

Governance Committee

Monday, 23rd September,
2013
at 6.00 pm

PLEASE NOTE TIME OF MEETING

Conference Room 3 - Civic Centre

This meeting is open to the public

Members of the Committee

Councillor David Furnell (Chair)
Councillor Edward Daunt
Councillor John Inglis
Councillor Eamonn Keogh (Vice-Chair)
Councillor Georgina Laming
Councillor Brian Parnell
Councillor Asa Thorpe

Independent Members

Mr David Blake
Mr Geoff Wilkinson

Contacts

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PUBLIC INFORMATION

Role of the Governance Committee

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

[02 Part 2 - Articles](#)

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

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.

Southampton City Council's Priorities:

- **Economic:** Promoting Southampton and attracting investment; raising ambitions and improving outcomes for children and young people.
- **Social:** Improving health and keeping people safe; helping individuals and communities to work together and help themselves.
- **Environmental:** Encouraging new house building and improving existing homes; making the city more attractive and sustainable.
- **One Council:** Developing an engaged, skilled and motivated workforce; implementing better ways of working to manage reduced budgets and increased demand.

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 2013/14

2013	2014
15 July	3 February
23 September	28 April
16 December	

CONDUCT OF MEETING

Terms of Reference

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

[03 - Part 3 - Responsibility for Functions](#)

Business to be discussed

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

Quorum

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

Rules of Procedure

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

DISCLOSURE OF INTEREST

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

DISCLOSABLE PERSONAL INTERESTS

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

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

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

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

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

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

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

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

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

Other Interests

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

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

Any public authority or body exercising functions of a public nature

Any body directed to charitable purposes

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

Principles of Decision Making

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

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

In exercising discretion, the decision maker must:

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

AGENDA

Agendas and papers are now available via the Council's Website

1 APOLOGIES

To receive any apologies.

2 DISCLOSURE OF PERSONAL AND PECUNIARY INTERESTS

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

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

3 STATEMENT FROM THE CHAIR

4 MINUTES OF PREVIOUS MEETING (INCLUDING MATTERS ARISING)

To approve and sign as a correct record the Minutes of the meeting held on 15th July 2013 and to deal with any matters arising, attached.

5 ANNUAL REPORT ON INTERNAL COMPLAINTS/LOCAL GOVERNMENT OMBUDSMAN COMPLAINTS

To receive a verbal update from the Senior Solicitor (Corporate).

6 ANNUAL GOVERNANCE STATEMENT 2012-13 AND REVIEW OF 2011-12 ANNUAL GOVERNANCE STATEMENT

Report of the Head of Finance and IT seeking to review the Annual Governance Statement 2012-13 and to note the status of the 2011-12 Action Plan, attached.

7 RISK MANAGEMENT ACTION PLAN 2013-14: STATUS REPORT

Report of the Head of Finance and IT regarding the Risk Management Action Plan 2013-14: Status Report, attached.

8 STATEMENT OF ACCOUNTS 2012/13

Report of the Head of Finance and IT seeking approval of the statement of accounts 2012/13, attached.

9 CHANGES TO THE COUNCIL'S CONSTITUTION - COUNCIL PETITION SCHEME

Report of the Director of Corporate Services seeking comments on recommendations to changes to the Council's Constitution, attached.

10 ANNUAL REPORT ON THE NEW MEMBERS CODE OF CONDUCT / LOCALISM ACT 2011

Report of the Head of Legal, HR and Democratic Services regarding the Members Code of Conduct, attached.

11 MEMBER LEARNING AND DEVELOPMENT

Report of the Head of Legal, HR and Democratic Services seeking comments and endorsement of the Member Development Strategy, attached.

12 EXCLUSION OF THE PRESS AND PUBLIC - CONFIDENTIAL PAPERS INCLUDED IN THE FOLLOWING ITEM

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 any consideration of the following Item

Confidential Appendix 1 contains information deemed to be exempt from general publication by virtue of Category 3 of paragraph 10.4 of the Council's Access to Information Procedure Rules.

13 TREASURY MANAGEMENT STRATEGY AND PRUDENTIAL LIMITS MID YEAR REVIEW

Report of the Head of Finance and IT regarding the Treasury Management Strategy and Prudential Limits Mid Year review, attached.

14 EXCLUSION OF THE PRESS AND PUBLIC - CONFIDENTIAL PAPERS INCLUDED IN THE FOLLOWING ITEM

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 any consideration of the following Item

Confidential Appendices contain information deemed to be exempt from general publication by virtue of Categories 3 and 5 of paragraph 10.4 of the Council's Access to Information Procedure Rules.

15 INTERNAL AUDIT PROGRESS REPORT - AUGUST 2013

Report of the Chief Internal Auditor regarding internal audit progress to the period August 2013, attached.

16 EXTERNAL AUDIT - AUDIT RESULTS - ISA 260

Report of the Chief Internal Auditor regarding the external auditor's 'Audit Results Report', attached.

Agenda Item 4

GOVERNANCE COMMITTEE
MINUTES OF THE MEETING HELD ON 15 JULY 2013

Present: Councillors Furnell (Chair), Daunt, Inglis, Keogh, Laming and Parnell

Independent Members Mr David Blake

Apologies: Councillor Kaur and Mr G Wilkinson - Independent Member

1. **ELECTION OF VICE-CHAIR**

RESOLVED that Councillor Keogh be appointed Vice-Chair for the remainder of the municipal year.

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

RESOLVED: that the minutes for the Committee meeting on 30th April 2013 be approved and signed as a correct record subject to the amendment to the title of minute 37 to include the word 'fee' – amended title to read External Audit: Annual Audit Fee Letters 2012/13 and 2013/14. (Copy of the minutes circulated with the agenda and appended to the signed minutes).

3. **FREEDOM OF INFORMATION, DATA PROTECTION AND REGULATION OF INVESTIGATORY POWERS ACTS: ANNUAL REVIEW 2012-13**

The Committee received and noted the report of the Head of Legal, HR and Democratic Services detailing annual statistical information for the financial year 2012-13 regarding the form and type of requests received and the impact of the legislation to the Council under Freedom of Information Act and associated legislation; the Data Protection Act and the Council's activity under the Regulation of Investigatory Powers Acts. (Copy of the report circulated with the agenda and appended to the signed minutes).

4. **REVIEW OF PRUDENTIAL LIMITS AND TREASURY MANAGEMENT OUTTURN 2012/13**

The Committee received and noted the report of Head of Finance (Chief Financial Officer) detailing the Treasury Management activities and performance for 2012/13 against the approved Prudential Indicators for External Debt and Treasury Management. (Copy of the report circulated with the agenda and appended to the signed minutes).

5. **CHIEF INTERNAL AUDITOR'S ANNUAL REPORT AND OPINION 2012/13**

The Committee considered the report of the Chief Internal Auditor regarding the adequacy and effectiveness of the Council's internal control environment for the year ending 31st March 2013. (Copy of the report circulated with the agenda and appended to the signed minutes).

It was highlighted to the Committee that the Council's framework of governance, risk management and management control had been graded as 'Adequate' which in fact represented 'a good place to be' in terms of the current economic climate and that a move up to the next level of 'substantial' would have considerable resource implications.

It was noted that further updates regarding the use of mobile phones within the Authority, and non residential care contributions would be provided to a future meeting of the Committee.

RESOLVED that the Chief Internal Auditor's Annual Report and Opinion for 2012/13 be approved.

6. **EXTERNAL AUDIT ANNUAL PLAN - YEAR ENDING 31 MARCH 2013**

The Committee received and noted the report of the External Auditor detailing the auditor's proposed audit approach and scope for the 2012/13 audit (in accordance with the requirements of the Audit Commission Act 1998, the Code of Audit Practice, the Standing Guidance, auditing standards and other professional requirements) summarising the External Auditor's assessment of the key risks and outlining the planned audit strategy in response to those risks. (Copy of the report circulated with the agenda and appended to the signed minutes).

Agenda Item 6

DECISION-MAKER:	GOVERNANCE COMMITTEE		
SUBJECT:	ANNUAL GOVERNANCE STATEMENT 2012-13 AND REVIEW OF 2011-12 ANNUAL GOVERNANCE STATEMENT		
DATE OF DECISION:	23 SEPTEMBER 2013		
REPORT OF:	HEAD OF FINANCE AND IT		
<u>CONTACT DETAILS</u>			
AUTHOR:	Name:	Peter Rogers	Tel: 023 8083 2835
	E-mail:	peter.rogers@southampton.gov.uk	
Director	Name:	Andy Lowe	Tel: 023 8083 2049
	E-mail:	andrew.lowe@southampton.gov.uk	

STATEMENT OF CONFIDENTIALITY

n/a

BRIEF SUMMARY

In accordance with the Accounts and Audit Regulations the Council is required to develop and publish an Annual Governance Statement ('AGS'). The AGS is a key corporate document that is intended to provide an accurate representation of the corporate governance arrangements in place during the year and to highlight any gaps or weaknesses in the current arrangements.

An important part of the process is for the Governance Committee to review and approve the draft AGS prior to the document being presented to the Chief Executive and Leader of the Council for signing.

RECOMMENDATIONS

- (i) To review the draft AGS 2012-13 (Appendix 1) and to be satisfied that the statement is meaningful and that the system of internal control has operated effectively throughout the reporting period;
- (ii) To note the status of the 2011-12 Action Plan (Appendix 2).

REASONS FOR REPORT RECOMMENDATIONS

1. The Governance Committee has responsibility to provide independent assurance on the adequacy of the risk management framework and the internal control and reporting environment, including (but not limited to) the reliability of the financial reporting process and the annual governance statement.
2. This responsibility extends to receiving, reviewing and approving the draft AGS prior to the document being signed by both the Chief Executive and Leader of the Council.

ALTERNATIVE OPTIONS CONSIDERED AND REJECTED

3. No alternative options have been considered

DETAIL (Including consultation carried out)

4. Regulation 4(3) of the Accounts and Audit (England) Regulations 2011 requires that the relevant body must conduct a review at least once a year of the effectiveness of its system of internal control and to prepare a statement on internal control in accordance with proper practices.
5. The purpose of the AGS, which is required to be published with the statement of accounts, is to provide an accurate representation of the corporate governance arrangements in place during the year and to identify or highlight those areas where there are significant gaps or where improvements are required.
6. The AGS is produced following a review of the council's governance arrangements. The review requires the systems and processes that comprise the council's Code of Corporate Governance to be brought together and reviewed.
7. An 'assurance gathering process', based on CIPFA /SOLACE guidance, is in place and comprises an 'Assurance Framework' document together with an 'Annual Governance - Self Assessment Statement' which is required to be completed by each Director. Both documents cover the key processes and systems that comprise the council's governance arrangements and are intended to identify any areas where improvement or further development is required.
8. The AGS is developed by a 'Controls Assurance Management Group' (comprising the Section 151 Officer, Chair of the Governance Committee, Monitoring Officer and Chief Internal Auditor) that has responsibility for evaluating assurances and supporting evidence and for drafting the AGS. This group also has responsibility to monitor and review progress of any agreed actions arising from the AGS throughout the year.
9. The draft AGS has been reviewed and commented on by the 'Council Management Team'.

RESOURCE IMPLICATIONS

Capital/Revenue

10. None

Property/Other

11. None

LEGAL IMPLICATIONS

Statutory power to undertake proposals in the report:

12. The Accounts and Audit (England) Regulations 2011 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

KEY DECISION? No

WARDS/COMMUNITIES AFFECTED:	
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SUPPORTING DOCUMENTATION

Appendices

1.	Draft AGS 2012-13
2.	AGS 2011-12 Action Plan - Status Report

Documents In Members' Rooms

1.	None
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Equality Impact Assessment

Do the implications/subject of the report require an Equality Impact Assessment (EIA) to be carried out.	Yes/No
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Other Background Documents

Equality Impact Assessment and Other Background documents available for inspection at:

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

SCOPE OF RESPONSIBILITY

Southampton City Council ("the council") is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively. The council also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

In discharging this overall responsibility, the council is responsible for putting in place proper arrangements for the governance of its affairs, and facilitating the effective exercise of its functions, which includes arrangements for the management of risk.

The council has approved and adopted a Code of Corporate Governance that is consistent with the principles of the CIPFA/SOLACE Framework 'Delivering Good Governance in Local Government'. A copy of the code is on our website at <http://www.southampton.gov.uk/council-partners/decisionmaking/corporategovernance/> or can be obtained from the:

Head of Legal, HR and Democratic Services,
Southampton City Council,
Civic Centre,
Southampton,
SO14 7LY

This statement explains how the council has complied with the code and also meets the requirements of the Accounts and Audit (England) Regulations 2011, regulation 4(3), which requires all relevant bodies to prepare an annual governance statement.

THE PURPOSE OF THE GOVERNANCE FRAMEWORK

The governance framework comprises the systems and processes, cultures and values by which the authority is directed and controlled and its activities through which it accounts to, engages with and leads its communities. It enables the authority to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate services and value for money.

The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the council's policies, aims and objectives, to evaluate the likelihood and potential impact of those risks being realised, and to manage them efficiently, effectively and economically.

The governance framework has been in place at the council for the year ended 31 March 2013 and up to the date of approval of the statement of accounts.

ANNUAL GOVERNANCE STATEMENT

THE GOVERNANCE FRAMEWORK

The key elements of the systems and processes that comprise the council's governance arrangements are as described below and include arrangements for:

(a) Identifying and communicating the authority's vision of its purpose and intended outcomes for citizens and service users

There is a clear vision of the council's purpose and intended outcomes for citizens and service users that is communicated both within the organisation and to stakeholders.

The 'Southampton Connect Plan for 2012-2015' ("the Connect Plan") which is based on a single, comprehensive assessment of needs in the city (supported by resident feedback, a city profile and ward profiles) sets out a vision for the city and a challenging programme of ten priority projects.

Southampton Connect, was established in 2011 as a successor to the Southampton Partnership, and is a collaborative arrangement that seeks to address the key challenges facing Southampton. These include, at a national level, the Coalition Government's deficit reduction plan and, at a local level, the ongoing impact of the recession. The Southampton Connect approach builds upon our unique city collaborative ethos, relationships and networks, and represents a new way of working together to improve the City. Southampton Connect has recently reviewed its terms of reference and priorities.

The Southampton City Council Plan ("the Council Plan") sets out, in one concise document, the council's priorities, challenges and opportunities for the forthcoming period. It reflects the council's commitment to secure on-going improvements to services provided to residents, businesses and visitors to the city.

(b) Reviewing the authority's vision and its implications for the authority's governance arrangements

The council's vision is reflected in the Council Plan which sets out 'Our priorities', 'How we will work' and 'Our Challenges and Opportunities'. The 'Council Plan' covers a 3 year period and is reviewed periodically to ensure that it continues to reflect the needs and aspirations of our customers, services users and communities. A new Council Plan, for the period 2013-16, was formally approved by Full Council in July 2013. This replaced the previous plan that covered the period 2011-2014.

The council has adopted a Code of Corporate Governance ("CCG") which identifies, in one document, how the Council ensures that it runs itself in a lawful, structured, ethical and professional manner. The CCG is administered by the Head of Legal, HR and Democratic Services and is subject to an annual 'light touch' review with any recommendations presented to the Governance Committee.

(c) Translating the vision into objectives for the authority and its partnerships

The Connect Plan and the Council Plan include clearly defined priorities together with actions required to secure the desired outcomes. The intention is that strategic planning will be informed by the single needs assessment (Southampton Profile). The actions and measures in the Council Plan are delivered and monitored through specific commitments in the individual directorate plans.

(d) Measuring the quality of services for users, ensure they are delivered in accordance with the authority's objectives and to ensure they represent the best use of resources and value for money

The Council Plan identifies the 'Success Measures', and performance against these defined measures is monitored on a quarterly basis by the Council Management Team and reported to both Scrutiny and Cabinet. The reports contain details of current performance and identifies where targets are not being met and/or where slippage has occurred in delivering improvement measures. Following a review of policy, performance and systems, the council is implementing a revised approach to performance management.

ANNUAL GOVERNANCE STATEMENT

The Corporate Procurement Strategy and associated Contract Procedure Rules, which form part of the Council's Constitution, govern how the council buys the supplies, services and works that it needs. The council is committed to achieving Best Value from its suppliers and ensuring that goods and services are procured in the most efficient and effective way.

(e) Defining and documenting the roles and responsibilities of the executive, non-executive, scrutiny and officer functions, with clear delegation arrangements and protocols for effective communication in respect of the authority and partnership arrangements

The council has a Constitution that sets out how it operates, how decisions are made (including an Officer Scheme of Delegation) and the procedures followed to ensure that these are efficient, transparent and accountable to local people. Some of these processes are required by the law, while others are a matter for the council to choose. The Constitution, which is divided into 15 Articles and sets out the detailed rules governing the council's business, is published on the internet at: <http://www.southampton.gov.uk/council-partners/decisionmaking/constitution.aspx>

(f) Developing, communicating and embedding codes of conduct, defining the standards of behaviour for members and staff

The council's Constitution contains both an Officer Code of Conduct and a Members' Code of Conduct which set out the expected behavior and standards to be adhered to. In addition, a 'Disciplinary Policy and Code of Conduct' is in place for employees and sets out the standards of service and conduct that are expected of employees.

(g) Reviewing the effectiveness of the authority's decision making framework, including delegation arrangements, decision making in partnerships and robustness of data quality.

The council's Constitution details how the council operates, including how decisions are made and the role of Overview and Scrutiny. It also includes an Officer Scheme of Delegation setting out the powers, duties or functions that may be exercised under Delegated Powers. The Head of Legal, HR and Democratic Services conducts an annual review of the council's constitutional arrangements, which is considered by the council's Governance Committee, in its governance role, prior to submission to the Annual General Meeting of the council in May.

(h) Reviewing the effectiveness of the framework for identifying and managing risks and demonstrating clear accountability

The Governance Committee has responsibility to provide independent assurance on the adequacy of the risk management framework and the internal control and reporting environment, including (but not limited to) the reliability of the financial reporting process and the annual governance statement. In addition, the Committee needs to satisfy itself 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 council has in place a Risk Management Policy and Strategy which sets out the council's overall approach to managing risk. The policy and strategy, which are formally approved by the Governance Committee, are subject to annual review to ensure that they continue to reflect good practice and remain aligned with current business processes and practices.

(i) Ensuring effective counter-fraud and anti-corruption arrangements are developed and maintained

The council has in place an Anti-Fraud and Anti-Corruption Policy and Strategy which is published on the internet and reflects the council's approach and commitment to the prevention and detection of fraud and corruption.

ANNUAL GOVERNANCE STATEMENT

(j) Ensuring effective management of change and transformation

The council has in place a Change Programme which is led by the Lead Cabinet Member and supported by the Council Management Team via Change Programme Board. The key three aims of the programme are to secure 'Better outcomes for residents', 'Better quality of service' and 'Significantly reduce cost'. A co-ordinated, strategic approach has been agreed with the initial focus on 'Service Transformation', 'Working Environment Transformation' and 'Community Asset Transfer'. Delivery of the programme is via defined 'workstreams' with progress being reported to and monitored by the Change Programme Board. In addition, each service is required to complete a 'Blueprint' document. The 'Blueprint' document is intended to capture key service information in a standard format which is then used to support and inform the council in terms of taking a strategic approach to organisational redesign and proposals to meet the ongoing financial challenges.

