

## Public Document Pack

# Audit Committee

Monday, 25th January, 2010  
at 6.00 pm  
Committee Room 1 - Civic Centre

This meeting is open to the public

### **Members**

Councillor Ball (Chair)  
Councillor Beckett  
Councillor Bogle (Vice-Chair)  
Councillor Daunt  
Councillor Fuller  
Councillor Wells  
Councillor Williams , R

### **Contacts**

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Keith Turner  
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Head of Service:-

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Executive Director of Resources  
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# PUBLIC INFORMATION

## **Role of the Audit Committee**

The Committee has responsibility for:-

- providing an independent assurance to the Standards and Governance Committee 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 statement of internal control;
- satisfying and providing assurance to the Standards and Governance Committee that appropriate action is being taken on risk and internal control related issues identified by the internal and external auditors and other review and inspection bodies; and
- specifically, the oversight of, and provision of assurance to the Standards and Governance Committee on, the following functions:-
  - ensuring that Council assets are safeguarded;
  - maintaining proper accounting records;
  - ensuring the independence, objectivity and effectiveness of internal and external audit;
  - the arrangements made for co-operation between internal and external audit and other review bodies;
  - considering the reports of internal and external audit and other review and inspection bodies;
  - the scope and effectiveness of the internal control systems established by management to identify, assess, manage and monitor financial and non-financial risks (including measures to protect against, detect and respond to fraud).

## **Southampton City Council's Six Priorities**

- Providing good value, high quality services
- Getting the City working
- Investing in education and training
- Keeping people safe
- Keeping the City clean and green
- Looking after people

## **Public Representations**

At the discretion of the Chair, members of the public may address the meeting about any report on the agenda for the meeting in which they have a relevant interest.

**Smoking policy** – the Council operates a no-smoking policy in all civic buildings.

**Mobile Telephones** – please turn off your mobile telephone whilst in the meeting.

**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.

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

## **Dates of Meetings: Municipal Year 2009/10**

<b>2009</b>	<b>2010</b>
Weds 24 June	<b>Mon 25 January</b>
Weds 23 Sept	<b>Thurs 18 March</b>
<b>Thurs 10 Dec</b>	

## CONDUCT OF MEETING

### **Terms of Reference**

The terms of reference of the Audit Committee are contained in Article 8 and Part 3 (Schedule 2) of the Council's Constitution.

### **Business to be discussed**

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

### **Rules of Procedure**

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

### **Quorum**

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

### **Disclosure of Interests**

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

### **Personal Interests**

A Member must regard himself or herself as having a personal interest in any matter

- (i) if the matter relates to an interest in the Member's register of interests; or
- (ii) if a decision upon a matter might reasonably be regarded as affecting to a greater extent than other Council Tax payers, ratepayers and inhabitants of the District, the wellbeing or financial position of himself or herself, a relative or a friend or:-
  - (a) any employment or business carried on by such person;
  - (b) any person who employs or has appointed such a person, any firm in which such a person is a partner, or any company of which such a person is a director;
  - (c) any corporate body in which such a person has a beneficial interest in a class of securities exceeding the nominal value of £5,000; or
  - (d) any body listed in Article 14(a) to (e) in which such a person holds a position of general control or management.

A Member must disclose a personal interest.

Continued/.....

## **Prejudicial Interests**

Having identified a personal interest, a Member must consider whether a member of the public with knowledge of the relevant facts would reasonably think that the interest was so significant and particular that it could prejudice that Member's judgement of the public interest. If that is the case, the interest must be regarded as "prejudicial" and the Member must disclose the interest and withdraw from the meeting room during discussion on the item.

It should be noted that a prejudicial interest may apply to part or the whole of an item.

Where there are a series of inter-related financial or resource matters, with a limited resource available, under consideration a prejudicial interest in one matter relating to that resource may lead to a member being excluded from considering the other matters relating to that same limited resource.

There are some limited exceptions.

Note: Members are encouraged to seek advice from the Monitoring Officer or his staff in Democratic Services if they have any problems or concerns in relation to the above.

## **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

Agendas and papers are now available via Southampton Online at  
[www.southampton.gov.uk/council/meeting-papers](http://www.southampton.gov.uk/council/meeting-papers)

### **1 APOLOGIES AND CHANGES IN MEMBERSHIP (IF ANY)**

To note any changes in membership of the Committee made in accordance with Council Procedure Rule 4.3.

### **2 INTERNAL AUDIT: STATUS OF WORK DECEMBER 2009**

Report of the Chief Internal Auditor setting out the Internal Audit Status of Work report for the period ending 21<sup>st</sup> December, 2010, attached.

### **3 DECLARATIONS OF INTEREST**

In accordance with the Local Government Act 2000, and the Council's Code of Conduct adopted on 16<sup>th</sup> May 2007, Members to declare any personal or prejudicial interests in any matter included on the agenda for this meeting.

NOTE: Members are required, where applicable, to complete the appropriate form recording details of any such interests and hand it to the Democratic Support Officer prior to the commencement of this meeting.

### **4 MINUTES OF THE PREVIOUS MEETING (INCLUDING MATTERS ARISING)**

To approve and sign as a correct record the Minutes of the meetings held on 23<sup>rd</sup> September and 10<sup>th</sup> December 2009, and to deal with any matters arising, attached.

### **5 STATEMENT FROM THE CHAIR**

### **6 EXCLUSION OF THE PRESS AND PUBLIC**

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 Appendix 2 to Item 14 based on Categories 2 and 7 of Paragraph 10.4 of the Access to Information Procedure Rules.

The information contained therein is exempt as it relates to ongoing investigations and is likely to reveal the identities of individuals. Having applied the public interest test it is not appropriate to disclose this information. The interests of any parties involved in these investigations could be jeopardised by the release of the information.

**7 AUDIT COMMISSION: AUDIT AND INSPECTION PLAN PROGRESS REPORT**

Report of the Chief Internal Auditor concerning an update on progress against the 2009-10 Audit and Inspection Plan as presented to the 24th June 2009 meeting and setting out the audit and inspection work that the Audit Commission proposes to undertake for the 2008/09 financial year, attached.

**8 HIGHWAYS SERVICE PARTNERSHIP PROCUREMENT**

Report of the Chief Internal Auditor concerning a Progress Report from the Audit Commission highlighting key risks and issues associated with the above project in its role of adviser on risks to the Council, attached.

**9 ANNUAL TREASURY MANAGEMENT STRATEGY AND PRUDENTIAL LIMITS 2009/10 - 2012/13**

Report of the Executive Director of Resources on the City Council's Prudential Indicators and the Treasury Management Strategy and summarising the main activities undertaken during 2009/10 to date, attached.

**10 RISK MANAGEMENT ACTION PLAN 2008-09: STATUS REPORT**

Report of the Executive Director of Resources concerning out a Status Report in accordance with the Authority's Risk Management Strategy and Action Plan, attached.

**11 ANNUAL GOVERNANCE STATEMENT 2008/09 ACTION PLAN STATUS REPORT**

Report of the Executive Director of Resources concerning the Annual Governance Statement ('AGS') in accordance with the Accounts and Audit Regulations where the Council is required to complete an Action Plan Status document, attached.

**12 NATIONAL FRAUD INITIATIVE 2008-09**

Report of the Chief Internal Auditor detailing the scope and timing of the national fraud initiative exercise, attached.

**13 ASSURANCE MAPPING**

Report of the Chief Internal Auditor concerning the action taken on risk and internal control related issues identified by the internal and external auditors and other review and inspection bodies, attached.

**14 MONITORING AUDIT COMMITTEE RECOMMENDATIONS**

Report of the Democratic Support and Members Services Manager requesting that the Committee considers the actions taken since the last meeting, attached.

**15 IMPROVEMENT OF SCHOOL PERFORMANCE**

Report of the Executive Director of Children's Services and Learning on the Council's performance in relation to the target of pupils achieving level 4 or above in both English and Maths at Key Stage 2 and performance and attainment in the City's schools more generally, attached.

**16 INTERNAL AUDIT: STATUS OF WORK DECEMBER 2009**

Report of the Chief Internal Auditor setting out the Internal Audit Status of Work report for the period ending 21<sup>st</sup> December 2009, attached.

15<sup>th</sup> JANUARY 2010

SOLICITOR TO THE COUNCIL

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## AUDIT COMMITTEE

### MINUTES OF THE MEETING HELD ON 23<sup>RD</sup> SEPTEMBER 2009

#### Present

Councillor Ball (Chair), Beckett, Bogle, Daunt and Wells.

#### Also in attendance:

Ms K Handy, Mr M Bowers and Ms J Burns, Audit Commission.

#### **16. APOLOGIES AND CHANGES IN MEMBERSHIP**

Apologies were received from Councillors Fuller and Williams (R).

#### **17. MINUTES OF THE PREVIOUS MEETING (INCLUDING MATTERS ARISING)**

**RESOLVED** that the minutes of the meeting held on 24<sup>th</sup> June 2009 be approved and signed as a correct record. (Copy of the minutes circulated with the agenda and appended to the signed minutes).

#### **18. AUDIT COMMISSION: AUDIT AND INSPECTION PLAN PROGRESS**

The Committee received and noted the report of the Chief Internal Auditor concerning an update on progress against the 2008/09 Audit and Inspection Plans setting out the work the Audit Commission proposed to undertake based on the risk-based approach adopted to both audit planning as set out in the Code of Audit Practice of Comprehensive Performance Assessment (CPA) and inspection planning as set out in the Comprehensive Area Assessment (CAA) Framework. (Copy of the report circulated with the agenda and appended to the signed minutes).

#### **19. STRATEGIC RISK REGISTER**

The Committee considered the report of the Executive Director of Resources detailing the Strategic Risk Register for comments and consideration. (Copy of the report circulated with the agenda and appended to the signed minutes).

#### **RESOLVED**

- (i) that the Strategic Risk Register set out in Appendix 1 adequately reflects the key strategic risks facing the Council;
- (ii) that the methodology and process adopted by the Council with regard to identifying and managing its key risks be incorporated into the 'new' member induction; and

- (iii) that the member training session on Risk Management scheduled for 12<sup>th</sup> November should make specific reference to the Strategic Risk Register and the views of members attending be canvassed regarding the content of the document.

**20. INTERNAL AUDIT:STATUS OF WORK AUGUST 2009**

The Committee received and noted the report of the Chief Internal Auditor concerning the Internal Audit Status of Work report for the period ending 19<sup>th</sup> August 2009. (Copy of the report circulated with the agenda and appended to the signed minutes).

**21. MONITORING AUDIT COMMITTEE RECOMMENDATIONS**

The Committee received and noted the report of the Democratic Support and Members Services Manager requesting that the Committee considers the actions taken since its last meeting. (Copy of the report circulated with the agenda and appended to the signed minutes).

**RESOLVED**

- (i) that the actions taken since the last Audit Committee be noted; and
- (ii) that with regard to Item No 8 - Meeting held on 19<sup>th</sup> March, 2009 set out in the Appendix to the report, the Strategic Partner Manager be requested to arrange the appropriate training for members and officers under the new Partnership code on a date no later than the next scheduled meeting of the Committee.

## **AUDIT COMMITTEE**

### **MINUTES OF THE MEETING HELD ON 10th December 2009**

#### **Present**

Councillor Ball (Chair), Bogle, Beckett, Daunt Fuller, and Wells.

#### **Also in attendance:**

Ms K Handy and Mr M Bowers, Audit Commission.

#### **22. APOLOGIES AND CHANGES IN MEMBERSHIP**

Apologies were received from Councillor Williams (R).

#### **23. AUDIT COMMISSION: ANNUAL AUDIT LETTER 2008/09**

The Committee considered the report of the Chief Internal Auditor concerning the Annual Audit Letter presenting the results of the statutory audit of the Council's 2008/09 financial statements and the results of the work undertaken to assess arrangements to secure value for money in the use of resources. (Copy of the report circulated with the agenda and appended to the signed minutes).

Ms K Handy, District Auditor was present and with the consent of the Chair addressed the Committee.

#### **RESOLVED**

- (i) that the contents and the comments of the District Auditor's Annual Letter 2008/09 be noted; and
- (ii) that with regard to Key Messages Section 8 page 4 – Actions contained in the Letter the Executive Director of Children's Services and Learning be requested to submit a report to the January, 2010 meeting in view of the Committee's concern on the levels of educational performance and attainment in the City's schools advising and informing on the action being taken and proposed together with an overview of the use of financial resources.

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# Agenda Item 7

<b>DECISION-MAKER:</b>	AUDIT COMMITTEE		
<b>SUBJECT:</b>	AUDIT COMMISSION: AUDIT AND INSPECTION PLAN PROGRESS REPORT		
<b>DATE OF DECISION:</b>	25 <sup>th</sup> JANUARY 2010		
<b>REPORT OF:</b>	CHIEF INTERNAL AUDITOR (Acting)		
<b>AUTHOR:</b>	Name:	Neil Pitman	Tel: 023 80 834616
	E-mail:	Neil.pitman@southampton.gov.uk	
<b>STATEMENT OF CONFIDENTIALITY</b>			
NOT APPLICABLE			

## SUMMARY

The 2009-10 Audit and Inspection plans were presented to the Audit Committee on 24 June 2009. The audit and inspection plan is based on the Audit Commission's risk-based approach to audit planning as set out in the Code of Audit Practice and on the risk-based approach to inspection planning as set out in the Comprehensive Area Assessment (CAA) Framework

An update on progress against the Plan(s), together with reports issued, is attached as appendices to this report.

## RECOMMENDATIONS:

- (i) That the Audit Committee notes the Audit Commissions reports as attached.

## REASONS FOR REPORT RECOMMENDATIONS

1. The Audit Committee's Terms of Reference require it to be satisfied and provide assurance to the Standards and Governance Committee 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.

## CONSULTATION

2. The reports, as attached, have been discussed and agreed with the appropriate officers.

## ALTERNATIVE OPTIONS CONSIDERED AND REJECTED

3. None

## DETAIL

4. The following Audit Commission reports are attached for consideration in the appendix:

- Progress report – December 2009
- LA Short Notice Inspection – June 2009
- LA Short Notice Inspection – Action Plan

The external auditor will be in attendance at the Committee meeting to answer any questions.

## FINANCIAL/RESOURCE IMPLICATIONS

### Capital

5. None

### Revenue

6. None

### Property

7. None

### Other

8. None

## LEGAL IMPLICATIONS

### Statutory power to undertake proposals in the report:

9. The duties and powers of auditors appointed by the Audit Commission are set out in the Local Government Act 1999.

### Other Legal Implications:

10. None

## POLICY FRAMEWORK IMPLICATIONS

11. None

## SUPPORTING DOCUMENTATION

### Appendices

1.	Audit Commission: Progress report – December 2009
2.	Audit Commission: LA Short Notice Inspection – June 2009
3.	LA Short Notice Inspection – Action Plan

### Documents In Members' Rooms

1.	None
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### 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)
None	

Background documents available for inspection at: N/a

**FORWARD PLAN No:**

N/A

**KEY DECISION? N/A**

**WARDS/COMMUNITIES AFFECTED: All**

# Progress Report

Southampton City Council  
Audit 2009/10 & 2010/11  
January 2010



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<b>Progress with 2009/10 audit and assessment</b>	<b>3</b>
<b>Progress with 2010/11 audit and assessment</b>	<b>7</b>

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## **Status of our reports**

The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission explains the respective responsibilities of auditors and of the audited body. Reports prepared by appointed auditors are addressed to non-executive directors/ members or officers. They are prepared for the sole use of the audited body. Auditors accept no responsibility to:

- any director/member or officer in their individual capacity; or
  - any third party.
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# Progress with 2009/10 audit and assessment

Report	AC key contact	Authority contact	Expected report	Reported to Audit Committee	Comment
Audit plan 2009/10	Kate Handy	Audit Committee	March 2009	24 June 2009	The initial fee letter for 2009/10 was agreed with officers in April 2009 and presented to the Audit Committee at its 24 June 2009 meeting. A more detailed opinion plan will be prepared and discussed with officers before we commence our 2009/10 final accounts audit
Area Assessment Plan	Linda Krywald	Audit Committee	March 2009	24 June 2009	The letter setting out the approach and fee for the Organisational Assessment (OA) and Area Assessment (AA) was agreed with officers in April 2009 and reported to the Audit

Report	AC key contact	Authority contact	Expected report	Reported to Audit Committee	Comment
					Committee at its meeting on 24 June 2009. The OA and AA reports were published in December 2009 and a briefing session for members will take place on 20 January 2010.
<b>Financial statements</b>					
Interim audit memorandum (If appropriate)	Mike Bowers	Carolyn Williamson	June 2010		
Annual Governance Report (ISA260)	Kate Handy	Standards and Governance Committee	September 2010		
Accounts opinion	Kate Handy	Standards and Governance Committee	September 2010		
Final Accounts memorandum (If appropriate)	Mike Bowers	Carolyn Williamson	October 2010		
<b>Use of Resources</b>					
Use of Resources	Kate Handy	Brad Roynon	September 2010		

<b>Report</b>	<b>AC key contact</b>	<b>Authority contact</b>	<b>Expected report</b>	<b>Reported to Audit Committee</b>	<b>Comment</b>
Building Schools for the Future- overview (If necessary)	Jane Burns	Clive Webster	N/A		There are no issues that we need to bring to the Audit Committee's attention at this time.
Highways maintenance	Tim Thomas Gordon Westley	Nick Johnson	Updates as necessary	25 January 2010	An initial update report was sent to key officers in August 2009. The report was discussed at the meeting of the Project Board in December 2009 and is attached as a separate item on this agenda.
Data Quality Spot checks (If necessary)	Mike Bowers	Joy Wilmot-Palmer	N/A		
<b>Inspection</b>					
Short Notice Inspection (Pilot) –Local authority strategic housing services	Julie Watts	Nick Murphy	June 2009	25 January 2010	The SNI was carried out in June 2009 and an initial report was sent to the Council. Following discussions the final report was agreed with officers in September 2009. The Council's action plan was agreed

Report	AC key contact	Authority contact	Expected report	Reported to Audit Committee	Comment
					<p>by the Cabinet Member for Housing and Local Services in December 2009.</p> <p>The report and the approved action plan are on the agenda for this meeting of the Audit Committee</p>

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## Progress with 2010/11 audit and assessment

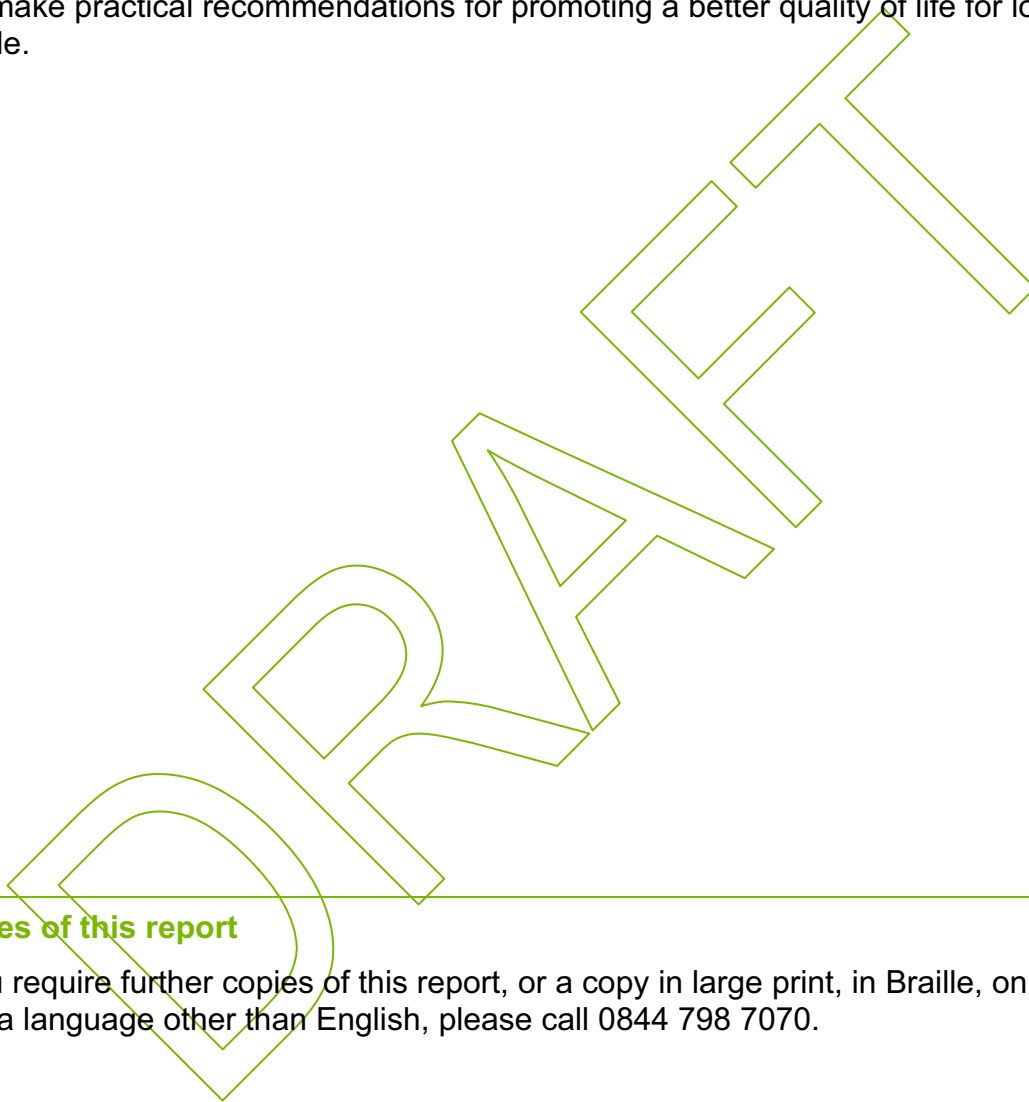
Report	AC key contact	Authority contact	Expected report	Reported to Audit Committee	Comment
Audit plan 2010/11	Kate Handy	Audit Committee	June 2010		.
Area Assessment Plan	Linda Krywald	Audit Committee	June 2010		

# The Audit Commission

The Audit Commission is an independent watchdog, driving economy, efficiency and effectiveness in local public services to deliver better outcomes for everyone.

Our work across local government, health, housing, community safety and fire and rescue services means that we have a unique perspective. We promote value for money for taxpayers, auditing the £200 billion spent by 11,000 local public bodies.

As a force for improvement, we work in partnership to assess local public services and make practical recommendations for promoting a better quality of life for local people.



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## Copies of this report

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Audit Commission, 1st Floor, Millbank Tower, Millbank, London SW1P 4HQ

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[www.audit-commission.gov](http://www.audit-commission.gov)

# LA SNI Pilot

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# Short Notice

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# Inspection

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Southampton City Council

June 2009



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# Audit Commission Inspections

The Audit Commission is an independent body responsible for ensuring that public money is spent economically, efficiently and effectively and delivers high-quality local services for the public.

Within the Audit Commission, the Housing Inspectorate inspects and monitors the performance of a number of bodies and services. These include local authority housing services, local authorities administering Supporting People programmes, arms length management organisations and housing associations. Our key lines of enquiry (KLOEs) set out the main issues which we consider when forming our judgements on the quality of services. The KLOEs can be found on the Audit Commission's website at [www.audit-commission.gov.uk/housing](http://www.audit-commission.gov.uk/housing).

Short notice inspections (SNIs) have been developed to encourage improvements in the performance of local authorities and housing associations at delivering services to their customers. They focus on the outcomes for residents and work on the basis that these organisations will concentrate on improving services rather than preparing for an inspection, which could happen at any time.

The SNI methodology has not previously been utilised for local authority strategic housing services and is therefore being trialled for the first time in this inspection. Southampton City Council has volunteered to participate in this pilot and to provide commentary on the process from the perspective of an inspected body. This report has not therefore been published on the Audit Commission's website.

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# The Context

- 1 Southampton is a major port with a population of over 200,000. The level of population growth (9.6 per cent) exceeded the average for the South East between 1997 and 2007 but it is projected to increase at a lower than average rate between 2016 and 2029. However, the number of households is expected to grow at an above average rate for the South East over the same period. The 2001 Census shows that Southampton had the highest proportion of black and minority ethnic (BME) residents in the Hampshire region at 7.6 per cent, projected to rise 11.2 per cent by 2006.
- 2 The level of social housing (23 per cent) is nearly twice the average for the South East. At 23 per cent, the proportion of private rented homes is almost three times higher than the national average but the proportion of owner-occupied homes is much lower (53 per cent compared to 71 per cent nationally). More than a third of homes in Southampton are flats, one of the highest proportions in the South East and more than double the average for England.
- 3 Southampton is the most affordable place in Hampshire to buy a home with an affordability ratio of 7.01<sup>1</sup>. However, average house prices in the city rose by 89 per cent between 2000 and 2008, households in receipt of benefit make up 26 per cent of the population and average income levels are only slightly above the national average. As a result, the demand for social housing is high and there are currently 13,000 households on the waiting list.
- 4 The housing requirement within the South East Plan for the city is for 16,300 new homes in the period 2006 to 2026 which is an annualised target of 815 homes. This is also the target adopted in Southampton's Local Area Agreement.
- 5 The Council is a member of Partnership for Urban South Hampshire (PUSH), a sub-regional partnership of eleven local authorities which has come together to address the economic and regeneration issues facing urban South Hampshire, focused on the cities of Portsmouth and Southampton.

