

# Governance Committee

Monday, 6th June, 2016  
at 5.00 pm

## PLEASE NOTE TIME OF MEETING

Conference Room 3 - Civic Centre

This meeting is open to the public

### Members of the Committee

Councillor Barnes-Andrews (Chair)  
Councillor Inglis  
Councillor Jordan  
Councillor Noon  
Councillor O'Neill  
Councillor Keogh  
Councillor Parnell

### 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.

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

### **Public Representations**

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

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

- .Jobs for local people
- Prevention and early intervention
- Protecting vulnerable people
- Affordable housing
- Services for all
- City pride
- A sustainable Council

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

**Mobile Telephones:-** Please switch your mobile telephones to silent whilst in the meeting

**Use of Social Media:-** The Council supports the video or audio recording of meetings open to the public, for either live or subsequent broadcast. However, if, in the Chair's opinion, a person filming or recording a meeting or taking photographs is interrupting proceedings or causing a disturbance, under the Council's Standing Orders the person can be ordered to stop their activity, or to leave the meeting. By entering the meeting room you are consenting to being recorded and to the use of those images and recordings for broadcasting and or/training purposes. The meeting may be recorded by the press or members of the public.

Any person or organisation filming, recording or broadcasting any meeting of the Council is responsible for any claims or other liability resulting from them doing so.

Details of the Council's Guidance on the recording of meetings is available on the Council's website.

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

#### **Dates of Meetings: Municipal Year 2016/17**

<b>2016</b>	<b>2017</b>
6 June	13 February
25 July	24 April
14 November	
12 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](#)

### **Rules of Procedure**

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

### **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.

## **DISCLOSURE OF INTERESTS**

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

### **DISCLOSABLE PECUNIARY INTERESTS**

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

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

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

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

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

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

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

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

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

## **Other Interests**

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

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

Any public authority or body exercising functions of a public nature

Any body directed to charitable purposes

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

## **Principles of Decision Making**

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

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

In exercising discretion, the decision maker must:

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

## AGENDA

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

### **1 APOLOGIES**

To receive any apologies.

### **2 ELECTION OF VICE CHAIR**

To elect Vice Chair for the Municipal Year 2016/2017.

### **3 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.

### **4 STATEMENT FROM THE CHAIR**

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

To approve and sign as a correct record the Minutes of the meeting held on 25<sup>th</sup> April 2016 and to deal with any matters arising, attached.

### **6 FREEDOM OF INFORMATION, DATA PROTECTION AND REGULATION OF INVESTIGATORY POWERS ACTS: ANNUAL REVIEW 2015-16 (Pages 3 - 16)**

Report of the Service Director Legal and Governance detailing statistical information for the financial year 2015-16, the eleventh year of implementation of the Freedom of Information Act 2000 (FOIA) and associated legislation. The report also details statistical information on requests received under the Data Protection Act 1998 (DPA) and the Council's activity under the Regulation of Investigatory Powers Act 2000 (RIPA).

### **7 CHIEF INTERNAL AUDITOR ANNUAL REPORT & OPINION 2015 - 2016 (Pages 17 - 32)**

Report of the Chief Internal Auditor's detailing the Annual Report and Opinion for 2015 - 2016 on assurances in respect of the governance, control and risk environment within the Council.

### **8 REVIEW OF PRUDENTIAL LIMITS AND TREASURY MANAGEMENT OUTTURN 2015/16 (Pages 33 - 68)**

Report of the Council's S151 Officer detailing Treasury Management activities and performance for 2015/16 against the approved Prudential Indicators for External Debt and Treasury Management.

**9 FINANCIAL STATEMENTS 2015/16** (Pages 69 - 80)

Report of the Council's S151 Officer setting out the draft unaudited Financial Statements for 2015/16 for consideration and sign off.

**10 ANNUAL GOVERNANCE STATEMENT 2015 - 16** (Pages 81 - 100)

Report of the Service Director Strategic Finance & Commercialisation seeking to review the draft Annual Governance Statement 2015-16 and to note the status of the 2014-15 Action Plan

Thursday, 26 May 2016

Service Director, Legal and Governance

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## GOVERNANCE COMMITTEE

### MINUTES OF THE MEETING HELD ON 25 APRIL 2016

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Present: Councillors Barnes-Andrews (Chair), Daunt, Inglis, Jordan and Noon

Apologies: Councillors Keogh

35. **STATEMENT FROM THE CHAIR**

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

**RESOLVED:** that the minutes of the meeting held on 8<sup>th</sup> February 2016 be approved and signed as a correct record.

37. **ANNUAL REVIEW OF THE CONSTITUTION**

The Committee considered the report of the Service Director Legal and Governance detailing the annual review of the Constitution. The Committee noted that proposed changes included revisions to the Officer Scheme of Delegation, the addition of a Council Procedure Rule in relation to Honorary Alderman, minor practical revisions to the Civic and Ceremonial Protocol and an addition to the Access to Information Procedure Rules.

**RESOLVED** that the proposed changes be recommended to Council for adoption.

38. **CODE OF CORPORATE GOVERNANCE - ANNUAL REVIEW**

The Committee considered the report of the Service Director Legal and Governance detailing the Code of Corporate Governance setting out the commitment of Southampton City Council to continue to uphold the highest possible standards of good governance.

**RESOLVED**

- (i) that the updated Code of Corporate Governance be approved; and
- (ii) the Committee receive a further report following the publication of the updated CIPFA guidance.

39. **INTERNAL AUDIT PROGRESS REPORT (MARCH 2016)**

The Committee received and noted the report of the Chief Internal Auditor detailing the Internal Audit Progress Report for the period to March 2016 and the summary of activities as detailed in the appendix to the report. The Committee also noted that those activities that were outstanding had now been completed.

40. **INTERNAL AUDIT PLAN 2016-17**

The Committee considered the report of the Chief Internal Auditor detailing the proposed Internal Audit Plan for 2016-17. The Committee noted the plan would remain fluid and subject to ongoing review and amendment following consultation with the relevant Service Directors and Audit Sponsors to ensure it continued to reflect the needs of the Council.

**RESOLVED** that the Internal Audit Plan for 2016-17 as detailed in the appendix to the report be approved.

41. **INTERNAL AUDIT CHARTER 2016-17**

The Committee considered the report of the Chief Internal Auditor detailing the Internal Audit Charter 2016-17. The Committee noted that the internal audit charter was a formal document that defined internal audits purpose, authority and responsibility.

**RESOLVED** that the Internal Audit Charter 2016-17 as detailed in the appendix to the report be approved.

42. **EXTERNAL AUDIT PLAN YEAR ENDING 31 MARCH 2016**

The Committee received and noted the report of the Chief Internal Auditor detailing the External Audit Plan for the year ending 31<sup>st</sup> March 2016. The Committee noted that the plan summarised the external auditor's initial assessment of the key risks driving the development of an effective audit for the Council and outlined their planned audit strategy in response to those risks.

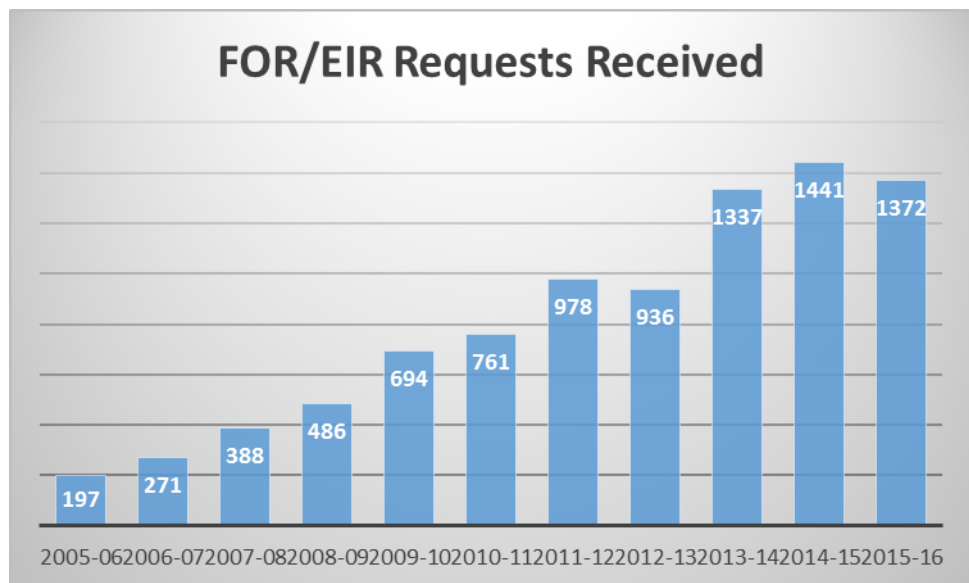


# Agenda Item 6

<b>DECISION-MAKER:</b>	GOVERNANCE COMMITTEE		
<b>SUBJECT:</b>	FREEDOM OF INFORMATION, DATA PROTECTION AND REGULATION OF INVESTIGATORY POWERS ACTS: ANNUAL REVIEW 2015-16		
<b>DATE OF DECISION:</b>	6 <sup>th</sup> JUNE 2016		
<b>REPORT OF:</b>	SERVICE DIRECTOR-LEGAL & GOVERNANCE		
<b><u>CONTACT DETAILS</u></b>			
<b>AUTHOR:</b>	<b>Name:</b>	Tracy Horspool	<b>Tel:</b> 023 8083 2027
	<b>E-mail:</b>	Tracy.horspool@southampton.gov.uk	
<b>Director</b>	<b>Name:</b>	RICHARD IVORY	<b>Tel:</b> 023 8083 2794
	<b>E-mail:</b>	richard.ivory@southampton.gov.uk	
<b>STATEMENT OF CONFIDENTIALITY</b>			
None			
<b>BRIEF SUMMARY</b>			
A report detailing statistical information for the financial year 2015-16, the eleventh year of implementation of the Freedom of Information Act 2000 (FOIA) and associated legislation. This report also details statistical information on requests received under the Data Protection Act 1998 (DPA) and the Council's activity under the Regulation of Investigatory Powers Act 2000 (RIPA).			
<b>RECOMMENDATIONS:</b>			
	To note and comment on the update of the statistical information for the year 1 <sup>st</sup> April 2015 – 31 <sup>st</sup> March 2016 relating to:		
	a. FOIA and associated legislation;		
	b. DPA 1998;		
	c. RIPA 2000;		
<b>REASONS FOR REPORT RECOMMENDATIONS</b>			
1.	To keep members informed as to the impact of the legislation to the Council and to detail the form and type of requests received in 2015-16, the eleventh full year of FOIA implementation.		
2.	To keep members informed as to the type of DPA requests received and the Council's activity under the RIPA.		
3	To ensure that members continue to be aware of the Council's statutory obligations under FOIA and associated legislation, DPA and RIPA.		
<b>ALTERNATIVE OPTIONS CONSIDERED AND REJECTED</b>			
4	The alternative to bringing this report before members is to not report the yearly analysis. This was rejected because it is considered to be good governance to report such matters to members, provides an audit trail to demonstrate to the Information Commissioner that the Council has robust structure in place to comply with the legislation, and to maintain the profile of information law requirements and resource implication within the organisation.		

**DETAIL (Including consultation carried out)**

5	This report will be published on the Council’s website.
	<b>FOIA</b>
6	The FOIA came fully into force on 1 <sup>st</sup> January 2005, marking a major enhancement to the accessibility of information held by public authorities.
7	Running parallel to the FOIA regime is the Environmental Information Regulations (EIRs) that give a separate right to request environmental information from public authorities, the DPA which gives an individual the right to access their own personal data and the Re-Use of Public Sector Information Regulations (RUPSIRs) which allow a requester to re-use (under licence) information provided to them by a public authority.
8	Under the FOIA and associated legislation, anybody may request information from a public authority with functions in England, Wales and/or Northern Ireland. Subject to exemptions, the FOIA confers two statutory rights on applicants: <ul style="list-style-type: none"> <li>i. The right to be told whether or not the public authority holds that information; and</li> <li>ii. The right to have that information communicated to them</li> </ul>
9	There are two types of exemptions that may apply to requests for information – absolute and qualified.
10	Information that falls into a particular exemption category, for example, information relating to commercial interests, will have to be disclosed unless it can successfully be argued that the public interest in withholding it is greater than the public interest in releasing it. Such exemptions are known as qualified exemptions.
11	Where information falls within the terms of an absolute exemption, for example, information reasonably accessible by other means or information contained in court records, a public authority may withhold the information without considering any public interest arguments.
12	The Council has now experienced the eleventh full year of the FOIA and statistics show a slight decrease in the number of information (FOI/EIR) requests received



The number has decreased from 1441 for the year ending March 2015 to 1372 for the year ending March 2016.

The directorate breakdown of the requests is as follows:

2015-16	FOI			EIR		
	Rec'd	Resp %	Days	Rec'd	%	Days
Corporate	454	87.9	14.2	1	100.0	19.0
People	502	89.6	12.4	0	n/a	n/a
Place	387	91.5	13.1	6	50.0	25.8
Transformation	12	75.0	17.5	0	n/a	n/a
<b>Total</b>	<b>1355</b>	<b>89.5</b>	<b>13.2</b>	<b>7</b>	<b>57.1</b>	<b>24.0</b>

13 To summarise, the Council has received a total of 1372 requests between 1<sup>st</sup> April 2014 and 31<sup>st</sup> March 2015. This comprises 1355 dealt with as FOI requests and 7 EIR requests. This figure also includes 10 requests not allocated to a directorate, as it was not clear from the request which service area held the information, and clarification from the requester was not received.

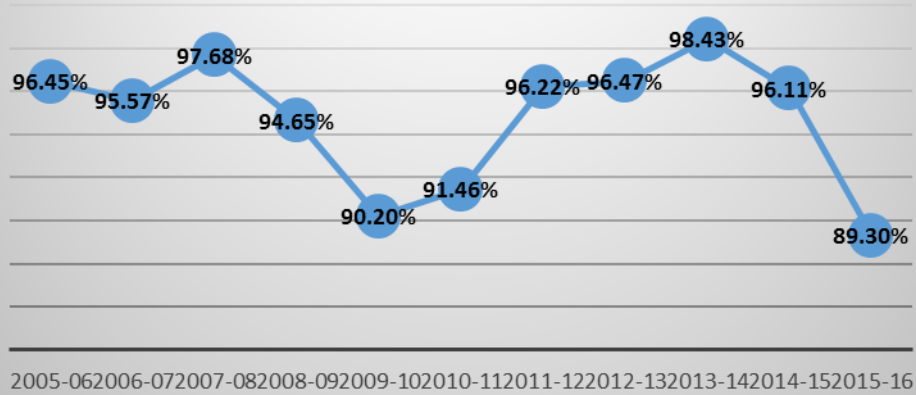
14 2015/16 has seen an overall decrease in the volume of requests received in comparison to previous years. The average number of requests received per month was 114, compared with 120 last year.

The reason for this decrease is unclear. During 2015/16, Corporate Legal worked with service areas who receive a large number of similar requests in an effort to proactively publish the information requested. Examples include public funeral data, and details on FOI requests themselves. It is also thought that improvements to the Council's website, and its search function has made information easier to locate, reducing the number of written requests.

It should be noted, however, that other Councils were approached during the year, and many had also recorded a decrease in the number of requests received over the previous year.

15 During the year, 89.3% of all monitored FOI and EIR requests (excluding those 'on hold' or lapsed) were dealt with within the statutory deadline of 20 working days. This is a significant decrease on last year, and is the lowest recorded by the Council in the history of the FOIA.

### % FOI/EIR answered within 20 working days



This decrease coincided with the implementation of Business Support, who have taken on the role of co-ordinating and responding to FOI and EIR requests.

Compliance rates have been affected by the implementation of a new system for processing requests through the Council by Business Support Officers, many of whom had not had previous experience of processing information requests.

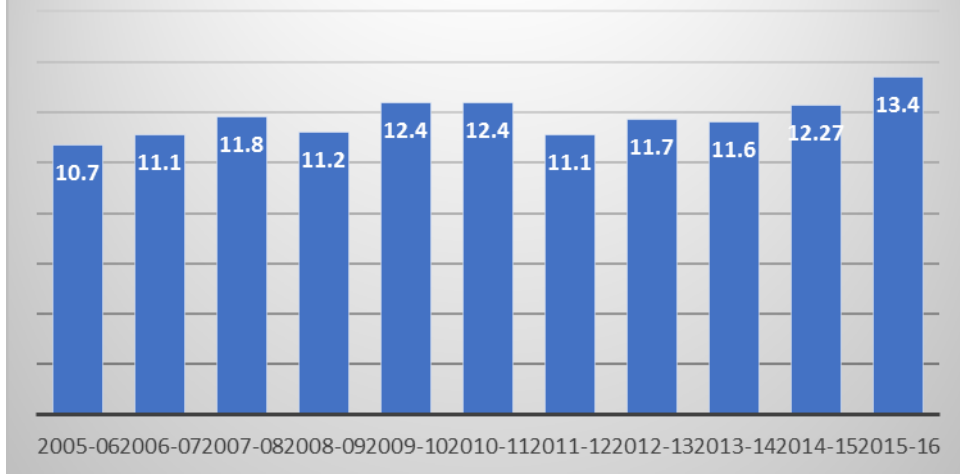
It is hoped that now Business Support has now taken on this role for a year, an improvement in compliance will be seen in 2016/17. It should also be noted that – while this change in the Council’s compliance is disappointing overall given previous excellent performance, the Information Commissioner’s Office stated during their recent audit that it considered the Council’s compliance rates to exceed minimum expectations for a Local Authority, as they generally consider 85% to be an acceptable compliance rate.

The complexity of requests have remained similar to 2014/15, with the average number of pieces of information sought per request dropping slightly from 7.5 in 2014/15 to 6.8 in 2015/16.

16 The overall response time remains good, with the Council responding to requests within 13.4 days on average.

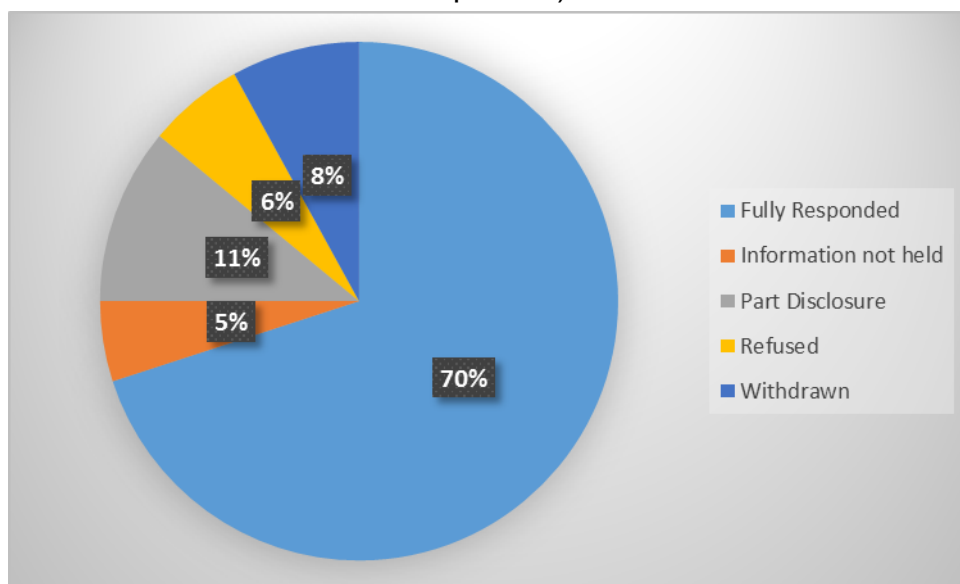
Whilst this is again a slight increase on last year (and the highest average recorded), it still represents an excellent turnaround, in light of the changes to the FOI process implemented by the Council this year.

### Average Days Taken to Respond



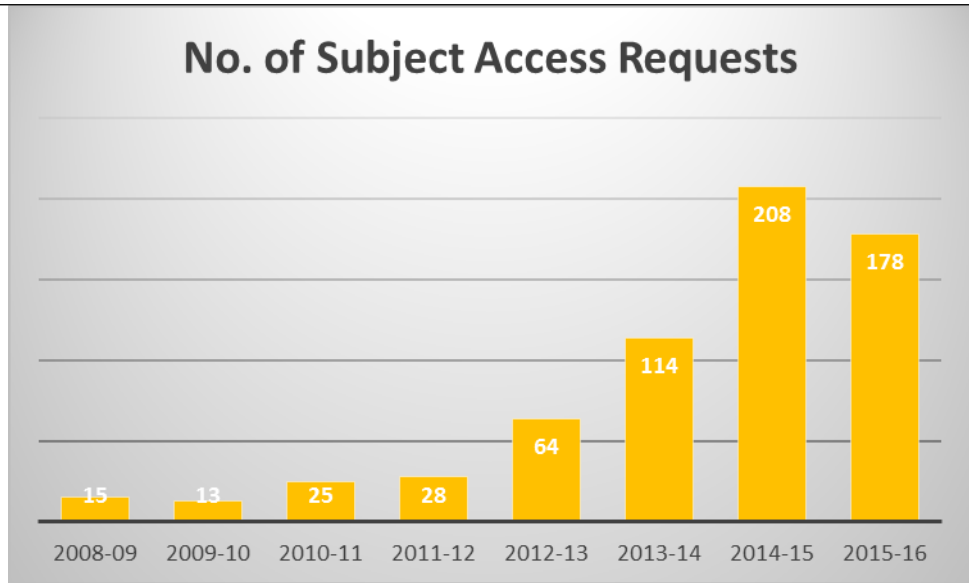
17 The complexity and detail of requests has increased again this year. Under FOIA, where the cost of responding to the request will exceed the Freedom of Information and Data Protection (Appropriate Limit and Fees) Regulations 2004 (which is currently set at £450 for local authorities), the Council may refuse to comply with it. For 2015/16, the Council issued 73 Refusal Notices on fees grounds, which represents an increase, with 54 being issued last year.