(k) Ensuring the authority's financial management arrangements conform with the governance requirements of the CIPFA 'Statement on the Role of the Chief Financial Officer in Local Government (2010)'

The council's financial management arrangements conform with the governance requirements of the CIPFA 'Statement on the Role of the Chief Financial Officer in Local Government (2010)'. The Head of Finance and IT (Chief Financial Officer) is professionally qualified and is a key member of the Council Management Team, helping to develop and implement strategy and deliver the key strategic objectives of the authority. The Head of Finance and IT has direct access to the Chief Executive and is actively involved in ensuring that all immediate and longer term risks and opportunities are considered, and in ensuring the strategic objectives are aligned to the longer-term finance strategy.

The Head of Finance and IT has an input into all major decisions and advises the Executive on financial matters. He is responsible for ensuring that budgets are agreed in advance, that the agreed budget is robust, to ensure value for money is provided by our services, and that the finance function is fit for purpose.

(l) Ensuring the authority's assurance arrangements conform with the governance requirements of the CIPFA 'Statement on the Role of the Head of Internal Audit (2010)'

The council's assurance arrangements conform with the governance requirements of the CIPFA 'Statement on the Role of the Head of Internal Audit (2010)'. The Head of Internal Audit (Chief Internal Auditor) is professionally qualified and is responsible for reviewing and reporting on the adequacy of the council's internal control environment, including the arrangements for achieving value for money.

The Chief Internal Auditor has direct access to the Chief Executive, and to the council's Monitoring Officer where matters arise relating to Chief Executive responsibility, legality and standards. Where it is considered necessary to the proper discharge of internal audit function, the Chief Internal Auditor has direct access to elected Members of the Council and in particular those who serve on committees charged with governance (i.e. the Governance Committee).

(m) Ensuring effective arrangements are in place for the discharge of the monitoring officer function

The Director of Corporate Services is designated as the Monitoring Officer with responsibility for ensuring compliance with established policies, procedures, laws and regulation, and reporting any actual or potential breaches of the law, or maladministration, to the full Council and/or to the Cabinet.

The Head of Legal, HR and Democratic Services is the nominated Deputy Monitoring Officer

ANNUAL GOVERNANCE STATEMENT

(n) Ensuring effective arrangements are in place for the discharge of the head of paid service function

The Chief Executive is designated as the Head of Paid Service with responsibility for leading the Council Management Team in driving forward the strategic agenda, set by Cabinet, improving the efficiency and performance of the council and ensuring that the community receives high quality, value-for-money services.

(o) Undertaking the core functions of an audit committee, as identified in CIPFA's Audit Committee – Practical Guidance for Local Authorities

The council has a formally constituted Governance Committee that undertakes the core functions of an audit committee and operates in accordance with CIPFA guidance. It provides independent assurance on the adequacy of the risk management framework and the internal control and reporting environment, including (but not limited to) the reliability of the financial reporting process and the annual governance statement.

(p) Ensuring compliance with relevant laws and regulations, internal policies and procedures, and that expenditure is lawful

'Corporate Standards' are published on the internet and provide a summary of the most significant and important rules in the areas where the council must achieve compliance. They cover Legality and Corporate Governance (including decision-making, Finance, IS/IT, Property and Procurement).

In addition, the council's Financial Procedure Rules, which provide the framework for managing the council's financial affairs and the council's Contract Procedure Rules, which govern the method by which the council spends money on supplies, services and works, form part of the council's Constitution.

(q) Whistle blowing and receiving and investigating complaints from the public

The council is committed to the highest possible standards of openness, probity and accountability and has in place a 'Whistle blowing' Duty to Act Policy. This reflects the legal framework and obligation on the council to enable staff to raise concerns which may involve unlawful conduct, illegality, financial malpractice or dangers to the public, employees or the environment.

Complaints from the public are dealt with in accordance with the Complaints Policy which has been formally approved and is published on the council's website. There is a separate policy in place in respect of dealing with complaints made about Members.

(r) Identifying the development needs of members and senior officers in relation to their strategic roles, supported by appropriate training

The council is developing a revised Member Development Strategy which is aimed at providing a long-term view to learning and development whilst remaining sufficiently flexible to reflect changing priorities. The Member learning and development programmes currently includes the following:-

- Induction Programme;
- Member Mentoring Scheme;
- Regulatory Panel training;
- Skills training and workshops;
- Personal Development Planning;
- Cabinet Member training;
- Scrutiny training;
- Governance

Priorities for learning and development form part of the annual performance appraisal process with a requirement that training priorities link to achievement of objectives and service plans as well as on-going professional competence. In addition, a suite of 'Management Development' training modules is in place and available to new and existing managers to assist them in understanding and developing their core skills.

ANNUAL GOVERNANCE STATEMENT

(s) Establishing clear channels of communication with all sections of the community and other stakeholders, ensuring accountability and encouraging open consultation

The council believes that all people should have the opportunity to voice their opinions on issues that affect them. The views of customers and staff are actively sought by services via questionnaires, text messaging, focus groups and community consultation events. For example, a comprehensive consultation exercise was conducted to enable comments and suggestions from community groups and members of the public to be fed into the budget report 2013/14.

Information on 'Consultation' and 'Other ways to have your say' is also published on the council's website and provides an opportunity for stakeholders to voice their opinions and shape service delivery. The council has also led a Southampton Connect initiative to produce a single Southampton Profile which reflects consultation feedback. The purpose of this City profile is to provide a systematic analysis of needs provision opportunities and gaps in the City, based on accurate, relevant and up-to-date information that will inform collaborative work with partners, joint commissioning decisions and the priorities detailed in the Connect Plan. The Southampton Profile, which incorporates the Joint Strategic Needs Assessment, is a unique city resource bank that will be updated periodically.

(t) Enhancing the accountability for service delivery and effectiveness of other public service providers

The 'Priorities', 'Key Actions' and 'Success measures' identified in the Council Plan are monitored on a quarterly basis by the Council Management Team and reported to both Scrutiny and Cabinet. The reports contain details of performance and identify where targets are not being met or where slippage has occurred in delivering improvement measures. The council is currently considering the use of 'performance scorecards' at directorate and council levels.

A number of the council's key services are delivered in partnership with external service providers. These outsourced contracts are managed by a centralised Contract Management Team which provides a senior management interface between the council and our partnership service provider. All such arrangements include a suite of key performance indicators and are based upon a culture of continuous improvement, recognising the need to achieve a balance between the council's short term financial challenges and long term strategic aims.

(u) Incorporating good governance arrangements in respect of partnerships and other joint working as identified by the Audit Commission's report on the governance of partnerships, and reflecting these in the authority's overall governance arrangements

A Partnership Code is in place and forms part of the council's Constitution. The Code identifies the headline considerations when developing a partnership and includes 'Aims & Objectives – is there clarity of purpose and is it compelling?' and 'Governance – how will decisions be made and acted upon?'. It is intended to ensure that sound governance arrangements are in place in respect of partner and partnership engagement and will continue to be reviewed as partnership working arrangements develop and evolve.

REVIEW OF EFFECTIVENESS

The council has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control. The review of effectiveness is led by a 'Controls Assurance Management Group' (comprising the Section 151 Officer, Chair of the Governance Committee, Monitoring Officer and Chief Internal Auditor).

The review process, applied in respect of maintaining and reviewing the effectiveness of the system of internal control, is informed by:-

ANNUAL GOVERNANCE STATEMENT

- The views of Internal Audit regularly reported to Governance Committee via the 'Internal Audit: Progress Report' which include executive summaries of new reports published where critical weaknesses or unacceptable levels of risk were identified;
- The views of external auditors, regularly reported to the Governance Committee, including regular progress reports, the Annual Audit Letter and Annual Governance Report;
- The Chief Internal Auditors 'Annual Report and Opinion' on the adequacy and effectiveness of the Council's internal control environment;
- The Internal Audit Strategy and delivery of the annual operational plan;
- The work of the executive managers within the authority who have responsibility for the development and maintenance of the governance environment,
- The completion of an annual 'Self Assessment Statement' by Directors which covers the key processes and systems that comprise the council's governance arrangements and is intended to identify any areas where improvement or further development is required;
- Completion of an 'Assurance Framework' document which reflects the key components of the Council's overall governance and internal control environment. This document, which is based on CIPFA guidance, records the key controls in place, and sources of assurance, and identifies any significant gaps or weaknesses in key controls;
- The independent views of regulatory inspection agencies such as Ofsted and the Care Quality Commission;
- The Risk Management Policy and Strategy, specifically the Strategic and Directorate risk Registers;
- The work of the Governance Committee in relation to the discharge of its responsibility to lead on all aspects of corporate governance.

We have been advised on the implications of the result of the review of the effectiveness of the governance framework by the Governance Committee, and that the arrangements continue to be regarded as fit for purpose in accordance with the governance framework. The areas already addressed and those to be specifically addressed with new actions planned are outlined below.

SIGNIFICANT GOVERNANCE ISSUES

The following significant governance issues have been identified:

	Governance Issue	Planned Action
1.	The Council's Anti Fraud and Corruption Policy and Strategy has not been updated since 2008.	Anti Fraud and Corruption Policy and Strategy to be reviewed and updated to reflect current good practice together with a commitment for future periodic reviews. Appropriate arrangements to be made to communicate the updated Policy and Strategy.
	Responsible Officer: Director of Corporate Services	Target for completion: Oct 2013

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2.	Performance management reporting arrangements need to capture and reflect the most up to date information or position and to enable improvement in outcomes.	A review of performance management arrangements has been undertaken and a new approach, in the form of a monthly 'scorecard' format, is being developed and will be in place in December.
Responsible Officer: Chief Executive / Director Place (Environment and Economy)		Target for completion: Dec 2013
3.	Reduced capacity and resilience within the senior management team.	Review of senior management structure and capacity will follow the new Chief Executive appointment in June 2013.
Responsible Officer: Chief Executive		Target for completion: Dec 2013
4.	Development of a co-ordinated and consistent approach to workforce learning and development including corporate induction and succession planning.	Delivery of the workstreams as part of the overall Workforce Plan
Responsible Officer: Director of Corporate Services		Target for completion: Mar 2014 (Year 1- Foundation Year Actions)
5.	The provision and access to internal/external training and development for members should be on a more structured basis and the scope and level of member engagement with internal learning and development opportunities needs to be reviewed.	A review of the approach and delivery of Member learning and development opportunities is being undertaken by the Governance Committee in consultation with Group Leaders and the Members User Group.
Responsible Officer: Director of Corporate Services		Target for completion: Sept 2013
6.	Understanding of and compliance with the council's 'Corporate Standards' by relevant officers.	A review of the current provision is being undertaken with a view to introducing a revised training programme for officers.
Responsible Officer: Director of Corporate Services		Target for completion: Oct 2013

We propose over the coming year to take steps to address the above matters to further enhance our governance arrangements. We are satisfied that these steps will address the need for improvements that were identified in our review of effectiveness, and will monitor their implementation and operation as part of our next annual review.

Signed

.....
Dawn Baxendale
 (Chief Executive)

.....
Councillor Simon Letts
 (Leader of the Council)

on behalf of Southampton City Council

Annual Governance Statement 2011-12 Action plan: Status Report

The following is a summary of the status of the agreed actions that were identified to address the significant governance issues were identified and recorded on the Council's Annual Governance Statement 2011-12:

Extract from the 2011-12 AGS – ‘Significant Governance Issues’				Update		
	Issue	Agreed Action	Target Date	Status	Responsible Officer	Comments
1.	The Partnership Code and Toolkit, that was adopted as part of the Council's constitution in 2009, no longer reflects the revised approach to partnership working.	A revised Partnership Code has been developed and adopted as part of the Council's Constitution. The Code is intended to ensure that sound governance arrangements are in place and forms an important element of the Council's overall framework for partner and partnership engagement. It will continue to be reviewed as partnership working arrangements develop and evolve.	May 2012	COMPLETED	Director of Corporate Services / Director of Environment and Economy	A revised Partnership Code was developed and adopted as part of the Council's Constitution. The revised Code is intended to ensure that sound governance arrangements are in place and provides 'signposts to good practice'. It will continue to be reviewed as partnership working arrangements develop and evolve.
2.	A biennial review of the Review of the Council's Code of Corporate Governance ("CCG") was due in April 2012.	A biennial review is no longer considered appropriate in terms of being able to reflect significant changes in legislation that potentially impact on the CCG. The CCG will therefore to be subject to an annual 'light touch' review as part of the review of the constitution.	May 2013 and annually thereafter	COMPLETED	Director of Corporate Services	The Code of Corporate Governance was revised and updated in line with the CIPFA/SOLACE "Delivering Good Governance in Local Government: Guidance Note for English Authorities / 2012 Edition" guidance note. The revised CCG was approved by the Governance Committee at the April 2013 meeting.
3.	The reduction in the number of Directorates and Director roles together with the rationalisation of management posts has reduced overall capacity and resilience.	A new Workforce Strategy (People Plan) has been drafted and it is intended to formally adopt this and start to implement its first "Foundation Year" in the Autumn.	Autumn 2012	COMPLETED	Director of Corporate Services	The People Plan was agreed by members of MBoD and Trade Unions in late Autumn. A Project Group has been established to progress the individual work strands that comprise the Foundation Year.

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Agenda Item 7

DECISION-MAKER:	GOVERNANCE COMMITTEE		
SUBJECT:	RISK MANAGEMENT ACTION PLAN 2013-14: STATUS REPORT		
DATE OF DECISION:	23 SEPTEMBER 2013		
REPORT OF:	HEAD OF FINANCE AND IT		
<u>CONTACT DETAILS</u>			
AUTHOR:	Name:	Peter Rogers	Tel: 023 8083 2835
	E-mail:	peter.rogers@southampton.gov.uk	
Director	Name:	Andy Lowe	Tel: 023 8083 2028
	E-mail:	andrew.lowe@southampton.gov.uk	

STATEMENT OF CONFIDENTIALITY

n/a

BRIEF SUMMARY

The 'Risk Management Action Plan 2013-14' was presented and approved by the Governance Committee at the meeting held on 30th April 2013. In accordance with the Council's Risk Management Strategy, progress against the agreed 'Action Plan' shall be reported to the Governance Committee on an annual basis with a 'mid term' status report.

RECOMMENDATIONS

- (i) To note the 'Risk Management Action Plan for 2013-14 : Status Report' document (Appendix 1);

REASONS FOR REPORT RECOMMENDATIONS

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

ALTERNATIVE OPTIONS CONSIDERED AND REJECTED

2. No alternative options have been considered

DETAIL (Including consultation carried out)

3. The Risk Management Action Plan 2013-14 is intended to encompass the range of actions considered necessary to ensure that existing good risk management practice is maintained and/or arrangements are further developed as appropriate. It should however be recognised that the plan needs to be flexible in order to be able to respond to other priorities should they arise during the period.

4. The report reflects the position or status of the agreed actions.

RESOURCE IMPLICATIONS

Capital/Revenue

5. None

Property/Other

6. None

LEGAL IMPLICATIONS

Statutory power to undertake proposals in the report:

7. The Accounts and Audit (England) Regulations 2011 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:

8. None

POLICY FRAMEWORK IMPLICATIONS

- 9.. None

KEY DECISION? No

WARDS/COMMUNITIES AFFECTED:	
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SUPPORTING DOCUMENTATION

Appendices

1.	Risk Management Action Plan 2013-14 – Status Report
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Documents In Members’ Rooms

1.	None
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Equality Impact Assessment

Do the implications/subject of the report require an Equality Impact Assessment (EIA) to be carried out.	No
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Other Background Documents

Equality Impact Assessment and Other Background documents available for inspection at:

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

RISK MANAGEMENT ACTION PLAN 2013-14

	THEME / SOURCE / ISSUE	ACTION	TARGET	STATUS	COMMENTS
1.	Risk Reporting / Communication	To further develop and refine the 'risk dashboard' approach in order to clearly and simply articulate the status of key risks.	Dec 2013	IN PROGRESS	A 'Risk Review Workshop' was held in June with the Council Management Team.
2.	Risk Strategy / Communication	To work with the Council Management Team, including the new Chief Executive when in post, to determine the future format and focus of the 'Risk Workshop Reviews' including the process for updating and reviewing the Strategic Risk Register and the overall approach to managing risk.	Sept 2013	IN PROGRESS	<p>In terms of risk reporting, CMT want to see more of a 'risk assurance' approach whereby assurance / evidence is provided in terms of reasonable controls being in place and being complied with. A new approach has been developed and is expected to be presented to CMT for comment on 17th September.</p> <p>The workshop also included a discussion on 'risk appetite' in the context of the stated desire for the council to be more risk taking. This was with a view to a presentation on this subject at a future Leadership Group meeting.</p>
3.	Business Planning	Review, and where necessary, challenge the content of the Directorate Risk Registers to ensure that the key risks are aligned with the key priorities and that there is consistency of approach.	Sept 2013	IN PROGRESS	<p>Attended each of the respective Directorate Management Teams to assist and support the development of 'directorate risks'. The risk registers are at varying stages in terms of development.</p> <p>'Risk / Issues' is one of the areas included within the new performance 'scorecard' process which is being rolled out.</p>
4.	Communication	To continue to work with the Directorate Business Development Managers (or their equivalent) recognising their pivotal role in ensuring that there is a co-ordinated and consistent approach to managing risk across the organisation.	Dec 2013	IN PROGRESS	Meetings held with Directorate Business Development Managers both as a group and individually.

	THEME / SOURCE / ISSUE	ACTION	TARGET	STATUS	COMMENTS
5.	Risk Funding	To arrange for an independent actuarial review of the internal self insurance fund. The review is undertaken triennially, in line with good practice, and will consider whether adequate funding is available within the self insurance arrangements to meet current and future liabilities.	July 2013	COMPLETED	Self Insurance Fund Review completed in June. The review considered the position of the internal insurance fund as at 31 st March 2013 in terms of whether the level of funding is adequate to meet current and future liabilities. The review, which was undertaken by Marsh Risk Consulting using various statistical techniques, concluded that the fund was currently in a healthy position.
6.	Risk Funding	To consider the implications of the Civil Justice Reforms, in particular, the changes that will be required in order to comply with the new protocols relating to how Employers Liability and Public Liability claims (up to £25k) are handled.	July 2013	COMPLETED	Internal communication exercise undertaken to publicise the nature of the changes. Review of internal claims handling procedures, in consultation with insurers, to consider the implications of the changes.
7.	Loss Control Reviews and Surveys	Undertake loss control reviews in order to identify improvements in how risk is managed and/or to seek to reduce losses. In addition, to facilitate and direct a programme of property 'fire and security' risk reviews either at the request of insurance underwriters or in response to an area of concern.	Mar 2014	IN PROGRESS	The last remaining actions arising from the 2012-13 loss control reviews are being completed. Awaiting advice from insurers as to which properties are to be surveyed in 2013-14.
8.	Guidance and advice	Ensure that an appropriate and current range of risk management and insurance guidance documents are available and aligned with the requirements of service areas.	Mar 2014	NOT STARTED	
9.	Policy and Strategy	Review and update the Risk Management Strategy to ensure that it remains relevant and appropriate. Report any significant changes to the Governance Committee.	Mar 2014	NOT STARTED	

Agenda Item 8

DECISION-MAKER:	GOVERNANCE COMMITTEE		
SUBJECT:	STATEMENT OF ACCOUNTS 2012/13		
DATE OF DECISION:	23 SEPTEMBER 2013		
REPORT OF:	HEAD OF FINANCE AND IT (CHIEF FINANCIAL OFFICER)		
<u>CONTACT DETAILS</u>			
AUTHOR:	Name:	Alison Chard	Tel: 023 8083 4897
	E-mail:	Alison.Chard@southampton.gov.uk	
Director	Name:	Mark Heath	Tel: 023 8083 2371
	E-mail:	Mark.Heath@southampton.gov.uk	

STATEMENT OF CONFIDENTIALITY

NOT APPLICABLE

BRIEF SUMMARY

In accordance with the Accounts and Audit Regulations 2011 the Financial Statements 2012/13, which were signed by the Chief Financial Officer (CFO) on 28 June 2013, are submitted for approval to the Governance Committee. The statutory deadline for approving the accounts is the 30 September. The accounts that have been submitted for approval have been the subject of the Annual Audit and reflect all agreed amendments to date.