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## The scope of the inspection

- 6 The scope of this inspection focused on the Council's approach to enabling the provision of new housing and related aspects of its strategic approach to housing delivery. It also included an assessment of how the Council is addressing three cross-cutting themes within the areas included in the inspection's scope: access and customer care, diversity and value for money.
- 7 We would like to thank the staff of Southampton City Council who made us feel welcome during the inspection, met our requests efficiently and provided useful feedback on the short notice inspection process and related methodology.

Dates of inspection: 9 to 11 June 2009.

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<sup>1</sup> A household with an average income in the area would need to find 7.01 times their income to be able to purchase an average priced home

## The Context

Regional contact details:

Audit Commission,

Housing Inspectorate - Southern Region,

1st Floor Millbank Tower,

Millbank,

London

SW1P 4HQ

# Summary of our findings

- 8 We have assessed the strengths and weaknesses of the service areas included in the scope of the inspection. Our judgements are based on the evidence obtained during the inspection and are outlined below.

**Table 1 Assessment**

How good is the service?	Assessment
<ul style="list-style-type: none"> <li>Access and customer care<sup>2</sup></li> </ul>	Strengths outweigh weaknesses
<ul style="list-style-type: none"> <li>Diversity</li> </ul>	Strengths outweigh weaknesses
<ul style="list-style-type: none"> <li>Value for Money</li> </ul>	Strengths outweigh weaknesses
<ul style="list-style-type: none"> <li>Strategic Approach</li> </ul>	Strengths considerably outweigh weaknesses
<ul style="list-style-type: none"> <li>Enabling the provision of housing</li> </ul>	Strengths considerably outweigh weaknesses

- 9 We have asked Southampton City Council to consult with its stakeholders on the findings of this report and on the preparation of an action plan to implement our recommendations.

<sup>2</sup> Access and Customer Care, Diversity and Value for Money are assessed in relation to the service areas inspected only.

# How good is the service?

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## Access and Customer Care in the service areas inspected

**10** We found that strengths outweigh weaknesses in this area.

**11** There are a number of strengths.

- There is a strong culture of customer care within the service, supported by a well-developed framework of customer charters and internal awards, with some service standards in place.
- Well-located Council offices and a range of access routes (including a one-stop-shop, planning portal, free pre-application discussions, a duty officer and a single point of contact for all planning agreements) help to ensure that customers can easily access the service.
- There are clear standards in place to help housing associations understand the quality of service they will receive from the Council, helping to promote effective joint working on housing delivery.
- There is clear written guidance available to developers to help them understand the Council's policies and requirements, including supplementary planning guidance. This helps developers identify high level planning constraints and submit appropriate planning applications, saving both costs and time.
- The Council has begun to assess tenants' satisfaction with their new homes and to seek feedback from developers on the enabling process. Initial returns from new tenants found that 83 per cent were either very satisfied or satisfied with their new homes.

**12** There are some weaknesses.

- Customer feedback systems are relatively new in some key areas and there is a lack of routine exit surveys for planning customers. As a result, customer feedback has yet to influence work processes or design standards.
- Service standards are either not in place or are not well publicised for all areas of the development control service. This means that customers are not always able to make informed decisions about the services that are available.

### Diversity in the service areas inspected

13 We found that strengths outweigh weaknesses in this area.

14 There are a number of strengths.

- The Council has a well-established corporate equality and diversity framework and provides diversity training for all staff. This helps to promote a consistent focus on the housing needs of diverse groups within the service.
- Strategic housing work, such as the black and minority ethnic (BME) housing needs survey and housing strategy for older people have influenced the delivery of services to meet identified needs, including the development of larger homes for some BME families and extra care housing.
- Close work with the Supporting People team has improved the pattern of supported housing for vulnerable people. For example, through the development of new purpose-built schemes which offer better support.
- Eight per cent of new build completions since April 2007 have been wheelchair adapted, giving people who use wheelchairs better access to suitable housing.
- Accessible buildings and the offer of translation facilities for all documents reduce access barriers for some vulnerable people.

15 There are some weaknesses.

- The Council has been slow to respond to the need for additional pitches for gypsies and travellers. This adds to the barriers facing the gypsy and traveller community in securing accommodation and increases the likelihood of unauthorised encampments in the city.
- Aspirational design standards relating to Lifetime Homes and access for disabled people set out in planning policies are not being monitored, meaning that the service does not know how many homes are meeting the needs of some diverse communities.
- Robust equality impact assessments have not been completed for a number of key areas within the service. This increases the risk that services and/or policies may not be meeting the needs of some diverse groups.

## How good is the service?

### Strategic approach

16 We found that strengths considerably outweigh weaknesses in this area.

17 There are a number of strengths.

- Participation in PUSH is helping the Council to ensure that its strategic work is well integrated at sub-regional level and to improve partnership working with other Councils. This helps to ensure that the City and the wider sub-region are better placed to develop well-coordinated responses to issues such as sustainability and inclusion, to influence Government policy and to develop a shared agenda for delivery.
- Affordable housing is clearly a high level priority for the Council and its sub-regional partners and this is reflected in all key plans. This ensures that key decision makers and partners are focused on housing outcomes for the community.
- Sustainability features highly amongst the strategic objectives. All developments in the city are expected to achieve an equivalent rating to the EcoHomes/BREEAM 'very good' rating (and by 2012 an 'excellent' rating) with particular emphasis on water efficiency. This helps to tackle fuel poverty in vulnerable households.
- There is a strong evidence base to help the Council identify housing need and supply issues. This will help the Council and its partners deliver the right type, size and quantity of new housing.
- The housing strategy sets challenging and ambitious targets for the delivery of new homes and makes appropriate links to wider health, training and employment, community safety and sustainability issues. A strong focus on the range of challenges facing Southampton will help to promote sustainable communities.
- Housing and Supporting People policies are well aligned. This has led to better supported housing services for a range of vulnerable people.
- Good joint working between the planning and housing enabling teams helps the service to monitor progress on housing schemes, develop planning policy and streamline the enabling process, contributing to effective delivery of new homes.
- The Council is transforming the balance of the communities in its eleven priority neighbourhoods. Over half of all new housing has been in the priority neighbourhoods (a total of 1,056 new homes) with just 26 per cent of new homes being affordable. This is helping to improve the integration and social inclusion of its communities in poorer parts of the City.

18 There are some weaknesses.

- The affordable housing requirements of the Local Plan are currently relatively modest, requiring developments of 15 or more units to provide up to 25 per cent affordable housing (despite the Council's original intentions to set a threshold of 5 units which was overturned by the planning inspector).
- The Council is not monitoring the impact of its design guidance and its commitment to sustainability standards is not well-understood by private developers. As a result, its aspirations for well-designed and sustainable homes may not be realised.
- The lack of agreement about the need for gypsies and travellers sites is acting as a barrier to progress in meeting the accommodation needs of this group.
- Despite some good initiatives, the Council and its partners are only just developing a more strategic approach to addressing the challenges proposed by the recession. Without a clear framework, there is a risk that some housing developments may fail to materialise.

**Enabling the provision of housing**

19 We found that strengths considerably outweigh weaknesses in this area.

20 There are a number of strengths.

- The service is performing very strongly in enabling the delivery of new housing in Southampton, with an average of 1,040 new homes completed over the last five years. This has helped many residents find housing solutions in the City.
- The delivery of affordable housing over the last five years has averaged just over 40 per cent of all new completions, with 71 per cent of these homes for rent. This has helped many people who cannot afford market housing to secure affordable homes.
- The Council is helping to promote intermediate housing by working with the zone agent to raise its profile. This has helped many people get a foothold on the home ownership ladder and resulted in only one completed shared ownership home being unsold despite challenging market conditions.
- The Council is maximising the potential for new house completions through its requirement for challenging residential densities, helping to ensure that each development maximises its potential for new homes.
- A very small minority (less than five per cent) of new housing developments have been on greenfield sites. The use of previously developed land protects recreational space within the city and prevents urban sprawl.
- The service manages the development of affordable housing effectively, with contractual agreements with each housing association, quarterly progress monitoring and effective partnership working with housing associations and developers. This helps to ensure the timely delivery of new homes.
- A clear and competency-based selection process for the housing associations which Southampton works with has helped to ensure that the six preferred partners are adding value to developments through additional community benefits.



## How good is the service?

- New homes are finished to a good standard using high quality components, reflecting initiatives such as design competitions and input from the City Design Team and an architects' panel. All homes increasingly meet sustainability code level three. This helps to reduce energy costs for people who may be facing fuel poverty.
- The Council is prepared to take difficult decisions in order to meet its housing obligations, for example, by making changes to design and providing assurances on the management of the housing, it has been able to keep some contested large housing developments on track.
- The Council is supporting development through the commitment of its own resources, helping to facilitate high levels of social rented housing.
- The Council has provided strong support to developers to mitigate the effect of the recession and maintain the delivery of new housing, including the re-phasing of affordable housing and the postponement of payments under section 106 arrangements. This has helped developers to mitigate the effect of the recession and keep housing delivery on track.

### 21 There are some weaknesses.

- Low delivery of larger family housing in recent years means that the Council and its partners are not yet providing effectively for the accommodation needs of the whole community.
- Below average performance in deciding planning applications in 2007/08 and failure to meet the services' own target on the level of successful appeals slows the delivery of new housing and can bring added costs to developers and the service.
- Some tenants are expressing dissatisfaction with some aspects of their new homes. Based on 77 responses to date, more than 25 per cent of new tenants express some dissatisfaction with the quality and space of their new home, soundproofing between floors and the proximity of their homes to their place of work.

## Value for money

### 22 We found that strengths outweigh weaknesses in this area.

### 23 There are a number of strengths.

- A strong corporate framework for value for money has resulted in significant efficiency and procurement savings over the last three years. This has allowed for investment in service improvements such as the call centre which is providing residents with better access to services.
- Membership of PUSH has increased available funding for strategic studies such as flood assessments, research studies and sub-regional strategic plans. This has meant that the City (and the sub-region) has been well-placed to respond to the challenges around sustainable development and economic growth.

- The service has been effective in securing new affordable housing through planning gain, helping to reduce demands on the public purse and supporting the development of more housing when grants are paid.
- The effectiveness of the Council's housing partnerships has been reviewed, resulting in the streamlining of key groups and improved operational working.
- The Council and its partners have been successful in leveraging in capital funding for a range of new housing schemes and have responded proactively to new funding opportunities offered by the Homes and Communities Agencies. A total of £34 million of capital funding for affordable housing was awarded in 2008/11 the largest allocation in the region.
- The service is achieving a good balance between quality and cost in its requirements for new housing. This means that developers are less likely to challenge planning decisions and helps the Council avoid costly appeals and delays in delivering new housing.

### 24 There are a number of weaknesses.

- Scrutiny work is reducing the variation in the grants required by different housing associations for the same types of development but there still remains some variation. High grant levels reduce the amount of funding available for other developments
- It is unclear if the Council's requirements for Lifetime Homes are delivering value for money, with no evaluation of the impact on either resident satisfaction or lower running costs.
- The service does not yet have a robust understanding of how well its costs compare to services provided by other councils, limiting scope to identify further efficiencies.
- The current system of delegations to planning officers is not efficient, with many decisions referred to monthly planning committees. This is increasing the cost of the service and increasing the waiting time for customers.

# Recommendations

**25** To rise to the challenge of continuous improvement, organisations need inspection reports that offer practical pointers for improvement. Our recommendations identify the expected benefits for both local people and the organisation. In addition, we identify the approximate costs<sup>3</sup> and indicate the priority we place on each recommendation and key dates for delivering these where they are considered appropriate. The inspection team makes the following recommendations.

### Recommendation

**R1** Improve the customer focus of the service by:

- developing and publicising service standards for all aspects of the enabling service;
- introducing and responding to customer satisfaction surveys for all customers who have used the development control service;
- effectively monitoring the extent to which the aspirational standards set out in the Residential Design Guide are being delivered and taking appropriate follow-up action to promote compliance; and
- improving the time taken to make decisions on planning applications.

The expected benefits of this recommendation are:

- better informed customers; and
- better services for customers.

The implementation of this recommendation will have medium impact with low costs. This should be implemented by December 2009.

### Recommendation

**R2** Improve the approach to meeting the needs of gypsies and travellers by:

- establishing a project plan with key milestones to deliver the targets set out in the South East Plan and effectively monitoring progress to ensure delivery.

<sup>3</sup> Low cost is defined as less than 1 per cent of the annual service cost, medium cost is between 1 and 5 per cent and high cost is over 5 per cent.

The expected benefits of this recommendation are:

- a better focus on meeting the needs of this diverse group; and
- better prospects for the social inclusion of gypsies and travellers.

The implementation of this recommendation will have high impact with low costs. This should be implemented by December 2009.

### Recommendation

**R3** Improve the approach to value for money by:

- developing a strategic approach to facilitating housing development during the economic recession;
- developing a better understanding of the reasons for variations in the grants required by different housing associations for the same types of development and continuing to take action to narrow the gap as appropriate; and
- benchmarking the cost and quality of the enabling service to provide a better understanding of how costs compare and drive efficiencies.

The expected benefits of this recommendation are:

- improving value for money to enable better services; and
- better information for decision makers.

The implementation of this recommendation will have medium impact with low costs. This should be implemented by December 2009.

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# Prospects for Improvement: summary of our findings

- 1 We have assessed the prospects for improvement of the service areas included in the scope of the inspection. Our judgements are based on the evidence obtained during the inspection and are outlined below.

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**Table 2     Assessment**

What prospects are there that the services inspected will improve?	Assessment
Track record	Strengths outweigh weaknesses
Managing performance	Strengths considerably outweigh weaknesses
Capacity	Strengths considerably outweigh weaknesses

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# What prospects are there that the services inspected will improve?

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## What is the track record in delivering improvement in the areas inspected?

2 We found that strengths outweigh weaknesses in this area.

3 There are a number of strengths:

- The Council has a strong track of delivering new homes, including affordable housing, to meet local needs and regional housing targets.
- The 65 per cent target for the rented element of new affordable housing has been exceeded, with 71 per cent achieved over the last three years.
- The vast majority of new residential units are in developments with a density of over 50 units per hectare (over 85 per cent in the last three years) and the percentage of dwellings on previously developed land over the last five years has consistently been above 95 per cent.
- The 2007/08 Direction of Travel Assessment<sup>4</sup> has concluded that the Council is improving well and strengthening its approach to value for money, with improvements in housing and work on major regeneration projects cited as key strengths.
- The Council has demonstrated its ability to work successfully with a range of partners and stakeholders to deliver new housing and promote sustainable communities.

4 There are some weaknesses:

- The Council has struggled to achieve a mix of affordable homes for families. While 30 per cent of new housing needs to have three or more bedrooms, only 15 per cent was delivered.
- The accommodation needs of gypsies and travellers have not yet been satisfactorily addressed.
- The speed of deciding planning applications has been below average.
- Southampton is later than some councils with its Local Development Framework (LDF). This is because the Government Office for the South East (GOSE) required some revisions to the draft Core Strategy which had 'knock-on' effects to the rest of the programme (including progression of the city centre action plan Development Plan Document). This has delayed the Council in maximising its potential to deliver affordable housing.

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<sup>4</sup> Carried out by the Audit Commission

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## How well is performance managed in the areas inspected?

5 We found that strengths considerably outweigh weaknesses in this area.

6 There are a number of strengths:

- The Council is showing strong leadership around its ambitions for affordable housing, demonstrated through its approach to planning policy, partnership working and willingness to make hard decisions to support delivery.
  - The Council has strong ambitions to transform the city into the premier city on the south coast. Housing forms a central part of the vision of the city and stands to gain from its successful regeneration.
  - The LDF process is being managed well and reflects regional, sub-regional and local priorities. The Core Strategy, which is due to be adopted in January 2010, aligns with PUSH sub-regional work and maps out how the 16,300 homes required under the South East Plan will be delivered on designated sites.
  - Strong plans are in place or being formulated. High level plans (such as the Housing Strategy, the LDF and the City of Southampton Strategy) are based on robust evidence, are well integrated with wider ambitions, appropriate to meet the future needs of residents and set a clear strategic direction for the service.
  - These plans address key weaknesses in the current approach. For example:
  - The LDF is increasing the qualifying threshold to 30-40 per cent on developments of 15 homes or more and 20 per cent on those between 4-14 homes. It will also increase the present requirements for density of development. This will help the Council to further improve the delivery of affordable housing.
  - Additional guidance for developers on the delivery of family homes will be adopted in July 2009. The Supplementary Planning Document will lead to the provision of an increased number of larger new homes and provide housing solutions for larger households.
  - Significant plans are in place to further promote sustainable housing. All developments in the city are expected to achieve an equivalent rating to EcoHomes/BREEAM “very good” rating (and by 2012 an “excellent” rating) with particular emphasis on water efficiency. The draft Core Strategy also sets out a requirement that all housing must meet the Code for Sustainability level three at adoption, level four by 2012 and level six by from 2016.
  - The Council is implementing a programme of renewal and housing growth across the housing estates it owns. By 2026, it estimates that the programme will provide 4,000 new homes with 130 existing homes demolished and a split of 50 per cent market and 50 per cent affordable (70 per cent of the affordable housing will be rented).
  - There are strong performance management arrangements in place to support the housing enabling service. Regular partnership meetings, detailed quarterly reports on the progress of the development programme and clear targets for development partners help to quickly identify slippage and get performance back on track.
-

- There is an effective performance appraisal system in place. Team targets are clearly set out and understood by staff and this helps them focus on meeting the housing needs of residents.

7 We identified only one weakness.

- The improvement plan developed by the Council following the inspection does address most (but not all) of the weaknesses identified in this inspection. It does not always contain SMART targets and, where they are in place, they are not always challenging.

### Do the areas inspected have capacity to improve?

8 We found that strengths considerably outweigh weaknesses in this area.

9 There are a number of strengths:

- There are powerful drivers for affordable housing in Southampton. The Council is clear that it is a priority, provides strong leadership and is prepared to take difficult decisions to generate new housing.
- The Strategic Housing Land Availability Assessment demonstrates that the South East Plan housing requirement for the city of 16,300 new homes in the period 2006 – 2026 is likely to be deliverable. It shows that the city has the potential to identify sufficient sites in future Development Plan Documents to deliver a 5 year, 10 year and 15 year supply of homes.
- Resources are in place to support continued high levels of performance in enabling new housing. The strategy and enabling team is well resourced and well regarded by partners. Effective joint working with partners and PUSH also increases capacity in this area.
- A successful track record in leveraging in external funding (and a high Housing & Planning Delivery Grant award based on strong performance) provides a solid foundation for future capacity.
- Management and staff capacity is strong. Developers and housing associations recognise that the Council has a good understanding of the housing market and value its approach to partnership working. They believe it has skilled staff and the right policies in place to support delivery.
- Some new posts are being established that will increase capacity and help the Council address some of its key challenges. This includes proposals to establish a post to focus on the creation of new gypsy and traveller pitches and a new senior post for economic development and regeneration.
- The Council is taking steps to ensure that public and private investment secures the greatest benefit to the city. By bringing together its regeneration and economic development functions the Council will be better placed to develop holistic approaches to promote sustainable communities.

10 We did not identify any weaknesses.

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# Appendix 1 - Positive practice

**‘The Commission will identify and promote good practice. Every inspection will look for examples of good practice and innovation, and for creative ways to overcome barriers and resistance to change or make better use of resources’. (Seeing is Believing)**

## Guidance for Developers

A duty service enables people to obtain advice on planning matters immediately during working hours. Larger scale planning applications have been addressed through each professional arm of the Council meeting together with the developer to enable planning, housing, transport and other issues to be resolved at an early stage and without the need for multiple meetings. The Council offers a free pre-application service where initial consultation takes place and may involve a site visit. In appropriate circumstances, a formal pre-application response is provided. There is clear written guidance available to developers to help them understand the Council’s policies and requirements. Comprehensive guidance is also available on line. The Residential Design Guide (SPD) 2006 provides comprehensive information and detailed design guidance to encourage best practice and a sustainable use of resources. There is an interactive section of the Local Plan on the website which helps developers identify the high level constraints. The approach taken by the City Development Team and proposals for the Estate Regeneration project is taking a slightly more proactive approach whereby the developer is identified and provided with assistance to understand the Council’s requirements.

11

## Sub regional working.

The Partnership for Urban South Hampshire (PUSH) has come together to address the economic and regeneration issues facing the urban South Hampshire Sub Region. PUSH is committed to improving efficiency and delivery through joint working, and this is being led by the Housing Theme Group. It has developed a Sub-Regional Housing Strategy (‘Homes for Growth’) which recognises the links that need to be made between housing and economic development and adds value to the regional priorities by emphasising sustainability and inclusion. A Star Chamber process has been established to ensure that bids to PUSH are in line with its strategic objectives.

## High Quality Design

There are a number of initiatives in place to ensure that design is of high quality. These include:

- In 2008, the Council organised a competition (utilising external funding of £1m) with developing housing associations for family housing and set some minimum criteria.

The 'winner' provided 11 units each with their own amenity space and the majority 3xbed. This has provided an exemplar scheme for future developments to consider.

- Better design is discussed at the housing association developer liaison meetings where RSLs talk through their submissions.
  - There is a City Design Team that works with developers (a free service) to help generate quality design (the development control team also provide support).
  - An architects panel meets every two months where officers present the schemes and the panel provide comments on what improvements could be made.
  - There is also a meeting every 6 weeks with the Council's major projects manager (and there is a similar thing running with the City Development Team at a corporate level involving monthly meetings with senior members).
  - Developers and architects are invited in to look at successful schemes).
  - Planning committee councillors have undertaken training which has included utilising the Centre for Architecture.
  - All developments in the city are expected to achieve an equivalent rating to EcoHomes/BREEAM "very good" rating (and by 2012 an "excellent" rating) with particular emphasis on water efficiency.
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# The Audit Commission

The Audit Commission is an independent watchdog, driving economy, efficiency and effectiveness in local public services to deliver better outcomes for everyone.

Our work across local government, health, housing, community safety and fire and rescue services means that we have a unique perspective. We promote value for money for taxpayers, auditing the £200 billion spent by 11,000 local public bodies.

As a force for improvement, we work in partnership to assess local public services and make practical recommendations for promoting a better quality of life for local people.

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## FOLLOW UP FROM SHORT NOTICE INSPECTION ON ENABLING NEW HOUSING - ACTION PLAN

### Introduction

The purpose of this action plan is to improve the provision of the council's approach to enabling the provision of new housing and related aspects of its strategic approach to housing delivery. It focuses on three areas:

- Improving the customer focus of the service
- Improving the approach to meeting needs of gypsies and travellers
- Improving the approach to value for money

The aim is to implement these improvements by the end of December 2009.

The Strategic Approach to Housing (which includes Customer Care and User Focus, Diversity and Value for Money) KLOE has been used as the framework for the plan.

This action plan seeks to address the recommendations made in the report from the Audit Commission following their Short Notice Inspection of June 2009.

### Consultation

Internal consultation between the planning and housing departments has taken place in developing this action plan. In addition the plan has been discussed and informed by consultation with developers and Housing Association partners i.e. Southampton Affordable Housing Partnership Development July meeting and Southampton Housing Association/Developers meeting in August 2009. It has also been discussed at a meeting between the Chief Executive of Southampton City Council and the Chief Executives of the Council's partner Housing Associations in July 2009. Cabinet Members for Housing and Local Services and Planning and Sustainability have approved the plan.

### Management and Monitoring of this Action Plan

This plan is owned by the Head of Housing Solutions with the involvement of the Head of Planning and Sustainability working alongside the Housing Development Manager, Planning Policy Manager and Programme Manager for Environment.

The Strategic Approach to Housing KLOE will be updated when the consultation is complete (end of September 2009) and following publication of the final guidance. This action plan will be reviewed against the updated KLOE standards on a quarterly (minimum) basis.

### Version Control

Version 1: 6 July 2009 DRAFT

Version 2: 22 July 2009 DRAFT

Version 3: 05 August 2009 DRAFT

Version 4: 18 August 2009 DRAFT (final version)

Objective	Actions	Benefits and measures of success	Timescales and milestones	Financial and other resource implications	Responsible Officer	Risk	
1	Improve the customer focus of the service	1.1 Develop and publish service standards for all aspects of the enabling service by: <ul style="list-style-type: none"> <li>• Annual survey to Housing Associations and Developers</li> <li>• On-going survey to residents of new affordable homes</li> </ul>	Service standards published. <u>Surveys to HAs and Developers</u> 7% increase in satisfaction over 3 years: <ul style="list-style-type: none"> <li>• 2% years 1 and 2</li> <li>• 3% year 3</li> </ul> Baseline data: 73% developer/ HAs agree the council takes a flexible approach to working with developers; 64% agree different parts of the council work well together to tackle housing need; 73% believe the council works well in partnership with others  <u>Surveys to residents of new affordable homes</u>	By end of December 2009     75% 2010/11 77% 2011/12 80% 2012/13   66% 2010/11 68% 2011/12 71% 2012/13   75% 2010/11 77% 2011/12 80% 2012/13	Within existing budgets	Sherree Stanley, Housing Development Manager	Annual survey to Housing Associations and Developers:  Impact of credit crunch affects ability of developers to participate in survey  On-going survey to residents of new affordable homes:  Residents may not complete the questionnaire in meaningful numbers.