18 Of all requests received during the year, 70% of information requested was disclosed in full. Of the remaining requests, 5% of information was not held by the Council, 11% were partly responded to by the Council (i.e. some parts of the request were subject to an exemption), and 6% were completely refused as information was withheld because a fees notice was issued or it was exempt (e.g. requests for personal information such as individual/contact details or confidential/commercially sensitive contract or financial information). The remaining 8% of the requests were withdrawn or lapsed (the requester did not respond to a request for clarification after 3 months had passed).

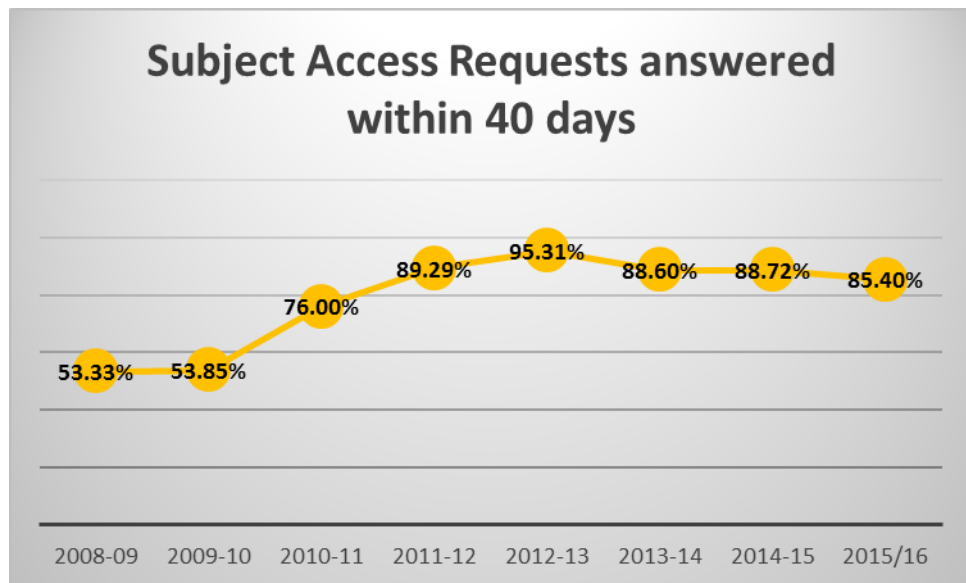


19	Of the 1266 requests responded to (106 were withdrawn, or are still on hold), 228 were deemed to be covered by absolute exemptions and accordingly some or all of the requested information was withheld
20	Of the 1266 requests responded to, 43 requests were considered by the Public Interest Test Panel as they were deemed to be covered by one or more qualified exemptions.
21	17 individuals requested internal reviews regarding decisions made to withhold, partially withhold information requested, or where they were generally unhappy with how their request was handled.
22	<p>There has only been two occasions where an appeal was made to the ICO as a result of the Council's decision in respect of their internal review.</p> <p>One of these was in respect of a late FOI response, as the Council had failed to provide the information requested within the statutory timeframe, and the other involved the Council's decision to withhold commercially sensitive information.</p> <p>The ICO upheld the Council's decision with regard to the latter, although the requester appealed the ICO's decision to the Information Tribunal, who upheld the requester's appeal.</p>
23	As with all years, types of requests have been varied and covered every service area of the Council, including budget, HR, council tax data, highways maintenance and social services.
24	For the period covered in this report, 53% of requests came from private citizens, 10% came from the media, 21% from companies/businesses. The remaining 16% came from a combination of charities, students, researchers, lobby groups, MP's / Councillors and other Councils etc.
25	<p>Previously, members requested information as to how much time and resources each directorate spends on dealing with requests. We do not record this information. Previous years (2011/12) have shown that it took us approximately 2 hours to respond to each request. However, current research from Parliamentary post-legislative scrutiny of the Act indicates "the best-performing local authorities took between one and six hours for each request". We can estimate that our time spend on requests is comparable to this, and using the £25 per hour rate that the Act allows us to charge for staff time when refusing requests, we can estimate that each request costs the Council between £25 and £150 to respond on average.</p> <p>Due to the use of a case management system, Corporate Legal are able to detail how much time it takes to log, monitor, and give advice on requests. For 2015/16, the average time taken per request was 1.75 hours. Most requests take less than half an hour to action within the Corporate Legal Team but, where detailed exemptions and redactions are needed, this can push time taken on a single request up to around 13 hours for very complex cases. The average therefor predominantly represents the time taken for detailed application of legal tests to requests where the Council seeks to withhold certain information from release.</p> <p>It should be stressed that this figure does not include the time taken for Business Support or the service areas to locate, collate, and send out the information requested and the Council does not have a mechanism for capturing that resource cost (which comprises the bulk of any cost to the Council).</p>

26	<p>In the Corporate Legal team there is only 1 FTE member of staff dedicated to providing advice and monitoring compliance with information law. We have added a Modern Apprentice post to the Corporate Legal Team, to assist in the administration of information law matters, but this is a “trainee” post, and requires considerable support and training alongside their contribution to workloads and is supported by day release to college during term time. Other members of staff and an innovative intern scheme with local and regional universities support this function when their capacity allows it.</p>
27	<p>Other members of staff who are involved in the FOI process are the Information Governance Co-Ordinators (Team Leaders within Business Support Services), who are responsible for managing information compliance within their respective Directorates, as well as being a single point of contact for providing advice and guidance at a “local” level.</p> <p>However, they are not wholly dedicated to information compliance as their roles within the Council are to support business generally</p>
28	<p><b>Data Protection Act</b></p> <p>The Data Protection Act 1998 (DPA) gives individuals the right to know what information is held about them and provides a framework to ensure that personal information is handled properly.</p>
29	<p>Under the DPA, an individual is entitled to access personal data, held by an organisation, of which that individual is the data subject. Such requests for information are known as subject access requests.</p>
30	<p>For the year 2015/16, the Council received 178 subject access requests compared with 208 last year. A proportion of these were dealt under the corporate procedures, but requests relating to closed social services (Adult Services and Children Services and Learning requests) were processed by the Customer Relations Team, with support from the Corporate Legal Team where appropriate.</p>



31 85.40% of the Subject Access Requests were responded within the statutory timescales of 40 calendar days compared with 88.72% last year.



The directorate breakdown is as follows:

2014-15	SAR		
	Rec'd	%	Av. Days Taken
Corporate	21	100.0	20.4
People	139	82.7	24.1
Place	6	100	5
Transformation	0	n/a	n/a
<b>Total</b>	<b>166</b>	<b>85.4</b>	<b>24.5</b>

A further 12 requests were not allocated to a directorate, as it was not clear from the request which service area held the information, and clarification from the requester

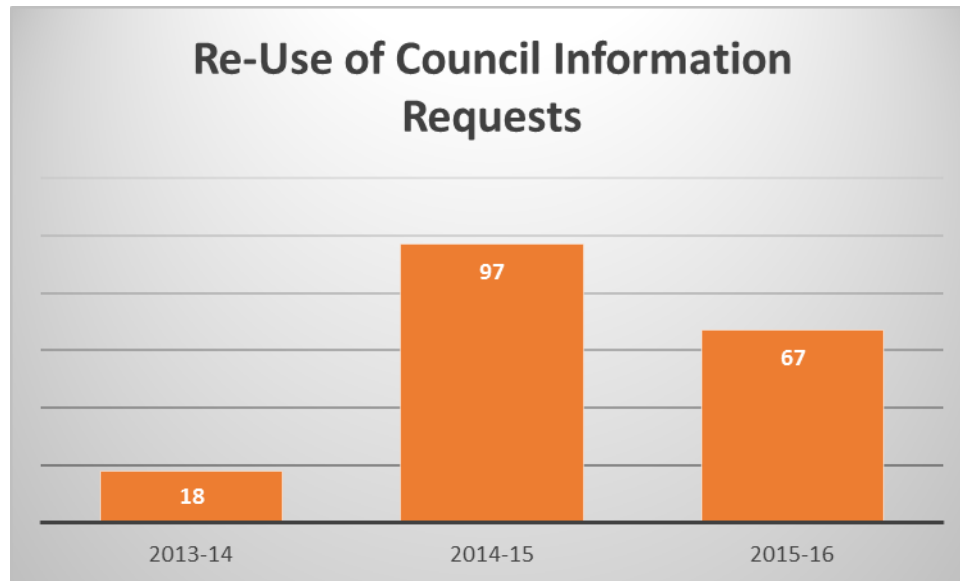


	was not received.																		
32	3 individuals requested internal reviews regarding decisions made to withhold, partially withhold information requested, or where they were generally unhappy with how their request was handled.																		
33	There was only one occasion where the ICO contacted the Council in light of data protection concerns they had about how personal information was handled.																		
34	In the year 2015/16, the Council reported one instance of personal information disclosed in error to the Information Commissioner.																		
35	Sometimes there is a requirement to disclose personal data which might otherwise be in breach of the Act. Where an exemption from the non-disclosure provisions applies, such disclosure is not in breach of the Act. Examples of exemptions include section 29 (the crime and taxation exemption) and section 35 (disclosures required by law or made in connection with legal proceedings). Such requests are typically made to the Council by regulatory authorities such as the police, the Department of Work and Pensions and so on as part of their investigations																		
36	<p>For the year 2015/16 the Council received 928 requests for data from such third party organisations compared to 536 in the previous year..</p> <p>This is a steep increase from last year, but this can be attributed to increased staff awareness of the need to submit such requests to Corporate Legal for logging and approval before disclosing the information requested.</p> <div data-bbox="438 1068 1404 1648" data-label="Figure"> <table border="1"> <caption>No. of Third Party Requests Received</caption> <thead> <tr> <th>Year</th> <th>Number of Requests</th> </tr> </thead> <tbody> <tr> <td>2008-09</td> <td>366</td> </tr> <tr> <td>2009-10</td> <td>248</td> </tr> <tr> <td>2010-11</td> <td>275</td> </tr> <tr> <td>2011-12</td> <td>273</td> </tr> <tr> <td>2012-13</td> <td>332</td> </tr> <tr> <td>2013-14</td> <td>349</td> </tr> <tr> <td>2014-15</td> <td>536</td> </tr> <tr> <td>2015-16</td> <td>928</td> </tr> </tbody> </table> </div> <p>In addition to these requests, the CCTV control room (City Watch) and Licensing Team received 811 and 220 third party requests respectively (the majority of the Licensing requests were for footage from the internal Taxi Cameras).</p> <p>These requests are regulated by information sharing agreements, which removes the requirement to have each one authorised by Corporate Legal.</p>	Year	Number of Requests	2008-09	366	2009-10	248	2010-11	275	2011-12	273	2012-13	332	2013-14	349	2014-15	536	2015-16	928
Year	Number of Requests																		
2008-09	366																		
2009-10	248																		
2010-11	275																		
2011-12	273																		
2012-13	332																		
2013-14	349																		
2014-15	536																		
2015-16	928																		
37	In addition to requests for information from external organisations, Corporate Legal also																		

monitor and authorise requests from internal departments to re-use personal information already held by the Council.

Such requests are commonly made where personal information is necessary when taking enforcement action, performing a statutory function, or improving the efficiency of Council services.

In 2015/16, 67 requests were processed, with Council Tax being the most common source of information (73% of requests), and CCTV being the next (13%).



38

**ICO Audit**

In January 2016 auditors from the ICO visited the Council. The ICO visited the Council and acted as a “critical friend” to audit the Council’s data protection practices. A team of 3 auditors conducted 47 interviews with staff as well as conducting a ‘walkaround’ of the Civic building and the Sea City stores. They also visited the SDC records store at Northam. The auditors looked at three areas of the Council’s choosing of compliance across the Council, these being: Governance; Records Management and Data Sharing.

39

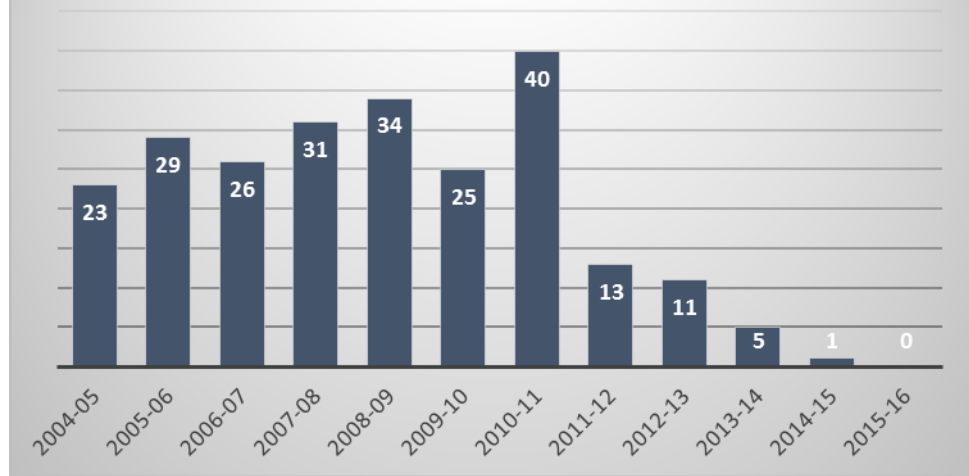
A ‘limited assurance’ rating was given for both Governance and Records Management and a ‘reasonable assurance’ rating given for Data Sharing. Overall, this means a rating of limited assurance. A straw poll of local authorities audited by the ICO in the last year indicates that this is the most common form of assurance rating. A significant amount of work was carried out pre-audit by the teams supporting the IG framework, to move the council to this rating from a standing position of ‘no assurance’. However, this level of work is unsustainable. Over 621 hours in Corporate Legal (equating to a cost of £37,083.84) was expended in preparing for and supporting the Audit including a complete review of many of the Council’s policies, practices and training. These resources were diverted from other essential services and planned priorities that must now be prioritised alongside the ICO audit report and action plan.

40

The report does not identify anything of any great surprise to us. The ICO made recommendations in the form of an Action Plan. The Council has 6 months in which to

	implement those recommendations. The ICO will test the Council's compliance at the 6 month deadline.
41	IG weaknesses in the Council's structure and compliance have been reported to CMT. Although the audit recommendations themselves are in the main, relatively minor, they do have significant resource implications for areas already stretched. In short, the report recommends that we need designated officers performing IG roles and we need to commit permanent resources to this. We also need to improve training rate compliance; make sure staff know, understand and comply with the council's IG policies; have senior oversight for records management, information assets and information sharing and embed effective records management and risk management within our everyday practices.
42	Previous reports to CMT have already identified the need to strengthen the Council's information governance structure. CMT approved the adoption of the Information Asset Owner (IAO) and Administrator (IAA) structure in the Q2 IG report. This structure of accountability and compliance will form the basis of the Council's new IG framework and is recommended by the ICO. The auditors also endorse the proposal to separate out the role of Corporate SIRO and Data Protection Officer (both currently performed by the Service Director: Legal & Governance) and to embed the DPO (an IG link officer) within the structure to provide an operational link between the strategic and operation divisions and to ensure that strategy and policy is replicated in actual compliance on the operational side of the organisation. At this time the Senior Legal Assistant (Information), as the only staff member within the Council wholly dedicated to information compliance matters, has been designated as the operational Data Protection Officer in the absence of new resources to support the function.
43	<b>RIPA</b>  Under RIPA, the Council as a public authority is permitted to carry out directed surveillance, the use of covert human intelligence sources and obtain communications data if it is both necessary for the purpose of preventing or detecting crime and/or disorder and the proposed form and manner of the activity is proportionate to the alleged offence.
44	There were no authorisations made under RIPA in 2015/16, a decrease on last year's 1 authorisation.

### RIPA Authorisations



As previously reported, the Protection of Freedoms Act 2012 is now in force, and this makes it a requirement for judicial approval for surveillance activities through application to the Magistrate Courts, therefore imposing a higher threshold for use. As such, there has been a significant decrease in applications made by the Council.

45

Examples of activity authorised in previous years include covert surveillance of a victim’s home to detect acts of criminality, directed surveillance of individuals who were involved in fraudulent activities and a Covert Human Intelligence Source (“CHIS”) was used to form an online relationship with a suspect to make a test purchase of suspected counterfeit goods.

46

The Council is required to formally appoint a ‘Senior Responsible Officer’ for RIPA. The Service Director; Legal & Governance is the officer who undertakes this role. The Senior Responsible Officer has responsibility for maintaining the central record of authorisations; the integrity of the RIPA process within his authority; compliance with the Act and Codes of Practice; oversight of the reporting of errors to the Surveillance Commissioner; engagement with Inspectors from the Office of Surveillance Inspectors and implementation of any subsequent action plan.

47

Training for Council officers involved in RIPA processes is undertaken by annually and is delivered by the Corporate Legal Team. Our documentation, procedures and training are also used as ‘best practice’ by a number of other Local Authorities and we regularly conduct training activities for partner authorities on request.

48

The Office of Surveillance Commissioners carried out a review of Southampton City Council’s management of covert activities in 2013. In his report, Chief Surveillance Inspector, Sir Christopher Rose noted:

“Your regularly updated RIPA training, the engaged and conscientious approach of your staff, your very good policy documentation, your internal oversight regime and your good overall compliance standards are commendable”.

The Council was visited again in May 2016 and we are currently awaiting the inspection report.

<b>RESOURCE IMPLICATIONS</b>	
<b><u>Capital/Revenue</u></b>	
49	None directly related to this report. The administration of information law within the authority is managed within corporate overheads, but the continuing upward trend in the number of requests received is increasing pressure on finite resources for maintaining compliance with these statutory processes which is starting to be reflected in compliance rates.
<b><u>Property/Other</u></b>	
50	None directly related to this report..
<b>LEGAL IMPLICATIONS</b>	
<b><u>Statutory power to undertake proposals in the report:</u></b>	
51	The statutory obligations relating to information law are detailed in the body of this report.
<b><u>Other Legal Implications:</u></b>	
52	None directly related to this report.
<b>POLICY FRAMEWORK IMPLICATIONS</b>	
53	The information contained in this report is consistent with and not contrary to the Council's Policy Framework.
<b>KEY DECISION?</b>	No
<b>WARDS/COMMUNITIES AFFECTED:</b>	n/a
<b><u>SUPPORTING DOCUMENTATION</u></b>	
<b>Appendices</b>	
1.	None
<b>Documents In Members' Rooms</b>	
1.	None
<b>Equality Impact Assessment</b>	
Do the implications/subject of the report require an Equality Impact Assessment (EIA) to be carried out.	No
<b>Privacy Impact Assessment</b>	
Do the implications/subject of the report require a Privacy Impact Assessment (PIA) to be carried out.	No
<b>Other Background Documents</b>	
<b>Equality Impact Assessment and Other Background documents available for inspection at:</b>	

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

# Agenda Item 7

<b>DECISION-MAKER:</b>		<b>GOVERNANCE COMMITTEE</b>	
<b>SUBJECT:</b>		<b>CHIEF INTERNAL AUDITOR – ANNUAL REPORT &amp; OPINION 2015-16</b>	
<b>DATE OF DECISION:</b>		<b>06 JUNE 2016</b>	
<b>REPORT OF:</b>		<b>CHIEF INTERNAL AUDITOR</b>	
<b><u>CONTACT DETAILS</u></b>			
<b>AUTHOR:</b>	<b>Name:</b>	<b>Neil Pitman</b>	<b>Tel:</b> <b>01962 845139</b>
	<b>E-mail:</b>	<b>neil.pitman@hants.gov.uk</b>	
<b>Director</b>	<b>Name:</b>	<b>Mel Creighton</b>	<b>Tel:</b> <b>023 80834897</b>
	<b>E-mail:</b>	<b>Mel.creighton@southampton.gov.uk</b>	
<b>STATEMENT OF CONFIDENTIALITY</b>			
None			
<b>BRIEF SUMMARY</b>			
<p>In accordance with proper internal audit practices, the Chief Internal Auditor is required to provide an opinion on the adequacy and effectiveness of the Council's framework of risk management, internal control and governance.</p> <p>The attached report (Appendix 1) provides the Chief Internal Auditor's opinion and summarises audit work from which that opinion has been derived for the year ending 31 March 2016.</p> <p>The report concludes that Southampton City Council's framework of governance, risk management and control is 'Adequate'.</p> <p>Where weaknesses have been identified through internal audit review, we have worked with management to agree appropriate corrective actions and a timescale for improvement.</p>			
<b>RECOMMENDATIONS:</b>			
	(i)	That the Governance Committee approves the Chief Internal Auditor Annual Report & Opinion 2015-16	
<b>REASONS FOR REPORT RECOMMENDATIONS</b>			
1.	In accordance with proper internal audit practices (Public Sector Internal Audit Standards) and the Internal Audit Charter, the Governance Committee is required to receive the Chief Internal Auditor's Annual Report & Opinion 15-16.		
<b>ALTERNATIVE OPTIONS CONSIDERED AND REJECTED</b>			
2.	None		
<b>DETAIL (Including consultation carried out)</b>			
3.	The Chief Internal Auditor's Annual Report & Opinion has been circulated and approved by the Council's Management Team		

<b>RESOURCE IMPLICATIONS</b>		
<b><u>Capital/Revenue</u></b>		
4.	None	
<b><u>Property/Other</u></b>		
5.	None	
<b>LEGAL IMPLICATIONS</b>		
<b><u>Statutory power to undertake proposals in the report:</u></b>		
6.	The Accounts and Audit (England) Regulations 2015 state 'a relevant body must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance'.	
<b><u>Other Legal Implications:</u></b>		
7.	None	
<b>POLICY FRAMEWORK IMPLICATIONS</b>		
8.	None	
<b>KEY DECISION?</b>		No
<b>WARDS/COMMUNITIES AFFECTED:</b>		
<b><u>SUPPORTING DOCUMENTATION</u></b>		
<b>Appendices</b>		
1.	Chief Internal Auditor Annual Report & Opinion 2015-16	
<b>Documents In Members' Rooms</b>		
1.	None	
<b>Equality Impact Assessment</b>		
Do the implications/subject of the report require an Equality and Safety Impact Assessments (ESIA) to be carried out.		No
<b>Privacy Impact Assessment</b>		
Do the implications/subject of the report require a Privacy Impact Assessment (PIA) to be carried out.		No
<b>Other Background Documents</b>		
<b>Equality Impact Assessment and Other Background documents available for inspection at:</b>		
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	



# Annual Internal Audit Report & Opinion

2015 - 16

Southampton City Council



## Southern Internal Audit Partnership

Assurance through excellence  
and innovation

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## 1. Role of Internal Audit

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

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

The standards for ‘proper practices’ in relation to internal audit are laid down in the Public Sector Internal Audit Standards 2013 [the Standards].