Under 8.3(c) of the Regulations after approval the accounts must be signed and dated by the person presiding at the meeting. However, as the Audit has not been formally signed off there may be some late changes which will be reported to the Governance Committee after the completion of the Audit on 30 September 2013.

RECOMMENDATIONS:

- (i) To approve the Statement of Accounts 2012/13 and that they be signed by the person presiding at the meeting subject to any changes required after the completion of the Audit; and
- (ii) To approve, if necessary, any changes required to the draft accounts following the completion of the Annual Audit; a schedule of which will be provided.

REASONS FOR REPORT RECOMMENDATIONS

1. It is a legal requirement to that the Statement of Accounts 2012/13 be approved and signed by the person presiding at the meeting, subject to any changes required after the completion of the Audit, by 30 September 2013.

ALTERNATIVE OPTIONS CONSIDERED AND REJECTED

2. The Financial Statements have been prepared in accordance with statutory accounting principles. No other options have been considered as it is a legal requirement that the Financial Statements are prepared and signed by the person presiding at the meeting to approve the Financial Statements by 30

September.

DETAIL (Including consultation carried out)

CONSULTATION

3. Not applicable.

FINANCIAL STATEMENTS

4. The Financial Statements are a complex document and the layout and information provided are defined by statutory requirements. The key issues that should be drawn to the attention of Council are detailed below.

CHANGES TO THE 2012/13 ACCOUNTS

5. There were no major changes to the 2012/13 Accounts. However, there are a number of Future Changes in Local Government Finance which will impact on the Financial Statements from 2013/14 onwards. These changes are as follows:

- Technical Reforms of Council Tax;
- Retention of Business Rates;
- Localisation of Council Tax Support;
- Universal Credit;
- Academy Funding Transfers 2013/14; and
- Public Health Transfer.

Technical Reforms of Council Tax

6. The Department for Communities and Local Government (DCLG) issued a consultation paper in October 2011 outlining reforms to Council Tax. These changes were included within the Local Government Finance Act 2012 and gave the Council local discretion from April 2013 to make significant changes to the discounts and exemptions that are currently offered on Council Tax , as follows:

- The application of exemptions to Council Tax to a number of classes of empty property, for example, where improvement works make the building uninhabitable;
- The introduction of an empty homes premium; and
- The abolition of the second homes discount.

The Council approved its Local Scheme in January 2013 to apply from 1 April 2013 and took advantage of those changes which will increase the level of Council Tax that is raised and mitigate some of the potential effects of the Localisation changes set out in paragraphs 11 to 13 below.

Retention of Business Rates

7. New arrangements came into force for the Business Rate Retention (BRR) Scheme from 1 April 2013. Historically the Council has purely collected business rates on behalf of Central Government but in the future this income will be shared between Central Government (50%), the Council (49%) and the Hampshire Fire and Rescue Authority (HFRA) (1%).

8. It is recognised that the introduction of BRR whilst offering an incentive to Local Authorities to grow their economies and resulting business rate income, also transfers risks. A reduction in the level of business rates collected below the level assumed and built into the General Fund revenue budget, will directly impact on the Council's bottom line through reduced income. A fall in business rates income could be due to the impact of businesses closing with insufficient new business opening to offset the reduction in rateable value, or it could be due to a higher than anticipated reduction in income due to lost appeals.
9. From 1 April 2013 the Council assumed some liability for refunding ratepayers who successfully appeal against the rateable value of their properties on the rating list. This will include amounts that were paid over to Central Government in respect of 2012/13 and prior years. Previously, such amounts would have been deducted from the total paid to Central Government. However, under the new BRR arrangements Central Government is only liable for 50% of future successful appeals refunds, the Council being liable for 49% and the HFRA for the remaining 1%.
10. In January 2013, the Council were required to submit an estimate (NNDR1 form), to Central Government, of how much they expected to collect in Business Rates in 2013/14. The NNDR1 included an adjustment for future successful appeals of approximately £5.8M, of which the Council is liable for £2.9M. In accordance with CIPFA guidance no provision has been made in the Financial Statements for 2012/13 as the liability does not crystallise until 1 April 2013.

Localisation of Council Tax Support

11. The Comprehensive Spending Review (CSR) 2010 included proposals to localise support for Council Tax from the beginning of the financial year 2013/14. The main change for the Council is that a grant will be paid to the General Fund to replace the funding for Council Tax Benefit paid into the Collection Fund. The major change for recipients is that the grant will cover only around 90% of the current benefits and Local Authorities were expected to introduce revised local benefit schemes that in total reduce benefits by 10% overall, or alternatively fund the reductions through other means. This will not be a uniform reduction as certain recipients, (such as pensioners) are legally excluded from the reduction.
12. A scheme was adopted by Council by the statutory deadline of 31 January 2013, to be implemented from 1 April 2013. The move away from a nationally prescribed scheme for calculating council tax benefit, and the introduction of a local scheme based on a reduction of 10% in the overall grant available from the government brings with it increased risk. One of these risks is that there will be an increase in council tax arrears due to non payment as, some current benefit recipients will be required to pay a higher contribution towards their Council Tax bill or in many cases pay Council Tax for the first time under the new local scheme.
13. Linked to this change is the introduction of the "Universal Credit" a new system for benefit payments, which was planned to be introduced from October 2013. The financial implications for the Council, who administer Housing Benefit on behalf of the Department for Work and Pensions (DWP), will become clearer as detailed proposals are developed.

Universal Credit

14. Universal Credit (UC) is one of the key benefit changes introduced by the Welfare Reform Act 2012. This will see the introduction of a single benefit to replace six benefits currently paid by DWP, HM Revenue & Customs (HMRC) and Local Authorities. This includes Housing Benefit which is currently paid by Local Authorities.
15. The introduction of UC will have a significant impact on the residents of the city as they will need to adjust to receiving a single monthly benefit payment which will include an element to cover their housing costs. They will need to manage their finances on a monthly basis, pay their rent to their landlord and apply and manage their benefit claim online. UC will have a significant impact on the Council as it will no longer receive Housing Benefit, direct from Central Government, with respect to Council Dwellings Rent Rebates which in 2012/13 amounted to approximately £40M.

Academy Funding Transfers 2013/14

16. From 2013/14, new funding arrangements for education services apply for Local Authorities. When a school becomes an Academy, it receives a grant called the Local Authority Central Spend Equivalent Grant (LACSEG) to cover the cost of services previously provided by the Local Authority. The services provided by the Local Authority to schools have previously been funded through a combination of Dedicated Schools Grant (DSG) and Total Formula Grant (TFG). From 2013, the LACSEG for academies and the corresponding element of local government revenue funding will be replaced by the new Education Services Grant (ESG). ESG will be allocated on a simple per-pupil basis to Local Authorities and Academies according to the number of pupils for whom they are responsible.
17. The likelihood is that the number of Academies will increase during 2013/14 and this funding will be reduced accordingly for the Council.

Public Health Transfer

18. The Health and Social Care Act 2012 has provoked the most radical restructure of the National Health Service (NHS) since its inception. As part of its implementation, Primary Care Trusts (PCTs) have been abolished and replaced with Clinical Commissioning Groups (CCG). One of the key outcomes of this move has been to transfer Public Health responsibilities to Local Authorities from 1 April 2013. This places a responsibility on the Council to secure services to prevent disease, prolong life and promote health. To support the commissioning of Public Health services the Council will receive £14.3M as a ring fenced grant in 2013/14 and £15.1M in 2014/15.
19. The Director of Public Health has been based within the Council offices for some time, and work to integrate the new responsibilities has now been completed to ensure a smooth transition to the new operating model, with the process being managed through strategic planning and delivery groups and detailed action plans. As the service further embeds the Council will benefit from synergies between existing Council arranged services and those previously secured by Southampton PCT. This is expected to deliver not only cost efficiencies but also better outcomes for residents of Southampton.

GENERAL FUND REVENUE EXPENDITURE AND INCOME

20. The Financial Statements present the Income & Expenditure Account in a statutory format which includes notional costs that have no impact on the Council Tax charge. The Table on page 4 of the Financial Statements presents the Council's expenditure and income in a format that shows the net impact on the General Fund Balance, compared to budget. This shows that the revised budget assumed a total addition to reserves of £3.9M.
21. However, during the year, the Council made changes to the revised budgets which were reported to Cabinet in February 2013. Compared to this working budget, the Council's actual expenditure for the year was £7.4M under budget and this was made up as follows:

	£000's
Reductions in Portfolio Spending	6,093
Reduced Net Borrowing Costs Due to Lower Interest Rates and Re-phasing of the Capital Programme	810
Unused Contingency	344
Other Variations	142
Total	7,390

22. Against this were requests to carry forward budget of £926,300 (of which £690,600 related to central repairs and maintenance) which were subject to approval by Council.
23. In addition it was proposed to add £300,000 to the General Fund Contingency in 2013/14 to meet possible unplanned pressures in that year.
24. Further draws on the overall favourable position of £7.4M which were subject to approval by Full Council) included:
- Pay Reserve (£1.4M) – It is proposed this year to add £1.4M to the Pay Reserve to make provision for any costs that may be incurred in relation to pay related issues. This will increase the total sum set aside in the Reserve in 2013/14 to just over £1.7M.
 - Festivals (£50,000) – It is proposed to allocate £50,000 to enable events to be progressed and supported in the City in 2013/14.
 - Internships (£25,000) – It is proposed to allocate £25,000 to enable an internship scheme to be developed and implemented in 2013/14.

GENERAL FUND BALANCES

25. The General Fund balance stands at £29.9M and is used as a working balance and to support future spending plans. This compares to a balance of £23.5M at the end of 2011/12.
26. Commitments proposed which were subject to approval by Council leave an uncommitted value of balances totalling £10.5M in the medium term which is £5.0M above the minimum level recommended by the CFO following a risk

assessment of the required level to be maintained.

HOUSING REVENUE ACCOUNT (HRA)

27. The Table on page 6 of the Financial Statements presents the Council's expenditure and income in a format that shows the net expenditure within the HRA compared to budget. This shows that the budget assumed a deficit of £0.3M. Actual net expenditure for the year was a surplus of £0.7M which compared to the budgeted deficit results in an under spend of just over £1.0M. This was made up as follows:

	£000's
Net Saving on Total Repairs	430
Savings on Supervision & Management	1,193
Increase in Direct Revenue Financing	(1,945)
Reduction in Capital Financing Charges	261
Saving on Depreciation	966
Other Variances	103
Total	1,008

CAPITAL EXPENDITURE

28. In 2012/13 the Council spent £78.5M on capital projects. This was £9.8M less than the latest approved estimates, due largely to re-phasing of expenditure which will now be incurred in 2013/14. Of this expenditure £54.2M related to the General Fund and £24.3M to the HRA.
29. The General Fund Capital Outturn 2012/13 and the Housing Revenue Account Revenue and Capital Outturn 2012/13 reports presented to Council and approved on 17 July 2013 contained further details; including setting out how it was proposed that this expenditure be financed.

THE COLLECTION FUND

30. The Collection Fund had a deficit for the year of £116,300. There was a surplus brought forward from 2011/12 of just over £1.6M, to give a surplus to be carried forward of just over £1.5M.
31. When setting the Council Tax for 2013/14 in February 2013, it was estimated that there would be a surplus of £1.2M to be carried forward. This estimated surplus was taken into account in setting the 2013/14 Council Tax and was shared by the City Council, the Police & Crime Commissioner for Hampshire and the HFRA in proportion to the precepts levied by each authority in 2012/13. This leaves a surplus of £319,400 that will be carried forward to 2013/14 to be shared between the precepting authorities in proportion to the precepts levied in this year. Southampton City Council's element will then be taken into account when the Council Tax for 2014/15 is set.

PENSIONS

32. In 2012/13 the Council paid an employer's contribution of £20.1M into Hampshire County Council's Pension Fund. The employer's rate set for 2011/12 to 2013/14 is 13.1% of employees' pay plus a fixed payment. This fixed payment was calculated by the actuary for the Hampshire County Council pension fund and is equivalent to 6.0% of the value of the payroll as at 31 March 2010.
33. The Council's share of the assets in the Hampshire County Council pension fund at 31 March 2013 was £558.6M, compared to its estimated liabilities of £976.8M, giving an estimated deficit on the Fund of £418.2M (£384.5M in 2011/12).
34. The deficit will be made good by taking into account anticipated changes in market conditions, levels of anticipated employee contributions and future employer contributions.

ACCOUNTING POLICIES

35. The Council's accounts are prepared in accordance with the Code of Practice on Local Authority Accounting in Great Britain, which is recognised by statute as representing proper accounting practices and meets the requirements of the Accounts and Audit regulations 2011.
36. The Accounting Policies are described in detail on pages 16 to 31 of the Financial Statements and cover such items as:
 - Property, Plant and Equipment
 - Depreciation
 - Heritage Assets
 - Pensions
 - Accruals
 - PFI contracts
 - VAT

There were no major accounting policy changes in 2012/13. The Governance Committee will be asked to review the policies adopted.

37. The majority of the accounting policies adopted by the Council are in line with the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice on Local Authority Accounting and the Governance Committee would therefore be more likely to be interested if the Council were to depart from the recognised practice

FINANCIAL STATEMENTS AMENDMENTS

38. There were a number of minor numerical and typographical errors and some presentational and additional disclosure adjustments to the Draft Financial Statements signed by the CFO on 28 June 2013 and presented for Audit.
39. The latest Draft Financial Statements along with full details of any changes made are available in Members rooms on request from the report author. The main adjustments were:
 - Comprehensive Income and Expenditure Statement (1) – Reallocation of

£2.8M Non Distributable Costs to Service lines - *No Net impact*;

- Property Plant and Equipment Note 13 (2) – Amendment to Disclosure to show £25,142,000 disposals under Property Plant & Equipment Under Construction as reclassifications to Other Land and Buildings and then to be shown as disclosures under this Category - *No Net Impact*
- Property Plant and Equipment Note 13 (3) – Other Land and Buildings - Cost or Valuation:
 - Derecognition Disposals understated by £1,723,000
 - Other Land and Buildings – Accumulated Depreciation and Impairment Derecognition Disposals understated by £1,723,000

No Net Impact

Assets Held for Sale Note 17 (4) – Narrative Change *No Net Impact*

- Revaluation Losses should be Gains - £1,735,000
- Revaluation Gains should be Losses - (£225,000)

Assumptions Made About the Future and Other Major Sources of Estimation Uncertainty Note 4 (5) – Wording changed *No Net Impact*.

From:

“The Statement of Accounts contains estimated figures that are based on assumptions made by the Council about the future or that are otherwise uncertain. Estimates are made by taking into account historical experience, current trends and other relevant factors. However, because balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates. The item in the Council's Balance Sheet at 31 March 2013 for which there is significant risk of material adjustment in the forthcoming financial year are as follows.”

To:

“The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities as at the balance sheet date and the amounts reported for the revenues and expenses during the year. However, the nature of the estimation means that actual outcomes could differ from those estimates. The key judgements and estimation uncertainty that have significant risk of causing material adjustment to the carrying amounts of assets and liabilities within the next financial year are.”

- Notes to the Cash Flow Statement 26a (6) – Amendment required to Depreciation and Impairment
 - Depreciation - £40,731,000 less £646,000 = £40,085,000
 - Impairment - £45,161,000 plus £646,000 = £45,807,000

No net impact on Cash Flow Statement

- HRA Comprehensive Income and Expenditure Account (7) – Amended the descriptors on the face of the HRA to refer to ‘Net Expenditure’ rather than ‘Net Cost’ at Sub-total lines and to refer to ‘HRA Share of Other Amounts

Included in the Whole Authority Net Expenditure of Continuing Operations But Not Allocated to Specific Services” rather than ‘Net Cost of Services’.
No Net Impact

- HRA Additional Disclosure Note (8) – Item 8 Credit and Debit (General) Determination disclosure note added to the HRA Notes. This is a Table essentially summarising all the Item 8 entries in the Housing Revenue Account. *No Net Impact*
- Note to Statement of Movement on the HRA Balance (9) – Change descriptor from "Principal Repayments" to "Loan Principal Repayments". *No Net Impact*
- Additional Contingent Liability Disclosure Note 41 (10) – A recent review of the Councils’ Non Residential Care Charging policy, has highlighted that, the previous policy did not fully adhere to the national guidelines as set out by the Department of Health. It is possible that the Council has overcharged clients, in respect of their contributions for the cost of their Non residential care services over the past six years, and will be required to refund them where this has been the case. No provision has been made in the 2012/13 Financial Statements for the estimated cost of refunding these clients, as the issue of liability / cost has not yet been established. *No Net Impact*.

40. The Annual Results Report prepared by Ernst & Young is on the Agenda for consideration and the high level findings are that an unqualified opinion has been issued in relation to both the Financial Statements and the arrangements in place to secure value for money.

RESOURCE IMPLICATIONS

Capital/Revenue

41. The capital implications were considered as part of the Capital Outturn report that was presented to Council on 17 July 2013.

Revenue

42. The revenue implications were considered as part of the Revenue Outturn report that was presented to Council on 17 July 2013.

Property/Other

43. There are no specific property implications arising from this report.

LEGAL IMPLICATIONS

Statutory power to undertake proposals in the report:

44. Accounts and Audit Regulations 2011.

Other Legal Implications:

45. None.

POLICY FRAMEWORK IMPLICATIONS

46. Not applicable. It should be noted that the Financial Statements are prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting in the UK.

KEY DECISION? No

WARDS/COMMUNITIES AFFECTED:	
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SUPPORTING DOCUMENTATION

Appendices

1.	None
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Documents In Members' Rooms

1.	Latest Draft Financial Statements 2012/13
2.	Schedule of Changes Made to Draft Financial Statements Signed by CFO on 28 June 2013

Equality Impact Assessment

Do the implications/subject of the report require an Equality Impact Assessment (EIA) to be carried out.	Yes/No
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Other Background Documents

Equality Impact Assessment and Other Background documents available for inspection at:

Title of Background Paper(s)	Relevant Paragraph of the Access to Information Procedure Rules / Schedule 12A allowing document to be Exempt/Confidential (if applicable)
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1.	None	
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Agenda Item 9

DECISION-MAKER:	GOVERNANCE COMMITTEE COUNCIL		
SUBJECT:	CHANGES TO THE COUNCIL'S CONSTITUTION – COUNCIL PETITION SCHEME		
DATE OF DECISION:	23 SEPTEMBER 2013 20 NOVEMBER 2013		
REPORT OF:	DIRECTOR OF CORPORATE SERVICES		
<u>CONTACT DETAILS</u>			
AUTHOR:	Name:	Mark Heath	Tel: 023 8083 2371
	E-mail:	mark.heath@southampton.gov.uk	
Director	Name:	Mark Heath	Tel: 023 8083 2371
	E-mail:	mark.heath@southampton.gov.uk	

STATEMENT OF CONFIDENTIALITY

Not applicable

BRIEF SUMMARY

The purpose of this report is to consider a change to the Council's Petition Scheme. The changes need to be considered and discussed by the Governance Committee in its governance role and by Full Council as the ultimate decision-making body as to the Council's Constitution.