				<p>7% increase in satisfaction over 3 years:</p> <ul style="list-style-type: none"> <li>• 2% years 1 and 2</li> <li>• 3% year 3</li> </ul> <p>Baseline data:</p> <p>53% of residents are either very satisfied or satisfied with the quality and layout of space around their home.</p>	<p>55% 2010/11 57% 2011/12 60% 2012/13</p> <p>All targets to be regularly reviewed.</p>			
		1.2	<p>Introduce and respond to customer satisfaction surveys for all customers who have used the development control service.</p>	<p>Establishment of Agents Panel to establish dialogue between service users and managers. Action Plan developed to resolve issues raised.</p> <p>Reinstate regular survey for users of the Development Control service to monitor customer satisfaction.</p>	<p>Agents panel established by end of December 2009</p> <p>Action Plan developed end March 2010</p> <p>Sample survey of planning service users in Q2 of 2010</p>	<p>Within existing budgets</p> <p>£10,000 subject to the availability of finance</p>	<p>David Rothery, Development Control Manager</p> <p>Mike Easton, Business Support Manager</p>	<p>Budget constraints</p>



		1.3	Residential Design Guide aspirational standards effectively monitor the extent to which these are being delivered and take appropriate follow-up action to promote compliance.	<p>a) Develop and incorporate selected key performance indicators for design and sustainability standards into the service's Annual Monitoring Report:</p> <ul style="list-style-type: none"> <li>• Code for Sustainable Homes Levels 1 -6</li> <li>• Life time homes</li> <li>• Homes accessible to disabled standards</li> </ul> <p>Baseline data with percentage improvements by end 2009 and improving targets agreed for subsequent years</p> <p>b) Annual Dissemination of Council's design and sustainability policies to Housing Associations and Developers at future Forum</p>	KPIs baseline data established and reported end of December 2009	Within existing budgets	Helen Pearce, Planning Policy Manager	Impact of credit crunch – application of these policies is subject to scheme viability
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		1.4	Improve the time taken to make decisions on planning applications.	<p>Southampton's Corporate Improvement Plan sets the targets:</p> <p><b>Majors (NI 157a) 75% 2009/10, 76% 2010/11 and 77% 2011/12.</b></p> <p><b>Minors (NI 157 b) 78% 2009/10, 79% 2010/11 and 79% 2011/12</b></p> <p>Baseline data:</p> <p>Majors (NI 157a) 72.22% 2008/09</p> <p>Minors (NI 157 b) 73.6% 2008/09</p> <p>In Quarter 1 2009/10 results were 80% (Majors) and 86.9% (Minors) – quarter by quarter improvement in figures sought</p>	Target achieved at end of each monitoring period.	Within Budgets	David Rothery, Development Control Manager	Development Control income shortfall during downturn
2	Improve the approach to meeting the needs of gypsies and travellers	2.1	Establish a project plan with key milestones to deliver the targets set out in the South East	Update earlier site assessment work within Southampton – list or site criteria	By end of December 2009	Within Budgets	Helen Pearce, Planning Policy	Lack of public support

		<p>Plan and effectively monitoring progress to ensure delivery. (South East Plan will set targets in 2010) – undertake the following actions:</p> <p>Issue is to be addressed within the Council's Sites and Policies Plan (as indicated by our Core Strategy Inspector in July 2009).</p> <p>Southampton's targets will be established in the SE Plan following the regional Examination in Public on this issue in Jan 2010.</p> <p>Preparatory work is in progress to update earlier site assessment work within Southampton and to establish joint working options with neighbouring authorities.</p>	<p>developed</p> <p>Establish joint working options with neighbouring authorities.</p> <p>List of potential site options prepared</p> <p>Publication of Sites and Policies Plan <i>Issues and Options Consultation</i></p> <p>Targets for Southampton established in the South East Plan following the regional Examination in Public</p> <p>The Sites and Policies Plan published</p>	<p>September 2010 (as agreed with GOSE).</p> <p>January 2010</p> <p>December 2011 and submitted to the Secretary of State in March 2012 (as agreed</p>		Manager	
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			<p>Technical work will continue in 2010 leading to the Sites and Policies Plan <i>Issues and Options Consultation</i> in September 2010 (as agreed with GOSE).</p> <p>The Sites and Policies Plan will be published in December 2011 and submitted to the S of S in March 2012 (as agreed with GOSE).</p>		with GOSE).			
3	Improve the approach to value for money	3.1	Develop a strategic approach to facilitating housing development during the economic recession	Publication of a strategy to facilitate housing development during the recession in developed in consultation with Housing Associations and Developers. (Work to be cross referenced against 1.3 of draft strategic approach to housing KLOE (July 2009))	By end of December 2009	Within Budgets	Barbara Compton, Head of Housing Solutions	Document is not used
		3.2	Develop a better	Collation of data of	By end of	Within Budgets	Sherree	HCA continue

			understanding of the reasons for variations in the grants required by different housing associations for the same types of development and continuing to take action to narrow the gap as appropriate	grants costs by Housing Associations on a quarterly basis and reported as part of quarterly monitoring. Discussion with Housing Association on costs as part of their quarterly monitoring	December 2009		Stanley, Housing Development Manager	to fund high cost schemes
		3.3	Benchmarking the cost and quality of the enabling service to provide a better understanding of how costs compare and drive efficiencies.	PUSH working group to carry out benchmarking exercise. Measure: Baseline data established, comparators identified. Benefits: Efficiencies identified. Learn from other Local Authorities – Understand comparative costs with aim to reduce costs in line with HCA efficiency targets.	By end of December 2009	Within Budgets	Sherree Stanley, Housing Development Manager	Co-operation of other local authorities

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# Agenda Item 8

<b>DECISION-MAKER:</b>	AUDIT COMMITTEE		
<b>SUBJECT:</b>	HIGHWAYS SERVICE PARTNERSHIP PROCUREMENT		
<b>DATE OF DECISION:</b>	25 <sup>th</sup> JANUARY 2010		
<b>REPORT OF:</b>	CHIEF INTERNAL AUDITOR (Acting)		
<b>AUTHOR:</b>	Name:	NICK JOHNSON	Tel: 023 80 832613
	E-mail:	Nick.johnson@southampton.gov.uk	

## STATEMENT OF CONFIDENTIALITY

None

## SUMMARY

- a) The Council is in the process of procuring a Highways Service Provider to deliver its highways services. The Audit Commission has been appointed to advise on risks associated with the Project. In this context the Audit Commission provided a Progress Report (Appendix 1) to the Council highlighting key risks and issues. The Council, through the Project Governance Framework, considered the issues raised within the report thoroughly and provided a response (Appendix 2).
- b) A report is due at Cabinet in February which will also fully address the issues raised in the Audit Commission's report

## RECOMMENDATIONS:

- (i) To note the issues raised by the Audit Commission in Appendix 1 and the Council's response to these issues in Appendix 2

## REASONS FOR REPORT RECOMMENDATIONS

1. In accordance with proper internal audit practices and the Internal Audit Strategy and demonstrating robust project assurance.

## CONSULTATION

2. COMT and Project Board have been appraised on the key project issues which are also included within the Audit Commission Report. Project Board have approved the response detailed in Appendix 2.

## ALTERNATIVE OPTIONS CONSIDERED AND REJECTED

3. None

## DETAIL

4. The details are included in Appendix 1 and Appendix 2.

## FINANCIAL/RESOURCE IMPLICATIONS

### Capital

5. None

**Revenue**

6. None

**Property**

7. None

**Other**

8. None

**LEGAL IMPLICATIONS**

**Statutory power to undertake proposals in the report:**

9. The Accounts and Audit (Amendment) (England) Regulations 2006 require the Council to 'maintain an adequate and effective system of internal audit of its accounting records and of its system of internal control in accordance with the proper practices in relation to internal control'.

**Other Legal Implications:**

10. None.

**POLICY FRAMEWORK IMPLICATIONS**

11. None

**SUPPORTING DOCUMENTATION**

**Appendices**

1.	Audit Commission Progress Report. Highways Partnership Project
2.	Highways Partnership Project Council Response

**Documents In Members' Rooms**

1.	
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**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.		
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**Background documents available for inspection at** Internal Audit, Risk and Assurance Office, North Block Basement, Civic Centre

E-mail:

**FORWARD PLAN No:** N/A

**KEY DECISION? N/A**



# Progress Report. Highways Partnership Project

## August 2009

Southampton City Council

Audit 2009/10

Date

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<b>Risks to be addressed.</b>	<b>4</b>
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## **Status of our reports**

The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission explains the respective responsibilities of auditors and of the audited body. Reports prepared by appointed auditors are addressed to non-executive directors/members or officers. They are prepared for the sole use of the audited body. Auditors accept no responsibility to:

- any director/member or officer in their individual capacity; or
  - any third party.
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# Introduction/Background

- 1 Southampton City Council's Highways and Parking Services is responsible for the services underpinning the delivery of the Local Transport Plan, together with a range of associated services including car parking and maintaining the network infrastructure.
- 2 Although the service has made significant progress on its improvement journey since the service recovery process began in 2005, the network remains in an unsatisfactory overall condition and further major investment is required to bring the network up to a designated standard.
- 3 Services are currently being delivered through a tri-partite arrangement, known as the Southampton Highways Partnership, which supplements in-house resources with technical support from consulting engineers Halcrow and contracting support with Colas Ltd.
- 4 Both the consulting and contracting contracts were due to finish in 2008, although arrangements have been put in place until 2010, with the opportunity to extend until September 2012. Although the Council expressed interest in obtaining PFI highway credits in September 2006, it was confirmed in December 2007 by the Government that its application was unsuccessful leaving the Council to explore alternative delivery options. In March 2007, the Council developed an outline strategy predicated upon a number of 'Critical Success Factors' (CSFs) and on the basis of this strategy the Council decided to test its strategy against the market and entered into an OJEU procurement to find a strategic partner to enable it to deliver its highway service effectively, whilst also obtaining both network infrastructure and performance improvement.
- 5 The Council developed an 'Outline Business Case' (OBC) in which it identified annual net financial benefit of £443k (3 per cent of total highways spend) based upon a savings estimate of 6 per cent on an investment of £14.2m. Given public sector finance constraints this investment figure is now likely to be nearer £10m and the annual net financial benefit has reduced to £275k (2.75% of total spend) with client monitoring costs remaining at 2 per cent for both scenarios.
- 6 In June 2009, the Council produced a 'Checkpoint Review' internally which although it posed challenges to the project indicated that it should proceed to the next stage the Invitation to Submit Detailed Solutions (ISDS) where it intends to further test assumptions before deciding whether to proceed further with the procurement.

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# Risks to be addressed.

- 7 In carrying out this work we are not seeking to influence directly any decision the Council might take on this matter, which remains the responsibility of the Council. For this reason, the purpose of this briefing note is to presenting our views in terms of risks we believe the Council faces rather than in terms of judgements. In reaching its decision, we recommend that the Council needs to consider these risks, and whether it should mitigate, manage or accept them.
- 8 Whilst the work has not involved an in depth detailed audit of the contract development it has involved interviews with key officers, an examination of key documentation and attendance at project board meetings.
- 9 In order to try and provide some contextual clarity the risks are posed under three headings:-
  - Affordability/Finance
  - Value for Money; and
  - Service Continuity.

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## Affordability/Finance

- 10 The original figure available to fund the partnership of £14.2m has been reduced by the Council to approximately £10m, owing to financial constraints. Given that in earlier documentation this lower sum was identified as being the level of investment just to prevent further deterioration of the highway asset, the maximum benefits which can be expected from any new arrangements are likely to be those relating to changed working practices and any economies of scale a future commercial partner might bring.
- 11 As outlined in paragraph 5 above the level of annual net financial benefit is now likely to be reduced to £275k per annum and this needs to be weighed against the contract monitoring required by the Council to performance manage the contract. A comparison with the percentage client monitoring costs in respect of the existing Capita Strategic Services Partnership (SSP) contract might provide clarity, given the apparent marginal financial gain, indicated in the current cost-benefit analysis work by the Council.
- 12 Given the apparent marginal financial gain expected from the contract the Council needs to be aware that contractual liability will mean that it is unable to further reduce the annual expenditure, without at the very least incurring performance decreases. It should also be remembered that commercial tenderers are required to take a profit-based view to any contract and any possibility of changes to the affordability envelope usually results in an increased risk premium, which diminishes further infrastructure or performance gain for the Council.

*Risk 1: Does the Council consider that the strategic approach in respect of highways provision now being placed before them is in the best interest of the Council and its citizens and is affordable over the course of the contract?*

## Risks to be addressed.

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### Value for Money

- 13** One of the ten Critical Success Factors (CSFs) is the ability to 'Deliver improved value for money' and the lack of clarity as to how this will be achieved is highlighted in the Council's 'Checkpoint Review'. Another CSF to 'Derive economies of scale' is subject to similar concerns.
- 14** In the Council's response to the 'Checkpoint Review' it is indicated that:
- a partnership approach is based on the premise of improved quality of service for the same level of funding and the efficiency figure identified was not intended as a 'cashable' figure
  - for an agreed lump sum the partnership will need to demonstrate its ability to meet performance standards which are significantly higher than the Council's current standards; and
  - capital projects expected under the contract will be measured upon sample schemes. In that the costs submitted by bidders at ISDS will be compared to the cost of delivering those schemes using the Council's current arrangements.
- 15** However, it should be remembered that if the annual lump sum reduces so will the associated performance targets and the Council's ability to develop capital schemes over the course of the contract, might initially at least be constrained, by the lack of public sector finances for such schemes.

*Risk 2: If the Council is proceeds to the ISDS stage what measures and ongoing monitoring arrangements will it put in place to make sure that value for money is assured?*

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### Service Continuity

- 16** The decision to initiate an OJEU procurement to find a partner to deliver the highways strategy was taken before the economic downturn. The impact of the recession has meant that the availability of public sector finance has been or is being curtailed.
- 17** It is important therefore that the Council develops alternative options to ensure continuity of service provision should the procurement for whatever reason not come to fruition. Although the Strategic Business Case identified a number of options these were developed in a different financial climate and would probably need to be reconsidered.

*Risk 3: What steps is the Council taking to ensure continuity of service provision should the highways partnership not come to fruition for whatever reason?*

- 18** Given the ongoing changing financial circumstances the Council needs to constantly update its financial scenario analysis to ensure that in its decision-making it fully understands the current financial ramifications of its decisions. This is particularly important, given as highlighted above that the Strategic Business Case and its associated option appraisal were developed in as stronger financial climate.

*Risk 4: What steps is the Council taking to ensure that its financial scenario planning is kept up to date to ensure that it understands the financial ramifications of any decisions which it takes?*

# The Audit Commission

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Our work across local government, health, housing, community safety and fire and rescue services means that we have a unique perspective. We promote value for money for taxpayers, auditing the £200 billion spent by 11,000 local public bodies.

As a force for improvement, we work in partnership to assess local public services and make practical recommendations for promoting a better quality of life for local people.

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**Highways Futures Project**  
**Audit Commission: Progress Report. Highways Partnership project**  
**Council Response**  
**V02 170909**  
**Audit Commission Comments 171109**  
[Project Team Comments 291109](#)

Para/Risk No.	Audit Commission Report	Council Response (17/09/09)	Further Action (17/09/09)
Para 5	<p><i>Given public sector finance constraints this investment figure is now likely to be nearer £10m and the annual net financial benefit has reduced to £275k.</i></p>	<p>The annual net financial benefit (an attempt to quantify the anticipated % output increase against annual turnover) identified in the original Outline Business Case (OBC) was a prudent illustrative figure provided to assist the decision on whether to market test (i.e. Commence the procurement process), or not, the Council's strategy. A key objective of the procurement process is to judge the benefit which the Partnership will deliver.</p>	<p>No further action is necessary in relation to this specific point.</p> <p>TT) Lack of quantification as to how vfm will be judged in relation to the proposed partnership. Needs to be financial qualification as to the level at which the scheme will not be considered financially viable.</p> <p><a href="#">SCC - ISDS submissions have identified a quantifiable financial benefit and VFM case.</a></p> <p><a href="#">Outline Business Case Addendum provides further information and measurement methodology for VFM. Cabinet Report scheduled for Feb 2010 will identify the minimum required benefit.</a></p>

<p>Para 10</p>	<p><i>The maximum benefits which can be expected from any new arrangements are likely to be those relating to changed working practices and any economies of scale a future commercial partner might bring.</i></p>	<p>Only a PFI or a significant increase in capital funding can deliver significant improvements to the network. In the absence of significant additional funding this alternative strategy was developed 'with the aim of improving service levels, maximising existing resources and delivering efficiency savings to be reinvested back in the network.' .....</p> <p>.....'The partnership will ensure that the Council is making best use of its existing resources, however it must be noted that it will not eliminate the identified investment gap.' (Cabinet 30/06/08-Council 16/07/08).</p> <p>It should be remembered that over and above the cost/vfm benefits that the Partnership will bring there are a number of other more qualitative benefits such as the major cultural change which will be delivered, the improvement in service performance, the access for staff to wider learning and development, the ability to access wider market expertise, the development of stronger links with local training providers, the development of the local economy through development of sub-contractor and</p>	<p>No further action is necessary in relation to this specific point.</p> <p>TT) In the light of the reduced investment since the Initial Business Case the Council appears to be introducing new non-financial criteria by which it will judge potential bidders. If this is the case such criteria should be agreed with Members.</p> <p><a href="#">SCC - Non-financial benefits referenced are not 'new', identified in Cabinet Report 30/06/08 and original OBC.</a></p> <p><a href="#">Benefits Realisation Plan detailed in OBC Addendum.</a></p> <p><a href="#">To be referenced in forthcoming Cabinet Report.</a></p>
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		supply-chain relationships.	
Para 11	<i>A comparison with the percentage client monitoring costs in respect of the existing Capita Strategic Services Partnership (SSP) contract might provide clarity, given the apparent marginal financial gain, indicated in the current cost-benefit analysis work by the Council.</i>	<p>An allowance has been made by the Council for Client Monitoring costs. This has been deducted from the affordability figure.</p> <p>The SSP client approach was examined and considered as part of the development of the Highways Client Team (which also incorporates the Street Lighting PFI client). The role of the client for the Highways Partnership will not be an exact replica of the SSP approach given the differing nature of the services but it is acknowledged that since previous discussions with SSP Client team there are likely to be further lessons to be learned.</p>	<p>Review the client approach in the context of the SSP client approach and costings.</p> <p>TT) The Council should in the course of its review calculate the net savings which it might expect given its proposed level of annual investment.</p> <p>SCC - Client costs have been determined using a number of comparator benchmarks. Required budget for client costs is top-sliced from affordability budget and therefore forecast savings are net of client costs (the savings are not funding the client team).</p> <p>Addressed in detail in OBC Addendum. To be referenced in forthcoming Cabinet Report.</p>
Para 12	<i>...contractual liability will mean that [the Council] is unable to further reduce the annual expenditure, without at the very least incurring performance decreases.</i>	<p>There is a difference between Capital spend and Revenue spend.</p> <p>The proposed contract approach does not guarantee a level of Capital spend for the Partner. Therefore, the Council has the flexibility to amend the capital budget on an annual basis (Commercially it would be better to</p>	<p>No further action is necessary in relation to this specific point.</p> <p>TT) Whilst this is understood the Council still needs to ensure that if either its annual capital or revenue budget diminishes that its client side costs are not greater than the annual</p>

		<p>guarantee a capital budget).  The revenue budget will be fixed for the life of the contract, guaranteeing a fixed service level for the life of the contract. If the Council wishes to adjust the revenue budget this will be possible, however, as noted, this would require a reduction in service.  This is not substantively different from the current position. Although a renegotiation would be required, the open book accounting approach and benchmarking clauses would support the Council to ensure vfm was still being delivered. Positively, the impact on the service performance, and the road network as a result of a budget reduction would be much clearer and better understood than currently.</p>	<p>savings generated by the contract.  SCC - Same comment as above – client budget is top-sliced from affordability budget.  However, it is acknowledged that there will be a fixed overhead/cost which will be incurred to fund a client team regardless of the level of spend channelled through the Service Provider. (i.e. there will always be a requirement for a set number of client posts to manage the contract)</p>
<p>Para 12</p>	<p><i>It should also be noted that commercial tenderers are required to take a profit based view to any contract and any possibility of changes to the affordability envelope usually results in an increased risk premium, which diminishes further infrastructure or performance gain for the Council.</i></p>	<p>This is why it is important that through the procurement process the Council does not change its affordability. Affordability has been consistent since the commencement of dialogue despite the current Council budget saving requirements. If the Council requires further budget reductions which affect the affordability then bidders are likely to price some risk. Thus the short-term saving will have a disproportionate</p>	<p>Council to consider whether further budget savings should be required from in-scope highways services.  TT) The Council’s response needs to be shared with Members to inform decision-making in respect of the decision to award the contract.  SCC – affordability regularly reviewed.</p>

		affect on the reduction in service able to be provided by the Partnership (ie reduction in affordability = reduced budget available for service delivery + increased risk premium)	<a href="#">To be referenced in forthcoming Cabinet Report.</a>
Risk 1	<i>Does the Council consider that the strategic approach in respect of highways provision now being placed before them is in the best interest of the Council and its citizens and is affordable over the course of the contract?</i>	There is still no other alternative for delivering increased service improvement over the same condensed time-frame for the same up-front cost. The affordability of the Partnership will be demonstrated, or not, through the submission of detailed solution bids (ISDS). At this point a decision will be required, based on information from the procurement process, on whether the Council should proceed to Final Tender stage. The Council is confident that the information provided at ISDS will be sufficient to make a judgement on the benefits of the Partnership.	No further action is necessary in relation to this specific risk.  TT) Noted.
Para 13	<i>One of the ten Critical Success Factors (CSFs) is the ability to 'Deliver improved value for money' and the lack of clarity as to how this will be delivered is highlighted in the Council's 'Checkpoint Review'. Another CSF to 'Derive economies of scale' is subject to similar concerns.</i>	It is not felt that there is any lack of clarity over how any of the CSFs will be delivered through a Partnership. For example, 'improved value for money' will be delivered through more efficient working practices and processes and greater productivity. Whilst economies of scale will be delivered through the Partners increased buying power in the market and better sourcing and supply-	No further action is necessary in relation to this specific point.  TT) It is the specific measurements/indicators attached to these CSFs which need to be determined.  <a href="#">OBC Addendum identifies how these benefits will be measured.</a>

		chain management.	
Risk 2	<i>If the Council proceeds to the ISDS stage what measures and ongoing monitoring arrangements will it put in place to make sure that value for money is assured?</i>	<p>ISDS Submissions will assist the Council in assessing VFM in a number of ways:</p> <ul style="list-style-type: none"> <li>- bidders must deliver a level of service much greater than the Council currently delivers for the same (or less) cost.</li> <li>- Bidders must price for delivering sample schemes. These prices will be compared against how much it would currently cost the Council to deliver these schemes.</li> </ul> <p>After the submission of ISDS bids the Council will determine whether to continue to Final Tender stage. Final Tender stage will require the resubmission of information at ISDS plus additional information which will further support VFM and the demonstration of benefits. Appendix A expands on how the project will assess Value for Money.</p>	<p>No further action is necessary in relation to this specific risk.</p> <p>TT) Noted.</p>
Risk 3	<i>What steps is the Council taking to ensure continuity of service provision should the highways partnership not come to fruition for whatever reason?</i>	<p>If the Partnership does not come to fruition then service continuity will be maintained through the existing in-house resource and the existing contracts which can be extended until September 2012.</p>	<p>No further action is necessary in relation to this specific risk.</p> <p>TT) Noted.</p> <p><a href="#">SCC – Forthcoming Cabinet Report will</a></p>

		<p>If the project were to cease the Council would be required to consider the future direction of the service. Business as usual would continue along with, possibly, one of the following options are:</p> <ul style="list-style-type: none"> <li>- Explore possibility of further PFI credits;</li> <li>- Procure further contracts for works and design consultancy (likely 5 year minimum);</li> <li>- In-house service transformation programme reviewing all service processes, technologies, performance levels, resource requirements etc;</li> <li>- Joint/Regional working</li> </ul>	<p>identify impact of not continuing with this approach and provide a range of practical considerations.</p>
<p>Risk 4</p>	<p><i>What steps is the Council taking to ensure that its financial scenario planning is kept up to date to ensure that it understands the financial ramifications of any decisions which it takes?</i></p>	<p>The financial ramifications of the Partnership will be reviewed after the submission of ISDS bids and prior to Call for Final Tender (if the Council has approved the move to this next stage). However, it is not clear from a project perspective whether the Council is considering the implications of its wider financial planning process on the project.</p>	<p>The Council considers how the implications on the Partnership project of its wider financial planning process are taken into account.</p> <p>TT) This interdependency needs to be made clear to Members.</p> <p>SCC – This issue has been raised at Project Board level and within Service budget setting process.</p> <p>To be referenced in forthcoming</p>

			<a href="#">Cabinet Report.</a>
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# Agenda Item 9

<b>DECISION-MAKER:</b>	AUDIT COMMITTEE COUNCIL		
<b>SUBJECT:</b>	ANNUAL TREASURY MANAGEMENT STRATEGY AND PRUDENTIAL LIMITS 2009/10-2012/13		
<b>DATE OF DECISION:</b>	25 <sup>TH</sup> JANUARY 2010 17 <sup>TH</sup> FEBRUARY 2010		
<b>REPORT OF:</b>	EXECUTIVE DIRECTOR OF RESOURCES		
<b>AUTHOR:</b>	Name:	Rob Carr	Tel: 023 80 832885
	E-mail:	rob.carr@southampton.gov.uk	

## STRATEGY OF CONFIDENTIALITY

NOT APPLICABLE

## SUMMARY

Treasury Management is a complex subject and the majority of this report is set out in accordance with statutory requirements and guidance issued by the Chartered Institute of Public Finance and Accountancy. The information provided is therefore mainly technical but in essence this information forms the basis of the Treasury Management Strategy and Objectives that are being followed even if these are not spelt out in simple terms. The purpose of this summary therefore is to interpret this information in such a way that provides Members with key messages on the approach to Treasury Management within the Council.

