued by the Secretary of State under Section 15(1) (a) of the 2003 Act. A local authority has the power to invest for "any purpose relevant to its functions under any enactment or for the purposes of the prudent management of its financial affairs". The reference to the "prudent management of its financial affairs" is included to cover investments, which are not directly linked to identifiable statutory functions but are simply made in the course of treasury management. This also allows the temporary investment of funds borrowed for the purpose of expenditure in the reasonably near future; however, the speculative procedure of borrowing purely in order to invest and make a return remains unlawful.
Other Legal Implications:	
127.	None
POLICY FRAMEWORK IMPLICATIONS	
128.	This report has been prepared having regard with the CIPFA Code of Practice on Treasury Management.

KEY DECISION?	No
WARDS/COMMUNITIES AFFECTED:	None
SUPPORTING DOCUMENTATION	
Appendices	
1.	Policy Statement
2.	Existing Investment & Debt Portfolio Position and Projections
3.	Economic and Interest Outlook
4.	Capital Strategy – Prudential and Local Indicators
5.	Treasury Management Practices
6.	Glossary of Treasury Terms
Documents In Members' Rooms	
1.	None
Equality Impact Assessment	
Do the implications/subject of the report require an Equality Impact Assessment (EIA) to be carried out.	**No**
Privacy Impact Assessment	
Do the implications/subject of the report require a Privacy Impact Assessment (PIA) to be carried out.	**No**
Other Background Documents	

Title of Background Paper(s)		Relevant Paragraph of the Access to Information Procedure Rules / Schedule 12A allowing document to be Exempt/Confidential (if applicable)
1.	Prudential Limits and Treasury Management Strategy 2018/19 to 2021/22	Item 64
2.	Prudential Limits and Treasury Management Mid Year Review 2018/19	Item 15

This page is intentionally left blank

Appendix 1

TREASURY MANAGEMENT POLICY STATEMENT

1. INTRODUCTION AND BACKGROUND

1.1. In accordance with CIPFA's Code of Practice for Treasury Management in the Public Services the Council has regard to the key recommendations when determining the current strategy.

1.2. Accordingly, the Council will create and maintain, as the cornerstones for effective treasury management:-

- A treasury management policy statement, stating the policies, objectives and approach to risk management of its treasury management activities
- Suitable Treasury Management Practices (TMPs), setting out the manner in which the Council will seek to achieve those policies and objectives, and prescribing how it will manage and control those activities.

1.3. The Council (i.e. full Council) will receive reports on its treasury management policies, practices and activities including, as a minimum, an annual strategy and plan in advance of the year, a mid-year review and an annual report after its close, in the form prescribed in its TMPs.

1.4. The Council delegates responsibility for the implementation and monitoring of its treasury management policies and practices to Governance Committee and for the execution and administration of treasury management decisions to the Chief Financial Officer, who will act in accordance with the organisation's policy statement and TMPs and CIPFA's Standard of Professional Practice on Treasury Management.

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

2. POLICIES AND OBJECTIVES OF TREASURY MANAGEMENT ACTIVITIES

2.1. The Council defines its treasury management activities as:

"*The management of the Council's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.*"

2.2. This Council regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the organisation, and any financial instruments entered into to manage these risks.

2.3. This Council acknowledges that effective treasury management will provide support towards the achievement of its business and service objectives. It is therefore committed to the principles of achieving value for money in treasury management, and to employing suitable performance measurement techniques, within the context of effective risk management.

2.4. The Council's borrowing will be affordable, sustainable and prudent and consideration will be given to the management of interest rate risk and refinancing risk. The source from which the borrowing is taken and the type of borrowing should allow the Council transparency and control over its debt.

2.5. The Council's primary objective in relation to investments remains the security of capital. The liquidity or accessibility of the Authority's investments followed by the yield earned on investments remain important but are secondary considerations.

Appendix 2

EXISTING INVESTMENT & DEBT PORTFOLIO POSITION AND PROJECTIONS

	31-Mar-18 Actual £M	31-Mar-18 Average Rate %	31-Dec-18 Actual £M	Average Rate %	31-Mar-19 Forecast £M	31-Mar-19 Forecast Average %
External Borrowing:						
Fixed Rate – PWLB Maturity	138.85	3.83	138.85	3.83	138.85	3.90
Fixed Rate – PWLB EIP	34.97	3.23	26.48	3.23	23.50	3.39
Variable Rate – PWLB	35.00	0.44	35.00	0.78	35.00	0.77
Fixed Rate – LOBO	9.00	4.86	9.00	4.86	9.00	4.85
Long Term Borrowing	**217.81**	**3.31**	**209.33**	**3.44**	**206.34**	**3.45**
Short Term Borrowing						
Fixed Rate – Market	33.35	0.47	25.36	0.92	66.16	0.77
Total Borrowing	**251.16**		**234.69**	**3.35**	**272.51**	**2.99**
Other Long Term Liabilities						
PFI Schemes	58.84	8.59	57.79	8.83	56.74	9.04
Deferred Debt Charges (HCC)	14.37	2.74	14.28	2.60	14.19	2.70
Total Gross External Debt	**324.37**	**4.02**	**306.76**	**4.06**	**343.44**	**3.67**
Investments:						
Managed In-House						
Bank & Building Societies (unsecured)	(6.85)	0.50	(4.73)	0.59	(5.00)	0.75
Covered Bonds (secured)	(6.36)	1.39	(4.60)	1.13	(4.60)	1.17
Multi - National Bonds (not subject to bail in)	(3.58)	5.30	(3.02)	5.30	(3.02)	5.30
Money Market Funds	(18.62)	0.43	(14.63)	0.74	(5.00)	0.75
Government & local Authority	(10.00)	0.85	0.00	0.00	0.00	0.00
Managed Externally						
Pooled Funds (CCLA)	(27.00)	4.63	(27.00)	4.47	(27.00)	4.50
Total Investments	**(72.42)**	**3.98**	**(53.98)**	**4.09**	**(44.62)**	**3.37**
Net Debt	**251.96**		**252.78**		**298.82**	

This page is intentionally left blank

ECONOMIC AND INTEREST OUTLOOK

The economic interest rate outlook provided by the Council's treasury advisor, Arlingclose Ltd, for December 2018 is detailed below. The Council will reappraise its strategy from time to time and, if needs be, realign it with evolving market conditions and expectations for future interest rates.

	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21
Official Bank Rate													
Upside risk	0.00	0.00	0.00	0.00	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25
Arlingclose Central Ca	0.75	0.75	1.00	1.00	1.25	1.25	1.25	1.25	1.25	1.25	1.25	1.25	1.25
Downside risk	0.00	0.50	0.75	0.75	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
3-mth money market rate													
Upside risk	0.10	0.10	0.10	0.10	0.15	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20
Arlingclose Central Ca	0.90	0.95	1.10	1.30	1.40	1.40	1.40	1.35	1.35	1.35	1.35	1.35	1.35
Downside risk	0.20	0.45	0.60	0.80	0.90	0.90	0.90	0.85	0.85	0.85	0.85	0.85	0.85
1-yr money market rate													
Upside risk	0.20	0.30	0.30	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.35
Arlingclose Central Ca	1.15	1.25	1.35	1.50	1.70	1.60	1.50	1.40	1.35	1.35	1.35	1.35	1.35
Downside risk	0.35	0.50	0.60	0.80	0.90	0.90	0.90	0.85	0.85	0.85	0.85	0.85	0.85
5-yr gilt yield													
Upside risk	0.25	0.30	0.30	0.35	0.35	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40
Arlingclose Central Ca	1.15	1.25	1.35	1.50	1.50	1.40	1.35	1.35	1.30	1.30	1.30	1.30	1.30
Downside risk	0.50	0.60	0.65	0.80	0.80	0.70	0.65	0.65	0.65	0.65	0.65	0.65	0.65
10-yr gilt yield													
Upside risk	0.25	0.30	0.30	0.35	0.35	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40
Arlingclose Central Ca	1.50	1.65	1.70	1.80	1.80	1.75	1.75	1.70	1.70	1.70	1.70	1.70	1.70
Downside risk	0.55	0.70	0.70	0.80	0.80	0.75	0.75	0.70	0.70	0.70	0.70	0.70	0.70
20-yr gilt yield													
Upside risk	0.25	0.30	0.30	0.35	0.35	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40
Arlingclose Central Ca	2.00	2.10	2.20	2.20	2.20	2.20	2.20	2.20	2.20	2.20	2.20	2.20	2.20
Downside risk	0.60	0.70	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75
50-yr gilt yield													
Upside risk	0.25	0.30	0.30	0.35	0.35	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40
Arlingclose Central Ca	1.90	1.95	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00
Downside risk	0.60	0.70	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75

PWLB Certainty Rate (Maturity Loans) = Gilt yield + 0.80%

PWLB Infrastructure Rate (Maturity Loans) = Gilt yield + 0.60%

Underlying Assumptions:

- The MPC left Bank Rate unchanged at the September meeting, after voting unanimously to increase Bank Rate to 0.75% in August.

- Our central interest rate forecasts are predicated on there being a transitionary period following the UK's official exit from the EU.

- Both the projected outlook and the increase in the magnitude of political and economic risks facing the UK economy means we maintain the significant downside risks to our forecasts, despite the potential for slightly stronger growth next year as business investment rebounds should the EU Withdrawal Agreement be approved. The potential for severe economic outcomes has increased following the poor reception of the Withdrawal Agreement by MPs. We expect the Bank of England to hold at or reduce interest rates from current levels if Brexit risks materialise.

- The UK economic environment is relatively soft, despite seemingly strong labour market data. GDP growth recovered somewhat in the middle quarters of 2018, but more recent data suggests the economy slowed markedly in Q4. Our view is that the UK economy still faces a challenging outlook as the

- Cost pressures were projected to ease but have risen more recently and are forecast to remain above the Bank's 2% target through most of the forecast period. The rising price of oil and tight labour market means inflation may remain above target for longer than expected. This means that strong real income growth is unlikely in the near future.

- The MPC has a bias towards tighter monetary policy but is reluctant to push interest rate expectations too strongly. We believe that MPC members consider both that: 1) ultra-low interest rates result in other economic problems, and 2) higher Bank Rate will be a more effective policy weapon should downside Brexit risks crystallise and cuts are required.

- The global economy appears to be slowing, particularly the Eurozone and China, where the effects of the trade war has been keenly felt. Despite slower growth, the European Central Bank is adopting a more strident tone in conditioning markets for the end of QE, the timing of the first rate hike (2019) and their path thereafter. Meanwhile, European political issues, mostly lately with Italy, continue.

- The US economy is expanding more rapidly. The Federal Reserve has tightened monetary policy by raising interest rates to the current 2%-2.25% range; further rate hikes are likely, which will start to slow economic growth.

- Central bank actions and geopolitical risks have and will continue to produce significant volatility in financial markets, including bond markets.

Forecast:

- The MPC has maintained expectations of a slow rise in interest rates over the forecast horizon. Our central case is for Bank Rate is to rise twice in 2019. The risks are weighted to the downside.

- Gilt yields have remained at low levels. We expect some upward movement from current levels based on our central case that the UK will enter a transitionary period following its EU exit in March 2019. However, our projected weak economic outlook and volatility arising from both economic and political events will continue to offer borrowing opportunities.

	CAPITAL STRATEGY PRUDENTIAL INDICATORS
	Background
1.	The Prudential Code requires the Council to have in place a Capital Strategy that sets out the long term context in which capital expenditure decisions are made In order to demonstrate that capital expenditure and investment decisions are taken in line with service objectives and properly take account of stewardship, value for money, prudence, sustainability and affordability. The following indicators, which were previously included with the Treasury Management Strategy, now form part of the Capital Strategy report but have been included as background, as they provide the framework around which the Treasury Indicators have been set.
	Gross Debt and the Capital Financing Requirement
2.	This is a key indicator of prudence. In order to ensure that over the medium term debt will only be for a capital purpose, the local Council should ensure that debt does not, except in the short term, exceed the total of CFR in the preceding year plus the estimates of any additional capital financing requirement for the current and next two financial years. This view takes into account current commitments, existing plans and the proposals in the approved budget.
3.	There is a significant difference between the gross external borrowing requirement and the net external borrowing requirement represented by the Council's level of balances, reserves, provisions and working capital as since 2012 the Council's strategy has been to only borrow to the level of its net borrowing requirement. The reasons for this are to reduce credit risk, take pressure off the Council's lending list and also to avoid the cost of carry existing in the current interest rate environment.
4.	This is now being reviewed to see if an alternative Treasury Strategy could generate income that can support local services. One option being considered is further investment in external pooled funds which would require the Council to externalise some or all of debt long term. To assist with the appraisal the Council has engaged the council's financial advisers, Arlingclose, to analyse the scope within the Council's current and projected balance sheet for longer-term investment, and analyse suitable longer-term asset classes and investment options available to the Council. Any change to the strategy would require approval by full council and additional Treasury Training would be provided to assist members in understanding the risks and implications of any change to the current strategy
5.	The estimated capital financing requirement and gross debt is shown in the tables below, this is based on the existing strategy, if the decision is taken to revise this strategy then the gross debt table will need to be updated to reflect higher borrowing :

Table 15 – Current and Estimated Movement in Capital Financing Requirement

Capital Financing Requirement	31/03/2018 £M	31/03/2019 £M	31/03/2020 £M	31/03/2021 £M	31/03/2022 £M	31/03/2023 £M
Balance Brought forward	322.62	322.03	338.93	345.79	347.27	348.58
New Borrowing	4.41	24.47	16.50	11.63	11.96	18.59
MRP	(7.13)	(5.65)	(6.26)	(6.61)	(6.71)	(7.01)
Appropriations (to) from HRA	0.56	0.00	0.00	0.00	0.00	0.00
Movement in Other Liabilities	(3.78)	(2.47)	(3.38)	(3.54)	(3.94)	(3.93)
MRP Holiday	5.35	0.55	0.00	0.00	0.00	0.00
Total General Fund Debt	**322.03**	**338.93**	**345.79**	**347.27**	**348.58**	**356.23**
HRA	157.92	171.67	182.00	190.54	192.84	199.75
Total CFR	**479.95**	**510.60**	**527.79**	**537.81**	**541.42**	**555.98**
Estimated Debt (*see below for breakdown*)	324.56	343.44	370.62	380.67	384.28	399.21
Under / (Over) Borrowed	**155.39**	**167.16**	**157.17**	**157.14**	**157.14**	**156.77**

Table 16 – Current and Estimated Movement in Gross Debt

Gross Debt	31/03/2018 Actual £M	31/03/2019 Estimate £M	31/03/2020 Estimate £M	31/03/2021 Estimate £M	31/03/2022 Estimate £M	31/03/2023 Estimate £M
Borrowing (Long Term GF)	74.90	68.93	50.33	115.63	120.89	132.49
Borrowing (Long Term HRA)	142.91	137.41	119.54	190.67	192.96	199.86
Borrowing (Short Term)	33.35	66.17	133.20	10.35	10.35	10.35
Total Borrowing (*see Table 18*)	**251.16**	**272.51**	**303.07**	**316.65**	**324.20**	**342.70**
Finance leases and Private Finance Initiatives	58.84	56.74	53.73	50.55	46.98	43.41
Transferred Debt	14.55	14.19	13.83	13.46	13.10	13.10
Total Other Debt	**73.39**	**70.93**	**67.55**	**64.02**	**60.08**	**56.50**
Total Debt	**324.56**	**343.44**	**370.62**	**380.67**	**384.28**	**399.21**

Estimates of Capital Expenditure

6. The Council's planned capital expenditure and financing is summarised below, further detail is provided in the General Fund and HRA capital programme report.

7. **Table 17 – Capital Expenditure**

Capital Expenditure and Financing	Budget 2018/19 £M	Forecast 2018/19 £M	Forecast 2019/20 £M	Forecast 2020/21 £M	Forecast 2021/22 £M	Forecast 2022/23 £M
General Fund	85.39	71.43	52.97	31.78	11.96	18.63
HRA	58.76	53.16	54.63	39.21	35.60	38.99
Total Expenditure	**144.15**	**124.59**	**107.60**	**70.99**	**47.56**	**57.62**
Capital receipts	19.08	18.43	10.03	2.86	3.16	2.42
Capital Grants	28.95	24.68	23.82	19.30	0.00	0.04
Contributions	11.43	10.66	5.79	0.99	0.00	0.00
Major Repairs Allowance	19.76	14.15	29.97	20.44	21.04	21.53
Direct Revenue Financing	13.21	12.95	11.16	7.23	7.79	8.13
Total Financing	**92.44**	**80.87**	**80.77**	**50.82**	**31.99**	**32.12**
Council Resources - borrowing	51.71	43.72	26.83	20.17	15.57	25.50
Total Funding	**51.71**	**43.72**	**26.83**	**20.17**	**15.57**	**25.50**
Total Financing & Funding	**144.15**	**124.59**	**107.60**	**70.99**	**47.56**	**57.62**

	Ratio of Financing Costs to Net Revenue Stream
8.	This is an indicator of affordability and highlights the revenue implications of existing and proposed capital expenditure by identifying the proportion of the revenue budget required to meet borrowing costs. The ratio is based on the forecast of net revenue expenditure in the medium term financial model. The upper limit for this ratio is currently set at 10% and will remain so for the General Fund to allow for known borrowing decisions in the next two years and to allow for additional borrowing affecting major schemes. The table below shows the likely position based on the proposed capital programme.
9.	This indicator is not so relevant for the HRA, especially since the introduction of self-financing, as financing costs have been built into their 30 year business plan, including the voluntary payment of MRP, which is the main contributor for the increase in 2018/19. No problem is seen with the affordability but if problems were to arise then the HRA would have the option not to make principle repayments in the early years, which it has opted to do for 2019/20 & 2020/21.
	Table 18 – Ratio of Financing Costs to Net Revenue Stream
10.	

Ratio of Financing Costs to Net Revenue Stream	2018/19 Forecast %	2019/20 Forecast %	2020/21 Forecast %	2021/22 Forecast %	2022/23 Forecast %
General Fund	6.28	8.56	10.07	10.08	10.35
HRA	14.78	6.25	6.82	9.96	8.27
Total	**10.52**	**9.74**	**10.21**	**11.27**	**10.89**

	Authorised Limit and Operational Boundary for External Debt
11.	The Council has an integrated treasury management strategy and manages its treasury position in accordance with its approved strategy and practice. Overall borrowing will therefore arise as a consequence of all the financial transactions of the Council and not just those arising from capital spending reflected in the CFR.
12.	The ***Authorised Limit*** sets the maximum level of external borrowing on a gross basis (i.e. excluding investments) for the Council. It is measured on a daily basis against all external borrowing items on the Balance Sheet (i.e. long and short term borrowing, overdrawn bank balances and long term liabilities). This Prudential Indicator separately identifies borrowing from other long term liabilities such as finance leases. It is consistent with the Council's existing commitments, its proposals for capital expenditure and financing and its approved treasury management policy statement and practices. The Authorised Limit has been set on the estimate of the most likely, prudent but not worst case scenario with sufficient headroom over and above this to allow for unusual cash movements, for example a complete debt restructure which requires monies to be borrowed in advance of repayment of existing debt. The Authorised Limit is the statutory limit determined under Section 3(1) of the Local Government Act 2003 (referred to in the legislation as the Affordable Limit).

Table 19 – Authorised Limit for External Debt

13.

Authorised Limit for External Debt	Actual 31 December 2018 £M	2018/19 Approved £M	2019/20 Estimate £M	2020/21 Estimate £M	2021/22 Estimate £M	2022/23 Estimate £M
Borrowing	235	785	850	700	700	880
Other Long-term Liabilities	77	75	75	70	70	65
Total	**311**	**860**	**925**	**770**	**770**	**945**

14. The ***Operational Boundary*** is linked directly to the Council's estimates of the CFR and estimates of other day to day cash flow requirements. This indicator is based on the same estimates as the Authorised Limit reflecting the most likely, prudent but not worst case scenario but without the additional headroom included within the Authorised Limit which allows for a full debt restructure if a favourable opportunity arose.

Table 20 – Operational Boundary for External Debt

15.

Operational Boundary for External Debt	Actual 31 December 2018 £M	2018/19 Approved £M	2019/20 Estimate £M	2020/21 Estimate £M	2020/21 Estimate £M	2021/22 Estimate £M
Borrowing	235	705	800	660	660	715
Other Long-term Liabilities	77	75	75	70	70	65
Total	**311**	**780**	**875**	**730**	**730**	**780**

16. The CFO has delegated authority, within the above limits for any individual year, to effect movement between the separately agreed limits for borrowing and other long term liabilities. Decisions will be based on the outcome of financial option appraisals and best value considerations. Council will be notified of any use of this delegated authority.

Other Tables

17. ### Table 21 – Estimated Movement in Borrowing Requirement

Total Borrowing Requirement	2018/19 Forecast £M	2019/20 Forecast £M	2020/21 Forecast £M	2021/22 Forecast £M	2022/23 Forecast £M
GF New Borrowing Requirement	**46.57**	**105.17**	**147.96**	**16.68**	**21.58**
HRA New Borrowing Requirement	**19.25**	**27.68**	**17.71**	**3.61**	**6.91**
Total New Borrowing Requirement	**65.82**	**132.85**	**165.67**	**20.29**	**28.49**

Movement on Estimated Long Term Borrowing Requirement - General Fund	2018/19 Forecast £M	2019/20 Forecast £M	2020/21 Forecast £M	2021/22 Forecast £M	2022/23 Forecast £M
General Fund (GF)					
Capital Programme	24.47	16.50	11.63	11.96	18.59
Maturing Debt - long term	5.97	19.12	10.10	1.44	0.00
Maturing Debt - short term	21.22	65.81	132.84	10.00	10.00
Movement in Internal Borrowing	0.00	10.00	0.00	0.00	0.00
Less Repayment of Debt Principal	(5.65)	(6.26)	(6.61)	(6.72)	(7.01)
Plus MRP Holiday	0.55	0.00	0.00	0.00	0.00
GF New Borrowing Requirement	**46.57**	**105.17**	**147.96**	**16.68**	**21.58**

Movement on Estimated Long Term Borrowing Requirement - HRA	2018/19 Forecast £M	2019/20 Forecast £M	2020/21 Forecast £M	2021/22 Forecast £M	2022/23 Forecast £M
HRA					
Capital Programme	19.25	10.33	8.54	3.61	6.91
Maturing Debt - long term	5.50	17.35	9.17	1.31	0.00
Movement in Internal Borrowing	0.00	0.00	0.00	0.00	0.00
Less Repayment of Debt Principal	(5.50)	0.00	0.00	(1.31)	0.00
HRA New Borrowing Requirement	**19.25**	**27.68**	**17.71**	**3.61**	**6.91**

18. ### Table 22 - Estimated Movement in Loans

Borrowing	31/03/2019 Forecast £M	31/03/2020 Forecast £M	31/03/2021 Forecast £M	31/03/2022 Forecast £M	31/03/2023 Forecast £M
Long Term					
Balance brought forward	217.81	206.34	169.87	306.30	313.85
Maturing debt	(11.47)	(36.47)	(19.27)	(2.75)	0.00
New Loans raised in year	0.00	0.00	155.70	10.30	18.50
Estimated Long Term Loans	**206.34**	**169.87**	**306.30**	**313.85**	**332.35**
Short Term					
Balance brought forward	33.35	66.17	133.20	10.35	10.35
Maturing debt	(33.35)	(66.17)	(133.20)	(10.35)	(10.35)
New Loans raised in year	66.17	133.20	10.35	10.35	10.35
Estimated Short Term Loans	**66.17**	**133.20**	**10.35**	**10.35**	**10.35**
Total Estimated Loans	**272.51**	**303.07**	**316.65**	**324.20**	**342.70**

This page is intentionally left blank

	TREASURY MANAGEMENT PRACTICES
1.	This organisation has adopted and has implemented the key principles of the CIPFA Treasury Management in the Public Services Code of Practice and Cross Sectoral Guidance Notes. This, together with the other arrangements detailed in the operational manual, are considered vital to the achievement of proper corporate governance in treasury management, and the responsible officer will monitor and, if and when necessary, report upon the effectiveness of these arrangements.
	TMP 1 - RISK MANAGEMENT GENERAL STATEMENT
2.	The Council regards a key objective of its treasury management activities to be the security of the principal sums it invests. Accordingly, it will ensure that robust due diligence procedures covering all external investment. The Section 151 Officer will design, implement and monitor all arrangements for the identification, management and control of treasury management risk, will report at least annually on the adequacy/suitability thereof, and will report, as a matter of urgency, the circumstances of any actual or likely difficulty in achieving the organisation's objectives in this respect, all in accordance with the procedures set out in TMP 6 Reporting requirements and management information arrangements. In respect of each of the following risks, the arrangements which seek to ensure compliance with these objectives are set out in the operational manual.
	Credit and counterparty risk management
3.	The Council will ensure that its counterparty lists and limits reflect a prudent attitude towards organisations with whom funds may be deposited, and will limit its investment activities to the instruments, methods and techniques referred to in TMP4 Approved instruments, methods and techniques. It also recognises the need to have, and will therefore maintain, a formal counterparty policy in respect of those organisations from which it may borrow, or with whom it may enter into other financing arrangements.
	Liquidity risk management
4.	The Council will ensure it has adequate though not excessive cash resources, borrowing arrangements, overdraft or standby facilities to enable it at all times to have the level of funds available to it which are necessary for the achievement of its business/service objectives. The Council will only borrow in advance of need where there is a clear business case for doing so and will only do so for the current capital programme or to finance future debt maturities.
	Interest rate risk management
5.	The Council will manage its exposure to fluctuations in interest rates with a view to containing its interest costs, or securing its interest revenues, in accordance with the amounts provided in its budgetary arrangements as amended in accordance with TMP6 Reporting requirements and management information arrangements. It will achieve this by the prudent use of its approved instruments, methods and techniques, primarily to create stability and certainty of costs and revenues, but at the same time retaining a sufficient degree of flexibility to take advantage of unexpected, potentially advantageous changes in the level or structure of interest rates. This should be the subject to the consideration and, if required, approval of any policy or budgetary implications.