RECOMMENDATIONS:

GOVERNANCE COMMITTEE

- (i) To consider and recommend the changes to the Constitution as set out in this report;

COUNCIL

- (i) To agree the changes to the Constitution as set out in this report; and
- (ii) To authorise the Head of Legal, HR and Democratic Services to make the changes to the Council's Petition Scheme.

REASONS FOR REPORT RECOMMENDATIONS

1. It is appropriate for the Council to keep its Constitution under regular review and to amend it, both to reflect experience and changing circumstances.

ALTERNATIVE OPTIONS CONSIDERED AND REJECTED

2. The Council resolved in May 2002 to review its Constitution on an annual basis. Therefore, it is appropriate that this report is considered by Members. Members have the option of approving or rejecting the changes set out in this report.

DETAIL (Including consultation carried out)

3. Local Authorities were required to adopt a Petition scheme, setting out the detail the way in which they would respond to petitions that achieved a certain number of signatures. Whilst the Localism Act 2011 has repealed the statutory obligation on the Council to have a petition scheme, it is considered that it remains useful to the public to use this route should they wish to bring to the Council's attention any significant issues. Therefore, Council resolved in May 2012 that the Council's petition scheme should remain as part of the Council Constitution.

As a result, petitions containing 1,500 signatures (a qualifying petition) or more will require a debate at a Council meeting.
4. The Constitution currently states that a petition that requires a debate (over 1,500 signatures) at Full Council will be managed at the discretion of the Mayor and in accordance with the Council's Procedure Rules, after which a vote will be put.
5. This is the regime that the Council has in place and reflects the fact that whilst the Council is no longer legally obliged to have a Petition Scheme, it has in essence retained much of the thrust of the original approach, giving people the right to have petitions debated at Full Council.
6. At its meeting held on 15th May 2013, Council considered a report setting out its annual review of the Constitution, which included a number of changes to the Council's Petition Scheme. These changes reflected the practicalities of operating the scheme and the need to allow more flexibility with the scheme. These changes were approved by Council.
7. On the same agenda for the Council meeting on the 15th May, was a qualifying petition containing over 1,500 signatures concerning the NHS and thus requiring a debate at the Council meeting.
8. Previously, such requests for petitions that had triggered a debate at Council had required a motion to be prepared in response from the Executive. The Executive's motion was shared with the other Group Leaders and circulated at the meeting. Such motions had not previously been formally included on the Council Summons for the meeting.
9. One of the issues that arose from the Council meeting was the lack of a formal documented process concerning such debates on petitions. In order to address this issue, it is suggested that an amendment is made to the Council Procedure Rules, specifically Council Procedure Rule 10.4b as follows:
10. "For the purposes of initiating such a debate at Full Council, the Leader, who may direct any other member to instigate this on his behalf, shall submit a motion in accordance with CPR 13.1A, which shall, like all other motions, be printed on the Council agenda, and shall be subject to all the normal Council Procedure Rules in relation to amendment, alteration, etc and the timeframes for such activities as set out within these Council Procedure Rules. This rule may be varied by the Mayor"
11. It is therefore, suggested that, in the interests of openness and transparency, this revision to Council Procedure Rules is adopted. This

will therefore mean that such motions are formally included and printed on the Council agenda which will clarify and formalise the procedure.

RESOURCE IMPLICATIONS

Capital/Revenue

None

Property/Other

None

LEGAL IMPLICATIONS

Statutory power to undertake proposals in the report:

The Executive Arrangements and Constitution are dealt with under the Local Government Act 2000.

Other Legal Implications:

None

POLICY FRAMEWORK IMPLICATIONS

None

KEY DECISION? No

WARDS/COMMUNITIES AFFECTED:	None
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SUPPORTING DOCUMENTATION

Appendices

1.	None
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Documents In Members' Rooms

1.	None
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Equality Impact Assessment

Do the implications/subject of the report require an Equality Impact Assessment (EIA) to be carried out.	No
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Other Background Documents

Equality Impact Assessment and Other Background documents available for inspection at:

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

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Agenda Item 10

DECISION-MAKER:	GOVERNANCE COMMITTEE		
SUBJECT:	ANNUAL REPORT ON THE NEW MEMBERS CODE OF CONDUCT / LOCALISM ACT 2011		
DATE OF DECISION:	23 SEPTEMBER 2013		
REPORT OF:	HEAD OF LEGAL, HR & DEMOCRATIC SERVICES		
<u>CONTACT DETAILS</u>			
AUTHOR:	Name:	Richard Ivory	Tel: 023 8083 2794
	E-mail:	Richard.ivory@southampton.gov.uk	
Director	Name:	Mark Heath	Tel: 023 8083 2371
	E-mail:	Mark.heath@southampton.gov.uk	

STATEMENT OF CONFIDENTIALITY

None

BRIEF SUMMARY

At the time of the adoption of the new code of conduct in July 2012 the Council requested the Head of Legal, HR and Democratic Services to produce an annual report outlining the impact of the new code, a summary of the complaints received and any action taken.

RECOMMENDATIONS:

The Committee is asked to note this annual report.

REASONS FOR REPORT RECOMMENDATIONS

1. Unless there are any changes required to be made to either the Code or the procedures for investigation this report is only for noting.

ALTERNATIVE OPTIONS CONSIDERED AND REJECTED

2. n/a

DETAIL (Including consultation carried out)

3. The Governance Committee has the following terms of reference in relation to corporate governance and Code of Conduct issues:
 - To lead on the Council's duties under Chapter 7 Localism Act 2011 and to design, implement, monitor, approve and review the standards of ethics and probity of the Council, both for Councillors and employees. The Committee's powers shall include responding to consultation documents and the promulgation of Codes of Conduct but the adoption and revisions to the local Members Code of Conduct shall be reserved to the Council.
 - To promote a culture of openness, ready accountability and probity in order to ensure the highest standards of conduct of Councillors and employees.

- To lead on all aspects of Corporate Governance by promoting the values of putting people first, valuing public service and creating a norm of the highest standards of personal conduct.
 - To oversee and manage programmes of guidance, advice and training on ethics, standards and probity for Councillors and employees and on the Members Code of Conduct.
 - To be responsible for the Council's register of Members' interests and to receive reports from the Monitoring Officer and Head of Legal, HR and Democratic Services on the operation of the register from time to time.
 - To be responsible for written guidance and advice on the operation of the system of declarations of Members' Interests and to receive reports from the Monitoring Officer on the operation of the system of declarations from time to time.
 - To establish, monitor, approve and issue advice and guidance to Councillors on a system of dispensations to speak on, or participate in, matters in which they have interests and give dispensation in appropriate cases.
 - To exercise the functions of the Council in relation to the ethical framework, corporate governance and standards of conduct of Joint Committees and other bodies.
 - To establish a Standards Sub-Committee to investigate and determine appropriate action in respect of alleged breaches of the Members Code of Conduct.
 - To support the Monitoring Officer and Chief Financial Officer in their statutory roles and the issuing of guidance on them from time to time.
 - To receive regular reports on the performance of the Corporate Complaints process, Local Government Ombudsman referrals, Annual Governance Statement and Code of Corporate Governance and to recommend revisions to related policies and procedures as appropriate.
4. Since the adoption of the new Members Code of Conduct in July 2012 it has not had cause to meet to consider any allegations of breach of the new code of conduct.

Applications for dispensations [*move to after the table*]

5. If a Member wishes to apply for a dispensation to allow them to take part in a meeting with a disclosable pecuniary interest they must submit a written application to the Monitoring Officer. Applications are then decided by him or by the Governance Committee.
6. The Localism Act 2011 substantially changed the rules on interests. Regrettably it was incomplete in order to permit members to carry out their full duties in relation to being able to vote on the budget. Therefore prior to the meeting of full Council on 15th February 2013 all Members applied (via Group Leaders) for a dispensation to allow them to take part in the decision to approve the Council's budget. The Monitoring Officer granted a blanket dispensation on

5th December 2012.

7. No other dispensations have been applied for since.

Reviewing the Members' Code of Conduct and the arrangements for dealing

8. The Council adopted a revised Members' Code of Conduct consistent with the requirements of the Localism Act 2011 on 11th July 2012.
9. In summary, the first year of operation has been fairly low key. All members have completed their Register of Interests (which are publicly accessible and viewable online) and a few minor complaints have been received. These are detailed below together with the action taken. So far, all complaints have been resolved or rejected either before or at Stage 1 of the complaints procedure meaning that there have been no determinations or findings of a failure to comply with the relevant Code of Conduct by the committee.

Complaint handling

10. The Council has a responsibility for making arrangements to receive and consider complaints against Councillors in Southampton. The flowchart showing the process is attached at appendix A. At Stage 2 of the complaints procedure the Governance Committee will determine the complaint following an investigation by the Monitoring Officer.

Complaints relating to Southampton City Councillors

11. Acting under delegated powers from the Monitoring Officer, the Deputy Monitoring Officer (Head of Legal, HR and Democratic Services) has received 5 separate complaints about Councillors since July 2012. Save for one, all of these complaints were submitted by members of the public. There are no trends in terms of the subjects specified in complaints.
12. All complaints are taken seriously and investigated as appropriate. In order to be considered under the formal complaints process complaints must be submitted in writing, must provide substantiated information, and should outline what form of resolution the complainant is seeking. When a complaint does not meet these criteria and does not reveal a potential breach of the Members' Code of Conduct it is treated as a 'general enquiry'. This means that the Deputy Monitoring Officer responds to the complainant in writing explaining why the matters complained of do not constitute a potential breach of the Members' Code of Conduct.
13. When a written complaint is submitted which provides the relevant information, the Deputy Monitoring Officer will consider the complaint and make a decision as to whether it will be treated as a valid complaint or not. Three complaints were treated as formal complaints and assessed against the criteria set out in the complaints procedure.
14. The complaints submitted about Southampton City Councillors since July 2012 relate to the following matters:

Behaviour alleged	Type of complaint	Outcome & reason	Source of complaint	Number of complaints
Misleading the public	Formal complaint	Following consultation with the DIP, no further action as complaint was vague, observational and not a breach of the Code of Conduct	Member of the public	2
Inappropriate correspondence	General inquiry	Regarded as “political cut and thrust” between elected members. No breach of the code.	Member	1
Misleading the public	General inquiry	Detail of complaint not forthcoming.	Member of the public	1
Not assisting or responding to constituents	Formal complaint	Matter complained of dealt with previously. No further action taken.	Member of the public	2
Inappropriate comments made at public meetings	Formal complaint	Two incidents were too long ago to warrant investigation. The other was informally resolved. Complainant written to by Member to clarify position. The complainant was satisfied with the response.	Member of the public	3

Independent Person

15. The two Designated Independent Persons appointed under the Act have been consulted on emerging issues and complaints as appropriate and meet every six months with the Head of Legal, HR and Democratic Services to talk through issues arising. Training has been provided to them as necessary. The members are part of the National network for DIPs.

Supporting Members of Southampton City Council

16. At the time of introduction of the new Code three seminars were provided during July 2012. Of the 48 members 22 attended. The presentation was emailed to all members afterwards.
17. Additional training has been provided to newly elected members, new Cabinet Members and those members who sit on regulatory bodies such as Licensing Committee and the Planning and Rights of Way Panel. Training has also been provided to all members (SCC and external partners) who sit on the Health and Well Being Board in light of the substantial new duties that Board

has had within its remit from 1st April 2013.

18. Importantly, a new Member Learning and Development Strategy has been drafted and is subject to a separate report on this agenda.

Internal Audit review

19. The Council's audit team, now part of the Southern Hampshire Audit Partnership hosted by Hampshire CC has recently undertaken a review of Members Code of Conduct and related matters. A copy of the report is attached at Appendix 2. In summary the Council's arrangements are sound; the recommendations from the report are as follows:
- i. refresh and redistribute the presentation on the Code of Conduct;
 - ii. ensure all Registers of Interests are complete; and
 - iii. that Governance Committee give consideration to adding a requirement that gifts and hospitality over £x are registered.
20. These are being actioned. The latter has been explored before but is worthy of reconsideration in the interests of both transparency and ensuring there is no undue criticism of members. There is no statutory requirement to include the provision as previously and not all authorities are doing so. It is therefore a local decision

RESOURCE IMPLICATIONS

Capital/Revenue

21. None

Property/Other

22. None

LEGAL IMPLICATIONS

Statutory power to undertake proposals in the report:

23. Chapter 7 Localism Act 2011

Other Legal Implications:

24. None

POLICY FRAMEWORK IMPLICATIONS

25. n/a

KEY DECISION? No

WARDS/COMMUNITIES AFFECTED:	None
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SUPPORTING DOCUMENTATION

Appendices

1.	Complaints Flowchart
2.	SHAP Audit Report July 2013

Documents In Members' Rooms

1.	
2.	

Equality Impact Assessment

Do the implications/subject of the report require an Equality Impact Assessment (EIA) to be carried out.	No
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Other Background Documents

Equality Impact Assessment and Other Background documents available for inspection at:

Title of Background Paper(s)

Relevant Paragraph of the Access to Information Procedure Rules / Schedule 12A allowing document to be Exempt/Confidential (if applicable)

1.	None	
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**Southern Internal Audit Partnership
Confidential
Internal Audit Report**

Members Code of Conduct
2012/13

Prepared by: Manjola Lico

Issued date: 26 July 2013

This document has only been distributed to these individuals:

Name	Title
Richard Ivory	Head of Legal, HR and Democratic Services
Sandra Coltman	Democratic Services Manager

1 **Audit objectives**

- 1.1 This review has sought to assess the effectiveness of controls in place focusing on those designed to mitigate risk in achieving the following key objectives:
- a member's code of conduct is in place and approved by the relevant committee and has been implemented
 - members have been given and attended relevant training on the new Code of Conduct
 - members have completed a Declaration of Interest form with the latest up to date information

2 **Audit opinion**

- 2.1 The overall opinion of this review based on the audit evidence obtained, is that adequate assurance can be placed on the effectiveness of the framework of risk management, control and governance designed to support the achievement of management objectives.

3 **Executive summary**

- 3.1 Discussions with the Head of Legal, HR and Democratic Services and audit testing confirmed that the introduction of the Localism Act 2011 brought about some fundamental changes to the system of regulation and recommended that the Code of Conduct for Members of the Council was replaced and freshly adopted.
- 3.2 As a result, the Members Code of Conduct was rewritten in May and June 2012, and reviewed and approved by the Standards and Governance Committee and adopted by full Council on the 11 July 2012. The new and revised Member's Code of Conduct is available on the Southampton City Council web pages.
- 3.3 Discussions with the Democratic Services Manager and testing of the training records confirmed that the Members of the Council were invited to attend a number of training sessions to make them aware of the changes to the new and revised Code of Conduct. We noted, however, that there was very low attendance at the training sessions offered; only 22 out of 48 attended. The Powerpoint presentation was however sent to all members afterwards.
- 3.4 The new and revised Members Code of Conduct requires Members of the Council to declare and complete a Declaration of Interest form with the latest up to date information. The form was also revised as a result of the introduction of the new Members Code of Conduct, and audit testing found that all the 48 Members

of the Council have completed a form declaring their interest as per the requirements of the new and revised Code of Conduct. We have, however, made an observation regarding the consistency of completing these forms.

- 3.5 At the initial scoping meeting with the Head of Legal, HR and Democratic Services and further discussions with the Democratic Services Manager we were advised that there is no longer a requirement for the Members of the Council to declare any gifts and hospitality, and as such this is not included in the new and revised Members Code of Conduct. Although this is not a mandatory requirement, maintaining a record of the gifts and hospitality received by members ensures openness and transparency.

4 Action plans

4.1 The action plans detailed within this report describe:

- key risks internal audit considered were inadequately controlled by the framework in place;
- the actions management propose to undertake to bring the risks within acceptable parameters; and
- internal audit's assessment as to whether management's actions achieve an acceptable level of risk exposure.

Action plan 1			
Objective	Members have been given and attended relevant training on the new Code of Conduct		
Observation	Discussions with the Democratic Services Manager established that three training sessions were offered to the Members of the Council on the revised Members Code of Conduct which took effect from the 1 July 2012. Our audit testing confirmed that out of the 48 Members of the Council (who were all invited to attend training), 26 confirmed they will attend and only 22 attended. Risk: There is a risk that Members are not aware to the changes and requirements of the new and revised Code of Conduct implemented from the 1 July 2012.		
Management action			
What	Priority (High, Medium, Low)	Responsible officer	Target date

Refresh the powerpoint guidance and email to all members.	Medium	Richard Ivory	1 st August 2013
Auditor's assessment of management response:			
Management actions will assist in the mitigation of future risk.			

Action plan 2			
Objective	Members have completed a Declaration of Interest form with the latest up to date information.		
Observation	<p>The guidance for the completion of the "Declaration of Interest Form" states that "none" should be entered on that part of the form where there are no interests to be declared.</p> <p>Testing of the declaration of interests forms completed by the 48 members of the Council found that:</p> <ul style="list-style-type: none"> - for five out of the 48 forms tested, parts of the form were left blank (none or n/a was not entered in the required boxes) - two out of the 48 forms were not signed and dated by the Member of the Council completing the form <p>Risk: If the form is left blank or not fully completed, it is not possible to determine if the member of the council completing the form has an interest to declare or the contrary.</p>		
Management action			
What	Priority (High, Medium, Low)	Responsible officer	Target date
An annual reminder is sent to all members indicating a need to keep their register up to date. An email will be sent indicating what needs to be included in order to make the register complete.	High	Sandra Coltman	1 st July 2013
Auditor's assessment of management response:			
Management actions will assist in the mitigation of future risk.			

Action plan 3			
Objective	Members have completed a Declaration of Interest form with the latest up to date information.		
Observation	We were advised by the Democratic Services Manager that in the new Member's Code of Conduct it is not compulsory for Members of the Council to declare any gifts and hospitality. As such, the authority does not maintain a record of the gifts and hospitality received by the Members of the Council. Although this is not a mandatory requirement, maintaining a record of the gifts and hospitality received by members ensures openness and transparency. Risk: Failure to be open and transparent may bring the Council into disrepute.		
Management action			
What	Priority (High, Medium, Low)	Responsible officer	Target date
Refer the matter to Governance Committee to consider whether the code needs revision.	Medium	Richard Ivory	1 st October 2013
Auditor's assessment of management response:			
We are satisfied that this will be referred to the Governance Committee, and will look at this area again in future audits.			