The role of internal audit is best summarised through its definition within the Standards, as an:

***‘Independent, objective assurance and consulting activity designed to add value and improve an organisations operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes’.***

The Council is responsible for establishing and maintaining appropriate risk management processes, control systems, accounting records and governance arrangements. Internal audit plays a vital role in advising the Council that these arrangements are in place and operating effectively.

The Council’s response to internal audit activity should lead to the strengthening of the control environment and, therefore, contribute to the achievement of the organisations objectives.

## 2. Internal Audit Approach

To enable effective outcomes, internal audit provide a combination of assurance and consulting activities. Assurance work involves assessing how well the systems and processes are designed and working, with consulting activities available to help to improve those systems and processes where necessary.

A full range of internal audit services is provided in forming the annual opinion.

The approach to each review is determined by the Head of the Southern Internal Audit Partnership and will depend on the:

- level of assurance required;
- significance of the objectives under review to the organisations success;
- risks inherent in the achievement of objectives; and
- level of confidence required that controls are well designed and operating as intended.

All formal internal audit assignments will result in a published report. The primary purpose of the audit report is to provide an independent and objective opinion to the Council on the framework of internal control, risk management and governance in operation and to stimulate improvement.



### 3. Internal Audit Opinion

The Head of the Southern Internal Audit Partnership is responsible for the delivery of an annual audit opinion and report that can be used by the Council to inform its governance statement. The annual opinion concludes on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control.

In giving this opinion, assurance can never be absolute and therefore, only reasonable assurance can be provided that there are no major weaknesses in the processes reviewed. In assessing the level of assurance to be given, I have based my opinion on:

- written reports on all internal audit work completed during the course of the year (assurance & consultancy);
- results of any follow up exercises undertaken in respect of previous years' internal audit work;
- the results of work of other review bodies where appropriate;
- the extent of resources available to deliver the internal audit work;
- the quality and performance of the internal audit service and the extent of compliance with the Standards; and
- the proportion of Southampton City Council's audit need that has been covered within the period.

#### Audit Opinion

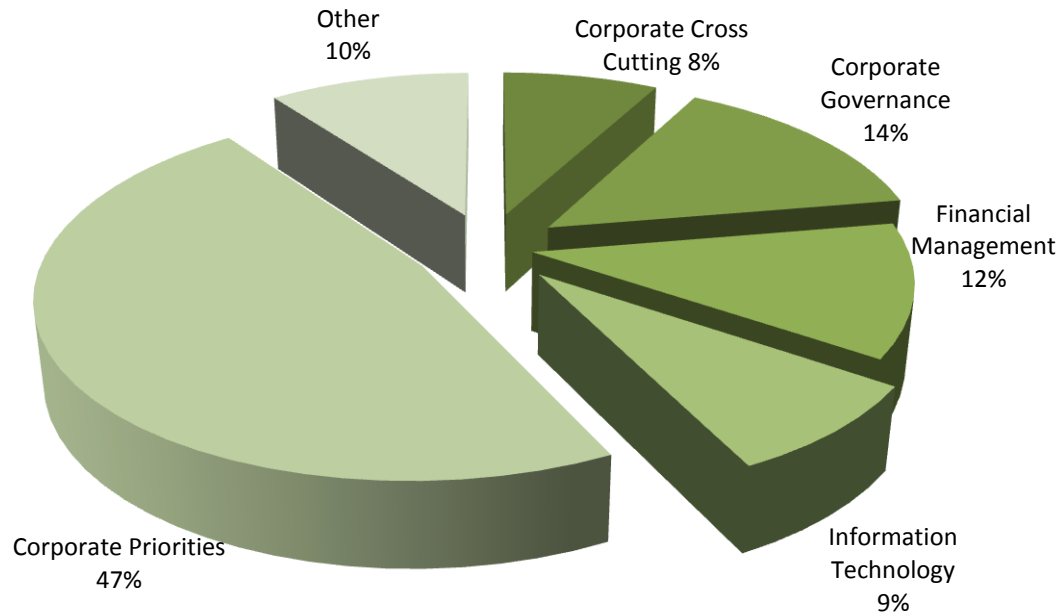
I am satisfied that sufficient assurance work has been carried out to allow me to form a reasonable conclusion on the adequacy and effectiveness of Southampton City Council's internal control environment.

In my opinion, Southampton City Council's framework of governance, risk management and management control is 'Adequate' and audit testing has demonstrated controls to be working in practice.

Where weaknesses have been identified through internal audit review, we have worked with management to agree appropriate corrective actions and a timescale for improvement.

#### 4. Internal Audit Coverage and Output

The annual internal audit plan was prepared to take account of the characteristics and relative risks of the Council’s activities and to support the preparation of the Annual Governance Statement.



Work has been planned and performed so as to obtain sufficient information and explanation considered necessary in order to provide evidence to give reasonable assurance that the internal control system is operating effectively.

The 2015-16 Internal audit plan, approved by the Governance Committee, 27 April 2015, was informed by internal audits own assessment of risk and materiality in addition to consultation with management to ensure it aligned to key risks facing the organisation.

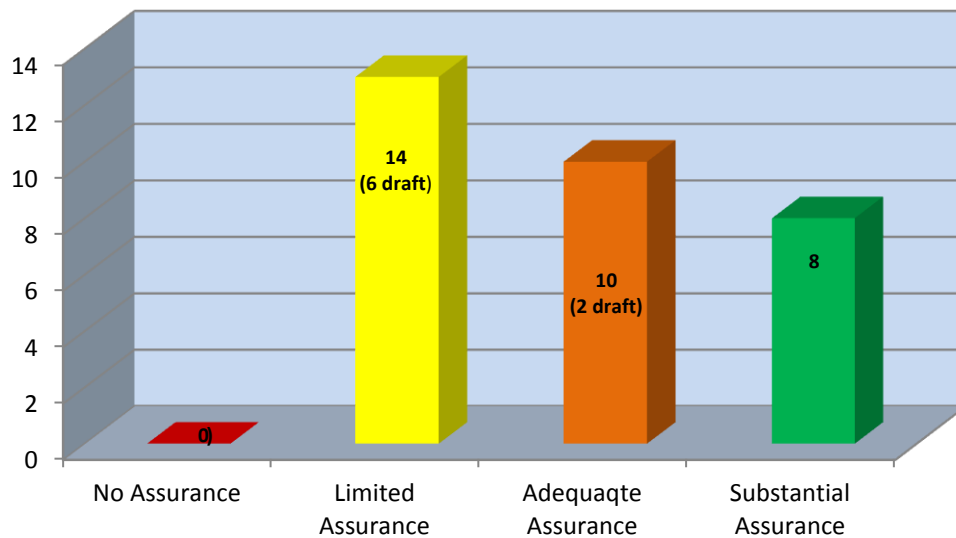
The plan has remained fluid throughout the year to maintain an effective focus.

The Southern Internal Audit Partnership provided assurance across 50 review areas over the course of the year ending 31 March 2016.

The revised 2015-16 internal audit plan has been delivered with the following exceptions:

- Work is substantially complete and an opinion has been formed for 11 reviews, however, final reports have not yet been agreed with management;
- Fieldwork remains in progress in respect of 5 reviews (Transformation, Protection & Court Teams (PACT), ICU Domiciliary Care Procurement, Family Matters – Governance, and one ongoing irregularity review)

I do not consider these exceptions to have an adverse impact on the delivery of my overall opinion for the period. The opinion assigned to each internal audit review on issue (including draft reports) is defined as follows:



**Substantial** - A sound framework of internal control is in place and operating effectively. No risks to the achievement of system objectives have been identified;

**Adequate** - 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** - Significant weakness (es) identified in the framework of internal control and / or compliance with the control framework which could place the achievement of system objectives at risk; or

**No** - Fundamental weaknesses identified in the framework of internal control or the framework is ineffective or absent with significant risk to the achievement of system objectives

\*13 reviews did not culminate in an audit opinion as they relate to work conducted in respect of consultancy, assurance mapping, grant certification, follow up or investigations

## 5. Significant Issues Arising

### *IT Disaster Recovery*

A review of Disaster Recovery (DR) during the year found the DR Invocation Manual to be out of date and included systems that were no longer covered by the DR Plan.

It was further found that data included in the DR provision should be cloned every 6 hours from the Civic Centre Data Centre to equipment located offsite. Review found incidences where no data had been backed up/cloned for a month during the year and another occurrence where the cloning process was not operating correctly, increasing the risk of data loss in the event of system failure and subsequent recovery. There were also physical security issues with the offsite location.

Additionally there was found to have been no DR testing having taken place for almost three years, nor could we find evidence of consideration, completion and follow up of the improvements and recommendations identified during the exercises undertaken in 2010, 2011 and 2012.

### *PARIS*

Internal Audit reviews undertaken during the course of the year including Adoption, Fostering, DOLS and Safeguarding (Adults), highlighted a commonality of issues in respect of the effective use and functionality of the PARIS system.

Such issues included gaps and inconsistencies in the recording and retention of data and supporting information, contributing to a poor management trail in the decision making process. Poor management information and data quality was also found to be a common issue heightening the risk of inaccurate analysis and reporting.

The Care Act 2014 came into effect in April 2015 and changed the way that safeguarding cases are managed, from having clear timeframes to a more person-focused approach. However, observations highlighted that Paris is not currently configured to enable recording in line with the new requirements.

The PARIS system is an integral tool in supporting key front line Council services. Observations throughout the year with regard its effective use and configuration leave the Council vulnerable and at risk of effective service delivery.



## 6. Anti Fraud and Corruption

The Council is committed to the highest possible standards of openness, probity and accountability and recognises that the electorate need to have confidence in those that are responsible for the delivery of services. A fraudulent or corrupt act can impact on public confidence in the Council and damage both its reputation and image. Policies and strategies are in place setting out the Council's approach and commitment to the prevention and detection of fraud or corruption.

The Council continues to conform to the requirements of the National Fraud Initiative (NFI). The NFI matches data from 1,300 public sector and 77 private sector organisations, including audit bodies in Scotland, Wales and Northern Ireland, government departments and other agencies. It flags up inconsistencies in the information analysed that indicate a fraud, an error or an overpayment may have taken place, signaling the need for review and potential investigation. The Cabinet Office assumed responsibility for the National Fraud Initiative following the demise of the Audit Commission in March 2015.

As part of the 2014/15 NFI exercise the Council submitted required data sets in October 2014 receiving feedback on potential matches in February / March 2015. Work has been carried out during 2015-16 to review identified 'recommended matches' for fraudulent activity.

The outcomes from review of the NFI matches are detailed in fig.1.

Dataset	Matches (Recommended)	Reviewed (In progress)	Identified Savings
Housing Benefit	2885 (646)	1099 (63)	£78,332.93
Payroll	167 (69)	108	-
Housing Tenants	112 (27)	86 (6)	-
Right to Buy	23 (17)	21	-
Blue Badge	165 (146)	158	-
Concessionary Travel	560 (535)	536	-
Residential Parking	11 (9)	11	-
Insurance	30 (1)	-	-
Personal Budgets	167 (164)	167 (13)	-
Creditors	4491 (342)	4491	£55,739.48
VAT	96 (61)	96	-
Residential Care	37 (0)	35	-
Taxis	6 (0)	6	-
Waiting Lists	2361 (0)	714 (41)	-
Total	11111 (2017)	7528 (123)	£134,072.41

fig.1

In addition, we have assessed and where appropriate, advised, investigated or supported the investigation of any allegations of fraud, corruption or improper practice. In accordance with the Local Government Transparency Code 2014 the details of internal audits involvement in counter fraud work is summarised below:

Local Government Transparency Code 2014	01.04.15 – 31.03.16
<b>Part 2 Requirements - Fraud</b>	
Number of occasions powers under the Prevention of Social Housing Fraud (Power to Require Information) (England) Regulations 2014, or similar powers have been used	Nil
Total number (absolute and full time equivalent) of employees undertaking investigations and prosecutions of fraud	2 fte*
Total number (absolute and full time equivalent) of professionally accredited counter fraud specialists	3 fte*
Total amount of time spent by the authority on the investigation and prosecution of fraud	76 days*
Total number of fraud cases investigated	3**

\*relates to internal audit staff across the wider SIAP only (does not include other areas of the Council that may affect reported figures i.e. legal, HR, Trading Standards, departmental investigating officers, housing benefits etc.)

\*\*the definition of fraud is as set out by the Audit Commission in *Protecting the Public Purse - 'the intentional false representation, including failure to declare information or abuse of position that is carried out to make gain, cause loss or expose another to the risk of loss.'*

Additionally the Housing Income team launched a new campaign in autumn 2015 on 'tenancy fraud'. By following leads from helpful tenants and investigating evidence of fraud, the team have brought back eight properties during the year. The measures have already saved the council an estimated £18k per property, for a total recovery of £144k per annum (according to Audit Commission's estimated cost of a family in temporary accommodation).

## 7. Quality Assurance and Improvement

The Quality Assurance and Improvement Programme (QAIP) is a requirement within ‘the Standards’.

The Standards require the Head of the Southern Internal Audit Partnership to develop and maintain a QAIP to enable the internal audit service to be assessed against ‘the Standards’ and the Local Government Application Note (LGAN) for conformance.

The QAIP must include both internal and external assessments: internal assessments are both on-going and periodical and external assessment must be undertaken at least once every five years.

In addition to evaluating compliance with the Standards, the QAIP also assesses the efficiency and effectiveness of the internal audit activity, identifying areas for improvement.

The Standards stipulate that ‘internal assessments’ should be undertaken as a self-assessment or by other persons within the organisation with sufficient knowledge of internal audit processes.

In September 2015 the Institute of Internal Auditors were commissioned to complete an external assessment of the Southern Internal Audit Partnership.

In selecting the Institute of Internal Auditors (IIA) a conscious effort was taken to ensure the external assessment was undertaken by the most credible source. As the authors of the Standards and the leading Internal Audit authority nationally and internationally the IIA were excellently positioned to undertake the external assessment.

The assessment included review of a wide range of documentary evidence and interviews and surveys with representative stakeholders (including Chief Executives, Audit Chairs and S151 Officers) across existing partnering organisations in addition to members of the Southern Internal Audit Partnership staff.

In considering all sources of evidence the external assessment team concluded:

It is our view that the Southern Internal Audit Partnership (SIAP) service generally conforms to **all** of these principles. **This performance is within the top decile of EQA reviews we have performed.** This is a notable achievement given the breadth of these Standards and the operational environment faced by SIAP.

There are **no instances** across these standards where we determined a standard below “generally conforms”, and 4 instances where the standard is assessed as “not applicable” due to the nature of SIAP’s remit.

Assessment against the Standards was assessed as:

Summary of Conformance	Standards	IPPF	PSIAS	LGAN	N/A	Total
		Generally Conforms	Generally Conforms	Generally Conforms		
Definition of IA and Code of Ethics	Rules of conduct	5	11	-		16
Purpose	1000 – 1130	7	30	18	2	57
People	1200 – 1230	4	13	4		21
Performance	1300 – 1322	7	11	9	2	29
Planning	2000 – 2130	12	55	11		78
Process	2200 – 2600	21	103	18		142
<b>Total</b>		<b>56</b>	<b>223</b>	<b>60</b>		<b>343</b>

## 8. Disclosure of Non-Conformance

In accordance with Public Sector Internal Audit Standard 1312 [External Assessments] which requires ‘an external quality assessment to be conducted at least once every five years by a qualified, independent assessor or assessment team from outside of the organisation’ I can confirm endorsement from the Institute of Internal Auditors that

**‘the Southern Internal Audit Partnership conforms to the, Definition of Internal Auditing; the Code of Ethics; and the Standards’**

There are no disclosures of Non-Conformance to report.




## 9. Quality control

Our aim is to provide a service that remains responsive to the needs of the Council and maintains consistently high standards. In complementing the QAIP this was achieved in 2015-16 through the following internal processes:

- On-going liaison with management to ascertain the risk management, control and governance arrangements, key to corporate success;
- On-going development of a constructive working relationship with the External Auditors to maintain a cooperative assurance approach;
- A tailored audit approach using a defined methodology and assignment control documentation;
- Registration under British Standard BS EN ISO 9001:2008, the international quality management standard complimented by a comprehensive set of audit and management procedures;
- Review and quality control of all internal audit work by professional qualified senior staff members; and
- Independent External Quality Assessment.

### 10. Internal Audit Performance

The following performance indicators are maintained to monitor effective service delivery:

Annual performance indicators			
Aspect of service	2014-15 Actual (%)		2015-16 Actual (%)
Revised plan delivered (including 2014/15 c/f)	92		90*
Positive customer responses to quality appraisal questionnaire	96		97
Compliant with the Public Sector Internal Audit Standards	Yes		Yes

\*attributable to management requests for reviews to be conducted within the later part of quarter 4

### 11. Acknowledgement

I would like to take this opportunity to thank all those staff throughout Southampton City Council with whom we have made contact in the year. Our relationship has been positive and management were responsive to the comments we made both informally and through our formal reporting.

Neil Pitman  
 Head of Southern Internal Audit Partnership  
 May 2016

# Agenda Item 8

<b>DECISION-MAKER:</b>	GOVERNANCE COMMITTEE COUNCIL		
<b>SUBJECT:</b>	REVIEW OF PRUDENTIAL LIMITS AND TREASURY MANAGEMENT OUTTURN 2015/16		
<b>DATE OF DECISION:</b>	6 JUNE 2016 20 JULY 2016		
<b>REPORT OF:</b>	SECTION 151 OFFICER (S151)		
<b><u>CONTACT DETAILS</u></b>			
<b>AUTHOR:</b>	<b>Name:</b>	Sue Poynter	<b>Tel:</b> 023 8083 4153
	<b>E-mail:</b>	Sue.Poynter@southampton.gov.uk	
<b>Director</b>	<b>Name:</b>	Mel Creighton	<b>Tel:</b> 023 8083 4897
	<b>E-mail:</b>	Mel.Creighton@southampton.gov.uk	
<b>STATEMENT OF CONFIDENTIALITY</b>			
NOT APPLICABLE			

## BRIEF SUMMARY

The purpose of this report is to inform the Governance Committee and Council of the Treasury Management activities and performance for 2015/16 against the approved Prudential Indicators for External Debt and Treasury Management.

This report specifically highlights that:

- i. Borrowing activities have been undertaken within the borrowing limits approved by Council on 10 February 2016.
- ii. Current Investment strategy is to continue to diversify into more secure and/or higher yielding asset classes and move away from the increasing risk and low returns gained from short term unsecured bank investments. Returns during 2015/16 were £1.2M at an average rate of 1.85%.
- iii. The Council's strategy was to minimise borrowing to below its Capital Financing Requirement (CFR), the difference representing balances, reserves, provisions and working capital. This approach lowers interest costs, reduces credit risk and relieves pressure on the Council's counterparty list. Throughout the year, capital expenditure levels, market conditions and interest rate levels were monitored to minimise borrowing costs over the medium to longer term and to maintain stability. The differential between debt costs and investment earnings continued to be acute, resulting in the use of internal resources in lieu of borrowing often being the most cost effective means of financing capital expenditure. As a result the average rate for repayment of debt, (the Consolidated Loans & Investment Account Rate – CLIA), at 3.33%, is lower than that budgeted and slightly lower than last year (3.34%). This includes £8M of short term debt which was taken during March for cash flow purposes and was repaid in April. No new long term loans were taken during the year due to slippage in the capital programme and higher than expected balances. As can be seen in table 2 in appendix 1, the average rate for a 20 year

fixed rate maturity loan from the Public Works Loan Board (PWLB) was 3.46% during 2015/16. The predicted forecast for longer term debt is a steady increase in the longer term and so new long term borrowing is likely to be taken out above this rate, leading to an anticipated increase in the CLIA.