	Exchange rate risk management
6.	The Council will manage its exposure to fluctuations in exchange rates so as to minimise any detrimental impact on its budgeted income/expenditure levels.
	Inflation risk management
7.	The Council will keep under review the sensitivity of its treasury management assets and liabilities to inflation, and will seek to manage the risk accordingly in the context of its wider exposure to inflation.
	Refinancing risk management
8.	The Council will ensure that its borrowing, private financing and partnership arrangements are negotiated, structured and documented, and the maturity profile of the monies so raised are managed, with a view to obtaining offer terms for renewal or refinancing, if required, which are competitive and as favourable to the organisation as can reasonably be achieved in the light of market conditions prevailing at the time. It will actively manage its relationships with its counterparties in these transactions in such a manner as to secure this objective, and will avoid overreliance on any one source of funding if this might jeopardise achievement of the above.
	Legal and regulatory risk management
9.	The Council will ensure that all of its treasury management activities comply with its statutory powers and regulatory requirements. It will demonstrate such compliance, if required to do so, to all parties with whom it deals in such activities. In framing its credit and counterparty policy under TMP1[1] credit and counterparty risk management, it will ensure that there is evidence of counterparties' powers, authority and compliance in respect of the transactions they may effect with the organisation, particularly with regard to duty of care and fees charged. The Council recognises that future legislative or regulatory changes may impact on its treasury management activities and, so far as it is reasonably able to do so, will seek to minimise the risk of these impacting adversely on the Council.
	Fraud, error and corruption and contingency management
10.	The Council will ensure that it has identified the circumstances which may expose it to the risk of loss through fraud, error, corruption or other eventualities in its treasury management dealings. Accordingly, it will employ suitable systems and procedures, and will maintain effective contingency management arrangements, to these ends.
	Market risk management
11.	The Council will seek to ensure that its stated treasury management policies and objectives will not be compromised by adverse market fluctuations in the value of the principal sum it invests, and will accordingly seek to protect itself from the effects of such fluctuations.
	TMP 2 - PERFORMANCE MEASUREMENT
12.	The Council is committed to the pursuit of value for money in its treasury management activities, and to the use of performance methodology in support of that aim, within the framework set out in its treasury management policy statement. Accordingly, the treasury management function will be the subject of ongoing

	analysis of the value it adds in support of the Council's business or service objectives and performance will be measured against relevant benchmarks.
	TMP 3 - DECISION-MAKING AND ANALYSIS
13.	The Council will maintain full records of its treasury management decisions, and of the processes and practices applied in reaching those decisions, both for the purposes of learning from the past, and for demonstrating that reasonable steps were taken to ensure that all issues relevant to those decisions were taken into account at the time.
	TMP 4 - APPROVED INSTRUMENTS, METHODS AND TECHNIQUES
14.	The Council will undertake its treasury management activities by employing only those instruments, methods and techniques detailed in its annual Investments Strategy, and within the limits and parameters defined in TMP1 Risk management. The Council has reviewed its classification with financial institutions under MIFID II and will set out in its annual Investment Strategy those organisations with which it is registered as a professional client.
	TMP 5 - ORGANISATION, CLARITY AND SEGREGATION OF RESPONSIBILITIES, AND DEALING ARRANGEMENTS
15.	The Council considers it essential, for the purposes of the effective control and monitoring of its treasury management activities, for the reduction of the risk of fraud or error, and for the pursuit of optimum performance, that these activities are structured and managed in a fully integrated manner, and that there is at all times a clarity of treasury management responsibilities. The principle on which this will be based is a clear distinction between those charged with setting treasury management policies and those charged with implementing and controlling these policies, particularly with regard to the execution and transmission of funds, the recording and administering of treasury management decisions, and the audit and review of the treasury management function. If and when it is intended, as a result of lack of resources or other circumstances, to depart from these principles, the Section 151 Officer will ensure that the reasons are properly reported in accordance with TMP6 Reporting requirements and management information arrangements, and the implications properly considered and evaluated. The Section 151 Officer will ensure that there are clear written statements of the responsibilities for each post engaged in treasury management, and the arrangements for absence cover. The Section 151 Officer will also ensure that at all times those engaged in treasury management will follow the policies and procedures set out. The Section 151 Officer will ensure there is proper documentation for all deals and transactions, and that procedures exist for the effective transmission of funds. The delegations to the Section 151 Officer in respect of treasury management are set out in the Council's Financial Regulations and Scheme of Delegation for Financial Management. The Section 151 Officer will fulfil all such responsibilities in accordance with the Council's policy statement and TMPs and the CIPFA Standard of Professional Practice on Treasury Management.
	TMP 6 - REPORTING REQUIREMENTS AND MANAGEMENT INFORMATION ARRANGEMENTS
16.	The Council will ensure that regular reports are prepared and considered on the implementation of its treasury management policies; on the effects of decisions taken and transactions executed in pursuit of those policies; on the implications of changes, particularly budgetary, resulting from regulatory, economic, market or

	other factors affecting its treasury management activities; and on the performance of the treasury management function. The Chief Financial Officer will report to the Governance Committee on TM activity / performance as follows: (a) A mid-year review against the strategy approved for the year. (b) An outturn report on its treasury activity, no later than 30 September after the financial year end. In addition, a quarterly update will be presented to Cabinet as part of Quarterly Revenue Financial Monitoring The Council's Governance Committee has responsibility for the scrutiny of treasury management policies and practices.
	TMP 7 - BUDGETING, ACCOUNTING AND AUDIT ARRANGEMENTS
17.	The Section 151 Officer will prepare, and full Council will approve and, if necessary, from time to time will amend, an annual budget for treasury management, which will bring together all of the costs involved in running the treasury management function, together with associated income. The matters to be included in the budget will at minimum be those required by statute or regulation, together with such information as will demonstrate compliance with TMP1 Risk management, TMP 2 Performance Measurement, and TMP 4 Approved instruments, methods and techniques. The Section 151 Officer will exercise effective controls over this budget, and will report upon and recommend any changes required in accordance with TMP 6 Reporting requirements and management information arrangements. The Council will account for its treasury management activities, for decisions made and transactions executed, in accordance with appropriate accounting practices and standards, and with statutory and regulatory requirements in force for the time being.
	TMP 8 - CASH AND CASH FLOW MANAGEMENT
18.	Unless statutory or regulatory requirements demand otherwise, all monies in the hands of the Council will be under the control of the Section 151 Officer, and will be aggregated for cash flow and investment management purposes. Cash flow projections will be prepared on a regular and timely basis, and the Section 151 Officer will ensure that these are adequate for the purposes of monitoring compliance with TMP1 Liquidity risk management.
	TMP 9 – MONEY LAUNDERING
19.	The Council is alert to the possibility that it may become the subject of an attempt to involve it in a transaction involving the laundering of money. Accordingly, it will maintain procedures for verifying and recording the identity of counterparties and reporting suspicions, and will ensure that staff involved in this are properly trained. The present arrangements, including the name of the officer to whom reports should be made, are detailed in the Council's Anti-Money Laundering Policy.
	TMP 10 - TRAINING AND QUALIFICATIONS
20.	The Council recognises the importance of ensuring that all staff involved in the treasury management function are fully equipped to undertake the duties and responsibilities allocated to them. It will therefore seek to appoint individuals who are both capable and experienced, and will provide training for staff to enable them to acquire and maintain an appropriate level of expertise, knowledge and skills. The responsible officer will recommend and implement the necessary

	arrangements. The responsible officer will ensure that elected members tasked with treasury management responsibilities, including those responsible for scrutiny, have access to training relevant to their needs and those responsibilities. Those charged with governance recognise their individual responsibility to ensure that they have the necessary skills to complete their role effectively.
	TMP 11 - USE OF EXTERNAL SERVICE PROVIDERS
21.	The Council recognises that responsibility for treasury management decisions remains with the Council at all times. However, the Council recognises that there may be value in employing external providers of treasury management services, in order to acquire access to specialist skills and resources. When it employs such service providers, it will do so following a full evaluation of the costs and benefits, and will also ensure that the terms of their appointment are properly agreed and documented, and subjected to regular review. Where services are subject to formal tender or re-tender arrangements, legislative requirements will always be observed. The monitoring of such arrangements rests with the Section 151 Officer.
	TMP 12 - CORPORATE GOVERNANCE
22.	The Council is committed to the pursuit of proper corporate governance throughout its businesses and services, and to establishing the principles and practices by which this can be achieved. Accordingly, the treasury management function and its activities will be undertaken with openness and transparency, honesty, integrity and accountability.

This page is intentionally left blank

GLOSSARY OF TREASURY TERMS

Amortised Cost Accounting:

Values the asset at its purchase price, and then subtracts the premium/adds back the discount linearly over the life of the asset. The asset will be valued at par at its maturity.

Asset Life Method - MRP:

As detailed under MRP, this is a charge to revenue to repay capital expenditure financed by borrowing. There are a number of options for a prudent provision for new borrowing under the Prudential system (for which no Government support is being given and is therefore self-financed) including the option to make provision over the estimated life of the asset for which the borrowing is undertaken.

Authorised Limit (Also known as the Affordable Limit):

A statutory limit that sets the maximum level of external borrowing on a gross basis (i.e. not net of investments) for the Council. It is measured on a daily basis against all external borrowing items on the Balance Sheet (i.e. long and short term borrowing, overdrawn bank balances and long term liabilities).

Balances and Reserves:

Accumulated sums that are maintained either earmarked for specific future costs or commitments or generally held to meet unforeseen or emergency expenditure.

Bail - in Risk:

Following the financial crisis of 2008 when governments in various jurisdictions injected billions of dollars into banks as part of bail-out packages, it was recognised that bondholders, who largely remained untouched through this period, should share the burden in future by making them forfeit part of their investment to "bail in" a bank before taxpayers are called upon.

A bail-in takes place before a bankruptcy and under current proposals, regulators would have the power to impose losses on bondholders while leaving untouched other creditors of similar stature, such as derivatives counterparties. A corollary to this is that bondholders will require more interest if they are to risk losing money to a bail-in.

Bank Rate:

The official interest rate set by the Bank of England's Monetary Policy Committee and what is generally termed at the "base rate". This rate is also referred to as the 'repo rate'.

Basis Point:

A unit of measure used in finance to describe the percentage change in the value or rate of a financial instrument. One basis point is equivalent to 0.01% (1/100th of a percent). In most cases, it refers to changes in **interest rates** and **bond yields**. For example, if interest rates rise by 25 basis points, it means that rates have risen by 0.25% percentage points. If rates were at 2.50%, and rose by 0.25%, or 25 basis points, the new interest rate would be 2.75%. In the bond market, a basis point is used to refer to the yield that a bond pays to the investor. For example, if a bond yield moves from 5.45% to 5.65%, it is said to have risen by 20 basis points. The usage of the basis point measure is primarily used in respect to yields and interest rates, but it may also be used to refer to the percentage change in the value of an asset such as a stock.

Bond: A certificate of debt issued by a company, government, or other institution. The bond holder receives interest at a rate stated at the time of issue of the bond. The repayment date is also set at the onset but can be traded during its life, but this will affect the price of a bond which may vary during its life.
Capital Expenditure: Expenditure on the acquisition, creation or enhancement of capital assets.
Capital Financing Requirement (CFR): The CFR is simply the total historic outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure of the Council's underlying borrowing need.
Certainty Rate: The government has reduced by 20 basis points (0.20%) the interest rates on loans via the Public Works Loan Board (PWLB) to principal local authorities who provide information as specified on their plans for long-term borrowing and associated capital spending.
CD's: Certificates of Deposits with banks and building societies
Capital Receipts: Money obtained on the sale of a capital asset.
Comprehensive Spending Review (CSR): Comprehensive Spending Review is a governmental process in the United Kingdom carried out by **HM Treasury** to set firm expenditure limits and, through public service agreements, define the key improvements that the public can expect from these resources. Spending Reviews typically focus upon one or several aspects of public spending while the CSR focuses upon each government department's spending requirements from a zero base (i.e. without reference to past plans or, initially, current expenditure).
Constant Net Asset Value (CNAV) These are Money Market Funds which maintain a stable price of £1 per share when investors redeem or purchase shares which mean that that any investment will not fluctuate in value.
Corporate Bonds: Corporate bonds are bonds issued by companies. The term is often used to cover all bonds other than those issued by governments in their own currencies and includes issues by companies, supranational organisations and government agencies.
Cost of Carry: The "cost of carry" is the difference between what is paid to borrow compared to the interest which could be earned. For example, if one takes out borrowing at 5% and invests the money at 1.5%, there is a cost of carry of 3.5%.
Counterparty List: List of approved financial institutions with which the Council can place investments with.

Covered Bond: Covered bonds are debt securities backed by cash flows from mortgages or public sector loans. They are similar in many ways to asset-backed securities created in securitisation, but covered bond assets remain on the issuer's consolidated balance sheet (usually with an appropriate capital charge). The covered bonds continue as obligations of the issuer (often a bank); in essence, the investor has recourse against the issuer and the collateral, sometimes known as "dual recourse."
CPI : Consumer Price Index – the UK's main measure of inflation.
CPIH: Additional measure of consumer price inflation including a measure of owner occupiers' housing costs
Credit Rating: Formal opinion by a registered rating agency of a counterparty's future ability to meet its financial liabilities; these are opinions only and not guarantees.
Department for Communities and Local Government (DCLG) : The DCLG is the UK Government department for Communities and Local Government in England. It was established in May 2006 and is the successor to the Office of the Deputy Prime Minister, established in 2001.
Debt Management Office (DMO): The DMO is an Executive Agency of Her Majesty's Treasury and provides direct access for local authorities into a government deposit facility known as the **DMADF**. All deposits are guaranteed by HM Government and therefore have the equivalent of a sovereign triple-A credit rating.
Diversification /diversified exposure: The spreading of investments among different types of assets or between markets in order to reduce risk.
European Investment Bank (EIB): The European Investment Bank is the European Union's non-profit long-term lending institution established in 1958 under the Treaty of Rome. It is a "policy driven bank" whose shareholders are the member states of the EU. The EIB uses its financing operations to support projects that bring about European integration and social cohesion.
Federal Reserve: The US central bank. (Often referred to as "the Fed").
Floating rate notes (FRNs) : Floating rate notes (FRNs) are debt securities with payments that are reset periodically against a benchmark rate, such as the three-month Treasury bill or the three-month London inter-bank offer rate (LIBOR). FRNs can be used to balance risks incurred through other interest rate instruments in an investment portfolio.
FTSE 100 Index:

The FTSE 100 Index is a share index of the 100 companies listed on the London Stock Exchange with the highest market capitalisation. It is one of the most widely used stock indices and is seen as a gauge of business prosperity for business regulated by UK company law. The index is maintained by the FTSE Group, a subsidiary of the London Stock Exchange Group.

General Fund:

This includes most of the day-to-day spending and income.

Gilts:

Gilts are bonds issued by the UK Government. They take their name from 'gilt-edged': being issued by the UK government, they are deemed to be very secure as the investor expects to receive the full face value of the bond to be repaid on maturity.

Gross Domestic Product (GDP):

Gross Domestic Product measures the value of goods and services produced with in a country. GDP is the most comprehensive overall measure of economic output and provides key insight as to the driving forces of the economy.

The G7:

The G7, is a group consisting of the finance ministers of seven industrialised nations: namely the US, UK, France, Germany, Italy, Canada and Japan. They are seven of the eight (China excluded) wealthiest nations on Earth, not by GDP but by global net wealth. The G7 represents more than the 66% of net global wealth ($223 trillion), according to Credit Suisse Global Wealth Report September 2012.

IFRS:

International Financial Reporting Standards.

International Labour Organisation (ILO):

The ILO Unemployment Rate refers to the percentage of economically active people who are unemployed by ILO standard and replaced the Claimant Unemployment Rate as the international standard for unemployment measurement in the UK.. Under the ILO approach, those who are considered as unemployed are either out of work but are actively looking for a job or out of work and are waiting to start a new job in the next two weeks. ILO Unemployment Rate is measured by a monthly survey, which is called the Labour Force Survey in United Kingdom. Approximately 40,000 individuals are interviewed each month, and the unemployment figure reported is the average data for the previous three months.

LIBID:

The London Interbank Bid Rate (LIBID) is the rate bid by banks on Eurocurrency deposits (i.e. the rate at which a bank is willing to borrow from other banks). It is "the opposite" of the LIBOR (an offered, hence "ask" rate, the rate at which a bank will lend). Whilst the British Bankers' Association set LIBOR rates, there is no correspondent official LIBID fixing.

LIBOR:

The London Interbank Offered Rate (LIBOR) is the rate of interest that banks charge to lend money to each other. The British Bankers' Association (BBA) work with a small group of large banks to set the LIBOR rate each day. The wholesale markets allow banks who need money to be more fluid in the marketplace to borrow from those with surplus amounts. The

banks with surplus amounts of money are keen to lend so that they can generate interest which it would not otherwise receive.
LOBO: Stands for Lender Option Borrower Option. The underlying loan facility is typically very long-term - for example 40 to 60 years - and the interest rate is fixed. However, in the LOBO facility the lender has the option to call on the facilities at pre-determined future dates. On these call dates, the lender can propose or impose a new fixed rate for the remaining term of the facility and the borrower has the ‘option’ to either accept the new imposed fixed rate or repay the loan facility. The upshot of this is that on the option exercise date, the lender could propose an extreme fixed rate, say 20 per cent, which would effectively force the repayment of the underlying facility. The borrower’s so called ‘option’ is only the inalienable right to accept or refuse a new deal such as a fixed rate of 20 per cent.
Maturity: The date when an investment or borrowing is repaid.
Maturity Structure / Profile: A table or graph showing the amount (or percentage) of debt or investments maturing over a time period. The amount or percent maturing could be shown on a year-by-year or quarter-by quarter or month-by-month basis.
Minimum Revenue Provision (MRP): An annual provision that the Council is statutorily required to set aside and charge to the Revenue Account for the repayment of debt associated with expenditure incurred on capital assets.
Money Market Funds (MMF): An open-end mutual fund which invests only in money markets. These funds invest in short term debt obligations such as short-dated government debt, certificates of deposit and commercial paper. The main goal is the preservation of principal, accompanied by modest dividends. The fund's net asset value remains constant (eg £1 per unit) but the interest rate does fluctuate. These are liquid investments, and therefore, are often used by financial institutions to store money that is not currently invested. Risk is extremely low due to the high rating of the MMFs; many have achieved AAA credit status from the rating agencies: • **Constant net asset value (CNAV)** refers to funds which use amortised cost accounting to value all of their assets. They aim to maintain a net asset value (NAV), or value of a share of the fund, at €1/£1/$1 and calculate their price to two decimal places known as "penny rounding". Most CNAV funds distribute income to investors on a regular basis (distributing share classes), though some may choose to accumulate the income, or add it on to the NAV (accumulating share classes). The NAV of accumulating CNAV funds will vary by the income received. • **Variable net asset value (VNAV)** refers to funds which use mark-to-market accounting to value some of their assets. The NAV of these funds will vary by a slight amount, due to the changing value of the assets and, in the case of an accumulating fund, by the amount of income received. This means that a fund with an unchanging NAV is, by definition, CNAV, but a fund with a NAV that varies may be accumulating CNAV or distributing or accumulating VNAV.
Multilateral Development Banks: See Supranational Bonds below.

Municipal Bonds Agency
An independent body owned by the local government sector that seeks to raise money on the capital markets at regular intervals to on-lend to participating local authorities.

Non Specified Investment:

Investments which fall outside the CLG Guidance for **Specified investments** (below).

Operational Boundary:

This linked directly to the Council's estimates of the CFR and estimates of other day to day cash flow requirements. This indicator is based on the same estimates as the Authorised Limit reflecting the most likely prudent but not worst case scenario but without the additional headroom included within the Authorised Limit.

Premiums and Discounts:

In the context of local authority borrowing,

(a) the premium is the penalty arising when a loan is redeemed prior to its maturity date and
(b) the discount is the gain arising when a loan is redeemed prior to its maturity date.

If on a £1 million loan, it is calculated that a £150,000 premium is payable on premature redemption, then the amount paid by the borrower to redeem the loan is £1,150,000 plus accrued interest. If on a £1 million loan, it is calculated* that a £50,000 discount receivable on premature redemption, then the amount paid by the borrower to redeem the loan is £950,000 plus accrued interest. PWLB premium/discount rates are calculated according to the length of time to maturity, current market rates (plus a margin), and the existing loan rate which then produces a premium/discount dependent on whether the discount rate is lower/higher than the coupon rate.

**The calculation of the total amount payable to redeem a loan borrowed from the Public Works Loans Board (PWLB) is the present value of the remaining payments of principal and interest due in respect of the loan being repaid prematurely, calculated on normal actuarial principles. More details are contained in the PWLB's lending arrangements circular.*

Property:

Investment property is property (land or a building or part of a building or both) held (by the owner or by the lessee under a finance lease) to earn rentals or for capital appreciation or both.

Prudential Code:

Developed by CIPFA and introduced on 01/4/2004 as a professional code of practice to support local authority capital investment planning within a clear, affordable, prudent and sustainable framework and in accordance with good professional practice.

Prudential Indicators:

Indicators determined by the local authority to define its capital expenditure and asset management framework. They are designed to support and record local decision making in a manner that is publicly accountable; they are not intended to be comparative performance indicators

Public Works Loans Board (PWLB):

This is a statutory body operating within the United Kingdom Debt Management Office, an Executive Agency of HM Treasury. The PWLB's function is to lend money from the

National Loans Fund to local authorities and other prescribed bodies, and to collect the repayments.