Annex A**Key**

The following is the key to quantify observations identified in the audit:

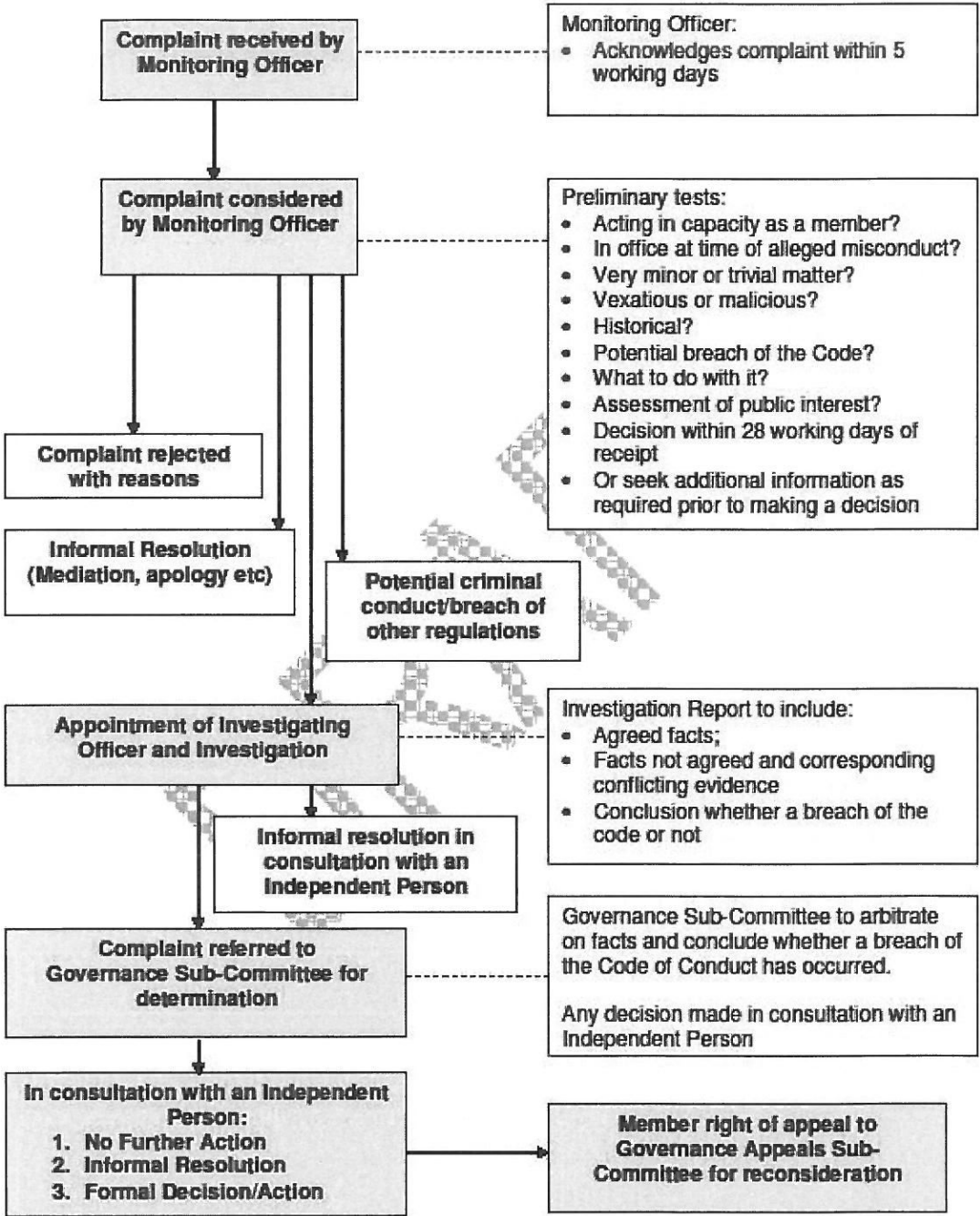
Assurance levels

Opinion	Framework of governance, risk management and management control.
Substantial assurance	A sound framework in place that is operating effectively.
Adequate assurance	Basically a sound framework in place with possible opportunities to improve controls or some immaterial evidence of inconsistent application.
Limited assurance	Critical weakness (es) identified within the framework and / or significant evidence of inconsistent application.
No assurance	Fundamental weaknesses have been identified or the framework is ineffective or absent.

Priority

Priority rating	Current risk
High	A significant risk of; failure to achieve objectives; fraud or impropriety; system breakdown; loss; or qualification of the accounts by the organisation's external auditors. Such risk could lead to adverse impact on the organisation or expose the organisation to criticism.
Medium	A serious, but not immediate risk of: failure to achieve objectives; system breakdown; or loss.
Low	Areas that individually have no major impact, but where management would benefit from improved risk management and / or have the opportunity to achieve greater efficiency and / or effectiveness.

Complaints Procedure Flowchart



Flowchart v2.1

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DECISION-MAKER:	GOVERNANCE COMMITTEE		
SUBJECT:	MEMBER LEARNING AND DEVELOPMENT		
DATE OF DECISION:	23 SEPTEMBER 2013		
REPORT OF:	HEAD OF LEGAL, HR AND DEMOCRATIC SERVICES		
<u>CONTACT DETAILS</u>			
AUTHOR:	Name:	Richard Ivory	Tel: 023 8083 2794
	E-mail:	richard.ivory@southampton.gov.uk	
Director	Name:	Mark Heath	Tel: 023 8083 2371
	E-mail:	mark.heath@southampton.gov.uk	

STATEMENT OF CONFIDENTIALITY
None

BRIEF SUMMARY

This report gives an overview of Member learning and development and provides information on the provision and support for Members. It follows recent discussion by Group Leaders. Members are invited to comment on any aspect of Member learning and development in the report.

RECOMMENDATIONS:

- (i) To consider and endorse the Member Development Strategy

REASONS FOR REPORT RECOMMENDATIONS

- Governance Committee is responsible for overseeing and managing programmes of guidance, advice and training on ethics, standards and probity for Councillors and employees and on the local Code of Conduct for Councillors.

ALTERNATIVE OPTIONS CONSIDERED AND REJECTED

- None. Governance Committee is responsible for overseeing Member Learning and Development although Members have the option of approving or rejecting the proposals within the report.

DETAIL (Including consultation carried out)

Member Learning and Development

- Previously, the priorities set for Member Development as part of the 2010-2013 strategy were:-
 - To ensure that Members have a significant role in leading, developing and evaluating Member Development plans and programmes.
 - To ensure that Member learning and development meets national standards for elected Member Development, including the South East Charter for Member Development..
 - Linking Member Development to the Council's strategic priorities for

employee learning.

- Working with other services and in partnership with other local authorities to enhance the learning and development opportunities for Members and improve cost effectiveness.

4. In reviewing the priorities as a result of a very limited budget, it was considered that the issue of members' attendance at conferences and the budgets and the management of this process required reconsideration and review to ensure that there was an adequate budget to train and develop members.
5. In addition, the Governance Committee has considered that Member Learning and Development is a matter that requires greater prominence and take up by members. It can only ever be voluntary, but just as officers require training, it is suggested that members equally need to do so to fully discharge their roles in the most appropriate manner. Similarly, as a result of the recent Monitoring Officer's report into the resignation of Councillor Morrell as a Cabinet Member, the Council recommended that the Governance Committee should consider whether the current training and development arrangements for officers and members should be revised.
6. Group Leaders have recently discussed the overall issue and are of the view that they wish to lead on member development and budget spend. As a result the options below appear to officers to provide the best way forward in achieving as comprehensive a member development programme as can be reasonably achieved. In addition the recent LGA Peer Review made specific recommendations in the Action Plan regarding member development. The proposals in this report complement that Plan.

Meeting National Standards for Member Development

7. The LGA in conjunction with South East Employers has a national Charter for Councillor Development which is regionally based and Member Development planning is aimed at achieving the standards for accreditation for the South East Charter. The cost of the national Charter for Councillor Development is a one off payment of £3,000 for a duration of three years and once obtained, the award is held for a further three years.

Linking Member Development to the Council's strategic priorities

8. The Council has five strategic priorities for employee learning, and whilst there are distinct differences between Member and employee learning needs, having a framework for Member Development based on the corporate strategic priorities for learning would enable comparison and improve effectiveness in prioritising and evaluating Member learning and development. The five strategic priorities for employee development are:-
 - Meeting the compulsory demands placed on the Council.
 - Developing and maintaining Corporate Standards.
 - Supporting the Change Agenda and Customer Care
 - Developing Current and Future Managers (Leaders)
 - Improving the level of essential skills in the workforce
9. All learning programmes, courses and seminars will remain linked to one of

the above corporate strategic priorities and reported on accordingly. This will also underpin the compulsory package of training for Members which the Independent Remuneration Panel originally recommended (but which cannot be unilaterally imposed of course).

Member Development Strategy

10. To support Members in their role it is suggested that a clear, flexible strategy be adopted. This would set out the criteria by which Learning and Development is being delivered, would provide an audit for monitoring and review and also would clearly set out what members would be entitled to. It is therefore proposed that the strategy should be based on a number of linked elements which would identify and develop member learning and development needs.
- Induction programme
 - Meeting member development needs as identified through Personal Development Planning
 - Corporate objectives and initiatives
 - External Development activities such as, conferences or legislative changes

Identifying Member Development Needs

11. **(a) Induction Programme –**
to ensure that we provide Members with a minimum induction programme and some minimum training in order to undertake their duties, the induction programme should consist of the core skills in respect of topics such as finance, IT, key corporate themes, initiatives and directorate overviews. Members would be expected to undertake code of conduct training, equalities and diversity awareness training, committee relevant training, i.e. planning and licensing, role specific training i.e. chairing skills, scrutiny and corporate parenting training
12. **(b) Personal Development Planning –**
Whilst the responsibility for identifying learning and development needs rests with individual members, it is suggested that Members should be encouraged to undertake an analysis/personal development plan process. Personal development planning would supplement generic training and would satisfy individual needs and develop individual skills.
13. **c) Corporate objectives and Initiatives –**
Members of the Council carry out a wide range of roles and need to keep up to date with over-arching strategic challenges. It is therefore recommended that we have a Leadership budget – This would be a budget specifically for the Leader and Cabinet or a member carrying out a specific role such as the Chair of a Committee or a representational role such as opposition Group Leaders. This was a Peer Review report priority. It would therefore provide Leadership training for a new Leader or Cabinet members and provide any focused training for political leadership – i.e. Children’s Services, or the newly created Health and well-Being Board. Without such a budget, training for matters such as the Health and Well-being Board would take up a large amount of the current learning and development budget. In addition, it would

provide role specific training for Chairs of Committees on new legislation and initiatives.

14. **(d) External Development activities-**

There is currently an approved conference list. Consideration should be given to reviewing the approved list and associated attendance. There are no separate conference budgets so costs are met from the Learning and Development budget. The list contains 15 conferences, and if all were attended, would cost @ £18,000. However, in reality, only the LGA conference from the approved list is ordinarily attended although other conference attendance is currently provided for such as the Miami Cruise Conference.

Criteria for attendance

15. In order to ensure value for money and provide an audit trail for effective monitoring, it is recommended that the present criteria for attendance on training/conferences should be retained as follows:

The event must relate to the official business of the Council and the purpose should contribute to the priorities and values of the Council. It must also meet at least one of the following criteria:-

- a) Provides an opportunity to positively promote the city of Southampton on a national and international stage.
- b) Gives an opportunity for the Council's views to be fully represented at important national and international conferences and events:
- c) Gives an opportunity to meet with key individuals and organisations to promote support for key initiatives and developments in the city of Southampton, attract investment and share experience/expertise.
- d) Provides the opportunity to meet with key individuals from local and national government.
- e) Provides the opportunity to attract inward investment into the city of Southampton and to strengthen and develop links with twin and partner cities.
- f) Provides the opportunity for the Council to participate in trade missions and delegations to promote local and regional economic development.
- g) Gives an opportunity to gather and exchange information on new projects and policy areas.
- h) Gives an opportunity to promote areas of expertise and give guidance to other local authorities within the UK and abroad.
- i) Gives the opportunity for Members to develop experience and expertise in areas that meet the Council's priorities or for which Members have specific responsibility for policy development and implementation; and
- j) Give the opportunity for personal development that reflects the roles, responsibilities and personal development plans of the individual Member or Members.

Member expectations

16. Group Leaders have recommended having a small proportional budget for use at the discretion of Group Leaders. However, in order to ensure value for money and provide an audit trail for effective monitoring, the Group Leaders should consider the justification for Member attendance outside of any agreed attendance criteria.
17. It is suggested that a small allocation of £150 per member be included. Cabinet Members and Group Leaders would have their own budget so would not be included and this would therefore be for the remaining group members. The budget would then cover anything that didn't fit into the agreed criteria set out above. So at present this would mean that the Conservative Group would be allocated a budget of £2,250. The Labour Group would be allocated a budget of £3,000 and the 2 other Groups £150. Total = £5,550

Budget

18. Currently Legal, HR and Democratic Services has a very small budget of £4,400 pa to cover all member inductions, training, development, LGA Conference attendance, other seminar attendance etc. This is supplemented by other Directorates paying for ad hoc courses etc direct. The total budget or spend each year is therefore currently difficult to quantify. Other Unitary Councils have much larger budgets and for those operating a 4 year election cycle, budgets are often supplemented during the election year. Many therefore have a base budget ranging from £13,000-£21,000 for training each year but those Councils on four yearly election cycles will then increase this to @ £20,000-£30,000 for enhanced Leadership development or training for new Councillors following the elections
19. In order to deliver the reviewed learning and development strategy it is suggested that the following budget be considered:
 - (a) **Induction** – most of the training undertaken on the induction is provided by officers in house. The costs therefore would be for the Personal Development Planning (PDP) and any costs of external courses identified such as speed reading and for training provided externally such as Planning. The costs for PDPs are @ £100 per Member. If the budget allowed for all new Members to have PDPs that would cost £1,600. In addition, money would be needed to cover any external training needed. A budget of @ 6K should cover the costs for induction.
 - (b) **Corporate objectives and initiatives** – Leadership training can be expensive and if the Council had a completely new administration this could require training for the Leader and all Cabinet Members. Given that it is suggested that this part of the budget should also cover members carrying out a specific role such as the Chair of a Committee or a representational role such as opposition Group Leaders, the budget should reflect its importance. A budget of @ 10K should be included for this element.
 - (c) **External Development activities** – This year the cost of

attendance at the approved conferences has been @£3,600. It is suggested that this figure be rounded up to £4,000.

(d) **Group Leader Budget** - £5,550

The estimated cost of the budget would therefore be:

Induction - £6,000

Corporate objectives - £10,000

External activities - £4,000

Group Leader budget - £5,550

Total budget = £25,550 less the current Budget of £4,400 = @£21,150 increase. Rounded down to £21,000

Delivery

20. In order to provide effective training and to encourage attendance by members, it is suggested that a regular training day and time be set aside so that members always know when training will be provided. Thus, for example, at least one day a month should be specified as “Member Development Day” and these dates would be published in the calendar. Wherever possible, these dates would be used for training and development events and efforts would be made to avoid scheduling other member meetings at the same time.
21. Administrative support for member development would be provided by Democratic Services. Democratic Services would provide co-ordination of the strategy, promotion of the learning and development events, maintaining records and administration of the budget. Ad hoc training as at present is resource heavy, a more organised and regular programme will be easier to administer within existing resources.

Future Development of Member Learning and Development and the Role of Members in leading Member Development

22. It is suggested that any future Member Development Strategy needs to be aimed at providing a long-term view which remains flexible and reflects changing priorities and the needs of Members in order for them to fully engage and participate.
23. The training and development that can be provided is infinite in theory but we must, of course, be guided by what is both reasonable and appropriate. It is imperative that Members both own and drive the training agenda and are comfortable with what is being proposed. To that extent Group Leaders have agreed to take over the task of overseeing an annual costed programme under the auspices of an annual report to the Governance Committee.
24. The former terms of reference of the Member User Group included:-
 - To provide strategic leadership and direction for Member Development, including support services for Members and co-opted Members of the Council.
 - To lead, monitor and evaluate Member Development programmes and initiatives

Therefore, it is suggested that the Group Leaders now undertake this role and play a crucial role in ensuring that any strategy meets members’ needs

and that events are scheduled appropriately and effectively together with appropriate monitoring of the budget. The Group Leaders would therefore be responsible for monitoring and reviewing the strategy regularly together with approving the overall learning and development programme.

25. The Group Leaders would therefore have the responsibility to identify needs and appropriate training arising from for example, the introduction of new legislation and corporate governance issues. In addition, the Group Leaders would have responsibility for the monitoring of the suitability of the training provided and ensuring feedback from Members attending any external event to ensure that learning is shared within the Council.

RESOURCE IMPLICATIONS

Capital/Revenue

13. The proposals set out in the report will require an increase in the Members' Allowance Budget of £16,600.

Property/Other

- 14 N/A

LEGAL IMPLICATIONS

Statutory power to undertake proposals in the report:

15. S101 Local Government Act 1972 and S1 Localism Act 2011

Other Legal Implications:

16. N/A

POLICY FRAMEWORK IMPLICATIONS

17. N/A

KEY DECISION?

No

WARDS/COMMUNITIES AFFECTED:	None
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None

SUPPORTING DOCUMENTATION

Appendices

1.	None
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Documents In Members' Rooms

1.	None
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Equality Impact Assessment

Do the implications/subject of the report require an Equality Impact Assessment (EIA) to be carried out.	No
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Other Background Documents

Equality Impact Assessment and Other Background documents available for inspection at:

Title of Background Paper(s)

Relevant Paragraph of the Access to Information Procedure Rules / Schedule 12A allowing document to be Exempt/Confidential (if applicable)

1.	None	
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Agenda Item 13

DECISION-MAKER:	GOVERNANCE COMMITTEE COUNCIL			
SUBJECT:	TREASURY MANAGEMENT STRATEGY AND PRUDENTIAL LIMITS MID YEAR REVIEW			
DATE OF DECISION:	23 SEPTEMBER 2013 20 NOVEMBER 2013			
REPORT OF:	HEAD OF FINANCE AND IT (CHIEF FINANCIAL OFFICER)			
<u>CONTACT DETAILS</u>				
AUTHOR:	Name:	Alison Chard	Tel:	023 8083 4897
	E-mail:	Alison.Chard@southampton.gov.uk		
Director	Name:	Mark Heath	Tel:	023 8083 2371
	E-mail:	Mark.Heath@southampton.gov.uk		

STATEMENT OF CONFIDENTIALITY

There is a confidential appendix attached to this report, the confidentiality of which is based on Category 3 of paragraph 10.4 of the Council's Access to Information Procedure Rules. It is not in the public interest to disclose this because information relates to the financial affairs of the Authority.

BRIEF SUMMARY

The Council approved a number of indicators at its meeting of the 13 February 2013. Following the September update of the Capital Programme and an analysis of Treasury Management activity in 2012/13 and between April and August 2013, these indicators have been reviewed for 2013/14 and are reported in accordance with CIPFA's code of practice on Treasury Management, (the "CIPFA TM Code"), and in line with the approved Treasury Management Strategy (TMS).

The core elements of the 2013/14 strategy are :

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

pursue debt restructuring where appropriate and within the Council's risk boundaries.

RECOMMENDATIONS:

GOVERNANCE COMMITTEE

- i) To note the current and forecast position with regards to these indicators and endorse any changes.
- ii) To note that the continued proactive approach to Treasury Management (TM) has led to reductions in borrowing costs and safeguarded investment income during the year.
- iii) To note action taken in response to the down rating of the Authority's Bankers, (the Co-operative Bank), as set out in the Confidential Appendix to this report (Appendix 1).

COUNCIL

- i) To approve any changes to the Council's Prudential Indicators as detailed within the report.
- ii) Continue to delegate authority to the Chief Financial Officer, following consultation with the Cabinet Member for Resources to approve any changes to the Prudential Indicators or borrowing limits that will aid good treasury management. For example increase the percentage for variable rate borrowing to take advantage of the depressed market for short term rates. Any amendments will be reported as part of quarterly financial and performance monitoring and in revisions to this strategy.
- iii) To note that the continued proactive approach to Treasury Management (TM) has led to reductions in borrowing costs and safeguarded investment income.
- iv) To note Action taken in response to the down rating of the Authority's Bankers, (the Co-operative Bank), as set out in more detail in Confidential Appendix to this report (Appendix 1).