- iv. In achieving interest rate savings the Council is exposed to interest rate risk by taking out variable debt. This was and continues to be very financially favourable in current markets but does mean that close monitoring of the markets is required to ensure that the Council can act quickly should the situation begin to change.
- v. Net loan debt decreased during 2015/16 from £244M to £240M as detailed in paragraph 14.
- vi. The Council can confirm that it has complied with the Prudential Indicators approved by Full Council on 10 February 2016.
- vii. In order to generate revenue savings in 2015/16, the authority has further revised the MRP policy as detailed in paragraphs 50 to 52.

## **RECOMMENDATIONS:**

### **GOVERNANCE COMMITTEE**

#### **It is recommended that Governance Committee:**

- i) Notes the Treasury Management (TM) activities for 2015/16 and the outturn on the Prudential Indicators
- ii) Notes that the continued proactive approach to TM has led to reductions in borrowing costs and safeguarded investment income during the year.
- iii) Notes the revised MRP Policy as set out in paragraphs 50 to 52.
- iv) Endorses the recommendation to Council to approve the revised MRP policy and delegates authority to the S151 Officer to make any future changes which benefit the authority and to report back at the next Treasury update.

### **COUNCIL**

#### **It is recommended that Council:**

- i) Notes the Treasury Management (TM) activities for 2015/16 and the outturn on the Prudential Indicators
- ii) Notes that the continued proactive approach to TM has led to reductions in borrowing costs and safeguarded investment income during the year.
- iii) Approves the revised MRP policy as detailed in paragraphs 50 to 52 and delegates authority to the S151 Officer to make any future changes which benefit the authority and to report back at the next Treasury update.

## **REASONS FOR REPORT RECOMMENDATIONS**

1. The reporting of the outturn position for 2015/16 forms part of the approval of the statutory accounts. The Treasury Management (TM) Strategy and Prudential Indicators are approved by Council in February each year in accordance with legislation and the Chartered Institute of Public Finance & Accountancy (CIPFA)



Code of Practice.

2. The Treasury Management 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**

3. No alternative options are relevant to this report

### **DETAIL (Including consultation carried out)**

#### **CONSULTATION**

4. Not applicable

#### **BACKGROUND**

5. The Local Government Act 2003 introduced a system for borrowing based largely on self-regulation by local authorities themselves. The basic principle of the new system is that local authorities will be free to borrow as long as their capital spending plans are affordable, prudent and sustainable.
6. The Chartered Institute of Public Finance and Accountancy's Treasury Management Code (CIPFA's TM Code) requires that authorities report on the performance of the treasury management function at least twice a year (mid-year and at year end).
7. The Authority's TM Strategy for 2015/16 was approved by full Authority on 11 February 2015 which can be accessed as Item 80 on the Council Meetings Agenda found via the following web link: [Treasury Management Strategy and Prudential Limits 2015/16 to 2017/18](#)

These were subsequently revised as part of the Council's Treasury Management Strategy Statement for 2016 on 10 February 2016, item 6. [Prudential Limits and Treasury Management Strategy 2016/17 to 2018/19](#)

8. 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 Authority has borrowed and invested substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. This report covers treasury activity and the associated monitoring and control of risk.
9. 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 the outturn position on treasury management transactions in 2015/16; and
  - e) confirms compliance with treasury limits and Prudential Indicators.
10. Appendix 2 summarises the economic outlook and events in the context of which the Council operated its treasury function during 2015/16.

### **BORROWING REQUIREMENT AND DEBT MANAGEMENT**

11. The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR). The CFR, together with balances and useable reserves, are the core drivers of TM Activity.
12. The Authority is able to borrow funds in excess of the current level of its CFR up to the projected level in 2018/19. The Authority is likely to only borrow in advance of need if it felt the benefits of borrowing at interest rates now compared to where they are expected to be in the future, outweighs the current cost and risks associated with investing the proceeds until the borrowing is actually required.
13. The forecast movement in coming years is one of the Prudential Indicators (PIs). The movement in actual external debt and usable reserves combine to identify the Authority's borrowing requirement and potential investment strategy in the current and future years. This is shown in the tables below together with activity in the year.

14. ***Table 1: Net Borrowing Position***

	31-Mar-15 Actual £M	31-Mar-16 Actual £M	31-Mar-17 Current Estimate £M	31-Mar-18 Current Estimate £M	31-Mar-19 Current Estimate £M
<b>External Borrowing:</b>					
Fixed Rate – PWLB Maturity	139	139	246	254	267
Fixed Rate – PWLB EIP	70	58	46	35	23
Variable Rate – PWLB	35	35	35	35	35
Variable Rate – Market	9	9	9	9	9
<b>Long Term Borrowing</b>	<b>253</b>	<b>241</b>	<b>336</b>	<b>333</b>	<b>334</b>
<b>Short Term Borrowing</b>					
Fixed Rate – Market	0	8	30	30	30
<b>Other Long Term Liabilities</b>					
PFI / Finance leases	67	65	62	60	58
Deferred Debt Charges	16	15	15	15	15
<b>Total Gross External Debt</b>	<b>336</b>	<b>329</b>	<b>443</b>	<b>438</b>	<b>437</b>
<b>Investments:</b>					
<b>Managed In-House</b>					
Deposits and monies on call and Money Market Funds	(55)	(40)	(25)	(25)	(25)
Financial Instruments	(32)	(42)	(20)	(20)	(20)
<b>Managed Externally</b>					
Pooled Funds	(5)	(7)	(7)	(7)	(7)
<b>Total Investments</b>	<b>(92)</b>	<b>(89)</b>	<b>(52)</b>	<b>(52)</b>	<b>(52)</b>
<b>Net Borrowing Position</b>	<b>244</b>	<b>240</b>	<b>391</b>	<b>386</b>	<b>385</b>

**Table 2: Movement in Borrowing during the year**

	Balance on 01/04/2015	Debt Maturing or Repaid	New Borrowing	Balance as at 31/3/2016	Increase/ (Decrease) in Borrowing	Average Life / Average Rate %	
	£M	£M	£M	£M	£M	Life	%
Short Term Borrowing	0	0	8	8	8		
Long Term Borrowing	253	(12)	0	241	(12)	22 Years	3.33
<b>Total Borrowing</b>	<b>253</b>	<b>(12)</b>	<b>8</b>	<b>249</b>	<b>(4)</b>		

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

- 15.
16. When the strategy was last updated in February 2016, the CFR was estimated at £458.7M, the Council's actual CFR at the end of the year was £435.7M, as detailed in table 2 of Appendix 3. This decrease was mainly due to slippage in the capital programme.
17. The Authority's chief objective when borrowing has been to strike an appropriately low risk balance between securing low interest costs and achieving cost certainty over the period for which funds are required, with flexibility to renegotiate loans should the Authority's long-term plans change being a secondary objective.
18. The PWLB remains the Council's preferred source of long term borrowing given the transparency and control that its facilities continue to provide. However due to the continued depressed markets and the 'cost of carry' associated with long term

debt, the Council deferred long term borrowing and has continued to use internal resources to finance the capital programme. This will be kept under review during 2016/17 with the need to resource an increasing capital programme.

### **Loans at Variable Rates**

19. Included within the debt portfolio is £35M of PWLB variable rate loans which during 2015/16 averaged a rate of 0.70% this helps to mitigate the impact of changes in variable rates on the Authority's overall treasury portfolio (the Authority's investments are deemed to be variable rate investments due to their short-term nature). This strategic exposure to variable interest rates will be regularly reviewed and, if appropriate, reduced by switching into fixed rate loans.

### **Internal Borrowing**

20. 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.
21. As at the 31 March 2016 the Council used £106M 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, approved by Council in February 2016, the Council is expected to borrow up to £127.5M between 2016/17 and 2018/19. Of this £107.6M relates to new capital spend (£76M GF and £31.5M HRA) 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.
22. However as short-term interest rates have remained low, and are likely to remain at least over the forthcoming two years, lower than long-term rates, the Authority determined it was more cost effective in the short-term to use internal resources instead.
23. The benefits of internal borrowing were monitored regularly against the potential for incurring additional costs by deferring borrowing into future years when long-term borrowing rates are forecast to rise providing that balances can support it. Our advisors assist the Authority with this 'cost of carry' and breakeven analysis.

### **Lender's Option Borrower's Option Loans (LOBOs)**

24. The Authority holds £9M of LOBO loans where the lender has the option to propose an increase in the interest rate at set dates, following which the Authority has the option to either accept the new rate or to repay the loan at no additional cost. All of these LOBOS had options during the year, none of which were exercised by the lender, but if they were it is likely that they would be replaced by a PWLB loan.

### **LGA Bond Agency**

25. UK Municipal Bonds Agency (MBA) plc was established in 2014 by the Local Government Association as an alternative to the PWLB with plans to issue bonds on the capital markets and lend the proceeds to local authorities. In early 2016 the Agency declared itself open for business, initially only to English local authorities. The Authority has analysed the potential rewards and risks of borrowing from the MBA and full council approved and signed the Municipal Bond Agencies framework agreement which sets out the terms upon which local authorities will borrow, including details of the joint and several guarantee. This was submitted on 10 February 2016, item 7. [Municipal Bond Agency](#) The first bond is expected to be issued in the Autumn of 2016.

### **Debt Rescheduling**

26. The premium charge for early repayment of PWLB debt remained relatively expensive for the loans in the Authority's portfolio and therefore unattractive for debt rescheduling activity. No rescheduling activity was undertaken as a consequence.

### **INVESTMENT ACTIVITY**

27. Both the CIPFA and DCLG's Investment Guidance requires the authority to invest prudently and have regard to the security and liquidity of investments before seeking the optimum yield.
28. The Authority has held significant invested funds, representing income received in advance of expenditure plus balances and reserves held. During 2015/16 the Authority's investment balances have ranged between £79.8M and £123.3M. This is summarised in the table below:

**Table 3: Investment activity during the year**

	Balance on 01/04/2015	Investments Repaid	New Investments	Balance as at 31/3/2016	Increase/ (Decrease) in Investment for Year	Average Life / Average Rate %	
	£M	£M	£M	£M	£M	Life	%
Short Term Investments	0	(5)	5	0	0		
Money Market Funds & Call Accounts	55	(417)	397	35	(20)	1 Day	0.50
Notice Accounts	0		5	5	5	180 Day	1.16
Bonds	32	(40)	50	42	10	278 days	1.43
Local Authority Property Fund	5	0	2	7	2	Unspecified	5.03
<b>Total Investments</b>	<b>92</b>	<b>(462)</b>	<b>459</b>	<b>89</b>	<b>(3)</b>		<b>1.85</b>

29. Security of capital has remained the Authority's main investment objective. This has been maintained by following the Authority's counterparty policy as set out in its TM Strategy Statement for 2015/16. The Authority has adopted a voluntary measure of its exposure to credit risk by monitoring the value-weighted average credit rating of its investment portfolio, which is supplied by our advisors. This is calculated by applying a score to each investment (AAA=1, AA+=2, etc.) and taking the arithmetic average, weighted by the size of each investment.

	Target	Actual
Portfolio average credit rating	A-	AA

30. Counterparty credit quality was assessed and monitored with reference to credit ratings (the Authority's minimum long-term counterparty rating is A-) across

rating agencies Fitch, S&P and Moody's); for financial institutions analysis of funding structure and susceptibility to bail-in, credit default swap prices, financial statements, information on potential government support and reports in the quality financial press. The authority also used secured investments products that provide collateral in the event that the counterparty cannot meet its obligations for repayment.

31. The table below summarises the Council's investment portfolio at 31 March 2016 by credit rating and confirms that all investments were made in line with the Council's approved credit rating criteria:

**Table 4: Credit ratings of Investments held at 31<sup>st</sup> March 2016**

32.

Credit Rating	Long Term		Short Term	
	2015	2016	2015	2016
	£000	£000	£000	£000
AAA	14,298	12,556	2,271	11,128
AA+	3,246	3,358	138	3,660
AA			5,932	
AA-			25,380	2,212
A+			17,443	2,702
A			16,080	16,303
A-			2,014	
Shares in unlisted companies		20		
Unrated pooled funds	5,295	7,597		29,169
<b>Total Investments</b>	<b>22,839</b>	<b>23,531</b>	<b>69,258</b>	<b>65,174</b>

### Credit Developments and Credit Risk Management

33. The transposition of two European Union directives into UK legislation placed the burden of rescuing failing EU banks disproportionately onto unsecured institutional investors which include local authorities and pension funds. During the year, all three credit ratings agencies reviewed their ratings to reflect the loss of government support for most financial institutions and the potential for loss given default as a result of new bail-in regimes in many countries. Despite reductions in government support many institutions saw upgrades due to an improvement in their underlying strength and an assessment that the level of loss given default is low.
34. Fitch reviewed the credit ratings of multiple institutions in May. Most UK banks had their support rating revised from 1 (denoting an extremely high probability of support) to 5 (denoting external support cannot be relied upon). This resulted in the downgrade of the long-term ratings of Royal Bank of Scotland (RBS), Deutsche Bank, Bank Nederlandse Gemeeten and ING. JP Morgan Chase and the Lloyds Banking Group however both received one notch upgrades.
35. Moody's concluded its review in June and upgraded the long-term ratings of

Close Brothers, Standard Chartered Bank, ING Bank, Goldman Sachs International, HSBC, RBS, Coventry Building Society, Leeds Building Society, Nationwide Building Society, Svenska Handelsbanken and Landesbank Hessen-Thuringen.

36. S&P reviewed UK and German banks in June, downgrading the long-term ratings of Barclays, RBS and Deutsche Bank. S&P also revised the outlook of the UK as a whole to negative from stable, citing concerns around the referendum on EU membership and its effect on the economy.
37. At the end of July 2015, our advisors, Arlingclose, advised an extension of recommended durations for unsecured investments in certain UK and European institutions following improvements in the global economic situation and the receding threat of another Eurozone crisis. A similar extension was advised for some non-European banks in September, with the Danish Danske Bank being added as a new recommended counterparty and certain non-rated UK building societies also being extended.
38. In September, Volkswagen was found to have been cheating emissions tests over several years in many of their diesel vehicles. The council's treasury advisor, Arlingclose Ltd, recommended suspending VW (as a non-financial corporate bond counterparty) for new investments. As issues surrounding the scandal continued, there were credit rating downgrades across the Volkswagen group by all of the ratings agencies. Volkswagen AG is now (as at 11/04/16) rated A3, BBB+ and BBB+ by Moody's, Fitch and S&P respectively. Volkswagen International Finance N.V is rated A3 and BBB+ by Moody's and Fitch respectively and Volkswagen Financial Services N.V. is now rated A1 by Moody's. We had one bond of £1.5M which was repaid with interest on the 23<sup>rd</sup> May 2016.
39. In December the Bank of England released the results of its latest stress tests on the seven largest UK banks and building societies which showed that the Royal Bank of Scotland and Standard Chartered Bank were the weakest performers. However, the regulator did not require either bank to submit revised capital plans, since both firms had already improved their ratios over the year.
40. In January 2016, Arlingclose supplemented its existing investment advice with a counterparty list of high quality bond issuers, including recommended cash and duration limits. As part of this, Bank Nederlandse Gemeeten was moved to the list of bond issuers from the unsecured bank lending list and assigned an increased recommended duration limit of 5 years. Interest rates are likely to stay low for longer making long-term bonds an increasingly attractive option. The Council made use of these long-term investment options during 2015/16.
41. The first quarter of 2016 was characterised by financial market volatility and a weakening outlook for global economic growth. In March 2016, following the publication of many banks' 2015 full-year results, Arlingclose advised the suspension of Deutsche Bank and Standard Chartered Bank from the counterparty list for unsecured investments. Both banks recorded large losses and despite improving capital adequacy this will call 2016 performance into question, especially if market volatility continues. Standard Chartered had seen various rating actions taken against it by the rating agencies and a rising CDS level throughout the year. Arlingclose will continue to monitor both banks.

42. The end of bank bail-outs, the introduction of bail-ins, and the preference being given to large numbers of depositors other than local authorities means that the risks of making unsecured deposits continues to be elevated relative to other investment options. The Authority therefore increasingly favoured secured investment options or diversified alternatives such as covered bonds, non-bank investments and pooled funds over unsecured bank and building society deposits.
43. In February 2015 full Council agreed for the authority to make an investment of £20,000 to become Shareholders in the Local Capital Finance Company Ltd, which is now known as the UK Municipal Bonds. The Agency is wholly owned by 56 local authorities and the Local Government Association (“LGA”). As detailed in paragraph 25 above, this was set up as an alternative to the PWLB with plans to issue bonds on the capital markets and lend the proceeds to local authorities.
44. Or advisors produce quarterly benchmarking which shows the breakdown of our investments and how we compare to their other clients and other English Unitary Authority’s, this shows that on average we have a higher credit rating and have less exposure to Bail- in which reflects our change in strategy during 2015. Details can be seen in Appendix 4.

### **Liquidity Management**

45. In keeping with the DCLG’s Guidance on Investments, the Council maintained a sufficient level of liquidity through the use of Money Market Funds and call accounts. There is no perceived risk that the Council will be unable to raise finance to meet its commitments. The Council also has to manage the risk that it will be exposed to replenishing a significant proportion of its borrowing at a time of unfavourable interest rates. The Council would only borrow in advance of need where there is a clear business case for doing so and will only do so for the current capital programme or to finance future debt maturities. The maturity analysis of the Council’s debt at 31 March 2016 can be seen in table 6 of Appendix 3.

### **Externally Managed Funds**

46. The Council has invested £7M in property funds which offer the potential for enhanced returns over the longer term, but may be more volatile in the shorter term. These funds are managed by professional fund managers which allows the Authority to diversify into asset classes other than cash without the need to own and manage the underlying investments. During 2015/16 this investment returned an average yield of 5.03%, plus capital gains of 3.7%. The net asset value of the fund at 31st March was £7.6M a notional “gain” of £0.6M against initial investment.

### **COMPLIANCE WITH PRUDENTIAL INDICATORS**

47. The Council can confirm that it has complied with its Prudential Indicators for 2015/16, approved by Full Council on 11 February 2015 which can be accessed as Item 80 on the Council Meetings Agenda found via the following web link: [Treasury Management Strategy and Prudential Limits 2016/17 to 2017/18](#)

These were subsequently revised as part of the Council’s Treasury Management Strategy Statement for 2016 on 10 February 2016, item 6. [Prudential Limits and Treasury Management Strategy 2016/17 to 2018/19](#)



48. In compliance with the requirements of the CIPFA Code of Practice this report provides members with a summary report of TM activity during 2015/16. None of the Prudential Indicators has been breached and a prudent approach has been taken in relation to investment activity with priority being given to security and liquidity over yield. The table below summarises the Key Indicators other indicators can be found in Appendix 3.

49. **Table 5: Key Prudential Indicators**

<b>Indicator</b>	<b>Limit</b>	<b>Actual at 31 March 2016</b>
Authorised Limit for external debt £M	£738M	£329M
Operational Limit for external debt £M	£596M	£329M
Maximum external borrowing in year		£252.7M
Limit of fixed interest debt %	100%	82.3%
Limit of variable interest debt %	50%	17.7%
Limit for Non-specified investments £M	£70M	£33M

## **OTHER ITEMS**

### **Minimum Revenue Provision (MRP)**

50. The CLG Guidance requires the Authority to approve an Annual MRP Statement each year, and recommends a number of options for calculating a prudent amount of MRP, the Council's strategy was approved as part of the 2016/17 and 2017/18 reports. However following a further review of the guidance the Council has revised this in order to achieve additional revenue savings.
51. In summary we have applied the annuity method for prudential borrowing and reassessed the life of assets from 25 to 50 years for borrowing prior to 2008. This has led to an over provision of MRP for the period up to 31<sup>st</sup> March 2015, so no MRP was applied for 2015/16 except for PFI schemes, finance leases and deferred debt charges. Plus the HRA made a voluntary payment of £5.1M. This policy will continue until the over provision has been utilised.
52. It should be further noted that as a result of the creation of the Property Investment Fund (PIF), detailed in paragraph 53 below, it is recommended that the 2016/17 MRP statement be updated to note that MRP will be charged on investment properties acquired as part of the fund using the depreciation method calculation. It is further recommended that the S151 Officer continues to have delegated powers to make changes to the proposed methods used to calculate MRP to aid good financial management whilst maintaining a prudent approach.

### **Future Developments and Amendment to Prudential Indicators**

53. The approved 2016/17 general fund revenue estimates assume an additional net £1M of revenue income to be generated from the creation of a Property Investment Fund (PIF). An investment business plan has been drawn up and identifies the potential types of investment that may be undertaken. One of these options is the potential to undertake further investment in property funds. It is expected that this

activity can be accommodated with in the current borrowing limits and prudential indicators agreed as part of the approved TM Strategy. However, these limits and indicators will be reviewed in line with any investment activity of this type. It is recommended that the S151 officer continues to have delegated authority to approve any changes required to the limits and indicators that will aid good treasury management. Any amendments will be reported as part of the quarterly financial and performance monitoring and in the TM Strategy Review.