Quantitative Easing (QE):

In relation to the UK, it is the process used by the Bank of England to directly increase the quantity of money in the economy. It *"does not involve printing more banknotes. Instead, the Bank buys assets from private sector institutions – that could be insurance companies, pension funds, banks or non-financial firms – and credits the seller's bank account. So the seller has more money in their bank account, while their bank holds a corresponding claim against the Bank of England (known as reserves). The end result is more money out in the wider economy"*. Source: Bank of England.

Regularity Method - MRP:

As detailed under MRP, this is a charge to revenue to repay capital expenditure financed by borrowing. There are a number of options for a prudent provision and this is for debt prior to 2008 which is supported by the Government through the RSG system. Although regulation 28 is revoked by regulation 4(1) of the 2008 Regulations, authorities are able to calculate MRP as if it were still in force.

Repo Rate:

The interest rate at which the central bank in a country repurchases government securities (such as Treasury securities) from commercial banks. The central bank raises the repo rate when it wishes to reduce the money supply in the short term, while it lowers the rate when it wishes to increase the money supply and stimulate growth.

Revenue Expenditure:

Expenditure to meet the continuing cost of delivery of services including salaries and wages, the purchase of materials and capital financing charges.

RPI:

Retail Prices Index is a monthly index demonstrating the movement in the cost of living as it tracks the prices of goods and services including mortgage interest and rent. Pensions and index-linked gilts are uprated using the RPI index.

(Short) Term Deposits:

Deposits of cash with terms attached relating to maturity and rate of return (Interest).

Specified Investments:

Term used in the CLG Guidance and Welsh Assembly Guidance for Local Authority Investments. Investments that offer high security and high liquidity, in sterling and for no more than one year. UK government, local authorities and bodies that have a high credit rating.

Supported Borrowing:

Borrowing for which the costs are supported by the government or third party.

Supranational Bonds:

Instruments issued by supranational organisations created by governments through international treaties (often called **multilateral development banks**). The bonds carry a AAA rating in their own right. Examples of supranational organisations are the European Investment Bank, the International Bank for Reconstruction and Development.

Treasury (T) -Bills:

Treasury Bills are short term Government debt instruments and, just like temporary loans used by local authorities, are a means to manage cash flow. Treasury Bills (T-Bills) are issued by the Debt Management Office and are an eligible sovereign instrument, meaning that they have a AAA-rating.

Temporary Borrowing:

Borrowing to cover peaks and troughs of cash flow, not to fund capital spending.

Treasury Management Code:

CIPFA's Code of Practice for Treasury Management in the Public Services, initially brought in 2003, subsequently updated in 2009 and 2011.

Treasury Management Practices (TMP):

Treasury Management Practices set out the manner in which the Council will seek to achieve its policies and objectives and prescribe how it will manage and control these activities.

Unsupported Borrowing:

Borrowing which is self-financed by the local authority. This is also sometimes referred to as Prudential Borrowing.

Variable Net Asset Value (VNAV):

Redemptions and investments in Money Market Funds (MMF's) are on the basis of the fund's Net Asset Value (NAV) per share. The NAV of any money market fund is the market value of the fund's assets minus its liabilities and is stated on a per share basis. The net value of the assets held by an MMF can fluctuate, and the market value of a share may not always be exactly the amount that has been invested.

Yield:

The measure of the return on an investment instrument.

DECISION-MAKER:		**GOVERNANCE COMMITTEE**		
SUBJECT:		**CERTIFICATION OF CLAIMS AND RETURNS ANNUAL REPORT 2017/18**		
DATE OF DECISION:		**11 Feb 2019**		
REPORT OF:		**EXTERNAL AUDITOR**		
CONTACT DETAILS				
AUTHOR:	**Name:**	**Martin Young**	**Tel:**	**02380 382220**
	E-mail:	**myoung1@uk.ey.com**		
Director	**Name:**	**Helen Thompson**	**Tel:**	**02380 382099**
	E-mail:	**HThompson2@uk.ey.com**		

STATEMENT OF CONFIDENTIALITY		
N/A		
BRIEF SUMMARY		
Our report sets out the results of our work on the certification of the 2017/18 Housing Benefit subsidy claim		
RECOMMENDATIONS:		
	(i)	**To note the External Auditor's annual report on the Certification of Claims and Returns 2017/18 as attached (Appendix 1).**
REASONS FOR REPORT RECOMMENDATIONS		
1.	The Governance Committee's Terms of Reference require it to be satisfied and provide assurance that appropriate action is being taken on risk and internal control related issues identified by the external auditors. Specifically the Committee has responsibility for oversight of the reports of external audit.	
ALTERNATIVE OPTIONS CONSIDERED AND REJECTED		
2.	None.	
DETAIL (Including consultation carried out)		
3.	The Certification of Claims and Returns 2017/18 has been provided to relevant senior managers for comment.	
RESOURCE IMPLICATIONS		
Capital/Revenue		
4.	N/A.	
Property/Other		
5.	N/A.	

LEGAL IMPLICATIONS	
Statutory power to undertake proposals in the report:	
6.	N/A.
Other Legal Implications:	
7.	N/A.
RISK MANAGEMENT IMPLICATIONS	
8.	N/A.
POLICY FRAMEWORK IMPLICATIONS	
9.	N/A.

KEY DECISION?	**No**
WARDS/COMMUNITIES AFFECTED:	N/A.

SUPPORTING DOCUMENTATION

Appendices	
1.	The Certification of Claims and Returns 2017/18

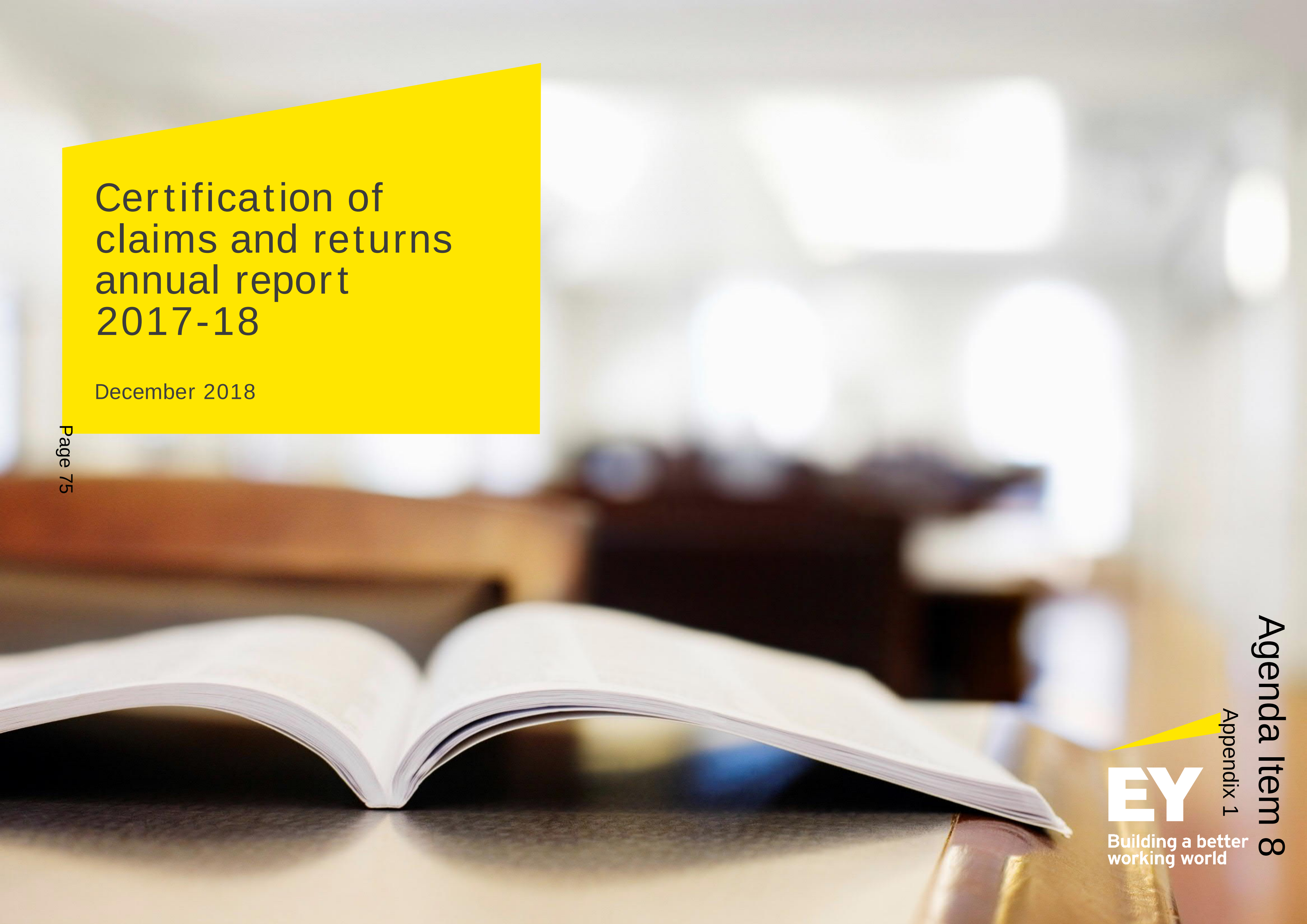
Documents In Members' Rooms

1.	None.

Equality Impact Assessment	
Do the implications/subject of the report require an Equality and Safety Impact Assessment (ESIA) to be carried out.	No
Data Protection Impact Assessment	
Do the implications/subject of the report require a Data Protection Impact Assessment (DPIA) to be carried out.	No

Other Background Documents
Other Background documents available for inspection at: N/A

Title of Background Paper(s)		**Relevant Paragraph of the Access to Information Procedure Rules / Schedule 12A allowing document to be Exempt/Confidential (if applicable)**
1.	**N/A.**	



Certification of claims and returns annual report 2017-18

December 2018

EY
Building a better working world

Private and Confidential

December 2018

Governance Committee Members
Southampton City Council
Civic Centre
Southampton, Hampshire, SO14 7LY

Dear Governance Committee Members

Certification of claims and returns annual report

We are pleased to report on our certification work. This report summarises the results of our work on Southampton City Council's 2017-18 Housing Benefit subsidy claim.

Scope of work

Local authorities claim large sums of public money in grants and subsidies from central government and other grant-paying bodies and must complete returns providing financial information to government departments. In some cases these grant-paying bodies and government departments require appropriately qualified reporting accountants to certify the claims and returns submitted to them.

From 1 April 2015, the duty to make arrangements for the certification of relevant claims and returns and to prescribe scales of fees for this work was delegated to the Public Sector Audit Appointments Ltd (PSAA) by the Secretary of State for Communities and Local Government.

For 2017-18, these arrangements required only the certification of the housing benefits subsidy claim. In certifying this we followed a methodology determined by the Department for Work and Pensions.

This report is intended solely for the information and use of the Governance Committee and management of Southampton City Council, and is not intended to be and should not be used by anyone other than these specified parties.

We welcome the opportunity to discuss this report with you.

Yours faithfully

Helen Thompson

For and on behalf of Ernst & Young LLP

Contents

In April 2015 Public Sector Audit Appointments Ltd (PSAA) issued “Statement of responsibilities of auditors and audited bodies”. It is available from the via the PSAA website (www.PSAA.co.uk).
The Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.
The “Terms of Appointment (updated February 2017)” issued by the PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and in legislation, and covers matters of practice and procedure which are of a recurring nature.
This report is made solely to the Governance Committee and management of Southampton City Council in accordance with the statement of responsibilities. Our work has been undertaken so that we might state to the Governance Committee, and management of Southampton City Council those matters we are required to state to them in this report and for no other purpose. To the fullest extent permitted by law we do not accept or assume responsibility to anyone other than the Governance Committee, and management of Southampton City Council for this report or for the opinions we have formed. It should not be provided to any third-party without our prior written consent.

01 Housing benefits subsidy claim

Housing benefits subsidy claim

Scope of work	Results
Value of claim presented for certification	£91,679,543
Amended/Not amended	Amended – final value of claim £91,679,918. Subsidy increased by £375.
Qualification letter	Yes

Local Government administers the Government's housing benefits scheme for tenants and claims subsidy from the Department for Work and Pensions (DWP) towards the cost of benefits paid to claimants. We certify that subsidy claim.

The certification guidance requires auditors to complete specified procedures and undertake more extensive '40+' or extended testing if:

- initial testing identifies errors in the calculation of benefit or compilation of the claim; or
- our cumulative knowledge and experience from prior year certifications gives us reason to expect errors in specific areas.

Our initial testing identified minor issues related to claim compilation. The final claim was amended to correct these issues, increasing the value of the claim by £375. No other errors were detected.

We performed extended testing on Rent Allowance (RA) and Housing Revenue Account Rent Rebate (HRA RR) cases as a result of errors in the calculation of claimant earnings in 2016-17. These errors were reported to you in our 'Certification of claims and returns annual report 2016-17', dated December 2017.

In 2017-18, we tested a further 40 cases of each benefit type which had claimants with earnings. This extended testing identified the following errors:

- HRA RR - four cases (total error value £301) where the Authority overpaid benefit and four cases where the Authority had underpaid benefit as a result of errors in calculating earnings; and
- RA - six cases (total error value £183) where the Authority overpaid benefit and seven cases where the Authority had underpaid benefit as a result of errors in calculating earnings.

We reported these matters in our qualification letter to the Department of Work and Pensions (DWP). We are required to provide the DWP an extrapolation (or estimate) of the total impact of these overpayments. The extrapolated value of housing benefit overpayments was £11,169 and £10,795 for RA and HRA RR cases respectively.

The DWP is then responsible for deciding whether to ask the Council to carry our further work to quantify the exact value of the error or to claw back any benefit subsidy they consider to be overpaid.

02 2017-18 certification fees

2017-18 certification fees

The PSAA determine a scale fee each year for the certification of the housing benefits subsidy claim. For 2017-18, these scale fees were published by the Public Sector Audit Appointments Ltd (PSAA's) and are available on their website (www.psaa.co.uk).

Claim or return	2017-18	2017-18	2016-17
	Actual fee £	Indicative fee £	Actual fee £
Housing benefits subsidy claim	19,524	19,524	15,208*

* the 2016-17 fee was reduced by 20% from £19,005 as a result of the Council agreeing to perform some of the initial testing themselves. We did sufficient checking to satisfy ourselves that this testing was appropriately performed. This approach was reported to the Governance Committee in April 2017 as part of our progress report. In 2017-18, the Council decided not to undertake this initial testing themselves due to the level of resource needed to complete it. For this reason the fee has remained at the scale fee.

EY | Assurance | Tax | Transactions | Advisory

About EY

EY is a global leader in assurance, tax, transaction and advisory services. The insights and quality services we deliver help build trust and confidence in the capital markets and in economies the world over. We develop outstanding leaders who team to deliver on our promises to all of our stakeholders. In so doing, we play a critical role in building a better working world for our people, for our clients and for our communities.

EY refers to the global organization, and may refer to one or more, of the member firms of Ernst & Young Global Limited, each of which is a separate legal entity. Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients. For more information about our organization, please visit ey.com.

ED None

ey.com

DECISION-MAKER:		**GOVERNANCE COMMITTEE**		
SUBJECT:		**EXTERNAL AUDIT PLAN YEAR ENDING 31 MARCH 2019**		
DATE OF DECISION:		**11 FEBRUARY 2019**		
REPORT OF:		**EXTERNAL AUDITOR**		
CONTACT DETAILS				
AUTHOR:	**Name:**	**DAVID WHITE**	**Tel:**	**02380 382042**
	E-mail:	**dwhite@uk.ey.com**		
Director	**Name:**	**HELEN THOMPSON**	**Tel:**	**02380 382009**
	E-mail:	**hthompson2@uk.ey.com**		

STATEMENT OF CONFIDENTIALITY		
NONE		
BRIEF SUMMARY		
The audit plan sets out how we will carry out our responsibilities as external auditor. Its purpose is to provide the Governance Committee with a basis to review our proposed scope and audit approach for 2018/19. The plan summarises our initial assessment of the key risks driving the development of an effective audit for the Council, and outlines our planned audit strategy in response to those risks.		
RECOMMENDATIONS:		
	(i)	The Governance Committee is invited to comment on and note External Audit Plan Year Ending 31 March 2019 as attached.
REASONS FOR REPORT RECOMMENDATIONS		
1.	Issued in accordance with the Local Audit and Accountability Act 2014, the National Audit Office's Code of Audit Practice, the Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA) Ltd, auditing standards and other professional requirements.	
ALTERNATIVE OPTIONS CONSIDERED AND REJECTED		
	None	
DETAIL (Including consultation carried out)		
	The External Audit Plan Year Ending 31 March 2019 has been provided to relevant senior managers for comment.	
RESOURCE IMPLICATIONS		
Capital/Revenue		
	N/A	
Property/Other		

	N/A
LEGAL IMPLICATIONS	
<u>Statutory power to undertake proposals in the report</u>:	
	Local Audit and Accountability Act 2014, the National Audit Office's Code of Audit Practice, the Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA) Ltd, auditing standards and other professional requirements
<u>Other Legal Implications</u>:	
	N/A
RISK MANAGEMENT IMPLICATIONS	
	N/A
POLICY FRAMEWORK IMPLICATIONS	
	N/A

KEY DECISION?	No
WARDS/COMMUNITIES AFFECTED:	N/A
<u>SUPPORTING DOCUMENTATION</u>	
Appendices	
1.	The External Audit Plan Year Ending 31 March 2019

Documents In Members' Rooms

1.	None	
Equality Impact Assessment		
Do the implications/subject of the report require an Equality and Safety Impact Assessment (ESIA) to be carried out.		No
Data Protection Impact Assessment		
Do the implications/subject of the report require a Data Protection Impact Assessment (DPIA) to be carried out.		No
Other Background Documents **Other Background documents available for inspection at: N/A**		
Title of Background Paper(s)		**Relevant Paragraph of the Access to Information Procedure Rules / Schedule 12A allowing document to be Exempt/Confidential (if applicable)**
1.	**N/A**	

Southampton City Council

Audit planning report

Year ended 31 March 2019

January 2019

Page 85

Agenda Item 9

Appendix 1

Building a better working world

31 January 2019

Governance Committee Members
Southampton City Council
Civic Centre
Southampton, Hampshire, SO14 7LY

Dear Governance Committee Members

Audit planning report

We are pleased to attach our Audit Plan which sets out how we intend to carry out our responsibilities as auditor. Its purpose is to provide the Governance Committee with a basis to review our proposed audit approach and scope for the 2018/19 audit in accordance with the requirements of the Local Audit and Accountability Act 2014, the National Audit Office's 2015 Code of Audit Practice, the Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA) Ltd, auditing standards and other professional requirements. It is also to ensure that our audit is aligned with the Committee's service expectations.

This plan summarises our initial assessment of the key risks driving the development of an effective audit for the Council, and outlines our planned audit strategy in response to those risks.

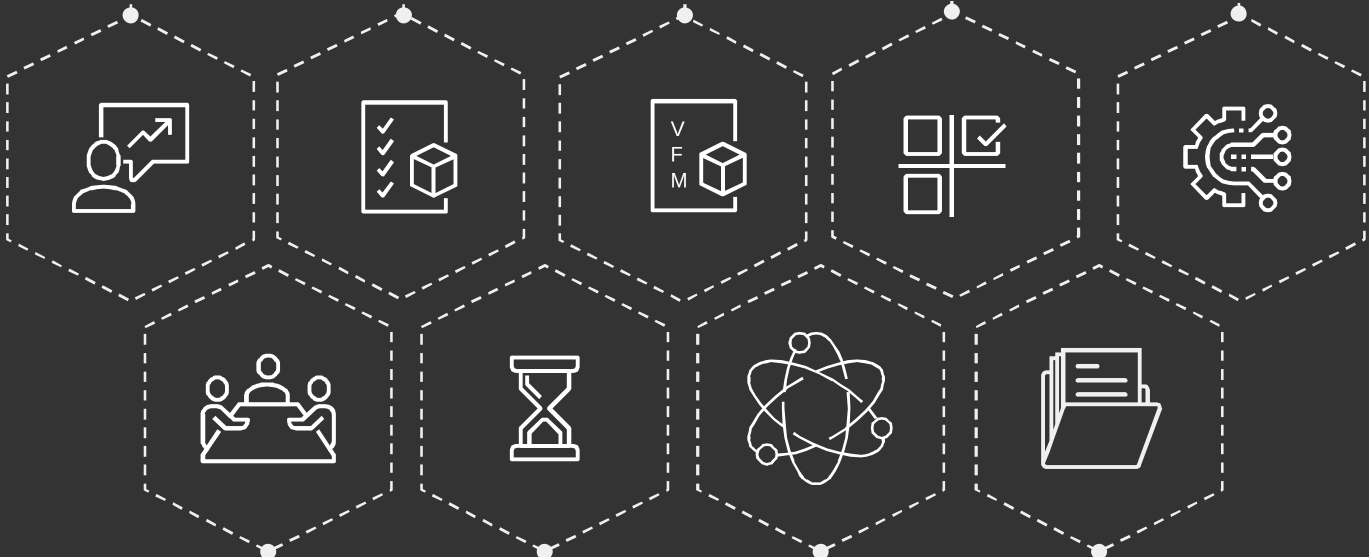
This report is intended solely for the information and use of the Governance Committee and management, and is not intended to be and should not be used by anyone other than these specified parties.

We welcome the opportunity to discuss this report with you on 11 February 2019 as well as understand whether there are other matters which you consider may influence our audit.

Yours faithfully

Helen Thompson
For and on behalf of Ernst & Young LLP
Enc

Contents



Page 87

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

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

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

01 Overview of our 2018/19 audit strategy

Overview of our 2018/19 audit strategy

The following 'dashboard' summarises the significant accounting and auditing matters outlined in this report. It seeks to provide the Governance Committee with an overview of our initial risk identification for the upcoming audit and any changes in risks identified in the current year.

Audit risks and areas of focus			
Risk / area of focus	**Risk identified**	**Change from PY**	**Details**
Misstatements due to fraud or error	Fraud risk	No change in risk or focus	As identified in ISA 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that would otherwise appear to be operating effectively.
Risk of fraud in revenue and expenditure recognition, through inappropriate capitalisation of revenue expenditure	Fraud risk/ Significant risk	No change in risk; refocused	Under ISA 240 there is a presumed risk that revenue may be misstated due to improper revenue recognition. In the public sector, this requirement is modified by Practice Note 10 issued by the Financial Reporting Council, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition. We have assessed the risk is most likely to occur through the inappropriate capitalisation of revenue expenditure.
Valuation of Land and Buildings	Other risk	No change in risk or focus	The fair value of Property, Plant and Equipment (PPE) and Investment Properties (IP) represent significant balances in the Council's accounts and are subject to valuation changes, impairment reviews and depreciation charges. Management is required to make material judgemental inputs and apply estimation techniques to calculate the year-end balances recorded in the balance sheet.
PFI Accounting	Other risk	No change in risk or focus	The Council has two PFI arrangements which are material to our audit. PFI accounting is a complex area, and a detailed review of these arrangements was undertaken by our internal specialist in 2017/18. We will review the accounting entries and disclosures in relation to PFI in 2018/19, with a focus on the correction of the non-material audit differences identified in 2017/18, and any significant changes since the specialist's review.
Pension Liability Valuation	Other risk	No change in risk or focus	The Local Authority Accounting Code of Practice and IAS19 require the Council to make extensive disclosures within its financial statements regarding its membership of the Local Government Pension Scheme administered by Hampshire County Council. Accounting for this scheme involves significant estimation and judgement and therefore management engages an actuary to undertake the calculations on their behalf. ISAs (UK) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.
New accounting standards	Other risk	Increase in risk or focus	The CIPFA Code of Practice for 2018/19 confirms that the local government bodies will implement International Financial Reporting Standard ("IFRS") 9 – Financial Instruments and IFRS 15 – Revenue from Contracts with Customers this year.