REASONS FOR REPORT RECOMMENDATIONS

1. The TM Code requires public sector authorities to determine an annual TM Strategy and now, as a minimum, formally report on their treasury activities and arrangements to full Council mid-year and after the year-end. These reports enable those tasked with implementing policies and undertaking transactions to demonstrate they have properly fulfilled their responsibilities, and enable those with ultimate responsibility/governance of the TM function to scrutinise and assess its effectiveness and compliance with policies and objectives.

ALTERNATIVE OPTIONS CONSIDERED AND REJECTED

2. No alternative options are relevant to this report

DETAIL (Including consultation carried out)

CONSULTATION

3. The capital programme update on which this report is based has been subject to its own consultation processes.

BACKGROUND

4. TM is a complex subject but in summary the core elements of the strategy for 2013/14 were:
 - To make use of short term variable rate debt to take advantage of the continuing market conditions of low interest rates.
 - 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 invest surplus funds prudently, the Council's priorities being:
 - Security of invested capital
 - Liquidity of invested capital
 - An optimum yield which is commensurate with security and liquidity.
 - To approve borrowing limits that provide for debt restructuring opportunities and to pursue debt restructuring where appropriate and within the Council's risk boundaries
5. In essence TM can always be seen in the context of the classic 'risk and reward' scenario and following this strategy will contribute to the Council's wider TM objective which is to minimise net borrowing cost short term without exposing the Council to undue risk either now or in the longer in the term.
6. Treasury management is defined as *"The management of the local authority'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."*
7. Overall responsibility for treasury management remains with the Council. No TM activity is without risk; the effective identification and management of risk are integral to the Council's treasury management objectives. The 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).
8. This report:
 - a) is prepared in accordance with the revised CIPFA Treasury Management Code and the revised Prudential Code,
 - b) presents details of capital financing, borrowing, debt rescheduling and investment transactions,

- c) reports on the risk implications of treasury decisions and transactions,
- d) gives details of treasury management transactions during 2013/14 to date, and
- e) confirms compliance with treasury limits and Prudential Indicators.

DEBT MANAGEMENT

9. Activity within the debt portfolio to date is summarised below:

	Balance on 01/04/2013	Debt Maturing or Repaid	New Borrowing	Balance as at 31/8/2013	Increase/ (Decrease) in Borrowing for Year	Average Life / Average Rate %	
	£M	£M	£M	£M	£M	Life	%
Short Term Borrowing	34	(28)	0	6	(28)	5 Months	0.41
Long Term Borrowing	276	(4)	0	272	(4)	23.3 Years	3.31
Total Borrowing	310	(32)	0	278	(32)		

Please note that these figures do not reflect the accounting convention of moving loans maturing in the year from long term to short term

	31-Mar-13 Actual	31-Mar-14 Approved	Current Portfolio	31-Mar-14 Current Estimate	31-Mar-15 Current Estimate	31-Mar-16 Current Estimate
	£M	£M	£M	£M	£M	£M
External Borrowing:						
Fixed Rate – PWLB Maturity	139	156	139	163	184	199
Fixed Rate – PWLB EIP	93	90	89	115	100	85
Variable Rate – PWLB	35	60	35	35	35	35
Variable Rate – Market	9	9	9	9	9	9
Long Term Borrowing	276	315	272	322	328	328
Short Term Borrowing						
Fixed Rate – Market	34	50	6	50	50	50
Other Long Term Liabilities						
PFI / Finance leases	57	62	57	61	66	63
Deferred Debt Charges	17	17	17	17	16	16
Total Gross External Debt	384	444	352	450	460	457
Investments:						
Deposits and monies on call and Money Market Funds	(66)	(50)	(72)	(50)	(50)	(50)
Supranational bonds	(3)	(3)	(3)	(3)	(3)	(3)
Total Investments	(69)	(53)	(75)	(53)	(53)	(53)
Net Borrowing Position	315	391	277	397	407	404

Public Works Loan Board (PWLB) Borrowing

10. The PWLB remains the Council's preferred source of long term borrowing given the transparency, flexibility and control it offers.

PWLB Certainty Rate

11. The Council successfully qualified for borrowing at the 'Certainty Rate', following the submission of the Certainty Rate form to Central Government, which included details of the capital expenditure and borrowing plans for the Council over the next three years. PWLB borrowing from 1 November 2012 has been available at a 20bps reduction from the standard. In April the Council submitted its application to the Department for Communities and Local Government's (CLG) along with the

2013/14 Capital Estimates Return to access this reduced rate for a further 12 month period from 1 November 2013.

Loans at Variable Rates

12. The loan portfolio contains £35M of PWLB variable rate loans which currently have an average rate of 0.57% which mitigate the impact of changes in variable rates on the Council's overall treasury portfolio (the Council's investments are deemed to be variable rate investments due to their shorter-term nature). The Council's variable rate loans were borrowed prior to 20 October 2010, (the date of change to the PWLB's lending arrangements post the Comprehensive Spending Review), and are maintained on their initial terms and are not subject to the additional increased margin. The uncertain interest rate outlook further supported the case for maintaining variable rate debt. As the economy still appeared susceptible to economic shocks, growth remained insipid and official interest rates were forecast to remain low for much longer, the Council determined that exposure to variable rates was warranted. It also made sense from an affordability and budgetary perspective in the short to medium term. Any upward move in interest rates and interest paid on variable rate debt would be 'hedged' by a corresponding increase in interest earned on the Council's variable rate investments.
13. The interest rate risk associated with the Council's strategic exposure is regularly reviewed with our Treasury Advisors against clear reference points, this being a narrowing in the gap between short and longer term interest rates by 0.5%. When appropriate this exposure will be reduced by replacing the variable rate loans with fixed rate loans.
14. In achieving interest rate savings, the Council has exposed itself to variable interest rate risk and whilst in the current climate of low interest rates this is obviously a sound strategy, at some point when the market starts to move the Council will need to act quickly to lock into fixed long term rates which may be at similar levels to the debt it has restructured.
15. It was therefore recommended in the February 2009 Treasury Management Strategy report to Full Council that an Interest Equalisation Reserve be created from the savings arising from the switch to lower rate variable interest rate debt, and maintained at a prudent level to help to manage increases in the future and ensure that there is minimal impact on annual budget decisions. However, it should be noted that the sum set aside in the Interest Equalisation Reserve is a one off sum of money to help manage the initial transitional period when the council will convert its variable rate loan portfolio to longer term fixed rate debt. The actual ongoing recurring revenue impact of switching to fixed rate long term debt will still need to be factored in to the budget forecasts for future years. Based on the current predictions of lower for longer interest rate forecasts, it is unlikely that this pressure will emerge in the short term, but it is likely to become a reality towards the back end of the Council's current medium term forecast horizon. The funds set aside in Interest Equalisation Reserve will be reviewed as part of the budget setting process for the 2014/15 budget.

Internal Borrowing

16. Given the significant cuts to local government funding putting pressure on Council finances, the strategy followed was to minimise debt interest payments without compromising the longer-term stability of the portfolio. The differential

between the cost of new longer-term debt (4.36% average rate for a 20 year PWLB fixed rate maturity) and the return generated on the Council's temporary investment returns was significant (3.55%).

17. As at the 31 March 2013 the Council used £52M of internal resources in lieu of borrowing which has been the most cost effective means of funding past capital expenditure to date. This has lowered overall treasury risk by reducing both external debt and temporary investments. However, this position will not be sustainable over the medium term and the Council will need to borrow to cover this amount as balances fall. Following the latest update of the Capital Programme, submitted to Council on 18 September 2013, the Council is expected to borrow £79M between 2013/14 and 2015/16. Of this £38M relates to new capital spend (£42M HRA; GF repay £4M) and the remainder to the refinancing of existing debt and externalising internal debt to cover the expected fall in balances and also the need to lock back into longer term debt prior to interest rises.
18. However due to the continued and increased uncertainty in the markets and the expectations of interest rates staying lower for longer it may be appropriate to maintain the council use of internal resources for part or all of this amount; providing that balances can support it. No long term borrowing has been taken to date and is none is expected to be taken until the second half of the year and will be assessed in conjunction with the Council's treasury advisor.

INVESTMENT ACTIVITY

19. Security of capital remained the Council's main investment objective. This was maintained by following the Council's counterparty policy as set out in its TM Strategy Statement for 2013/14. This has restricted new investments to the following institutions:
- Other Local Authorities;
 - AAA-rated Stable Net Asset Value Money Market Funds;
 - Call Accounts, Certificate of Deposits (CDs) and term deposits with UK Banks and Building Societies systemically important to the UK banking system.
 - Debt Management Office.
20. The table below summarises activity during the year:

	Balance on 01/04/2013	Investments Repaid	New Investments	Balance as at 31/8/2013	Increase/ (Decrease) in Investment for Year
	£M	£M	£M	£M	£M
Short Term Investments	26	(16)	15	25	(1)
Money Market Funds & Call Accounts	40	(204)	211	47	7
EIB Bonds	3	0	0	3	0
Long Term Investments	0	0	0	0	0
Total Investments	69	(220)	226	75	6

A break down of investments as at 31 August 2013 by credit rating and maturity profile can be seen in following table.

Current Rating	Initial Rating	Less than 1 Month £000's	1 - 3 Months £000's	3 - 6 Months £000's	6 - 9 Months £000's	9 - 12 Months £000's	Over 12 Months £000's	Total £000's
A	A	16,590	5,000	7,000	6,000	6,000		40,590
A+	A-	600						600
A+	A	5,330						5,330
A+	A+		1,000					1,000
A+	AA-	700						700
AA-	A+	50	0					50
AA-	AA-	19,808						19,808
AA-	AA	4,200						4,200
AA	AA-	140						140
AA+	AA+							0
AAA	AAA						3,036	3,036
		47,418	6,000	7,000	6,000	6,000	3,036	75,454

21. Counterparty credit quality is assessed and monitored with reference to: Credit Ratings (the Council's minimum long-term counterparty rating is A- (or equivalent) across rating agencies Fitch, S&P and Moody's); credit default swaps; GDP of the country in which the institution operates; the country's net debt as a percentage of GDP; sovereign support mechanisms /potential support from a well-resourced parent institution; share price.

Authority Banking Arrangements

22. As reported previously it is becoming more common for local authorities to bank with financial institutions that no longer meet their investment criteria (following downgrades of some banks credit rating). This is presently the case for the Council as current bank, the Co-Op, no longer meet our minimum credit rating of A-. It is a costly and complicated process to change bankers and we are under contract with the Co-operative Bank until October 2014. However following the recent down grading of the Co-operative Bank we have taken immediate action.
23. The action taken to date and other relevant issues are set out in the Confidential Appendix to this report (Appendix 1).

COMPLIANCE WITH PRUDENTIAL INDICATORS

24. All indicators to date complied with the Prudential Indicators approved by Council on 13 February 2013, item 100.

<http://www.southampton.gov.uk/modernGov/ieListDocuments.aspx?CIId=122&MIId=2322&Ver=4>

Details of the performance against key indicators and any proposed changes are shown below:

Capital Financing Requirement Gross and Actual External Debt

25. The Capital Financing Requirement (CFR) measures the Council's underlying need to borrow for a capital purpose. In order to ensure that over the medium term net borrowing will only be for a capital purpose, the Council ensures that net external borrowing does not, except in the short term, exceed the CFR in the preceding year, plus the estimates of any additional capital financing requirement for the current and next two financial years. It differs from actual borrowing due to

decisions taken to use internal balances and cash rather than borrow. The table below shows the actual position as at 31 March 2013 and the estimated position for the current and next two years based on the capital programme submitted to council on the 18 September 2013.

Capital Financing Requirement	2012/13 Actual £M	2013/14 Approved £M	2013/14 Forecast £M	2014/15 Revised Estimate £M	2015/16 Revised Estimate £M
Balance B/F	445	437	433	442	448
Capital expenditure financed from borrowing	11	14	30	23	8
Temporary Funding (Repayment)	(3)	(6)	(6)	(3)	0
HRA Debt	0	7	0	0	0
HRA Voluntary Repayment of Debt	(10)	0	(6)	(5)	(5)
Revenue provision for debt Redemption.	(8)	(13)	(6)	(6)	(7)
Movement in Other Long Term Liabilities	(2)	(2)	(3)	(3)	(3)
Cumulative Maximum External Borrowing Requirement	433	437	442	448	441

26. The Council reports that it has not borrowed in advance of need and that it has continued the use of internal resources in lieu of borrowing as this has been the most cost effective means of funding past capital expenditure to date. In the Prudential Code (November 2011), it states '*Where there is a significant difference between the net and gross borrowing position the risks and benefits associated with this strategy should be clearly stated in the annual strategy*'. The Council has had no difficulty in meeting this requirement so far in 2013/14, nor is there any difficulties envisaged for future years. This view takes into account current commitments, existing plans and the proposals in the approved budget.

	31/03/2013 Actual £M	31/03/2014 Approved £M	31/03/2014 Estimate £M	31/03/2015 Estimate £M	31/03/2016 Estimate £M
General Fund CFR	269	261	265	260	251
Housing CFR	164	176	177	188	190
CFR	433	437	442	448	441
Gross Long term Debt	350	394	400	410	407
Difference	83	43	42	38	34
Short Term Debt	34	50	50	50	50
Difference	49	(7)	(8)	(12)	(16)
Borrowing in excess of CFR? (Y/N)	N	Y	Y	Y	Y
Investments	(69)	(53)	(53)	(53)	(53)

*Please note that borrowing is only in excess of the CFR as it includes assumptions for short term borrowing for cash flow purposes.

Authorised Limit and Operational Boundary for External Debt

27. The Local Government Act 2003 requires the Council to set an Affordable Borrowing Limit, irrespective of their indebted status. This is a statutory limit which should not be breached. The Council's **Affordable / Authorised Borrowing Limit** was set at £898M for 2013/14 (£817M for borrowing and £81M for other long term liabilities).
28. The **Operational Boundary** is based on the same estimates as the Authorised Limit but reflects the most likely, prudent but not worst case scenario without the additional headroom included within the Authorised Limit. The Operational Boundary for 2013/14 was set at £857M (£779M for borrowing and £78M for other long term liabilities).
29. The above limits are set to allow maximum flexibility within TM, for example a full debt restructure. Actual borrowing as detailed in paragraph 9 is significantly below this and reflects decisions taken to use internal balances and cash rather than to physically borrow and shows the position at a point in time. No new borrowing is expected to take place until the second half of the financial year.
30. The Chief Financial Officer (CFO) confirms that there were no breaches to the Authorised Limit and the Operational Boundary and during the period to the end of August 2013, borrowing at its peak was £310M (other long term liabilities £74M) and there is no proposal to change these limits at this time.

Upper Limits for Fixed and Variable Interest Rate Exposure

31. These indicators allow the Council to manage the extent to which it is exposed to changes in interest rates. The upper limit for variable rate exposure allows for the use of variable rate debt to offset exposure to changes in short-term rates on our portfolio of investments.

	Limits for 2013/14
	%
Upper Limit for Fixed Rate Exposure	100
Compliance with Limits:	Yes
Upper Limit for Variable Rate Exposure	50
Compliance with Limits:	Yes

32. The Upper limit represents the maximum proportion of borrowing which is subject to variable rate interest and was set at 50%, although in practice it would be unusual for the exposure to exceed 25% based on past performance, the highest to date is 15.8%. The limit was set at a higher level to allow for a possible adverse cash flow position, leading to a need for increased borrowing on the temporary market and to take advantage of the low rates available through the PWLB for variable debt. There has been no adverse cash flow to date but it is proposed that the limit remain at 50%, to allow for flexibility in case of any slippage in expected capital receipts.

Total principal sums invested for periods longer than 364 days

33. This indicator allows the Council to manage the risk inherent in longer term

investments; the limit for 2013/14 was set at £50M. With the maximum maturity period for a number of banks being extended to 12 months, we reintroduced the rolling programme of yearly investments from November and currently have £20M invested at an average rate of 0.86%, although it should be noted that rates are falling and new deals are expected to be around 0.65% to 0.75%. Due to the falling rates enquires are being made via our Financial Advisors about the possibility of investing in Property funds for our core investments.

Maturity Structure of Fixed Rate Borrowing

34. 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.

	Lower Limit	Upper Limit	Actual Fixed Debt as at 31/8/2013	Average Fixed Rate as at 31/8/2013	% of Fixed Rate as at 31/8/2013	Compliance with set Limits?
	%	%	£M	%		
Under 12 months	0	45	7	0.95	3.15	Yes
12 months and within 24 months	0	45	0	0.00	0.00	Yes
24 months and within 5 years	0	50	0	0.00	0.00	Yes
5 years and within 10 years	0	75	88	3.23	37.56	Yes
10 years and within 15 years	0	75	0	0.00	0.00	Yes
15 years and within 20 years	0	75	0	0.00	0.00	Yes
20 years and within 25 years	0	75	0	0.00	0.00	Yes
25 years and within 30 years	0	75	5	4.65	2.14	Yes
30 years and within 35 years	0	75	10	4.65	4.27	Yes
35 years and within 40 years	0	75	42	3.99	17.93	Yes
40 years and within 45 years	0	75	51	3.62	21.61	Yes
45 years and within 50 years	0	75	31	3.56	13.34	Yes
50 years and above	0	100	0	0.00	0.00	Yes
			234	3.32	100.00	

Please note: the TM Code Guidance Notes (page 15) states: "The maturity of borrowing should be determined by reference to the earliest date on which the lender can require payment. If the lender has the right to increase the interest rate payable without limit, such as in a LOBO loan, this should be treated as a right to require payment".

For this indicator, the next option dates on the Council LOBO loans will therefore determine the maturity date of the loans.

Balances and Useable Reserves

35. Estimates of the Council's level of overall Balances and Useable Reserves for 2013/14 to 2015/16 are shown below. Forecasts for future years will be updated in light of development of both revenue and capital spending plans.

	2012/13 Actual	2013/14 Estimate	2014/15 Estimate	2015/16 Estimate
	£M	£M	£M	£M
Balances and Reserves	76	42	36	33

Credit Risk

36. The Council confirms it considers security, liquidity and yield, in that order, when making investment decisions. Credit ratings remain an important element of assessing credit risk, but they are not the sole feature in the Council's assessment of counterparty credit risk. The Council also considers alternative assessments of credit strength, and information on corporate developments of and market sentiment towards counterparties. The following key tools are used to assess credit risk:
- Published credit ratings of the financial institution (minimum A- or equivalent) and its sovereign (minimum AA+ or equivalent for non-UK sovereigns);
 - Sovereign support mechanisms;
 - Credit default swaps (where quoted);
 - Share prices (where available);
 - Economic fundamentals, such as a country's net debt as a percentage of its GDP);
 - Corporate developments, news, articles, markets sentiment and momentum;
 - Corporate developments, news, articles, markets sentiment and momentum.

The Council can confirm that all investments were made in line with minimum credit rating criteria set in the 2013/14 TMSS.

Housing Revenue Account (HRA) Limit on Indebtedness

37. Local authorities are required to report the level of the HRA CFR compared to the level of debt which was imposed by the CLG of self-financing at the time of implementation. The following tables show this plus the movement in year.