### **Investment Training**

54. The needs of the Authority's treasury management staff for training in investment management are assessed as part of the staff appraisal process, and additionally when the responsibilities of individual members of staff change. During 2015/16 staff attended training courses, seminars and conferences provided by our advisors (Arlingclose) and CIPFA
55. In November 2015 a training session was held by our advisors and made available to all Members to provide an insight into the issues affecting TM and the basis of the TM strategy being presented.

## **RESOURCE IMPLICATIONS**

### **Capital / Revenue**

56. This report is a requirement of the TM Strategy, which was approved at Council on 11 February 2015 and further revised on 10 February 2016.
57. The interest cost of financing the Authority's long term and short term loan debt is charged corporately to the Income and Expenditure account. The interest cost of financing the Authority's loan debt amounted to £8.9M in 2015/16. This is lower than budgeted mainly due to variable interest rates being lower than those estimated and the deferment of any new long term borrowing.
58. In addition interest earned on temporary balances invested externally is credited to the Income and Expenditure account. In 2015/16 £1.2M was earned which was higher than budgeted mainly due to a move to invest in bonds and LAPF as detailed in paragraphs 27 - 44 above.
59. Overall this has given a saving against the TM Budget of £2.1M.
60. The expenses of managing the Authority's loan debt consist of brokerage and internal administration charges. These are pooled and borne by the HRA and General Fund proportionately to the related loan debt. Debt management expenses amounted to £0.10M in 2015/16 compared to an estimate of £0.14M. This decrease was mainly due a reduction in brokerage costs due to fewer treasury deals being undertaken and deferring PWLB borrowing resulting in a saving on commission paid in year.

### **Property/Other**

61. None

## **LEGAL IMPLICATIONS**

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

62. 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:**

63. None

**POLICY FRAMEWORK IMPLICATIONS**

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

**KEY DECISION?** Yes/No

<b>WARDS/COMMUNITIES AFFECTED:</b>	
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**SUPPORTING DOCUMENTATION**

**Appendices**

1.	Summary of Interest Rates Movement During 2015/16
2.	2015/16 Economic Background
3.	Compliance with Prudential Indicators During 2015/16
4.	Southampton Benchmarking 31 <sup>st</sup> March 2016
5.	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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**Privacy Impact Assessment**

Do the implications/subject of the report require a Privacy Impact Assessment (PIA) 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.	<a href="#">Treasury Management Strategy and Prudential Limits 2016/17 to 2017/18</a>	
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## SUMMARY OF INTEREST RATES MOVEMENT DURING 2015

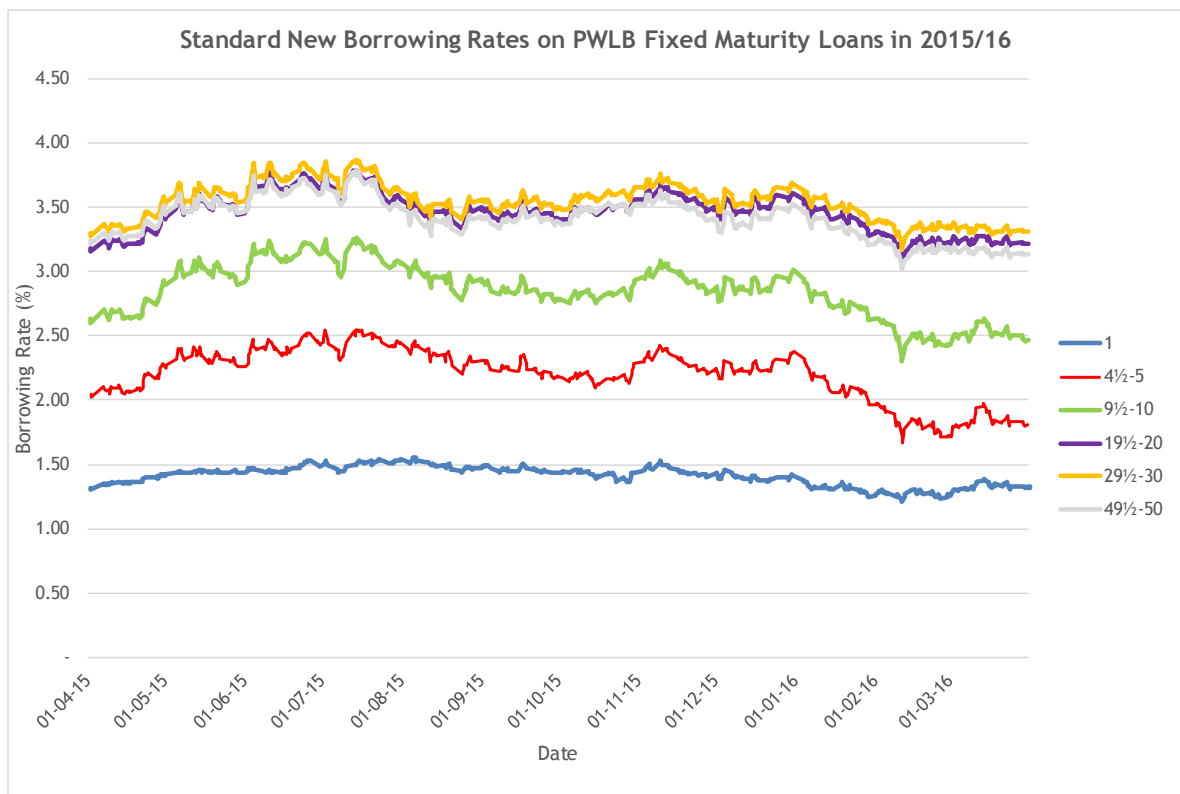
The average, minimum and maximum rates quoted in the tables below correspond to the rates during the financial year rather than those in the tables below which are for specific dates. Please note that the PWLB rates below are Standard Rates SCC is eligible for the Certainty Rate and can borrow at a 0.20% reduction.

**Table 1: Bank Rate, Money Market Rates**

Date	Bank Rate	O/N LIBID	7-day LIBID	1-month LIBID	3-month LIBID	6-month LIBID	12-month LIBID	2-yr SWAP Bid	3-yr SWAP Bid	5-yr SWAP Bid
01/04/2015	0.50	0.35	0.46	0.43	0.51	0.76	0.97	0.87	1.05	1.32
30/04/2015	0.50	0.35	0.48	0.43	0.52	0.74	0.98	1.00	1.21	1.51
31/05/2015	0.50	0.43	0.50	0.43	0.52	0.75	0.98	0.97	1.18	1.49
30/06/2015	0.50	0.35	0.45	0.43	0.52	0.79	0.99	1.09	1.35	1.68
31/07/2015	0.50	0.32	0.43	0.43	0.53	0.79	1.01	1.10	1.33	1.66
31/08/2015	0.50	0.42	0.40	0.43	0.54	0.82	1.02	1.03	1.24	1.61
30/09/2015	0.50	0.37	0.41	0.43	0.54	0.74	1.00	0.93	1.11	1.41
31/10/2015	0.50	0.36	0.41	0.43	0.54	0.77	1.00	0.97	1.16	1.49
30/11/2015	0.50	0.30	0.42	0.43	0.54	0.88	1.00	0.93	1.10	1.39
31/12/2015	0.50	0.43	0.35	0.43	0.54	0.76	1.01	1.09	1.30	1.58
31/01/2016	0.50	0.43	0.42	0.43	0.54	0.71	0.99	0.77	0.89	1.14
29/02/2016	0.50	0.25	0.43	0.43	0.54	0.73	0.99	0.71	0.74	0.85
31/03/2016	0.50	0.30	0.44	0.52	0.62	0.71	0.93	0.79	0.84	1.00
<b>Average</b>	<b>0.50</b>	<b>0.38</b>	<b>0.45</b>	<b>0.43</b>	<b>0.54</b>	<b>0.76</b>	<b>0.99</b>	<b>0.96</b>	<b>1.14</b>	<b>1.43</b>
<b>Maximum</b>	<b>0.50</b>	<b>0.48</b>	<b>0.58</b>	<b>0.57</b>	<b>0.66</b>	<b>0.92</b>	<b>1.02</b>	<b>1.17</b>	<b>1.44</b>	<b>1.81</b>
<b>Minimum</b>	<b>0.50</b>	<b>0.17</b>	<b>0.35</b>	<b>0.43</b>	<b>0.51</b>	<b>0.55</b>	<b>0.84</b>	<b>0.68</b>	<b>0.73</b>	<b>0.85</b>
<b>Spread</b>	<b>--</b>	<b>0.31</b>	<b>0.23</b>	<b>0.14</b>	<b>0.15</b>	<b>0.37</b>	<b>0.18</b>	<b>0.49</b>	<b>0.71</b>	<b>0.96</b>

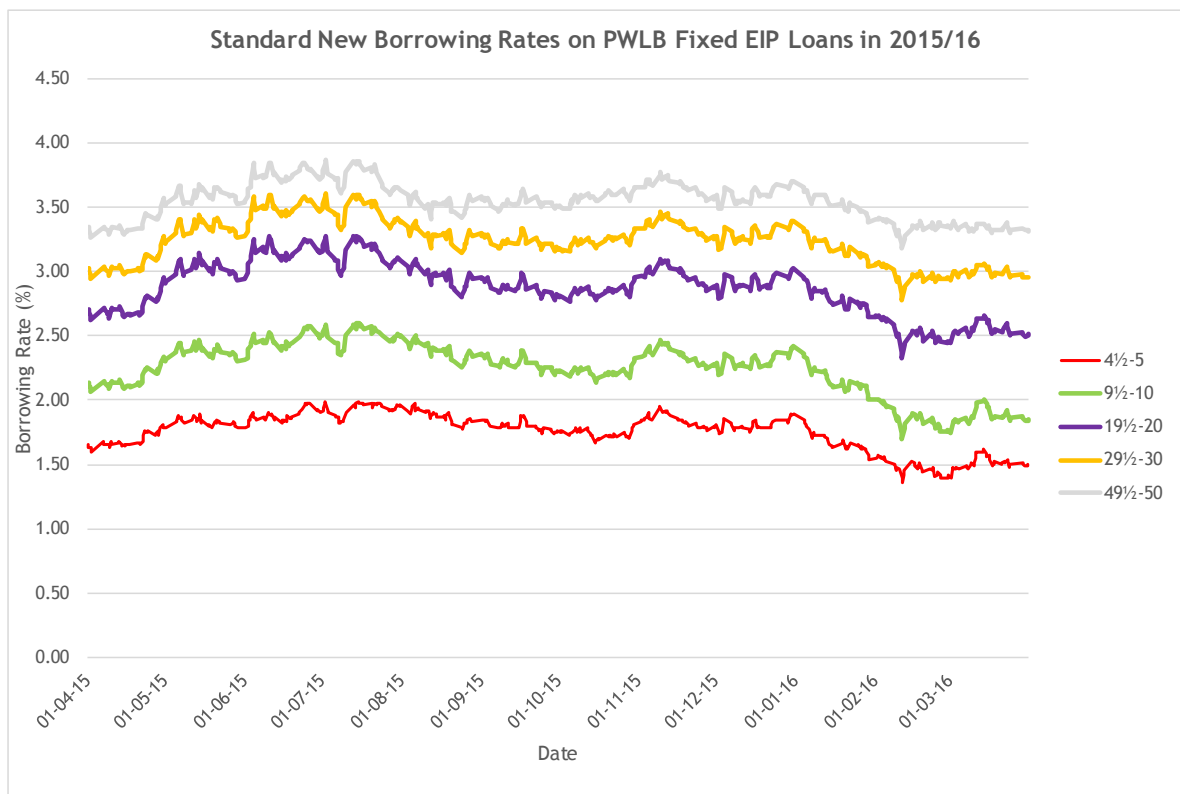
**Table 2: PWLB Borrowing Rates - Fixed Rate, Maturity Loans**

Change Date	Notice No	1 year	4½-5 yrs	9½-10 yrs	19½-20 yrs	29½-30 yrs	39½-40 yrs	49½-50 yrs
01/04/2015	127/15	1.33	2.10	2.69	3.24	3.37	3.32	3.31
30/04/2015	166/15	1.41	2.27	2.90	3.44	3.55	3.50	3.48
31/05/2015	204/15	1.44	2.26	2.90	3.44	3.54	3.48	3.45
30/06/2015	248/15	1.48	2.44	3.13	3.65	3.72	3.64	3.60
31/07/2015	294/15	1.54	2.45	3.07	3.56	3.62	3.54	3.49
31/08/2015	334/15	1.47	2.30	2.92	3.47	3.54	3.44	3.40
30/09/2015	379/15	1.44	2.19	2.79	3.42	3.50	3.42	3.39
31/10/2015	423/15	1.44	2.38	2.93	3.56	3.65	3.56	3.53
30/11/2015	465/15	1.42	2.23	2.85	3.48	3.54	3.42	3.39
31/12/2015	505/15	1.41	2.38	3.01	3.61	3.68	3.56	3.53
31/01/2016	040/16	1.24	1.96	2.62	3.28	3.37	3.23	3.20
29/02/2016	082/16	1.27	1.73	2.43	3.23	3.36	3.24	3.19
31/03/2016	124/16	1.33	1.81	2.48	3.21	3.30	3.16	3.12
	<b>Low</b>	<b>1.21</b>	<b>1.67</b>	<b>2.30</b>	<b>3.06</b>	<b>3.17</b>	<b>3.05</b>	<b>3.01</b>
	<b>Average</b>	<b>1.41</b>	<b>2.20</b>	<b>2.85</b>	<b>3.46</b>	<b>3.54</b>	<b>3.45</b>	<b>3.42</b>
	<b>High</b>	<b>1.55</b>	<b>2.55</b>	<b>3.26</b>	<b>3.79</b>	<b>3.87</b>	<b>3.80</b>	<b>3.78</b>



**Table 3: PWLB Borrowing Rates - Fixed Rate, Equal Instalment of Principal (EIP) Loans**

Change Date	Notice No	4½-5 yrs	9½-10 yrs	19½-20 yrs	29½-30 yrs	39½-40 yrs	49½-50 yrs
01/04/2015	127/15	1.66	2.14	2.71	3.03	3.24	3.35
30/04/2015	166/15	1.79	2.31	2.92	3.24	3.45	3.54
31/05/2015	204/15	1.78	2.30	2.93	3.26	3.45	3.53
30/06/2015	248/15	1.90	2.49	3.15	3.47	3.65	3.72
31/07/2015	294/15	1.96	2.50	3.09	3.39	3.57	3.63
31/08/2015	334/15	1.83	2.34	2.94	3.27	3.48	3.55
30/09/2015	379/15	1.76	2.23	2.82	3.19	3.43	3.51
31/10/2015	423/15	1.81	2.32	2.96	3.33	3.57	3.66
30/11/2015	465/15	1.79	2.27	2.87	3.25	3.49	3.56
31/12/2015	505/15	1.89	2.42	3.03	3.39	3.62	3.70
31/01/2016	040/15	1.54	2.00	2.65	3.04	3.29	3.38
29/02/2016	082/16	1.42	1.77	2.46	2.95	3.24	3.36
31/03/2016	124/16	1.50	1.85	2.51	2.96	3.22	3.31
	<b>Low</b>	1.36	1.70	2.33	2.78	3.07	3.18
	<b>Average</b>	1.76	2.25	2.88	3.24	3.47	3.55
	<b>High</b>	1.99	2.60	3.28	3.61	3.79	3.87



**Table 4: PWLB Variable Rates**

	1-M Rate	3-M Rate	6-M Rate	1-M Rate	3-M Rate	6-M Rate
	Pre-CSR	Pre-CSR	Pre-CSR	Post-CSR	Post-CSR	Post-CSR
01/04/2015	0.62	0.63	0.66	1.52	1.53	1.56
30/04/2015	0.62	0.64	0.67	1.52	1.54	1.57
31/05/2015	0.62	0.65	0.68	1.52	1.55	1.58
30/06/2015	0.62	0.66	0.70	1.52	1.56	1.60
31/07/2015	0.62	0.66	0.72	1.52	1.56	1.62
31/08/2015	0.62	0.66	0.70	1.52	1.56	1.60
30/09/2015	0.66	0.67	0.76	1.56	1.57	1.66
31/10/2015	0.66	0.67	0.76	1.46	1.56	1.57
30/11/2015	0.64	0.67	0.72	1.54	1.57	1.62
31/12/2015	0.63	0.65	0.72	1.53	1.55	1.62
31/01/2016	0.64	0.66	0.69	1.54	1.56	1.59
29/02/2016	0.63	0.65	0.68	1.53	1.55	1.58
31/03/2016	0.61	0.65	0.67	1.51	1.55	1.57
<b>Low</b>	0.61	0.61	0.66	1.51	1.51	1.56
<b>Average</b>	0.63	0.66	0.71	1.53	1.56	1.61
<b>High</b>	0.67	0.69	0.78	1.57	1.59	1.68

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## 2015/16 ECONOMIC BACKGROUND

**Growth and Inflation:** The UK economy slowed in 2015 with GDP growth falling to 2.3% from a robust 3.0% the year before. CPI inflation hovered around 0.0% through 2015 with deflationary spells in April, September and October. The prolonged spell of low inflation was attributed to the continued collapse in the price of oil from \$67 a barrel in May 2015 to just under \$28 a barrel in January 2016, the appreciation of sterling since 2013 pushing down import prices and weaker than anticipated wage growth resulting in subdued unit labour costs. CPI picked up to 0.3% year/year in February, but this was still well below the Bank of England's 2% inflation target. The labour market continued to improve through 2015 and in Q1 2016, the latest figures (Jan 2016) showing the employment rate at 74.1% (the highest rate since comparable records began in 1971) and the unemployment rate at a 12 year low of 5.1%. Wage growth has however remained modest at around 2.2% excluding bonuses, but after a long period of negative real wage growth (i.e. after inflation) real earnings were positive and growing at their fastest rate in eight years, boosting consumers' spending power.

**Global influences:** The slowdown in the Chinese economy became the largest threat to the South East Asian region, particularly on economies with a large trade dependency on China and also to prospects for global growth as a whole. The effect of the Chinese authorities' intervention in their currency and equity markets was temporary and led to high market volatility as a consequence. There were falls in prices of equities and risky assets and a widening in corporate credit spreads. As the global economy entered 2016 there was high uncertainty about growth, the outcome of the US presidential election and the consequences of June's referendum on whether the UK is to remain in the EU. Between February and March 2016 sterling had depreciated by around 3%, a significant proportion of the decline reflecting the uncertainty surrounding the referendum result.

**UK Monetary Policy:** The Bank of England's MPC (Monetary Policy Committee) made no change to policy, maintaining the Bank Rate at 0.5% (in March it entered its eighth year at 0.5%) and asset purchases (Quantitative Easing) at £375bn. In its Inflation Reports and monthly monetary policy meeting minutes, the Bank was at pains to stress and reiterate that when interest rates do begin to rise they were expected to do so more gradually and to a lower level than in recent cycles.

Improvement in household spending, business fixed investment, a strong housing sector and solid employment gains in the US allowed the Federal Reserve to raise rates in December 2015 for the first time in nine years to take the new Federal funds range to 0.25%-0.50%. Despite signalling four further rate hikes in 2016, the Fed chose not to increase rates further in Q1 and markets pared back expectations to no more than two further hikes this year.

However central bankers in the Eurozone, Switzerland, Sweden and Japan were forced to take policy rates into negative territory. The European Central Bank also announced a range of measures to inject sustained economic recovery and boost domestic inflation which included an increase in asset purchases (Quantitative Easing).

**Market reaction:** From June 2015 gilt yields were driven lower by the a weakening in Chinese growth, the knock-on effects of the fall in its stock market, the continuing fall in the price of oil and commodities and acceptance of diminishing effectiveness of central bankers' unconventional policy actions. Added to this was the heightened uncertainty surrounding the outcome of the UK referendum on its continued membership of the EU as well as the US presidential elections which culminated in a significant volatility and in equities and corporate bond yields.

10-year gilt yields moved from 1.58% on 31/03/2015 to a high of 2.19% in June before falling back and ending the financial year at 1.42%. The pattern for 20-year gilts was similar, the yield rose from 2.15% in March 2015 to a high of 2.71% in June before falling back to 2.14% in March 2016. The FTSE All Share Index fell 7.3% from 3664 to 3395 and the MSCI World Index fell 5.3% from 1741 to 1648 over the 12 months to 31 March 2016.

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**COMPLIANCE WITH PRUDENTIAL INDICATORS DURING 2015/16**

The Local Government Act 2003 requires the Authority to have regard to the Chartered Institute of Public Finance and Accountancy's Prudential Code for Capital Finance in Local Authorities (the Prudential Code) when determining how much money it can afford to borrow. The objectives of the Prudential Code are to ensure, within a clear framework, that the capital investment plans of local authorities are affordable, prudent and sustainable, and that treasury management decisions are taken in accordance with good professional practice. To demonstrate that the Authority has fulfilled these objectives, the Prudential Code sets out the following indicators that must be set and monitored each year.

The Council complied with all of its Prudential Indicators. Details of the performance against key indicators are shown below:

**1. Capital Expenditure**

This indicator is set to ensure that the level of proposed capital expenditure remains within sustainable limits, and, in particular, to consider the impact on Council Tax and in the case of the HRA, housing rent levels. Council approved the Capital Programme for 2015/16 to 2019/20 in February 2016. Planned capital expenditure and financing is summarised below. Further detail is provided in the Capital update which is being submitted to council on 20<sup>th</sup> July 2016.