Page 89

Overview of our 2018/19 audit strategy

Materiality

Planning materiality
£11.6m

Materiality has been set at £11.552m, which represents 1.8% of the prior years gross expenditure on provision of services. In light of changes across the audit profession, we have reduced the top of our range for materiality from 2% to 1.8%. This reduction in range has been applied across other Councils of a similar size audited by EY, and is not as a result of factors specific to Southampton City Council.

Performance materiality
£8.7m

Performance materiality has been set at £8.664m, which represents 75% of planning materiality.

Audit differences
£0.58m

We will report all uncorrected misstatements relating to the primary statements (comprehensive income and expenditure statement, balance sheet, housing revenue account and collection fund) greater than £0.578m. Other misstatements identified will be communicated to the extent that they merit the attention of the Governance Committee.

Overview of our 2018/19 audit strategy

Audit scope

This Audit Plan covers the work that we plan to perform to provide you with:

- our audit opinion on whether the financial statements of Southampton City Council give a true and fair view of the financial position as at 31 March 2019 and of the income and expenditure for the year then ended; and

- our conclusion on the Council's arrangements to secure economy, efficiency and effectiveness.

We will also review and report to the National Audit Office (NAO), to the extent and in the form required by them, on the Council's Whole of Government Accounts return.

Our audit will also include the mandatory procedures that we are required to perform in accordance with applicable laws and auditing standards.

When planning the audit we take into account several key inputs:

- strategic, operational and financial risks relevant to the financial statements;
- developments in financial reporting and auditing standards;
- the quality of systems and processes;
- changes in the business and regulatory environment; and,
- management's views on all of the above.

By considering these inputs, our audit is focused on the areas that matter and our feedback is more likely to be relevant to the Council.

Page 91

02 Audit risks

Our response to significant risks

We have set out the significant risks (including fraud risks denoted by*) identified for the current year audit along with the rationale and expected audit approach. The risks identified below may change to reflect any significant findings or subsequent issues we identify during the audit.

Misstatements due to fraud or error*

	What is the risk?	What will we do?
Misstatements due to fraud or error*	The financial statements as a whole are not free of material misstatements whether caused by fraud or error. As identified in ISA (UK) 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. We identify and respond to this fraud risk on every audit engagement.	We will: • identify fraud risks during the planning stages; • enquire of management about risks of fraud and the controls put in place to address those risks; • understand the oversight given by those charged with governance of management's processes over fraud; • consider the effectiveness of management's controls designed to address the risk of fraud; • perform mandatory procedures regardless of specifically identified fraud risks, including testing of journal entries and other adjustments in the preparation of the financial statements; • review accounting estimates for evidence of management bias; and • evaluate the business rationale for significant unusual transactions.

Our response to significant risks (continued)

We have set out the significant risks (including fraud risks denoted by*) identified for the current year audit along with the rationale and expected audit approach. The risks identified below may change to reflect any significant findings or subsequent issues we identify during the audit.

Risk of fraud in revenue and expenditure recognition, through inappropriate capitalisation of revenue expenditure*

Financial statement impact

We have assessed that the risk of fraud in revenue and expenditure recognition is most likely to occur through the inappropriate capitalisation of revenue expenditure. This would have the impact of reducing revenue expenditure and increasing additions to Property, Plant and Equipment.

What is the risk?

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

We have assessed the risk is most likely to occur through the inappropriate capitalisation of revenue expenditure, as there is an incentive to reduce expenditure which is funded from Council Tax.

What will we do?

We will:

- test PPE additions using lowered testing thresholds, to ensure they are appropriately supported by documentary evidence, and that the expenditure incurred and capitalised is clearly capital in nature; and
- seek to identify and understand the basis for any significant journals transferring expenditure from non-capital codes to PPE additions or from revenue to capital codes on the general ledger at the end of the year.

Other areas of audit focus

We have identified other areas of the audit, that have not been classified as significant risks, but are still important when considering the risks of material misstatement to the financial statements and disclosures.

What is the risk/area of focus?	What will we do?
Valuation of Land and Buildings The fair value of Property, Plant and Equipment (PPE) and Investment Properties (IP) represent significant balances in the Council's accounts and are subject to valuation changes, impairment reviews and depreciation charges. Management is required to make material judgemental inputs and apply estimation techniques to calculate the year-end balances recorded in the balance sheet.	We will: • consider the work performed by the Council's valuer, including the adequacy of the scope of the work performed, their professional capabilities and the results of their work; • sample test key asset information used by the valuers in performing their valuation (e.g. floor plans to support valuations based on price per square metre) and challenge the key assumptions used by the valuer; • consider the annual cycle of valuations to ensure that assets have been valued within a 5 year rolling programme as required by the Code for PPE and annually for IP. We have also considered if there are any specific changes to assets that have occurred and that these have been communicated to the valuer; • review assets not subject to valuation in 2018/19 to confirm that the remaining asset base is not materially misstated; • consider changes to useful economic lives as a result of the most recent valuation; and • test accounting entries have been correctly processed in the financial statements,
PFI accounting The Council has two PFI arrangements which are material to our audit. PFI accounting is a complex area, and a detailed review of these arrangements was undertaken by our internal specialist in 2017/18. We will review the accounting entries and disclosures in relation to PFI in 2018/19, with a focus on the correction of the non-material audit differences identified in 2017/18, and any significant changes since the specialist's review.	We will: • review assurances brought forward from prior years regarding the appropriateness of the PFI financial models; • review the PFI financial models for any significant changes, and if identified consider engaging relevant experts to review the models to ensure they are still working as expected; • ensure the PFI accounting models have been updated for any service or other agreed variations and confirm consistency of current year models with prior year brought forward assurances; • agree outputs of the models to the accounts, and review the completeness and accuracy of disclosures; and • review the correction of non-material audit differences identified in 2017/18 which are expected to be corrected this year.

Audit risks

Other areas of audit focus (continued)

What is the risk/area of focus?	What will we do?
Pension Liability Valuation The Local Authority Accounting Code of Practice and IAS19 require the Council to make extensive disclosures within its financial statements regarding its membership of the Local Government Pension Scheme administered by Hampshire County Council. The Council's pension fund deficit is a material estimated balance and the Code requires that this liability be disclosed on the Council's balance sheet. At 31 March 2018 this totalled £464 million. The information disclosed is based on the IAS 19 report issued to the Council by the actuary to the County Council. Accounting for this scheme involves significant estimation and judgement and therefore management engages an actuary to undertake the calculations on their behalf. ISAs (UK) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.	We will: • liaise with the auditors of Hampshire Pension Fund, to obtain assurances over the information supplied to the actuary in relation to Southampton City Council; • assess the work of the Pension Fund actuary (Aon Hewitt) including the assumptions they have used by relying on the work of PWC - Consulting Actuaries commissioned by the National Audit Office for all Local Government sector auditors, and considering any relevant reviews by the EY actuarial team; and • review and test the accounting entries and disclosures made within the Council's financial statements in relation to IAS19.

Audit risks

Other areas of audit focus (continued)

What is the risk/area of focus?	What will we do?
IFRS 9 financial instruments This new accounting standard is applicable for local authority accounts from the 2018/19 financial year and will change: • How financial assets are classified and measured; • How the impairment of financial assets are calculated; and • The disclosure requirements for financial assets. There are transitional arrangements within the standard; and the 2018/19 CIPFA Code of practice on local authority accounting provides guidance on the application of IFRS 9.	We will: • assess the Council's implementation arrangements that should include an impact assessment paper setting out the application of the new standard, transitional adjustments and planned accounting for 2018/19; • consider the classification and valuation of financial instrument assets; • review new expected credit loss model impairment calculations for assets; and • check additional disclosure requirements.
IFRS 15 Revenue from contracts with customers This new accounting standard is applicable for local authority accounts from the 2018/19 financial year. The key requirements of the standard cover the identification of performance obligations under customer contracts and the linking of income to the meeting of those performance obligations. The 2018/19 CIPFA Code of practice on local authority accounting provides guidance on the application of IFRS 15 and includes a useful flow diagram and commentary on the main sources of LG revenue and how they should be recognised. The impact on local authority accounting is likely to be limited as large revenue streams like council tax, non domestic rates and government grants will be outside the scope of IFRS 15. However where that standard is relevant, the recognition of revenue will change and new disclosure requirements introduced.	We will: • assess the Council's implementation arrangements that should include an impact assessment paper setting out the application of the new standard, transitional adjustments and planned accounting for 2018/19. • consider application to the authority's revenue streams, and where the standard is relevant test to ensure revenue is recognised when (or as) it satisfies a performance obligation; and • check additional disclosure requirements.

03 Value for Money Risks

Value for Money

Background

We are required to consider whether the Council has put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources. This is known as our value for money conclusion.

For 2018/19 this is based on the overall evaluation criterion:

"In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people"

Proper arrangements are defined by statutory guidance issued by the National Audit Office. They comprise your arrangements to:

- take informed decisions;
- deploy resources in a sustainable manner; and
- work with partners and other third parties.

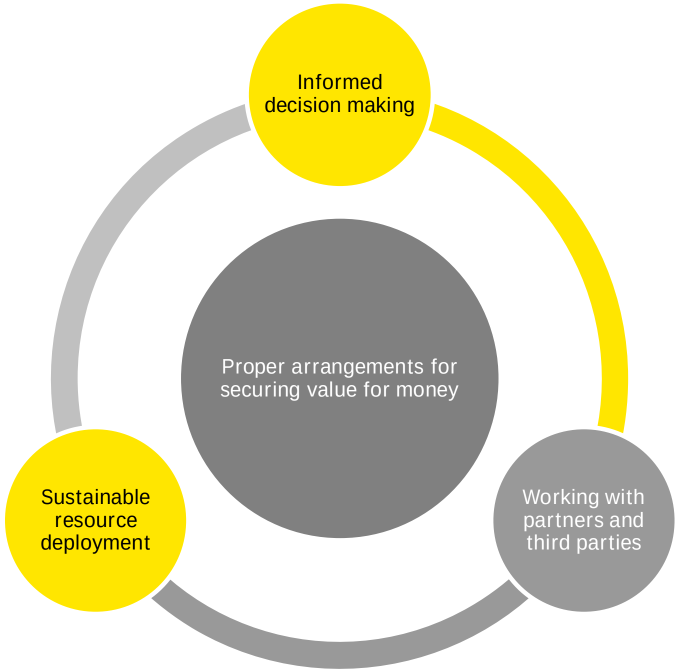
In considering your proper arrangements, we will draw on the requirements of the CIPFA/SOLACE framework for local government to ensure that our assessment is made against a framework that you are already required to have in place and to report on through documents such as your annual governance statement.

We are only required to determine whether there are any risks that we consider significant, which the Code of Audit Practice defines as:

"A matter is significant if, in the auditor's professional view, it is reasonable to conclude that the matter would be of interest to the audited body or the wider public"

Our risk assessment supports the planning of sufficient work to enable us to deliver a safe conclusion on arrangements to secure value for money and enables us to determine the nature and extent of further work that may be required. If we do not identify any significant risks there is no requirement to carry out further work. We consider business and operational risks insofar as they relate to proper arrangements at both sector and organisation-specific level. In 2018/19 this has included consideration of the steps taken by Southampton City Council to consider the impact of Brexit. Although the precise impact cannot yet be modelled, we anticipate that councils will be carrying out scenario planning.

Our risk assessment has therefore considered both the potential financial impact of the issues we have identified, and also the likelihood that the issue will be of interest to local taxpayers, the Government and other stakeholders. This has resulted in the identification of the significant risk noted on the following page which we view as relevant to our value for money conclusion.



Value for Money Risks

What is the significant value for money risk?	What arrangements does the risk affect?	What will we do?
Compliance with both procurement and contracting policies as part of a sound system of internal control. Our value for money conclusion in 2017/18 was qualified "except for" as a result of the identification of significant levels of non-compliance with the Council's procurement rules. As the process of addressing the underlying issues has been ongoing through 2018/19, we consider that this remains an area of risk for our value for money conclusion this year. We will therefore seek to evaluate the strength and effectiveness of the measures the Council has put in place through our value for money work in 2018/19.	Take informed decisions	Our approach will focus on seeking assurance that the measures which have been introduced and reinforced in response to the adverse findings reported in 2017/18 are robust, and that effective controls are now in place to prevent, detect and correct any non compliance. We will seek to liaise with Internal Audit to ensure we take into account the findings of their follow up work in this area.

04 Audit materiality

Materiality

Materiality

For planning purposes, materiality for 2018/19 has been set at £11.6m. This represents 1.8% of the Council's prior year gross expenditure on provision of services. It will be reassessed throughout the audit process. We have set materiality using gross revenue expenditure as our expectation is that users of the Council's accounts are focussed on how it uses its resources to provide services to local people. We have used 1.8% based on our assessment of the Council's financial position, levels of public interest, lack of planned reorganisations and sources of borrowing. We have provided supplemental information about audit materiality in Appendix C.

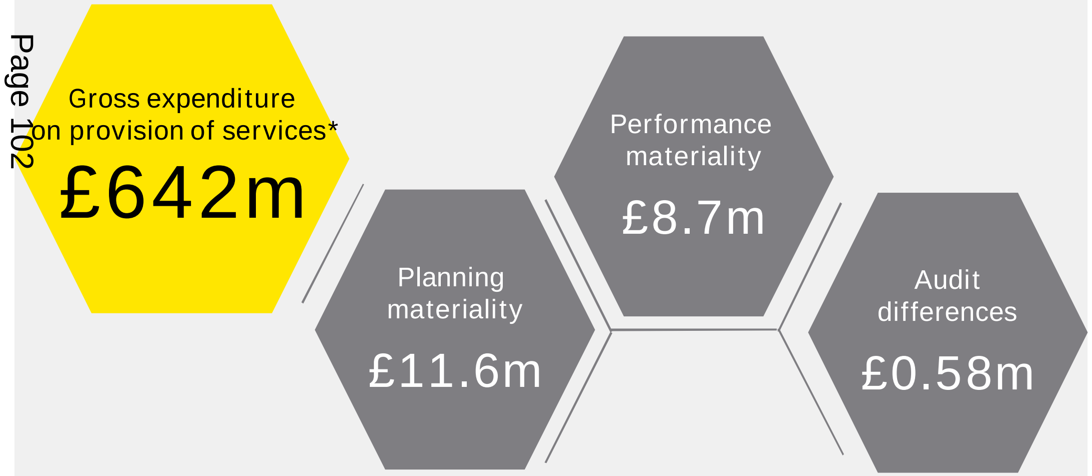


*Figure used to calculate materiality excludes a small number of non-recurring items.

We request that the Governance Committee confirm its understanding of, and agreement to, these materiality and reporting levels.

Key definitions

Planning materiality – the amount over which we anticipate misstatements would influence the economic decisions of a user of the financial statements.

Performance materiality – the amount we use to determine the extent of our audit procedures. We have set performance materiality at £8.664m which represents 75% of planning materiality. The rationale for using 75% is based on the anticipation of identifying few or no errors during the audit. This expectation has been built on our experience of the Council in prior years.

Audit difference threshold – we propose that misstatements identified below this threshold are deemed clearly trivial. We will report to you all uncorrected misstatements over this amount relating to the comprehensive income and expenditure statement, balance sheet, housing revenue account and collection fund. Other uncorrected misstatements, such as reclassifications and misstatements in the cashflow statement and movement in reserves statement or disclosures, and corrected misstatements will be communicated to the extent that they merit the attention of the Committee, or are important from a qualitative perspective.

Specific materiality – We have also set a materiality of £1k for remuneration disclosures, related party transactions, members' allowances and exit packages, which reflects our understanding that an amount less than our materiality would influence the economic decisions of users of the financial statements in relation to these areas.

05 Scope of our audit

Our Audit Process and Strategy

Objective and Scope of our Audit scoping

Under the Code of Audit Practice our principal objectives are to review and report on the Council's financial statements and arrangements for securing economy, efficiency and effectiveness in its use of resources to the extent required by the relevant legislation and the requirements of the Code.

We issue an audit report that covers:

1. Financial statement audit

Our objective is to form an opinion on the financial statements under International Standards on Auditing (UK).

We also perform other procedures as required by auditing, ethical and independence standards, the Code and other regulations. We outline below the procedures we will undertake during the course of our audit.

Procedures required by standards

- Addressing the risk of fraud and error;
- Significant disclosures included in the financial statements;
- Entity-wide controls;
- Reading other information contained in the financial statements and reporting whether it is inconsistent with our understanding and the financial statements; and
- Auditor independence.

Procedures required by the Code

- Reviewing, and reporting on as appropriate, other information published with the financial statements, including the Annual Governance Statement; and
- Reviewing and reporting on the Whole of Government Accounts return, in line with the instructions issued by the NAO.

2. Arrangements for securing economy, efficiency and effectiveness (value for money)

We are required to consider whether the Council has put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources.

Our Audit Process and Strategy (continued)

Audit Process Overview

Our audit involves:

- identifying and understanding the key processes and internal controls; and
- substantive tests of detail of transactions and amounts.

For 2018/19 we plan to follow a substantive approach to the audit as we have concluded this is the most efficient way to obtain the level of audit assurance required to conclude that the financial statements are not materially misstated.

Analytics

We will use our computer-based analytics tools to enable us to capture whole populations of your financial data, in particular journal entries. These tools:

- help identify specific exceptions and anomalies which can then be subject to more traditional substantive audit tests; and
- give greater likelihood of identifying errors than random sampling techniques.

We will report the findings from our process and analytics work, including any significant weaknesses or inefficiencies identified and recommendations for improvement, to management and the Governance Committee.

Internal audit

We regularly meet with the Chief Internal Auditor, and review internal audit plans and the results of their work. We will reflect the findings from these reports, together with reports from any other work completed in the year, in our detailed audit work, where they raise issues that could have an impact on the financial statements, the Annual Governance Statement of the Narrative Statement.

06 Audit team

Audit team

Audit team structure:

Client Service Partner

Helen Thompson
Associate Partner

Helen Thompson
Associate Partner
HThompson2@uk.ey.com

David White
Manager
dwhite@uk.ey.com

Shabbir Hussain
Senior
shabbir.hussain@uk.ey.com

Working together with the Council

We are working together with officers to identify continuing improvements in communication and processes for the 2018/19 audit.

We will continue to keep our audit approach under review to streamline it where possible.

Changes to the audit team

David White has joined the audit as Manager. David has extensive public sector audit experience, including as Manager of other local Unitary Councils.

Shabbir Hussain has joined the audit as Senior. Shabbir has worked for EY for 5 years, leading teams across a range of clients.

Use of specialists

When auditing key judgements, we are often required to rely on the input and advice provided by specialists who have qualifications and expertise not possessed by the core audit team. The areas where either EY or third party specialists provide input for the current year audit are:

Area	Specialists
Valuation of Land and Buildings	Southampton CC in house property valuers (management specialist)
Pensions disclosure	Aon Hewitt (management specialist) PwC (consulting actuary) and EY Actuaries (auditor specialists)
PFI	EY Internal PFI Specialist (auditor specialist)

In accordance with Auditing Standards, we will evaluate each specialist's professional competence and objectivity, consider their qualifications, experience and available resources, together with the independence of the individuals performing the work.

We also consider the work performed by the specialist in light of our knowledge of the Council's business and processes and our assessment of audit risk in the particular area. For example, we would typically perform the following procedures:

- analyse source data and make inquiries as to the procedures used by the specialist to establish whether the source data is relevant and reliable;
- assess the reasonableness of the assumptions and methods used;
- consider the appropriateness of the timing of when the specialist carried out the work; and
- assess whether the substance of the specialist's findings are properly reflected in the financial statements.

07 Audit timeline

Audit timeline

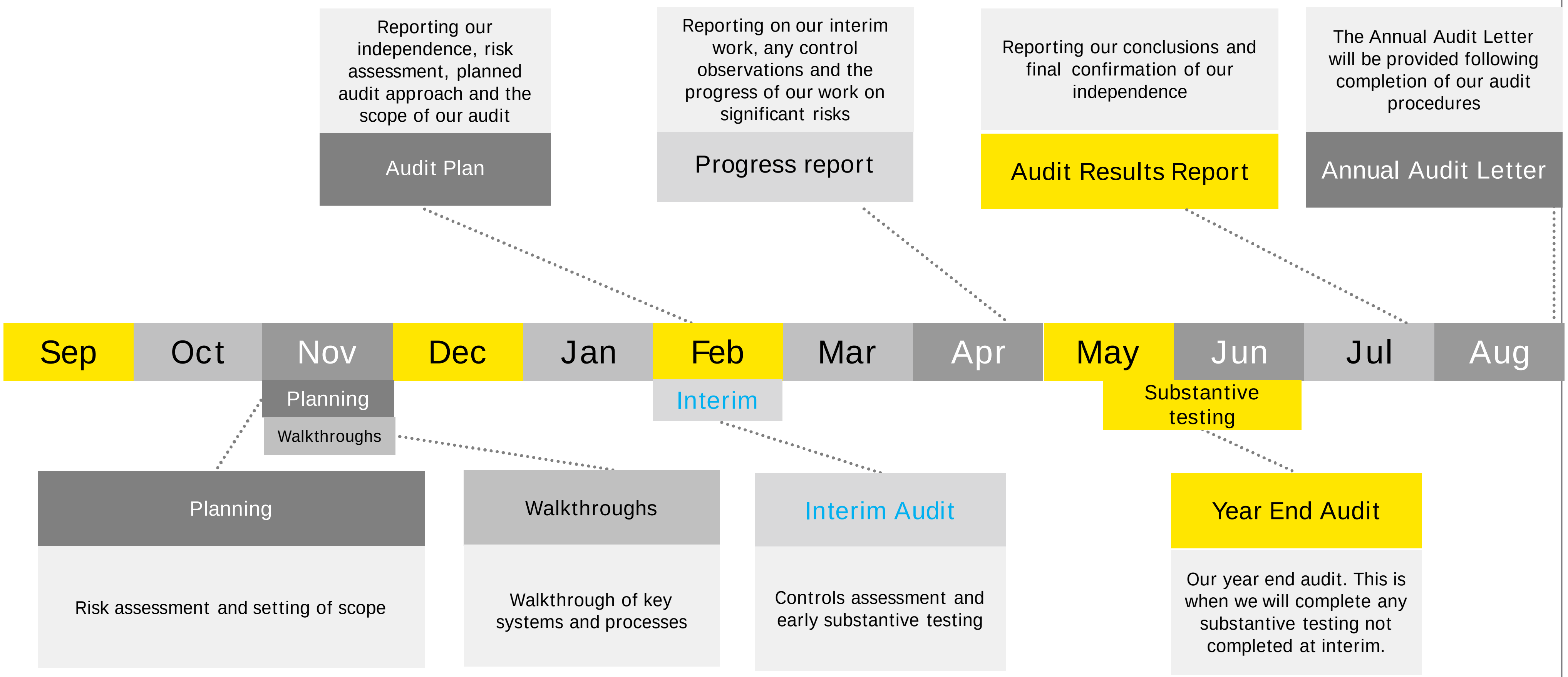
Timetable of communication and deliverables

Timeline

Below is a timetable showing the key stages of the audit and the deliverables we have agreed to provide to you through the audit cycle in 2018/19.

From time to time matters may arise that require immediate communication with the Governance Committee and we will discuss them with the Governance Committee Chair as appropriate. We will also provide updates on corporate governance and regulatory matters as necessary.

Page 110



08 Independence

Introduction

The FRC Ethical Standard and ISA (UK) 260 “Communication of audit matters with those charged with governance”, requires us to communicate with you on a timely basis on all significant facts and matters that bear upon our integrity, objectivity and independence. The Ethical Standard, as revised in June 2016, requires that we communicate formally both at the planning stage and at the conclusion of the audit, as well as during the course of the audit if appropriate. The aim of these communications is to ensure full and fair disclosure by us to those charged with your governance on matters in which you have an interest.