The core elements of the strategy for 2010/11 are :-

- To continue the use of variable rate debt to take advantage of the current market conditions
- To constantly review longer term forecasts and to lock in to 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 maximise investment returns in line with the Annual Investment Strategy and to constantly monitor global markets to protect the security of our investments.
- To approve borrowing limits that provide for debt restructuring opportunities and to pursue debt restructuring where appropriate and within the Council's risk boundaries.

In essence treasury management can always been seen in the context of the classic 'risk and reward' scenario and by following this strategy this will contribute to the Council's wider Treasury Management objective which is to minimise net borrowing cost in the short term without exposing the Council to undue risk either now or in the longer term.

The minimisation of net borrowing costs contributes to the Council's priority for providing efficient value for money services and active treasury management can help in lessening the impact of the economic recession on the City Council which has been demonstrated through the restructuring of the debt and investment portfolio that was undertaken early in 2009. This also demonstrates that the Council takes a rounded view to Treasury Management, considering jointly the debt and investment portfolio together rather than one being the consequence of activity in the other.

The Council can also demonstrate integrated thinking through work that it has been doing on balance sheet analysis and forecasting and working with our advisors on potential changes to HRA subsidy and debt arrangements. The Council is also very cognisant of requirements of accounting conventions and changes relating to IFRS, but these do not drive treasury management decisions which has been demonstrated by the decision to undertake a major restructuring which then caused huge complexities in representing this in the accounts in line with accounting conventions.

There are huge number of variables and risks associated with Treasury Management but the key risks and the Council's approach to them are detailed below :-

- **Interest Rate Risk** – The Council has exposed itself to interest rate risk by taking out variable debt during 2009. This was and continues to be very financially favourable in current markets but does mean that the Council must monitor markets to ensure it is not caught out. During 2010/11, therefore the Council will almost certainly start to take action to lessen this risk through a balanced combination of :-
  - longer term fixed maturity loans,
  - medium term Equal Instalment of Principle (EIP) loans (which are currently cheaper than longer term fixed) and
  - longer term PWLB variable loans which have the option to be fixed at very short notice for a small fee.
  - Variable rate investments to take advantage of increasing interest rates
- **Investment Risk** – The risks to capital investment are more known now than they have ever been and the Council has a good track record in respect of appropriate risk exposure during the global economic crisis of recent years. Current investment limits and instruments have been set in the context of current conditions and will continue to be monitored and amended as appropriate.
- **Changes in Market Conditions** – The Council must be able to react quickly to changes in market conditions either good or bad and all Treasury Management decisions are taken by the Chief Financial Officer in line with the strategy. In addition, decision sheets are signed off by the CFO that contain 'trigger points' for market changes which can then automatically be actioned at short notice without the need to get formal sign off on the day. Furthermore, in response to the recent financial turmoil, this report recommends that the CFO be given delegated authority to make any changes to this strategy that will aid good treasury management. Any decisions made under this power will be reported in full at a later date.

Furthermore, in order to mitigate these risks further, the Council has taken the

opportunity in the current year to use the savings created by the debt restructure (around £1.5M) to create a treasury management equalisation reserve which will be available to smooth any significant fluctuations in market conditions in future years, so that there is no adverse impact on budgets or council tax in any single year.

In this report, Council is requested to approve the Prudential Indicators and the Treasury Management Strategy and to note the main activities undertaken during 2009/10 to date which are summarised below:

- (i) Investment returns have decreased from £3.7M in 2008/09 to an estimated £1M in current year as a result of a fall in interest rates. The average rate achieved to date (0.88%) is above the performance indicator of the average 7 day Libid rate (0.59%).
- (ii) In order to balance the fall in investment income we have switched to short term debt which is currently lower than long term due to the depressed market. As a result the average rate for repayment of debt has reduced from 4.15% in 2008/09 to 3.18%. As this is a temporary arrangement any savings are to be transferred to the debt equalisation reserve until we lock back into long term debt. It should be noted that the forecast for longer term debt is a steady increase over the next few years so new long term borrowing will be taken out above this rate, therefore an increase in the Consolidated Rate of interest should be expected.
- (iii) In order to comply with the revised CIPFA code for Treasury Management training for members was undertaken by an independent company recommended by our advisors (Arlingclose) on the 10<sup>th</sup> December 2009.

The estimates for interest payable and the Prudential Indicators contained within this report assume that the recommendations in the Capital and Revenue budget reports, elsewhere on the agenda, are approved. If there are any changes to the capital programme or the level of borrowing the Prudential Indicators will need to be revised.

## **RECOMMENDATIONS:**

### **Audit Committee is recommended to**

- (i) Endorse the Treasury Management Strategy for 2010/11 as outlined in the report; and
- (ii) To note that the indicators as reported have been set on the assumption that the recommendations in the Capital Update report will be approved. Should the recommendations change, the Prudential Indicators may have to be recalculated.
- (iii) Note that due to the early 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.

### **Council is recommended to**

- (i) Approve the Council's Prudential Indicators as detailed within Appendix 2.

- (ii) Approve the 2010 MRP Statement.
- (iii) Approve the Treasury Management Strategy for 2010/11 as outlined in the report; and
- (iv) To note that the indicators as reported, have been set on the assumption that the recommendations in the Capital Update report will be approved. Should the recommendations change, the Prudential Indicators may have to be recalculated.
- (v) To approve amendments to Standing Orders to comply with the revised CIPFA guide on Treasury Management as detailed in paragraph 7.
- (vi) To delegate authority to the Executive Director of Resources following consultation with the Cabinet Member for Resources and Workforce Planning to approve any changes to the Prudential Indicators or borrowing limits that will aid good treasury management, for example increase the % 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 this strategy.

## **REASONS FOR REPORT RECOMMENDATIONS**

1. In order to comply with Part 1 of the Local Government Act 2003, and the established treasury management procedures that have been adopted by the Authority, each year the Council must set certain borrowing limits and approve a treasury management strategy which includes:
  - Treasury Management Strategy for 2010-11 (Borrowing; paragraphs 18-34, Debt Rescheduling; paragraphs 39-43, Investments; paragraphs 44-58)
  - Prudential Indicators – Appendix 2 (NB - The Authorised Limit is a statutory limit)
  - MRP Statement – paragraphs 60-65
  - Use of Specified and Non-Specified Investments – Appendix 4

## **CONSULTATION**

2. The proposed capital and revenue budgets on which this report is based have been subject to their own consultation processes outlined in the relevant reports elsewhere on the Council agenda.

## **ALTERNATIVE OPTIONS CONSIDERED AND REJECTED**

3. Alternative options for borrowing would depend on decisions taken on the setting of the capital programme, which are being taken at Full Council on 17<sup>th</sup> February 2010.

## **DETAIL**

### **Background**

4. The Local Government Act 2003 introduced a system for borrowing based largely on self-regulation by local authorities themselves. The basic principle of the new system is that local authorities will be free to borrow as long as

their capital spending plans are affordable, prudent and sustainable.

5. The Chartered Institute of Public Finance and Accountancy's Code of Practice for Treasury Management in Public Services (the "CIPFA TM Code") requires local authorities to determine the Treasury Management Strategy Statement (TMSS). This statement also incorporates the Investment Strategy. Together, these cover the financing and investment strategy for the forthcoming financial year.
6. In response to the financial crisis in 2008 and the collapse of the Icelandic banks, CIPFA has revised the TM Code and Guidance Notes as well as the Prudential Indicators. Communities and Local Government (CLG) is also in the process of revising and updating the Investment Guidance. Changes required to be made to this Strategy and/or documentation will be placed before members for consideration.
7. As part of the review CIPFA recommends that all public service organisations adopt, as part of their standing orders, financial regulations, or other formal policy documents appropriate to their circumstances, the following four clauses.
  1. This organisation 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 organisation will seek to achieve those policies and objectives, and prescribing how it will manage and control those activities.

The content of the policy statement and TMPs will follow the recommendations contained in Sections 6 and 7 of the Code, subject only to amendment where necessary to reflect the particular circumstances of this organisation. Such amendments will not result in the organisation materially deviating from the Code's key principles.

2. This organisation (ie full board/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.
3. This organisation delegates responsibility for the implementation and regular monitoring of its treasury management policies and practices to the Audit 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, as she is a CIPFA member, CIPFA's *Standard of Professional Practice on Treasury Management*.
4. This organisation nominates the Audit Committee to be responsible for ensuring effective scrutiny of the treasury management strategy and policies.

In order to ensure compliance with this recommendation, the TMSS will now be presented to the Audit Committee before going to full Council for approval. Training for Audit Committee members has taken place in order to enable them to undertake their review of TMSS. However it should be noted that given the timing of the meetings the figures in the Audit Committee report are only provisional and will be subject to change dependent on final decisions made by Council for the capital and revenue budgets.

8. CIPFA has defined Treasury Management as:

“the management of the organisation’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.”

The Council is responsible for its treasury decisions and activity. No treasury management activity is without risk. The successful identification, monitoring and control of risk is 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 Council. The main risks to the Council’s treasury activities are:

- Liquidity Risk (Inadequate cash resources)
- Market or Interest Rate Risk (Fluctuations in interest rate levels and thereby in the value of investments).
- Inflation Risks (Exposure to inflation)
- Credit and Counterparty Risk (Security of Investments)
- Refinancing Risks (Impact of debt maturing in future years).
- Legal & Regulatory Risk (i.e. non-compliance with statutory and regulatory requirements, risk of fraud).

9. The 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 comprehensive performance measurement techniques, within the context of effective risk management. To aid the Council in carrying out its Treasury Management function, it has appointed Treasury Management 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 Chief Financial Officer taking into account this advice and other internal and external factors. A good example of this was the decision by the CFO to only use the Debt Management Office for investments at the time of the Icelandic Bank crisis, despite our advisors saying that other institutions could still be used at the time. A week later our advisors changed their view in line with what the council had already implemented.

10. The Council’s proposed strategy for 2009/10 - 2012/13 also takes into account the outlook for interest rates (see Appendix 3), its current treasury position, its

projected treasury management and capital financing activities and its approved Prudential Indicators as detailed in Appendix 2.

### **Balance Sheet and Treasury Position**

11. The underlying need to borrow for capital purposes as measured by the Capital Financing Requirement (CFR) together with Balances and Reserves are the core drivers of Treasury Management Activity. The estimates, based on the current Revenue budget and Capital Programmes, are set out below:

	<b>31-Mar-10</b>	<b>31-Mar-11</b>	<b>31-Mar-12</b>	<b>31-Mar-13</b>
	<b>Estimate</b>	<b>Estimate</b>	<b>Estimate</b>	<b>Estimate</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
CFR	282	306	302	295
Balances & Reserves	30	25	25	25
<b>Net Balance Sheet Position</b>	<b>252</b>	<b>281</b>	<b>277</b>	<b>270</b>

12. The Council's level of physical debt and investments is linked to these components of the Balance Sheet. The current portfolio position is set out at Appendix 1. Market conditions, interest rate expectations and credit risk considerations will influence the Council's strategy in determining the borrowing and investment activity against the underlying Balance Sheet position.
13. As the CFR represents the level of borrowing for capital purposes and revenue expenditure cannot be financed from borrowing, net physical external borrowing should not exceed the CFR other than for short term cash flow requirements. It is permissible under the Prudential Code to borrow in advance of need up to the level of the estimated CFR over the term of the Prudential Indicators. Where this takes place the cash will form part of its invested sums until the related capital expenditure is incurred. This being the case net borrowing should not exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for the current and next two financial years other than in the short term due to cash flow requirements.
14. The move to International Financial Reporting Standards (IFRS) has implications for the Capital Financing Requirement components on the Balance Sheet. Analysis of the Council's Private Finance Initiative (PFI) schemes and Operating leases against IFRS requirements may result in the related long term assets and liabilities being brought onto the Council's Balance Sheet. The estimates for the CFR and Long Term Liabilities will therefore need to take into account such items. This will influence the determination of the Council's Affordable Borrowing Limit and Operational Boundary.
15. The Department for Communities and Local Government has recently consulted on proposals to reform the council housing subsidy system. The proposed Self-financing option would require a one-off reallocation of housing

debt. As the consultation period has only recently ended and the mechanism for debt transfer has not been determined, the estimates set out in this strategy do not take into account any potential debt transfer that may arise in future years.

16. The estimate for interest payments in 2010/11 is £6.1m and for interest receipts is £0.6m.

### **Outlook for Interest Rates**

17. The economic interest rate outlook provided by the Council's treasury advisor, Arlingclose Ltd, is attached at Appendix 3. Financial markets remain reasonably volatile as the structural changes necessary within economies and the banking system evolve. This volatility provides opportunities for active treasury management. 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.

### **Borrowing Requirement and Strategy**

18. The Council's underlying need to borrow for capital purposes is measured by reference to its Capital Financing Requirement (CFR) as detailed in Appendix 2. The CFR represents the cumulative capital expenditure of the local authority that has not been financed. To ensure that this expenditure will ultimately be financed, local authorities are required to make a Minimum Revenue Provision for Debt Redemption (MRP) from within the Revenue budget each year.
19. Capital expenditure not financed from internal resources (i.e. Capital Receipts, Capital Grants and Contributions, Revenue or Reserves) will produce an increase in the CFR (the underlying need to borrow) and in turn produce an increased requirement to charge MRP in the Revenue Account.
20. Physical external borrowing may be greater or less than the CFR, but in accordance with the Prudential Code, the Council will ensure that net external borrowing does not, except in the short term, exceed the CFR in the preceding year plus the estimates of any additional CFR for the current and next two financial years.
21. The cumulative estimate of the maximum long-term borrowing requirement is estimated by comparing the projected CFR with the profile of the current portfolio of external debt and long term liabilities over the same financial horizon, as follows:



	31/03/2010 Estimate £m	31/03/2011 Estimate £m	31/03/2012 Estimate £m	31/03/2013 Estimate £m
<b>Capital Financing Requirement</b>	<b>282</b>	<b>306</b>	<b>302</b>	<b>295</b>
<b>Less:</b>				
Existing Profile of Borrowing and Other Long Term Liabilities	217	247	244	238
<b>Cumulative Maximum External Borrowing Requirement</b>	<b>65</b>	<b>59</b>	<b>58</b>	<b>57</b>
Balances & Reserves	30	25	25	25
<b>Cumulative Net Borrowing Requirement/Investments</b>	<b>35</b>	<b>34</b>	<b>33</b>	<b>32</b>

22. The Council's strategy is to maintain maximum control over its borrowing activities as well as flexibility on its loans portfolio. Capital expenditure levels, market conditions and interest rate levels will be monitored during the year in order to minimise borrowing costs over the medium to longer term. A prudent and pragmatic approach to borrowing will be maintained to minimise borrowing costs without compromising the longer-term stability of the portfolio, consistent with the Council's Prudential Indicators.

23. Therefore, in conjunction with advice from its treasury advisors, the Council will keep under review the options it has in borrowing from the Public Works Loan Board (PWLB) and from market and other sources identified in the Treasury Management Practices Schedules up to the available capacity within its CFR and Affordable Borrowing Limit (defined by CIPFA as the Authorised Limit).

***The outlook for borrowing rates:***

24. Short-dated gilt yields are forecast to be lower than medium- and long-dated gilt yields during the financial year. Despite additional gilt issuance to fund the UK government's support to the banking industry; short-dated gilts are expected to benefit from expectations of lower interest rates as the economy struggles through a recession. Yields for these maturities will fall as expectations for lower interest rates mount.

25. The differential between investment earnings and debt costs, despite long term borrowing rates being around historically low levels, remains acute and this is expected to remain a feature during 2010/11. The so-called "cost of carry" associated with long term borrowing compared to temporary investment returns means that the appetite for new long term borrowing brings with it additional short-term costs. It is not surprising that the use of internal resources in lieu of borrowing has been the most cost effective means of financing capital expenditure but, at some stage, internal resources will

- become depleted and require topping up.
26. PWLB variable rates have fallen below 1%. They are expected to remain low as the Bank Rate is maintained at historically low levels to enable the struggling economy to emerge from the recession. Against a backdrop of interest rates remaining lower for longer and a continuation of the cost of carry backdrop, then a passive borrowing strategy i.e. borrow long term funds as they are required may remain appropriate. Equally, variable rate funds (that avoid the cost of carry) or EIP (equal instalments of principal) that mitigate the impact are both active considerations.
  27. Decisions to borrow at low, variable rates of interest will be taken after considering the absolute level of longer term interest rate equivalents and the extent of variable rate earnings on the Council's investment balances. When longer term rates move below the cost of variable rate borrowing any strategic exposure to variable interest rates will be reviewed and, if appropriate, reduced.
  28. The PWLB remains the preferred source of borrowing given the transparency and control that its facilities continue to provide.
  29. The Council has £9m loans which are LOBO loans (Lender's Options Borrower's Option) of which are currently in their option state. In the event that the lender exercises the option to change the rate or terms of the loan, the Council will consider the terms being provided and also repayment of the loan without penalty. The Council may utilise cash resources for repayment or may consider replacing the loan(s) by borrowing from the PWLB.
  30. Actual borrowing undertaken and the timing will depend on capital expenditure levels, interest rate forecasts and market conditions during the year, in order to minimise borrowing costs. The Council will be advised by its financial advisors of the specific timing of borrowing. This may include borrowing in advance of future years' requirements provided that overall borrowing is maintained within the Council's projected CFR and its approved Affordable Borrowing Limit.
  31. The maturity term of new borrowing will be consistent with the Council maintaining a prudent loans maturity profile in accordance with its Prudential Indicators.
  32. **The Option for Forward Funding:** The Council does not have to rely on borrowing in discrete financial years to fund its capital financing requirement and the strategy provides flexibility to take forward borrowing decisions when rates are favourable and the need to borrow can be demonstrated. Overall borrowing must still be within the Council's Affordable Borrowing Limit.
  33. **'Trigger' rates for borrowing:** The Council's treasury advisor, provides economic and interest rate forecasts as well as formulating views on borrowing and lending opportunities.
  34. The Council will maintain a pragmatic approach to borrowing, bearing in mind the Council's debt maturity profile and the need to minimise borrowing costs without compromising longer-term stability of the portfolio. Total borrowing for the year will be reported to Council in July 2010 as part of the Treasury Management Outturn report.

## Value for Money

35. One of the key elements of the TMSS is to ensure the minimisation of borrowing cost and the maximisation of investment income commensurate with the level of risk exposure the Council feels is appropriate. Whilst recent events have underlined the potential pitfalls of exposure to risk for financial gain, this does not mean that Treasury Management activity can ignore value for money principles.
36. The Council has applied its TMSS in making borrowing and investment decisions and has taken a very active stance in restructuring and changing both its borrowing and investment portfolio in response to changing market conditions.
37. In terms of assessing value for money, the Council monitors three key indicators, the details of which are shown in the table below and indicate that the direction of travel for the Council is very favourable. Furthermore comparing the Council's CRI with other authorities has shown that the council has one of the lowest rates in the country.
38. The table below shows our target and actual rates for the key Indicators set for Treasury Management.

	Target 2007/08 %	2007/08 Actual %	Target 2008/09 %	2008/09 Actual %	Target 2009/10 %	Estimate 2009/10 %
Consolidated Rate of Interest		4.91		4.35		1.93
Temporary Borrowing	5.73	5.70	3.93	3.10	0.63	0.45
Average Long Term Borrowing	5.00	4.47	5.00	4.15	5.00	3.18
Temporary Investments	5.70	6.00	3.90	5.16	0.60	0.80

The CRI is shown as actual only, to demonstrate the direction of travel, since it is not practical to set a target for this indicator due to complexities of measuring the overall debt portfolio over time.

### Debt Rescheduling:

39. The Council will continue to maintain a flexible policy for debt rescheduling. Market volatility may provide opportunities for restructuring debt from time to time. The rationale for restructuring would be one or more of the following:
- Savings in interest costs with minimal risk.
  - Balancing the volatility profile (i.e. the ratio of fixed to variable rate debt) of the debt portfolio.

- Amending the profile of maturing debt to reduce any inherent refinancing risks.
40. The rescheduling of PWLB debt since the introduction of its repayment rates on 1st November 2007 has not ceased, but has become undoubtedly harder and places greater emphasis on the timing and type of new borrowing.
  41. In September 2009, the PWLB issued a Consultation document, entitled 'PWLB Fixed Rates', where the PWLB is reviewing the frequency of rate setting (currently daily) and could move to a live pricing basis. The deadline for the consultation period was 08/01/2010. The likely outcome of this is a reduction in the extent of the margins between premature repayment and new borrowing rates, particularly for longer maturities.
  42. The Council's debt portfolio is monitored against equivalent interest rates and available refinancing options on a regular basis. As opportunities arise, they will be identified by the Council's treasury management advisors and discussed with the Council's officers. Any rescheduling activity will be undertaken within the Council's treasury management policy and strategy and will comply with the accounting requirements of the local authority SoRP and regulatory requirements of the Capital Finance and Accounting Regulations (SI 2007 No 573).
  43. Borrowing and debt rescheduling activity will be reported as part of quarterly monitoring, as part of outturn and in future updates to this strategy.

#### **Investment Policy and Strategy:**

##### ***Policy***

45. Investments are categorised as 'Specified' or 'Non Specified' investments based on the criteria in the CLG Guidance. Potential instruments for the Council's use within its investment strategy are contained in Appendix 3.
46. The credit crisis has refocused attention on the treasury management priority of security of capital monies invested. The Council will continue to maintain a counterparty list based on its criteria and will monitor and update the credit standing of the institutions on a regular basis. This assessment will include credit ratings and other alternative assessments of credit strength as outlined in paragraph 54-58.
47. The Council's current level of investments is presented at Appendix 1.

##### ***Investment Strategy***

48. The global financial market storm in 2008 and 2009 has forced investors of public money to reappraise the question of risk versus yield. Income from investments is key in supporting the Council's budget.
49. The UK Bank Rate has been maintained at 0.5% since March 2009. Short-term money market rates are likely to remain at very low levels which will have a significant impact on investment income. The Council's strategy must however be geared towards this development whilst adhering to the principal objective of security of invested monies.
50. The Chief Financial Officer, 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 to Council as part of the Treasury Management Outturn report in July 2010.

51. The Council's shorter term cashflow investments are made with reference to the outlook for the UK Bank Rate and money market rates.
52. In any period of significant stress in the markets, the default position is for investments to be made with the Debt Management Office. Currently the Council has restricted its investment activity to:
  - The Debt Management Agency Deposit Facility (DMADF) which is guaranteed by the UK Government and is therefore a AAA rated investment. (The rates of interest from the DMADF are below equivalent money market rates. However, the returns are an acceptable trade-off for the guarantee that the Council's capital is secure)
  - AAA-rated Money Market Funds with a Constant Net Asset Value (CNAV)
  - Deposits with other local authorities
  - Business reserve accounts and Term deposits These have been primarily restricted to UK institutions that are rated at least AA- long term, and have access to the UK Government's 2008 Credit Guarantee Scheme (CGS)
  - Bonds issued by Multilateral Development Banks (*see Appendix 4 for a breakdown of current counterparties, instruments and limits used.*)
53. The following table shows how the Council has increased its investments in higher credit rated institutions (AAA) and reduced it's exposure in lower rated institutions (A) in response to the changing environment.

Credit Rating	Investments 31 March 08	Investments 31 March 09	Investments 31 Dec 09
A	44%	37%	0%
AA	51%	35%	62%
AAA	5%	28%	38%
Total	100%	100%	100%

54. Conditions in the financial sector have begun to show signs of improvement, albeit with substantial intervention by government authorities. In order to diversify the counterparty list, the use of comparable non-UK Banks for investments is now considered appropriate.
55. The sovereign states whose banks are to be included are Australia, Canada, Finland, France, Germany, Netherlands, Spain, Switzerland and the US. These countries, and the Banks within them (see Appendix 4), have been selected after analysis and careful monitoring of:
- Credit Ratings (minimum long-term AA-)
  - Credit Default Swaps
  - GDP; Net Debt as a Percentage of GDP
  - Sovereign Support Mechanisms/potential support from a well-resourced parent institution
  - Share Price
56. The Council has also taken into account information on corporate developments and market sentiment towards the counterparties. The Council and its Treasury Advisors, Arlingclose, will continue to analyse and monitor these indicators and credit developments on a regular basis and respond as necessary to ensure security of the capital sums invested.
57. We do remain in a heightened state of sensitivity to risk. Vigilance is key. This modest expansion of the counterparty list is an incremental step. In order to meet requirements of the revised CIPFA Treasury Management Code, the Council is focusing on a range of indicators (as stated above), not just credit ratings.
58. Limits for Specified Investments are set out in Appendix 4.