HRA Summary of Borrowing	2012/13 Actual £m	2013/14 Approved £m	2013/14 Estimate £m	2014/15 Estimate £m	2015/16 Estimate £m
Brought Forward	174.2	168.8	163.8	176.823	187.8
Maturing Debt	(10.4)	(5.6)	(5.6)	(5.1)	(5.1)
New borrowing	0	12.5	18.574	16.086	7.299
Carried forward	163.8	175.7	176.8	187.8	190.0
HRA Debt Cap (as prescribed by CLG)	199.6	199.6	199.6	199.6	199.6
Headroom	35.8	23.9	22.8	11.8	9.6

Ratio of Financing Costs to Net Revenue Stream

38. 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. The increase in the HRA financing costs is due to the reform of HRA of council housing finance which took effect from 28 March 2012. During 2012/13 the HRA made a voluntary debt repayment of £10.4M, which has led to an

increase in the financing ratio for the year. This will result in lower borrowing costs for future years. The upper limit for this ratio is currently set at 10% for the General Fund to allow for known borrowing decision in the next two years and to allow for additional borrowing affecting major schemes.

Ratio of Financing Costs to Net Revenue Stream	2012/13 Actual %	2013/14 Approved %	2013/14 Forecast %	2014/15 Approved %	2015/16 Approved %
General Fund	6.14%	6.78%	6.33%	6.97%	7.24%
HRA	24.95%	17.51%	17.16%	16.18%	15.57%
Total	12.06%	10.43%	10.01%	10.20%	10.54%

SUMMARY

39. In compliance with the requirements of the CIPFA Code of Practice this report provides members with a summary report of the treasury management activity up to the 31 August 2013. As indicated in this report none of the Prudential Indicators have been breached and a prudent approach has been taking in relation to investment activity with priority being given to security and liquidity over yield
40. In addition to the CIPFA's requirement to produce a mid and year end report, each quarter as part of corporate monitoring a summary of Treasury Management activity is prepared. This is presented to Cabinet as part of the Quarterly Revenue Financial Monitoring report where a further update on the Co-operative will be submitted.
41. For further information please see the following links:
Treasury Management Strategy Statement for 2013 on 13 February 2013, item 100.
<http://www.southampton.gov.uk/modernGov/ieListDocuments.aspx?CId=122&MId=2322&Ver=4>
Treasury Management Outturn Report on 17th July 2013, item 13.
<http://www.southampton.gov.uk/modernGov/ieListDocuments.aspx?CId=122&MId=2466&Ver=4>
Quarterly Revenue Financial Monitoring report, item 8 (Appendix 12)
<http://www.southampton.gov.uk/modernGov/ieListDocuments.aspx?CId=126&MId=2475&Ver=4>

RESOURCE IMPLICATIONS

Capital / Revenue

42. The Capital implications were considered as part of the Capital Update report submitted to Council on the 18 September 2013.
43. The revenue implications are considered as part of ongoing monitoring which is reported to Cabinet each Quarter and as part of the budget setting process.

Property/Other

44. None

LEGAL IMPLICATIONS

Statutory power to undertake proposals in the report:

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

46. None

POLICY FRAMEWORK IMPLICATIONS

47. This report has been prepared in accordance with the CIPFA Code of Practice on TM.

KEY DECISION? Yes/No

WARDS/COMMUNITIES AFFECTED:	
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SUPPORTING DOCUMENTATION

Appendices

1.	Confidential: Authority's Banking Arrangements
2.	Glossary of Treasury Terms

Documents In Members' Rooms

1.	None
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Equality Impact Assessment

Do the implications/subject of the report require an Equality Impact Assessment (EIA) to be carried out.	No
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Other Background Documents

Equality Impact Assessment and Other Background documents available for inspection at:

Title of Background Paper(s)

Relevant Paragraph of the Access to Information Procedure Rules / Schedule 12A allowing document to be Exempt/Confidential (if applicable)

1.	TREASURY MANAGEMENT STRATEGY AND PRUDENTIAL LIMITS 2013/14 to 2015/16 – Council 13 February 2013	
2.	REVIEW OF PRUDENTIAL LIMITS AND TREASURY MANAGEMENT OUTURN 2012/13 – Council 15 July 2013	
3.	QUARTERLY REVENUE FINANCIAL MONITORING REPORT– Cabinet 20 August 2013.	

Document is Confidential

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<p>Authorised Limit (Also known as the Affordable Limit):</p> <p>A statutory limit that sets the maximum level of external borrowing on a gross basis (i.e. not net of investments) for the Council. It is measured on a daily basis against all external borrowing items on the Balance Sheet (i.e. long and short term borrowing, overdrawn bank balances and long term liabilities).</p>
<p>Balances and Reserves:</p> <p>Accumulated sums that are maintained either earmarked for specific future costs or commitments or generally held to meet unforeseen or emergency expenditure.</p>
<p>Bank Rate:</p> <p>The official interest rate set by the Bank of England’s Monetary Policy Committee and what is generally termed at the “base rate”. This rate is also referred to as the ‘repo rate’.</p>
<p>Basis Point:</p> <p>A unit of measure used in finance to describe the percentage change in the value or rate of a financial instrument. One basis point is equivalent to 0.01% (1/100th of a percent). In most cases, it refers to changes in interest rates and bond yields. For example, if interest rates rise by 25 basis points, it means that rates have risen by 0.25% percentage points. If rates were at 2.50%, and rose by 0.25%, or 25 basis points, the new interest rate would be 2.75%. In the bond market, a basis point is used to refer to the yield that a bond pays to the investor. For example, if a bond yield moves from 5.45% to 5.65%, it is said to have risen by 20 basis points. The usage of the basis point measure is primarily used in respect to yields and interest rates, but it may also be used to refer to the percentage change in the value of an asset such as a stock.</p>
<p>Bond:</p> <p>A certificate of debt issued by a company, government, or other institution. The bond holder receives interest at a rate stated at the time of issue of the bond. The price of a bond may vary during its life.</p>
<p>Capital Expenditure:</p> <p>Expenditure on the acquisition, creation or enhancement of capital assets.</p>
<p>Capital Financing Requirement (CFR):</p> <p>The Council’s underlying need to borrow for capital purposes representing the cumulative capital expenditure of the local authority that has not been financed.</p>
<p>Capital Receipts:</p> <p>Money obtained on the sale of a capital asset.</p>
<p>CD’s:</p> <p>Certificates of Deposits with banks and building societies</p>
<p>Comprehensive Spending Review (CSR):</p> <p>Comprehensive Spending Review is a governmental process in the United Kingdom carried out by HM Treasury to set firm expenditure limits and, through public service agreements,</p>

define the key improvements that the public can expect from these resources. Spending Reviews typically focus upon one or several aspects of public spending while the CSR focuses upon each government department's spending requirements from a zero base (i.e. without reference to past plans or, initially, current expenditure).

Corporate Bonds:

Corporate bonds are bonds issued by companies. The term is often used to cover all bonds other than those issued by governments in their own currencies and includes issues by companies, supranational organisations and government agencies.

Cost of Carry:

The "cost of carry" is the difference between what is paid to borrow compared to the interest which could be earned. For example, if one takes out borrowing at 5% and invests the money at 1.5%, there is a cost of carry of 3.5%.

Counterparty List:

List of approved financial institutions with which the Council can place investments with.

CPI :

Consumer Price Index – the UK's main measure of inflation.

Credit Rating:

Formal opinion by a registered rating agency of a counterparty's future ability to meet its financial liabilities; these are opinions only and not guarantees.

Department for Communities and Local Government (DCLG) :

The DCLG is the UK Government department for Communities and Local Government in England. It was established in May 2006 and is the successor to the Office of the Deputy Prime Minister, established in 2001.

Debt Management Office (DMO):

The DMO is an Executive Agency of Her Majesty's Treasury and provides direct access for local authorities into a government deposit facility known as the **DMADF**. All deposits are guaranteed by HM Government and therefore have the equivalent of a sovereign triple-A credit rating.

Diversification /diversified exposure:

The spreading of investments among different types of assets or between markets in order to reduce risk.

Federal Reserve:

The US central bank. (Often referred to as "the Fed").

FTSE 100 Index:

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

company law. The index is maintained by the FTSE Group, a subsidiary of the London Stock Exchange Group.

General Fund:

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

Gilts:

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

Gross Domestic Product (GDP):

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

The G7:

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

IFRS:

International Financial Reporting Standards.

International Labour Organisation (ILO):

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

LIBID:

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

LIBOR:

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

banks with surplus amounts of money are keen to lend so that they can generate interest which it would not otherwise receive.

LOBO:

Stands for Lender Option Borrower Option. The underlying loan facility is typically very long-term - for example 40 to 60 years - and the interest rate is fixed. However, in the LOBO facility the lender has the option to call on the facilities at pre-determined future dates. On these call dates, the lender can propose or impose a new fixed rate for the remaining term of the facility and the borrower has the 'option' to either accept the new imposed fixed rate or repay the loan facility. The upshot of this is that on the option exercise date, the lender could propose an extreme fixed rate, say 20 per cent, which would effectively force the repayment of the underlying facility. The borrower's so called 'option' is only the inalienable right to accept or refuse a new deal such as a fixed rate of 20 per cent.

Maturity:

The date when an investment or borrowing is repaid.

Maturity Structure / Profile:

A table or graph showing the amount (or percentage) of debt or investments maturing over a time period. The amount or percent maturing could be shown on a year-by-year or quarter-by-quarter or month-by-month basis.

Minimum Revenue Provision (MRP):

An annual provision that the Council is statutorily required to set aside and charge to the Revenue Account for the repayment of debt associated with expenditure incurred on capital assets.

Money Market Funds (MMF):

Pooled funds which invest in a range of short term assets providing high credit quality and high liquidity.

Multilateral Development Banks:

See Supranational Bonds below.

Non Specified Investment:

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

Operational Boundary:

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

Premiums and Discounts:

In the context of local authority borrowing,

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

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

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

Prudential Code:

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

Prudential Indicators:

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

Public Works Loans Board (PWLB):

This is a statutory body operating within the United Kingdom Debt Management Office, an Executive Agency of HM Treasury. The PWLB's function is to lend money from the National Loans Fund to local authorities and other prescribed bodies, and to collect the repayments.

Quantitative Easing (QE):

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

Revenue Expenditure:

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

RPI:

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

(Short) Term Deposits:

Deposits of cash with terms attached relating to maturity and rate of return (Interest).
<p>Specified Investments:</p> <p>Term used in the CLG Guidance and Welsh Assembly Guidance for Local Authority Investments. Investments that offer high security and high liquidity, in sterling and for no more than one year. UK government, local authorities and bodies that have a high credit rating.</p>
<p>Supported Borrowing:</p> <p>Borrowing for which the costs are supported by the government or third party.</p>
<p>Supranational Bonds:</p> <p>Instruments issued by supranational organisations created by governments through international treaties (often called multilateral development banks). The bonds carry a AAA rating in their own right. Examples of supranational organisations are the European Investment Bank, the International Bank for Reconstruction and Development.</p>
<p>T-Bills:</p> <p>Treasury Bills are short term Government debt instruments and, just like temporary loans used by local authorities, are a means to manage cash flow. Treasury Bills (T-Bills) are issued by the Debt Management Office and are an eligible sovereign instrument, meaning that they have a AAA-rating.</p>
<p>Temporary Borrowing:</p> <p>Borrowing to cover peaks and troughs of cash flow, not to fund capital spending.</p>
<p>Treasury Management Code:</p> <p>CIPFA's Code of Practice for Treasury Management in the Public Services, initially brought in 2003, subsequently updated in 2009 and 2011.</p>
<p>Treasury Management Practices (TMP):</p> <p>Treasury Management Practices set out the manner in which the Council will seek to achieve its policies and objectives and prescribe how it will manage and control these activities.</p>
<p>Unsupported Borrowing:</p> <p>Borrowing which is self-financed by the local authority. This is also sometimes referred to as Prudential Borrowing.</p>
<p>Yield:</p> <p>The measure of the return on an investment instrument.</p>

Agenda Item 15

DECISION-MAKER:	GOVERNANCE COMMITTEE		
SUBJECT:	INTERNAL AUDIT PROGRESS REPORT – AUGUST 2013		
DATE OF DECISION:	23 SEPTEMBER 2013		
REPORT OF:	CHIEF INTERNAL AUDITOR		
<u>CONTACT DETAILS</u>			
AUTHOR:	Name:	Neil Pitman	Tel: 023 8083 4616
	E-mail:	Neil.pitman@southampton.gov.uk	
Director	Name:	Mark Heath	Tel: 023 8083 2371
	E-mail:	Mark.heath@southampton.gov.uk	

STATEMENT OF CONFIDENTIALITY

Appendices 2 and 3 to this report are to be treated as exempt pursuant to the Council's Access to Information Rules 10.4 categories 3 and 5 as they contain legally privileged advice from the Council's legal advisors and confidential information about the financial and business affairs of the Authority. The information within appendices 2 and 3 are not to be disclosed to anyone other than the named recipients of the paper without the author's consent and, in the case of legally privileged material, the consent of Head of Legal, HR and Democratic Services.

BRIEF SUMMARY

Under the Accounts and Audit (England) Regulations 2011, 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
- undertaking an adequate and effective internal audit of its accounting records and of its system of internal control in accordance with the proper practices in relation to internal control

In accordance with proper internal audit practices (Public Sector Internal Audit Standards), the Chief Internal Auditor is required to provide a written status report to the Governance 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; and
- 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

Appendix 1 summarises the activities of internal audit for the period to August 2013.

RECOMMENDATIONS:

- (i) to note the Internal Audit Progress report to the period August 2013 as attached Appendix 1

REASONS FOR REPORT RECOMMENDATIONS

- 1. In accordance with proper internal audit practices (Public Sector Internal Audit Standards), the Governance Committee is required to receive the Chief Internal Auditor's progress report.

ALTERNATIVE OPTIONS CONSIDERED AND REJECTED

- 2. None

DETAIL (Including consultation carried out)

- 3. The status report to the period August 2013 is attached for consideration in the Appendix 1.

RESOURCE IMPLICATIONS

Capital/Revenue

- 4. None

Property/Other

- 5. None

LEGAL IMPLICATIONS

Statutory power to undertake proposals in the report:

- 6. The Accounts and Audit (England) Regulations 2011 state 'a relevant body must undertake an adequate and effective 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:

- 7. None

POLICY FRAMEWORK IMPLICATIONS

- 8. None

KEY DECISION? No

WARDS/COMMUNITIES AFFECTED:

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SUPPORTING DOCUMENTATION

Appendices

1.	Internal Audit Progress Report – August 2013
2.	Confidential - Internal Audit Report – Non Residential Care Contributions
3.	Confidential – Briefing paper – Non Residential Care Contributions

Documents In Members’ Rooms

1.	None
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Equality Impact Assessment

Do the implications/subject of the report require an Equality Impact Assessment (EIA) to be carried out.	No
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Other Background Documents

Equality Impact Assessment and Other Background documents available for inspection at:

Title of Background Paper(s)

Relevant Paragraph of the Access to Information Procedure Rules / Schedule 12A allowing document to be Exempt/Confidential (if applicable)

1.	None	
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SUBJECT:	Internal Audit: Progress Report
MEETING:	Council's Management Team
DATE OF MEETING:	10 September 2013
REPORT OF:	Head of Southern Internal Audit Partnership
REPORT DATE:	August 2013

1 Opinion definitions

Opinion	Framework of governance, risk management and management control
Substantial assurance	A sound framework of internal control is in place and is operating effectively. No risks to the achievement of system objectives have been identified.
Adequate Assurance	Basically a sound framework of internal control with opportunities to improve controls and / or compliance with the control framework. No significant risks to the achievement of system objectives have been identified.
Limited assurance	Significant weakness identified in the framework of internal control and / or compliance with the control framework which could place the achievement of system objectives at risk.
No assurance	Fundamental weakness identified in the framework of internal control or the framework is ineffective or absent with significant risks to the achievement of system objectives.

2 Status of 'live' reports:

Audit title	Report date	Accountable Director	Audit Assurance		Management Actions (of which are 'high' priority)			
			Original	Current	Reported	Pending	Cleared	Overdue
Street Cleansing and Parks & Open Spaces	19/11/12	Economic Development & Environment	Adequate	Adequate	14 (0)	0 (0)	13 (0)	1 (0)
Heating Charges	17/12/12	Economic Development & Environment	Adequate	Adequate	6 (1)	0 (0)	4 (1)	2 (0)
Great Oaks School	21/12/12	People	Adequate	Adequate	15 (1)	0 (0)	11 (1)	4 (0)
Cash Collection & Banking	21/01/13	Corporate Services	Limited	Adequate	12 (5)	0 (0)	7 (5)	5 (0)
Sustainability (Use of Natural Resources / Carbon Reduction)	15/03/13	Economic Development & Environment	Limited	Adequate	11 (9)	0 (0)	9 (8)	2 (1)
Estate Regeneration	26/04/13	Economic Development & Environment	Adequate	Adequate	21 (16)	8 (5)	13 (11)	0 (0)
Development Management	26/04/13	Economic Development & Environment	Limited	Adequate	7 (4)	2 (0)	4 (3)	1 (1)
Locality Teams – Statutory Schools Work / Providers	29/04/13	People	Substantial	Substantial	2 (1)	1 (0)	0 (0)	1 (1)
Safeguarding	22/05/13	People	Limited	Adequate	26 (21)	0 (0)	22 (19)	4 (2)
Payroll	22/05/13	Corporate Services	Adequate	Adequate	7 (2)	0 (0)	5 (1)	2 (1)

Audit title	Report date	Accountable Director	Audit Assurance		Management Actions (of which are 'high' priority)			
			Original	Current	Reported	Pending	Cleared	Overdue
Council Tax & NNDR	07/06/13	Corporate Services	Substantial	Substantial	2 (0)	1 (0)	1 (0)	0 (0)
Quality Assurance	18/07/13	People	Adequate	Adequate	15 (9)	8 (7)	5 (2)	2 (0)
Code of Conduct Members & Officers)	26/07/13	Corporate Services	Adequate	Adequate	3 (1)	1 (0)	1 (1)	1 (0)
IT Infrastructure & Security	13/08/13	Corporate Services	Adequate	Adequate	3 (1)	3 (1)	0 (0)	0 (0)

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

Audit title: Non Residential Care Contributions
Original published audit opinion: No assurance
Current audit opinion: No assurance
Executive summary: Please see Appendix 1 & 2 attached

4 Internal Audit Performance

The internal audit service is measured against the following key performance targets:

Performance Targets – 31 July 2013		
	Target for Year (%)	Actual to Date (%)
% of revised plan delivered (including 2012/13 c/f)	95	27
Compliant with the Public Sector Internal Audit Standards 2013	Yes	Yes
% of positive customer responses to Quality Appraisal Questionnaire	90	98.7

5 Planning and Resourcing

The internal audit plan for 2013/14 was approved by the Council's Management Team and the Governance Committee in April 2013. The audit plan will remain fluid to ensure internal availability to react to the changing needs of the Council. Progress against the plan is detailed within section 7

6 Fraud and Irregularities

Within the year we have assessed and where appropriate, advised, investigated or supported the investigation of four allegations of fraud, corruption or improper practice. Of these:

- 2 were investigated which has resulted in disciplinary action
- 2 remain on-going.