Required communications	
Planning stage	**Final stage**
► The principal threats, if any, to objectivity and independence identified by Ernst & Young (EY) including consideration of all relationships between the you, your affiliates and directors and us; ► The safeguards adopted and the reasons why they are considered to be effective, including any Engagement Quality review; ► The overall assessment of threats and safeguards; ► Information about the general policies and process within EY to maintain objectivity and independence. ► Where EY has determined it is appropriate to apply more restrictive independence rules than permitted under the Ethical Standard	► In order for you to assess the integrity, objectivity and independence of the firm and each covered person, we are required to provide a written disclosure of relationships (including the provision of non-audit services) that may bear on our integrity, objectivity and independence. This is required to have regard to relationships with the entity, its directors and senior management, its affiliates, and its connected parties and the threats to integrity or objectivity, including those that could compromise independence that these create. We are also required to disclose any safeguards that we have put in place and why they address such threats, together with any other information necessary to enable our objectivity and independence to be assessed; ► Details of non-audit services provided and the fees charged in relation thereto; ► Written confirmation that the firm and each covered person is independent and, if applicable, that any non-EY firms used in the group audit or external experts used have confirmed their independence to us; ► Written confirmation that all covered persons are independent; ► Details of any inconsistencies between FRC Ethical Standard and your policy for the supply of non-audit services by EY and any apparent breach of that policy; ► Details of any contingent fee arrangements for non-audit services provided by us or our network firms; and ► An opportunity to discuss auditor independence issues.

In addition, during the course of the audit, we are required to communicate with you whenever any significant judgements are made about threats to objectivity and independence and the appropriateness of safeguards put in place, for example, when accepting an engagement to provide non-audit services.

We also provide information on any contingent fee arrangements , the amounts of any future services that have been contracted, and details of any written proposal to provide non-audit services that has been submitted.

We ensure that the total amount of fees that EY and our network firms have charged to you and your affiliates for the provision of services during the reporting period, analysed in appropriate categories, are disclosed.

Independence

Relationships, services and related threats and safeguards

We highlight the following significant facts and matters that may be reasonably considered to bear upon our objectivity and independence, including the principal threats, if any. We have adopted the safeguards noted below to mitigate these threats along with the reasons why they are considered to be effective. However we will only perform non –audit services if the service has been pre-approved in accordance with your policy.

Overall Assessment

Overall, we consider that the safeguards that have been adopted appropriately mitigate the principal threats identified and we therefore confirm that EY is independent and the objectivity and independence of Helen Thompson, your audit engagement partner, and the audit engagement team have not been compromised.

Self interest threats

A self interest threat arises when EY has financial or other interests in the Council. Examples include where we receive significant fees in respect of non-audit services; where we need to recover long outstanding fees; or where we enter into a business relationship with you. At the time of writing, there are no long outstanding fees.

We believe that it is appropriate for us to undertake permissible non-audit services and we will comply with the policies that you have approved.

None of the services are prohibited under the FRC's ES or the National Audit Office’s Auditor Guidance Note 01 and the services have been approved in accordance with your policy on pre-approval. The ratio of non audit fees to audits fees is not permitted to exceed 70%.

At the time of writing, no non-audit services have been undertaken, therefore the current ratio of non-audit fees to audit fees is zero. No additional safeguards are required.

A self interest threat may also arise if members of our audit engagement team have objectives or are rewarded in relation to sales of non-audit services to you. We confirm that no member of our audit engagement team, including those from other service lines, has objectives or is rewarded in relation to sales to you, in compliance with Ethical Standard part 4.

There are no other self interest threats at the date of this report.

Self review threats

Self review threats arise when the results of a non-audit service performed by EY or others within the EY network are reflected in the amounts included or disclosed in the financial statements.

There are no self review threats at the date of this report.

Management threats

Partners and employees of EY are prohibited from taking decisions on behalf of management of the Council. Management threats may also arise during the provision of a non-audit service in relation to which management is required to make judgements or decision based on that work.

There are no management threats at the date of this report.

Relationships, services and related threats and safeguards

Other threats

Other threats, such as advocacy, familiarity or intimidation, may arise.

There are no other threats at the date of this report.

Other communications

EY Transparency Report 2018

Ernst & Young (EY) has policies and procedures that instil professional values as part of firm culture and ensure that the highest standards of objectivity, independence and integrity are maintained.

Details of the key policies and processes in place within EY for maintaining objectivity and independence can be found in our annual Transparency Report which the firm is required to publish by law. The most recent version of this Report is for the year ended 1 July 2018 and can be found here:

https://www.ey.com/uk/en/about-us/ey-uk-transparency-report-2018

09 Appendices

Appendix A

Fees

Public Sector Audit Appointments Ltd (PSAA) has published the fee scale for the audit of the 2018/19 accounts of opted-in principal local government and police bodies.

This is defined as the fee required by auditors to meet statutory responsibilities under the Local Audit and Accountability Act 2014 in accordance with the requirements of the Code of Audit Practice and supporting guidance published by the National Audit Office, the financial reporting requirements set out in the Code of Practice on Local Authority Accounting published by CIPFA/LASAAC, and the professional standards applicable to auditors' work.

	Planned fee 2018/19	Scale fee 2018/19	Final Fee 2017/18
	£	£	£
Total Fee – Code work	109,891	109,891	154,362*
Certification of claims and returns (housing benefits)	-	-	19,524
Total fees	109,891	109,891	173,886

The agreed fee presented is based on the following assumptions:

► Officers meeting the agreed timetable of deliverables;

► Our accounts opinion and value for money conclusion being unqualified;

► Appropriate quality of documentation is provided by the Council; and

► The Council has an effective control environment.

If any of the above assumptions prove to be unfounded, we will seek a variation to the agreed fee. This will be discussed with the Council in advance.

Fees for the auditor's consideration of correspondence from the public and formal objections will be charged in addition to the scale fee.

All fees exclude VAT

* The total includes a proposed scale fee variation of £11,647, for additional work relating to:
    - the matters giving rise to the 'except for' conclusion on the Council's proper arrangements to secure economy, efficiency and effectiveness in its use of resources;
    - correspondence related to a formal objection; and
    - involvement of an auditor's specialist in the audit of property valuations.

The fee variation has been agreed with management but remains subject to agreement with PSAA.

Our 2018/19 Code work includes additional planned procedures highlighted in section two of this report to address the new accounting requirements of IFRS 9 Financial Instruments and IFRS 15 Revenue from contracts with customers. As at the date of our planning report we are yet to review management's assessment of the impact of these standards, and so we cannot currently quantify the expected scale fee variation for these additional procedures. We will agree this with management, depending on the identified impact of the new standards. Any additional fee will be subject to approval by the PSAA.

To obtain sufficient assurance over housing benefits expenditure and subsidy income in the Council's financial statements, we will need to undertake some elements of the work which also form part of the housing benefit subsidy claim certification process. This work would previously have been covered by the certification fee and used additionally to provide assurance for the main audit. As we are no longer the reporting accountant for the Council's subsidy claim, we will need to consider the requirement for a scale fee variation to cover the performance of this work as part of the main audit for 2018/19.

Appendix B

Required communications with the Governance Committee

We have detailed the communications that we must provide to the Governance Committee.

		Our Reporting to you
Required communications	What is reported?	When and where
Terms of engagement	Confirmation by the Governance Committee of acceptance of terms of engagement as written in the engagement letter signed by both parties.	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.
Our responsibilities	Reminder of our responsibilities as set out in the engagement letter	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.
Planning and audit approach	Communication of the planned scope and timing of the audit, any limitations and the significant risks identified.	Audit planning report
Significant findings from the audit	• Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures • Significant difficulties, if any, encountered during the audit • Significant matters, if any, arising from the audit that were discussed with management • Written representations that we are seeking • Expected modifications to the audit report • Other matters if any, significant to the oversight of the financial reporting process	Audit results report

Appendix B

Required communications with the Governance Committee (continued)

		Our Reporting to you
Required communications	What is reported?	When and where
Going concern	Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including: • Whether the events or conditions constitute a material uncertainty • Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements • The adequacy of related disclosures in the financial statements	Audit results report
Misstatements	• Uncorrected misstatements and their effect on our audit opinion, unless prohibited by law or regulation • The effect of uncorrected misstatements related to prior periods • A request that any uncorrected misstatement be corrected • Corrected misstatements that are significant • Material misstatements corrected by management	Audit results report
Fraud	• Enquiries of the Governance Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity • Any fraud that we have identified or information we have obtained that indicates that a fraud may exist • A discussion of any other matters related to fraud	Audit results report
Related parties	• Significant matters arising during the audit in connection with the entity's related parties including, when applicable: • Non-disclosure by management • Inappropriate authorisation and approval of transactions • Disagreement over disclosures • Non-compliance with laws and regulations • Difficulty in identifying the party that ultimately controls the entity	Audit results report

Appendix B

Required communications with the Governance Committee (continued)

		Our Reporting to you
Required communications	What is reported?	When and where
Independence	Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as: • The principal threats • Safeguards adopted and their effectiveness • An overall assessment of threats and safeguards • Information about the general policies and process within the firm to maintain objectivity and independence	Audit Planning Report Audit Results Report
External confirmations	• Management's refusal for us to request confirmations • Inability to obtain relevant and reliable audit evidence from other procedures	Audit results report
Consideration of laws and regulations	• Audit findings regarding non-compliance where the non-compliance is material and believed to be intentional. This communication is subject to compliance with legislation on tipping off • Enquiry of the Governance Committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the Committee may be aware of	Audit results report
Internal controls	• Significant deficiencies in internal controls identified during the audit	Management letter / Audit results report
Representations	Written representations we are requesting from management and/or those charged with governance	Audit results report
Material inconsistencies and misstatements	Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	Audit results report

Appendix B

Required communications with the Governance Committee (continued)

		Our Reporting to you
Required communications	What is reported?	When and where
Auditors report	• Any circumstances identified that affect the form and content of our auditor's report	Audit results report
Fee Reporting	• Breakdown of fee information when the audit plan is agreed • Breakdown of fee information at the completion of the audit • Any non-audit work	Audit planning report Audit results report

Page 120

Additional audit information

Other required procedures during the course of the audit

In addition to the key areas of audit focus outlined in section 2, we have to perform other procedures as required by auditing, ethical and independence standards and other regulations. We outline the procedures below that we will undertake during the course of our audit.

Our responsibilities required by auditing standards	• Identifying and assessing the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. • Obtaining an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Council's internal control. • Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management. • Concluding on the appropriateness of management's use of the going concern basis of accounting. • Evaluating the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation. • Reading other information published with the financial statements, and reporting whether it is materially inconsistent with our understanding and the financial statements; and • Maintaining auditor independence.

Purpose and evaluation of materiality

For the purposes of determining whether the accounts are free from material error, we define materiality as the magnitude of an omission or misstatement that, individually or in the aggregate, in light of the surrounding circumstances, could reasonably be expected to influence the economic decisions of the users of the financial statements. Our evaluation of it requires professional judgement and necessarily takes into account qualitative as well as quantitative considerations implicit in the definition. We would be happy to discuss with you your expectations regarding our detection of misstatements in the financial statements.

Materiality determines:

- The level of work performed on individual account balances and financial statement disclosures.

The amount we consider material at the end of the audit may differ from our initial determination. At this stage, however, it is not feasible to anticipate all of the circumstances that may ultimately influence our judgement about materiality. At the end of the audit we will form our final opinion by reference to all matters that could be significant to users of the accounts, including the total effect of the audit misstatements we identify, and our evaluation of materiality at that date.

This page is intentionally left blank

DECISION-MAKER:	GOVERNANCE COMMITTEE			
SUBJECT:	PROCUREMENT AUDITS UPDATE			
DATE OF DECISION:	11 FEBRUARY 2019			
REPORT OF:	SERVICE DIRECTOR, DIGITAL AND BUSINESS OPERATIONS			
CONTACT DETAILS				
AUTHOR:	**Name:**	**Paul Paskins**	**Tel:**	**023 8083 4353**
	E-mail:	**paul.paskins@southampton.gov.uk**		
Director	**Name:**	**James Strachan**	**Tel:**	**023 8083 3436**
	E-mail:	**james.strachan@southampton.gov.uk**		

STATEMENT OF CONFIDENTIALITY

N/A

BRIEF SUMMARY

This report updates Governance Committee on the progress made against the actions set out in the following reports (collectively referred to as "the Audit Reports" for the purpose of this report):

- "Procurement – Sub 100k spend" report which was presented to Governance Committee on 12th February 2018;
- Contract Framework and Procurement audit report ("the Procurement Audit") dated 10th September 2018 and the
- External Audit – Audit Results report 2017/18 ("the External Audit") which was the subject of the 'Update On Value For Money Audit Conclusion – Financial Statements 2017/18' report to Governance Committee on 12th November 2018.

Many of the findings set out in the Audit Reports have the same or similar causes and, therefore, the same and/or inter-related actions have been identified to address the issues. This report, therefore, represents a consolidated approach to updating the Governance Committee on progress against the three Audit Reports.

RECOMMENDATIONS:

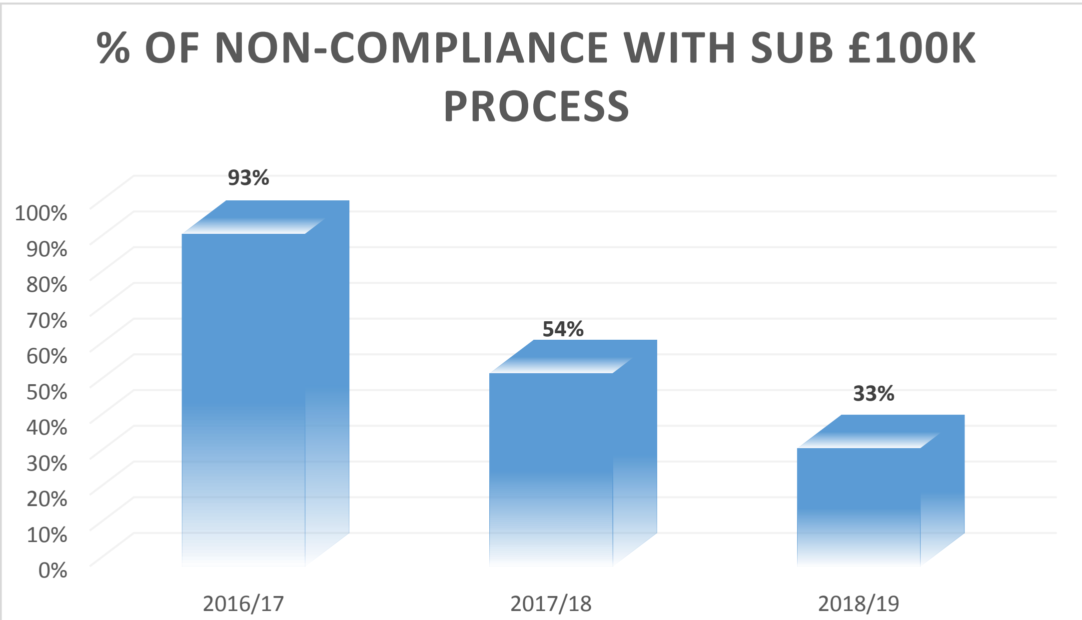
(i) The Governance Committee notes the:-

- significant progress in improving compliance with the Council's procurement policies and rules;
- progress against the majority of other actions agreed as a result of the Audit Reports;
- further remedial actions which are being implemented and
- proposals for the future reporting of progress and results to the Governance Committee.

REASONS FOR REPORT RECOMMENDATIONS

1.	The issues outlined in the Audit Reports are long-standing and challenging to resolve but have been, and continue to be, addressed through a series of robust remedial actions. The evidence demonstrates that these actions are having a marked positive effect. Further remedial measures are being introduced over the coming months in order to make further improvements in compliance.

2.	A strong set of procurement rules and processes and officer adherence to these is essential in ensuring that the Council's limited resources are used in the most effective way to achieve best value from its external spending and ensure compliance with legislation and the Council's Constitution.
ALTERNATIVE OPTIONS CONSIDERED AND REJECTED	
3.	N/A
DETAIL (Including consultation carried out)	
	Background and Scope
4.	In May 2017 an audit was undertaken by Internal Audit in respect of the Council's Sub 100k procurement arrangements ("the Sub £100k audit report"). The Sub £100k audit report found that "limited assurance could be placed on the effectiveness of the framework of risk management, control and governance designed to support the achievement of management objectives".
5.	In July 2017 a report "Procurement – Sub £100k spend – July 2017" was presented to the Governance Committee to summarise the findings of the Sub £100k audit report and the remedial actions being taken. Progress against these actions and monitoring of compliance levels with the Sub £100k process was again reported to Governance Committee in January 2018 in the "Procurement – Sub £100k spend – January 2018" report.
6.	In September 2018 a Procurement Audit was undertaken by the Internal Audit and identified issues associated with compliance with the Council's procurement processes as set out in the Contract Procedure Rules (CPRs). To address this, a number of management actions were agreed.
7.	In July 2018, the External Audit presented to Governance Committee idicated that an 'except for' conclusion would be issued. The auditors were satisfied that there were proper arrangements in place to secure economy, efficiency and effectiveness in the use of resources 'except for' some weaknesses in procuring supplies and services to effectively support the delivery of strategic priorities. It was concluded that the Council had an appropriate procurement and contracting framework in place, however there were some instances of officer non-compliance with this framework.
8.	This report provides:- • an update against the actions recommended by the Audit Reports and • a summary of Officer compliance with the Sub £100k process based on data for Financial Years 2016/17 – 2018/19.
9.	The Governance Committee are asked to note that, in many cases, the officer non-compliance referred to in the above audits would have no effect on costs to the council and would not have meant that there has been any breach of legal obligations.
	Update against the actions recommended by the Audit Reports
10.	An update against the actions agreed as a result of the Audit Reports is set out in Appendix 1 to this report **(**Progress against actions contained in Audit Reports).
	A summary of Officer compliance with the Sub £100k process based on data for Financial Years 2016/17 – 2018/19
11.	This section relates to Officer compliance levels with the "Sub 100k" procurement process as set out in the Contract Procedure Rules (CPR's) which form part of the Council's Constitution.

	The 'Sub £100k' procurement process applies to procurement activities and projects with spend of less than £100k which is managed by the Sub £100k Team, which is part of the Procurement Service). Such spend is referred to as "In-Scope Spend" for the purpose of this report. The CPRs mandate that all procurement activity above £1,000 in Contract Value is managed by the Sub 100k team (part of the Procurement Service) rather than by Officers themselves.
12.	In accordance with previous Procurement – Sub 100k spend reports, the data below excludes activities which relate to spend below £100k which has been made against existing contractual obligations and exemptions which have been granted in accordance with the CPRs. It also excludes Integrated Commissioning Unit (ICU) spend, for which activity has not fully been undertaken by the Sub £100k function. This spend is referred to as "Out of Scope" for the purpose of this report.
13.	The arrangements for "feeder systems" (and other spend which does not pass through the Procurement Service on a case by case basis) are being reviewed and the related spend is not include within this scope of this report.
14.	The graph below tracks the levels of compliance to the Sub £100k procurement process from 2016/17 to date and demonstrates that there has been a consistent and significant increase in compliance since data was first presented to the Governance Committee in July 2017. In respect of Financial Year 2018/19 to 31st December 2018, there was £88.8 million of total In-Scope and Out of Scope Spend and the value of In-Scope Spend was £8.9 million, of which £2.9 million did not follow the Sub £100k process. 

	Other Actions from the Audit Reports
15.	Appendix 1 contains a comprehensive summary of progress against the actions set out in the Audit Reports. In summary, most actions have either been completed or are not yet due. Progress is strong and there is robust evidence that the wide-ranging action plan which encompasses better information, training and support coupled with stronger reporting and controls mean that significant improvements have been made and are sustainable.
16.	Completion of the full set of actions should further improve the position. It must be noted, however, that it is not possible to prevent every instance of officer non-compliance but the actions taken and planned give the Council significant assurance and, in instances of officer non-compliance, will support appropriate and proportionate action being taken by Service Directors.
	Conclusions
17.	The Sub £100k compliance data for the period April 2016 to December 2018 demonstrates a significant improvement in adherence to the Sub £100k process which can be attributed to the completion of the of actions set out in Appendix 1.
18.	It should be noted that as a result of the termination of the Strategic Service Programme (SSP) contract with Capita Business Services, the Procurement Service will be returning in-house no later than 22nd July 2019. It is anticipated that this will result in improved relationships between officers and the Procurement Service and should provide the opportunity to further refine and improve procurement without the commercial constraints of a client/provider relationship.
19.	New and improved compliance reporting has been developed by the Supplier Management Team and Procurement Service and is in place as of January 2019. This compliance report is produced on a monthly basis and will relate to all spend processed through the Procurement Service, regardless of value. The aim of the report is to simplify the scope of Compliant or Non-Compliant spend into defined categories which reflect the Contract Procedure Rules whilst allowing additional comments to be included to support further investigation into potential non-compliant activity. It is proposed that the subsequent report to the Governance Committee in respect of Procurement compliance is based on this revised compliance report; this should provide the Governance Committee with simple and effective data to demonstrate the position regarding officer compliance with the sub £100k processes.
20.	It is anticipated that the completion of actions set out in Appendix 1 (including development of guidance for managers in respect of non-compliance) coupled with the implementation of the above will result in further improvements in Officer compliance with CPRs and procurement processes over the next 12 months.
RESOURCE IMPLICATIONS	
Capital/Revenue	
21.	N/A
Property/Other	
22.	**N/A**

LEGAL IMPLICATIONS			
Statutory power to undertake proposals in the report:			
23.	**N/A**		
Other Legal Implications:			
24.	**N/A**		
RISK MANAGEMENT IMPLICATIONS			
25.	See main body of this report.		
POLICY FRAMEWORK IMPLICATIONS			
26.	**N/A**		
KEY DECISION?	**No**		
WARDS/COMMUNITIES AFFECTED:	**All wards**		
SUPPORTING DOCUMENTATION			
Appendices			
1.	Progress against actions contained in Audit Reports		

Documents In Members' Rooms

1.	**N/A**	
Equality Impact Assessment		
Do the implications/subject of the report require an Equality and Safety Impact Assessment (ESIA) to be carried out.		**No**
Privacy Impact Assessment		
Do the implications/subject of the report require a Privacy Impact Assessment (PIA) to be carried out.		**No**
Other Background Documents **Other Background documents available for inspection at: N/A**		
Title of Background Paper(s)		**Relevant Paragraph of the Access to Information Procedure Rules / Schedule 12A allowing document to be Exempt/Confidential (if applicable)**
1.	**N/A**	

This page is intentionally left blank

Appendix A – Progress against actions contained in Audit Reports

Action	Origin of action	Lead Officer(s)	Due Date	Update Feb 2019
Specific Instances of Officer non-compliance Investigate the contractual relationships with the specific suppliers identified in the Internal Audit report and the reasons why Procurement Services were not involved in sourcing the service area requirements. Take necessary action in accordance with CPRs	Procurement Audit External Audit	Service Director Growth/ Service Director, Adults, Housing and Communities (as the responsible Service Directors)	September 2018	The investigations associated with the Procurement Audit were completed by the Lead Officers. A number of remedial actions have been taken and/or are in progress to resolve the issues and move the Council to a compliant position in each case.
Develop the Contracts Register to ensure it is comprehensive and accurate • Request from Service Directors details of all contracts in excess of £25k involving multiple payments which they have procured historically/or without Procurement Service involvement for entry onto Contracts Register. • Service Directors to identify any outstanding contracts which are not yet on Contracts Register and provide required details to Procurement Services. • Expand the requirement to include all contracts in excess of £5k being included on Contracts Register and review any contracts which have not been included.	Procurement Audit External Audit	Service Lead – Supplier Management CMT / Service Director Digital and Business Operations Procurement Services Service Lead – Supplier Management /CMT	Sept 2017 Oct 2018 November 2018	Completed – a follow-on action to further strengthen the Contracts Register is in progress and is being actively supported by the Council's Management Team (CMT) Completed – but note follow-on action above Completed

Action	Origin of action	Lead Officer(s)	Due Date	Update Feb 2019
Sub £100k procurement compliance • Continue to monitor compliance with Sub £100k processes and report instances of non-compliance to Service Directors for action • Hold Sub 100k meetings with Service Directors in 2017/18, investigate instances of non-compliance to identify why it had occurred and to remind officers of the compliant process • Improve Sub £100k reporting and compliance • Resolve the commercial and operational position relating to the Procurement Guarantee to assist in addressing compliance more effectively	Sub £100k Audit	Service Lead – Supplier Management Service Lead – Supplier Management Capita Head of Procurement Operations Service Director Digital and Business Operations / Service Lead – Supplier Management	Ongoing Oct 2017 Completed October 2018	In progress – Please refer to main body of this report "Procurement Actions Update". Completed – the reporting approach is being further strengthened. Completed - New and improved compliance reporting has been developed by the Supplier Management Team and Procurement Service and is in place as of January 2019. Completed - The Procurement Guarantee was removed from the SSP contract as part of the Settlement Agreement agreed on 4th December 2018 which means that the commercial and operational challenges concerning the Savings Validation Process are no longer in existence.
Learning and Development Mandatory training introduced for all staff who have any involvement in buying	Procurement Audit External Audit	Service Lead – Supplier Management	Completed	Completed – Rolled out in March 2018 a mandatory e-learning training package for all relevant officers which focus on when and how council money can be spent. The staff who have undertaken the training is under active review and processes to ensure that all relevant officers undertake the training is being actively monitored and supported by CMT.