#### **Balanced Budget Requirement**

59. The Council complies with the provisions of S32 of the Local Government Finance Act 1992 to set a balanced budget.

## 2010/11 MRP Statement

60. The Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2008 (SI 2008/414) place a duty on local authorities to make a prudent provision for debt redemption. Guidance on Minimum Revenue Provision has been issued by the Secretary of State and local authorities are required to “have regard” to such Guidance under section 21(1A) of the Local Government Act 2003. The four options available are:  
 Option 1: Regulatory Method  
 Option 2: CFR Method  
 Option 3: Asset Life Method  
 Option 4: Depreciation Method
61. The 2009 SORP and IFRS will result in PFI schemes and certain leases being brought on balance sheet. Where this is the case the CFR will increase, which will lead to an increase in the MRP charge to revenue. MRP for these items will match the annual principal repayment for the associated deferred liability.
62. MRP in 2010/11: Options 1 and 2 may be used only for supported expenditure. Methods of making prudent provision for self financed expenditure include Options 3 and 4 (which may also be used for supported expenditure if the Council chooses).
63. The MRP Statement has to be submitted to Council before the start of the 2010/11 financial year. If it is ever proposed to vary the terms of the original MRP Statement during the year, a revised statement will be put to Council at that time. The proposed MRP charges for 2010 are detailed below.

	31-Mar-10 Estimate £'000	31-Mar-11 Estimate £'000	31-Mar-12 Estimate £'000	31-Mar-13 Estimate £'000
Supported Borrowing	4,226	3,922	3,901	3,671
Unsupported Borrowing	675	1,479	1,856	1,932
HCC Transferred Debt	799	768	737	707
PFI and Finance Leases	850	901	955	1,012
<b>Total MRP</b>	<b>6,550</b>	<b>7,069</b>	<b>7,448</b>	<b>7,322</b>

64. MRP in respect of PFI and leases brought on Balance Sheet under the 2009 SORP and IFRS will match the annual principal repayment for the associated

deferred liability.

65. The Council adopted Option 1 in respect of capital expenditure financed by supported borrowing and Option 3 in respect of unsupported capital borrowing, but this does not exclude any other prudent methods that might meet the needs of the Council.

### **Report on the Annual Treasury Outturn**

66. The Chief Financial Officer will report to the Audit Committee on treasury management activity / performance as follows:
- (a) Quarterly against the strategy approved for the year.
  - (b) The Council will produce an outturn report on its treasury activity no later than 30th September after the financial year end.

### **Member Training**

67. CIPFA's revised Code requires the responsible officer to ensure that all members tasked with treasury management responsibilities, including scrutiny of the treasury management function, receive appropriate training relevant to their needs and understand fully their roles and responsibilities. Training was undertaken on the 10<sup>th</sup> December 2009.

## **FINANCIAL/RESOURCE IMPLICATIONS**

### **Capital**

68. The Capital implications are considered as part of the General Fund Capital Programme report and HRA Capital Programme report elsewhere on the agenda.

### **Revenue**

69. The Revenue implications are considered as part of the General Fund Revenue Budget report and HRA Revenue Budget report elsewhere on the agenda

### **Property**

70. None

### **Other**

71. None

## **LEGAL IMPLICATIONS**

### **Statutory power to undertake proposals in the report:**

72. Local Authority borrowing is regulated by Part 1, of the Local Government Act 2003, which introduced the new Prudential Capital Finance System.
73. 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:**

74. None

**POLICY FRAMEWORK IMPLICATIONS**

75. This report has been prepared in accordance with CIPFA’s Code of Practice on Treasury Management

**SUPPORTING DOCUMENTATION**

**Appendices**

1.	Current and Projected Portfolio Position
2.	Prudential Indicators for 2010/11– 2012/13
3.	Economic and Interest Outlook
4.	Specified and Non Specified Investments for use by the Council.

**Documents In Members’ Rooms**

1.	None
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**Background Documents**

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)
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**Background documents available for inspection at:** N/A

**FORWARD PLAN No:** N/A                      **KEY DECISION?** N/A

<b>WARDS/COMMUNITIES AFFECTED:</b>	All
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**Treasury Management Strategy Statement  
and Investment Strategy 2010/11 to 2012/13**

EXISTING PORTFOLIO PROJECTED FORWARD

	Current Portfolio £m	%	31-Mar-10 Estimate £m	31-Mar-11 Estimate £m	31-Mar-12 Estimate £m	31-Mar-13 Estimate £m
<b>External Borrowing:</b>						
Fixed Rate – PWLB	78		90	106	104	100
Fixed Rate – Market	34		40	30	30	30
Variable Rate – PWLB	10		22	48	48	48
Variable Rate – Market	9		9	9	9	9
Existing long-term liabilities	19		19	18	18	17
<b>IFRS long-term liabilities:</b>						
- PFI (2009/10)	38		37	36	35	34
- Operating Leases (2010/11 onwards)						
<b>Total External Debt</b>	188		217	247	244	238
<b>Investments:</b>						
Deposits and monies on call and Money Market Funds	37		20	20	20	20
Supranational bonds	6		6	6	6	6
Corporate bonds	0		0	0	0	0
<b>Total Investments</b>	43		26	26	26	26
<b>(Net Borrowing Position)/ Net Investment position</b>	145		191	221	218	212

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**Treasury Management Strategy Statement  
and Investment Strategy 2010/11 to 2012/13**

PRUDENTIAL INDICATORS 2010/11 TO 2012/13

**1 Background:**

There is a requirement under the Local Government Act 2003 for local authorities to have regard to CIPFA's Prudential Code for Capital Finance in Local Authorities (the "CIPFA Prudential Code") when setting and reviewing their Prudential Indicators.

**2 Net Borrowing and the Capital Financing Requirement:**

This is a key indicator of prudence. In order to ensure that over the medium term net borrowing will only be for a capital purpose, the local authority should ensure that the net external borrowing does not, except in the short term, exceed the total of capital financing requirement in the preceding year plus the estimates of any additional capital financing requirement for the current and next two financial years.

The Director of Finance reports that the authority had no difficulty meeting this requirement in 2009/10, nor are there any difficulties envisaged for future years. This view takes into account current commitments, existing plans and the proposals in the approved budget.

**3 Estimates of Capital Expenditure:**

This indicator is set to ensure that the level of proposed capital expenditure remains within sustainable limits and, in particular, to consider the impact on Council Tax and in the case of the HRA, housing rent levels.

Capital Expenditure	2009/10 Approved £'000	2009/10 Revised £'000	2010/11 Estimate £'000	2011/12 Estimate £'000	2012/13 Estimate £'000
General Fund	63,247	65,158	68,774	19,981	19,884
HRA	32,906	32,787	36,964	21,912	17,205
<b>Total</b>	<b>96,153</b>	<b>97,945</b>	<b>105,738</b>	<b>41,893</b>	<b>37,089</b>

Capital expenditure will be financed as follows:

Capital Financing	2009/10 Approved £'000	2009/10 Revised £'000	2010/11 Estimate £'000	2011/12 Estimate £'000	2012/13 Estimate £'000
Capital receipts	7,039	12,642	7,374	8,135	3,871
Government Grants	28,720	17,400	31,200	9,801	11,174
Revenue contributions	5,421	7,698	8,582	2,554	2,732
Major Repairs Allowance	12,641	15,061	10,394	13,017	13,197
Revenue	17,881	15,649	16,624	5,708	4,848
Supported borrowing	10,066	10,259	8,336	6	0
Unsupported borrowing	14,385	19,236	23,228	2,672	1,267
<b>Total</b>	<b>96,153</b>	<b>97,945</b>	<b>105,738</b>	<b>41,893</b>	<b>37,089</b>

**Treasury Management Strategy Statement  
and Investment Strategy 2010/11 to 2012/13**

**4 Ratio of Financing Costs to Net Revenue Stream:**

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 definition of financing costs is set out at paragraph 87 of the Prudential Code.

The ratio is based on costs net of investment income.

<b>Ratio of Financing Costs to Net Revenue Stream</b>	<b>2009/10 Approved</b>	<b>2009/10 Revised</b>	<b>2010/11 Estimate</b>	<b>2011/12 Estimate</b>	<b>2012/13 Estimate</b>
	%	%	%	%	%
General Fund	5.19%	2.18%	5.55%	6.39%	5.86%
HRA	7.53%	2.60%	5.14%	6.75%	7.36%
<b>Total</b>	<b>5.89%</b>	<b>3.36%</b>	<b>4.99%</b>	<b>6.06%</b>	<b>6.06%</b>

**5 Capital Financing Requirement:**

The Capital Financing Requirement (CFR) measures the Council's underlying need to borrow for a capital purpose. The calculation of the CFR is taken from the amounts held in the Balance Sheet relating to capital expenditure and its financing. It is an aggregation of the amounts shown for Fixed and Intangible assets, the Revaluation Reserve, the Capital Adjustment Account, Government Grants Deferred and any other balances treated as capital expenditure\*\*.

<b>Capital Financing Requirement</b>	<b>2009/10 Approved</b>	<b>2009/10 Revised</b>	<b>2010/11 Estimate</b>	<b>2011/12 Estimate</b>	<b>2012/13 Estimate</b>
	£m	£m	£m	£m	£m
General Fund	146	188	202	196	190
HRA	97	94	104	106	106
<b>Total CFR</b>	<b>243</b>	<b>282</b>	<b>306</b>	<b>302</b>	<b>295</b>

*\*\* in line with CIPFA's guidance, any investments or other items not falling within the classification of fixed or intangible assets, but financed from capital resources must be included within the CFR for the purposes of this calculation.*

**Treasury Management Strategy Statement  
and Investment Strategy 2010/11 to 2012/13**

The year-on-year change in the CFR is due to the following

Capital Financing Requirement	2009/10 Approved £m	2009/10 Revised £m	2010/11 Estimate £m	2011/12 Estimate £m	2012/13 Estimate £m
<b>Balance B/F</b>	<b>224</b>	<b>224</b>	<b>282</b>	<b>306</b>	<b>302</b>
Capital expenditure financed from borrowing	24	29	32	3	1
Revenue provision for debt Redemption.	(5)	(5)	(5)	(6)	(6)
Movement in deferred liabilities					
HCC Transferred Debt	(1)	(1)	(1)	(1)	(1)
PFI brought on B/S		35			
PFI Principal Repayments		(1)	(1)	(1)	(1)
Leases brought on B/S					
Lease Principal Repayment					
<b>Balance C/F</b>	<b>243</b>	<b>282</b>	<b>306</b>	<b>302</b>	<b>295</b>

#### 6 Actual External Debt:

This indicator is obtained directly from the Council's balance sheet. It is the closing balance for actual gross borrowing plus other long-term liabilities. This Indicator is measured in a manner consistent for comparison with the Operational Boundary and Authorised Limit.

Actual External Debt as at 31/03/2009	£m
Borrowing	127
Other Long-term Liabilities	20
<b>Total</b>	<b>147</b>

#### 7 Incremental Impact of Capital Investment Decisions:

This is an indicator of affordability that shows the impact of capital investment decisions on Council Tax and Housing Rent levels. The incremental impact is calculated by comparing the total revenue budget requirement of the current approved capital programme with an equivalent calculation of the revenue budget requirement arising from the proposed capital programme.

Incremental Impact of Capital Investment Decisions	2009/10 Approved	2010/11 Estimate	2011/12 Estimate	2012/13 Estimate
	£	£	£	£
Increase in Band D Council Tax	3.39	0.50	3.48	1.16
Increase in Average Weekly Housing Rents	2.13	5.05	22.02	21.05

The increase in Band D council tax/average weekly rents reflects the increases in running costs and/or increases in the provision for Capital Financing Charges of £0.9m to undertake borrowing of £36m arising from the proposed capital programme.

**Treasury Management Strategy Statement  
and Investment Strategy 2010/11 to 2012/13**

**8 Authorised Limit and Operational Boundary for External Debt:**

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.

The **Authorised Limit** 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). 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.

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).

<b>Authorised Limit for External Debt</b>	<b>2009/10 Approved</b>	<b>2009/10 Revised</b>	<b>2010/11 Estimate</b>	<b>2011/12 Estimate</b>	<b>2012/13 Estimate</b>
	£m	£m	£m	£m	£m
Borrowing	361	357	397	412	424
Other Long-term Liabilities	22	64	62	60	58
<b>Total</b>	<b>383</b>	<b>420</b>	<b>459</b>	<b>473</b>	<b>483</b>

The **Operational Boundary** links directly to the Council's estimates of the CFR and estimates of other cashflow 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.

The Chief Financial Officer has delegated authority, within the total limit 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. Any movement between these separate limits will be reported to the next meeting of the Audit Committee



**Treasury Management Strategy Statement  
and Investment Strategy 2010/11 to 2012/13**

<b>Operational Boundary for External Debt</b>	<b>2009/10 Approved</b>	<b>2009/10 Revised</b>	<b>2010/11 Estimate</b>	<b>2011/12 Estimate</b>	<b>2012/13 Estimate</b>
	£m	£m	£m	£m	£m
Borrowing	351	347	385	400	412
Other Long-term Liabilities	21	61	59	58	56
<b>Total</b>	<b>372</b>	<b>408</b>	<b>444</b>	<b>458</b>	<b>468</b>

**9 Adoption of the CIPFA Treasury Management Code:**

This indicator demonstrates that the Council has adopted the principles of best practice.

<b>Adoption of the CIPFA Code of Practice in Treasury Management</b>
The Council approved the adoption of the CIPFA Treasury Management Code at its Council meeting on 19th February 2003.

**10 Upper Limits for Fixed Interest Rate Exposure and Variable Interest Rate Exposure:**

These indicators sets upper limits on the amount of net borrowing (total borrowing less investments) with fixed interest rates and variable interest rates for next year and the following two years and has the effect of setting ranges within which an authority would limit its exposure to both fixed and variable interest rate movements

The upper limit for variable rate exposure has been set to ensure that the Council is not exposed to interest rate rises which could adversely impact on the revenue budget. The limit allows for the use of variable rate debt to offset exposure to changes in short-term rates on investments

	<b>2009/10 Approved</b>	<b>2009/10 Revised</b>	<b>2010/11 Estimate</b>	<b>2011/12 Estimate</b>	<b>2012/13 Estimate</b>
	%	%	%	%	%
<b>Upper Limit for Fixed Interest Rate Exposure</b>	100	100	100	100	100
<b>Upper Limit for Variable Interest Rate Exposure</b>	35	50	50	50	50

*Note: These limits may be expressed as financial amounts or as percentages.*

The limits above provide the necessary flexibility within which decisions will be made for drawing down new loans on a fixed or variable rate basis; the decisions will ultimately be determined by expectations of anticipated interest rate movements as set out in the Council's treasury management strategy.

**Treasury Management Strategy Statement  
and Investment Strategy 2010/11 to 2012/13**

**11 Maturity Structure of Fixed Rate borrowing:**

This indicator highlights the existence of any large concentrations of fixed rate debt needing to be replaced at times of uncertainty over interest rates and is designed to protect against excessive exposures to interest rate changes in any one period, in particular in the course of the next ten years.

It is calculated as the amount of projected borrowing that is fixed rate maturing in each period as a percentage of total projected borrowing that is fixed rate. The maturity of borrowing is determined by reference to the earliest date on which the lender can require payment.

<b>Maturity structure of fixed rate borrowing</b>	<b>Estimate 2009/10</b>	<b>Lower Limit %</b>	<b>Upper Limit %</b>
under 12 months	40	0	45
12 months and within 24 months	4	0	45
24 months and within 5 years	13	0	50
5 years and within 10 years	17	0	50
10 years and within 20 years	2	0	50
20 years and within 30 years	8	0	75
30 years and within 40 years	4	0	75
40 years and within 50 years	12	0	75
50 years and above	0	0	100

**12 Upper Limit for total principal sums invested over 364 days:**

The purpose of this limit is to contain exposure to the possibility of loss that may arise as a result of the Council having to seek early repayment of the sums invested.

<b>Upper Limit for total principal sums invested over 364 days</b>	<b>2009/10 Approved</b>	<b>2009/10 Revised</b>	<b>2010/11 Estimate</b>	<b>2011/12 Estimate</b>	<b>2012/13 Estimate</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
	50	50	50	50	50

### Economic and Interest Outlook

Financial markets remain reasonably volatile as the structural changes necessary within economies and the banking system evolve. This volatility provides opportunities for active treasury management. The economic interest rate outlook provided by the Council's treasury advisor, Arlingclose Ltd, for November 2009 is detailed below.

	Dec-09	Mar-10	Jun-10	Sep-10	Dec-10	Mar-11	Jun-11	Sep-11	Dec-11	Mar-12
<b>Official Bank Rate</b>										
Upside risk				+0.25	+0.25	+0.50	+0.50	+0.50	+0.50	+0.50
Central case	0.50	0.50	0.50	0.50	1.00	1.50	2.25	3.00	4.00	4.00
Downside risk					-0.50	-0.50	-0.50	-0.25	-0.25	-0.25
<b>1-yr LIBID</b>										
Upside risk				+0.25	+0.50	+0.50	+0.50	+0.50	+0.50	+0.50
Central case	1.25	1.25	1.25	1.50	2.00	2.75	3.50	4.00	4.25	4.25
Downside risk					-0.25	-0.25	-0.25	-0.25	-0.25	-0.25
<b>5-yr gilt</b>										
Upside risk		+0.25	+0.25	+0.25	+0.50	+0.50	+0.50	+0.50	+0.50	+0.50
Central case	2.60	2.70	2.80	2.90	3.00	3.25	3.50	3.75	4.00	4.25
Downside risk		-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25
<b>10-yr gilt</b>										
Upside risk			+0.25	+0.25	+0.25	+0.25	+0.25	+0.25	+0.25	+0.25
Central case	3.60	3.75	3.75	4.00	4.00	4.25	4.25	4.50	4.50	4.75
Downside risk			-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25
<b>20-yr gilt</b>										
Upside risk		+0.25	+0.25	+0.25	+0.25	+0.25	+0.25	+0.25	+0.25	+0.25
Central case	4.10	4.25	4.50	4.75	4.75	5.00	5.00	5.00	5.00	5.00
Downside risk		-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25
<b>50-yr gilt</b>										
Upside risk	+0.25	+0.25	+0.25	+0.50	+0.50	+0.50	+0.50	+0.50	+0.50	+0.50
Central case	4.00	4.25	4.50	4.50	4.50	4.75	4.75	4.75	4.75	4.75
Downside risk			-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25

- The recovery in growth is likely to be slow and uneven, more “W” than “V” shaped. The Bank of England will stick to its lower-for-longer stance on policy rates.
- Gilt yields will remain volatile; yields have been compressed by Quantitative Easing and will rise once QE tapers off and if government debt remains at record high levels.
- Central banks will eventually wind down and exit their emergency liquidity provisions and shrink their balance sheets, but official interest rates in the UK, Eurozone and US will stay low for some while.
- There are significant threats to the forecast from potential downgrades to sovereign ratings and/or political instability.

The underlying assumptions being:

- The Bank of England has increased Quantitative Easing (QE) to £200bn to insure against the downside risks to growth and stimulate the economy.
- The Bank forecasts GDP to grow by 4% in 2011 but concedes growth could be impeded by corporate and consumer balance sheet adjustments, restrictions in bank credit and consumers' cautious spending behaviour. This is an optimistic forecast in our view; evidence of recovery is scant with weak real economic data and rising unemployment.
- Looming bank regulation and liquidity and capital requirements will curb banking lending activity. The Bank retains the option to reduce the rate on commercial banks' deposits to encourage them to lend.
- The employment outlook remains uncertain. Pay freezes and job cuts will continue into 2010.
- Inflation is not an immediate worry. The Bank's forecast is for CPI to rise in the next few months from higher commodity prices and VAT reverting to 17.5%, but is forecast to remain below 2% in the short term, only surpassing the target in 2012. There is a risk that inflation overshoots in 2010 prompting a letter from the Bank's Governor to the Chancellor.
- The UK fiscal deficit remains acute. Cuts in public spending and tax increases are now inevitable and more likely to be pushed through in 2010 by a new government with a clear majority.
- The net supply of gilts will rise to unprecedented levels in 2010. Failure to articulate and deliver on an urgent and credible plan to lower government borrowing to sustainable levels over the medium term will be negative for gilts.
- The Federal Reserve Chairman Bernanke's diagnosis of a weak U.S. economy and labour market signal that the Fed's "extended period" of low rates may get even longer. The outlook the Eurozone is more optimistic but the European Central Bank will only increase rates after a durable upturn in growth.

## Treasury Management Strategy Statement and Investment Strategy 2010/11 to 2012/13

### Specified and Non Specified Investments

***Please note the CLG is in the process of undertaking a review of the Investment Guidance for Local Authorities in England and this section may therefore be subject to review and amendment***

#### **Specified Investments identified for use by the Council**

Specified Investments will be those that meet the criteria in the CLG Guidance, i.e. the investment

- is sterling denominated
- has a maximum maturity of 1 year
- meets the “high” credit criteria as determined by the Council or is made with the UK government or is made with a local authority in England, Wales and Scotland.
- the making of which is not defined as capital expenditure under section 25(1)(d) in SI 2003 No 3146 (i.e. the investment is not loan capital or share capital in a body corporate).

“Specified” Investments identified for the Council’s use are:

- Deposits in the DMO’s Debt Management Account Deposit Facility
- Deposits with UK local authorities
- Deposits with banks and building societies
- \*Certificates of deposit with banks and building societies
- \*Gilts : (bonds issued by the UK government)
- \*Bonds issued by multilateral development banks
- AAA-rated Money Market Funds with a Constant Net Asset Value (Constant NAV)
- Other Money Market Funds and Collective Investment Schemes– i.e. credit rated funds which meet the definition of a collective investment scheme as defined in SI 2004 No 534 and SI 2007 No 573.

*\* Investments in these instruments will be on advice from the Council’s treasury advisor.*

For credit rated counterparties, the minimum criteria will be the short-term / long-term ratings assigned by various agencies which may include Moody’s Investors Services, Standard & Poor’s, Fitch Ratings.

*For example: Long-term minimum: Aa3 (Moody’s) or AA- (S&P) or AA-(Fitch)*

*Or: Short-term P-1 (Moody’s) or A-1 (S&P) or F1 (Fitch).*

*(Please note the above are examples only)*

The Council will also take into account information on corporate developments of and market sentiment towards investment counterparties.

## Treasury Management Strategy Statement and Investment Strategy 2010/11 to 2012/13

New specified investments will be made within the following limits:

<b>Instrument</b>	<b>Country</b>	<b>Counterparty</b>	<b>Maximum Limit of Investments %/£m</b>
Term Deposits	UK	DMADF, DMO	No limit
Term Deposits/Call Accounts	UK	Other UK Local Authorities	No limit
Term Deposits/Call Accounts	UK	Abbey	£5 Million
Term Deposits/Call Accounts	UK	Bank of Scotland/Lloyds	£5 Million
Term Deposits/Call Accounts	UK	Barclays	£5 Million
Term Deposits/Call Accounts	UK	Clydesdale	£5 Million
Term Deposits/Call Accounts	UK	HSBC	£5 Million
Term Deposits/Call Accounts	UK	Nationwide	£5 Million
Term Deposits/Call Accounts	UK	Royal Bank of Scotland	£5 Million
Term Deposits/Call Accounts	Australia	Australia and NZ Banking Group	£1 Million
Term Deposits/Call Accounts	Australia	Commonwealth Bank of Australia	£1 Million
Term Deposits/Call Accounts	Australia	National Australia Bank Ltd	£1 Million
Term Deposits/Call Accounts	Australia	Westpac Banking Corp	£1 Million
Term Deposits/Call Accounts	Canada	Bank of Montreal	£1 Million
Term Deposits/Call Accounts	Canada	Bank of Nova Scotia	£1 Million
Term Deposits/Call Accounts	Canada	Canadian Imperial Bank of Commerce	£1 Million
Term Deposits/Call Accounts	Canada	Royal Bank of Canada	£1 Million
Term Deposits/Call Accounts	Canada	Toronto-Dominion Bank	£1 Million

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Term Deposits/Call Accounts	Finland	Nordea Bank Finland	£1 Million
Term Deposits/Call Accounts	France	BNP Paribas	£1 Million
Term Deposits/Call Accounts	France	Calyon (Credit Agricole Group)	£1 Million
Term Deposits/Call Accounts	France	Credit Agricole SA	£1 Million
Term Deposits/Call Accounts	Germany	Deutsche Bank AG	£1 Million
Term Deposits/Call Accounts	Netherlands	Rabobank	£1 Million
Term Deposits/Call Accounts	Spain	Banco Bilbao Vizcaya Argentaria	£1 Million
Term Deposits/Call Accounts	Spain	Banco Santander SA	£1 Million
Term Deposits/Call Accounts	Switzerland	Credit Suisse	£1 Million
Term Deposits/Call Accounts	US	JP Morgan	£1 Million
Gilts	UK	DMO	No limit
Bonds	EU	European Investment Bank/Council of Europe	25% in aggregate
AAA rated Money Market Funds	UK/Ireland/ Luxembourg	CNAV MMFs	30%/37.5%
Other MMFs and CIS	UK	Collective Investment Schemes	£1 Million

*NB Any existing deposits outside of the current criteria will be reinvested with the above criteria on maturity.*

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# Agenda Item 10

<b>DECISION-MAKER:</b>	AUDIT COMMITTEE		
<b>SUBJECT:</b>	RISK MANAGEMENT ACTION PLAN 2009-10: STATUS REPORT		
<b>DATE OF DECISION:</b>	25 <sup>th</sup> January 2010		
<b>REPORT OF:</b>	Carolyn Williamson – Executive Director of Resources		
<b>AUTHOR:</b>	Name:	Peter Rogers	Tel: 023 8083 2835
	E-mail:	<a href="mailto:peter.rogers@southampton.gov.uk">peter.rogers@southampton.gov.uk</a>	

## STATEMENT OF CONFIDENTIALITY

NOT APPLICABLE

## SUMMARY

The Committee will recall the “Risk Management Strategy and Action Plan” report and supporting documents that were presented and approved at the Audit Committee meeting on 24<sup>th</sup> June 2009. In accordance with the Strategy, progress against the agreed ‘Risk Management Action Plan’ shall be reported to the Audit Committee on an annual basis with a ‘mid term’ status report.