<b>Capital Expenditure and Financing</b>	<b>2015/16 Forecast £M</b>	<b>2015/16 Actual £M</b>	<b>2016/17 Estimate £M</b>	<b>2017/18 Estimate M</b>
General Fund	46.8	37.1	111.2	6.3
HRA	65.5	38.8	58.9	35.4
<b>Total Expenditure</b>	<b>112.3</b>	<b>75.9</b>	<b>170.1</b>	<b>41.7</b>
Capital receipts	14.0	5.2	3.4	3.4
Government Grants	28.0	23.7	31.2	5.0
Contributions	4.1	3.6	3.8	1.9
Major Repairs Allowance	19.0	19.8	19.9	20.3
Revenue	12.0	7.9	11.6	9.3
<b>Total Financing</b>	<b>77.1</b>	<b>60.2</b>	<b>69.9</b>	<b>39.9</b>
Temporary Financing	(1.0)	0.0	0.0	0.0
Unsupported borrowing	36.2	15.7	100.2	1.8
<b>Total Funding</b>	<b>35.2</b>	<b>15.7</b>	<b>100.2</b>	<b>1.8</b>
<b>Total Financing &amp; Funding</b>	<b>112.3</b>	<b>75.9</b>	<b>170.1</b>	<b>41.7</b>

**2. Gross Debt and the Capital Financing Requirement**

This is a key indicator of prudence. In order to ensure that over the medium term debt will only be for a capital purpose, the local authority should ensure that debt does not, except in the short term, exceed the total of CFR in the preceding year plus the estimates of any additional CFR for the current and next two financial years. If in any of these years there is a reduction in the CFR, this reduction is ignored in estimating the cumulative increase in the CFR which is used for comparison with gross external debt. The S151 Officer reports that the Authority had no difficulty in meeting this requirement in 2015/16, nor are there any difficulties envisaged for future years. This view takes into account current commitments, existing plans and the proposals in the approved budget.

There is a significant difference between the gross external borrowing requirement and the net external borrowing requirement represented by the Council's level of balances, reserves, provisions and working capital. The Council's current strategy is only to borrow to the level of its net borrowing requirement. The reasons for this are to reduce credit risk, take pressure off the Council's lending list and also to avoid the cost of carry existing in the current interest rate environment. The tables below detail our expected debt position and the year-on-year change to the CFR:

<b>Estimated Debt Position</b>	<b>2015/16 Actual £M</b>	<b>2016/17 Estimate £M</b>	<b>2017/18 Estimate £M</b>	<b>2018/19 Estimate £M</b>
Borrowing	99.8	197.7	198.4	199.0
Finance leases and Private Finance Initiatives	64.8	61.7	60.4	58.3
Transferred Debt	15.3	14.9	14.6	14.2
<b>Total General Fund Debt</b>	<b>179.9</b>	<b>274.3</b>	<b>273.4</b>	<b>271.5</b>
HRA	149.0	168.3	164.6	165.0
<b>Total Debt</b>	<b>328.9</b>	<b>442.6</b>	<b>438.0</b>	<b>436.5</b>

<b>Capital Financing Requirement (CFR)</b>	<b>2015/16 Actual £M</b>	<b>2016/17 Estimate £M</b>	<b>2017/18 Estimate £M</b>	<b>2018/19 Estimate £M</b>
General Fund	274.1	280.7	348.7	341.9
HRA	153.5	155.0	174.3	170.6
<b>Total CFR</b>	<b>427.6</b>	<b>435.7</b>	<b>523.0</b>	<b>512.5</b>
Capital expenditure financed from borrowing (inc PFI)				
General Fund (GF)	9.7	75.7	0.3	0.1
HRA	6.0	24.5	1.4	5.5
HRA Voluntary Repayment of Debt	(5.2)	(5.2)	(5.2)	(5.2)
GF Revenue provision for debt Redemption.	0.0	(4.9)	(4.8)	(4.8)
Movement in Other Long Term Liabilities	(2.4)	(2.8)	(2.2)	(2.4)
<b>Total CFR</b>	<b>435.7</b>	<b>523.0</b>	<b>512.5</b>	<b>505.7</b>

### **3. Authorised Limit and Operational Boundary for External Debt**

The Operational Boundary for External Debt is based on the Authority's estimate of most likely, i.e. prudent, but not worst case scenario for external debt. It links directly to the Authority's estimates of capital expenditure, the capital financing requirement and cash flow requirements and is a key management tool for in-year monitoring. Other long-term liabilities comprise finance lease, Private Finance Initiative and other liabilities that are not borrowing but form part of the Authority's debt.

The Authorised Limit for External Debt is the affordable borrowing limit determined in compliance with the Local Government Act 2003. It is the maximum amount of debt that

the Authority can legally owe. The authorised limit provides headroom over and above the operational boundary for unusual cash movements.

The S151 Officer confirms that there were no breaches to the Authorised Limit and the Operational Boundary during 2015/16; borrowing at its peak was £252.7M plus other deferred liabilities of £83M.

#### 4. Upper Limits for Fixed Interest Rate Exposure and Variable Interest Rate

##### Exposure

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 2015/16 (%)	Maximum during 2015/16 (%)
Upper Limit for Fixed Rate Exposure	100	81.8
Compliance with Limits:	Yes	Yes
Upper Limit for Variable Rate Exposure	50	18.2
Compliance with Limits:	Yes	Yes

#### 5. Total Principal Sums Invested for Periods Longer Than 364 days

This indicator allows the Council to manage the risk inherent in investments longer than 364 days and the limit is set at £50M. In 2015/16 the actual principal sum invested for periods longer than 364 days peaked at £27M, (compared to £14M in 2014/15). This reflects the continued investment into the longer term secured bond market.

#### 6. Maturity Structure of Fixed Rate Borrowing

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

Fixed Rate Debt	Lower Limit	Upper Limit	Actual Fixed Debt as at 31/03/2016	Average Fixed Rate as at 31/3/2016	% of Fixed Rate as at 31/3/2016	Compliance with set Limits?
	%	%	£M	%		
Under 12 months	0	45	17.40	3.11	8	Yes
12 months and within 24 months	0	45	0.00	0.00	0	Yes
24 months and within 5 years	0	50	27.70	3.14	13	Yes
5 years and within 10 years	0	75	30.30	3.48	14	Yes
20 years and within 30 years	0	75	15.00	4.65	7	Yes
30 years and within 40 years	0	75	66.70	3.82	31	Yes
40 years and within 50 years	0	75	57.10	3.60	27	Yes
			<b>214.2</b>	<b>3.58</b>	<b>100</b>	

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 a **page 35** 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.

## 7. Ratio of Financing Costs to Net Revenue Stream

This is an indicator of affordability and highlights the revenue implications of existing and proposed capital expenditure by identifying the proportion of the revenue budget required to meet borrowing costs. The definition of financing costs is set out at paragraph 87 of the Prudential Code. The ratio is based on costs net of investment income. The upper limit for this ratio is currently set at 10% for the General Fund to allow for known borrowing decisions in the next two years and to allow for additional borrowing affecting major schemes. The table below shows the likely position based on the approved capital programme adjusted for actual borrowing made in year.

This indicator is not so relevant for the HRA, especially since the introduction of self financing, as financing costs have been built into their 30 year business plan, including the voluntary payment of MRP. No problem is seen with the affordability but if problems were to arise then the HRA would have the option not to make principle repayments in the early years.

Ratio of Financing Costs to Net Revenue Stream	2015/16 Approved %	2015/16 Actual %	2016/17 Forecast %	2017/18 Forecast %	2018/19 Forecast %
General Fund	6.83	5.80	8.47	9.11	9.59
HRA	14.93	14.07	14.12	14.31	14.77
<b>Total</b>	<b>10.17</b>	<b>9.18</b>	<b>11.18</b>	<b>11.57</b>	<b>12.15</b>

\*The figure quoted as the actual for 2015/16 General Fund includes MRP due for the year but not actually charged to revenue due to previous overprovision.

## 8. Adoption of the CIPFA Treasury Management Code

This indicator demonstrates that the authority adopted the principles of best practice.

The Authority adopted the Chartered Institute of Public Finance and Accountancy's *Treasury Management in the Public Services Code* on 19 February 2003 and all its subsequent updates. (latest 2011 edition)

## 9. HRA Limit on Indebtedness

Local authorities are required to report the level of the HRA CFR compared to the level of debt which is imposed (or subsequently amended) by the DCLG at the time of implementation of self-financing.

HRA Summary of Borrowing	2015/16 Approved £M	2015/16 Actual £M	2016/17 Approved £M	2017/18 Approved £M	2018/19 Approved £M
Brought Forward	153.5	153.5	174.6	193.9	190.2
Maturing Debt	(5.1)	(5.1)	(5.2)	(5.2)	(5.2)
New borrowing	25.6	0.0	24.5	1.5	5.5
Appropriations	0.6	0.6			
<b>Carried forward</b>	<b>174.6</b>	<b>149.0</b>	<b>193.9</b>	<b>190.2</b>	<b>190.5</b>
HRA Debt Cap (as prescribed by CLG)	199.6	199.6	199.6	199.6	199.6
<b>Headroom</b>	<b>25.0</b>	<b>50.6</b>	<b>5.7</b>	<b>9.4</b>	<b>9.1</b>

As indicated in this report none of the Prudential Indicators have been breached.

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## GLOSSARY OF TREASURY TERMS

### **Amortised Cost Accounting:**

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

### **Authorised Limit (Also known as the Affordable Limit):**

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

### **Balances and Reserves:**

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

### **Bail - in Risk:**

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

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

### **Bank Rate:**

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

### **Basis Point:**

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

### **Bond:**

A certificate of debt issued by a company, government, or other institution. The bond holder receives interest at a rate stated at the time of issue of the bond. The repayment date is also set at the onset but can be traded during its life, but this will affect the price of a bond

which may vary during its life.

**Capital Expenditure:**

Expenditure on the acquisition, creation or enhancement of capital assets.

**Capital Financing Requirement (CFR):**

The CFR is simply the total historic outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure of the Council's underlying borrowing need.

**Certainty Rate:**

The government has reduced by 20 basis points (0.20%) the interest rates on loans via the Public Works Loan Board (PWLB) to principal local authorities who provide information as specified on their plans for long-term borrowing and associated capital spending.

**CD's:**

Certificates of Deposits with banks and building societies

**Capital Receipts:**

Money obtained on the sale of a capital asset.

**Comprehensive Spending Review (CSR):**

Comprehensive Spending Review is a governmental process in the United Kingdom carried out by **HM Treasury** to set firm expenditure limits and, through public service agreements, define the key improvements that the public can expect from these resources. Spending Reviews typically focus upon one or several aspects of public spending while the CSR focuses upon each government department's spending requirements from a zero base (i.e. without reference to past plans or, initially, current expenditure).

**Constant Net Asset Value (CNAV)**

These are Money Market Funds which maintain a stable price of £1 per share when investors redeem or purchase shares which mean that that any investment will not fluctuate in value.

**Corporate Bonds:**

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

**Cost of Carry:**

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

**Counterparty List:**

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

**Covered Bond:**

Covered bonds are debt securities backed by cash flows from mortgages or public sector loans. They are similar in many ways to asset-backed securities created in securitisation, but covered bond assets remain on the issuer's consolidated balance sheet (usually with an

appropriate capital charge). The covered bonds continue as obligations of the issuer (often a bank); in essence, the investor has recourse against the issuer and the collateral, sometimes known as "dual recourse."

**CPI :**

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

**Credit Rating:**

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

**Department for Communities and Local Government (DCLG) :**

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

**Debt Management Office (DMO):**

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

**Diversification /diversified exposure:**

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

**European Investment Bank (EIB):**

The European Investment Bank is the European Union's non-profit long-term lending institution established in 1958 under the Treaty of Rome. It is a "policy driven bank" whose shareholders are the member states of the EU. The EIB uses its financing operations to support projects that bring about European integration and social cohesion.

**Federal Reserve:**

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

**Floating rate notes (FRNs) :**

Floating rate notes (FRNs) are debt securities with payments that are reset periodically against a benchmark rate, such as the three-month Treasury bill or the three-month London inter-bank offer rate (LIBOR). FRNs can be used to balance risks incurred through other interest rate instruments in an investment portfolio.

**FTSE 100 Index:**

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

**General Fund:**

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

**Gilts:**

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

**Gross Domestic Product (GDP):**

Gross Domestic Product measures the value of goods and services produced 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):**

An open-end mutual fund which invests only in money markets. These funds invest in short term debt obligations such as short-dated government debt, certificates of deposit and commercial paper. The main goal is the preservation of principal, accompanied by modest dividends. The fund's net asset value remains constant (eg £1 per unit) but the interest rate does fluctuate. These are liquid investments, and therefore, are often used by financial institutions to store money that is not currently invested. Risk is extremely low due to the high rating of the MMFs; many have achieved AAA credit status from the rating agencies:

- **Constant net asset value (CNAV)** refers to funds which use amortised cost accounting to value all of their assets. They aim to maintain a net asset value (NAV), or value of a share of the fund, at €1/£1/\$1 and calculate their price to two decimal places known as "penny rounding". Most CNAV funds distribute income to investors on a regular basis (distributing share classes), though some may choose to accumulate the income, or add it on to the NAV (accumulating share classes). The NAV of accumulating CNAV funds will vary by the income received.
- **Variable net asset value (VNAV)** refers to funds which use mark-to-market accounting to value some of their assets. The NAV of these funds will vary by a slight amount, due to the changing value of the assets and, in the case of an accumulating fund, by the amount of income received.

This means that a fund with an unchanging NAV is, by definition, CNAV, but a fund with a NAV that varies may be accumulating CNAV or distributing or accumulating VNAV.

**Multilateral Development Banks:**

See Supranational Bonds below.

**Municipal Bonds Agency**

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

**Non Specified Investment:**

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

**Operational Boundary:**

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

### **Premiums and Discounts:**

In the context of local authority borrowing,

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

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

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

### **Property:**

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

### **Prudential Code:**

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

### **Prudential Indicators:**

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

### **Public Works Loans Board (PWLB):**

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

### **Quantitative Easing (QE):**

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



*against the Bank of England (known as reserves). The end result is more money out in the wider economy". Source: Bank of England.*

**Repo Rate:**

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

**Revenue Expenditure:**

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

**RPI:**

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

**(Short) Term Deposits:**

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

**Specified Investments:**

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

**Supported Borrowing:**

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

**Supranational Bonds:**

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

**Treasury (T) -Bills:**

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

**Temporary Borrowing:**

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

**Treasury Management Code:**

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

**Treasury Management Practices (TMP):**

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

**Unsupported Borrowing:**

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

**Variable Net Asset Value (VNAV):**

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

**Yield:**

The measure of the return on an investment instrument.





### Investment Benchmarking

31 March 2016

Southampton  
22 English Unitaries Average  
128 Local Authorities Average

Internal Investments	£80.3m	£52.7m	£61.4m
External Funds	£7.5m	£8.1m	£7.3m
<b>TOTAL INVESTMENTS</b>	<b>£87.8m</b>	<b>£61.0m</b>	<b>£68.7m</b>

#### Security

Average Credit Score	3.48	4.17	4.22
Average Credit Rating	AA	AA-	AA-
Average Credit Score (time-weighted)	1.49	3.73	3.80
Average Credit Rating (time weighted)	AAA	AA-	AA-
Number of Counterparties / Funds	28	22	23
Proportion Exposed to Bail-in	53%	65%	66%

#### Liquidity

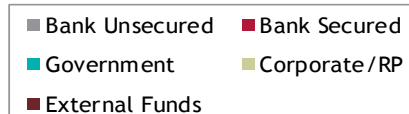
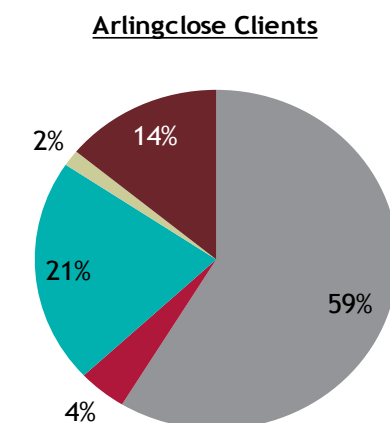
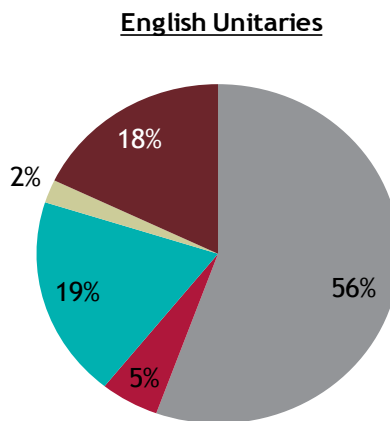
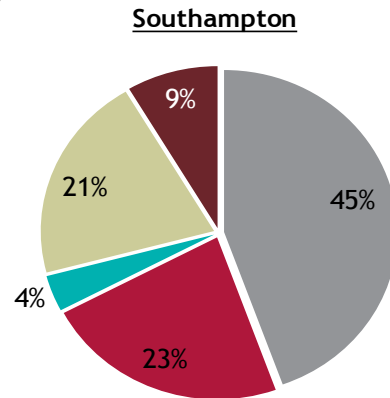
Proportion Available within 7 days	39%	41%	41%
Proportion Available within 100 days	46%	63%	64%
Average Days to Maturity	282	119	53

#### Market Risks

Average Days to Next Rate Reset	203	109	70
External Fund Volatility	2.9%	1.3%	2.7%

#### Yield

Internal Investment Return	0.96%	0.64%	0.71%
External Funds - Income Return	5.03%	3.87%	3.15%
External Funds - Capital Gains/Losses	3.70%	0.78%	-0.34%
External Funds - Total Return	8.73%	4.65%	2.81%
Total Investments - Income Return	1.30%	1.24%	1.04%
<b>Total Investments - Total Return</b>	<b>1.62%</b>	<b>1.41%</b>	<b>0.96%</b>



#### Notes

- Unless otherwise stated, all measures relate to internally managed investments only, i.e. excluding external pooled funds.
- Averages within a portfolio are weighted by amount, but averages across authorities are not weighted.
- Credit scores are calculated as AAA = 1, AA+ = 2, etc.
- Volatility is the standard deviation of weekly total returns, annualised.