Action	Origin of action	Lead Officer(s)	Due Date	Update Feb 2019
Better Reporting and Robust Action Further develop the reporting of spend to flag annual values spent with each supplier and support Service Directors in identifying when CPRs are not being followed and taking appropriate action	Procurement Audit External Audit	Service Lead – Supplier Management Head of Procurement Operations	30th November 2018 (Resource dependant)	In progress - This action has been added to the "Plan for addressing issues and actions" which is being jointly managed by the Supplier Management Team and the Procurement Service.
Requisitioning and Procure to Pay (P2P) Introduce requisitioning to ensure all spend is processed through the requisition workflow in order to mandate that CPR processes are followed and procurement are involved in all spend in accordance with CPRs	Procurement Audit External Audit	Service Lead – Supplier Management	April 2019	Completed – Requisitioning introduced in April 2018. Changes associated with P2P are reliant on Business World implementation due in April 2019.
Improve Controls Mandate the requisitioning process by introducing system controls which provide no alternative route to processing orders and/or allowing suppliers to be paid including:-	Procurement Audit External Audit			
• Empowering the Procurement Service to reject non-compliant orders.		Service Lead – Supplier Management	June 2019	In progress - A Council-wide communication is in draft form and will be issued in February 2019.
• Control of supplier set up and usage – regulating who can set suppliers up and managing when and how they can be used.		Service Lead – Supplier Management	April 2019	Partly Completed. To be fully implemented as part of Business World and P2P
• Requiring officers to state contract name on requisition when wishing to use a specific supplier because a contract is believed to exist.		Service Lead – Supplier Management	Completed	Completed - Implemented as part of Requisitioning in April 2018.

Action	Origin of action	Lead Officer(s)	Due Date	Update Feb 2019
• Link products (including services) to Contracted Suppliers in Business World to ensure that contracts are only used for the purpose they were set up for (i.e. a user will not be able to use supplier to purchase an item for which it does not have a contractually linked product).		Service Lead – Supplier Management	September 2019	On hold - As a result of the introduction of Business World, the systems team is unable to dedicate a resource for linking products to Contracted Suppliers at this time. This decision was made at the Business World Project Group in November 2018. Where appropriate for the requirement, Procurement Services are procuring 'manual' catalogues and these will still be uploaded directly into Agresso/Business World.
• Undertake review of requisitioning's impact on procurement process compliance		Service Lead – Supplier Management	31st December 2018	Completed
Cohesive Contract Management and Procurement service Implement a 'full cycle' cohesive contract management and procurement approach as set out in the Procurement Strategy • Phase 1 – Strategic Contracts and Integrated Commissioning Unit (ICU)	Procurement Audit External Audit	Service Lead – Supplier Management	Completed	Completed
• Phase 2 – Review of Strategic Contracts and agreements re managing Key Managed Contracts		Service Lead – Supplier Management	July – Oct 2019	In progress - A corporate approach to contract management (including the management of the Key Managed Contracts by the Supplier Management Team) is being implemented as part of an integrated procurement and contract management service.

Action	Origin of action	Lead Officer(s)	Due Date	Update Feb 2019
Feeder Systems ‘Feeder’ systems (those systems which create financial commitments outside of the Council’s main financial system) are to be reviewed and usage clearly defined, restricted and managed to ensure mis-use does not occur.	Procurement Audit External Audit	Service Director - Finance and Commercialisation / Service Lead – Supplier Management / CMT	June 2019	In progress - A Feeder System project brief setting out how the review will be conducted has been agreed. A lack of available business analyst resource has meant that the project is now due to commence in February 2019. It should be noted that this is a complex project which encompasses a wide range of Council services and, as a result of those complexities and the delayed start, the due date is at risk. The project will, however, be undertaken on a priority basis to ensure that the largest financial and compliance risks to the Council are addressed in the first phase.
Procurement processes Review procurement processes to ensure that these are simple and user-friendly with a single spending route: <u>Phase 1</u>: • Introduction of requisitioning, conduct workshops and surveys to better understand and address user issues with procurement processes • Development of e-learning to reflect user feedback and clarify processes <u>Phase 2:</u> Roll out revised procurement sections of the intranet <u>Phase 3</u>: • Ensure there is reporting to track timescales associated with procurement activities		Service Lead – Supplier Management Service Lead – Supplier Management	Dec 2018 End Feb 2019	Completed Completed In progress

Action	Origin of action	Lead Officer(s)	Due Date	Update Feb 2019
• Digitise forms and updates to reflect requisitioning and P2P • Follow up to ensure relevant staff undertake the e-learning) • Streamline "Project Gateway" documents to make simple to ease within confines of contractual requirements but also supports compliant procurement.		Head of Procurement Operations Service Lead – Supplier Management	30th September 2018 April 2018	Completed Completed Completed
Repatriate the procurement service to the Council to support the development and improvement of the procurement service	External Audit	Service Director Digital and Business Operations / Service Lead – Supplier Management	July 2019	As part of the termination of the SSP contract with Capita Business Services, the Procurement Service will be returning in-house no later than 22nd July 2019.
Develop requirements for compliance reporting and agree action for non-compliance supported by senior management.	Procurement Audit	James Strachan and Leadership Team	31st October 2018	In progress - A proposal for dealing with Officer non-compliance is now being developed by the Supplier Management Team in collaboration with HR. The approach to non-compliance will take the form of guidance for managers and will be consistent with the Council's disciplinary process.
Undertake review of P2P impact on procurement process compliance Review Nov 19	Procurement Audit	Service Lead – Supplier Management	31st December 2019	Not yet due
Develop a revised conformance dashboard with appropriate Quality Assurance process associated with it and a clear scope to ensure the compliance position is accurately reported.	Sub £100k audit	Service Lead – Supplier Management	End June 2017	Completed

Action	Origin of action	Lead Officer(s)	Due Date	Update Feb 2019
Arrange for the [at the time] newly constituted Procurement and Contract Management Board (chaired by the COO) to review conformance on a monthly basis and allocate and review actions to address non-conformance.	Sub £100k audit	Service Lead – Supplier Management	End June 2017	Completed. It should, however, be noted that as a result of the termination of the SSP contract and the end of the Procurement Guarantee that this mechanism has been discontinued and replaced by the existing SSP governance mechanisms.
Review processes to ensure that Procurement only have sight of categories of orders which are within scope for them to address.	Sub £100k audit	Service Lead – Supplier Management	End July 2017	Completed
Ensure that the conformance dashboard and aggregation data capture is effective	Sub £100k audit	Service Lead – Supplier Management	End July 2017	Completed
Review how the Hays contract is being used and its fitness for purpose	Sub £100k audit	Service Lead – Supplier Management	End July 2017	Completed (follow on actions are being developed)
Undertake a full review of the process associated with setting up new suppliers in Agresso, how this could effectively be restricted and how the process ensures compliance with Contract Procedure Rules and Create and implement an action plan based on the outcome of the review described Management action 4.1.	Sub £100k audit	Service Lead – Supplier Management/Head of Finance	End Oct 2017	Action superseded (being undertaken as part of the P2P element of the ERP)
Revise CPRs to incorporate the items observed in action plan 6.	Sub £100k audit	Service Lead – Supplier Management	End April 2017	Completed
Arrange for the approval of revised CPRs by Council.	Sub £100k audit	Service Lead – Supplier Management	End May 2017	Completed

This page is intentionally left blank

DECISION-MAKER:		GOVERNANCE COMMITTEE		
SUBJECT:		INTERNAL AUDIT PROGRESS REPORT 2018-19		
DATE OF DECISION:		11 FEBRUARY 2019		
REPORT OF:		CHIEF INTERNAL AUDITOR		
		CONTACT DETAILS		
AUTHOR:	**Name:**	**Elizabeth Goodwin**	**Tel:**	**023 8083 4616**
	E-mail:	**Elizabeth.Goodwin@southampton.gov.uk**		
Director	**Name:**	**John Harrison**	**Tel:**	**023 8083 4897**
	E-mail:	**John.Harrison@southampton.gov.uk**		

STATEMENT OF CONFIDENTIALITY

Appendix 2 is considered to be exempt from general publication based on Categories 1, 2, 3 and 7 of paragraph 10.4 of the Council's Access to Information Procedure Rules. It is not in the public interest to disclose this.

BRIEF SUMMARY

The Public Sector Internal Audit Standards 2017 (PSIAS), requires the Chief Internal Auditor (CIA) to provide periodical updates to the Governance Committee on:

- Progress made against the agreed annual audit plan.
- Results of audit activities and
- Management's response to risk that in the CIA's judgement maybe unacceptable to the Authority

All other PSIAS requirements are communicated in either the charter or annual audit opinion, which are reported separately to this committee at various times throughout the year.

Internal Audit Progress for the period 30th October 2018 to the 30th January 2019 is covered in the attached Appendix 1.

RECOMMENDATIONS:

	(i)	That the Governance Committee notes the Internal Audit Progress report for the period 30th October 2018 to the 30th January 2019.

REASONS FOR REPORT RECOMMENDATIONS

1.	In accordance with the Public Sector Internal Audit Standards the Chief Internal Auditor is required to provide an update on progress against the annual audit plan to the Governance Committee for information.

ALTERNATIVE OPTIONS CONSIDERED AND REJECTED

2.	None

DETAIL (Including consultation carried out)

3.	None

RESOURCE IMPLICATIONS

Capital/Revenue		
4.	None	
Property/Other		
5.	None	
LEGAL IMPLICATIONS		
Statutory power to undertake proposals in the report:		
6.	The Accounts and Audit (England) Regulations 2015 state 'a relevant body must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account the Public Sector Internal Auditing Standards.	
Other Legal Implications:		
	None	
RISK MANAGEMENT IMPLICATIONS		
	The report is for note only, there is no decision to be made.	
POLICY FRAMEWORK IMPLICATIONS		
	None	
KEY DECISION?	**No**	
WARDS/COMMUNITIES AFFECTED:		None
SUPPORTING DOCUMENTATION		
Appendices		
1.	Internal Audit Progress Report for the period 30th October 2018 to the 30th January 2019.	
2.	Confidential Audit Report	
3.	Mount Pleasant Junior School Audit Report	

Documents In Members' Rooms

1.	None	
Equality Impact Assessment		
Do the implications/subject of the report require an Equality and Safety Impact Assessment (ESIA) to be carried out.		**No**
Data Protection Impact Assessment		
Do the implications/subject of the report require a Data Protection Impact Assessment (DPIA) to be carried out.		**No**
Other Background Documents - Other Background documents available for inspection at: Internal Audit Office, Civic Centre, Municipal, 1st floor, Rm 219.		
Title of Background Paper(s) - None	**Relevant Paragraph of the Access to Information Procedure Rules / Schedule 12A allowing document to be Exempt/Confidential (if applicable)**	

Page 139

Internal Audit Progress Report

30th January 2019

Agenda Item 12

Appendix 1

Elizabeth Goodwin - Chief Internal Auditor

Introduction

The Internal Audit function is a statutory function for all Local Authorities. Southampton City Council Internal Audit service has an in-house team and a shared Chief Internal Auditor with Portsmouth City Council (PCC). The in house audit team is supported by audit & counter fraud staff from PCC under a collaborative working arrangement.

The requirement for an internal audit function in local government is detailed within the Accounts and Audit (England) Regulations 2015, which states that a relevant body 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.'

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

Purpose of report

The purpose of this report is to update the committee on the progress of the 2018/19 Audit Plan as at 30th January 2019 and to highlight any significant risk exposure and control issues, including fraud and governance risks. Internal audit reviews culminate in an opinion on the assurance that can be placed on the effectiveness of the framework of risk management, control and governance designed to support the achievement of management objectives. Assurance opinions are categorised as follows:

Overall Assurance Levels:	Description / Examples
Assurance	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
Reasonable Assurance	Control weaknesses or risks were identified but overall the activities do not pose significant risks to the Authority
Limited Assurance	Control weaknesses or risks were identified which pose a more significant risk to the Authority
No Assurance	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

NOTE: Where the audit receives an overall level of 'No Assurance' then the exceptions are be reported in their entirety to the Governance Committee along with the Directors comments.

The following table outline the exceptions raised in audit reports and are reported on in priority order.

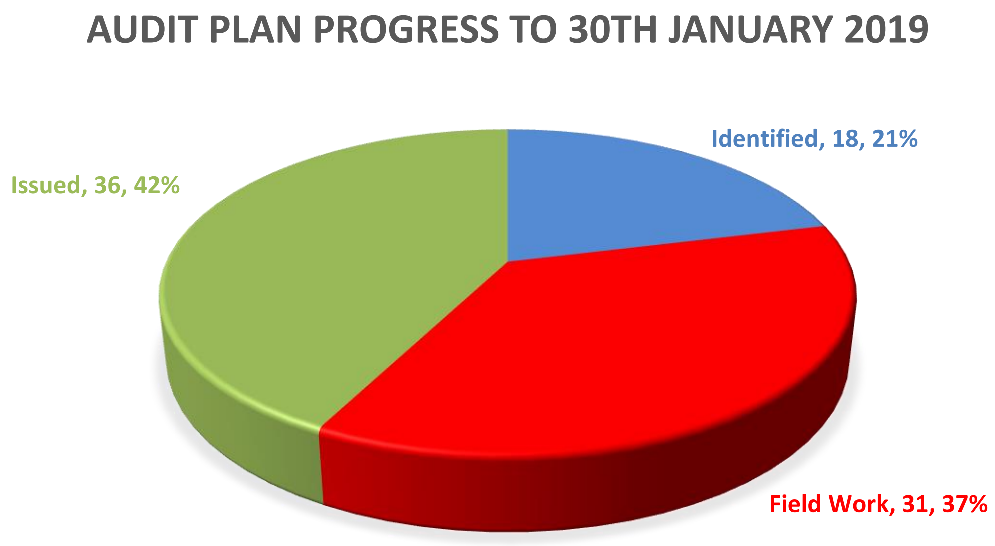
Exception Priority Level	Description
Low Risk - Improvement	Very low risk exceptions or recommendations that are classed as improvements that are intended to help the service fine tune its control framework or improve service effectiveness and efficiency. An example of an improvement recommendation would be making changes to a filing system to improve the quality of the management trail.
Medium Risk	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.
High Risk	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.
Critical Risk	Control weakness that could have a significant impact upon not only the system function or process objectives but also the achievement of the organisation'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.

NOTE: Any critical exceptions found the exceptions will be reported in their entirety to the Governance Committee along with the Directors comments.

The following table outlines the follow up categories used to describe the outcome of follow up testing completed.

Follow Up Categories	Description
Open	No action has been taken on agreed action.
Pending	Actions cannot be taken at the current time but steps have been taken to prepare.
In Progress	Progress has been made on the agreed action however they have not been completed.
Implemented but not Effective	Agreed action implemented but not effective in mitigating the risk.
Closed - Verified	Agreed action implemented and risk mitigated, verified by follow up testing.
Closed – Not Verified	Client has stated action has been completed but unable to verify via testing.
Closed – Management Accepts Risk	Management have accepted the risk highlighted from the exception
Closed – No Longer Applicable	Risk exposure no longer applicable.

Audit Plan Progress:



79% of the Audit Plan has been completed or is in progress as at 30th January 2019. The remaining 21% has yet to commence. This is based on 85 audits, which includes follow up reviews.

Breakdown of Progress:

Status	Number of Audits
Identified	**18**
Field Work	**31**
Draft Report	**0**
Issued Report	**36**

Unplanned Work:

Since 30th October 2018 to 30th January 2019, Internal Audit has provided advice/performed adhoc work in the following area. (For reference, Advice is only recorded when the time taken to provide the advice exceeds 1 hour).

- Data Analysis and data matching in relation to Duplicate Invoices. Work has been undertaken to use data analytics software to identify potential duplicate invoices and or payments with the view to conduct continuous testing in this area.
- Compiling documentation for a Freedom of Information request for reports commenting on procurement since 2010.

Audit Plan Status/Changes:

The following changes have been made to the plan since it was agreed earlier in the year. These changes are as follows;

Audits removed from the audit plan:

1. Continuing Healthcare and NNDR (National Non-Domestic Rates) have been removed as there were no high risk areas at close of audit and therefore no follow-up is required.
2. Accounts Payable was entered twice in the 2018/19 audit plan, one entry has therefore been removed.
3. Telecommunications has been removed as the work required will be carried out as part of the Mobile Devices review.
4. LATCo has been removed as this area is currently on hold pending the transfer of services from CAPITA to SCC. Consideration for auditing in this area will be given as part of the 2019/20 planning processes.
5. Project 'Modular Housing' has been removed due to the project being placed on hold. Consideration for auditing in this area will be given as part of the 2019/20 planning processes.
6. Developing Business Plans and Business Planning & Risk Management (Public Health) have been removed to enable embedding of new arrangements. This will now be audited as part of the 2019/20 audit plan.
7. HMO (Houses in Multiple Occupation) Licensing has been moved to the 2019/20 audit plan following a change in legislation. This move will enable the service to embed any amendments to processes as a result of the changes.
8. Housing Benefits has been moved to the 2019/20 audit plan as no exceptions were raised at close of audit for 2017/18.
9. Website Project Development, IT Application & Operating Systems, Recruitment & Retention, and Admissions & Exclusions are all moved to the 2019/20 audit plan to accommodate resourcing issues within the audit team following long term sickness absence.
10. Short Breaks has been moved to the 2019/20 audit plan due to the new Short Breaks offer going live from the new financial year in April 2019.

Areas of Concern:

1. IT Procurement, Inventory Control and Disposal – See confidential Appendix A for full audit report.
2. Mount Pleasant School – Summarised in the main body of the report, see Appendix B for full audit report.

Completed Audits between 30th October 2018 and 30th January 2019

<table>
<tr><th>Project Name</th><th>Hub</th><th>Overall Opinion</th><th>Total No. of Issues/Exceptions</th><th>Critical Risk</th><th>High Risk</th><th>Medium Risk</th><th>Low Risk Improvement</th></tr>
<tr><td>Early Education & Childcare</td><td>Operational (SD Children and Families)</td><td>Assurance</td><td>1</td><td>-</td><td>-</td><td>-</td><td>1</td></tr>
<tr><td>Scope of Audit:</td><td colspan="7">Council strategy, payments to providers, evidence of eligibility for free childcare entitlement, application forms, mechanism to identify failing providers and appropriate advice, help and training is provided.</td></tr>
<tr><td colspan="8">One low risk exception arose relating to one out of four providers tested not being able to evidence a child’s birth certificate to confirm eligibility and 3 parent declaration forms had not been signed by the parent and/or guardian.</td></tr>
<tr><td>Building Control</td><td>Operational (SD Growth)</td><td>Reasonable Assurance</td><td>1</td><td>-</td><td>-</td><td>1</td><td>-</td></tr>
<tr><td>Scope of Audit:</td><td colspan="7">Site inspection records, full plan applications are assessed by a surveyor, issuing of completion certificates, administration of building control fees, publishing of financial statements, robust complaints procedure.</td></tr>
<tr><td colspan="8">One medium risk exception arose due to financial statements not being published to the general public since 2014/15, which is a legal requirement of the Building (Local Authority Charges) Regulations 2010.</td></tr>
<tr><td>Planning</td><td>Operational (SD Growth)</td><td>Reasonable Assurance</td><td>2</td><td>-</td><td>-</td><td>2</td><td>-</td></tr>
<tr><td>Scope of Audit:</td><td colspan="7">Collecting and publishing planning fees, processing of planning applications, complaints, pre-application advice, monitoring of planning applications.</td></tr>
<tr><td colspan="8">The medium risk relates to 1/10 approved applications failing to meet its agreed extension date for making a decision. The second medium risk relates to 8/10 pre-application queries failing to meet their target date, in two cases the response letters were sent 109 and 54 days after the target date.</td></tr>
<tr><td>Land Charges</td><td>Strategy (SD Legal & Governance)</td><td>Reasonable Assurance</td><td>3</td><td>-</td><td>-</td><td>1</td><td>2</td></tr>
<tr><td>Scope of Audit:</td><td colspan="7">Administration of local land charges, charging and collecting fees, secure register, search requests are responded to within corporate timescales and amendments to the register are accurate.</td></tr>
<tr><td colspan="8">One medium risk exception arose due to a significant time lapse since the previous study was undertaken to determine the value of the land charges fee required to cover the cost of the resource involved, meaning the council could be over or undercharging. The first low risk relates to the authority taking the fee in cash and cheque which is labour intensive due to the requirement of daily reconciliations. The other low risk relates to there not being any policies or procedures in place for the administrating of the Local Land Charges process.</td></tr>
</table>

Apprenticeships	Strategy (SD HR & Organisational Development)	***Reasonable Assurance***	***3***	***-***	***1***	***2***	***-***
Scope of Audit:	***Monitoring and reporting on the apprenticeship program, calculating and paying the apprenticeship levy, apprenticeship compliance, apprenticeship job opportunities, reclaiming allowable funds.***						
The first high risk exception arose due to Internal Audit only being able to source 1 application form with approval from a sample of ten apprentices. The first medium risk relates to reconciling payments which highlighted on the tracker spreadsheet £4,500 of payments should have been received, however Agresso showed that £3,500 had been received. The final medium risk relates to only 6/9 target reporting figures being published on the website and therefore the authority was not fulfilling statutory requirements. *It should be noted that the Authority will being to lose funds from the levy pot in July 2019 (approximately £80k per month). The only way to decrease or eliminate the risk of losing these funds is to increase the number of apprentices. Whilst significantly increasing the number of apprentices would decrease the amount of lost levy funds it would also have knock on effects. Recruiting new apprentices may have a negative overall financial impact as their salary may be greater than the amount reclaimed from the levy. Similarly placing current employees on apprenticeships will affect the overall effectiveness of the relevant team in the short term as apprentices are required to spend 20% of their time off the job. Therefore there is not a simple solution to this issue and a suitable balance should be sought between losing funds paid into the levy and having a suitable number of apprentices that does not compromise the effectiveness of the Authority.*							
Access Controls	Operational (SD Digital & Business Ops)	***Reasonable Assurance***	***5***	***-***	***-***	***4***	***1***
Scope of Audit:	***Generating new users across the Active Directory, Si-Dem and Agresso, personal devices network access, third party organisations access, monitoring of administration accounts, password administration.***						
The first medium risk relates to only 1/10 third party organisations being signed up to the current confidentiality and acceptable use statement for 3rd party users, this would have been raised as a high risk if the statement had changed significantly or the service hadn't been already working proactively to get organisations signed up. The second medium risk relates to the lack of monitoring on the activities of administration accounts. The third medium risk relates to 5 systems being non-compliant with the Network Security Policy in relation to password character requirements and Lagan system having no form of password administration. The fourth medium risk is in relation to the administration of the Si-dem parking system where users are not always setup on written instruction and the administrator lacked the technical understanding to differentiate between some access levels. The final low risk relates to the authorising of new user account requests which can be authorised by managers who might not have knowledge of the service the request is being authorised for.							
Ethics	Strategic (SD Legal & Governance)	***Limited Assurance***	***3***	***-***	***2***	***1***	***-***
Scope of Audit:	***Suitable policies and procedures, Declaration of Interests are being completed and reviewed, Gifts and Hospitality Register procedures, staff awareness of their ethical responsibility, ethical risks are mitigated.***						