## RECOMMENDATIONS:

The Audit Committee is asked to:-

- (i) Note the Risk Management Action Plan 2009-10: Status Report (Appendix 1).

## REASONS FOR REPORT RECOMMENDATIONS

1. This report is presented to the Audit Committee in their capacity as the member body with responsibility for providing independent assurance to the Standards and Governance Committee 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 statement of internal control.
2. The Audit Committee is also responsible for providing assurance to the Standards and Governance Committee that appropriate action is being taken on risk and internal control related issues identified by the internal and external auditors and other review and inspection bodies.

## CONSULTATION

3. The Risk Management Action Plan status report has been developed in consultation with the ‘Resources Board’ (in their capacity as the council risk management group).

## **ALTERNATIVE OPTIONS CONSIDERED AND REJECTED**

4. Not applicable.

### **DETAIL**

5. Effective risk management is a key element of corporate governance, and is recognised as such in:-
- The CIPFA/SOLACE Corporate Governance Framework;
  - CIPFA's guidance on the Statement on Internal Control; and
  - The Audit Commission's Use of Resources assessment for the Comprehensive Performance Assessment ("CPA").
6. The Accounts and Audit (Amendment) (England) Regulations 2006 also state that the Council is "responsible for ensuring that its financial management is adequate and effective and that it has a sound system of internal control which facilitates the effective exercise of its functions, and which includes arrangements for the management of risk".

## **FINANCIAL/RESOURCE IMPLICATIONS**

### **Capital**

NONE

### **Revenue**

NONE

### **Property**

No specific property implications have been identified in this report.

### **Other**

NONE

## **LEGAL IMPLICATIONS**

### **Statutory power to undertake proposals in the report:**

The Audit Commission Act 1998 and the Accounts and Audit Regulations 2003 require the Council to adopt Good Governance arrangements in respect of the discharge of its functions. The above arrangements are intended to meet those responsibilities.

### **Other Legal Implications:**

NONE

## **POLICY FRAMEWORK IMPLICATIONS**

NONE

**SUPPORTING DOCUMENTATION**

**Appendices**

1.	Risk Management Action Plan 2009-10: Status Report
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**Documents In Members' Rooms**

1.	NONE
2.	

**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.		
2.		

**Background documents available for inspection at:** Internal Audit Office, North  
Block Basement, Civic Centre

E-mail: [peter.rogers@southampton.gov.uk](mailto:peter.rogers@southampton.gov.uk)

**FORWARD PLAN No:** N/A

**KEY DECISION?**

N/A

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**WARDS/COMMUNITIES AFFECTED:**

NOT APPLICABLE

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## RISK MANAGEMENT ACTION PLAN 2009-10: Status Report

	THEME / SOURCE / ISSUE	ACTION	TARGET DATE / MILESTONE	STATUS	COMMENTS
1.	<p><b>Embedding Risk Management</b></p> <p>Implementation of Phase 2 developments of the Risk Functionality within CorVu (the council's performance management software).</p>	Phase 2 – is focussed on how risk can be further embedded in the normal business processes and, in particular, seeking to include a 'risk indicator' when reporting on the status of key priorities and objectives.	SEPT 09 Revised FEB 10	<b>IN PROGRESS</b>	A number of incremental developments have been completed around the content and format of the reports. The development of a 'risk indicator' field is being piloted with a target completion date of end of Jan 2010.
2.	<p><b>Embedding Risk Management</b></p> <p>CAA Use of Resources 09-10, KLOE 2.4: "The body regularly reviews and updates a register of its corporate and service business risks that:</p> <ul style="list-style-type: none"> <li>• links risks to strategic objectives (to ensure the risk register is focused);</li> <li>• assesses the risks for likelihood and impact; and</li> <li>• assigns named individuals to lead on actions identified to mitigate each risk."</li> </ul>	<p>Quality check and review the content of the Directorate Risk Registers to ensure consistency of approach.</p> <p>To facilitate the ongoing review and update of the Council's Strategic Risk Register and confirm its alignment with the Council's six priorities.</p>	AUG 09  AUG 09	<b>COMPLETED</b> (Aug 09)  <b>COMPLETED</b> (Aug 09)	COMT review Aug 09 / report to Audit Committee Sept 09
3.	<p><b>Managing Risks in Partnerships</b></p> <p>CAA Use of Resources 2009-10, KLOE 2.4: "Risk management considers risks relating to significant partnerships, as appropriate, and requires officers to obtain assurances about the management of those risks".</p>	To support the Solicitor to the Council in respect of the 'roll out' and communication of the Partnership Code and Toolkit.	OCT 09 Revised JAN 10	<b>IN PROGRESS</b>	Communication of the Code and Toolkit to officers and Members being led by the Council's Strategic Partnerships Manager commencing with a presentation at the Senior Managers Conference in Dec 09 followed by a Member Briefing session on 18 <sup>th</sup> January 2010. All relevant information appears on the intranet at <a href="#">Appendix #</a>

	THEME / SOURCE / ISSUE	ACTION	TARGET DATE / MILESTONE	STATUS	COMMENTS
		To ensure that any feedback or comments on the 'risk management' elements of the Code obtained via the periodic review undertaken by Solicitor to the Council are appropriately actioned.	MAR 10	NOT STARTED	<a href="http://intranet.southampton.gov.uk/yourcouncil/PartnershipDirectory/default.asp#0">http://intranet.southampton.gov.uk/yourcouncil/PartnershipDirectory/default.asp#0</a>
4.	<p><b>Managing Risks in Projects</b></p> <p>Annual Governance Statement for 2008-09</p> <p>"A 'Project Management Health Check' was commissioned and undertaken in 2008-09 which identified an opportunity to develop a more efficient and consistent approach to project and programme management".</p>	<p>To ensure that the new project /programme management tool and associated guidance/template are aligned with the council's corporate risk approach.</p> <p>To support as necessary the development of the risk element of the associated 'Project Management' training modules within the 2009-10 Management Academy Programme.</p>	<p>JULY 09 Revised Feb 10</p> <p>MAR 10</p>	<p><b>IN PROGRESS</b></p> <p><b>COMPLETED</b> (Dec 09)</p>	<p>The need to identify and manage key risks features throughout the PM Connect Process. 'Managing Risks in Projects' guidance and template document has been developed however some additional work is required to ensure that it is reflected in PM Connect guidance.</p> <p>No specific input required in respect of the development of the 'Managing Projects the Southampton Way' and 'Controlling Projects the Southampton Way' modules.</p>
5.	<p><b>Reporting Risk</b></p> <p>CAA Use of Resources 09-10, KLOE 2.2:</p> <p>"Does the organisation produce relevant and reliable data and information to support decision making and manage performance?"</p> <p>With regard to decision makers being made aware of key risks, the Audit Committee has (in Jan 08) previously identified the need for the corporate 'Report Author Training' to make specific reference to this issue.</p>	To review the response to the questionnaire to be issued to Cabinet Members by Internal Audit as part of a 'Decision Making and Accountability' audit review. The questionnaire includes specific questions in relation to whether cabinet members, as decision makers, feel sufficiently informed about key risks.	<p>AUG 09 Revised JAN 10</p>	<b>IN PROGRESS</b>	Internal Audit has agreed that it would be more appropriate for the question regarding 'decision making and how risks are reported' to be included within the annual communication to all members (issued by the Solicitor to the Council) on the decision making process and templates

	THEME / SOURCE / ISSUE	ACTION	TARGET DATE / MILESTONE	STATUS	COMMENTS
6.	<p><b>Risk Financing</b></p> <p>To ensure that the new insurance contract (to commence in April 2010) is fit for purpose in terms of current and future business needs.</p>	<p>To undertake a fundamental review of the current risk financing programme in order to determine the most appropriate and cost effective approach going forward. Exercise to be led by the council's appointed risk and insurance advisors with support from Procurement in respect of the competitive tender exercise.</p>	APR 10	<b>IN PROGRESS</b>	<p>Insurance procurement project plan on target with provisional contract award expected on 7<sup>th</sup> February 2010 in advance of 1<sup>st</sup> April contract commencement.</p>
7.	<p><b>Training</b></p> <p>To provide appropriate risk management training opportunities for members and council officers relevant to their needs / responsibilities.</p>	<p>To develop and make available a Risk Management training opportunity to all members.</p> <p>To develop the 'Risk Management' training module which will form part of 09-10 Management Academy programme (which covers all Level 1,2,3 Managers across the Council).</p>	<p>DEC 09</p> <p>AUG 09</p>	<p><b>COMPLETED</b> (Nov 09)</p> <p><b>COMPLETED</b> (Oct 09)</p>	<p>New Member Induction training sessions to include risk management element with effect from May 2010 (agreed with Democratic Services Sept 09).</p> <p>The first of the Management Academy sessions commenced in Nov 09.</p>
8.	<p><b>Communication</b></p> <p>Ensure that a range of risk management guidance documents and templates are available.</p>	<p>Review and update the intranet.</p>	DEC 09	<b>COMPLETED</b> (Dec 09)	<p>Suite of documents and templates provided including guidance and templates in respect of 'managing business risks', 'managing risks in partnerships' and 'managing risks in projects'. See following link;  <a href="http://intranet.southampton.gov.uk/yourcouncil/directoratedivisionalnewsinformation/resources/internalaudit/riskmanagement/risk_management/default.asp#0">http://intranet.southampton.gov.uk/yourcouncil/directoratedivisionalnewsinformation/resources/internalaudit/riskmanagement/risk_management/default.asp#0</a></p>

	<b>THEME / SOURCE / ISSUE</b>	<b>ACTION</b>	<b>TARGET DATE / MILESTONE</b>	<b>STATUS</b>	<b>COMMENTS</b>
9.	<b>Policy and Strategy</b> To ensure that the Risk Management Strategy and Policy are still relevant and appropriate.	Review and update the Risk Management Strategy and policy and report any significant changes to the Audit Committee for approval.	JUNE 09	<b>COMPLETED</b> (June 09)	Revised policy and strategy approved by Audit Committee on 24 <sup>th</sup> June 2009
10.	<b>Policy and Strategy</b> To ensure that a relevant and appropriate action plan is in place and that arrangements are in place to review progress. In addition, to provide an opportunity for the actions to be reviewed in terms of whether they are still relevant and/or remain a priority.	Prepare an annual risk management action plan/status report and interim report for the Audit Committee.	JUNE 09  DEC 09	<b>COMPLETED</b> (June 09)  <b>COMPLETED</b> (Jan 10)	Annual RM Action Plan approved by Audit Committee on 24 <sup>th</sup> June 2009



<b>DECISION-MAKER:</b>	AUDIT COMMITTEE		
<b>SUBJECT:</b>	ANNUAL GOVERNANCE STATEMENT 2008/09 ACTION PLAN STATUS REPORT		
<b>DATE OF DECISION:</b>	25 <sup>th</sup> JANUARY 2010		
<b>REPORT OF:</b>	CAROLYN WILLIAMSON – EXECUTIVE DIRECTOR OF RESOURCES		
<b>AUTHOR:</b>	Name:	Peter Rogers	Tel: 023 8083 2835
	E-mail:	peter.rogers@southampton.gov.uk	

<b>STATEMENT OF CONFIDENTIALITY</b>
NOT APPLICABLE

## SUMMARY

In accordance with the Accounts and Audit Regulations the Council is required to complete an Annual Governance Statement ('AGS'). The AGS is a key corporate document which is intended to provide an accurate representation of the corporate governance arrangements in place during the year and highlight those areas where improvement is required. The Council is expected to develop and monitor actions to address those areas where improvement is required.

## RECOMMENDATIONS:

- (i) That the Audit Committee notes the content of the AGS 2008-09 Action Plan Status document (Appendix 1).

## REASONS FOR REPORT RECOMMENDATIONS

1. The Audit Committee has responsibility to provide independent assurance to the Standards and Governance Committee 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. This responsibility extends to receiving assurance that the actions identified to address those areas where improvement is required are being satisfactorily progressed or implemented.

## CONSULTATION

2. The Action Plan Status document has been developed by the Council's 'Controls Assurance Management Group' ("CAMG") comprising the Executive Director of Resources, Monitoring Officer, Chief Internal Auditor, Chair of the Audit Committee and the Head of Corporate Policy and Performance in accordance with their responsibility for "reviewing progress in respect of action plans to address any identified significant control weaknesses".

## ALTERNATIVE OPTIONS CONSIDERED AND REJECTED

3. No alternative options have been considered.

## **DETAIL**

4. The purpose of the AGS is to provide an accurate representation of the corporate governance arrangements in place during the year and to identify or highlight any areas where gaps or improvements are required. Although the AGS is published with the authority's financial statements it is concerned with the overall corporate governance arrangements and is not confined to financial issues.
5. A robust assurance gathering process has been developed by the Council, in accordance with the guidance published by the Chartered Institute of Public Finance and Accountancy ("CIPFA") and the Society of Local Authority Chief Executives ("SOLACE"), to support the preparation of the AGS.
6. The AGS highlights the 'significant governance issues' that were identified and includes a summary of the proposed action to address the issues together with a timescale for completion.
7. An AGS Action Plan was subsequently developed by the CAMG who are responsible for "reviewing progress in respect of action plans to address any identified significant control weaknesses". In September 2009 the CAMG formally reviewed progress of the agreed AGS Action Plan.

## **FINANCIAL/RESOURCE IMPLICATIONS**

### **Capital**

8. NONE

### **Revenue**

9. NONE

### **Property**

10. No specific property implications have been identified in this report.

### **Other**

11. NONE

## **LEGAL IMPLICATIONS**

### **Statutory power to undertake proposals in the report:**

12. The Audit Commission Act 1998 and the Accounts and Audit Regulations 2003 require the Council to adopt Good Governance arrangements in respect of the discharge of its functions. The above arrangements are intended to meet those responsibilities.

### **Other Legal Implications:**

13. NONE

## **POLICY FRAMEWORK IMPLICATIONS**

14. NONE

**SUPPORTING DOCUMENTATION**

**Appendices**

1.	AGS 2008-09 Action Plan Status document
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**Documents In Members' Rooms**

1.	NONE
2.	

**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.		
2.		

**Background documents available for inspection at:** Internal Audit, Risk and Assurance Office, North Block Basement, Civic Centre

E-mail: [peter.rogers@southampton.gov.uk](mailto:peter.rogers@southampton.gov.uk)

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**FORWARD PLAN No:** N/A

**KEY DECISION? N/A**

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**WARDS/COMMUNITIES AFFECTED:**

NOT APPLICABLE

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# ANNUAL GOVERNANCE STATEMENT 2008-09: ACTION PLAN

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 2008-09:

	ISSUE	ACTION POINT	TARGET DATE	STATUS	LEAD OFFICER	COMMENTS
1	The council's Code of Corporate Governance needs to be subject to a formal annual review process.	Following any recommendations from the recent IDeA Ethical Governance Peer Review an annual process will be adopted by the Solicitor to the Council each year to review prior to submission to the Standards and Governance Committee each summer	July 2009 (Revised Dec 2009)  Mar 2010	<b>COMPLETED</b>  <b>IN PROGRESS</b>	Solicitor to the Council	The IDeA review did not contain any recommendations relating to the Code of Corporate Governance ("CCG").  The Code of Corporate Governance ("CCG") is to be reviewed and presented to Standards and Governance Committee in Spring 2010. Since the last formal review of the CCG a further significant and complimentary review of corporate governance arrangements has taken place under the CAA Use of Resources KLOE 2.3 which looked at 'how we promote and demonstrate the principles and values of good governance'. The Audit Commission assessment was "Good – 3 out of 4". Accordingly, yet another review so shortly afterwards was not considered to be a high priority but is now being attended to

	ISSUE	ACTION POINT	TARGET DATE	STATUS	LEAD OFFICER	COMMENTS
2	The Partnership Code and Toolkit developed by the Council in 2008-09 needs to be formally adopted.	Partnership Code and Toolkit to be formally adopted and form part of the Council's Constitution.  Communication of new arrangements to relevant officers and members.	May 2009  Dec 2009 (Revised Jan 2010)	<b>COMPLETED</b> (May 09)  <b>IN PROGRESS</b>	Solicitor to the Council  Solicitor to the Council	Partnership Code and Toolkit formally adopted by Full Council on 13 <sup>th</sup> May 2009 and now incorporated as part of the Council's Constitution.  Communication of the Code and Toolkit to officers and Members led by the Council's Strategic Partnerships Manager commencing with a presentation at the Senior Managers Conference in Dec 09 followed by a Member Briefing session on 18 <sup>th</sup> January 2010.  Partnership Register (the A-Z of partnerships) is has been developed and is being populated. The Register will identify all those statutory and non-statutory partnerships who will then be required to undertake a self-assessment using the Code and Toolkit by December 2010.
3	A 'Project Management Health Check' was commissioned and undertaken in 2008-09 which identified an opportunity to develop a more efficient and consistent approach to project and programme management.	Centralised Project Management Environment prototype (PM Connect) developed. To be formally approved and adopted across all service areas.  Provision of appropriate training opportunities in relation to the new Project Management Framework and Guidelines.	July 2009  Mar 2010	<b>COMPLETED</b> (July 09)  <b>IN PROGRESS</b>	Executive Director of Resources  Executive Director of Resources	COMT agreed that PM Connect will be adopted by all Directorates. Neighbourhoods piloted the new arrangements and it was agreed that all 'Gold' and Capital projects would be on the new system by April 2010 followed by a period of migration of other projects after that date.  The 2009-10 Management Academy programme includes "Controlling Projects the Southampton Way" (mandatory for all Chief Officers and Level 1 Managers) and "Managing Projects the Southampton Way" (mandatory for all Level 2 and 3 Managers). The sessions, which commenced in October 2009, lead managers through the new 'PM Connect' project management process.

	ISSUE	ACTION POINT	TARGET DATE	STATUS	LEAD OFFICER	COMMENTS
4	Ensure consistent understanding of the council's corporate standards by relevant officers.	<p>Delivery of the council's Management Academy Programme 2009-10.</p> <p>Pilot of the NetConsent software to be undertaken and, subject to successful outcome, to be rolled out across the council.</p>	<p>Mar 2010</p> <p>Mar 2010</p>	<p><b>IN PROGRESS</b></p> <p><b>IN PROGRESS</b></p>	<p>Executive Director of Resources</p> <p>Executive Director of Resources</p>	<p>The Management Academy Programme for 2009-10 (Year 3) runs from August 2009 to July 2010. One of the key aims of the Programme is to ensure that all managers "understand the council's corporate approach to management practice"</p> <p>The proposed pilot, that was due to commence in October within the Resources Directorate, has had to be rescheduled and will commence at the beginning of February. The objective is to ensure that the system is fully live by the 31<sup>st</sup> March 2010.</p>
5	Finalise report and action plan following the IDeA Ethical Governance Review and report to Standards and Governance Committee.	Implement Action Plan	Sept 2009	<b>COMPLETED</b> (Sept 09)	Solicitor to the Council	The action plan arising from the Ethical Governance Health Check was approved by the Standards and Governance Committee on 24 <sup>th</sup> September 2009. Identified actions to be completed by May 2010 with progress reported back to the Committee.

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# Agenda Item 12

<b>DECISION-MAKER:</b>	AUDIT COMMITTEE		
<b>SUBJECT:</b>	NATIONAL FRAUD INITIATIVE 2008-09		
<b>DATE OF DECISION:</b>	25 JANUARY 2010		
<b>REPORT OF:</b>	NEIL PITMAN – CHIEF INTERNAL AUDITOR (ACTING)		
<b>AUTHOR:</b>	Name:	Alan Tottle	Tel: 023 8083 3308
	E-mail:	alan.tottle@southampton.gov.uk	
<b>STATEMENT OF CONFIDENTIALITY</b>			
NOT APPLICABLE			

## SUMMARY

The National Fraud Initiative (NFI) is a data matching exercise run by the Audit Commission which matches electronic data within and between participating bodies to prevent and detect fraud. The NFI is run every two years and is part of the statutory audit process for health, local government and the other public sector providers that the Audit Commission is responsible for. Approximately 1,500 organisations supply data in areas like housing benefit, payroll and pensions which is then cross-matched to identify inaccuracies or potential fraud.

The 'Internal Control' section of the 'Comprehensive Performance Assessment 2009 - Use of Resources' makes specific reference to the NFI and requires that the council can demonstrate effective participation in the National Fraud Initiative (NFI).

## RECOMMENDATIONS:

The Audit Committee is asked to:-

- (i) Note the current status of the 2008-09 NFI data matching exercise

## REASONS FOR REPORT RECOMMENDATIONS

1. The Audit Committee is the member body with responsibility for oversight of and provision of assurance to the Standards and Governance Committee on 'the scope and effectiveness of the internal control systems established by management to identify, assess, manage and monitor financial and non-financial risks (including measures to protect against, detect and respond to fraud)'.

## CONSULTATION

2. Not applicable

## ALTERNATIVE OPTIONS CONSIDERED AND REJECTED

3. No alternative options have been considered

## DETAIL

4. The NFI is the Audit Commission's data matching exercise that runs every two years and is designed to help participating bodies identify possible cases of fraud and detect and correct any consequential under or overpayments from the public purse.
5. Nationally, the Audit Commission has reported that the most recent exercise

(NFI 2006/07) identified £140 million of fraud and error across the United Kingdom from local government, central government, the NHS and a number of private sector pension bodies.

6. To date the outcome of the 2008-09 NFI exercise is as follows:

NFI Exercise	Identified Fraud (£)	Recovering (£)
2008 - 09	132,235	101,982
2006 - 07	46,196	

7. The scope of the 2008-09 NFI exercise was extended to include residents' parking permits, blue badges and concessionary travel passes, insurance claims, private care home residents, market trader and taxi driver licences. This is addition to the current data sets that include housing benefit, creditors, housing rents, right to buy and payroll. In addition, further data matching is being undertaken relating to Electoral Registration and Council Tax data. The 2008-09 NFI exercise identified 13,883 matches.
8. In each case, and in advance of the data being supplied, all necessary steps were taken to ensure compliance with the Audit Commission's statutory 'Code of Data Matching Practice' in respect of the notification to data subjects that data held on systems may be used for the prevention or detection of fraud.
9. In accordance with the NFI timetable in December 2009, further datasets were uploaded for Housing rents (Currents Tenants), Council Tax and Electoral Register. Additionally the first phase of data matches were released relating to Unlawful Subletting.
10. It is understood that the results of additional matches will be available mid March 2010.
11. In October the Audit Commission undertook a risk assessment of the Council's progress with regard the National Fraud Initiative, concluding a low risk (green status) opinion.

## **FINANCIAL/RESOURCE IMPLICATIONS**

### **Capital**

10. NONE

### **Revenue**

11. NONE

### **Property**

12. NONE

### **Other**

13. NONE

## **LEGAL IMPLICATIONS**

### **Statutory power to undertake proposals in the report:**

14. The Audit Commission Act 1998 and the Accounts and Audit (Amendment) (England) Regulations 2006 require the Council to adopt Good Governance

arrangements in respect of the discharge of its functions. The above arrangements are intended to meet those responsibilities.

**Other Legal Implications:**

16. NONE

**POLICY FRAMEWORK IMPLICATIONS**

17. NONE

**SUPPORTING DOCUMENTATION**

**Appendices**

1.	None
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**Documents In Members' Rooms**

1.	None
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**Background Documents**

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)

1.		
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**Background documents available for inspection at:**

n/a

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**FORWARD PLAN No: N/A KEY DECISION? N/A**

**WARDS/COMMUNITIES AFFECTED: All**

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<b>DECISION-MAKER:</b>	AUDIT COMMITTEE		
<b>SUBJECT:</b>	ASSURANCE MAPPING		
<b>DATE OF DECISION:</b>	25 <sup>th</sup> January 2010		
<b>REPORT OF:</b>	CHIEF INTERNAL AUDITOR (Acting)		
<b>AUTHOR:</b>	Name:	Neil Pitman	Tel: 023 80 834616
	E-mail:	Neil.pitman@southampton.gov.uk	
<b>STATEMENT OF CONFIDENTIALITY</b>			
None			

## SUMMARY

An 'assurance mapping' exercise has been undertaken by Internal Audit with the primary aim of identifying the sources of assurance received across the Council in order to:

- Ensure sources of assurance are appropriately reported in accordance with the Audit Committee Terms of Reference;
- Inform internal audit planning through the identification of assurance provided from other review and inspection bodies to avoid duplication and identify potential assurance gaps; and
- Inform the Annual Governance Statement

## RECOMMENDATIONS:

- (i) That the Audit Committee notes the position regarding the development of assurance mapping process.