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# Agenda Item 9

<b>DECISION-MAKER:</b>	GOVERNANCE COMMITTEE		
<b>SUBJECT:</b>	FINANCIAL STATEMENTS FOR 2015/16		
<b>DATE OF DECISION:</b>	6 JUNE 2016		
<b>REPORT OF:</b>	SECTION 151 OFFICER		
<b><u>CONTACT DETAILS</u></b>			
<b>AUTHOR:</b>	<b>Name:</b>	Sue Poynter	Tel: 023 80 834153
	<b>E-mail:</b>	<a href="mailto:Sue.Poynter@southampton.gov.uk">Sue.Poynter@southampton.gov.uk</a>	
<b>Director</b>	<b>Name:</b>	Mel Creighton	Tel: 023 80 834897
	<b>E-mail:</b>	<a href="mailto:Mel.Creighton@southampton.gov.uk">Mel.Creighton@southampton.gov.uk</a>	
<b>STATEMENT OF CONFIDENTIALITY</b>			
NOT APPLICABLE			
<b>BRIEF SUMMARY</b>			
<p>In accordance with the Accounts and Audit Regulations 2011 the Financial Statements 2015/16 were signed by the Section 151 (S151) Officer on 13 May 2016 which is earlier than the statutory requirement to have the statements signed by the 30 June. A copy of the draft unaudited Financial Statements is available in the Members Room.</p>			
<p>The Annual Audit, carried out by our auditors Ernst &amp; Young, commenced on 6 June 2016 and is due to be completed by the 15<sup>th</sup> July 2016. Any major changes to the Financial Statements arising from the annual audit will be reported to the 25<sup>th</sup> July 2016 Governance Committee after the completion of the audit.</p>			
<b>RECOMMENDATIONS:</b>			
	(i)	Notes that the Draft Financial Statements 2015/16 have been signed by the S151 Officer.	
	(ii)	Notes that the approval of the audited Financial Statements 2015/16 by the Governance Committee will take place on the 25 <sup>th</sup> July 2016.	
	(iii)	Notes that there is a revision to the statement on the Minimum Revenue Provision Policy as set out in paragraph 42.	
<b>REASONS FOR REPORT RECOMMENDATIONS</b>			
1.	<p>It is a legal requirement that the S151 Officer signs the Financial Statements by 30 June 2016 and certifies that they present '<i>a true and fair position of the financial position of the body at the end of the year to which it relates and of that body's income and expenditure for that year</i>'. It should be noted that this have again been completed earlier than required this year in recognition that for the financial year 2017/18 it will be a legal requirement to have the accounts certified by 31<sup>st</sup> May.</p> <p>This has been made possible by significant effort from the Finance Team and due to sound financial management procedures being in place. The draft statements have been brought to the June committee in order to give</p>		

	members further opportunity and time to scrutinise them before final approval. It is envisaged that the July report will detail any non-trivial amendments made as a result of the audit along with an amended set of statements.
<b>ALTERNATIVE OPTIONS CONSIDERED AND REJECTED</b>	
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 S151 Officer no later than 30 June.
<b>DETAIL (Including consultation carried out)</b>	
	<b>CONSULTATION</b>
3.	Not applicable.
	<b>FINANCIAL STATEMENTS</b>
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 Committee are detailed below.
	<b>ACCOUNTING ISSUES AND DEVELOPMENTS</b>
5.	The main accounting issues and developments are: <ul style="list-style-type: none"> <li>• Sale of Higher Value Vacant Council Homes</li> <li>• Strategic Services Partnership – Capita</li> <li>• Development Company</li> <li>• Property Investment Fund</li> <li>• School National Funding Formula</li> <li>• Outcome Based Budgeting</li> </ul>
	<b><u>Pension Fund Deficit</u></b>
6.	The deficit on the Pension Fund, as at 31 March 2016, has decreased from £390.7M to £366.8M. Further details are included in paragraphs 36 – 38.
	<b><u>Sale of Higher Value Vacant Council Homes</u></b>
7.	On 13th October 2015 the Government published the Housing and Planning Bill 2015/16. This bill sets out a number of proposed changes to Housing legislation which will impact on the current delivery of services to tenants and the resources required to do so. One of these proposed changes relates to the sale of higher value vacant council homes. The Bill will enable the government to set out a definition of ‘higher value’ homes and will create a duty on local authorities to consider selling homes that meet this definition when they become vacant. The Government intends to use the receipts from these sales to fund the extension of the right to buy scheme to housing association tenants and to create a Brownfield Development fund. The Bill will also allow the government to estimate the amount of money it would expect each individual authority to receive, in each financial year, from sales of higher value homes. Authorities will then be required to pay this amount to the Government. Once full details are published we will be able to review

	the impact on the HRA Business Plan both in the potential number of homes that will be required to be sold and the amount due to be paid to the Government under the annual calculation.
	<b><u>Strategic Services Partnership – Capita</u></b>
8.	As part of the overall transformation programme, the Council has been working with our major contract partners on new and innovative approaches to delivering services in the most cost effective and efficient way. Our strategic services partner, Capita, currently delivers our IT, HR (including Learning and Development and payroll services), Customer Services, Procurement and Property Services. A full review of this contract has been undertaken, identifying areas where we believe Capita can provide additional support and other areas where changing circumstances mean that those services may be better delivered in house. In addition to these changes we have sought to re-focus some of the support from Capita particularly in relation to our emerging digital programme and Council wide procurement.
9.	The results of this work were presented to Members at Full Council on Wednesday 16th March 2016, and Members agreed that Property and the strategic element of HR will be brought back into the Council. These services will be reintegrated into the Council during 2016/17.
	<b><u>Development Company</u></b>
10.	Cabinet approved at its meeting in April 2015 to undertake the necessary works to set up a wholly owned Development Company (DevCo) which could enable the Council to make maximum use of its assets. Recognising that the Council has a number of sites across the city, both in the city centre and surrounding areas of Council owned accommodation which have the potential to deliver more homes for the city and promote economic growth.
11.	The city's estate regeneration programme is designed to create successful communities to ensure everyone in the city will benefit from this economic growth. The creation of a DevCo would afford the Council new opportunities. One of these will be to increase the supply of new housing across the city. Whilst initially considered in relation to the provision of additional homes in the City, consideration is being given to ensuring that the DevCo is adaptable to deal with all development options.
12.	The structure of the DevCo, governance and financing is currently being finalised but is expected to be in place during 2016/17 to provide an alternative delivery model for development in the City.
	<b><u>Property Investment Fund</u></b>
13.	Local Authorities face a difficult financial climate with ever decreasing funding from Central Government. This has led to Councils looking at innovative ways to generate regular revenue streams so they can reduce reliance on Central Government funding.
14.	Many Authorities are now acting to strengthen their funding base and reduce reliance on Government grants by building asset portfolios that provide a commercial return and have made the decision to expand their investment property portfolio, which provides an important and substantial

	revenue income stream in order to generate a higher level of income by acquiring additional properties. The 2016/17 revenue estimates assume additional net income of £1M from this activity. In order to achieve this additional investment, funding is required. At its meeting in February 2016, Council approved the addition of a £65M scheme to the Leaders Portfolio capital programme to facilitate the creation of a Property Investment Fund (PIF). The Business Case and Investment Strategy has now been agreed and the first investments will be undertaken in 2016/17.	
	<b><u>Schools National Funding Formula</u></b>	
15.	Schools funding is provided by way of the Dedicated Schools Grant (DSG) and is made up of 3 elements, Schools Block, Early Years Block and High Needs Block. On the 7 <sup>th</sup> March 2016 the Department for Education (DfE) launched its latest plans on introducing a National Funding Formula for schools. Consultation will be undertaken in 2 stages; stage 1 consulted on the principles and building blocks of the new funding formula with stage 2 bringing in calculations in order to present potential funding. At this stage, it is not possible to accurately assess the impact the proposed changes will have on the total available schools funding for the Council or how this funding will be distributed between phases or types of schools and academies.	
16.	Consultation to date has focused on the Schools and High Needs Blocks. From 2016/17, high needs funding will be allocated on the basis of a new formula. The impact of any changes in funding as a result will be monitored in year along with the overall availability of the DSG.	
	<b><u>Outcome Based Budgeting</u></b>	
17.	In 2016/17, the Council will move to an outcomes based commissioning approach to determine the best way of delivering services, and the aims of the budgeting process will follow suit to deliver an outcomes based budget. The Council will review its current expenditure on an outcomes basis and from this baseline point will determine what the appropriate level of spend needs to be to deliver on its agreed priorities, within the financial envelope available.	
	<b>GENERAL FUND REVENUE EXPENDITURE AND INCOME</b>	
18.	Within the Financial Statements, the Comprehensive Income & Expenditure Account (CIES) presents 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 7 of the Final Accounts presents the Council's expenditure and income in a format that shows the net impact on the General Fund Balance, compared to budget. The outturn for the council was a contribution to general reserves of £3.25M.	
19.	The following table shows actual expenditure compared to the working budgets 2015/16.	
20.		
		<b>(Under) / Over Spend £M</b>

	<b>Portfolio Total</b>	<b>4.65</b>
	Levies & Contributions	(0.07)
	Capital Asset Management	(2.11)
	Other Expenditure & Income	(4.70)
	Transfers to reserves in year	(0.44)
	Grants	(0.60)
	<b>Transfer to Reserves – Year End Surplus</b>	<b>(3.25)</b>
21.	Against this are requests to carry forward budget of £0.13M. Full details of this carry forward will be included in the General Fund Revenue Outturn Report 2015/16 that will go to Council on 20 July 2016.	
	<b>GENERAL FUND BALANCES AND RESERVES</b>	
22.	The General Fund balance stands at £12.8M. This is a net reduction of £7.13M compared to a balance of £19.9M at the end of 2014/15. This is line with the approved budget for 2015/16.	
23.	The General Fund Balance consists of the following allocations:	
		<b>£M</b>
	Amount Required to support 2016/17 budget	3.9
	Minimum Balance as per Risk Assessment	5.5
	Amount over and above minimum balance	3.4
	<b>Total</b>	<b>12.8</b>
24.	The Council maintains a number of useable reserves, as detailed in the Balance Sheet.	
25.	Within the Medium Term Financial Strategy (MTFS), the financial risks facing the Council in the medium term are identified. This includes assessing the risk of continuing reductions in Central Government Funding. The subsequent budget shortfalls that the Council then faces and overall local and national economic factors which can affect the financial stability of the council.	
26.	In light of the increasing level of risk and uncertainty identified with the MTFS and the increased probability of resources being required to support its delivery, a full review of useable reserves and provisions has been undertaken. In closing the accounts for 2015/16 a view has been taken on maintaining and strengthening, where necessary, those reserves specifically earmarked to support the highest areas of risk resulting in the rationalisation of reserves and provisions where possible and in some cases additional funding being set aside. Full details can be found on page 14 of the Final Accounts.	
	<b>HOUSING REVENUE ACCOUNT (HRA)</b>	
27.	The Table on page 9 of the Final Accounts presents the Council's	

	expenditure and income in a format that shows the net expenditure within the HRA compared to budget. The budget for the year was set at £0.26M surplus with a breakeven actual outturn position for the year. The HRA working balance at 31 March 2016 remains at £2M.		
28.			<b>£M</b>
	Increase in Repairs		2.2
	Savings on Supervision & Management		(0.3)
	Reduction in Capital Financing Charges		(0.7)
	<b>Variation on day to day services</b>		<b>1.2</b>
	Reduction in Capital Funding from Direct Revenue Financing and Depreciation		(0.9)
	<b>Total Variation</b>		<b>0.3</b>
<b>CAPITAL EXPENDITURE</b>			
29.	In 2015/16 the Council spent £75.89M on capital projects. This was £29.62M less than the latest approved estimates, due largely to re-phasing and slippage of expenditure which will now be incurred in 2016/17. Of this expenditure £37.07M related to the General Fund and £38.82M to the HRA.		
30.	The General Fund Capital Outturn 2015/16 and the Housing Revenue Account Revenue and Capital Outturn 2015/16 will be reported to Council in July. These reports contain further details, including setting out how the expenditure has been financed.		
<b>THE COLLECTION FUND</b>			
31.	There is an overall surplus on the Collection Fund of £9.97M to be carried forward into 2016/17. The following table shows how the surplus has been derived:		
			<b>£M</b>
	NDR Surplus for Year		(2.04)
	Council Tax Deficit for Year		1.12
	<b>Total Surplus on Collection Fund 2015/16</b>		<b>(0.92)</b>
	Collection Fund Deficit B/Fwd 2014/15		(9.05)
	<b>Collection Fund Surplus to C/Fwd 2016/17</b>		<b>(9.97)</b>
<b><u>Council Tax</u></b>			
32.	The Council Tax element of the Collection Fund had a deficit for the year of £1.12M. There was a surplus brought forward from 2014/15 of £3.27M, to give a surplus to be carried forward to 2016/17 of £2.15M.		
33.	When setting the Council Tax for 2016/17 in February 2016, it was estimated that there would be a surplus of £1.02M to be carried forward. This estimated surplus was taken into account in setting the 2016/17 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 2015/16. This leaves a surplus of £1.13M that will be carried forward to 2016/17 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 setting the Council Tax for 2017/18.
	<b><u>NDR</u></b>
34.	The NDR element of the Collection Fund had a surplus for the year of £2.04M. There was a surplus brought forward from 2014/15 of £5.78M, to give a surplus carried forward of £7.83M.
35.	When setting the Council Tax for 2016/17 in February 2016, it was estimated that there would be an NDR surplus of £6.14M to be carried forward (the Council's share of this surplus of £3M was taken into account in setting the 2016/17 budget for the Council). This additional a surplus of £1.69M, that will be carried forward to 2017/18, to be shared between Central Government (50%), Southampton (49%) and Hampshire Fire and Rescue Authority (1%)
	<b>PENSIONS</b>
36.	In 2015/16 the Council paid an employer's contribution of £22.0M into Hampshire County Council's Pension Fund. The employer's rate set for 2015/16 was 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 was equivalent to 6.0% of the value of the payroll as at 31 March 2010 adjusted for Schools transfers and inflation.
37.	The Council's share of the assets in the Hampshire County Council pension fund at 31 March 2016 was £625.2M, compared to its estimated liabilities of £992.1M, giving an estimated deficit on the Fund of £366.8M (£390.7M in 2014/15). This was due to an actuarial loss following a change to their financial assumptions.
38.	The deficit will be made good by taking into account anticipated changes in market conditions, levels of anticipated employee contributions and future employer contributions.
	<b>ACCOUNTING AND OTHER POLICIES</b>
39.	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.
40.	The Accounting Policies are described in detail on pages 25 to 38 of the Financial Statements and cover such items as: <ul style="list-style-type: none"> <li>• Property, Plant and Equipment</li> <li>• Depreciation</li> <li>• Heritage Assets</li> <li>• Pensions</li> <li>• Accruals</li> </ul>

	<ul style="list-style-type: none"> <li>• PFI contracts</li> <li>• VAT</li> </ul> <p>The main changes to the Accounting Policies in 2015/16 the update of Basis of Preparation of the accounts Adjustments Between Accounting Basis and Funding Basis and the removal of non-material accounting policies</p>
41.	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.
42.	There has also been an amendment to the MRP policy as outlined in Review of Prudential Limits and Treasury Management Outturn 2015/16 report elsewhere on this Agenda.
<b>RESOURCE IMPLICATIONS</b>	
<b><u>Capital/Revenue</u></b>	
43.	The capital and revenue implications are considered as part of the General Fund Capital Outturn report and the General Fund Revenue Outturn report that will be presented to Council in July.
<b><u>Property/Other</u></b>	
44.	There are no specific property implications arising from this report.
<b>LEGAL IMPLICATIONS</b>	
<b><u>Statutory power to undertake proposals in the report:</u></b>	
45.	Accounts and Audit Regulations 2011.
<b><u>Other Legal Implications:</u></b>	
46.	None.
<b>POLICY FRAMEWORK IMPLICATIONS</b>	
47.	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.
<b>KEY DECISION?</b>	Yes/No
<b>WARDS/COMMUNITIES AFFECTED:</b>	
<b><u>SUPPORTING DOCUMENTATION</u></b>	
<b>Appendices</b>	
1.	None
<b>Documents In Members' Rooms</b>	
1.	Draft Unaudited Financial Statements 2015/16.

<b>Equality Impact Assessment</b>		
Do the implications/subject of the report require an Equality Impact Assessment (EIA) to be carried out?		Yes/No
<b>Privacy Impact Assessment</b>		
Do the implications/subject of the report require a Privacy Impact Assessment (PIA) to be carried out.		Yes/No
<b>Other Background Documents</b>		
<b>Equality Impact Assessment and Other Background documents available for inspection at:</b>		
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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<b>DECISION-MAKER:</b>	GOVERNANCE COMMITTEE		
<b>SUBJECT:</b>	ANNUAL GOVERNANCE STATEMENT		
<b>DATE OF DECISION:</b>	6 <sup>th</sup> JUNE 2016		
<b>REPORT OF:</b>	SERVICE DIRECTOR FINANCE & COMMERCIALISATION		
<b><u>CONTACT DETAILS</u></b>			
<b>AUTHOR:</b>	<b>Name:</b>	Peter Rogers	<b>Tel:</b> 023 8083 2835
	<b>E-mail:</b>	peter.rogers@southampton.gov.uk	
<b>Director</b>	<b>Name:</b>	Mel Creighton	<b>Tel:</b> 023 8083 4897
	<b>E-mail:</b>	mel.creighton@southampton.gov.uk	
<b>STATEMENT OF CONFIDENTIALITY</b>			
Not applicable			
<b>BRIEF SUMMARY</b>			
In accordance with the Accounts and Audit Regulations the council is required to develop and publish an Annual Governance Statement (AGS). The AGS is intended to provide an accurate representation of the corporate governance arrangements in place during the year and to identify any significant gaps or areas where improvements may be required.			
CIPFA recommends that Audit [Governance] Committees are provided with sight of a draft of the AGS noting that the final version will not be signed until July as part of the Statement of Accounts.			
<b>RECOMMENDATIONS:</b>			
The Governance Committee is asked to:			
	(i)	Review the draft 2015-16 AGS (Appendix 1); and	
	(ii)	Note the status of the 2014-15 AGS Action Plan (Appendix 2).	
<b>REASONS FOR REPORT RECOMMENDATIONS</b>			
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.		
<b>ALTERNATIVE OPTIONS CONSIDERED AND REJECTED</b>			
3.	No alternative options have been considered.		
<b>DETAIL (Including consultation carried out)</b>			
4.	The production of an AGS is a mandatory requirement in accordance with		

	Regulation 6 (1) (b) of the Accounts and Audit England Regulations 2015. This requires that the council must, each financial year, conduct a review of the effectiveness of the system of internal control and prepare an annual governance statement.
5.	The draft 2015-16 AGS has been developed and shared with the council's 'Controls Assurance Management Group'. This group comprises the Section 151 Officer (Service Director – Strategic Finance and Commercialisation), Monitoring Officer (Service Director – Legal and Governance), Chief Internal Auditor, Chief Strategy Officer and the Chair of Governance Committee.
6.	The AGS is produced following a review of the systems and processes that comprise the Council's governance arrangements. This review, based on CIPFA/SOLACE guidance, is informed by an 'assurance gathering process'. The key components of this process are completion of an 'Assurance Framework' document together with 'Self-Assessment Statements' completed by each Service 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.
7.	The draft AGS has also been reviewed by the Council Management Team.
8.	The AGS must be current at the time it is published so the final version of the 2015-16 AGS will be presented to the Governance Committee at the July meeting on 25 <sup>th</sup> July 2016 for approval prior to being signed by the Leader of the Council and the Chief Executive respectively.
9.	It should be noted that CIPFA/Solace has recently issued a revised and updated 'Delivering Good Governance in Local Government: Framework' which is intended to be used as best practice for developing and maintaining a locally adopted code of governance and to assist local authorities in reviewing the effectiveness of their governance arrangements.
10.	This revised guidance applies to annual governance statements prepared for the financial year 2016/17 onwards. The council's arrangements will therefore be reviewed in the forthcoming period to ensure that it remains aligned with best practice.
<b>RESOURCE IMPLICATIONS</b>	
<b><u>Capital/Revenue</u></b>	
11.	None
<b><u>Property/Other</u></b>	
12.	None
<b>LEGAL IMPLICATIONS</b>	
<b><u>Statutory power to undertake proposals in the report:</u></b>	
13.	The Accounts and Audit (England) Regulations 2015 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. The production of an AGS is a mandatory requirement in accordance with

	Regulation 6 (1) (b) of the Accounts and Audit England Regulations 2015.	
<b>Other Legal Implications:</b>		
14.	None	
<b>POLICY FRAMEWORK IMPLICATIONS</b>		
15.	None	
<b>KEY DECISION?</b>		No
<b>WARDS/COMMUNITIES AFFECTED:</b>		None
<b><u>SUPPORTING DOCUMENTATION</u></b>		
<b>Appendices</b>		
1.	Draft Annual Governance Statement 2015-16	
2.	AGS 2014-15 : Status Report	
<b>Documents In Members' Rooms</b>		
1.	NONE	
<b>Equality Impact Assessment</b>		
Do the implications/subject of the report require an Equality Impact Assessment (EIA) to be carried out.		No
<b>Privacy Impact Assessment</b>		
Do the implications/subject of the report require a Privacy Impact Assessment (PIA) to be carried out.		No
<b>Other Background Documents</b>		
<b>Equality Impact Assessment and Other Background documents available for inspection at:</b>		
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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### **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/policies/Code-of-Corporate-Governance\\_tcm63-364106.pdf](http://www.southampton.gov.uk/policies/Code-of-Corporate-Governance_tcm63-364106.pdf)

or can be obtained from the:

Service Director – Legal and Governance,  
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 2015, Regulation 6(1), 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 council is directed and controlled and its activities through which it accounts to, engages with and leads its communities. It enables the council 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 31st March 2016 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 include arrangements for:

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

Delivery of key outcomes and priorities is guided by a framework of strategic plans and policies which are developed and agreed at three different levels:

- Sub-regional level, which cover more than one local authority;
- City level by 'Southampton Connect' and with our partners; and
- Council level for services which we deliver or commission.

The sub-regional level is through the Partnership for Urban South Hampshire ("PUSH") and the Solent Local Enterprise Partnership ("Solent LEP"). PUSH is a collaborative partnership working arrangement between the local authorities in the area to support the sustainable economic growth of the sub region. Solent LEP is led by the business community and supported by three university partners, the further education sector, three unitary authorities, eight district councils, one county council and the voluntary and community sector – all working together to secure a more prosperous and sustainable future for the Solent area. PUSH works collaboratively with Solent LEP to deliver its roles and objectives.

Southampton Connect is the strategic partnership in the city which seeks to address the key challenges facing the city in order to improve outcomes for all those who live, work and visit the city. This group, chaired by the Chief Executive of Southampton City Council and including city leaders for health, business, education, police, fire and rescue and the voluntary sector, have come together to agree a 10 year city vision, 'Southampton – A city of opportunity where everyone thrives'.

See the following link:

[http://www.southampton-connect.com/images/Updated%20CITY%20STRATEGY-15-25\\_tcm23-376953.pdf](http://www.southampton-connect.com/images/Updated%20CITY%20STRATEGY-15-25_tcm23-376953.pdf)

The three key priorities identified in the Southampton City Strategy 2015-2025 ("City Strategy") have been developed through focusing on the challenges facing the city, regional aspirations and feedback from residents via the City Survey (conducted in early 2014). The City Strategy also identifies a number of 'cross-cutting' themes that require the collective action of Southampton Connect partners to progress.

Southampton Connect, who meet on a monthly basis, work closely with the following key city partnerships to deliver the vision:

- Health and Wellbeing Board; and
- Safe City Partnership; and
- Employment, Skills & Learning Partnership.

These partnerships enable the council to work with organisations from the public, private and voluntary sectors on cross-cutting issues, which the council cannot tackle alone. In addition, there are 3 statutory partnerships: the Youth Offending Service Board, the Southampton Local Safeguarding Children Board and the Southampton Local Safeguarding Adults Board.