The first high risk exception arose due to the Gifts and Hospitality Policy not having been updated since 2016 and contained out of date information, The Register of Outside Interests Policy has not been updated since 2012 and staff are not asked to review the declarations to ensure they are still valid. The second high risk relates to lack of mandatory staff training regarding either policy, only 2 gifts and 16 declarations of interest have been logged by staff in an authority employing over 5000 people (including schools) and from a survey of staff only 65% (11/17 respondents) had read the Registration of Outside Interest Policy and 53% (9/17 respondents) had read the Gifts and Hospitality Policy. The medium risk relates to 9 of 16 forms for staff who had declared an outside interest not being located.							
Public Health (Community) Funerals	Operational (SD Transactional & Universal)	***Limited Assurance***	***4***	***-***	***1***	***2***	***1***
Scope of Audit:	***Up to date procedures, property searches are documented, items removed are held securely, net assets are correctly transferred to the Treasury Solicitor where applicable, expenses are accurate, current contract.***						
The high risk exception arose relating to exact inventories of items removed from the deceased's estate not being documented. In 9/10 cases files did not include a copy of the personal item handed over between police and SCC in the deceased's file and search notes were not reviewed or approved by another officer to verify the search records were accurate and in 1/10 cases a property search date or record of the property search was not held. A medium risk arose due to the internal Public Health funeral case spreadsheet not reconciling with the information from finance spreadsheets in 5/10 cases, in total £25,402 was absent from the internal public health funeral case spreadsheet compared with the information from finance. The second medium risk relates to a cabinet containing personal files and a small number of personal items not being locked when the office is left unattended. The final risk is a low risk improvement due to there not being a formal policy detailing staff responsibilities under the Public Health Act 1984.							
Regeneration Projects	Operational (SD Growth)	***Limited Assurance***	***4***	***-***	***2***	***1***	***1***
Scope of Audit:	***Up to date procedures, property searches are documented, items removed are held securely, net assets are correctly transferred to the Treasury Solicitor where applicable, expenses are accurate, current contract.***						
One high risk exception arose relating to Townhill Park Regeneration project not having a risk register. The second high risk relates to the project also not having a dedicated project board, instead progress is reported to the Major Project Programme Board on a monthly basis, however only five reports have been presented since September 2017. The medium risk relates to the Townhill project having its own cost centre which is not broken down beyond the headline figure making it harder to monitor the budget. The Low risk improvement relates to the Authority's Decommissioning of Housing Stock Policy including an inaccurate figure for home loss payments.							
Pest Control	Operational (SD Transactional & Universal)	***Limited Assurance***	***6***	***-***	***1***	***5***	***-***
Scope of Audit:	***Compliance with Control of Pesticides Regulations, refund process, commercial contracts, means tested discounts, job sheet retention, financial reporting, internal jobs income is reclaimed.***						
One high risk exception arose relating to the lack of a joined up approach between the pest control service, business support and the contact centre which resulted in 61% of expected refunds not being issued back to the customer, inaccuracies in the record or refunds and a lack of							

reconciliations of expected refunds. The medium risks related to some customer benefit discounts not being applied correctly, a lack of a stock register, appointment bookings not including sufficient information, a lack of monitoring of commercial contracts and significant delays in the recharging of internal jobs.							
Children in Need (Processes)	Operational (SD Children and Families)	***Limited Assurance***	***4***	***-***	***2***	***2***	***-***
Scope of Audit:	***Council strategy, single assessments, CIN plans follow a single assessment, CIN plans are reviewed on a regular basis, transfer of information is GDPR compliant, appropriate manager oversight.***						
The first high risk relates to the information in Paris not being accurate enough to be relied on to confirm how many cases were completed outside of the 45 day statutory period. The second high risk relates to 3/10 cases not having a level of supervision that was compliant with the supervision policy manual. The first medium risk relates to 1/3 reviewed cases not including comments regarding the lateness of the completion which was over the 45 day statutory period. The final medium risk relates to the review of cases not progressing to CIN plans, for 3/10 cases there were valid reasons but they had not been closed down for 2 months in two cases and 3 months in the final case.							
IT Procurement, Inventory Control & Disposal	Operational (SD Digital & Business Ops)	***No Assurance***	***5***	***-***	***4***	***1***	***-***
Scope of Audit:	***Policies and procedures, procurement of equipment, database accuracy and verification checks, GDPR and WEEE compliant disposals, inventory controls and administration, redeployment process.***						
See Confidential Appendix A							
Mount Pleasant Junior School	Schools	***No Assurance***	***14***	***-***	***11***	***3***	***-***
Scope of Audit:	***Compliance with Control of Pesticides Regulations, refund process, commercial contracts, means tested discounts, job sheet retention, financial reporting, internal jobs income is reclaimed.***						
Overall, based on the high number of exceptions raised in relation to the Strategic Financial Management of the school, Internal Audit can give no assurance on the effectiveness and accountability of financial management controls until the agreed actions to the highlighted exceptions have been implemented. It was noted in this review that the Schools Financial Value statement and therefore the Governor's self-assessment of the financial management of the School is 'not in line with our judgement'. The individual exceptions can be viewed in Appendix B which includes a full copy of the Mount Pleasant Junior School audit report.							

Completed Follow up Audits between 30th October 2018 and 30th January 2019

	Project Name		Follow Up Opinion	Original Opinion	Original Number of Issues /Exceptions	Critical Risk	High Risk	Medium Risk	Low Risk	Follow Up Planned
1.	Council Tax		Reasonable Assurance	Reasonable Assurance	2	-	1	-	1	N/A
	Scope of Follow Up:	Discounts and exemptions applied to student, uninhabitable and major refurbishment properties,								
	Summary of Follow Up:	Although the overall assurance level remains the same, progress has been made in how discounts, disregards and exemptions are awarded.								
	Risk	Original Issue							Status	
	High	Using data analytics software audit found 4 (16%) out of 25 sampled accounts had been awarded a discount, disregard or exemption incorrectly or needed to be review.							In Progress	
	Follow up Testing									
	Follow up tested found 3 out of 25 sampled accounts needed reviewing due to a lack of evidence to confirm student status after receiving the initial student declaration information. New twice yearly reports ensure discounts don't exceed statutory timeframes.									
	Low Risk - Improvement	There is a lack of easily reportable management information in respect of the reasons why accounts are written off.							Closed (Management Accepts Risk)	
	Follow up Testing									
	This process was reviewed however the service did not see the value in recording information due to paper returns holding this detail and it is believed this can be pulled through quickly if required rather than adding another process.									
2.	Purchase Cards		Limited Assurance	Limited Assurance	4	-	4	-	-	N/A
	Scope of Follow Up:	Limited supporting evidence for expenditure, lack of service responsibility over purchases, cardholder monthly reconciliations, authoriser monitoring, card limits.								
	Summary of Follow Up:	Follow up testing found two high risk exceptions were still in progress, one remained open and one was closed and verified. Until all the high risks are mitigated, the assurance level on arrangements will remain the same.								
	Risk	Original Issue							Status	
	High	The first high risk related to testing highlighting 8% of purchase card transactions tested did not have adequate information and 24% failed to evidence VAT receipts for their purchases.							In Progress	
	Follow up Testing									

	Project Name	Follow Up Opinion	Original Opinion	Original Number of Issues /Exceptions	Critical Risk	High Risk	Medium Risk	Low Risk	Follow Up Planned
	Follow up testing sampled 21 purchase card transactions which found 4/21 did not provide a receipt of the transaction. Additionally the exception remains in progress due to the Purchase Card policy and procedure review process having not been finalised.								
	High	The second high risk related to a lack of accountability due to Business Support carrying our purchase requests on behalf of Children and Adult services.							***In Progress***
	Follow up Testing								
	Follow up testing identified that a review of purchase card transactions per service area had yet to be undertaken. Testing reviewed two new applications and found both applications were processed upon approval from the Finance Director.								
	High	The third high risk related to an Agresso verifier report identifying 3,519 unreconciled transactions which totalled £224,590 which were therefore not tax reclaimable.							***Open***
	Follow up Testing								
	Follow up testing evidenced that between April and September 2018, 705 (£40,997.43) transactions were un-coded or unreconciled. Additionally audit could not evidence unreconciled transaction reports being sent out to authorising officers and/or service leads.								
	High	The fourth high risk relates to 9/25 sampled transactions being above the single transaction limit (£500) and of those, 6 items (66%) worth £13,099 did not evidence the relevant application and/or email communication for a limit increase approval as per policy procedures.							***Closed and Verified***
	Follow up Testing								
	Follow up testing evidenced that all five credit limit increases in the current financial year had all the supporting documentation and emails were held on file.								
3.	***Project Governance (Studio 144)***	***Reasonable Assurance***	***Limited Assurance***	***4***	***-***	***4***	***-***	***-***	***N/A***
	Scope of Follow Up:	***Project governance framework and compliance, gateway reviews, independent monitoring, post completion reviews, monitoring of ongoing projects, data collected and presented is reliable and valid.***							
	Summary of Follow Up:	Follow up testing shows a corporate approach to Project Governance has been established however this is yet to be rolled out across the entire organisation, and, therefore the approach is yet to be embedded.							
	Risk	***Original Issue***							***Status***
	High	The first high risk related to a project feasibility study being conducted in 2000, however after multiple changes to the project no further feasibility studies were undertaken to account for them.							***Closed and Verified***
	Follow up Testing								

	Project Name	***Follow Up Opinion***	***Original Opinion***	***Original Number of Issues /Exceptions***	***Critical Risk***	***High Risk***	***Medium Risk***	***Low Risk***	***Follow Up Planned***
	A log of all projects are reported to the newly created CMT Programme Board. If a project has not significantly moved in over a year, the board will be responsible for requesting the original business case is reviewed. The Project Lifecycle also includes a requirement to revisit business cases at major steps/decisions within each project, depending on the size and cost.								
	High	The second high risk related to a there being no internal minutes or documents to evidence the decision taken to procure 3 different contractors for the 3 distinct stages of the project. Furthermore, this decision resulted in delays and complexities with the project.						***Closed and Verified***	
	Follow up Testing								
	Decision making logs are part of the required documentation as part of the agreed Project Lifecycle guidance documentation. The management of documentation will be the responsibility of the Project Manager.								
	High	The third high risk related to the significant timeframe of the project causing lost knowledge and loss of documentation, in addition, it is unclear if financial feasibility studies (other than one re fundraising targets) were conducted.						***Closed and Verified***	
	Follow up Testing								
	The Project Governance documentation notes that The Actions, Decisions & Lessons log is a required document for all projects, making it clear what decisions have been made, when they were made and any actions resulting from them.								
	High	The fourth high risk relates to the project having significant increases in the budget from £13.5m to approximately £30m prior to completion. While all the increases have sought and acquired full council approval, the increased spend had a negative effect on the council's reserves.						***Closed and Verified***	
	Follow up Testing								
	Gateway reviews form part of the agreed Project Management Lifecycle, evidenced as part of the follow up.								
	High	The five high risk relates to the project being investigated by the Contract Administrator, depending on the decision, SCC may be liable for increase contract sums.						***In Progress***	
	Follow up Testing								
	In conclusion, the new project management processes have been actioned with implementation across the organisation due in October 2018.								

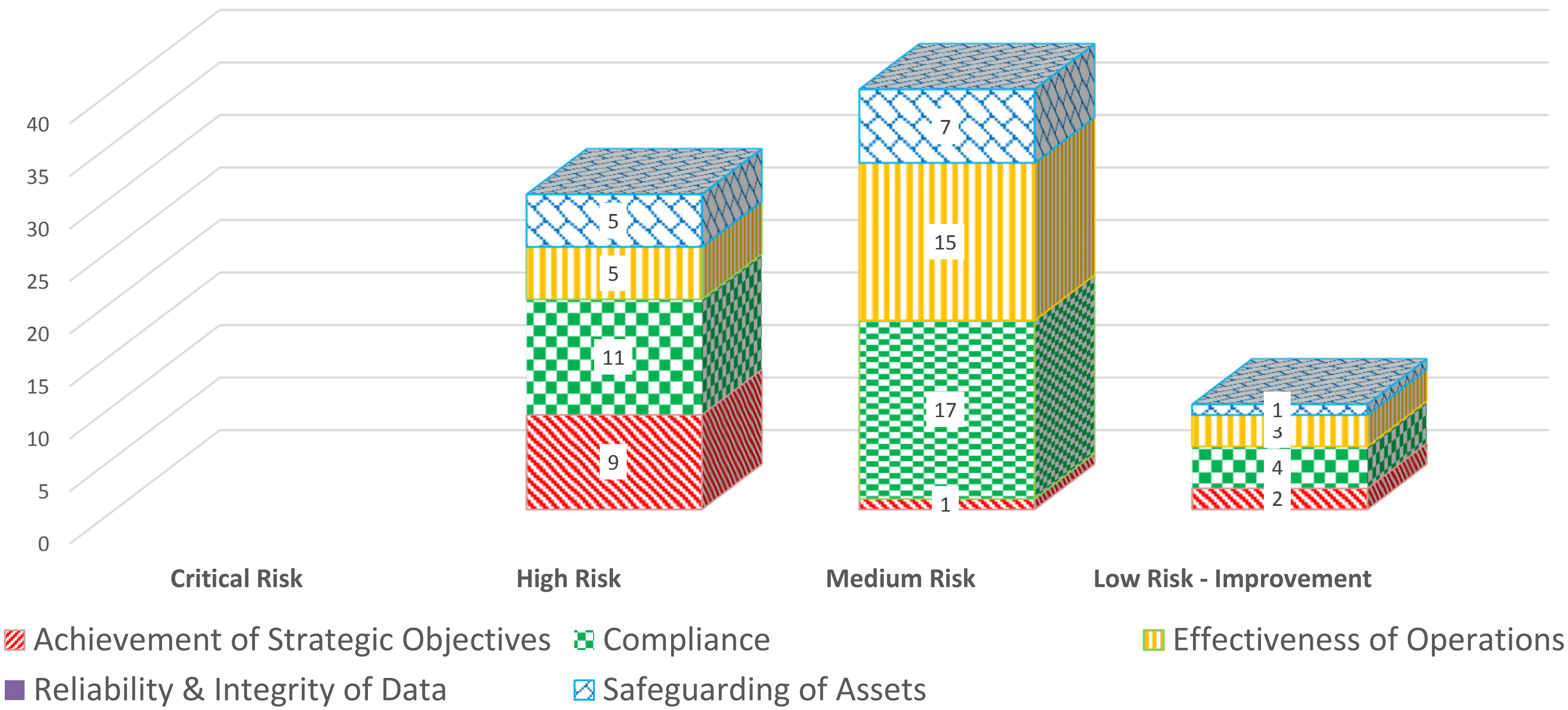
Audits in Progress

	Project Name	Hub	Project Status	Delays	Projected Reporting Date	Revised Reporting Date	Comments
1.	***Care Leavers***	Operational (SD Children and Families)	***Work in Progress***	***Yes (See Comments)***	***November 2018***	***TBC***	This item of work is on hold pending implementation of the Council's internal action plan, following the recent Ofsted inspection.
2.	***Family Matters Grant***	Operational (SD Children and Families)	***Work in Progress***	***None***	***April 2019***	***April 2019***	This is a claim verification, which is required on a quarterly basis. Therefore this will remain 'work in progress' until the end of year.
3.	***Social Media Surveillance Follow Up***	Strategic (SD Legal & Governance)	***Work in Progress***				
4.	***Solicitors Fees and Court Costs***	Strategic (SD Legal & Governance)	***Work in Progress***				
5.	***Tower Blocks***	Operational (SD Growth)	***Work in Progress***				
6.	***Child Sexual Exploitation & Missing Persons***	Operational (SD Children and Families)	***Work in Progress***				
7.	***Leaseholder Charges***	Operational (SD Adults Housing & Communities)	***Work in Progress***				
8.	***Learning and Development***	Strategy (SD HR & Organisational Development)	***Work in Progress***				
9.	***Health and Safety Follow Up***	Strategy (SD HR & Organisational Development)	***Work in Progress***				

	Project Name	Hub	Project Status	Delays	Projected Reporting Date	Revised Reporting Date	Comments
10.	Strategic Contract Management Follow Up	Operational (SD Digital & Business Operations)	Work in Progress				
11.	Procurement Follow Up	Operational (SD Digital & Business Operations)	Work in Progress				
12.	Leisure Contract	Operational (SD Digital & Business Operations)	Work in Progress				
13.	Mobile Devices	Operational (SD Digital & Business Operations)	Work in Progress				
14.	Back up and DR	Operational (SD Digital & Business Operations)	Work in Progress				
15.	Stock Condition	Operational (SD Growth)	Work in Progress				
16.	Community Infrastructure Levy	Operational (SD Growth)	Work in Progress				
17.	Water Quality	Operational (SD Growth)	Work in Progress				
18.	CCTV	Operational (SD Growth)	Work in Progress				
19.	Appointeeship	Operational (SD Adults Housing & Communities)	Work in Progress				
20.	British Gas Contract Follow Up	Operational (SD Adults Housing & Communities)	Work in Progress				
21.	Direct Payments	Operational (SD Adults Housing & Communities)	Work in Progress				

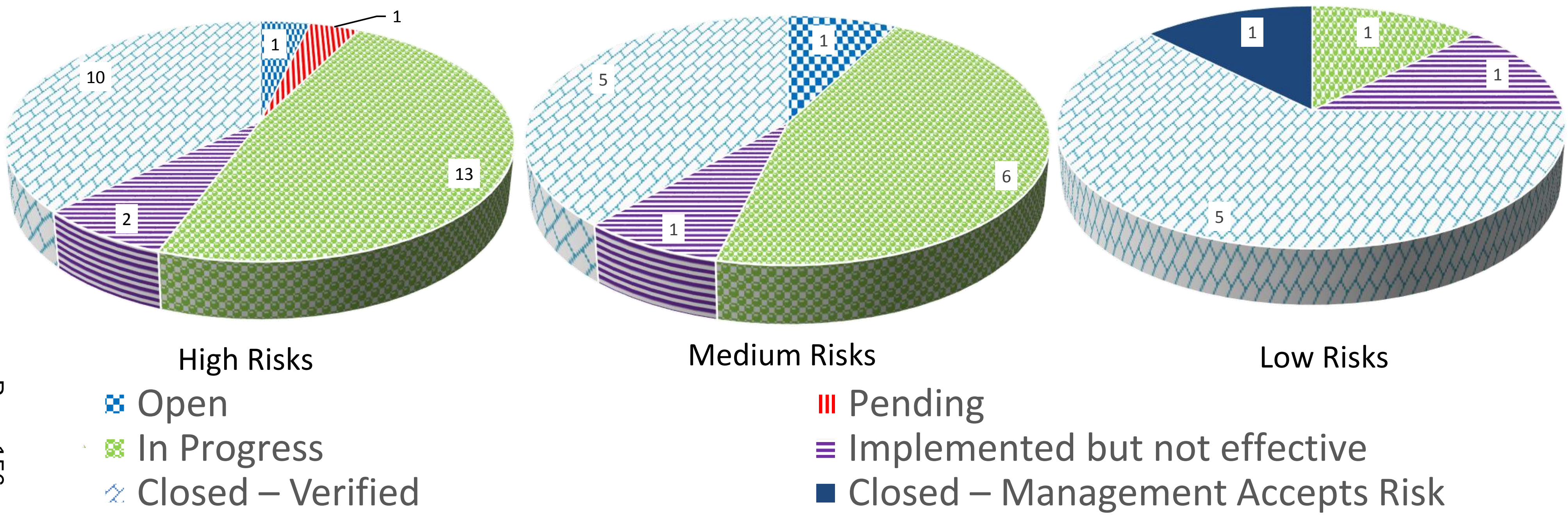
	Project Name	Hub	Project Status	Delays	Projected Reporting Date	Revised Reporting Date	Comments
22.	***Children's Safeguarding***	Operational (SD Children and Families)	***Work in Progress***				
23.	***SEND Out of City Placements***	Operational (SD Children and Families)	***Work in Progress***				
24.	***Home to School Transport***	Operational (SD Children and Families)	***Work in Progress***				
25.	***Tranman***	Operational (SD Transactional & Universal)	***Work in Progress***				
26.	***Accounts Receivable***	Strategy (SD Finance & Commercialisation)	***Work in Progress***				
27.	***Treasury Management***	Strategy (SD Finance & Commercialisation)	***Work in Progress***				
28.	***Petty Cash***	Strategy (SD Finance & Commercialisation)	***Work in Progress***				
29.	***Income Collection***	Strategy (SD Finance & Commercialisation)	***Work in Progress***				
30.	***GDPR Public Health***	Strategy (SD Public Health)	***Work in Progress***				
31.	***Sexual Health Contract***	Strategy (SD Public Health)	***Work in Progress***				

Exception Analysis to date



	Achievement of Strategic Objectives	Compliance	Effectiveness of Operations	Reliability & Integrity	Safeguarding of Assets	Total
Critical Risk						0
High Risk	9	11	5		5	30
Medium Risk	1	17	15		7	40
Low Risk - Improvement	2	4	3		1	10
Grand Total	12	32	23	0	13	80

Follow Up Analysis



Page 156

	Open	Pending	In Progress	Implemented but not effective	Closed – Verified	Closed – Not Verified	Closed – Management Accepts Risk	Closed – No Longer Applicable
Critical Risk								
High Risk	1	1	13	2	10			
Medium Risk	1		6	1	5			
Low Risk			1	1	5		1	
Grand Total	2	1	20	4	20		1	

The Internal Audit Service follows up all audits where at least 1 high risk exception has been raised. These audits 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 3 months due to the potential severity of the risks identified. The overall position of the exceptions followed up currently through 2018/19 shows that 42% have been closed and verified by audit, however 58% remain open and or are in progress.

Appendix 2

Document is Confidential

This page is intentionally left blank

Internal Audit Report

SCC1819-049

Mount Pleasant Junior School

Overall Assurance: No Assurance

CONTENTS

Author: Karen Gibbs
Version: FINAL
Dated: 13th December 2018
Recipients: Emma Kerrigan-Draper (Head teacher), Rashid Brora (Chair of Governors), Hilary Brooks (Service Director Children's & Families Services), Mel Creighton (Service Director Finance & Commercialisation) and Derek Wiles (Service Lead Education & Early Help)
Approved by Chief Internal Auditor, Elizabeth Goodwin: Elizabeth Goodwin

Executive Summary

An Internal Audit was conducted at Mount Pleasant Junior School during the week beginning 12th November 2018 at the request of the Head teacher, who has been in post at the school since April 2018.

The **Full Audit,** which comprised of testing as detailed in the scope of the audit, has resulted in eleven high and three medium risk exceptions of which further details, associated risks and agreed actions have been highlighted in the main body of the report.