7 Rolling work programme

Audit title	Audit Progress				
	TOR issued	Fieldwork commenced	Fieldwork complete	Draft report issued	Final report issued (proposed)
2013/14 Audit Plan (Including 12/13 c/f)					
Capital Programme Management	✓	✓	✓	✓	
Health and Safety	✓	✓	✓		
Contract Management	✓	✓	✓	✓	
Project management	✓	✓	✓	✓	
Accounts Receivable	✓	✓	✓	✓	
Portage	✓	✓	✓	✓	
Contribution & Charging	✓	✓	✓	✓	
Street Lighting PFI	✓	✓	✓	✓	
Partnership arrangements					
Workforce Management					

Audit title	Audit Progress				
	TOR issued	Fieldwork commenced	Fieldwork complete	Draft report issued	Final report issued (proposed)
Information Governance					
Human Resources	✓	✓	✓		
Procurement					
Gas Safety – Procurement	✓	✓	✓	✓	
Contract Management					
Corporate property strategy (and asset management plan)					
Health and Safety					
Volunteers					
Business Continuity & Emergency Planning					
Families Matter					
Annual Governance Statement	N/A	✓	✓	✓	03/07/2013
Precautions against fraud	✓	✓			

Audit title	Audit Progress				
	TOR issued	Fieldwork commenced	Fieldwork complete	Draft report issued	Final report issued (proposed)
National Fraud Initiative	N/A	✓			
Risk Management					
Effectiveness of the Role of Internal Audit	✓	✓	✓		
Housing rent collection					
Teachers Pensions - annual claim (TR17)	✓	✓	✓		
Employers Pensions (teachers and LGPS)	✓				
Income Collection and Transactions					
Accounts Payable					
Debt Management					
NNDR	✓				
Payroll					
Housing Benefits (including Council Tax Reduction Scheme)					

Audit title	Audit Progress				
	TOR issued	Fieldwork commenced	Fieldwork complete	Draft report issued	Final report issued (proposed)
Application support	✓				
Change control					
Capacity planning & management					
Inventory Management (not commenced in 12/13 – swapped with DR)	✓	✓			
Grants to voluntary organisations	✓	✓	✓	✓	
Across Schools Thematic Review 1 (payroll)					
Across school thematic review 2 (pupil absence management)					
Across school thematic review 2 (HR policy compliance)					
General school reviews – Bevois Town Primary School	✓				
General school reviews – Fairisle Infant & Nursery School	✓				
General school reviews – St Mary's C of E Primary School					
General school reviews – Sholing Technology College					

Audit title	Audit Progress				
	TOR issued	Fieldwork commenced	Fieldwork complete	Draft report issued	Final report issued (proposed)
SFVS	✓	✓	✓	N/A	N/A
School standards	✓	✓			
Integrated Assessment of need / Management, redesign and centralisation of support services - Data and Performance	✓				
Highways					
Itchen Bridge					
Parking Services	✓	✓	✓		
Housing Operation Transformation					
Neighbourhood wardens	✓	✓	✓		
Transformation of city services					
European Funding	✓	✓	✓	N/A	N/A
Delivery of statutory functions - Family Centres and children centres					
Delivery of statutory functions - designated officer role EDT/LADO					

Audit title	Audit Progress				
	TOR issued	Fieldwork commenced	Fieldwork complete	Draft report issued	Final report issued (proposed)
Think Local, Act Personal - (Personalisation - support planning)					
Appointeeships					
Joint Commissioning					
PARIS	✓	✓	Advice/Consultancy role		
Safeguarding					
Reablement	✓	✓	✓		
Telecare (careline)					
Kentish Road					
Public Health					
PUSH	✓	✓	✓	✓	25/06/2013
Grant Claims – BEEMS Claim 2	✓	✓	✓	N/A	N/A
Grant Claims – BEEMS Claim 3	✓				

Audit title	Audit Progress				
	TOR issued	Fieldwork commenced	Fieldwork complete	Draft report issued	Final report issued (<i>proposed</i>)
Southampton day Services – Freemantle Community Centre	✓	✓	✓		

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Agenda Item 16

DECISION-MAKER:	GOVERNANCE COMMITTEE		
SUBJECT:	EXTERNAL AUDIT – AUDIT RESULTS REPORT – ISA 260		
DATE OF DECISION:	23 SEPTEMBER 2013		
REPORT OF:	CHIEF INTERNAL AUDITOR		
<u>CONTACT DETAILS</u>			
AUTHOR:	Name:	Neil Pitman	Tel: 023 8083 4616
	E-mail:	Neil.pitman@southampton.gov.uk	
Director	Name:	Mark Heath	Tel: 023 8083 2371
	E-mail:	Mark.heath@southampton.gov.uk	

STATEMENT OF CONFIDENTIALITY

N/A

BRIEF SUMMARY

The Audit Commission's Code of Audit Practice (the Code) requires the Council's external auditors to report to 'those charges with governance' on the work carried out to discharge their statutory audit responsibilities together with any governance issues identified.

The 'Audit Results Report' summarises the findings from the 2012/13 audit which is substantially complete. It includes the messages arising from the audit of the Council's financial statements and the results of the work undertaken to assess the Council's arrangements to secure value for money in its use of resources.

RECOMMENDATIONS:

- (i) to note the external auditor's 'Audit Results Report' as attached Appendix 1.

REASONS FOR REPORT RECOMMENDATIONS

1. The Governance Committee's terms of reference require it to be satisfied that appropriate action is being taken on risk and internal control related issues identified by the external auditors. Specifically, the Committee has responsibility for oversight of the reports of external audit.

ALTERNATIVE OPTIONS CONSIDERED AND REJECTED

2. None

DETAIL (Including consultation carried out)

3. The report, as attached, has been discussed and agreed with the Chief Executive, Director of Corporate Services and Head of Finance and IT.

The following external audit report is attached for consideration in Appendix 1:

- Annual results report – ISA 260
4. The external auditor will be in attendance at the Governance Committee meeting to answer any questions.

RESOURCE IMPLICATIONS

Capital/Revenue

5. None

Property/Other

6. None

LEGAL IMPLICATIONS

Statutory power to undertake proposals in the report:

7. Local Government Act 1999

Other Legal Implications:

8. None

POLICY FRAMEWORK IMPLICATIONS

9. None

KEY DECISION? No

WARDS/COMMUNITIES AFFECTED:	
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SUPPORTING DOCUMENTATION

Appendices

1.	Annual results report – ISA 260
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Documents In Members’ Rooms

1.	None
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Equality Impact Assessment

Do the implications/subject of the report require an Equality Impact Assessment (EIA) to be carried out.	No
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Other Background Documents

Equality Impact Assessment and Other Background documents available for inspection at:

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

1.	None	
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Southampton City Council

Governance Committee Summary

For the year ended 31 March 2013

Audit results report – ISA 260

September 2013



Building a better
working world

Kate Handy, Director
KHandy@uk.ey.com

Mike Bowers, Manager
MBowers@uk.ey.com

Contents

- ▶ Executive Summary
- ▶ Extent and purpose of our work
- ▶ Addressing audit risk
- ▶ Financial statements audit – issues & findings
- ▶ Arrangements to secure economy, efficiency and effectiveness
- ▶ Independence and Audit Fees

Executive Summary

Key findings

■ Audit results and other key matters

The Audit Commission's Code of Audit Practice (the Code) requires us to report to 'those charged with governance' on the work we have carried out to discharge our statutory audit responsibilities together with any governance issues identified.

This report summarises the findings from the 2012/13 audit which is substantially complete. It includes the messages arising from our audit of your financial statements and the results of the work we have undertaken to assess your arrangements to secure value for money in your use of resources.

Financial Statements

- ▶ As of 23 September 2013, we expect to issue an unqualified opinion. Our audit demonstrates that the Council has prepared its financial statements well and this is reflected in the low number of issues to bring to your attention.

Value for Money

- ▶ We expect to conclude that you have made appropriate arrangements to secure economy, efficiency and effectiveness in your use of resources.

Whole of Government Accounts

- ▶ We expect to issue an unqualified confirmation to the National Audit Office (NAO) regarding the Whole of Government Accounts submission. (work to be completed)

Audit Certificate

- ▶ The audit certificate is issued to demonstrate that the full requirements of the Audit Commission's Code of Audit have been discharged for the relevant audit year. We expect to issue the audit certificate at the same time as the Audit Opinion.

Extent and purpose of our work

The Council's responsibilities

The Council is responsible for preparing and publishing its Statement of Accounts, accompanied by the Annual Governance Statement. In the Annual Governance Statement, the Council reports publicly on the extent to which it complies with its own code of governance, including how it has monitored and evaluated the effectiveness of its governance arrangements in the year, and on any planned changes in the coming period.

The Council is also responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Purpose of our work

Our audit was designed to:

- Express an opinion on the 2012/13 financial statements
- Report on any exception on the governance statement or other information included in the foreword
- As a component auditor for the purposes of WGA, follow the group instructions and send to the National Audit Office our group assurance certificate, audit results report and auditor's report on the consolidation schedule
- Consider and report any matters that prevent us being satisfied that the Council had put in place proper arrangements for securing economy, efficiency and effectiveness in the use of resources (the Value for Money conclusion)

This report contains our findings related to the areas of audit emphasis, our views on the Council's accounting policies and judgments and material internal control findings.

This report is intended solely for the information and use of the Council. It is not intended to be and should not be used by anyone other than this specified party.

Addressing audit risks

Significant Audit risks

We did not identify any significant risks for the audit. The following general audit risks were identified during the planning phase of our audit, and reported in our Audit Plan. Here, we set out how we have gained audit assurance over those issues.

Audit Risk identified within our Audit Plan	Audit Procedures performed	Assurance gained and issues arising
<p>Audit risks</p> <p>1. Risk of misstatement due to fraud and error</p> <p>Management has the primary responsibility to prevent and detect fraud. It is important that management, with the oversight of those charged with governance, has put in place a culture of ethical behaviour and a strong control environment that both deters and prevents fraud.</p> <p>Our responsibility is to plan and perform audits to obtain reasonable assurance about whether the financial statements as a whole are free of material misstatements whether caused by error or fraud. As auditors, we approach each engagement with a questioning mind that accepts the possibility that a material misstatement due to fraud could occur, and design the appropriate procedures to consider such risk.</p>	<p>Based on the requirements of auditing standards our approach focused on:</p> <ul style="list-style-type: none"> •Identifying fraud risks during the planning stages. •Inquiry of management about risks of fraud and the controls put in place to address those risks. •Understanding the oversight given by those charged with governance of management's processes over fraud. •Consideration of the effectiveness of management's controls designed to address the risk of fraud. •Determining an appropriate strategy to address those identified risks of fraud. •Performing mandatory procedures regardless of specifically identified fraud risks. <p>We considered the results of the National Fraud Initiative and may make reference to it in our reporting to you.</p>	<p>We have gained the expected level of assurance over the risks of fraud, the oversight exercised by those charged with governance, the internal control framework and the operation of controls designed to prevent and detect fraud or error.</p> <p>We have completed our mandatory tests of detail on the financial statements and concluded that the risk of material misstatement remains low. We have not identified any material errors or omissions in the financial statements.</p> <p>The Council has taken action in respect of a number of reported frauds related to housing and council tax benefits in 2012/13. No other instances of fraud has been reported to us.</p> <p>We have completed the Audit Commission's National Fraud Initiative survey which required an assessment of how much work had been performed on the NFI data. The Council were rated a amber risk due to the existence of high quality reports that had not been opened at the time of the survey.</p>

Financial Statements audit

Issues and errors arising from the audit

Progress of our audit

- Subject to receipt of your Letter of Representation and the completion of the audit, we propose to issue an unqualified audit report on the financial statements.
- We will provide an update of progress at the Governance Committee meeting

Uncorrected Errors

- Management identified that the New Deal for Communities creditor disclosed in the 2011/12 accounts included £556k which should have been classified as an Earmarked Revenue Reserve. A correction has been made as a prior period adjustment in the 2012/13 accounts. We believe that the sum involved is not sufficiently material to justify a prior period adjustment. Management have declined to reverse the amendment.

Corrected Errors

- My audit identified a limited number of minor numeric and typographical errors which my team have highlighted to management for amendment. All of these have been adjusted during the course of our work. We do not consider any of these to be significant and therefore we have not provided further details of these amendments.

Other Matters

- As required by ISA (UK&I) 260 and other ISAs specifying communication requirements, we are required to communicate to you significant findings from the audit and other matters that are significant to your oversight of the Council's financial reporting process including the following:
 - ▶ Qualitative aspects of your accounting practices;
 - ▶ Matters specifically required by other auditing standards to be communicated to those charged with governance. For example, issues about fraud, compliance with laws and regulations, external confirmations and related party transactions.
 - ▶ Other audit matters of governance interest

The working papers presented in support of your financial statements were of a high standard. We have no matters we wish to report.

Findings and issues

Internal Control, Written Representations & Whole of Government Accounts

Internal Control

It is the responsibility of the Council to develop and implement systems of internal financial control and to put in place proper arrangements to monitor their adequacy and effectiveness in practice. My responsibility as your auditor is to consider whether the Council has put adequate arrangements in place to satisfy itself that the systems of internal financial control are both adequate and effective in practice.

We have tested the controls of the Council only to the extent necessary for to complete the audit. We are not expressing an opinion on the overall effectiveness of internal control.

We have reviewed the Annual Governance Statement and can confirm that:

- ▶ it complies with the requirements of CIPFA/SOLACE Delivering Good Governance in Local Government Framework; and

- ▶ it is consistent with other information that we are aware of from our audit of the financial statements.

We have not identified any significant weaknesses in the design or operation of an internal control that might result in a material error in your financial statements of which you are not aware.

Request for written representations

We have requested a management representation letter to gain management's confirmation in relation to a number of matters, for which we do not currently have sufficient audit evidence.

In addition to the standard representations, we request that you also confirm:

- ▶ that the Council is satisfied that the information provided to the actuary in relation to the Hampshire Pension Fund, is accurate and appropriate;
- ▶ the reasons why management has decided not to amend the treatment of the 2011/12 error as a prior year adjustment. That the comparative amounts have been correctly restated and that an appropriate disclosure note has been added for the amendments in the current year's financial statements.

Whole of Government Accounts

Alongside our work on the financial statements, we also review and report to the National Audit Office on your Whole of Government Accounts return. The extent of our review and the nature of our report are specified by the National Audit Office.

We are currently concluding our work in this area and will report any matters that arise to the Governance Committee.

Arrangements to secure economy, efficiency and effectiveness

The Code of Audit Practice (2010) sets out our responsibility to satisfy ourselves that Southampton City Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. In examining the Council's corporate performance management and financial management arrangements, we have regard to the following criteria and focus specified by the Audit Commission.

Criteria 1 - Arrangements for securing financial resilience

- ▶ *“Whether the Council has robust systems and processes to manage financial risks and opportunities effectively, and to secure a stable financial position that enables it to continue to operate for the foreseeable future”*
- ▶ The Council has managed its financial performance during 2012/13, delivering savings totalling £13.6m and a surplus of £7.4m for the year. It has a clear view of the size of the financial challenge it faces. Budget savings to be delivered in 2013/14 total £16.5m. The published medium term financial plan predicts a budget gap of £19.3m in 2014/15, increasing by £17.4m to £36.7m in 2015/16. The projections take account of future changes in funding and the financial impact of new legislation.
- ▶ However, a recent review by a corporate peer challenge team concluded that while “there is an appetite from members and staff to make things better, there is limited clarity about how to change, and a lack of urgency”.
- ▶ The Council has identified savings, efficiencies and additional income to meet its budget gap in 2013/14. However, the peer challenge team recommended that you introduce a three year priority-led financial planning horizon.
- ▶ Therefore, while you have proper arrangements for securing financial resilience for the foreseeable future you need to take action to secure financial resilience over the medium term to longer term.
- ▶ The Council has responded positively to the peer review, holding meetings with the Cabinet before developing a three year financial plan.

Arrangements to secure economy, efficiency and effectiveness

The Code of Audit Practice (2010) sets out our responsibility to satisfy ourselves that Southampton City Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. In examining the Council's corporate performance management and financial management arrangements, we have regard to the following criteria and focus specified by the Audit Commission.

Criteria 2 - Arrangements for securing economy, efficiency and effectiveness

- ▶ *“Whether the Council is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.”*
- ▶ The Council monitors the performance of its services and continues to seek alternative ways of service delivery that meet users needs in an efficient and effective manner.
- ▶ Consultation has been held with users, partners and stakeholders to help shape the delivery of services that are relevant and effective.
- ▶ The Council continues to challenge itself, public and private sector partners on service performance and costs, for example through contract negotiations with Capita and by inviting the LGA to carry out a peer review.
- ▶ Nevertheless, the peer review team concluded that you need to “refocus your transformation programme so it is council wide and enables the organisation to deliver the Council Plan and medium term financial plan”.

Independence & Audit Fees

Independence

- ▶ We confirm there are no changes in our assessment of independence since our confirmation in our Audit Plan dated 28 June 2013.
- ▶ We complied with the Ethical Standards for Auditors and the requirements of the Audit Commission's Code and Standing Guidance and in our professional judgement the firm is independent and the objectivity of the audit engagement partner and audit staff has not been compromised within the meaning of regulatory and professional requirements.
- ▶ We confirm that we are not aware of any relationships that may affect the independence and objectivity of the firm that we are required by auditing and ethical standards to report to you.
- ▶ We consider that our independence in this context is a matter that should be reviewed by both you and ourselves. It is therefore important that you consider the facts of which you are aware and come to a view. If you wish to discuss any matters concerning our independence, we will be pleased to do so at the forthcoming meeting of the Governance Committee on 23 September 2013.
- ▶ We confirm that we have met the reporting requirements to the Governance Committee, as 'those charged with governance' under International Standards on Auditing (ISA) 260. Our communication plan to meet these requirements were set out in our Audit Plan of 28 June 2013.

Audit fees

The table below sets out the scale fee and our final proposed audit fees.

	Proposed final fee 2012/13	Scale fee 2012/13	Variation comments
	£s	£s	£s
Total Audit Fee - Code work	189,620	189,216	414
Certification of claims and returns	32,950	32,950	-
Non-Audit work	n/a	n/a	-

- ▶ Our actual fee is in line with the agreed fee at this point in time, subject to the satisfactory clearance of the outstanding audit work. The additional £414 fees relate to correspondence from an elector.
- ▶ We confirm that we have not undertaken any non-audit work outside of the Audit Commission's Audit Code requirements.

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In March 2010 the Audit Commission issued a revised version of the 'Statement of responsibilities of auditors and audited bodies' (Statement of responsibilities). It is available from the Chief Executive of each audited body and via the [Audit Commission's website](#).

The Statement of responsibilities serves as the formal terms of engagement between the Audit Commission's appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.

The Standing Guidance serves as our terms of appointment as auditors appointed by the Audit Commission. The Standing Guidance sets out additional requirements that auditors must comply with, over and above those set out in the Code of Audit Practice 2010 (the Code) and statute, and covers matters of practice and procedure which are of a recurring nature.

This Audit Results Report is prepared in the context of the Statement of responsibilities. It is addressed to the Members of the audited body, and is prepared for their sole use. We, as appointed auditor, take no responsibility to any third party.

Our Complaints Procedure – If at any time you would like to discuss with us how our service to you could be improved, or if you are dissatisfied with the service you are receiving, you may take the issue up with your usual partner or director contact. If you prefer an alternative route, please contact Steve Varley, our Managing Partner, 1 More London Place, London, SE1 2AF. We undertake to look into any complaint carefully and promptly and to do all we can to explain the position to you. Should you remain dissatisfied with any aspect of our service, you may of course take matters up with our professional institute. We can provide further information on how you may contact our professional institute.



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