# ANNUAL GOVERNANCE STATEMENT

The Southampton City Council Strategy 2014-2017 ("Council Strategy") is a key strategic document that outlines how the council will contribute towards the city vision. The Council Strategy sets out council's priorities for the period and the required outcomes and associated success measures by 2017. The council has identified and agreed seven priorities with each having specific outcomes and measures aligned to them and explain where the council will focus its attention to deliver to the vision.

During 2015-16 these were further refined to 4 priority outcomes which will be reflected in a revised Council Strategy to be presented to Council for approval in July 2016.

See the following link:

[http://www.southampton.gov.uk/Images/Council%20Plan%202014\(13Nov\)\\_tcm63-367231.pdf](http://www.southampton.gov.uk/Images/Council%20Plan%202014(13Nov)_tcm63-367231.pdf)

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

The Council Strategy 2014-17 was formally approved by Council in July 2014 and reflects feedback from residents through the City Survey conducted early 2014. The Council Strategy is however subject to periodic review to ensure that it reflects key priorities and outcomes taking into account both internal and external factors. See comments above

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 Service Director – Legal and Governance and is subject to an annual 'light touch' review with any recommendations presented to the Governance Committee for approval.

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

The Council Strategy identifies the key priorities, expected outcomes and success measures however the City Council continues to face significant financial challenges with a projected funding gap set to widen further due to increasing demand driven by demographics and long standing social, health and economic pressures faced by many residents, particularly our most vulnerable residents.

It is recognised that in order to deliver the outcomes and priorities of the Council Strategy 2014-17 the council needs to radically change how it does business and to embrace new ways of working. A new operating model and Transformation Programme, approved by Cabinet and Full Council in February 2015, is being implemented and includes digital transformation, restructuring of the council and a systematic redesign of how services are delivered and managed. This will include the council becoming less dependent on central government funding, increasing income generation and regularly commissioning the services needed based on outcomes.

## **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**

Performance against the key success measures is actively monitored and reported to both the Council's Management Team, Head of Strategy Unit and the Overview and Scrutiny Management Committee. Performance reports, in the form of performance scorecards with 'RAG' (Red/Amber/Green) status indicators, are published quarterly on the council's website.

In addition, all significant commercial partnership working arrangements have a range of key performance indicators which are used to verify and manage service performance. The council is committed to achieving best value from its suppliers and ensuring that goods and services are

# ANNUAL GOVERNANCE STATEMENT

procured in the most efficient and effective way. Regular review meetings are held with key suppliers in order to ensure that contracts remain fit for purpose.

The council's 'Contract Procedure Rules', which form part of the council's Constitution, govern how the council buys the supplies, services and works that it needs.

**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 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 council's website at: <http://www.southampton.gov.uk/council-democracy/meetings/council-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 'Code of Conduct and Disciplinary Rules' are in place for employees. The Code of Conduct sets out the expected standards of behaviour for all employees and the Disciplinary Rules set out examples of behaviour which are considered to be a breach of the Code of Conduct or a breach of the employee's contract of employment.

**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 Service Director – Legal and Governance 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 council has a 'Risk Management Policy and Strategy' that sets out the framework, arrangements and responsibilities in respect of how risks, relating to the delivery of key outcomes and priorities, are identified and managed. The document is subject to annual review to ensure that it continues to reflect good practice and remains aligned with current business processes and practices. The policy and strategy is presented to the Governance Committee for review and approval.

The Governance Committee has responsibility to provide independent assurance on the adequacy of the risk management framework and the internal control and reporting environment. In addition, the Risk Management Policy and Strategy summarises the principal roles and responsibilities recognising that all employees, members and those who act on behalf of the council have a role to play in the effective management of risk.

# ANNUAL GOVERNANCE STATEMENT

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

The council is committed to safeguarding public funds and has in place an anti-fraud and anti-corruption policy statement and strategy. The strategy summarises the responsibilities of Members, Chief Officers and employees and outlines the process to be followed where there is suspicion of financial irregularity. The strategy applies equally to all organisations with which the Council has joint working relations.

The council also has in place an Anti-Money Laundering policy and a Bribery Policy which are also published on the council's website and set out both the expectations and responsibilities of Members, Chief Officers and employees. These policies and strategies are subject to periodic review.

## **j) Ensuring effective management of change and transformation**

The council's Transformation Programme is led by the Transformation Implementation Director who reports to the Chief Executive. The Programme is governed by the Transformation and Improvement Board ("TIB") which is chaired by the Cabinet Member lead for Transformation and supported by the Council Management Team ("CMT").

Progress and delivery of the overall Programme and individual projects is in the first instance monitored at Transformation Director and Portfolio Lead level, and thereafter by CMT and the 'TIB' which is led by Cabinet Members. CMT and TIB review the validity and achievability of transformation projects and provide approval (or not) to projects. Work in 2015-16 has included progress on digital transformation, renegotiating the contract with the council's Strategic Services Partner (Capita), centralising business operations and restructuring the council.

A fundamental part of the Transformation Programme is the implementation of a new operating model for the Council which is aligned with, and focused on, delivering the outcomes and priorities of Council Strategy 2014-17. The new operating model, which is to be fully implemented by 2017, is intended to create a sustainable council that is:

- **More self-reliant** – over time becoming less dependent on central government funding and increasing income generation.
- **Focused on outcome-based services** - regularly commissioning the services needed based on outcomes for residents, and making evidence based decisions on those services that need to be stopped or changed.
- **Quicker to respond** – more able to adapt to changing circumstances and residents' needs including improving the digital offer to our customers.
- **Equipped to work in new ways** – implement new ways of working for council staff, seeking new ways of reducing procurement spend and better use of assets.
- **Providing a mixed economy of service providers** – taking different approaches to delivering services, taking ideas from all sectors as well as the public sector.

## **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 to the governance requirements of the CIPFA 'Statement on the Role of the Chief Financial Officer ("CFO") in Local Government (2010)'. The CFO is professionally qualified and is a member of the Council Management Team and has direct access to the Chief Executive. The CFO is actively involved in ensuring that strategic objectives are aligned to the longer-term finance strategy. The CFO has input into all major

# ANNUAL GOVERNANCE STATEMENT

decisions, advises the Executive on financial matters and is responsible for ensuring that budgets are agreed in advance, that the agreed budget is robust 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 to 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 Service Director – Legal and Governance 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.

## **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. The Chief Executive together with the Council Management Team is responsible for the leadership and direction of the council including the co-ordination and commissioning of council-wide activity and programme management.

## **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, the internal control environment and the integrity of the financial reporting and annual governance statement process.

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

'Decision Making - Corporate Standards and Guidance for Officers' is published on the internet and sets out the decision-making process, highlighting those aspects of decision making that are compulsory and must be complied with in all respects.

In addition, the council has Financial Procedure Rules which provide the framework for managing the council's financial affairs, and Contract Procedure Rules which govern the method by which the

# ANNUAL GOVERNANCE STATEMENT

council spends money on supplies, services and works. Both documents form part of the council's Constitution.

## **q) Whistle blowing and receiving and investigating complaints from the public**

The council has in place 'Whistleblowing Policy' (Duty to Act) which 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. This procedure sets out the action that individuals should take to report a concern and also the action to take if, in extreme circumstances, a matter is not addressed or if they feel that raising the matter internally could result in evidence of malpractice being concealed.

There is a Corporate Complaints policy and procedure in place which is published on the council's website and sets out how a complaint will be dealt with. In accordance with legislation there are separate procedures in place in respect of Adults' and Children's Social Care. There is also an 'Unreasonably Persistent and Vexatious Customer Behaviour Policy'. Complaints about Members are dealt with under the Members' Code of Conduct.

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

A Member Development Strategy is in place which sets out how Member Learning and Development will be identified, delivered and managed. The Strategy refers to the following key values:

- Development will be available to all Members;
- Development will be based on the identified and agreed needs of the individual Member;
- All Members will contribute to identifying and agreeing their development needs
- Development will be delivered through a variety of methods and times to ensure equality of access; and
- An acknowledgement that Members may have transferable skills that can be used to help them perform or develop their Council role.

In addition, a comprehensive induction programme for new Members is in place and delivered following elections.

The identification of Senior Officer development needs forms part of the performance appraisal process and will be an integral part of the new 'Performance Contracts' (introduced as part of the New Operating Mode). of considerable importance during this time of transformation and change

A 'Manager's Toolkit' is in place which consists of a range of tools that both inform and guide managers and supervisors with regard best practice in undertaking key processes of management and to enable a consistent approach. The Toolkit is also able to be used by newly appointed managers as part of their induction with established managers able to use the toolkit as a refresher. The toolkit, which is based on best practice, consists of different types of learning opportunities and materials.

In order to better reflect the new requirements of our transforming council, the Learning and Development Plan is to be run on a 6 monthly cycle (April – September and October to March) and will be based on training that is essential from the council perspective (e.g. due to law / regulation or mandate) and the skills / knowledge required by staff to carry out their work role to the appropriate standard.

# ANNUAL GOVERNANCE STATEMENT

This “essential learning” will be identified through:

- the creation of Learning and Development Pathways (beginning with the main occupational groupings across the council) and the developing role of managers
- the continued evolution of the Managers’ Toolkit, reflecting the core behaviours and provision of key learning opportunities for new skills as well as the embedding of role requirements (e.g. HR Policy Case Study workshops) and accreditation of learning

The Learning and Development team will work with stakeholder managers / subject matter experts to inform and construct the pathways and identify methods of training provision which are affordable, sustainable and accessible with the new training plan format commencing October 2016.

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

The council supports the principle that people should have the opportunity to voice their opinions on issues that affect them. The views of customers are at the heart of the council’s service delivery arrangements and are actively sought.

The council’s website includes a ‘Have your say’ section which set out how residents and other stakeholders can voice their opinions and shape service delivery. It includes information on:

- Consultation
- E-Petitions
- Comments, compliments and complaints
- Have your say at meetings

In addition, where appropriate, public consultation is used to seek the views of residents and stakeholders. For example the 2015-16 Pre Budget consultation process helped shape the final 2016-17 budget report. Information was made available in an easy-to-understand format and respondents were informed on how their feedback was used. This was then reported to Cabinet before they made their final recommendations to Council.

The council has established a ‘People’s Panel’ which now has a membership of over 1,000, and an average response rate of 59% from them over 25 polls and surveys. This Panel comprises a group of residents who are interested in taking part in consultations and other opportunities to express their views on council services, health services and living in the city, the results of which will be used to inform future decisions and services. For example, a People’s Panel event on housing was held in November 2015 whereby participants were invited to discuss four important questions about housing in the city, and had the opportunity to listen to and question a panel of experts.

The council also track residents’ views over time to see how changes in the city affect their opinions and experience of the city. Members of the People’s Panel may also be asked to take part in various forms of activity including surveys, quick polls, interviews and workshops.

Southampton City Council is the first council to develop a ‘Citizen Science’ project with around 100 members of the People’s Panel. ‘Citizen Science’ is defined as scientific work undertaken by members of the public, often in collaboration with or under the direction of professional scientists and scientific institutions. In this case the participants are supported by the Council’s Strategy Unit, as well as academics from the University of Southampton and the University of Manchester. Citizen Science has been used often in the natural sciences but the social science application is more recent and this is one of the largest cohorts of participants ever in the UK for a project of this type. The project is focussing on what prevents residents from recycling and what could help them recycle more. The participants have framed research questions and are in the process of designing methodologies.



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The council also seeks to engage the input of children and young people and works closely with schools. An 'Imagine the Future' event was held in 2015, which brought together 200 children and young people from Southampton schools. This event is to be held again 2016 with aim to increase its reach to the young people of the city with up to 300 children joining in.

There is ongoing work to develop a strong focus on youth participation in the city which includes facilitating creative focus groups with children and young people to get their views and suggestions on the draft Participation and Engagement Strategy, which will influence the development of the final strategy. In addition, as part of the council's youth offer, a 'Youth Forum Southampton' continues to be developed which is intended as a platform for children and young people to have their say on a variety of topics which affect both them and their families.

This is in addition to the Southampton City Residents Survey which took place in 2014 and will be repeated every other year for the next five years. The survey, undertaken in partnership with other key organisations working in the city including the local Clinical Commissioning Group, Police, NHS Trusts, Fire Service and further education bodies, is an important step in building a better understanding of our residents.

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

A number of the council's key services are delivered in partnership with external service providers. 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 ongoing financial challenges and long term strategic aims. 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. Regular review meetings are held with key suppliers in order to ensure that contracts remain fit for purpose.

In addition, all significant commercial partnership working arrangements have a range of key performance indicators which are used to verify and manage service performance. These outsourced contracts are managed by a centralised Contract Management Team which provides a senior management interface between the council and our partnership service providers.

## **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**

An Internal Audit review on 'Partnership Arrangements' was undertaken in 2014 which focussed on the adequacy and coverage of partnership guidance to address key risk exposure to the organisation. The overall opinion was that 'adequate assurance could be placed on the effectiveness of the framework of risk management, control and governance designed to support the achievement of management objectives'.

The report did however identify the need for the council's 'Partnership Code' to be updated and enhanced to emphasise resourcing, governance, accountability, performance and alignment to strategic aims when entering into partnership arrangements. The 'Partnership Code', which forms part of the council's Constitution, is being updated and will be presented to Full Council in May 2016 for review and approval as part of the annual review of the council's constitution.

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Support, including planning, performance monitoring and projects, for following key partnerships has been brought together into the council's new Strategy Unit, to ensure coordinated and effective support is provided to all Boards:

- Southampton Connect
- Health and Wellbeing Board
- Safe City Partnership
- Southampton Employment, Skills and Learning Partnership

The chairs of these partnerships meet once a quarter to review shared learning and joint working opportunities across the partnerships.

## 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 Service Director – Strategic Finance & Commercialisation (Section 151 Officer), Chair of the Governance Committee, Chief Strategy Officer, Service Director – Legal & Governance (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:-

- 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. In addition, where appropriate, the relevant Service Director being required to attend a meeting to update the Committee regarding progress and actions;
- The views of external auditors, regularly reported to the Governance Committee, including regular progress reports, the Annual Audit Letter and Audit Results Report – ISA260;
- The Chief Internal Auditors 'Annual Report and Opinion' on the adequacy and effectiveness of the Council's internal control environment;
- The Internal Audit Charter 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 Service Directors which cover 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, based on CIPFA/SOLACE 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 Risk Register;
- The work of the Governance Committee in relation to the discharge of its responsibility to lead on all aspects of corporate governance.

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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:

<b>1.</b>	<b>Governance Issue (CARRIED FORWARD FROM 2014-15)</b>
	Information Governance arrangements need to be reviewed and aligned with new organisational structures and operational arrangements.
	<b>Planned Action:</b> Review and implement appropriate arrangements to provide adequate organisational resources in each service area to enable compliance and oversight of information governance, to include monitoring and reviewing compliance, report breaches, ensuring action plans are implemented. An operational review is also taking place as a result of a voluntary audit by the Information Commissioners Office in January 2016. The Action Plan (as agreed by CMT) will be in effect by September 2016 and will address this issue.
	<b>Responsible Officer:</b> Service Director - Legal & Governance <b>Target for completion:</b> Sept 2015
<b>2.</b>	<b>Governance Issue</b>
	The general level of staff awareness of the existence and content of the 'Whistleblowing Duty to Act' policy, 'Anti-Fraud and Corruption Strategy' and 'Anti Money Laundering Policy' and associated responsibilities is inconsistent.
	<b>Planned Action:</b> A 'Corporate Standards' Training programme, which will incorporate the above policies, is being developed and will be rolled out to managers in 2016-17.
	<b>Responsible Officer:</b> HR Strategy Manager (Organisational Development and Reward) <b>Target for completion:</b> March 2017
<b>3.</b>	<b>Governance Issue</b>
	There is need for more a formal, robust and consistent approach to succession planning, performance appraisal and performance monitoring across the organisation.
	<b>Planned Action:</b> Phase 2 of the council's management restructure (which form parts of the council's wider Transformation Programme) will see the introduction of a more robust and consistent approach to performance management, via individual performance contracts, and will also seek to address future succession planning issues. In light of significantly reduced resources succession planning remains an issue.
	Note: Phase 1 of the programme involving the restructure of the senior management team from 21 to 13 was implemented in February 2016.
	<b>Responsible Officer:</b> Council Management Team <b>Target for completion:</b> Sept 2016

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<b>4.</b>	<b>Governance Issue</b>
	The Partnership Code, which forms part of the council's constitution needs to be reviewed and updated to reflect the current approach.
	<b>Planned Action:</b> A new Partnership Code has been drafted and will be presented, as a supplementary report on constitution, at the July 2016 Council meeting.
	<b>Responsible Officer:</b> Service Director -Intelligence, Insight & Communications <div style="text-align: right;"><b>Target for completion:</b> July 2016</div>
<b>5.</b>	<b>Governance Issue</b>
	Reduced overall capacity and loss of some experienced staff coupled with implementation of a new organisational structure will present challenges in terms of the demands on managers
	<b>Planned Action:</b> To be addressed as part of the development of a Workforce Strategy to be considered in July 2016.
	<b>Responsible Officer:</b> HR Strategy Manager (Organisational Development and Reward) <div style="text-align: right;"><b>Target for completion:</b> July 2016</div>

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)  
 On behalf of Southampton City Council

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

## ANNUAL GOVERNANCE STATEMENT 2014-15: 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 2014-15:

	Governance Issue	Agreed Action	Target Date	Responsible Officer	Status	Comments
Page 95	1. The published Corporate Procurement Strategy refers to the period 2009-12	The slippage in updating the document is mainly due to the implementation of the 2015 Public Contract Regulations in February 2015 and the time it has taken to understand the new regulations, whilst also briefing the organisation what it needs to do to comply with the new regulations.	Dec 15	Service Director - Strategic Finance and Commercialisation	<b>COMPLETED</b>	All senior managers were briefed (April 15) on the key provisions of the new Public Contracts Regulations 2015.  The council's approach to procurement has changed with Capita Procurement now managing all of the councils' procurements. The document referred to is now therefore obsolete. The council's strategic approach to procurement is addressed up as part of the Phase 2 Management Restructure
	2. Business continuity plans need to be reviewed and updated to reflect the high level of organisational change that has taken place and is ongoing.	A new Business Continuity Policy and associated templates have been drafted and are to be presented to the Council's Management Team in June 15 for approval. The new Business Continuity Plan template will then rolled out across the service areas (Dec 15).	Dec 15	Service Director - Transactions & Universal Services	<b>COMPLETED</b> Dec 15	A new Corporate Business Continuity Plan and 12 Service Business Continuity Plans are now in place. Review of these plans will take place following implementation of the new operating model.
	3. Information Governance arrangements need to be reviewed and aligned with new organisational structures and operational	(i) Review and implement appropriate arrangements to provide adequate organisational resources in each Directorate to enable compliance and oversight of information governance, to	Sept 15 (Revised date Mar 15)	(i) Service Director - Legal & Governance	<b>Carried forward to 15-16 AGS</b>	An operational review is taking place as a result of a voluntary audit by the Information Commissioners Office in January 2016. The Action Plan (as agreed

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	arrangements.	include monitoring and reviewing compliance, report breaches, ensuring action plans are implemented.  (ii) To compile and submit the annual Information Governance NHS Toolkit to ensure data sharing can continue.	July 15	(ii) Service Director – Adults & Housing / Service Director - Children & Families	<b>COMPLETED</b> July 15	by CMT) will be in effect by September 2016 and will address this issue.
4.	The level of employee understanding and awareness in respect of their responsibilities for the management of information is potentially inconsistent.  Not all staff have completed the mandatory Information Governance e-learning (including Data Protection, Freedom Of Information Act and Protecting Information).	Completion of the mandatory training needs to be rigorously enforced with a sanction in the event of continued non-compliance.  A revised database package consolidating the components is being investigated as is a different and more appropriate style of roll out to those colleagues who do not ordinarily access IT.	Sept 15	Service Director - Legal & Governance	<b>COMPLETED</b> Mar 16	Completion of the e-learning modules is a mandatory requirement for all employees with 'You Tube' access available for those who have no easy access to IT.  An Information Governance e-learning report is produced on a periodic basis to track and monitor compliance.  In addition a dedicated Leadership Group took place in October 2015 to focus on IG, breaches, best practice etc.
5.	The skill and competencies of employees will need to be aligned with, and reflect, the organisational needs going forward.	Development and delivery of a standard Corporate Induction Programme for new employees.  Development of a management template identifying the standard required competencies and skills required. To incorporate ongoing learning requirements in respect of awareness of key policies and processes.  Assessment of chief officer graded	Dec 15	HR Strategy Manager (Organisational Development and Reward)	<b>COMPLETED</b> Oct 15  <b>COMPLETED</b> Dec 15	New Induction Checklist and associated manager's guide approved and published on intranet  Performance will form a key part of the job description and person specifications for the new posts.  Restructure of the senior

		employees and leadership development plans put in place			<b>COMPLETED</b> Feb 16	management team from 21 to 13 was implemented in February 16 with Phase 2 of the management restructure commencing in May 16.
6.	Some of the documents, policies and strategies referred to in the published Code of Corporate Governance have since been updated.	Review and update document to ensure that it refers to current documents, policies and strategies	May 15	Service Director - Legal & Governance	<b>COMPLETED</b> Apr 16	Review of the Code of Corporate Governance is an ongoing process.

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