The **Schools Financial Value Standard** (SFVS) statement for year ending March 2018 was also reviewed as part of this audit. The statement confirms compliance with 23/25 questions in the standard and part compliance with 2/25. However, based on the audit review of the SFVS statement and the high number of exceptions raised during the Full Audit, the Governor's self-assessment of the financial management of the School is 'not in line with our judgment'.

Overall, based on the high number of exceptions raised in relation to the Strategic Financial Management of the school, Internal Audit can give no assurance on the effectiveness and accountability of financial management controls until the agreed actions to the highlighted exceptions have been implemented.

Actions relating to the exceptions raised as a result of the Audit were discussed and agreed with the Head teacher during the exit meeting, which was held on 14th November 2018 at the school.

At the conclusion of the exit meeting the Head teacher agreed that it would be beneficial to the Governors for the complete audit report to be presented to them at the next Full Governing Body meeting which was attended by the Audit Team on 12th December 2018.

In addition, it was agreed that a follow up audit will be carried out during financial year 2019/2020 to obtain independent assurance that the actions to the exceptions raised have been fully implemented and effective financial management controls are in place and operating at the school.

ASSURANCE LEVELS

The overall assurance is given on the activity that has been audited.
These levels are based on the areas tested within the audit as noted with the Objectives & Scope.

Levels:	Description / Examples
Assurance	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
Reasonable Assurance	Control weaknesses or risks were identified but overall the activities do not pose significant risks to the Authority
Limited Assurance	Control weaknesses or risks were identified which pose a more significant risk to the Authority
No Assurance	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

Objectives and Scope

The objectives of the audit were to ensure that there are effective standards and processes in place to ensure successful financial management.

The scope of the review included the examination of a sample of documentation relating to the following areas for the period September 2017 to the date of the audit to ensure that;

Organisation of Responsibility & Accountability

The School has defined and documented the responsibilities of each person involved in the administration of its finances to avoid the duplication or omission of framework of accountability for Governors and Staff.

- Full Governing Body timetable for the period September 2018 to July 2019
- Governing Body Terms of Reference
- Governing Body Agendas & Minutes for the period September 2017 to the date of the audit (plus supporting documentation)
- Job descriptions for staff with financial responsibilities and the clerk
- SFVS documentation – March 2018 and relevant documentation to support the statement
- Skills matrix for Governors and Finance Staff
- Current Register of Pecuniary Interest
- Single Central Record document
- Whistle Blowing Policy

Budget

The School has developed and documented budgetary processes to enable the Governing Body and Head teacher to control expenditure in line with the overall objective of the school and there is a clear, identifiable link between the schools budget and the plan for raising standards and attainment.

- School Improvement / Development / Strategic Plan
- Three year Budget Plan and supporting monitoring evidence
- Budget Planning / Monitoring timetable
- School Budget Share
- Financial Reports
- Staffing Budget
- Bench Marking data

Income

All income due to the School is identified, recorded, receipted and banked promptly and intact. Vat is correctly accounted for.

- TUCASI summary sheets
- Bank paying - in books.
- Lettings invoices, agreements and charging policy
- Stock control sheets
- Miscellaneous income records.

Petty Cash

Income and expenditure made through the Petty Cash Account is accurately recorded and authorised. VAT is accounted for correctly and segregation of duties is appropriate

- Bank Statements for the period September 2017 to the date of the audit
- Petty Cash Vouchers and supporting documentation
- Petty Cash reconciliation reports

Ordering, Receipt and Payment of Goods

All commitments and expenditure are accurately recorded and expenditure is authorised, represents value for money and is for the proper purposes of the School

- Purchase orders and invoices (including compliance with the tendering process)
- Purchase cards, bank statements and receipts
- Hire agreement and contracts

Business Continuity / Resilience Plan

An appropriate business continuity / disaster recovery plan is in place which complies with the best practice guidance issued by PCC

- Business Continuity Plan
- Documentation relating to the Senior Management Emergency Team membership
- Evidence of Governing Body approval and drills / tests conducted

Inventory

All appropriate assets are recorded, safeguarded and controlled and disposal of equipment is properly administered and controlled

- Inventory sheets
- Loans register

Computer Security

Access to mainframe data is restricted to authorised staff only and adequate controls exist over security of passwords and environmental controls are sound

- Data Protection Registration Certificate
- IT / Internet Policy
- CCTV Policy

Unofficial / PTA Funds

There is appropriate control over the operation of unofficial / PTA funds and the Audited Statement of Account is authorised by the Governing Body

EX.1 - SCC1819-049 - Mount Pleasant Junior School - Governing Body Terms of Reference / Skills Matrix	
Priority Level **High Risk**	
Exception The **Schools Financial Value Standard** (SFVS) statement for year ending March 2018 was reviewed as part of this audit. The statement was submitted to the Local Authority on 04.06.2018 which was after the expected timescale of 31.03.2018. The document was signed by the Chair of Governors on behalf of the School. The school response to question 1 of the SFVS statement confirms that 'Governors and Senior staff have adequate financial skills'. The response to question 2 (which asks if the Governing Body have clear terms of reference) did not answer the question but confirmed that 'the Finance Committee includes the Head teacher and Business Manager'. During on-site testing there was no evidence that; • Governors have completed a 'financial skills matrix' to demonstrate that collectively they have adequate financial skills • Governors have a clear terms of reference which is reviewed on an annual basis	
Risks and Consequences Operational, legislative, reputational and financial risk that the Governing Body will not be fulfilling their formal responsibility for the financial management of the school and may not be able to demonstrate that; • There are adequate financial skills among its members to fulfil the role of challenge and support in the field of budget management and value for money • All essential financial duties are carried out and requisite controls exercised without unnecessary duplication of effort by Governors • Governors fully understand their responsibilities in respect of financial management and can be held accountable for how they carry them out • The financial management of the school is effective and accountable .	
Agreed Action	**Person Responsible / Action by Date**
The school are in the process of joining the Aspire Community Trust. The Governing Body terms of reference and 'skills matrix' will be completed as part of the	Chair of the Governing Body / March 2019

Governing Body reconstitution to Foundation School Status. A review of collective Governing Body financial skills will determine if Financial training is required to ensure the financial management of the school is effective and accountable.	 Chair of the Governing Body / March 2019

EX.2 - SCC1819-049 - Mount Pleasant Junior School - Finance staff job descriptions / Skills Matrix	
Priority Level **High Risk**	
Exception Further review of the **Schools Financial Value Standard** (SFVS) statement highlighted that the school response to question 3 of the statement, which asks if there is a clear definition of the relative responsibilities of the governing body and the school staff in the financial field, was that 'Roles and responsibilities are reviewed by the Head teacher'. During on-site testing there was no evidence that; • There is a clear staffing structure for non-teaching staff • There are job descriptions or alternative documentary evidence of financial responsibilities for non-teaching staff • Staff with financial responsibilities have completed a 'financial skills matrix' to demonstrate that collectively they have adequate financial skills	
Risks and Consequences Operational, legislative and financial risk that the staff with financial responsibilities will not be fulfilling their responsibility for the operational financial control and administration of their school and may not be able to demonstrate that; • All essential financial duties are carried out and requisite controls exercised without unnecessary duplication of effort • Staff fully understand their responsibilities in respect of financial control and administration and can be held accountable for how they carry out their duties • The financial control and administration of the school is effective and accountable	
Agreed Action	**Person Responsible / Action by Date**
A staffing structure for non-teaching staff will be put in place and will be supported by job descriptions or clear documentary evidence of the financial responsibilities for each member of staff. A 'skills matrix' will be completed by all staff with financial	Head teacher / March 2019

responsibilities and a review of these skills will determine if Financial training is required to ensure the operational financial administration of the school is effective and accountable.	

EX.3 - SCC1819-049 - Mount Pleasant Junior School - Register of Pecuniary Interest

Priority Level
High Risk

Exception
A review of the School website on 18.10.2018 confirmed that the Publication of Governors' details only record the name of school governors and the category of appointment. This is not compliant with DfE statutory guidance.

The Constitution of Governing Bodies of maintained schools - August 2017 - stipulates that the website must include;
The structure and remit of the Governing Body,
For each governor who has served at any point during the last 12 months

- full name, date of appointment, term of office, date they stepped down (where applicable),who appointed them
- relevant business and pecuniary interests (including governance roles in other educational institutions)
- attendance record at Governing Body meetings over the last academic year

In addition, the **Schools Financial Value Standard** (SFVS) statement highlighted that the school response to question 5 stated that ‘a Business Register is kept and a Declaration of Interest reminder issued and signed at the start of all governors meetings’.

However, there was no evidence of a completed Register of Pecuniary Interests (RPI) for the 2018/2019 Academic year during on-site testing and the agenda and minutes for the Full Governing Body (FGB) dated 05.09.2018 does not evidence that Governors were given the opportunity to declare any pecuniary interests at the beginning of the meeting.

Risks and Consequences
Reputational and operational risk that the Governors will not be able to evidence transparency in relation to their business and personal interests which is essential for effective and accountable financial management.

Agreed Action	Person Responsible / Action by Date
The School website will be updated to ensure that the Publication of Governors details are compliant with DfE statutory guidance.	Chair of the Governing Body / January 2019
The on-site Register of Pecuniary Interests will be fully	Chair of the Governing Body / December 2018

completed by all Governors. The 'opportunity to declare interests' will be included as a regular agenda item for all Governing Body meetings moving forward.	 Clerk to the Governing Body / with immediate effect

Page 187

EX.4 - SCC1819-049 - Mount Pleasant Junior School - Retention of sensitive data

Priority Level
High Risk

Exception
During onsite testing a sample of three employees was selected to ensure that recruitment and vetting checks had been carried out prior to appointment.

A review of the personnel files for the employees in the sample highlighted that all appropriate recruitment and vetting checks had been completed. However, it was noted that documents such as a driving licence, payslip, HMRC P45, marriage certificate, Council tax bill and DBS certificate are being retained in the personnel files - which is a breach of the DBS Code of Practice and GDPR / Data Protection Act. Discussions during on-site testing confirmed that school finance staff were not aware that this documentation should not be retained for longer than a six month period.

The revised DBS Code of Practice - DATA HANDLING requires that all DBS related information provided by an employee is held in line with the obligations under the Data Protection Act 2018.

The GDPR / Data Protection Act (Principle e) Storage Limitation states … as a minimum that ' You must not keep personal data for longer than you need it'.

Risks and Consequences
Legislative and financial risk that a breach of the DBS Code of Practice and / or the GDPR / Data Protection Act could result in enforcement action from the Information Commissioner and / or a potential fine.

Fines are discretionary rather than mandatory, are imposed on a case-by-case basis and must be "effective, proportionate and dissuasive".

The fines are based on the specific articles of the Regulation that the organisation has breached.

Agreed Action	**Person Responsible / Action by Date**
All personnel files will be checked to ensure that they only contain 'right to work in the UK evidence' and permitted documentation which is compliant with the Data Protection	Head teacher / December 2018

Act. Moving forward, documentation will only be retained for a new employee until the relevant DBS confirmation has been received by the school.	 Finance team / ongoing

EX.5 - SCC1819-049 - Mount Pleasant Junior School - Schools Financial Value Standard (SFVS)

Priority Level
High Risk

Exception
A review of the current **Schools Financial Value Standard** (SFVS) statement is carried out as part of a standard audit programme to ensure that the Governor's self-assessment of the financial management of the School is ‘in line with our judgment’.

However, there is no evidence of Full Governing Body monitoring to evidence the accuracy of the statements made in the document. In addition, there is no evidence that checks were carried out as to the accuracy of the statement for period ending March 2018 before agreement and signature of the Chair of Governors.

Completion and submission of the SFVS is a mandatory requirement for Local Authority Schools. The standard was designed by the DfE to assist Governors in managing their finances and to give assurance to all stakeholders that they have secure financial management in place.

Risks and Consequences
Operational, legislative and financial risk that the Governing Body will not be fulfilling their formal responsibility for the financial management of their school and may not be able to demonstrate that;

- All essential financial duties are carried out and requisite controls exercised without unnecessary duplication of effort by Governors or Finance staff.
- Governors fully understand their responsibilities in respect of financial management and can be held accountable for how they carry them out.
- The financial management of the school is effective and accountable.

Agreed Action	Person Responsible / Action by Date
The SFVS will be included as a regular agenda item for all Governing Body meetings moving forward.	Chair of the Governing Body and clerk / ongoing
The Chair of the Governing Body will nominate a Governor lead to work with the Finance team during the year and	Chair of the Governing Body / December 2018

report progress back to the Full Governing Body. The Full Governing Body will review and approve the SFVS document before submission to the Local Authority at financial year end. Approval will be clearly documented in the minutes.	 Full Governing Body / Annually Clerk / ongoing

EX.6 - SCC1819-049 - Mount Pleasant Junior School - Budget

Priority Level
High Risk

Exception
The **Schools Financial Value Standard** (SFVS) statement 4 confirmed that the Governing Body receives clear and concise monitoring reports of the school's budget position at least three times a year.

The Governing Body minutes were reviewed for the period September 2017 to September 2018. However, there is no evidence that any supporting budgetary documentation had been submitted to the committee before budget approval, or that ongoing monitoring of the budget had been considered throughout the 2017/2018 Financial Year.

A current budget report was not available during on-site testing and it is unclear what the up- to-date balance is.

Risks and Consequences
Reputational, financial and operational risk as a result of poor or non-existent budget monitoring.

This could result in the Local Authority suspending the Schools right to a delegated budget which may occur if the provisions of the school financing scheme have been substantially or persistently breached, or if the budget share has not been managed satisfactorily.

Agreed Action	Person Responsible / Action by Date
The Head teacher has a scheduled meeting with Gary Wooldridge (Independent Advisor to Schools) and the Chair of Governors to acquire up-to date reports and determine the current budgetary position.	Head teacher and Chair of Governors / 19.11.2018
The FGB meeting on 12.12.2018 will be Finance focussed and will include a discussion, review and ratification of the budget.	Chair of Governors and Governing Body / 12.12.2018

EX. 7 - SCC1819-049 - Mount Pleasant Junior School - Business Continuity/Resilience Plan	
Priority Level **High Risk**	
Exception The **Schools Financial Value Standard** (SFVS) statement highlighted that the school did not respond to question 25 of the statement, which asks if the school have an appropriate business continuity or disaster recovery plan. Discussions with the Head teacher confirmed that the school does not have a business continuity or disaster recovery plan in place. The support notes section Q25 (b) for the **Schools Financial Value Standard (SFVS)** states that the school must have an appropriate business continuity or disaster recovery plan which must be kept up-to-date as any element of the plan which has become out of date is likely to be of no use in an emergency. The purpose of such a plan is to ensure that contingency arrangements are in place for incidents such as; • If the school's premises were not available for an extended period (e.g. because of fire or flood) • Large scale loss of property (e.g. through fire or theft) • Loss of information through catastrophic failure of IT systems	
Risks and Consequences Operational, reputational, legislative and financial risk that the school will not have an effective and current plan in place to minimise risk and disruption in the event of an emergency. This could result in a lack of business continuity due to a failure of IT systems, reputational and legislative damage in the event of injury / loss of life and / or large scale destruction of property.	
Agreed Action	**Person Responsible / Action by Date**
A comprehensive Business Continuity/Resilience Plan will be formulated, approved by the Full Governing Body and communicated to all staff.	Chair of Governors & Head teacher / January 2019

The plan will be reviewed on an on-going basis and annually as part of the SFVS ratification.	Full Governing Body / Annually

Page 194

EX.8 - SCC1819-049 - Mount Pleasant Junior School - Inventory	
Priority Level **High Risk**	
Exception The **Schools Financial Value Standard** (SFVS) statement highlighted that the school response to question 25, which asks if the school have an up-to-date asset register is 'Yes'. However, discussions with the Head teacher confirmed that the school do not have an up to date inventory which lists all assets with a value of £200.00 and above. It is unclear from the documentation reviewed during testing and discussions with school staff which member of the team is responsible for the control and administration of the Inventory. The exception raised under EX2 should aid if implemented, in the identification of who is responsible for this activity.	
Risks and Consequences Operational and financial risk that without an up to date Inventory; • The loss or theft of assets may go undetected • Non-compliance with Insurance requirements would potentially negate the Policy in the event of a claim for lost or stolen assets • The current practice places the school staff and stakeholders in a vulnerable position as there is a lack of internal control for the administration, retention and disposal of assets.	
Agreed Action	**Person Responsible / Action by Date**
The school will investigate the most effective and efficient method to record the administration, retention and disposal of school assets.	Head teacher / January 2019 and ongoing
Once a method has been determined and agreed by the Full Governing Body, a complete inventory of the school will be undertaken to ensure the details of all appropriate assets are adequately recorded.	Chair of Governors / January 2019 and ongoing

Moving forward the school will ensure the 'Guidance for school inventories' Chapter 20 of the SCC Schools Finance Manual is available to and adhered to by staff with responsibility for the inventory.	Full Governing Body / ongoing

EX.9 - SCC1819-049 - Mount Pleasant Junior School - Information Commissioners Office (ICO)

Priority Level
High Risk

Exception
A review of the Information Commissioners website on 12.11.2018 confirmed that the School have not registered with, or paid a data protection fee to the ICO.

The GDPR / Data Protection (Charges and Information) Regulations 2018 requires every organisation or sole trader who processes personal information to pay a data protection fee to the ICO - unless they are exempt. Failure to do so will result in a fixed penalty.

Risks and Consequences
Legislative, reputational and financial risk resulting in non-compliance with the GDPR / Data Protection (Charges and Information) Regulations 2018 which could result in a fixed penalty fine to the School.

Fines are discretionary rather than mandatory, are imposed on a case-by-case basis and must be "effective, proportionate and dissuasive".

The fines are based on the specific articles of the Regulation that the organisation has breached.

Agreed Action	Person Responsible / Action by Date
The School will register and pay the relevant data protection fee to the ICO.	Head teacher / with immediate effect
The Chair of Governors will notify the Information Commissioners Office of the schools failure to register or pay the fee.	Chair of Governors / with immediate effect
Moving forward, a diary note will be made to ensure the data protection fee is renewed before the next expiry date.	Finance team / ongoing

EX.10 - SCC1819-049 - Mount Pleasant Junior School - CCTV	
Priority Level **High Risk**	
Exception Closed-circuit television (CCTV) cameras are in operation on the school premises and signs are positioned around the school to alert the school community and visitors to the site that CCTV cameras are in place. However, a discussion with the Head teacher during the course of the Audit confirmed that the school have not adopted a CCTV Policy as required by the Information Commissioner's Office (ICO) CCTV Code of Practice.	
Risks and Consequences Legislative and financial risk resulting in non-compliance with the ICO Code of Practice, Regulation of Investigatory Powers Act (RIPA) and the GDPR / Data Protection Act which could result in a potential fine to the School.	
Agreed Action	**Person Responsible / Action by Date**
The Governing Body will review and ratify the school CCTV Policy at the next Full Governing Body meeting which is due to be held in December 2018. The Policy will be reviewed on a regular basis as stipulated and the review will be recorded in the relevant minutes.	Chair of Governors / December 2018 Full Governing Body / ongoing

EX.11 - SCC1819-049 - Mount Pleasant Junior School – Single Central Record	
Priority Level **High Risk**	
Exception The School Single Central Record (SCR) was not available for review during on- site testing. Discussions with the Head teacher confirmed that the original document, which had been maintained by the previous School Business Manager, was not compliant with best practice or up to date. The school is currently in the process of producing a new SCR and will ensure that the information recorded for each employee is accurate and agrees with details on the documentation held in individual personnel files. **Keeping Children Safe in Education -** which is Statutory Guidance to Schools requires that; **<u>Single central record</u>** Schools and colleges must keep a single central record, referred to in the regulations as the register. The single central record must cover the following people: • all staff (including supply staff) who work at the school: in colleges, this means those providing education to children; • all others who work in regular contact with children in the school or college, including volunteers; and • for independent schools, including academies and free schools, all members of the proprietor body. The Head teacher has confirmed that priority is being given to producing the new SCR and a copy will be available for review by the Audit team before the Full Governing Body meeting which is due to be held on 12.12.2018.	
Risks and Consequences Reputational, operational and legislative risk that failure to maintain a current Single Central Record may result in appointing an employee who does not have the appropriate skills, abilities or qualifications for the job and / or who may have a criminal record (the details of which may preclude them from working in a school).	
Agreed Action	**Person Responsible / Action by Date**
A revised and updated SCR will be introduced which is compliant with best practice. The SCR will be cross checked against employee personnel files to ensure that all data captured is accurate.	Head teacher / December 2018 and ongoing Head teacher / December 2018 and ongoing

EX.12 - SCC1819-049 - Mount Pleasant Junior School - E Safety Policy	
Priority Level **Medium**	
Exception A comprehensive E-Safety Policy Summary was evidenced in the School Policy folder during testing. The policy was scheduled for review in July 2018 but there was no evidence that the review had taken place. In addition, the policy states that all staff, pupils and parents must read and sign the Acceptable Use Policies before using any school ICT resource. However, there was no evidence of a signed statement for any of the relevant parties to confirm awareness and understanding of the policy.	
Risks and Consequences Financial and legislative risk resulting in non-compliance with E-Safety requirements. This could result in enforcement action from the Information Commissioner or a potential fine.	
Agreed Action	**Person Responsible / Action by Date**
The E-Safety Policy Summary will be reviewed and ratified by the Full Governing Body and the decision will be recorded in the Governing Body minutes.	Chair of Governors / January 2019
All stakeholders will sign the statement to confirm awareness and understanding of the policy.	All stakeholders / January 2019

EX.13 - SCC1819-049 - Mount Pleasant Junior School - Personal use of Loyalty Cards	
Priority Level **Medium Risk**	
Exception The petty cash transaction log for period ending date 31.07.2018 was reviewed during on-site testing. There were 13 entries on this log and the total value of the claims was £349.81 Testing highlighted that valid VAT receipts were in place for all purchases but there were 2 occasions where staff had claimed personal 'reward points'(12 points in total) via a store Loyalty Card for purchases made on behalf of the school.	
Risks and Consequences Legislative and financial risk as obtaining personal reward points while purchasing goods on behalf of the school, which are deemed to be a 'benefit in kind' by HMRC, could potentially result in a financial penalty to the school.	
Agreed Action	**Person Responsible / Action by Date**
All staff will be reminded that personal reward points cannot be claimed when purchasing items on behalf of the school.	Head teacher / with immediate effect
Enquiries will be made to determine if a Loyalty Card can be set up in the School name to maximise potential 'rewards' for future purchases.	Finance team / March 2019

EX.14 - SCC1819-049 - Mount Pleasant Junior School - Stock Control	
Priority Level **Medium Risk**	
Exception Discussions with the Finance team during on-site testing confirmed that the school have a stock of school uniform but no stock control system for the administration of uniform sales. The school are currently moving towards off-site uniform provision however, in the interim period, effective stock control is essential to ensure that wastage and loss are kept to a minimum and the correct size stock is available when needed.	
Risks and Consequences Operational and financial risk resulting from a lack of stock control which could put school staff in a vulnerable position in the event of lost or stolen uniform.	
Agreed Action	**Person Responsible / Action by Date**
A stock control spread sheet will be introduced for the control and administration of uniform sales. A stock check will be undertaken and evidenced on a termly basis.	Finance team / January 2018 Finance team / ongoing

EXCEPTIONS

The following tables outline the exceptions from the recent audit and are reported in priority order. Internal Audit report regularly to the Governance Committee on findings and management actions. However, in accordance with agreed protocols, all critical exceptions are brought to the attention of the Committee.

Priority Level	Description
Critical Risk	Control weakness that could have a significant impact upon not only the system function or process objectives but also the achievement of the organisation'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.
High Risk	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.
Medium Risk	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.
Low Risk - Improvement	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.