## REASONS FOR REPORT RECOMMENDATIONS

1. In accordance with its terms of reference the Audit Committee is required to 'be satisfied and provide assurance to the Standards and Governance Committee that appropriate action is being taken on risk and internal control related issues identified by the internal and external auditors and other review and inspection bodies'.
2. The assurance mapping exercise is intended specifically to identify those sources of assurance provided by 'other review and inspection bodies'.
3. Information regarding the various sources of assurance was collated and reviewed as part of the assurance gathering process required to inform development of the Annual Governance Statement.
4. Based on the information provided, it is considered that the Audit Committee currently receive all appropriate assurance reports in compliance with its Terms of Reference.

## CONSULTATION

6. The development and status of the Assurance Mapping Process was reported to the Resources Board in October 2009 recognising their involvement in both providing the source information and the Board's responsibility for monitoring the Council's controls assurance framework and both influencing and

supporting the council's internal audit strategy.

## ALTERNATIVE OPTIONS CONSIDERED AND REJECTED

7. None

### DETAIL

8. Assurance can be provided from a number of sources both internal and external and can provide confidence to stakeholders, comfort to managers and trust and credibility to the organisation. However, ineffective or over assurance can become burdensome, impacting on the effectiveness of front line service delivery.
9. The assurance mapping process is concerned with identifying all of the sources of assurance received across the organisation. Once identified, the information can then be collated and analysed in order to provide a better understanding of the roles and scope of the work undertaken by the various assurance providers both within and external to the organisation.
10. The primary drivers for the assurance mapping process are:
- To inform internal audit planning - Through the identification of assurance provided from other review and inspection bodies, to avoid duplication and identify potential assurance gaps to key risk areas.
  - To inform the Annual Governance Statement - The Annual Governance Statement requires an indication of the level of assurance that the systems and processes that comprise the authority's governance arrangements can provide;
  - To contribute to the requirements of the Use of Resources (KLOE 2.4) - *'The council has put in place an assurance framework that maps the council's strategic objectives to risks, controls and assurances; and The assurance framework provides members with information to support the governance statement.'* (Audit Commission (2008))
  - To ensure sources of assurance are appropriately reported - The Terms of Reference for the Audit Committee require;
    - To be satisfied and provide assurance to the Standards and Governance Committee that appropriate action is being taken on risk and internal control related issues identified by the internal and external auditors and **other review and inspection bodies**.
    - The committee shall specifically have responsibility for oversight of and provision of assurance to the Standards and Governance Committee.
11. The assurance mapping process will continue to be developed in conjunction with the 'controls assurance self assessment' process used to inform the Annual Governance Statement.

## FINANCIAL/RESOURCE IMPLICATIONS

### Capital

12. None

### Revenue

13. None

### Property

14. None

### Other

15. None

## LEGAL IMPLICATIONS

### Statutory power to undertake proposals in the report:

16. The Accounts and Audit (Amendment) (England) Regulations 2006 require the Council to 'maintain an adequate and effective system of internal audit of its accounting records and of its system of internal control in accordance with the proper practices in relation to internal control'.

### Other Legal Implications:

17. None.

## POLICY FRAMEWORK IMPLICATIONS

18. None.

## SUPPORTING DOCUMENTATION

### Appendices

1.	None.
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### Documents In Members' Rooms

1.	None.
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### 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.	None.	
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**Background documents available for inspection at:** Internal Audit Office, North Block Basement, Civic Centre

E-mail: [Neil.pitman@southampton.gov.uk](mailto:Neil.pitman@southampton.gov.uk)

**FORWARD PLAN No:**

N/A

**KEY DECISION? N/A**

**WARDS/COMMUNITIES AFFECTED: All**

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# Agenda Item 14

<b>DECISION-MAKER:</b>	AUDIT COMMITTEE			
<b>SUBJECT:</b>	MONITORING AUDIT COMMITTEE RECOMMENDATIONS			
<b>DATE OF DECISION:</b>	25 JANUARY 2010			
<b>REPORT OF:</b>	DEMOCRATIC SUPPORT AND MEMBERS SERVICES MANAGER			
<b>AUTHOR:</b>	Name:	KEITH TURNER	Tel:	023 8083 2418
	E-mail:	Keith.turner@southampton.gov.uk		

## STATEMENT OF CONFIDENTIALITY

None

## SUMMARY

The monitoring system is designed to provide a mechanism for Members of the Committee to track and discuss the progress of previous Audit Committee recommendations.

## RECOMMENDATIONS:

- (i) To consider the action taken since its last meeting.
- (ii) To offer further comments and recommendations on any outstanding issues.

## REASONS FOR REPORT RECOMMENDATIONS

1. To enable the Audit Committee to monitor the progress of recommendations made at previous meetings.

## CONSULTATION

2. None

## ALTERNATIVE OPTIONS CONSIDERED AND REJECTED

3. None

## DETAIL

4. The summary of recommendations from the Panel's last meeting are set out in Appendix 1 together with outstanding recommendations from previous meetings.

The key elements of the monitoring form system are:-

- (i) every Audit Committee recommendation is recorded on the monitoring form;
- (ii) each Audit Committee recommendation remains on the monitoring form until action has been taken and it is judged to be either satisfactory or conclusive by the Audit Committee; and
- (iii) the 'Status' column relates to whether the action taken so far is a sufficient response to the issues raised by the Audit Committee, in which case the matter is marked as 'Completed'. If the action is

substantially uncompleted it is reported as 'Ongoing'. The matter remains on the list and is reported again at the next meeting. Provided that the Panel is satisfied with the response, the item will be removed from the list produced for the next meeting.

5. Details of the actions taken since the previous meeting will be reported verbally at the meeting. At the next meeting recommendations from this meeting will be added to the list and information on progress provided. Those items reported as completed this time will be removed from the next list.

## **FINANCIAL/RESOURCE IMPLICATIONS**

### **Capital**

6. None

### **Revenue**

7. None

### **Property**

8. None

### **Other**

9. None

## **LEGAL IMPLICATIONS**

### **Statutory power to undertake proposals in the report:**

10. The duty to be satisfied and provide assurance to the Standards and Governance Committee that appropriate action is being taken on risk and internal control related issues identified by the internal and external auditors and other review and inspection bodies is set out in the Local Government Act 1972.

### **Other Legal Implications:**

11. None

## **POLICY FRAMEWORK IMPLICATIONS**

12. None

## SUPPORTING DOCUMENTATION

### Appendices

1.	Audit Committee Monitoring – to December 2009
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### Documents In Members' Rooms

1.	None
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### 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.	None	
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**Background documents available for inspection at:** N/A

**FORWARD PLAN No:** N/A                      **KEY DECISION?** NO

<b>WARDS/COMMUNITIES AFFECTED:</b>	None
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# ITEM APPENDIX 1

## PROGRESS MONITORING REPORT to DECEMBER 2009 – AUDIT COMMITTEE

Title of Agenda Item	Concern/Cause	Action Proposed	Responsibility	By when	Action Taken	Status
<b>MEETING HELD ON 27 MARCH 2008</b>						
<b>5.e</b>	Are reports on the work of external audit and other inspection agencies presented to the committee, including the Audit Commission's annual audit and inspection letter?	Audit Commission reports are now automatically presented, but needs extending to other inspection agencies	Neil Pitman	Sept 08	Results of the assurance mapping exercise incorporated within the agenda for the January 2010 Audit Committee.	<b>COMPLETE</b>
<b>MEETING HELD ON 24 SEPTEMBER 2008</b>						
3. Audit Commission : Audit and Inspection Plan Progress Report		(ii) that the External Audit Manager, Audit Commission would certify completion of the City's accounts as soon as the questions raised by two electors had been answered. (Minute No 18(ii))	External Audit Manager, Audit Commission		The District Auditor has now certified completion of the audit of the 2007/08 financial statements and is reviewing correspondence received from one elector in respect of the 2008/09 financial statements	<b>ONGOING</b>

**MEETING HELD ON 19 MARCH 2009**

8. Internal Audit: Revised Strategic Plan 2007/08 to 2009/2010		that the Solicitor to the Council be requested to arrange appropriate training for members and officers regarding partnership working under the new Partnership code	Henry Pavey	Sep 09	Communication of the Code and Toolkit to officers and Members led by the Council's Strategic Partnerships Manager commencing with a presentation at the Senior Managers Conference in Dec 09 followed by a Member Briefing session on 18 <sup>th</sup> January 2010.	<b>COMPLETE</b>

<b>MEETING HELD ON 24 JUNE 2009</b>						
15. Internal Audit: Status of Work May 2009		(ii) that a member of the Internal Audit Team attend the meetings of the Schools Forum with a view to being able to offer guidance and advice on the requirements of financial matters and record keeping.	Neil Pitman	Mar 10	To attend the first available Schools Forum following the completion of the 2009/10 thematic audit review.	<b>COMPLETE</b>
<b>MEETING HELD ON 23 SEPTEMBER 2009</b>						
6. Strategic Risk Register		That the member training session on Risk Management scheduled for 12 <sup>th</sup> November should make specific reference to the Strategic Risk Register and the views of members attending be canvassed regarding the content of the document.	Celia Fraser/Peter Rogers	Nov 09	The member training session on Risk Management on 12 <sup>th</sup> November to make specific reference to the Strategic Risk Register and canvass the views of attendees regarding the content of the document.	<b>COMPLETE</b>
	<b>Risk 3</b> – How is the risk score in respect of “members being provided with reliable, accurate and robust information upon which to base strategic decisions” validated?	Wider view of members should be canvassed.	Peter Rogers	Dec 09	As above	<b>COMPLETE</b>

	<b>Risk 11</b> - How is the cost of the adaptation and action plans, being developed to manage weather/climate risks, being funded?	Circulate the information to all members of the Committee.	Peter Rogers	Dec 09	Note circulated to Members confirming how the mitigating actions are being funded.	<b>COMPLETE</b>
	<b>Risk 12</b> – What are the costs and financial penalties from Central Government for not meeting Carbon Reduction Commitment (“CRC”) targets and deadlines to come into force during 2013?.	Circulate a briefing paper/information to all members of the Committee.	Peter Rogers	Dec 09	CRC briefing paper, developed by the Council’s Energy Manager, circulated to Members.	<b>COMPLETE</b>
7. Internal Audit Status of Work	Sport and Recreation page 15 – Breaches in Financial Procedure Rules.	List of Leisure Venues concerned to be sent to Councillor Daunt.	Neil Pitman	Dec 09	List of Leisure Venues referred to in the internal audit review circulated 9 <sup>th</sup> October 09	<b>COMPLETE</b>



**MEETING HELD ON 10 DECEMBER 2009**

4. Audit Commission: Annual Audit Letter 2008/09	Levels of academic attainment in Southampton schools in light of the increases of expenditure in recent years.	that with regard to Key Messages Section 8 page 4 – Actions contained in the Letter the Executive Director of Children’s Services and Learning be requested to submit a report to the January, 2010 meeting in view of the Committee’s concern on the levels of educational performance and attainment in the City’s schools advising and informing on the action being taken and proposed together with an overview of the use of financial resources.		Dec 09		
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<b>DECISION-MAKER:</b>	AUDIT COMMITTEE		
<b>SUBJECT:</b>	IMPROVEMENT IN SCHOOL PERFORMANCE		
<b>DATE OF DECISION:</b>	25 JANUARY 2010		
<b>REPORT OF:</b>	EXECUTIVE DIRECTOR OF CHILDREN'S SERVICES AND LEARNING		
<b>AUTHOR:</b>	Name:	Paul Nugent	Tel: 023 8083 3631
	E-mail:	<a href="mailto:paul.nugent@southampton.gov.uk">paul.nugent@southampton.gov.uk</a>	

<b>STATEMENT OF CONFIDENTIALITY</b>
None

## SUMMARY

Southampton City council is one of twelve authorities identified by the Department Children Schools and Family with a high proportion of schools below the of 55% floor target of pupils achieving level 4 or above in both English and maths at Key Stage 2. The council has to submit its improvement plan by 29<sup>th</sup> January 2010. Audit Committee previously requested that with regard to Key Messages Section 8 page 4 – Actions contained in the Annual Audit Letter the Cabinet Member for Children's Services and Executive Director of Children's Services and Learning be requested to attend the January, 2010 meeting to discuss the action being taken and proposed to address education performance and attainment in the City's schools. This report recommends how this recommendation is most appropriately addressed in line with Southampton City Council's Constitution and the proper review and scrutiny of performance related issues.

## RECOMMENDATIONS:

- (i) That the Committee request Overview and Scrutiny Management Committee to commission and consider a report from the Executive Director and Cabinet member for Children's Services on the Council's performance in relation to the target of pupils achieving level 4 or above in both English and Maths at Key Stage 2 and performance and attainment in the City's schools more generally.

## REASONS FOR REPORT RECOMMENDATIONS

1. In order to ensure that the City's performance in relation to key service delivery in relation to educational attainment is reviewed and scrutinised and the performance of the Council encouraged and challenged in the most appropriate manner provided for under the Constitution via the role of Overview and Scrutiny in holding the Executive to account for the delivery of services within the City and to avoid duplication of Committee business across the Council and the inefficient use of resources in that regard.

## CONSULTATION

2. Solicitor to the Council, Executive Director of Resources, Executive Director of Children's Services, Chair of the Audit Committee, Chair of the Standards

and Governance Committee.

### **ALTERNATIVE OPTIONS CONSIDERED AND REJECTED**

3. None – alternative options would run contrary to the role of OSMC as set out in the Constitution and require an avoidable duplication of resources.

### **DETAIL**

4. Ed Balls, MP and Secretary of State wrote to all lead members and directors of children's services on 4<sup>th</sup> December 2009 reminding them of the need to maintain their focus on attainment at Key Stage 2. This letter stated that a fresh approach will be needed to raise standards in primary schools and introduced the World Class Primary Programme. All authorities were asked to submit plans to him by 31<sup>st</sup> March 2010 that set out how they planned to support their primary schools to improve
5. Southampton City council is one of twelve authorities that received a second letter expressing concern about the persistence of low attainment and the apparent lack of progress in those authorities, which had a high proportion of their schools below the of 55% floor target of pupils achieving level 4 or above in both English and maths at Key Stage 2. These authorities have been asked to submit their improvement plans by 29<sup>th</sup> January 2010. These plans will be considered by National Strategies and DCSF primary advisors, who have been asked to visit the authority to consider the plan. Funding for improving primary schools will be released when the plans have been judged to be robust and realistic. The support package available to schools will include funding for school improvement to help outstanding schools become part of supportive partnerships
6. The Head of School Standards is drafting the Improvement Plan for submission on 29<sup>th</sup> January 2010 and is scheduled to consider this with OSMC at its meeting of 21<sup>st</sup> January.
7. The Overview & Scrutiny Committee requested, at it's meeting on 17<sup>th</sup> December 2009, to scrutinise the Council's Improvement Plan referred to above and it is therefore considered appropriate to report to OSMC on the issues around attainment in the City generally and in relation to Key Stage 2 more specifically, what the council has already done to improve the City's performance in this regard and what it proposes to do in order to further meet the targets set both locally and nationally and to improve the quality and focus of education for residents of Southampton in accordance with the executive's approved priorities in this regard and the commitment in the Policy Framework to support and stretch educational attainment within the locality. It is the role of OSMC to hold the Executive to account for their performance in this regard, to offer advice and recommendations to the Executive for the improvement of service delivery in the City and to challenge the Authority in relation to the outcomes it delivers for the benefit of residents.

### **FINANCIAL/RESOURCE IMPLICATIONS**

#### **Capital**

8. None

**Revenue**

9. N/A for this report. These will be detailed in the Improvement Plan and the report to OSMC.

**Property**

10. These will be detailed in the Improvement Plan.

**Other**

11. These will be detailed in the Improvement Plan.

**LEGAL IMPLICATIONS**

**Statutory power to undertake proposals in the report:**

12. These will be detailed in the Improvement Plan.

**Other Legal Implications:**

13. These will be detailed in the Improvement Plan.

**POLICY FRAMEWORK IMPLICATIONS**

14. These will be detailed in the Improvement Plan.

**SUPPORTING DOCUMENTATION**

**Appendices**

1.	None
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**Documents In Members' Rooms**

1.	None
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**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.	None	
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**Background documents available for inspection at:** None

**KEY DECISION?** No

<b>WARDS/COMMUNITIES AFFECTED:</b>	All
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# Agenda Item 16

<b>DECISION-MAKER:</b>	AUDIT COMMITTEE		
<b>SUBJECT:</b>	INTERNAL AUDIT: STATUS OF WORK December 2009		
<b>DATE OF DECISION:</b>	25 <sup>th</sup> January 2010		
<b>REPORT OF:</b>	CHIEF INTERNAL AUDITOR (Acting)		
<b>AUTHOR:</b>	Name:	Neil Pitman	Tel: 023 80 834616
	E-mail:	Neil.pitman@southampton.gov.uk	

## STATEMENT OF CONFIDENTIALITY

The confidential appendix attached to this report is exempt from publication under Categories 2 and 7 of paragraph 10.4 of the Council's Access to Information Procedure Rules. The information contained therein is exempt as it relates to ongoing investigations and is likely to reveal the identities of individuals. Having applied the public interest test it is not appropriate to disclose this information. The interests of any parties involved in these investigations could be jeopardised by the release of the information.

## SUMMARY

Under the Accounts and Audit (Amendment) (England) Regulations 2006, the Council is responsible for:

- ensuring that its financial management is adequate and effective and that it has a sound system of internal control which facilitates the effective exercise of functions and includes arrangements for the management of risk; and
- maintaining an adequate and effective system of Internal Audit of its accounting records and of its system of internal control in accordance with the proper internal audit practices.

In accordance with proper internal audit practices and the Internal Audit Strategy, the Chief Internal Auditor is required to provide a written status report to the Audit Committee, summarising:

- progress in implementing the audit plan;
- internal audit reviews in progress;
- audit opinion on all internal audit reviews completed since the last report and executive summaries of published reports where critical weaknesses or unacceptable levels of risk were identified;
- the status of 'live' reports, i.e. those where internal audit work is completed and actions are planned to improve the framework of governance, risk management and management control; and
- internal audit reviews closed since the last report.

The appendix summarises the activities of internal audit for the period ending 21<sup>st</sup> December 2009.

## **RECOMMENDATIONS:**

- (i) That the Audit Committee notes the Internal Audit Status of Work report for the period ending 21<sup>st</sup> December 2009 as attached.

## **REASONS FOR REPORT RECOMMENDATIONS**

1. In accordance with proper internal audit practices and the Internal Audit Strategy, the Audit Committee is required to receive the Chief Internal Auditor's status report.

## **CONSULTATION**

2. The Status of Work report for the period ending 21<sup>st</sup> December 2009 has been received by the Chief Officers' Management Team.

## **ALTERNATIVE OPTIONS CONSIDERED AND REJECTED**

3. None

## **DETAIL**

4. The status report for the period ending 21<sup>st</sup> December 2009 is attached for consideration in the appendix.

## **FINANCIAL/RESOURCE IMPLICATIONS**

### **Capital**

5. None

### **Revenue**

6. None

### **Property**

7. None

### **Other**

8. None

## **LEGAL IMPLICATIONS**

### **Statutory power to undertake proposals in the report:**

9. The Accounts and Audit (Amendment) (England) Regulations 2006 require the Council to 'maintain an adequate and effective system of internal audit of its accounting records and of its system of internal control in accordance with the proper practices in relation to internal control'.

### **Other Legal Implications:**

10. None.

## **POLICY FRAMEWORK IMPLICATIONS**

11. None.



**SUPPORTING DOCUMENTATION**

**Appendices**

1.	Internal Audit: Status of Work Report period ending 21 <sup>st</sup> December 2009
2.	Internal Audit: Status of Work Report period ending 21 <sup>st</sup> December 2009 – Confidential Addendum

**Documents In Members' Rooms**

1.	
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**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.		
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**Background documents available for inspection** Internal Audit Office, North Block  
Basement, Civic Centre

E-mail Neil.pitman@southampton.gov.uk

**WARDS/COMMUNITIES AFFECTED:**

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SUBJECT:	<b>Internal Audit: Status of Work</b>
MEETING:	<b>Audit Committee</b>
DATE OF MEETING:	<b>25<sup>th</sup> January 2010</b>
REPORT OF:	<b>Chief Internal Auditor (Acting)</b>
REPORT DATE:	<b>21 December 2009</b>

**1 Internal audit report opinion definitions:**

<b>Opinion</b>	<b>Framework of governance, risk management and management control</b>
Substantial assurance <b>[G]</b>	A sound framework in place that is operating effectively. Some immaterial evidence of inconsistent application.
Adequate Assurance <b>[A1]</b>	Basically a sound framework in place but with repeated evidence of inconsistent application.
Limited assurance <b>[A2]</b>	Critical weakness(es) identified within the framework or significant evidence of inconsistent application.
No assurance <b>[R]</b>	Fundamental weaknesses have been identified or the framework is ineffective or absent.
Closed <b>[X]</b>	Management has confirmed that all identified framework weaknesses have been appropriately addressed.

**2 Status of 'live' reports:**

Audit title	Report date	Audit Sponsor	Directorate	Opinion							Original actions	Actions outstanding
				May 2008	Aug 2008	Nov 2008	Feb 2009	May 2009	Aug 2009	Dec 2009		
Strategic Services Partnership	28/02/08	Executive Director of Resources	Resources	G	G	G	G	G	G	X	3 (1)	0
Payroll	17/03/08	Executive Director of Resources	Resources	G	G	G	G	G	G	X	6 (1)	0
School Admissions	17/03/08	Executive Director Children's Services and Learning	Children's Services and Learning	G	G	G	G	G	G	X	5 (2)	0
Fleet Transport	08/04/08	Executive Director of Environment	Environment	G	G	G	G	G	G	G	11 (0)	2 (0)
Licensing	16/04/08	Chief Executive	Legal and Democratic Services	A	G	G	G	G	G	G	13 (3)	1(0)
Parking: Off and On Street	16/04/08	Executive Director of Environment	Environment	G	G	G	G	G	G	G	15 (4)	1 (0)
Receipt Management and Banking	07/05/08	Executive Director of Resources	Resources	G	G	G	G	G	G	X	5 (0)	0
Internet and Email	16/05/08	Executive Director of Resources	Resources	A	A	A	A	A	A	G	10 (3)	2 (2)

Audit title	Report date	Audit Sponsor	Directorate	Opinion							Original actions	Actions outstanding
				May 2008	Aug 2008	Nov 2008	Feb 2009	May 2009	Aug 2009	Dec 2009		
Network Management	10/06/08	Executive Director of Resources	Resources		A	G	G	G	G	G	19 (0)	1 (0)
Across Schools Thematic Reviews – Security	16/06/08	Executive Director Children's Services and Learning	Children's Services and Learning		A	A	A	G	G	G	8 (4)	1 (0)
Code of Conduct and Disciplinary Rules	24/07/08	Executive Director of Resources	Resources		A	A	A	A	A	X	17 (13)	0
Affordable Housing	14/08/08	Executive Director of Neighbourhoods	Neighbourhoods		A	G	G	G	G	G	12 (4)	1 (0)
Workforce planning	04/09/08	Executive Director of Resources	Resources		G	G	G	G	G	G	8 (0)	1 (0)
Town Depot Stores	05/09/08	Executive Director of Neighbourhoods	Neighbourhoods			A	A	G	G	G	11 (3)	2 (0)
Itchen Bridge	16/09/08	Executive Director of Resources and Executive Director of Environment	Resources / Environment			A	G	G	G	G	4 (0)	1 (0)
Capital Programme and Major Projects	01/12/08	Executive Director of Resources	Cross-cutting			A	A	A	A	A2	7(0)	7(0)

Audit title	Report date	Audit Sponsor	Directorate	Opinion							Original actions	Actions outstanding
				May 2008	Aug 2008	Nov 2008	Feb 2009	May 2009	Aug 2009	Dec 2009		
VAT	19/12/08	Executive Director of Resources	Resources				G	G	G	G	4(0)	1(0)
Procurement	15/12/08	Executive Director of Resources	Resources				A	G	G	G	21(8)	1(1)
Section 106 Agreements	26/01/09	Executive Director of Environment.	Environment				R	R	A	A2	7(6)	1 (1)
Public Transport	04/02/09	Executive Director of Environment. Executive Director of Resources	Environment				A	G	G	G	5(2)	1(0)
Mental Health and Substance Misuse	23/03/09	Executive Director Communities Health and Care	Communities Health and Care					A	A	A2	6 (3)	5 (3)
Woodmill	26/03/09	Executive Director of Neighbourhoods and Executive Director of Resources	Neighbourhoods and Resources					R	A	G	9 (8)	1 (0)
Corporate Governance	07/04/09	Solicitor to the Council	Chief Executive					G	G	G	2 (0)	1 (0)
Customer Services	28/04/09	Executive Director of Resources	Resources					A	G	X	3 (1)	0

Audit title	Report date	Audit Sponsor	Directorate	Opinion							Original actions	Actions outstanding
				May 2008	Aug 2008	Nov 2008	Feb 2009	May 2009	Aug 2009	Dec 2009		
Private Sector Housing	12/05/09	Executive Director of Neighbourhoods	Neighbourhoods					A	A	X	19 (8)	0
Computer Installations & Operating Systems	14/05/09	Executive Director of Resources	Resources						A	A2	20 (6)	11 (5)
IS Security Management	14/05/09	Executive Director of Resources	Resources						A	G	13 (3)	4 (0)
Council Tax	14/05/09	Executive Director of Resources	Resources						G	G	6 (0)	1 (0)
Learning Futures Transformational Programme	14/05/09	Executive Director, Children's Services and Learning	Children Services and Learning						A	X	10 (10)	0
Payroll	19/05/09	Executive Director of Resources	Resources						G	G	1 (0)	1 (0)
Environmental Health	05/06/09	Executive Director of Environment	Environment						G	X	6 (0)	0
Registration Services	16/06/09	Executive Director of Environment	Environment						G	G	6 (0)	6 (0)
Development Control	19/06/09	Executive Director of Environment	Environment						G	G	1 (1)	1 (1)

Audit title	Report date	Audit Sponsor	Directorate	Opinion							Original actions	Actions outstanding	
				May 2008	Aug 2008	Nov 2008	Feb 2009	May 2009	Aug 2009	Dec 2009			(of which are 'high' priority)
Sports and Recreation Venues	23/06/09	Executive Director of Neighbourhoods	Neighbourhoods							A	G	10 (7)	1 (1)
Children's Trust Arrangements for the Delivery of the Children and Young People's Plan	24/06/09	Executive Director, Children Services and Learning	Children Services and Learning							G	X	2 (0)	0
Leisure Venues Alternative Management Transformation Project	26/06/09	Executive Director of Neighbourhoods	Neighbourhoods							G	G	5 (2)	1 (0)
Debtors	30/06/09	Executive Director of Resources	Resources							G	G	5 (1)	3 (1)
Direct Payments – follow up	30/06/09	Executive Director of Health and Community Care	Health and Communities Care							G	G	1 (0)	1 (0)
Expense Management	30/06/09	Executive Director of Resources	Resources							A	G	13 (10)	1 (1)
Open Spaces and Street Cleansing	01/07/09	Executive Director of Neighbourhoods	Neighbourhoods							A	G	9 (2)	6 (1)



Audit title	Report date	Audit Sponsor	Directorate	Opinion							Original actions	Actions outstanding	
				May 2008	Aug 2008	Nov 2008	Feb 2009	May 2009	Aug 2009	Dec 2009			(of which are 'high' priority)
School PFI Contract Management	03/07/09	Executive Director, Children Services and Learning	Children Services and Learning							A	A1	8 (1)	6 (1)
Contract Management	07/07/09	Executive Director of Resources	Resources							A	G	9 (1)	3 (1)
Corporate Complaints	17/07/09	Assistant Chief Executive (Strategy)	Chief Executive (Strategy)							G	X	5 (0)	0
Emergency Home Closures	28/07/09	Executive Director of Health and Community Care	Communities Health and Care							A	G	5 (1)	1 (0)
Youth Services	28/07/09	Executive Director, Children Services and Learning	Children Services and Learning							A	X	7 (6)	0
Supporting People	05/08/09	Executive Director of Health and Community Care	Health and Community Care							G	X	1 (0)	0
Economic Development (Major City Developments / North South Spine)	13/08/09	Assistant Chief Executive (Economic Development)	Chief Executive							G	X	11 (8)	0

Audit title	Report date	Audit Sponsor	Directorate	Opinion							Original actions	Actions outstanding	
				May 2008	Aug 2008	Nov 2008	Feb 2009	May 2009	Aug 2009	Dec 2009			(of which are 'high' priority)
Transport Services Income Investigation	14/09/09	Executive Director of Resources	Resources								<b>R→A<sub>2</sub></b>	22 (22)	9 (9)
School Catering Services	17/09/09	Executive Director of Children Services and Learning	Children Services and Learning								<b>G</b>	5 (1)	4 (1)
School Grant Funding	29/09/09	Executive Director of Resources; Executive Director or Children, Services and Learning	Resources; Children Services and Learning								<b>G→X</b>	3 (1)	0
Building Control	12/10/09	Executive Director of Environment	Environment								<b>G→X</b>	7 (1)	0
Affordable Housing	13/11/09	Executive Director of Neighbourhoods	Neighbourhoods								<b>G</b>	3 (1)	3 (1)
CCTV Services	05/01/10	Executive Director of Neighbourhoods	Neighbourhoods								<b>G</b>	11 (2)	11 (2)
Workforce Strategy	07/01/10	Executive Director of Resources	Resources								<b>G</b>	5 (1)	5 (1)
Compliance with Health & Safety Legislation	07/01/10	Executive Director of Resources	Resources								<b>A<sub>1</sub></b>	12 (4)	12 (4)

Audit title	Report date	Audit Sponsor	Directorate	Opinion							Original actions	Actions outstanding
				May 2008	Aug 2008	Nov 2008	Feb 2009	May 2009	Aug 2009	Dec 2009		
Woodlands Community College	-	Executive Director or Children, Services and Learning	Children Services and Learning							R	25 (25)	

**3 Executive summaries of new reports published where critical weaknesses or unacceptable levels of risk were identified:**

<b>Audit title: Capital Programme and Major Projects (01/12/08)</b>
<b>Original published audit opinion:</b> Limited Assurance [A2]
<b>Current audit opinion:</b> Adequate Assurance [A1]
<p><b>Executive summary:</b></p> <p>Information on health and safety polices and procedures were appropriately cascaded to employees of the council. The policies and Safe Working Procedures (SWPs) were being reviewed and updated by the Corporate Health and Safety Advisor. All changes to the safe working procedures were subject to consultation with directorate health and safety co-ordinators. The programme status on the review of polices and procedures were not published on the intranet risking a lack of clarity with regard which policies have been updated and those in need of review.</p> <p>The Council undergoes an annual health and safety audit (a combination of full audits and newly introduced self audits). The response rate for the submission of the self audits was deemed to be poor when reported to the Corporate Health and Safety Committee. The health and safety</p>

audit plan was not risk based; consequently higher risk areas may not be subject to review.

Within the Strategic Services Partnership (SSP) specification, Capita has been commissioned to provide competent health and safety advice and assistance. The Health and Safety Key Performance Indicator (KPI) has only been monitored since July 2009; monitoring reports are not currently supported by adequate documentation to substantiate reported performance.

Sufficient guidance was available to managers to conduct appropriate health and safety risk assessments and opportunities were provided to all managers and risk assessors to attend training as appropriate

Two on-line approaches to health and safety training were available for Council employees. The first formed part of corporate induction provided by Human Resources and second was provided by the Health and Safety unit. Elements of the training material were duplicated which could cause confusion for managers and employees as to which training should be undertaken.

**Management actions and update since last report:**

An appropriate action plan has been agreed with management.

**4 Update on previously published reports where critical weaknesses or unacceptable levels of risk identified:**

**Audit title: Capital Programme and Major Projects (01/12/08)**

**Original published audit opinion:** Limited Assurance [**A2**]

**Current audit opinion:** Adequate Assurance [**A1**]

**Executive summary:**

Since 2007, the Council has introduced a new approach and framework for programme and project management and a significant investment has been made in providing project management training for key officers.

Capital/ Major Project Boards had been set up within each Directorate (except Resources) and met regularly. Although each had a Terms of

Reference there was no specified minimum requirement for their operation, meaning that there were inconsistencies in their operation and reporting frameworks. Due to the significant differences between the nature of Directorate/ Portfolio capital programmes and projects there needed to be some flexibility in the operation of the Boards, but corporate minimum requirements for all Directorates need to be specified to ensure the effectiveness of this key part of the governance framework?

There was a lack of prioritisation of resources dedicated to the programme/project monitoring processes which resulted in time being spent at Directorate Boards discussing matters of detail that could have been more appropriately covered outside of these meetings, had the officers involved had the time and opportunity available to do so. This in turn prevented the Board meetings from covering programme governance matters robustly and sufficiently or occasionally at all. In addition, some Board meetings had been presented with inadequate or no financial information due to conflicting demands on the time of Finance staff.

Six-monthly financial reports on the overall capital programme were presented to Chief Officers' Management Team, Cabinet and Council, but these did not include details of the progress/ delivery of the programme and individual schemes/ projects. There was no corporate coordination function for the Council, providing oversight, scrutiny and challenge across the Council's capital programme and major projects, therefore no means of ensuring that Directorate Boards were operating effectively and that the Directorate/Portfolio programmes and projects were being properly managed and delivered.

**Management actions and update since last report:**

The development of PM Connect is in its final stages with implementation to commence in August and be fully operational from April 2010.

The Executive Director of Resources has commissioned a fundamental review of project management which will address all management actions in response to audit observations. PM Connect is implemented in the Neighbourhoods Directorate who have 'early develop' status which also includes significant changes to monthly capital financial monitoring and the way this is reported corporately and through capital boards. The allows any lessons to be addressed prior to full roll out. The system will be fully operational from April 2010. A training programme has been developed alongside to ensure that staff and managers are trained regarding following the new Project Management governance, including specific training for Project Board members as well as Project Managers.

**High priority actions overdue:**

None

**Audit title: Section 106 agreements (26/01/09)**

**Original published audit opinion:** No Assurance [R]

**Current audit opinion:** Limited Assurance [A2]

**Executive summary:**

Formal debt recovery processes were not followed for the recovery of overdue section 106 contributions and therefore not reflected as a debtor in the Council's annual statement of accounts. At the time of the audit the value of overdue section 106 contributions was estimated at £2.3m in respect of Highways alone. Overdue contributions in respect of other key areas i.e. health, heritage, public realm, transportation, highways, Open Spaces and Affordable Housing had not been established.

There was a backlog of works within Highways and Transport relating to £2.7 million of contributions received, as at 30th June 2008. The Halcrow Group Limited (external consultant) were assessing the additional costs of carrying out agreed works to which contributions related. Of the contributions reviewed by Halcrow it had been assessed that additional financing of £862k would be required to complete the works.

Halcrow had also identified that approximately £885k was still held in relation to previously completed works (where the costs have not been allocated against the relevant contributions) and / or where works have been completed for less than the relevant contributions received. This money could not, however, be directly utilised to fund the 'shortfall' for other section 106 works in full. The Highways and Transport team was consulting with the Finance and Legal teams to identify an appropriate solution.

**Management actions and update since last report:**

The Debt Recovery process is now in place and Financial Accounts is to be used to chase developers for S106 contributions, once it is confirmed that the necessary staff in Development Control are trained to raise invoice requests through Agresso.

**High priority actions overdue:**

Practice of duplication of section 106 agreements on the Finance spreadsheet has been stopped. Development Control will review the old section 106 agreements to eliminate the duplicated applications (March 09)

**Audit title: Mental Health and Substance Misuse (23/03/09)**

**Original published audit opinion:** Limited Assurance [A2]

**Current audit opinion:** Limited Assurance [A2]

**Executive summary:**

Various boards and groups work together to oversee and collect evidence to ensure services are appropriately delivered. Details of the groups had yet to be fully documented or approved. Evidence of service performance delivery by the partners and stakeholders was not published in accordance with the terms of reference.

Extensions were awarded at the cessation of key contracts contravening the Councils Contract Procedure Rules. Until this is ratified assurance cannot be provided that appropriate service providers have been commissioned correctly to deliver service objectives.

**Management actions and update since report issued:**

None

**High priority actions overdue:**

Formal confirmation to be obtained from the Council's Legal Section to ratify contract requirements (Mar 09)

Annual report to be completed for year ending 2008/09 and future years by the lead agency i.e. Hampshire Partnership Trust (Oct 09)

A new Mental Health integrated contract to be completed to amalgamate service requirements (Mar 09)

**Audit title: Computer Installations & Operating Systems (14/05/09)**

**Original published audit opinion:** Limited Assurance [A]

**Current audit opinion:** Limited Assurance [A2]

**Executive summary:** InfraEnterprise is used by Capita for managing the change control process. This includes updating both Microsoft Windows and UNIX operating systems with appropriate patches and applying firmware updates.

Microsoft's Baseline Security Analyser was run against the network's domain controllers and identified missing security updates. PatchDiag was run against the operating systems for a number of the main applications and missing UNIX security patches were identified.

Documented procedures for patching Windows needed to be finalised. Procedures for patching UNIX and firmware updates needed to be developed.

The Council uses Microsoft Windows 2003 Active Directory to control its network and a number of the main applications including Social Care, Housing and Revenues and Benefits run on Sun Solaris. The Microsoft Windows Active Directory domain security policy was satisfactory, but the UNIX operating system retained default security settings.

**Management actions and update:**

The draft procedure for updating Microsoft servers has been finalised and issued.

The Joint Policy has been completed.

The list of non-expiring passwords has been reviewed.

Exceptions have been agreed by Capita and non expiration has been removed for those on the list.

A new page has been added to the intranet on informing Capita of leavers for their accounts to be closed.

Directorate business support managers have been asked to promote the starters and leavers policy to their management teams.

**High priority actions overdue:**

Confirmation must be sought from the suppliers of the PARIS and Revenues and Benefits systems that the operating systems have been hardened to comply with the UNIX Policy that will be developed jointly. (Sep 09)

Capita must install regular security patches to all UNIX servers to comply with the UNIX Policy that will be developed jointly. (Sep 09)

Capita need to force a password change for the UNIX operating system to comply with the UNIX Policy that will be developed jointly. (Sep 09)

The name check and history functions need to be enabled to comply with the UNIX Policy that will be developed jointly. (Sep 09)



Immediately disable all UNIX accounts for Capita staff who have left to comply with the UNIX Policy that will be developed jointly. (Sep 09)

**Audit title: Schools PFI Contract Management (03/07/09)**

**Original published audit opinion:** Limited Assurance [A2]

**Current audit opinion:** Adequate Assurance [A1]

**Executive summary:**

A governance framework was in place that met the requirements of the 'Concession Agreement', however 'terms of reference' were not evident for all the committees in place or had been reviewed recently. As such assurance could not be provided that each committee was fully aware and fulfilling its substantive role.

The Council did not maintain an Operational Contract Manual for the management of school PFI, consequently good practice may not be consistently followed during the life of the contract as the Council's contract management team changes.

No formal training on managing PFI contracts had been provided to Council staff, therefore a significant amount of trust and reliance is placed on the service provider in the provision of technical expertise.

The monthly KPI review meetings between the Authority, school and the contractor showed that performance of the contractors is discussed but there was no evidence from agendas or minutes to suggest that the "assessment of performance of the contractors management of the agreement" reports were reviewed within these meeting as detailed within "Schedule 4 - Performance Measurement System to Concession Agreement". Therefore, enforcement of the Concession Agreement may be more difficult in relation to other aspects if the contractor is not complying fully.

Interserve Pyramid Schools (Southampton), led on the most recent benchmarking exercise and collecting data for the Council for comparative purposes. The benchmarking process commenced 6 months prior to contract renewal as opposed to 9 to 24 months in line with good practice.

The results of an independent review of the benchmarking process conducted by Procurement have never been provided to the Infrastructure & Capital Projects Team, thus failing to comply with best practice guidance on "Benchmarking and Market Testing" in relation to capturing the

lesson learnt.

**Management actions and update:**

Authority representative attended the 4 Ps PFI Network Group

**High priority actions overdue:**

Further schools will be re-built under PFI as part of BSF Wave 6a. The Assets and Capital Strategy Manager will discuss with the Head of Infrastructure and Capital and BSF Project Director arrangements for bringing management of existing and new PFI contracts under the Building Schools for the Future Team (Sep 09)

N.B. To be implemented (Jan 10)

**Audit title: Contract Management (07/07/09)**

**Original published audit opinion:** Adequate Assurance [A1]

**Current audit opinion:** Adequate Assurance [A1]

**Executive summary:**

The Council's 'Contract Procedure Rules' were revised in May 2008 and provide a robust framework for procurement and contract management arrangements.

There remained a lack of awareness and understanding corporately with regard to the Council's Contract Procedure Rules. Observation highlighted omission in respect of appropriate contracts in place for services procured, the absence of appropriate monitoring arrangements and of the retention on contract registers.

There is a lack of awareness across the Council with regard legal and statutory responsibilities in accordance with the Contract Procedure Rules in respect of the management of procured contracts.

Inconsistencies were highlighted in the management of contracts to ensure that budgets, financial implications and best value were appropriately applied. From review of reports produced for contract monitoring meetings with the provider, representatives of the Council are not routinely present to ensure that actions taken and discussed appropriately reflect the requirements of the contract and the interest of

Southampton City Council.

**Management actions and update:**

Audit report discussed at COMT in September as part of the quarterly review process.

Corporate Policies to be incorporated as part of the 2010 / 11 management academy programme

**High priority actions overdue:**

Procurement are currently reviewing spend (Sep 09)

**5 Internal Audit Performance**

Internal Audit has been assessed as fully compliant with the CIPFA Code of Practice by the Audit Commission in their triennial review of the service in 2009

**6 Planning and Resourcing**

Sarah Dennis was seconded to the Transformation Team with effect from 1<sup>st</sup> October 2008 for a period of 12-18 months. Neil Pitman to lead the service in the interim

**7 Rolling work programme**

Audit title	Audit Progress				
	TOR issued	Fieldwork commenced	Fieldwork complete	Draft report issued	Final report issued (proposed)

Audit title	Audit Progress				
	TOR issued	Fieldwork commenced	Fieldwork complete	Draft report issued	Final report issued (proposed)
<b><u>2009/10 Audit Plan</u></b>					
Annual governance statement	✓	✓	✓	✓	10/05/09
Hampshire Camera Partnership	✓	✓	✓	✓	07/06/09
Youth Services	✓	✓	✓	✓	28/07/09
Supporting People	✓	✓	✓	✓	05/08/09
Solent Sea Rescue	✓	✓	✓	✓	24/08/09
School Catering Services	✓	✓	✓	✓	17/09/09
School Grant funding	✓	✓	✓	✓	29/09/09
Building Control	✓	✓	✓	✓	12/10/09
Treasury Management	✓	✓	✓	✓	12/11/09
Affordable Housing Development	✓	✓	✓	✓	13/11/09
Transport Services Income Investigation	n/a	✓	✓	✓	14/11/09

Audit title	Audit Progress				
	TOR issued	Fieldwork commenced	Fieldwork complete	Draft report issued	Final report issued (proposed)
Council tax	✓	✓	✓	✓	17/11/09
Debtors	✓	✓	✓	✓	20/11/09
Housing and Council Tax Benefit administration – 09/10	✓	✓	✓	✓	01/12/09
NNDR	✓	✓	✓	✓	08/12/09
CCTV	✓	✓	✓	✓	05/01/10
Compliance with Health and Safety Legislation	✓	✓	✓	✓	07/01/10
Workforce Strategy	✓	✓	✓	✓	07/01/10
Woodlands Community School	✓	✓	✓	✓	31/01/10
Land and property management	✓	✓	✓	✓	31/01/10
Integrated Transport and the Local Transport Strategy	✓	✓	✓	✓	31/01/10
Highways Network Management	✓	✓	✓	✓	31/01/10
Highways Resources Management	✓	✓	✓	✓	31/01/10

Audit title	Audit Progress				
	TOR issued	Fieldwork commenced	Fieldwork complete	Draft report issued	Final report issued (proposed)
Procurement	✓	✓	✓	✓	31/01/10
Creditors	✓	✓	✓	✓	31/01/10
Housing rent collection and debt management	✓	✓	✓	✓	31/01/10
Payroll	✓	✓	✓		28/02/10
Decent Homes and Estates	✓	✓	✓		28/02/10
Strategic Service Partnership	✓	✓			31/03/10
European Funding	✓	✓			31/03/10
Cash Collection and banking	✓	✓			31/01/10
Risk Management	✓	✓			28/02/10
Accommodation Strategy and Flexible Working	✓	✓			28/02/10
Network Management	✓	✓			31/03/10
Corporate Business Continuity Planning	✓				31/03/10

Audit title	Audit Progress				
	TOR issued	Fieldwork commenced	Fieldwork complete	Draft report issued	Final report issued (proposed)
Application Software Management	✓				31/03/10
IT Solutions Development	✓				31/03/10
Financial Management Standards in Schools	10 of 28 complete				

<b>8 Status of 'Live' External Audit</b>
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Audit title	Report date	Audit Sponsor	Directorate	Original actions	Actions outstanding
				(of which are 'high' priority)	
Opinion Interim Report	June 08	Executive Director of Resources	Resources	5 (2)	2 (1)
Final Accounts memo	Dec 08	Executive Director of Resources	Resources	5 (1)	1 (0)
Use of Resources	March 09	Executive Director of Resources	Resources	7 (4)	4 (2)
Data quality	March 09	Cross Directorate	Cross Directorate	6 (2)	2 (0)



Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date	Progress / Update
<b>Opinion Interim Report (Jun 08)</b>							
Social Services Income							
6	Identify the cause of the failure of the social care billing, and implement changes to the system to ensure that this does not continue into future years.	3	Carolyn Williamson	Agreed	Significant resources are still being employed to manage the current billing situation. A major project to develop a new charging policy and billing system to be introduced for 2009/10 is now underway.	Apr-09	New charging policy has been introduced from April 2009, work is continuing on implementing an upgrade of Paris so that the system side of billing can be improved. This is expected to happen in the autumn 2010.
IT Risk Assessment							
7	<p>Implement changes identified from our risk assessment of IT systems.</p> <ul style="list-style-type: none"> <li>Ensure that IT policies and standards are up to date and revised on a regular and timely basis.</li> <li>Ensure that there is adequate segregation of duties and oversight and that development staff do not have access to live data.</li> <li>Ensure that the disaster recovery</li> </ul>	2	Kevin Foley	Agreed	<p>Need a list of the major risk areas so that this can be completed.</p> <p>Will investigate and put appropriate controls in place.</p>	<p>Phased</p> <p>Programme End July</p>	<p>Ongoing - included in the ICT Business Plan 09-10</p> <p>Ongoing</p> <p>Ongoing.</p>

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date	Progress / Update
	plan is update on a regular and timely basis.						
<b>Final Account Memo (Dec 08)</b>							
Registration of assets with the Land Registry							
-	The registration of ownership of Land & Buildings with the Land Registry should be continued until completed.	2	John Spiers	Yes	This work is undertaken by Legal Services who have taken on a temporary contract solicitor to undertake the work. The contract will continue as there is still a lot of work to do. The resources portfolio work is now well underway.	Ongoing	Ongoing
<b>Use of Resources (Mar 09)</b>							
Internal Control							
-	Ensure that the revised non-residential social care billing policy and the replacement income billing module are implemented.	3	Carolyn Williamson	Yes	The new policy and charging module are in the process of being delivered per the specific action plan resulting from the PWC review.	Dec-09	New charging policy has been introduced from April 2009, work is continuing on implementing an upgrade of Paris so that the system side of billing can be improved. This is expected to happen in the autumn 2010.
-	Fully introduce the IT disaster recovery plan and ensure that it is	2	Carolyn Williamson	Yes	IT disaster recovery plan in place during December 2008. User acceptance	Dec-08	DR facility is in place and is being tested.

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date	Progress / Update
	regularly reviewed and tested.				testing is in the final stages after which a full test will be undertaken over a weekend.		Once testing is complete (25 Jan 2010) we will communicate to the wider organisation.
	• educational attainment	3	Clive Webster	Yes	Southampton is in the second quartile of unitary authorities on spending on the Dedicated Schools' Grant. The gap in attainment with the national average has narrowed in each of the last three years at GSCE from 9.8 per cent to 5.3 per cent in 2008 and also at the foundation stage (five-year old pupils). However, educational attainment in primary schools remains well below the national average. A new Raising Attainment Plan for 2009-2012 is currently being developed in partnership with head teachers and principals to ensure that this issue is addressed robustly.	Jul-09	In order to deliver the Raising Attainment Plan the senior leadership of the School Standards team has been reorganised and strengthened. This includes the recruitment of an additional Senior Inspector, who will also lead on strategy and quality and the part time secondment of two Headteachers to support the continuous professional development of teachers.  The Raising Attainment Plan will be consulted on in Autumn Term.

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date	Progress / Update
							The 2008-09 Early Years Foundation Stage outcomes results for Southampton show 6.1 percentage point increase for all children. This shows a closing of the gap between Southampton children and between national figures for 2008.
-	Evaluate partnerships' contribution to improving VFM as part of implementing the Council's partnership protocol.	2	Joy Wilmot-Palmer	Yes	Process to be developed by the end of 2009/10 following the agreement and implementation of the new protocol.	Mar-10	
<b>Data Quality (Mar 09)</b>							
Management arrangements							
7	Agree appropriate data sharing arrangements with the Council's LAA partners.	2	Joy Wilmot-Palmer	Yes	Data Sharing arrangements are already in place to facilitate the operation of key partnerships that underpin the delivery of the LAA. Following on from the	Mar-10	

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date	Progress / Update
					approval of the partnership protocol these arrangements will be reviewed for both existing and new partnerships to determine if they would be more appropriately applied at an individual partner rather than at a partnership level having due regard to all legal obligations as well as other information management requirements.		
7	Consistently apply existing quality checking of externally reported data more effectively, supported by refresher training for staff.	2	Joy Wilmot-Palmer	Yes	The sign off arrangements for externally reported data, including HIP forms, will be reviewed. Updated guidance will be issued and the respective roles of Heads of Service and Policy Co-ordinators within the quality assurance process will be reinforced.	Mar-10	

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